

HORIZON BANCORP /IN/
Form 10-Q
November 14, 2005

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

450 5th Street N.W.

Washington, D.C. 20549

HORIZON BANCORP

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

Commission file number 0-10792

HORIZON BANCORP

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of incorporation or organization)

35-1562417

(I.R.S. Employer Identification No.)

515 Franklin Square, Michigan City, Indiana

(Address of principal executive offices)

46360

(Zip Code)

Registrant's telephone number, including area code: **(219) 879-0211**

Securities registered pursuant to Section 12(b) of the Act:

NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, no par value

(Title of class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

3,156,583 at November 3, 2005

TABLE OF CONTENTS

PART 1 FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4. CONTROLS AND PROCEDURES

Part II Other Information

ITEM 1. LEGAL PROCEEDINGS

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS

SIGNATURES

INDEX TO EXHIBITS

EX-31.1 302 Certification for CEO

EX-31.2 302 Certification for CFO

EX-32 906 Certification for CEO and CFO

Table of Contents**PART 1 FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

Horizon Bancorp and Subsidiaries
Condensed Consolidated Balance Sheets
(Dollar Amounts in Thousands)

	September 30, 2005 (Unaudited)	December 31, 2004
Assets		
Cash and due from banks	\$ 19,129	\$ 18,253
Interest-bearing demand deposits	660	1
Cash and cash equivalents	19,789	18,254
Interest-bearing deposits	985	985
Investment securities, available for sale	282,884	281,282
Loans held for sale	5,468	3,836
Loans, net of allowance for loan losses of \$8,390 and \$7,193	705,269	556,849
Premises and equipment	21,946	17,561
Federal Reserve and Federal Home Loan Bank stock	12,499	11,279
Goodwill	5,787	158
Other intangible assets	2,875	58
Interest receivable	5,678	4,688
Other assets	21,139	18,881
Total assets	\$ 1,084,319	\$ 913,831
Liabilities		
Deposits		
Noninterest bearing	\$ 86,311	\$ 58,015
Interest bearing	698,773	554,202
Total deposits	785,084	612,227
Short-term borrowings	72,108	82,281
Long-term borrowings	137,626	139,705
Subordinated debentures	27,837	22,682
Interest payable	1,729	1,024
Other liabilities	5,781	5,490
Total liabilities	1,030,165	863,399

Commitments and Contingencies**Stockholders Equity**

Preferred stock, no par value		
Authorized, 1,000,000 shares		
No shares issued		
Common stock, \$.2222 stated value		
Authorized, 22,500,000 shares		
Issued, 4,911,741 and 4,778,608 shares	1,092	1,062
Additional paid-in capital	24,714	22,729
Retained earnings	46,882	43,092
Restricted stock, unearned compensation	(813)	(972)
Accumulated other comprehensive income	(697)	894
Less treasury stock, at cost, 1,755,158 and 1,732,486 shares	(17,024)	(16,373)
Total stockholders' equity	54,154	50,432
Total liabilities and stockholders' equity	\$ 1,084,319	\$ 913,831

See notes to condensed consolidated financial statements

Table of Contents

Horizon Bancorp and Subsidiaries
Condensed Consolidated Statements of Income
(Dollar Amounts in Thousands, Except Per Share Data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest Income				
Loans receivable	\$ 12,662	\$ 8,411	\$ 31,716	\$ 24,338
Investment securities				
Taxable	2,502	1,641	7,328	5,195
Tax exempt	610	566	1,760	1,699
Total interest income	15,774	10,618	40,804	31,232
Interest Expense				
Deposits	4,735	2,609	11,348	7,817
Federal funds purchased and short-term borrowings	578	94	1,405	274
Federal Home Loan Bank advances	1,465	1,358	4,362	4,177
Subordinated debentures	448	156	1,109	462
Total interest expense	7,226	4,217	18,224	12,730
Net Interest Income	8,548	6,401	22,580	18,502
Provision for loan losses	360	207	1,071	681
Net Interest Income after Provision for Loan Losses	8,188	6,194	21,509	17,821
Other Income				
Service charges on deposit accounts	766	807	1,887	2,308
Fiduciary activities	645	595	1,964	1,930
Commission income from insurance agency		56	46	343
Wire transfer fees	120	206	326	412
Gain on sale of loans	474	770	1,341	1,713
Increase in cash surrender value of Bank owned life insurance	125	141	361	377
Other income	373	286	1,329	943

