HORIZON BANCORP /IN/
Form 10-Q
August 14, 2009

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HORIZON BANCORP
FORM 10-Q
United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2009
Commission file number 0-10792
HORIZON BANCORP
(Exact name of registrant as specified in its charter)

Indiana	**35-1562417**
(State or other jurisdiction of incorporation or organization)	(I.R. S. Employer Identification No.)
515 Franklin Square, Michigan City, Indiana	**46360**
(Address of principal executive offices)	(Zip Code)

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

Former name, former address and former fiscal year, if changed since last report: **N/A**

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer o	Accelerated Filer o	Non-accelerated Filer o	Smaller Reporting Company þ

(Do not check if a smaller reporting company)

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

Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 3,271,631 at August 14, 2009.

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PART 1 FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

HORIZON BANCORP AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Dollar Amounts in Thousands)

	June 30 2009 (Unaudited)	December 31 2008
Assets		
Cash and due from banks	**$ 13,885**	$ 36,001
Federal Reserve and fed funds sold	**2,695**	
Cash and cash equivalents	**16,580**	36,001
Interest-bearing deposits	**10,418**	2,679
Investment securities, available for sale	**319,066**	301,638
Investment securities, held to maturity	**12,875**	1,630
Loans held for sale	**9,793**	5,955
Loans, net of allowance for loan losses of $12,649 and $11,410	**882,781**	870,557
Premises and equipment	**30,210**	28,280
Federal Reserve and Federal Home Loan Bank stock	**13,225**	12,625
Goodwill	**5,787**	5,787
Other intangible assets	**1,597**	1,751
Interest receivable	**6,051**	5,708
Cash value life insurance	**22,792**	22,451
Deferred tax asset	**2,520**	2,580
Other assets	**9,601**	9,215
Total assets	**$1,343,296**	$1,306,857
Liabilities		
Deposits		
Non-interest bearing	**$ 83,940**	$ 83,642
Interest bearing	**764,210**	757,527
Total deposits	**848,150**	841,169
Borrowings	**349,499**	324,383
Subordinated debentures	**27,837**	27,837
Interest payable	**1,657**	1,910
Other liabilities	**8,959**	8,208
Total liabilities	**1,236,102**	1,203,507
Commitments and contingent liabilities		
Stockholders Equity		
Preferred stock, no par value, $1,000 liquidation value		
Authorized, 1,000,000 shares		
Issued 25,000 shares		

Common stock, $.2222 stated value	**24,229**	24,154
Authorized, 22,500,000 shares		
Issued, 3,266,611 and 3,254,482 shares	**1,114**	1,114
Additional paid-in capital	**9,785**	9,650
Retained earnings	**70,807**	67,804
Accumulated other comprehensive income	**1,259**	628
Total stockholders equity	**107,194**	103,350
Total liabilities and stockholders equity	**$1,343,296**	$1,306,857

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(Dollar Amounts in Thousands, Except Per Share Data)

	Three Months Ended June 30		Six Months Ended June 30	
	2009 (Unaudited)	**2008 (Unaudited)**	**2009 (Unaudited)**	**2008 (Unaudited)**
Interest Income				
Loans receivable	**$15,091**	$14,194	**$29,996**	$29,561
Investment securities				
Taxable	**2,811**	2,214	**5,660**	4,762
Tax exempt	**947**	862	**1,867**	1,699
Total interest income	**18,849**	17,270	**37,523**	36,022
Interest Expense				
Deposits	**3,993**	4,697	**7,989**	11,291
Borrowed funds	**3,222**	2,846	**6,114**	5,674
Subordinated debentures	**371**	392	**741**	799
Total interest expense	**7,586**	7,935	**14,844**	17,764
Net Interest Income	**11,263**	9,335	**22,679**	18,258
Provision for loan losses	**3,290**	1,490	**6,487**	2,268
Net Interest Income after Provision for Loan Losses	**7,973**	7,845	**16,192**	15,990
Other Income				
Service charges on deposit accounts	**974**	989	**1,908**	1,910
Wire transfer fees	**261**	122	**508**	227
Interchange fees	**456**	214	**844**	402
Fiduciary activities	**824**	1,021	**1,741**	1,906
Gain on sale of loans	**1,671**	661	**3,584**	1,465
Mortgage servicing net of impairment	**(32)**	29	**(166)**	5
Increase in cash surrender value of bank owned life insurance	**185**	221	**341**	449
Death benefit on officer life insurance		538		538
Loss on sale of securities		(15)		(15)
Other income	**177**	118	**250**	224
Total other income	**4,516**	3,898	**9,010**	7,111

Other Expenses				
Salaries and employee benefits	**4,894**	4,220	**9,725**	8,495
Net occupancy expenses	**899**	918	**1,931**	1,890
Data processing	**396**	350	**775**	682
Professional fees	**310**	291	**705**	540
Outside services and consultants	**351**	308	**677**	612
Loan expense	**644**	552	**1,210**	1,010
FDIC deposit expense	**1,059**	142	**1,351**	258
Other losses	**82**	141	**467**	242
Other Expenses	**1,293**	1,317	**2,484**	2,537
Total other expenses	**9,928**	8,239	**19,325**	16,266
Income Before Income Tax	**2,561**	3,504	**5,877**	6,835
Income tax expense	**497**	514	**1,178**	1,317
Net Income	**2,064**	2,990	**4,699**	5,518
Preferred stock dividend and discount accretion	**(350)**		**(700)**	
Net Income Available to Common Shareholders	**$ 1,714**	$ 2,990	**$ 3,999**	$ 5,518
Basic Earnings Per Share	**$ 0.53**	$ 0.93	**$ 1.25**	$ 1.72
Diluted Earnings Per Share	**$ 0.52**	$ 0.92	**$ 1.22**	$ 1.70

See notes to condensed consolidated financial statements

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Horizon Bancorp and Subsidiaries
Condensed Consolidated Statement of Stockholders Equity
(Unaudited)
(Table Dollar Amounts in Thousands, Except Per Share Data)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances, December 31, 2008	$ 24,154	$ 1,114	$ 9,650		$ 67,804	$ 628	$ 103,350
Net income				$ 4,699	4,699		4,699
Amortization of discount on preferred stock	75				(75)		
Other comprehensive income (loss), net of tax							
Unrealized gain on securities				552		552	552
Unrealized gain on derivative instruments				79		79	79
Comprehensive income				$ 5,330			
Amortization of unearned compensation			116				116
Stock option expense			19				19
Cash dividends on preferred stock (5.00%)					(508)		(508)
Cash dividends on common stock ($.34 per share)					(1,113)		(1,113)
Balances, June 30, 2009	**$ 24,229**	**$ 1,114**	**$ 9,785**		**$ 70,807**	**$ 1,259**	**$ 107,194**

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Dollar Amounts in Thousands)

	Six Months Ended June 30 2009 (Unaudited)	Six Months Ended June 30 2008 (Unaudited)
Operating Activities		
Net income	**$ 4,699**	$ 5,518
Items not requiring (providing) cash		
Provision for loan losses	**6,487**	2,268
Depreciation and amortization	**1,167**	1,164
Share based compensation	**19**	19
Mortgage servicing rights impairment	**158**	7
Deferred income tax	**(278)**	(596)
Premium amortization on securities available for sale, net	**249**	147
Gain on sale of loans	**(3,584)**	(1,272)
Loss on sale of Investment securities		15
Proceeds from sales of loans	**204,229**	72,071
Loans originated for sale	**(206,503)**	(72,419)
Increase in cash surrender value of life insurance	**(341)**	(22)
Loss on sale of other real estate owned	**92**	
Net change in		
Interest receivable	**(343)**	9
Interest payable	**(253)**	(473)
Other assets	**1,063**	851
Other liabilities	**1,137**	(85)
Net cash provided by operating activities	**7,998**	7,202
Investing Activities		
Net change in interest-bearing deposits	**(7,739)**	(1,129)
Purchases of securities available for sale	**(53,019)**	(33,159)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	**36,190**	13,080
Purchase of securities held to maturity	**(11,245)**	(815)
Purchases of FRB Stock	**(600)**	
Net change in loans	**(24,014)**	10,245
Proceeds on sale of OREO and repossessed assets	**5,359**	
Recoveries on loans previously charged-off		444
Purchases of premises and equipment	**(2,827)**	(1,856)
Proceeds from sale of loans transferred to held for sale		37,695
Gain on sale of loans transferred to held for sale		(193)
Net cash provided by (used in) investing activities	**(57,895)**	24,312
Financing Activities		

Net change in		
Deposits	**6,981**	(101,408)
Borrowings	**25,116**	34,571
Proceeds from issuance of stock		35
Dividends paid on preferred shares	**(508)**	
Dividends paid on common shares	**(1,113)**	(1,040)
Net cash provided (used) by financing activities	**30,476**	(67,842)
Net Change in Cash and Cash Equivalent	**(19,421)**	(36,328)
Cash and Cash Equivalents, Beginning of Period	**36,001**	55,029
Cash and Cash Equivalents, End of Period	**$ 16,580**	$ 18,701
Additional Cash Flows Information		
Interest paid	**$ 15,097**	$ 18,237
Income taxes paid	**1,165**	1,050

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

Note 1 Accounting Policies

The accompanying consolidated financial statements include the accounts of Horizon Bancorp (Horizon or the Company) and its wholly-owned subsidiaries, including Horizon Bank, N.A. (Bank). All inter-company balances and transactions have been eliminated. The results of operations for the periods ended June 30, 2009 and June 30, 2008 are not necessarily indicative of the operating results for the full year of 2009 or 2008. 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 Annual Report on Form 10-K for 2008 filed with the Securities and Exchange Commission. The consolidated balance sheet of Horizon as of December 31, 2008 has been derived from the audited balance sheet of Horizon as of that date.