Total other income	2,503	2,861	7,254	8,026
Other Expenses				
Salaries and employee benefits	4,221	3,903	12,471	10,838
Net occupancy expenses	605	461	1,612	1,382
Data processing and equipment expenses	704	498	1,736	1,487
Other expenses	2,258	1,777	5,920	5,290
Total other expenses	7,788	6,639	21,739	18,997
Income Before Income Tax	2,903	2,416	7,024	6,850
Income tax expense	875	654	2,013	1,767
Net Income	\$ 2,028	\$ 1,762	\$ 5,011	\$ 5,083
Basic Earnings Per Share	\$.66	\$.59	\$ 1.64	\$ 1.70
Diluted Earnings Per Share	\$.64	\$.56	\$ 1.59	\$ 1.63
See notes to condensed consolidated financial statements.				

Table of Contents

Horizon Bancorp and Subsidiaries
Consolidated Statement of Stockholders' Equity
(Unaudited)

(Table Dollar Amounts in Thousands, Except Per Share Data)

	Common Stock	Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Restricted Stock, Unearned Compensation	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balances, December 31, 2004	\$ 1,062	\$ 22,729		\$ 43,092	\$ (972)	\$ 894	\$ (16,373)	\$ 50,432
Net income			\$ 5,011	5,011				5,011
Other comprehensive income, net of tax, unrealized losses on securities								
			(1,591)			(1,591)		(1,591)
Comprehensive income			\$ 3,420					
Exercise of stock options	30	1,534						1,564
Tax benefit related to stock options		451						451
Purchase treasury stock							(651)	(651)
Amortization of unearned compensation					159			159
Cash dividends (\$.39 per share)				(1,221)				(1,221)
Balances, September 30, 2005	\$ 1,092	\$ 24,714		\$ 46,882	\$ (813)	\$ (697)	\$ (17,024)	\$ 54,154

See notes to condensed consolidated financial statements.

Table of Contents

Horizon Bancorp and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Dollar Amounts in Thousands)

	Nine Months Ended	
	September 30	
	2005	2004
	(Unaudited)	(Unaudited)
Operating Activities		
Net income	\$ 5,011	\$ 5,083
Items not requiring (providing) cash		
Provision for loan losses	1,071	681
Depreciation and amortization	1,633	1,132
Federal Home Loan Bank stock dividend	(251)	(349)
Mortgage servicing rights (recovery) impairment	(141)	(138)
Deferred income tax	293	594
Investment securities amortization, net	205	364
Gain on sale of loans	(1,341)	(1,713)
Proceeds from sales of loans	73,032	96,788
Loans originated for sale	(73,323)	(88,673)
Gain on sale of other real estate owned	(45)	(12)
Loss on sale of fixed assets	7	3
Increase in cash surrender value of life insurance	(361)	(414)
Net change in		
Interest receivable	(461)	(260)
Interest payable	563	(20)
Other assets	(485)	82
Other liabilities	(1,134)	(722)
Net cash provided by operating activities	4,273	12,426
Investing Activities		
Net change in interest-bearing deposits	4,702	(17,983)
Purchases of securities available for sale	(35,111)	(79,753)
Proceeds from maturities, calls, and principal repayments of securities available for sale	54,144	88,674
Net change in loans	(63,386)	(57,653)
Proceeds from sale of fixed assets	116	43
Charge-offs on loans	342	253
Proceeds from sale of other real estate owned	484	77
Purchases of premises and equipment	(865)	(2,073)
Purchase of bank owned life insurance		(12,000)
Acquisition, net of cash	(2,901)	
Net cash used in investing activities	(42,475)	(80,415)

Financing Activities

Net change in		
Deposits	55,731	64,950
Short-term borrowings	(12,058)	3,639
Proceeds from long-term borrowings	72,000	63,300
Repayment of long-term borrowings	(76,079)	(76,117)
Issuance of stock	2,015	696
Purchase of treasury stock	(651)	(848)
Dividends paid	(1,221)	(1,084)
Net cash provided by financing activities	39,737	54,536
Net Change in Cash and Cash Equivalents	1,535	(13,453)
Cash and Cash Equivalents, Beginning of Period	18,254	45,464
Cash and Cash Equivalents, End of Period	\$ 19,789	\$ 32,011
Additional Cash Flows Information		
Interest paid	\$ 17,486	\$ 12,736
Income tax paid	1,050	903
See notes to condensed consolidated financial statements.		

Table of Contents

Horizon Bancorp and Subsidiaries
Notes to Condensed Consolidated Financial Statements

(Table Dollar Amounts in Thousands, Except Share and Per Share Data)

Note 1: Accounting Policies

The accompanying consolidated financial statements include the accounts of Horizon Bancorp (Horizon) and its wholly owned subsidiaries, Horizon Bank, N.A. (Bank), and HBC Insurance Group, Inc. (Insurance Company). The Insurance Company was liquidated in 2004. All intercompany balances and transactions have been eliminated. The results of operations for the periods ended September 30, 2005 and September 30, 2004 are not necessarily indicative of the operating results for the full year of 2005 or 2004. The accompanying unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of Horizon's management, necessary to fairly present the financial position, results of operations and cash flows of Horizon for the periods presented. Those adjustments consist only of normal recurring adjustments.

Certain information and note disclosures normally included in Horizon's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Horizon's Form 10-K annual report for 2004 filed with the Securities and Exchange Commission. The consolidated balance sheet of Horizon as of December 31, 2004 has been derived from the audited balance sheet of Horizon as of that date.

Basic earnings per share is computed by dividing net income by the weighted-average number of shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The weighted average number of shares used in the computation of earnings per share is as follows:

Three Months Ended September 30	2005	2004
Basic	3,074,705	2,998,563
Diluted	3,165,847	3,121,286
Nine Months Ended September 30	2005	2004
Basic	3,052,821	2,991,203
Diluted	3,154,808	3,119,417

In August 2002, substantially all of the participants in Horizon's Stock Option and Stock Appreciation Rights Plans voluntarily entered into an agreement with Horizon to cap the value of their stock appreciation rights (SARS) at \$14.67 per share and cease any future vesting of the SARS. These agreements with option holders make it more advantageous to exercise an option rather than a SAR whenever Horizon's stock price exceeds \$14.67 per share, therefore the option becomes potentially dilutive at \$14.67 per share or higher.

Table of Contents

Horizon Bancorp and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Share and Per Share Data)

Note 1: Accounting Policies (continued)

Horizon accounts for the stock option plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost related to the option plans is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date. Compensation cost related to restricted stock awards is reflected in net income. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to the stock option plans.

Three Months Ended September 30	2005	2004
Net income, as reported	\$ 2,028	\$ 1,762
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(7)	(16)
Pro forma net income	\$ 2,021	\$ 1,746
Earnings per share		
Basic as reported	\$.66	\$.59
Basic pro forma	.66	.58
Diluted as reported	.64	.56
Diluted pro forma	.64	.56
 Nine Months Ended September 30	 2005	 2004
Net income, as reported	\$ 5,011	\$ 5,083
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(27)	(106)
Pro forma net income	\$ 4,984	\$ 4,977
Earnings per share		
Basic as reported	\$ 1.64	\$ 1.70
Basic pro forma	1.63	1.66
Diluted as reported	1.59	1.63
Diluted pro forma	1.58	1.59

Table of Contents

Horizon Bancorp and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Share and Per Share Data)

Note 2: Investment Securities

September 30	2005			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available for sale				
U. S. Treasury and federal agencies	\$ 69,270	\$	\$ (1,306)	\$ 67,964
State and municipal	64,895	2,286	(93)	67,088
Federal agency collateralized mortgage obligations	16,457		(202)	16,255
Federal agency mortgage backed pools	125,736	288	(1,979)	124,045
Private collateralized mortgage obligations	6,967		(115)	6,852
Corporate Notes	632	48		680
Total investment securities	\$ 283,957	\$ 2,622	\$ (3,695)	\$ 282,884

December 31	2004			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available for sale				
U. S. Treasury and federal agencies	\$ 86,348	\$ 12	\$ (734)	\$ 85,626