Basic earnings per share is computed by dividing net income available to common shareholders (net income less dividend requirements for preferred stock and accretion of preferred stock discount) by the weighted-average number of common shares outstanding. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. 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. The following table shows computation of basic and diluted earnings per share.

	Three months ended June 30		Six months ended June 30	
	2009	**2008**	**2009**	**2008**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Basic earnings per share				
Net income	**$ 2,064**	$ 2,990	**$ 4,699**	$ 5,518
Less: Preferred stock dividends and accretion of discount	**350**		**700**	
Net income available to common shareholders	**$ 1,714**	$ 2,990	**$ 3,999**	$ 5,518
Weighted average common shares outstanding	**3,209,482**	3,208,419	**3,209,482**	3,207,825
Basic earnings per share	**$ 0.53**	$ 0.93	**$ 1.25**	$ 1.72
Diluted earnings per share				
Net income available to common shareholders	**$ 1,714**	$ 2,990	**$ 3,999**	$ 5,518

Weighted average common shares outstanding	**3,209,482**	3,208,419	**3,209,482**	3,207,825
Effect of dilutive securities:				
Restricted stock	**52,179**	17,762	**51,394**	22,607
Stock options	**8,517**	12,150	**6,438**	11,224
Weighted average shares outstanding	**3,270,178**	3,238,331	**3,267,314**	3,241,656
Diluted earnings per share	**$ 0.52**	$ 0.92	**$ 1.22**	$ 1.70

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HORIZON BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

At June 30, 2009 and 2008 there were 35,050 shares and 27,190 shares that were not included in the computation of diluted earnings per share because they were non-dilutive. Warrants to purchase 212,104 shares at June 30, 2009 were not included in the computation of diluted earnings per share because the effect would be non-dilutive.

Horizon has share-based employee compensation plans, which are described in the notes to the financial statements included in the December 31, 2008 Annual Report on Form 10-K.

Reclassifications

Certain reclassifications have been made to the 2008 consolidated financial statements to be comparable to 2009. These reclassifications had no effect on net income.

Note 2 Securities

The fair value of securities is as follows:

June 30, 2009 (Unaudited)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale				
U.S. Treasury and federal agencies	$ 19,880	$ 268	$ (3)	$ 20,145
State and municipal	95,175	961	(1,764)	94,372
Federal agency collateralized mortgage obligations	17,521	304	(543)	17,282
Federal agency mortgage-backed pools	183,237	3,941	(292)	186,886
Corporate notes	587		(206)	381
Total available for sale investment securities	$316,400	$5,474	$(2,808)	$319,066
Held to maturity, State and Municipal	$ 12,875	$ 103	$	$ 12,978

December 31, 2008	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale				
U.S. Treasury and federal agencies	$ 23,661	$1,253	$	$ 24,914
State and municipal	88,282	804	(2,101)	86,985
Federal agency collateralized mortgage obligations	13,063	223	(335)	12,951
Federal agency mortgage-backed pools	174,227	2,374	(212)	176,389
Corporate notes	587		(188)	399
Total available for sale investment securities	$299,820	$4,654	$(2,836)	$301,638
Held to maturity, State and Municipal	$ 1,630	$ 4	$	$ 1,634

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information, and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. While these securities are held in the available for sale portfolio, Horizon intends and has the ability to hold them until the earlier of a recovery in fair value or maturity.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified. At June 30, 2009, no individual investment security had an unrealized loss that was determined to be other-than-temporary.

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HORIZON BANCORP AND SUBSIDIARIES
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(Table Dollar Amounts in Thousands, Except Per Share Data)

The unrealized losses on the Company s investments in securities of state and political subdivisions were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company did not consider those investments to be other-than-temporarily impaired at June 30, 2009.

The amortized cost and fair value of securities available for sale and held to maturity at June 30, 2009 and December 31, 2008, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or perpay obligations with or without call or prepayment penalties.

	June 30, 2009 (Unaudited)		December 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
Within one year	**$ 1,907**	**$ 1,931**	$ 1,182	$ 1,190
One to five years	**21,605**	**21,868**	10,569	10,926
Five to ten years	**23,159**	**23,207**	28,701	28,664
After ten years	**68,971**	**67,892**	72,078	71,518
	115,642	**114,898**	112,530	112,298
Federal agency collateralized mortgage obligations	**17,521**	**17,282**	13,063	12,951
Federal agency mortgage-backed pools	**183,237**	**186,886**	174,227	176,389
Total available for sale investment securities	**$316,400**	**$319,066**	$299,820	$301,638
Held to maturity				
Within one year	**$ 12,585**	**$ 12,680**	$ 90	$ 91
One to five years	**290**	**298**	1,540	1,543
Total held to maturity investment securities	**$ 12,875**	**$ 12,978**	$ 1,630	$ 1,634

The following table shows investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2009:

	Less than 12 Months		12 Months or More		Total	
June 30, 2009 (Unaudited)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and federal agencies	$ 1,499	$ (3)	$	$	$ 1,499	$ (3)
State and municipal	37,548	(931)	13,185	(833)	50,733	(1,764)
	5,613	(337)	3,458	(206)	9,071	(543)

Federal agency collateralized mortgage obligations						
Federal agency mortgage-backed pools	14,969	(291)	46	(1)	15,015	(292)
Corporate notes			381	(206)	381	(206)
Total temporarily impaired securities	$59,629	$(1,562)	$17,070	$(1,246)	$76,699	$(2,808)

HORIZON BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

Note 3 Loans

	June 30, 2009 (Unaudited)	December 31, 2008
Commercial loans	**$313,857**	$310,842
Mortgage warehouse	**163,083**	123,287
Real estate loans	**146,096**	167,766
Installment loans	**272,394**	280,072
	895,430	881,967
Allowance for loan losses	**(12,649)**	(11,410)
Total loans	**$882,781**	$870,557

Note 4 Allowance for Loan Losses

	June 30, 2009 (Unaudited)	June 30, 2008 (Unaudited)
Balances, beginning of period	**$11,410**	$ 9,791
Provision for losses	**6,487**	2,268
Recoveries on loans	**543**	444
Loans charged off	**(5,791)**	(2,691)
Balances, end of period	**$12,649**	$ 9,812

Note 5 Non-performing Assets

	June 30, 2009 (Unaudited)	December 31, 2008
Non-performing loans		
Commercial	**$ 7,959**	$ 5,167
Real estate	**3,764**	1,904
Mortgage warehouse		
Installment	**1,754**	792
Total non-performing loans	**13,477**	7,863
Other real estate owned and repossessed collateral		
Commercial		
Real estate	**2,212**	2,874
Mortgage warehouse		

Installment	**115**	207
Total other real estate owned and repossessed collateral	**2,327**	3,081
Total non-performing assets	**$15,804**	$ 10,944

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HORIZON BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

Note 6 Derivative financial instruments

The Company adopted SFAS No. 161 as of January 1, 2009, which expands the disclosure requirements of SFAS No. 133 as follows.

Cash Flow Hedges

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flow due to interest rate fluctuations, the Company entered into interest rate swap agreements for a portion of its floating rate debt. The agreements provide for the Company to receive interest from the counterparty at three month LIBOR and to pay interest to the counterparty at a weighted average fixed rate of 5.38% on a notional amount of $22.0 million at June 30, 2009. Under the agreements, the Company pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

Management has designated the interest rate swap agreement as a cash flow hedging instrument. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of the other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. At June 30, 2009 the Company s cash flow hedge was effective and is not expected to have a significant impact the Company s net income over the next 12 months.

Fair Value Hedges

Fair value hedges are intended to reduce the interest rate risk associated with the underlying hedged item. The Company enters into fixed rate loan agreements as part of its lending policy. To mitigate the risk of changes in fair value based on fluctuations in interest rates, the Company has entered into interest rate swap agreements on individual loans, converting the fixed rate loans to a variable rate. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings. At June 30, 2009 the Company s fair value hedges were effective and are not expected to have a significant impact the Company s net income over the next 12 months.

The change in fair value of both the hedge instruments and the underlying loan agreements are recorded as gains or losses in interest income. The fair value hedges are considered to be highly effective and any hedge ineffectiveness was deemed not material. The notional amounts of the loan agreements being hedged were $25.9 million at June 30, 2009.

Other Derivative Instruments

The Company enters into non-hedging derivative in the form of mortgage loan forward sale commitments with investors and commitments to originate mortgage loans as part of its mortgage banking business. At June 30, 2009 the Company s fair value of these derivatives were recorded and over the next 12 months are not expected to have a significant impact the Company s net income.

The change in fair value of both the forward sale commitments and commitments to originate mortgage loans were recorded and the net gains or losses included in the Company s gain on sale of loans.

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HORIZON BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

The following tables summarize the fair value of derivative financial instruments utilized by Horizon Bancorp:

Derivatives designated as hedging instruments under Statement 133	Asset Derivative June 30, 2009 (Unaudited) Balance Sheet Location	Asset Derivative June 30, 2009 (Unaudited) Fair Value	Liability Derivatives June 30, 2009 (Unaudited) Balance Sheet Location	Liability Derivatives June 30, 2009 (Unaudited) Fair Value
Interest rate contracts	Loans	$ 1,146	Other liabilities	$ 1,146
Interest rate contracts			Other liabilities	730
Total derivatives designated as hedging instruments under Statement 133		1,146		1,876
Derivatives not designated as hedging instruments under Statement 133				
Mortgage loan contracts	Other assets	230	Other liabilities	143
Total derivatives not designated as hedging instruments under Statement 133		230		143
Total derivatives		$ 1,376		$ 2,019

The effect of the derivative instruments on the consolidated statement of income for the three and six-month periods ended is as follows:

	Amount of Gain Recognized in Other Comprehensive Income on Derivative (Effective Portion)	
	Three Months Ended June 30,	Six Months Ended June 30,

Derivative in Statement 133 cash flow hedging relationship	**2009 (Unaudited)**	**2009 (Unaudited)**
Interest rate contracts	$ 126	$ 79
Total	$ 126	$ 79

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HORIZON BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Table Dollar Amounts in Thousands, Except Per Share Data)

Note 7 Disclosures about fair value of assets and liabilities

Derivative in Statement 133 fair value hedging relationship	Location of Gain (Loss) Recognized on Derivative	Amount of Gain (Loss) Recognized on Derivative Three Months Ended June 30, 2009 (Unaudited)	Amount of Gain (Loss) Recognized on Derivative Six Months Ended June 30, 2009 (Unaudited)
Interest rate contracts	Interest income loans	$(584)	$ (560)
Interest rate contracts	Interest income loans	584	560
Total		$	$

Derivative in Statement 133 fair value hedging under Statement 133	Location of Gain (Loss) Recognized on Derivative	Amount of Gain (Loss) Recognized on Derivative Three Months Ended June 30, 2009 (Unaudited)	Amount of Gain (Loss) Recognized on Derivative Six Months Ended June 30, 2009 (Unaudited)
Mortgage contracts	Other income gain on sale of loans	$ (177)	$ (145)
Total		$ (177)	$ (145)

Effective January 1, 2008 Horizon adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available for sale securities

When quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. Treasury and federal agency securities, state and municipal securities, federal agency mortgage obligations and mortgage-backed pools and corporate notes. Level 2 securities are valued by a third party pricing service commonly used in the banking industry utilizing observable inputs. The pricing provider utilizes evaluated pricing models that vary based on asset class. These models incorporate available market information including quoted prices of securities with similar characteristics and, because many fixed-income securities do not trade on a daily basis, apply available information through processes such as benchmark curves, benchmarking of like securities, sector grouping and matrix pricing. In addition, model processes, such as an option adjusted spread model is used to develop prepayment and interest rate scenarios for securities with prepayment features.

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Hedged loans

Certain fixed rate loans have been converted to variable rate loans through entering into interest rate swap agreements. Fair value of those fixed rate loans is based on discounting estimated cash flows using interest rates determined by a respective interest rate swap agreement. Loans are classified within Level 3 of the valuation hierarchy based on the unobservable inputs used.

Interest rate swap agreements

The fair value is estimated by a third party using inputs that are primarily unobservable and cannot be corroborated by observable market data and, therefore, are classified within Level 3 of the valuation hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at the following:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2009 (Unaudited)				
Available-for-sale securities				
U.S. Treasury and federal agencies	$ 20,145	$	$ 20,145	$
State and municipal	94,372		94,372	
Federal agency collateralized mortgage obligations	17,282		17,282	
Federal agency mortgage-backed pools	186,886		186,886	
Corporate notes	381		381	
Hedged loans	27,017			27,017
Forward sale commitments	230			230
Interest rate swap agreements	(1,876)			(1,876)
Commitments to originate loans	(143)			(143)
December 31, 2008				
Available-for-sale securities	$301,638	$	$301,638	$
Hedged loans	25,033			25,033
Forward sale commitments	670			670
Interest rate swap agreements	(2,557)			(2,557)
Commitments to originate loans	(438)			(438)
June 30, 2008 (Unaudited)				
Available-for-sale securities	$251,976	$ 1,464	$250,512	$
Hedged loans	16,269			16,269
Interest rate swap agreements	258			258

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The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying condensed consolidated balance sheet using significant unobservable (level 3) inputs (Unaudited):

	Hedged Loans	Forward Sale Commitments	Interest Rate Swaps	Commitments to Originate Loans
Beginning balance December 31, 2008	$25,033	$ 670	$(2,557)	$ (438)
Total realized and unrealized gains and losses				
Included in net income	24	(226)	(24)	258
Included in other comprehensive income, gross			(73)	
Purchases, issuances, and settlements	2,901			
Principal payments	(167)			
Ending balance March 31, 2009	27,791	444	(2,654)	(180)
Total realized and unrealized gains and losses				
Included in net income	(584)	(214)	584	37
Included in other comprehensive income, gross			194	
Purchases, issuances, and settlements				
Principal payments	(190)			
Ending balance June 30, 2009	$27,017	$ 230	$(1,876)	$ (143)

	Hedged Loans	Forward Sale Commitments	Interest Rate Swaps	Commitments to Originate Loans
Beginning balance December 31, 2007	$	$	$	$
Total realized and unrealized gains and losses				
Included in net income	195		(195)	
Included in other comprehensive income, gross			(584)	
Purchases, issuances, and settlements	11,437			
Principal payments	(31)			
Ending balance March 31, 2008	11,601		(779)	
Total realized and unrealized gains and losses				
Included in net income	(436)		436	
Included in other comprehensive income, gross			601	
Purchases, issuances, and settlements	5,166			
Principal payments	(62)			

Ending balance June 30, 2008	$16,269	$	$ 258	$

Realized gains and losses included in net income for the periods are reported in the condensed consolidated statements of income as follows (Unaudited):

	Six Months Ended June 30,	
Non Interest Income	**2009**	**2008**
Total gains and losses from:		
Hedged loans	$ (560)	$ (241)
Fair value interest rate swap agreements	560	241
Derivative loan commitments	(145)	
	$ (145)	$

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Certain other assets and liabilities are measured at fair value on a nonrecurring basis in the course of business and are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2009 (Unaudited)				
Impaired and non-accrual loans	$9,063	$	$	$ 9,063
Other real estate owned	2,212			2,212
December 31, 2008				
Impaired and non-accrual loans	$4,685	$	$	$ 4,685
Other real estate owned	2,874			2,874

Impaired, non-accrual loans, and other real estate owned: Fair value adjustments for impaired and non-accrual loans typically occur when there is evidence of impairment. Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. The Company measures fair value based on the value of the collateral securing the loans. Collateral may be in the form of real estate or personal property including equipment and inventory. The value of the collateral is determined based on internal estimates as well as third party appraisals or non-binding broker quotes. These measurements were classified as Level 3. The fair value of the Company s other real estate owned is determined using Level 3 inputs, which include current and prior appraisals and estimated costs to sell.

Note 8 Fair Value of Financial Instruments

The estimated fair value amounts were determined using available market information, current pricing information applicable to Horizon and various valuation methodologies. Where market quotations were not available, considerable management judgment was involved in the determination of estimated fair values. Therefore, the estimated fair value of financial instruments shown below may not be representative of the amounts at which they could be exchanged in a current or future transaction. Due to the inherent uncertainties of expected cash flows of financial instruments, the use of alternate valuation assumptions and methods could have a significant effect on the derived estimated fair value amounts.

The estimated fair values of financial instruments, as shown below, are not intended to reflect the estimated liquidation or market value of Horizon taken as a whole. The disclosed fair value estimates are limited to Horizon s significant financial instruments at June 30, 3009 and December 31, 2008. These include financial instruments recognized as assets and liabilities on the consolidated balance sheet as well as certain off-balance sheet financial instruments. The estimated fair values shown below do not include any valuation of assets and liabilities, which are not financial instruments as defined by SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

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Cash and Cash Equivalents The carrying amounts approximate fair value.

Interest-Bearing Deposits The carrying amounts approximate fair value.

Investment Securities For debt securities held to maturity, fair values are based on quoted market prices or dealer quotes. For those securities where a quoted market price is not available, carrying amount is a reasonable estimate of fair value based upon comparison with similar securities.

Loans Held for Sale The carrying amounts approximate fair value.

Net Loans The fair value of portfolio loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The carrying amounts of loans held for sale approximate fair value.

Interest Receivable/Payable The carrying amounts approximate fair value.

FHLB and FRB Stock Fair value of FHLB and FRB stock is based on the price at which it may be resold to the FHLB and FRB.

Deposits The fair value of demand deposits, savings accounts, interest-bearing checking accounts and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturity.

Borrowings Rates currently available to Horizon for debt with similar terms and remaining maturities are used to estimate fair values of existing borrowings.

Subordinated Debentures Rates currently available for debentures with similar terms and remaining maturities are used to estimate fair values of existing debentures.

Commitments to Extend Credit and Standby Letter of Credit The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. Due to the short-term nature of these agreements, carrying amounts approximate fair value.

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The estimated fair values of Horizon s financial instruments are as follows:

	June 30, 2009 (Unaudited)		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$ 16,580	$ 16,580	$ 36,001	$ 36,001
Interest-bearing deposits	10,418	10,418	2,679	2,679
Investment securities available for sale	319,066	319,066	301,638	301,638
Investment securities held to maturity	12,875	12,978	1,630	1,634
Loans held for sale	9,793	9,793	5,955	5,955
Loans, net	882,781	884,508	870,557	870,329
Interest receivable	6,051	6,051	5,708	5,708
Stock in FHLB and FRB	13,225	13,225	12,625	12,625
Liabilities				
Non-interest bearing deposits	$ 83,940	$ 83,940	$ 83,642	$ 83,642
Interest-bearing deposits	764,210	745,295	757,527	739,867
Borrowings	349,499	369,578	324,383	334,616
Subordinated debentures	27,837	28,242	27,837	28,867
Interest payable	1,657	1,657	1,910	1,910

Note 9 Subsequent Events

Subsequent events have been evaluated through August 14, 2009 which is the date the financial statements were issued.

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Note 10 Future accounting matters

Statements of Financial Accounting Standards

SFAS No. 141, *Business Combinations (Revised 2007).* SFAS 141R

This statement replaces SFAS 141, Business Combinations, and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS 5, Accounting for Contingencies. SFAS 141R is applicable to the Corporation s accounting for business combinations closing on or after January 1, 2009.

SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51.* SFAS 160

This statement amends Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 became effective for the Corporation on January 1, 2009 and did not have a significant impact on the Corporation s financial statements.

SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133.*

SFAS 161 amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities, to amend and expand the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 became effective for the Corporation on January 1, 2009 and the required disclosures are reported in Note 6 Derivative Financial Instruments.

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SFAS No. 165, *Subsequent Events*

The FASB has issued FASB Statement No. 165, *Subsequent Events.* Statement 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, Statement 165 provides:

The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements;

The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and

The disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

Statement 165 was effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively.

SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement No. 162.*

SFAS 168 replaces SFAS 162, The Hierarchy of Generally Accepted Accounting Principles and establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with generally accepted accounting principles. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All guidance contained in the Codification carries an equal level of authority. All non-grandfathered, non-SEC accounting literature not included in the Codification is superseded and deemed non-authoritative. SFAS 168 will be effective for the Corporation s financial statements for periods ending after September 15, 2009. SFAS 168 is not expected have a significant impact on the Corporation s financial statements.

Financial Accounting Standards Board Staff Positions and Interpretations

In early April 2009, the Financial Accounting Standards Board (*FASB*) issued the following FASB Staff Positions (*FSPs*) that are intended to provide additional guidance and require additional disclosures relating to fair value measurements and other-than-temporary impairment (*OTTI*) on an interim and/or annual basis. These FSPs changed the method for determining if an OTTI exists and the amount of OTTI to be recorded through an entity s income statement. The FSPs provide greater clarity and reflect a more accurate representation of the credit and noncredit components of an OTTI event. The three FSPs are as follows:

FSP FAS 157-4, *Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are Not Orderly (FSP FAS 157-4)* .

This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased. The FSP also includes guidance when there is evidence that the transaction for the asset or liability is not orderly. In such case, the entity will place little, if any, weight on that transaction price as an indicator of fair value. The Company adopted this FSP as of June 30, 2009 with no significant change to the Company s financial condition or results of operations.

FSP FAS 115-2 and FAS 124-2, and Emerging Issues Task Force (*EITF*) 99-20-2, *Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2/124-2 and EITF 99-20-2)* .

The FSP and EITF apply to debt securities and require entities to separate an other-than-temporary impairment of a debt security into two components when there are credit related losses associated with the

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impaired debt security for which management asserts that it does not have the intent to sell the security, and it is more likely than not that management will not be required to sell the security before recovery of its cost basis. The amount of the other-than-temporary impairment related to a credit loss is recognized in earnings, and the amount of the other-than-temporary impairment related to other factors is recorded in other comprehensive loss. This FSP is to be applied prospectively with a cumulative effect transition adjustment, if applicable, as of the beginning of the period in which it is adopted. The Company adopted this FSP as of June 30, 2009 with no significant change to the Company s financial condition or results of operations.

FSP Financial Accounting Standards (*FAS*) 107-1 and Accounting Principles Board (*APB*) 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (*FSP FAS 107-1 and APB 28-1*) .

This FSP amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* , to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. This FSP also requires disclosures of the method(s) and significant assumptions used to estimate the fair value of financial instruments and changes in method(s) and significant assumptions, if any, during the period. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting* , to require the related disclosures in all interim financial statements. The Company adopted this FSP during the second quarter of 2009 resulting in additional financial disclosures in Note 2.

FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.*

FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 became effective on January 1, 2009. See Note 1 Significant Accounting Policies.

FSP SFAS. *132R-1, Employers Disclosures about Postretirement Benefit Plan Assets.*

FSP SFAS 132R-1 provides guidance related to an employer s disclosures about plan assets of defined benefit pension or other post-retirement benefit plans. Under FSP SFAS 132R-1, disclosures should provide users of financial statements with an understanding of how investment allocation decisions are made, the factors that are pertinent to an understanding of investment policies and strategies, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period and significant concentrations of risk within plan assets. The disclosures required by FSP SFAS 132R-1 will be included in the Corporation s financial statements beginning with the financial statements for the year-ended December 31, 2009.

FSP SFAS 141R-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies.*

FSP SFAS 141R-1 amends the guidance in SFAS 141R to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with SFAS 5, Accounting for Contingencies, and FASB Interpretation (FIN) No. 14, Reasonable Estimation of the Amount of a Loss. FSP SFAS 141R-1 removes subsequent accounting guidance for assets and liabilities arising from contingencies from SFAS 141R and requires entities to develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies. FSP SFAS 141R-1 eliminates the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. For unrecognized contingencies, entities are required to include only the disclosures required by SFAS 5. FSP SFAS 141R-1 also requires that contingent consideration arrangements of an acquiree assumed by the

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acquirer in a business combination be treated as contingent consideration of the acquirer and should be initially and subsequently measured at fair value in accordance with SFAS 141R. FSP SFAS 141R-1 is effective for assets or liabilities arising from contingencies the Corporation acquires in business combinations occurring after January 1, 2009.

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

Forward Looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to Horizon Bancorp (Horizon or Company) and Horizon Bank, N.A. (Bank). Horizon intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and is including this statement for the purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of Horizon, are generally identifiable by use of the words believe, expect, intend, anticipate, estimate, project or similar expressions. Horizon s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors that could have a material adverse effect on Horizon s future activities and operating results include, but are not limited to:

Credit risk: the risk that loan customers or other parties will be unable to perform their contractual obligations;

Market risk: the risk that changes in market rates and prices will adversely affect the Company s financial condition or results of operation;

Liquidity risk: the risk that Horizon or the Bank will have insufficient cash or access to cash to meet its operating needs;

Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events;

Economic risk: the risk that the economy in the Company s markets could decline further resulting in increased unemployment, decreased real estate values and increased loan charge-offs; and

Compliance risk: the risk of additional action by Horizon s regulators or additional regulation could hinder the Company s ability to do business profitably.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Overview

Horizon Bancorp (Horizon or the Company) is a registered bank holding company incorporated in Indiana and headquartered in Michigan City, Indiana. Horizon provides a broad range of banking services in Northwestern Indiana and Southwestern Michigan through its bank subsidiary, Horizon Bank, N.A. (the Bank) and other affiliated entities. Horizon operates as a single segment, which is commercial banking. Horizon s Common Stock is traded on the Nasdaq Global Market under the symbol HBNC. The Bank was chartered as a national banking association in 1873 and has operated continuously since that time. The Bank is a full-service commercial bank offering commercial and retail banking services, corporate and individual trust and agency services, and other services incident to banking.

Horizon continues to operate in a challenging and uncertain economic environment. Within the Company s primary market areas of Northwest Indiana and Southwest Michigan unemployment rates have increased over the last year. This rise in unemployment has been driven by factors including slowdowns in the steel and recreational vehicle industries as well as a continued slowdown in the housing industry. Like numerous other parts of the country, Northwest Indiana and Southwest Michigan are experiencing a rise in mortgage delinquencies and bankruptcy filings as a result of increased unemployment rates. Despite these economic factors, Horizon continues to post positive results through the first half of 2009.

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Following are some of the major factors that impacted Horizons financial performance for the second quarter:

- The net interest margin contracted during the second quarter as Horizon elected to keep higher money market deposits on its balance sheet as a precaution against future cash needs. The cash balances returned to more historic levels during the month of June.
- Horizon continued to experience high residential mortgage refinance volumes through the second quarter generating additional interest and fee income.
- Horizon s quarterly provision for loan losses reserve increased by approximately $100,000 from the first quarter of 2009.
- Horizon s non-performing loans increased to approximately $13.5 million as of June 30, 2009 from $10.5 million at the end of the first quarter.
- Horizon s special FDIC assessment of $663,000 that was recorded in the second quarter of 2009
- Horizon s capital ratios continue to be maintained above the regulatory standards for well-capitalized banks.
- Horizon opened its 19th branch on June 8, 2009 in Munster, Indiana.

Critical Accounting Policies

The notes to the consolidated financial statements included in Item 8 of the Company s Annual Report on Form 10-K for 2008 contain a summary of the Company s significant accounting policies. Certain of these policies are important to the portrayal of the Company s financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Management has identified the allowance for loan losses, intangible assets and hedge accounting as critical accounting policies.

Allowance for Loan Losses

An allowance for loan losses is maintained to absorb probable incurred loan losses inherent in the loan portfolio. The determination of the allowance for loan losses is a critical accounting policy that involves management s ongoing quarterly assessments of the probable incurred losses inherent in the loan portfolio. The identification of loans that have probable incurred losses is subjective, therefore, a general reserve is maintained to cover all probable losses within the entire loan portfolio. Horizon utilizes a loan grading system that helps identify, monitor and address asset quality problems in an adequate and timely manner. Each quarter, various factors affecting the quality of the loan portfolio are reviewed. Large credits are reviewed on an individual basis for loss potential. Other loans are reviewed as a group based upon previous trends of loss experience. Horizon also reviews the current and anticipated economic conditions of its lending market as well as transaction risk to determine the effect they may have on the loss experience of the loan portfolio.

Goodwill and Intangible Assets

Management believes that the accounting for goodwill and other intangible assets also involves a higher degree of judgment than most other significant accounting policies. Statement of Financial Accounting Standard (SFAS) No. 142, Accounting for Goodwill and Other Intangible Assets establishes standards for the amortization of acquired intangible assets and impairment assessment of goodwill. At June 30, 2009, Horizon had core deposit intangibles of $1.6 million subject to amortization and $5.8 million of goodwill, which is not subject to amortization. Goodwill arising from business combinations represents the value attributable to unidentifiable intangible assets in the business acquired. Horizon s goodwill relates to the value inherent in the banking industry and that value is dependent upon the ability of Horizon to provide quality, cost effective banking services in a competitive marketplace. The goodwill value is supported by revenue that is in part driven

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by the volume of business transacted. A decrease in earnings resulting from a decline in the customer base or the inability to deliver cost effective services over sustained periods can lead to impairment of goodwill that could adversely affect earnings in future periods. SFAS No. 142 requires an annual evaluation of goodwill for impairment. The evaluation of goodwill for impairment requires the use of estimates and assumptions. For the first time in Horizon s history, the market value for Horizon s stock dropped below the book value during the fourth quarter of 2008. Market price at the close of business on June 30, 2009 was $16.25 per share compared to a book value of $25.62 per common share. Horizon reported record earnings for the ninth consecutive year in 2008 and has continued to report strong earnings through the first half of 2009 and believes the decline in market price relates to an overall decline in the financial industry sector and is not specific to Horizon. Horizon engaged a third party to perform an impairment test of its goodwill in 2008. The evaluation included three approaches: 1) income approach using a discounted cash flow based on earnings capacity, 2) price to earnings multiples and 3) price to book value ratios. Approaches two and three use median results from 17 bank sale transactions that occurred during 2007 and 2008. The selling banks ranged in size from $763.0 million to $2.1 billion. The impairment test was performed as of November 30, 2008 and provided support that no impairment to the Company s goodwill was required based on its results.

Due to the evaluation being done as of November 30, 2008, the financial results for December 2008 were anticipated and included as part of this analysis. An additional $20 million of capital was injected into Horizon Bank by the holding company but the calculated fair value of Horizon Bank was still well above its book value. There were no significant changes in the Company s stock price, book value, or earnings as of June 30, 2009 that would change the results of the evaluation completed at the end of 2008. Horizon has concluded that, based on its own internal evaluation and the independent impairment test conducted by a third party, the recorded value of goodwill is not impaired.

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through the sale of financial assets on a servicing-retained basis. Capitalized servicing rights are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated regularly for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying servicing rights by predominant characteristics, such as interest rates, original loan terms and whether the loans are fixed or adjustable rate mortgages. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. When the book value of an individual stratum exceeds its fair value, an impairment reserve is recognized so that each individual stratum is carried at the lower of its amortized book value or fair value. In periods of falling market interest rates, accelerated loan prepayment speeds can adversely affect the fair value of these mortgage-servicing rights relative to their book value. In the event that the fair value of these assets was to increase in the future, Horizon can recognize the increased fair value to the extent of the impairment allowance but cannot recognize an asset in excess of its amortized book value. Future changes in management s assessment of the impairment of these servicing assets, as a result of changes in observable market data relating to market interest rates, loan prepayment speeds, and other factors, could impact Horizon s financial condition and results of operations either positively or adversely.

Generally, when market interest rates decline and other factors favorable to prepayments occur, there is a corresponding increase in prepayments as customers refinance existing mortgages under more favorable interest rate terms. When a mortgage loan is prepaid, the anticipated cash flows associated with servicing that loan are terminated, resulting in a reduction of the fair value of the capitalized mortgage servicing rights. To the extent that actual borrower prepayments do not react as anticipated by the prepayment model (i.e., the historical data observed in the model does not correspond to actual market activity), it is possible that the prepayment model could fail to accurately predict mortgage prepayments and could result in significant earnings volatility. To estimate prepayment speeds, Horizon utilizes a third-party prepayment model, which is based upon statistically

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derived data linked to certain key principal indicators involving historical borrower prepayment activity associated with mortgage loans in the secondary market, current market interest rates and other factors, including Horizon s own historical prepayment experience. For purposes of model valuation, estimates are made for each product type within the mortgage servicing rights portfolio on a monthly basis.

Derivative Instruments

As part of the Company s asset/liability management program, Horizon utilizes, from time-to-time, interest rate floors, caps or swaps to reduce the Company s sensitivity to interest rate fluctuations. These are derivative instruments, which are recorded as assets or liabilities in the consolidated balance sheets at fair value. Changes in the fair values of derivatives are reported in the consolidated income statements or other comprehensive income (OCI) depending on the use of the derivative and whether the instrument qualifies for hedge accounting. The key criterion for the hedge accounting is that the hedged relationship must be highly effective in achieving offsetting changes in those cash flows that are attributable to the hedged risk, both at inception of the hedge and on an ongoing basis.

Horizon s accounting policies related to derivatives reflect the guidance in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as revised and further interpreted by SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, (SFAS 133) and other related accounting guidance. Derivatives that qualify for the hedge accounting treatment are designated as either: a hedge of the fair value of the recognized asset or liability or of an unrecognized firm commitment (a fair value hedge) or a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (a cash flow hedge). For fair value hedges, the cumulative change in fair value of both the hedge instruments and the underlying loans is recorded in non-interest income. For cash flow hedges, changes in the fair values of the derivative instruments are reported in OCI to the extent the hedge is effective. The gains and losses on derivative instruments that are reported in OCI are reflected in the consolidated income statement in the periods in which the results of operations are impacted by the variability of the cash flows of the hedged item. Generally, net interest income is increased or decreased by amounts receivable or payable with respect to the derivatives, which qualify for hedge accounting. At inception of the hedge, Horizon establishes the method it uses for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. The ineffective portion of the hedge, if any, is recognized currently in the consolidated statements of income. Horizon excludes the time value expiration of the hedge when measuring ineffectiveness.

Valuation Measurements

Valuation methodologies often involve a significant degree of judgment, particularly when there are no observable active markets for the items being valued. Investment securities, residential mortgage loans held for sale and derivatives are carried at fair value, as defined in SFAS No. 157 Fair Value Measurement (SFAS 157), which requires key judgments affecting how fair value for such assets and liabilities is determined. In addition, the outcomes of valuations have a direct bearing on the carrying amounts of goodwill, mortgage servicing rights, and pension and other post-retirement benefit obligations. To determine the values of these assets and liabilities, as well as the extent, to which related assets may be impaired, management makes assumptions and estimates related to discount rates, asset returns, prepayment rates and other factors. The use of different discount rates or other valuation assumptions could produce significantly different results, which could affect Horizon s results of operations.

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Financial Condition

On June 30, 2009, Horizon s total assets were $1.3 billion, an increase of $36.4 million from December 31, 2008 but a decrease of $100.0 million from March 31, 2009. Due to the economic environment the financial institution industry was experiencing at the beginning of 2009, management determined it would be prudent to maintain higher liquidity levels. During that same time the Company s mortgage warehouse business line was experiencing significant growth due to the increase in mortgage loan refinancing activity, and this also created a need for additional liquidity. Management put into place several successful strategies during the first quarter of 2009 to generate the additional liquidity. As a result, the Company maintained excess cash and cash equivalents at the end of the first quarter and throughout most of the second quarter of 2009. A significant portion of that additional liquidity was generated from municipal money market deposits. This funding was designed to match the growth of assets in the mortgage warehouse business line and provide additional liquidity without utilizing asset based collateral borrowings or federal fund lines. At June 30, 2009, most of the additional funding from the municipal money market accounts was moved out of the Bank and cash and cash equivalents and the municipal money market accounts were back to more historic levels. The Bank does not anticipate a near term need to maintain the level of excess liquidity during the third quarter as it did in the second quarter.

Investment securities increased by approximately $28.7 million compared to the end of 2008. This growth was continued from the fourth quarter as additional investment securities were purchased to leverage the capital raised through the U.S. Department of Treasury s Capital Purchase Program which is part of the Economic Emergency Stabilization Act approved by Congress during the fourth quarter of 2008. The increase in investment securities held to maturity was primarily from local municipal tax anticipation warrants that will mature on December 31, 2009.

Investment securities were comprised of the following as of:

	June 30, 2009		December 31, 2008	
Investment securities	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Available for sale				
U.S. Treasury and federal agencies	**$ 19,880**	**$ 20,145**	$ 23,661	$ 24,914
State and municipal	**95,174**	**94,372**	88,282	86,985
Federal agency collateralized mtg. obligations	**17,521**	**17,282**	13,063	12,951
Federal agency mortgage-backed pools	**183,236**	**186,886**	174,227	176,389
Corporate notes	**587**	**381**	587	399
Total available for sale	**316,398**	**319,066**	299,820	301,638
Total held to maturity, state and municipal	**12,875**	**12,978**	1,630	1,634
Total investment securities	**$329,273**	**$332,044**	$301,450	$303,272

Net loans increased $12.2 million since December 31, 2008. This increase was almost entirely related to the growth in the Company s mortgage warehouse business line as its customers utilized their warehouse lines to fund residential mortgage refinancing activity.

Total deposits increased $7.0 million during the first half of 2009 and as indicated above, decreased $129.3 million since March 31, 2009. The decrease in deposits during the second quarter was primarily the result of the additional funding that was generated during the first quarter of 2009 from the municipal money market accounts moving out of the Bank.

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The Company s borrowings have increased $25.1 million since December 31, 2008. The Company implemented three major funding initiatives during the first half of 2009. The first initiative was to generate liquidity as described above from municipal money market accounts. The second initiative was to reduce the outstanding balances in the Company s short-term borrowing lines, to make those lines available and provide more daily liquidity. The third initiative was to continue to take steps to extend the duration of liabilities in a low interest rate environment and lock in long-term funding costs. The short-term borrowings of $52.2 million at December 31, 2008 were replaced with a $50.0 million fixed rate long-term corporate repurchase agreement therefore extending the duration of liabilities and increasing the available daily liquidity. The Company also added $33.6 million of long-term brokered certificates of deposit during the first quarter to also help in extending the duration of deposits. The Company will continue to look for opportunities to extend the duration of liabilities while long-term rates remain low.

Stockholders equity totaled $107.2 million at June 30, 2009 compared to $103.4 million at December 31, 2008. The increase in stockholders equity during the period was the result of net income and an increase in the market value of investment securities available for sale, reduced by dividends declared. At June 30, 2009, the ratio of average stockholders equity to average assets was 7.80% compared to 6.65% at December 31, 2008. Book value per common share at June 30, 2009 increased to $25.85 compared to $24.68 at December 31, 2008.

Results of Operations

Overview

Consolidated net income for the three-month period ended June 30, 2009 was $2.1 million, a decrease of 31.0% compared to $3.0 million for the same period in 2008. Earnings per common share for the three months ended June 30, 2009 decreased to $0.53 basic and $0.52 diluted, compared to $0.93 basic and $0.92 diluted for the same three-month period in 2008. Diluted earnings per share were reduced by $0.11 per share due to the preferred stock dividends and the accretion of the discount on preferred stock, which is not available to common stockholders. The preferred stock was issued in the fourth quarter of 2008 and therefore did not affect the first quarter of 2008. The results from the second quarter of 2009 were also impacted by the special FDIC assessment of $663,000, which reduced diluted earnings per share by $0.13 per share. In addition, the second quarter of 2008 included a death benefit from officer life insurance of $538,000, which was tax-free income, and increased diluted earnings per share for the quarter by $0.17 per share.

Consolidated net income for the six-month period ended June 30, 2009 was $4.7 million, a decrease of 14.8% compared to $5.5 million for the same period in 2008. Earnings per common share for the six months ended June 30, 2009 decreased to $1.25 basic and $1.22 diluted, compared to $1.72 basic and $1.70 diluted for the same six-month period in 2008. Diluted earnings per share were reduced by $0.21 per share due to the preferred stock dividends and the accretion of the discount on preferred stock, which is not available to common stockholders. The special FDIC assessment expense during the second quarter of 2009 and the income from the death benefit on officer life insurance during the second quarter of 2008 also affected the six-month results.

Net Interest Income

The largest component of net income is net interest income. Net interest income is the difference between interest income, principally from loans and investment securities, and interest expense, principally on deposits and borrowings. Changes in the net interest income are the result of changes in volume, net interest spread, and net interest margin. Volume refers to the average dollar levels of interest-earning assets and interest-bearing liabilities. Net interest spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin refers to net interest income divided by average interest-earning assets and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities.

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The reduction in short-term interest rates over the last six months has influenced the cost of the Company s interest bearing liabilities more significantly then the reduction in yields received on the Company s interest earning assets, resulting in an increase of the net interest margin for both the three and six month periods ending June 30, 2009. Management believes that the current level of interest rates is driven by external factors and therefore impacts the results of the Company s net interest margin. Management does not expect a rise in interest rates in the short term, but an increase in rates is expected at some time in the future due to the current historically low interest rate environment.

Net interest income during the three months ended June 30, 2009 was $11.3 million, an increase of $2.0 million or 20.6% over the $9.3 million earned during the same period in 2008. Yields on the Company s interest-earning assets decreased by 52 basis points to 5.70% for the three months ended June 30, 2009, from 6.22% for the same period in 2008. Interest income increased $1.5 million from $17.3 million for the three months ended June 30, 2008 to $18.8 million for the same period in 2009. This increase was due to the increased volume of interest earning assets partially offset by the decrease in the yield on interest earning assets. As a result of maintaining excess liquidity during the second quarter of 2009 (by carrying a higher average balance in interest-earning deposits with a yield of 25 basis points), the yield on total interest earning assets was negatively impacted. However, the asset yields on loans receivable has not declined at the same pace as some market indices partially due to interest rate floors that are in place on approximately $347.9 million out of the $497.6 million of the Company s adjustable rate loans.

Rates paid on interest-bearing liabilities decreased by 58 basis points during the same period due to the lower interest rate environment. Interest expense decreased $349,000 from $7.9 million for the three-months ended June 30, 2008 to $7.6 million for the same period in 2009. This decrease was due to the lower rates being paid on the Company s interest bearing liabilities but offset by the increased volume of interest bearing liabilities. Due to a more significant decrease in the rates paid on the Company s interest-bearing liabilities compared to the decrease in the yield on the Company s interest-earning assets, offset with the growth of the Company s interest earning assets and interest bearing liabilities, the net interest margin increased 11 basis points from 3.40% for the three months ended June 30, 2008 to 3.51% for the same period in 2009.

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The following are the average balance sheets for the three months ending:

	Three Months Ended June 30, 2009			Three Months Ended June 30, 2008		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets						
Federal funds sold	$ 11,247	$ 7	0.25%	$ 11,395	$ 59	2.08%
Interest-earning deposits	61,369	39	0.25%	3,210	19	2.38%
Investment securities taxable	247,847	2,765	4.47%	182,099	2,136	4.72%
Investment securities non-taxable	91,812	947	5.52%	82,148	862	5.63%
Loans receivable (2)	921,903	15,091	6.57%	840,330	14,194	6.80%
Total interest-earning assets (1)	1,334,178	18,849	5.70%	1,119,182	17,270	6.22%
Noninterest-earning assets						
Cash and due from banks	15,634			13,595		
Allowance for loan losses	(11,316)			(9,625)		
Other assets	72,835			67,652		
	$ 1,411,331			$ 1,190,804		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing liabilities						
Interest-bearing deposits	$ 851,522	$ 3,993	1.88%	$ 732,477	$ 4,697	2.58%
Borrowings	329,891	3,222	3.92%	270,171	2,846	4.24%
Subordinated debentures	27,837	371	5.35%	27,837	392	5.66%
Total interest-bearing liabilities	1,209,250	7,586	2.52%	1,030,485	7,935	3.10%
Noninterest-bearing liabilities						
Demand deposits	82,914			76,802		
Accrued interest payable and other liabilities	9,137			7,437		
Shareholders equity	110,030			76,080		

	$ 1,411,331			$ 1,190,804		
Net interest income/spread		$ 11,263	3.18%		$ 9,335	3.12%
Net interest income as a percent of average interest earning assets (1)			3.51%			3.40%

(1) Securities balances represent daily average balances for the fair value of securities. The average rate is calculated based on the daily average balance for the amortized cost of securities. Interest income is presented on a tax equivalent basis.

(2) Includes fees on loans. The inclusion of loan fees does not have a material effect on the average interest rate.

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Net interest income during the six months ended June 30, 2009 was $22.7 million, an increase of $4.4 million or 24.0% over the $18.3 million earned during the same period in 2008. Yields on the Company s interest-earning assets decreased by 45 basis points to 5.86% for the six months ended June 30, 2009 from 6.31% for the same period in 2008. Interest income increased $1.5 million from $36.0 million for the six months ended June 30, 2008 to $37.5 million for the same period in 2009. This increase was due to the increased volume in interest earning assets partially offset by the decrease in the yield on interest earning assets.

Rates paid on interest-bearing liabilities decreased by 80 basis points during the same period due to the lower interest rate environment. Interest expense decreased $3.0 million from $17.8 million for the six-months ended June 30, 2008 to $14.8 million for the same period in 2009. This decrease was due to the lower rates being paid on the Company s interest bearing liabilities but offset by the increased volume of interest bearing liabilities. Due to a more significant decrease in the rates paid on the Company s interest-bearing liabilities compared to the decrease in the yield on the Company s interest-earning assets, offset with the growth of the Company s interest earning assets and interest bearing liabilities, the net interest margin increased 41 basis points from 3.24% for the six months ended June 30, 2008 to 3.65% for the same period in 2009.

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The following are the average balance sheets for the six months ending:

	Six Months Ended June 30, 2009			Six Months Ended June 30, 2008		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets						
Federal funds sold	$ 7,509	$ 9	0.24%	$ 29,019	$ 425	2.95%
Interest-earning deposits	34,453	44	0.26%	8,990	138	3.09%
Investment securities taxable	246,591	5,607	4.59%	174,847	4,199	4.83%
Investment securities non-taxable	90,573	1,867	5.54%	81,861	1,699	5.56%
Loans receivable (2)	919,758	29,996	6.58%	854,849	29,561	6.96%
Total interest-earning assets (1)	1,298,884	37,523	5.86%	1,149,566	36,022	6.31%
Noninterest-earning assets						
Cash and due from banks	15,216			17,351		
Allowance for loan losses	(11,356)			(9,673)		
Other assets	76,229			67,991		
	$ 1,378,973			$ 1,225,235		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing liabilities						
Interest-bearing deposits	$ 818,341	$ 7,989	1.97%	$ 775,110	$ 11,291	2.93%
Borrowings	334,628	6,114	3.68%	265,235	5,674	4.30%
Subordinated debentures	27,837	741	5.37%	27,837	799	5.77%
Total interest-bearing liabilities	1,180,806	14,844	2.54%	1,068,182	17,764	3.34%
Noninterest-bearing liabilities						
Demand deposits	81,358			75,008		
Accrued interest payable and other liabilities	9,146			7,265		
Shareholders equity	107,663			74,780		

	$ 1,378,973			$ 1,225,235		
Net interest income/spread		$ 22,679	3.32%		$ 18,258	2.97%
Net interest income as a percent of average interest earning assets (1)			3.65%			3.24%

(1) Securities balances represent daily average balances for the fair value of securities. The average rate is calculated based on the daily average balance for the amortized cost of securities. Interest income is presented on a tax equivalent basis.

(2) Includes fees on loans. The inclusion of loan fees does not have a material effect on the average interest rate.

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Provision for Loan Losses

Horizon assesses the adequacy of its Allowance for Loan and Lease Losses (ALLL) by regularly reviewing the performance of its loan portfolios. During the second quarter of 2009, a provision for loan losses of $3.3 million was required to adequately fund the ALLL compared to a provision of $1.5 million for the second quarter of 2008. The provision for the second quarter resulted from continued losses primarily in the installment loan portfolios due to current economic conditions and trends. Commercial loan charge-offs during the second quarter of 2009 were $262,000, real estate loan charge-offs were $214,000, and installment loans were $1.8 million.

For the six months ended June 30, 2009, the provision for loan losses totaled $6.5 million compared to $2.3 million in the prior year for the same period. Commercial loan charge-offs during the first six months of 2009 were $1.3 million, real estate loan charge-offs were $264,000, and installment loan charge-offs were $3.6 million. During the second quarter of 2009, the Company determined that five recreational vehicle loans were part of a loan fraud perpetrated by a single recreational vehicle dealer. These loans resulted in $1.0 million of the installment loan charge-offs included in the results for the six months ended June 30, 2009.

Non-performing loans at June 30, 2009 increased to $13.5 million or 1.49% of total loans compared to $10.5 million or 1.11% at March 31, 2009, and $7.9 million or 0.89% at December 31, 2008. When compared to non-performing loans at year-end the increase came from each of the commercial, real estate, and installment loan portfolios. Horizon s non-performing loan statistics, while having increased from the prior quarter, still compare favorably to National[1] and State of Indiana[2] bank averages for the same ratio as of March 31, 2009 of 2.93% and 3.04%. The increase in the Company s non-performing loans from the end of both the first quarter of 2009 and the 2008 year-end is not attributed to a single credit or from a specific loan category. The increase can be attributed to the slower economy and continued high unemployment causing lower business revenues and increased consumer bankruptcies. Management believes the total allowance of $12.6 million or 1.40% of total loans is adequate to absorb probable incurred losses contained in the loan portfolios.

1 National peer group: Consists of all insured commercial banks having assets between $1 Billion and $3 Billion as reported by the Uniform Bank Performance Report as of March 31, 2009

2 Indiana peer group: Consists of 22 publicly traded banks all headquartered in the State of Indiana as

reported by the Uniform Bank Performance Reports as of March 31, 2009.

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Non-Interest Income

The following is a summary of changes in non-interest income:

	Three Months Ended		Amount	Percent
	June 30, 2009	June 30, 2008	Change	Change
Non-interest income				
Service charges on deposit accounts	**$ 974**	$ 989	$ (15)	-1.5%
Wire transfer fees	**261**	122	139	113.9%
Interchange fees	**456**	214	242	113.1%
Fiduciary activities	**824**	1,021	(197)	-19.3%
Gain on sale of loans	**1,671**	661	1,010	152.8%
Mortgage servicing net of impairment	**(32)**	29	(61)	-210.3%
Increase in cash surrender value of bank owned life insurance	**185**	221	(36)	-16.3%
Death benefit on officer life insurance		538	(538)	-100.0%
Loss on sale of securities		(15)	15	-100.0%
Other income	**177**	118	59	50.0%
Total non-interest income	**$4,516**	$ 3,898	$ 618	15.9%

The gain on sale of mortgage loans contributed the majority of the increase in non-interest income during the second quarter of 2009. Mortgage refinancing continued to generate high volumes of loan sales during the second quarter and the Company s mortgage loan division provided customers with the needed service to lower their mortgage interest rates. During the second quarter of 2009, the Company originated approximately $106.1 million of mortgage loans to be sold on the secondary market compared to $36.9 million for the same period last year. Wire transfer fees and interchange fees contributed to the increase in non-interest income due to increased activity. These increases were offset by a decrease in fiduciary activity from less fee income from the Bank s trust subsidiary, lower mortgage servicing income due to impairment charges in the Company s mortgage servicing asset, and not replacing the income recorded in the second quarter of 2008 from the death benefit on officer life insurance.

	Six Months Ended		Amount	Percent
	June 30, 2009	June 30, 2008	Change	Change
Non-interest income				
Service charges on deposit accounts	**$1,908**	$ 1,910	$ (2)	-0.1%
Wire transfer fees	**508**	227	281	123.8%
Interchange fees	**844**	402	442	110.0%
Fiduciary activities	**1,741**	1,906	(165)	-8.7%
Gain on sale of loans	**3,584**	1,465	2,119	144.6%
Mortgage servicing net of impairment	**(166)**	5	(171)	-3420.0%
Increase in cash surrender value of bank owned life insurance	**341**	449	(108)	-24.1%

Death benefit on officer life insurance		538	(538)	-100.0%
Loss on sale of securities		(15)	15	-100.0%
Other income	**250**	224	26	11.6%
Total non-interest income	**$9,010**	$ 7,111	$1,899	26.7%

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The gain on sale of mortgage loans also contributed to the majority of the increase in non-interest income during the first six months of 2009. During the first half of 2009 the Company originated approximately $206.5 million of mortgage loans to be sold on the secondary market compared to $72.4 million for the same period last year. Wire transfer fees and interchange fees contributed to the increase in non-interest income due to increased activity. These increases were offset by a decrease in fiduciary activity from less fee income from the Bank s trust subsidiary, lower mortgage servicing income due to impairment charges in the Company s mortgage servicing asset, the reduction in the increase in the cash surrender value of bank owned life insurance from lower returns on the related assets, and not replacing the income recorded in 2008 from the death benefit on officer life insurance.

Non-Interest Expense

The following is a summary of changes in non-interest expense:

	Three Months Ended		Amount	Percent
	June 30, 2009	June 30, 2008	Change	Change
Non-interest expense				
Salaries and employee benefits	**$4,894**	$ 4,220	$ 674	16.0%
Net occupancy expenses	**899**	918	(19)	-2.1%
Data processing	**396**	350	46	13.1%
Professional fees	**310**	291	19	6.5%
Outside services and consultants	**351**	308	43	14.0%
Loan expense	**644**	552	92	16.7%
FDIC deposit insurance	**1,059**	142	917	645.8%
Other losses	**82**	141	(59)	-41.8%
Other expenses	**1,293**	1,317	(24)	-1.8%
Total non-interest expense	**$9,928**	$ 8,239	$1,689	20.5%

Non-interest expense increased from the second quarter of 2008. Salaries and benefits increased primarily due to commissions paid to the mortgage loan division based on the higher mortgage loan volume. Loan expense was up from the second quarter of the prior year due to the increased volume of loan originations. The Company s FDIC expense has increased significantly due to higher assessment rates along with the special FDIC assessment of $663,000 that was recorded in the second quarter of 2009. Deposit insurance will remain higher during the year based on the FDIC s rate increases and the potential of an additional special assessment that may be required to replenish the insurance fund due to failed banks and related financial problems. All other categories of non-interest expense did not have significant changes from the prior year.

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	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	Amount Change	Percent Change
Non-interest expense				
Salaries and employee benefits	**$ 9,725**	$ 8,495	$1,230	14.5%
Net occupancy expenses	**1,931**	1,890	41	2.2%
Data processing	**775**	682	93	13.6%
Professional fees	**705**	540	165	30.6%
Outside services and consultants	**677**	612	65	10.6%
Loan expense	**1,210**	1,010	200	19.8%
FDIC deposit insurance	**1,351**	258	1,093	423.6%
Other losses	**467**	242	225	93.0%
Other expenses	**2,484**	2,537	(53)	-2.1%
Total non-interest expense	**$19,325**	$ 16,266	$3,059	18.8%

For the six months ended June 30, 2009, non-interest expense increased compared to the same period last year. Salaries and benefits increased primarily due to commissions paid to the mortgage loan division based on the higher mortgage loan volume. Professional fees were higher compared to last year due to increasing rules and regulations requiring professional assistance from legal and accounting professionals. Also, loan expense was up from the prior year due to the increased volume of loan originations. The Company s FDIC expense has increased significantly due to higher assessment rates along with the special FDIC assessment of $663,000 that was recorded in the second quarter of 2009. Deposit insurance will remain higher during the year based on the FDIC s rate increases and the potential of an additional special assessment that may be required to replenish the insurance fund due to failed banks and related financial problems. Other losses for the first half of 2009 included a one-time charge of $100,000 for the deductible paid on a wire transfer fraud totaling $210,000 perpetrated on the bank during the first quarter of 2009 and $229,000 in other real estate owned write-downs. All other categories of non-interest expense did not have significant changes from the prior year.

Income Taxes

Income tax expense for the second quarter of 2009 was $17,000 less than the prior year with $943,000 less in income before income tax. The $538,000 of income received in the second quarter of 2008 from the death benefit on officer life insurance was tax free and reduced taxable income and a tax refund of $116,000 was also received in the second quarter of 2008 reducing tax expense. After considering the impact of these items in the prior year the actual effective tax rate for the second quarter of 2008 was 21.2% compared to 19.4% in 2009.

Tax refunds were received in both six-month periods ending June 30, 2009 and 2008 in the amounts of $100,000 and $116,000. Considering the impact of the $538,000 of income received in the second quarter of 2008 from the death benefit on officer life insurance which was tax free and reduced taxable income and the tax refunds received in both periods, the effective tax rate for the six months ending June 30, 2009 was 21.7% compared to 22.8% in 2008.

Liquidity

The Bank maintains a stable base of core deposits provided by long standing relationships with individuals and local businesses. These deposits are the principal source of liquidity for Horizon. Other sources of liquidity for Horizon include earnings, loan repayment, investment security sales and maturities, sale of real estate loans, and borrowing relationships with correspondent banks, including the Federal Home Loan Bank (FHLB). During the

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six months ended June 30, 2009, cash and cash equivalents decreased by approximately $19.4 million. The decrease is primarily due to the growth in both investment securities and loans receivable. At June 30, 2009, in addition to liquidity provided from the normal operating, funding, and investing activities of Horizon, the Bank had available approximately $209.2 million in unused credit lines with various money center banks, including the FHLB.

Capital Resources

The capital resources of Horizon and the Bank exceed regulatory capital ratios for well capitalized banks at June 30, 2009. Stockholders equity totaled $107.2 million as of June 30, 2009, compared to $103.4 million as of December 31, 2008. For the three-months ended June 30, 2009, the ratio of average stockholders equity to average assets was 7.80% compared to 6.65% for quarter ending December 31, 2008. Horizon s capital increased during the six months as a result of increased earnings and an improvement in unrealized gain on securities available for sale net of dividends declared and the amortization of unearned compensation.

Horizon declared dividends in the amount of $0.34 per share during the first half of 2009 compared to $0.32 per share for the same period of 2008. The dividend payout ratio (dividends as a percent of net income) was 27.9% and 18.9% for the first six months of 2009 and 2008. For additional information regarding dividend conditions, see Horizon s Annual Report on Form 10-K for 2008.

There have been no other material changes in Horizon s capital resources from December 31, 2008 to June 30, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to Horizon s 2008 Annual Report on Form 10-K for analysis of its interest rate sensitivity. Horizon believes there have been no significant changes in its interest rate sensitivity since it was reported in its 2008 Annual Report on Form 10-K.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation Of Disclosure Controls And Procedures

Based on an evaluation of disclosure controls and procedures as of June 30, 2009, Horizon s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of Horizon s disclosure controls (as defined in Exchange Act Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)). Based on such evaluation, such officers have concluded that, as of the evaluation date, Horizon s disclosure controls and procedures are effective to ensure that the information required to be disclosed by Horizon in the reports it files under the Exchange Act is recorded, processed, summarized and reported within the time specified in Securities and Exchange Commission rules and forms and are designed to ensure that information required to be disclosed in those reports is accumulated and communicated to management as appropriate to allow timely decisions regarding disclosure.

Changes In Internal Controls

Horizon s management, including its Chief Executive Officer and Chief Financial Officer, also have concluded that during the fiscal quarter ended June 30, 2009, there have been no changes in Horizon s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Horizon s internal control over financial reporting.

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ITEM 1. LEGAL PROCEEDINGS

On August 5, 2008, Maria Coto filed a putative class action complaint in the Porter County Superior Court, Porter County, Indiana, on behalf of herself and others who have had their vehicles repossessed by the Bank during the four years prior to the filing of the action. The complaint alleged that the Bank s post-repossession notice to defaulting borrowers did not comply with certain aspects of Indiana law. The plaintiff was seeking statutory damages and costs. The parties agreed to settle this action in April 2009, and the court preliminarily approved the settlement on April 24, 2009. Final court approval is expected on or around August 17, 2009. As part of the settlement, Horizon agreed to pay $200 to the lead plaintiff, agreed not to pursue deficiency judgments against the class members and agreed to pay up to $28,000 towards the attorneys fees and costs of the class plaintiffs.

Horizon is continuing to investigate the legitimacy of claims made by First Horizon National Corporation, headquartered in Memphis, Tennessee (FHNC), regarding FHNC s trademark rights in the name Horizon Bank (and other names that include the word Horizon). An attorney representing FNHC raised the claims in a letter dated October 27, 2008, and proposed that Horizon assign its common law rights in that name to FHNC in exchange for a license back to use the Horizon name in Horizon s current trade area and a reasonable zone of expansion.

Horizon and its subsidiaries are involved in various legal proceedings incidental to the conduct of their business. Management does not expect that the outcome of any such proceedings will have a material adverse effect on our consolidated financial position or results of operations.

ITEM 1A. RISK FACTORS

There are certain risks and uncertainties in our business that could cause our actual results to differ materially from those anticipated. In ITEM 1A. RISK FACTORS of Part I of Horizon s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (the 2008 Form 10-K), we included a detailed discussion of our risk factors. The following information updates certain of our risk factors and should be read in conjunction with the risk factors disclosed in the 2008 Form 10-K. These risk factors should be read carefully in connection with evaluating our business and in connection with the forward-looking statements contained in this Quarterly Report on Form 10-Q.

Any of the risks described below or in the 2008 Form 10-K could materially adversely affect our business, financial condition or future results and the actual outcome of matters as to which forward-looking statements are made. These are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Risks Related to our Business

Our deposit insurance premiums could be substantially higher in the future which will have an adverse effect on our future earnings.

During 2008, there were higher levels of bank failures which dramatically increased the costs of the Federal Deposit Insurance Corporation (FDIC) and depleted the deposit insurance fund. In order to maintain a strong funding position and restore reserve ratios of the deposit insurance fund, the FDIC voted on December 16, 2008 to increase assessment rates of insured institutions uniformly by 7 basis points (7 cents for every $100 of deposits), beginning with the first quarter of 2009. Additional changes, beginning April 1, 2009, were to require riskier institutions to pay a larger share of premiums by factoring in rate adjustments based on secured liabilities and unsecured debt levels.

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On May 22, 2009, the FDIC adopted a final rule that imposed a special assessment for the second quarter of 2009 of 5 basis points on each insured depositary institution s assets minus its Tier 1 capital as of June 30, 2009, which will be collected on September 30, 2009. Horizon s special assessment for this period was $663,000. The FDIC further decided on May 22, 2009 that it could impose a similar assessment for each of the third and fourth quarters of 2009. The latest possible date for imposing additional special assessments under the final rule would be December 31, 2009, with collection on March 30, 2010.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. As a result, we may be required to pay even higher FDIC premiums than the recently increased levels. These announced increases and any future increases in FDIC insurance premiums may materially adversely affect our results of operations and our ability to continue to pay dividends on our common shares at the current rate.

Because of our participation in the TARP Capital Purchase Program, we are subject to various restrictions on dividends, share repurchases and executive compensation.

Horizon is a participant in the Capital Purchase Program, which is a component program of the Troubled Assets Relief Program (TARP) established by the United States Department of the Treasury (the U.S. Treasury) pursuant to the Emergency Economic Stabilization Act of 2008 (EESA). Pursuant to the agreements we entered into as part of the Capital Purchase Program, we are unable to declare dividend payments on our common shares if we are in arrears on the payment of dividends on the Series A Preferred Shares we issued to the U.S. Treasury. Further, we are not permitted to increase dividends on our common shares above the amount of the last quarterly cash dividend per common share declared prior to October 14, 2008 ($0.17 per common share) without the U.S. Treasury s approval until December 23, 2011, unless all of the Series A Preferred Shares have been redeemed or transferred by the U.S. Treasury to unaffiliated third parties.

In addition, our ability to repurchase our shares is restricted. The consent of the U.S. Treasury generally is required for us to make any share repurchase (other than in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice) until December 23, 2011, unless all of the Series A Preferred Shares have been redeemed or transferred by the U.S. Treasury to unaffiliated third parties. Further, our common shares may not be repurchased if we are in arrears on the payment of Series A Preferred Share dividends to the U.S. Treasury.

As a recipient of government funding under the Capital Purchase Program, we must also comply with the executive compensation and corporate governance standards imposed by the American Recovery and Reinvestment Act of 2009 (the ARRA) and the standards established by the Secretary of the Treasury under the ARRA, for so long as the U.S. Treasury holds any of our securities or upon exercise of the Warrant we issued to the U.S. Treasury as part of the Capital Purchase Program, excluding any period during which the U.S. Treasury holds only the Warrant (the TARP Period). On June 15, 2009, the Secretary of the Treasury established executive compensation and corporate governance standards applicable to TARP recipients, including Horizon, by promulgating an Interim Final Rule under 31 C.F.R. Part 30 (the Interim Final Rule). The ARRA and the Interim Final Rule impose limitations on our executive compensation practices by:

- Limiting the deductibility, for U.S. federal income tax purposes, of compensation paid to any of our Senior Executive Officers (as defined in the Interim Final Rule) to $500,000 per year;
- Prohibiting the payment or accrual of any bonus, retention award or incentive compensation to our five most highly-compensated employees, except in the form and under the limited circumstances permitted by the Interim Final Rule;
- Prohibiting the payment of golden parachute payments (as defined in the Interim Final Rule) to our Senior Executive Officers or any of our next five most highly-compensated employees upon a departure

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from Horizon or due to a change in control of Horizon, except for payments for services performed or benefits accrued;

Requiring Horizon to clawback any bonus, retention award or incentive compensation paid (or under a legally binding obligation to be paid) to a Senior Executive Officer or any of our next 20 most highly-compensated employees if the payment was based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria;

Prohibiting Horizon from maintaining any employee compensation plan (as defined in the Interim Final Rule) that would encourage the manipulation of our reported earnings to enhance the compensation of any of our employees;

Prohibiting Horizon from maintaining compensation plans and arrangements for our Senior Executive Officers that encourage our Senior Executive Officers to take unnecessary and excessive risks that threaten the value of Horizon;

Prohibiting Horizon from providing (formally or informally) gross-ups to any of our Senior Executive Officers or our next 20 most highly-compensated employees; and

Subjecting any bonus, retention award or other compensation paid before February 17, 2009 to our Senior Executive Officers or our next 20 most highly-compensated employees to retroactive review by the U.S. Treasury to determine whether any such payments were inconsistent with the purposes of TARP or otherwise contrary to the public interest.

The ARRA and the Interim Final Rule also required that the Horizon Board of Directors adopt a Company-wide policy regarding excessive or luxury expenditures, which we have done.

Although Horizon was already in compliance with many of these standards and limitations prior to its participation in the Capital Purchase Program and the subsequent adoption of the ARRA and the Interim Final Rule, these standards and limitations decrease (in some cases substantially) Horizon s discretion over certain decisions regarding its dividend practices and how it compensates its executive officers and other employees. The limitations on compensation may have the effect of limiting Horizon s ability to attract and retain executive officers and other employees which will be detrimental to our long-term success.

The TARP lending goals may not be attainable and may adversely affect our business and asset quality.

Congress and the bank regulators have encouraged recipients of TARP capital, including Horizon, to use such capital to make more loans, and it may not be possible to safely, soundly and profitably make sufficient loans to creditworthy persons in the current economy to satisfy such goals. Congressional demands for additional lending by TARP capital recipients, and regulatory demands for demonstrating and reporting such lending are increasing. On November 12, 2008, the bank regulatory agencies issued a statement encouraging banks to, among other things, lend prudently and responsibly to creditworthy borrowers and to work with borrowers to preserve homeownership and avoid preventable foreclosures. We continue to lend (and have been able to expand our lending using the funds we received through the Capital Purchase Program) and to report our lending to the U.S. Treasury. The future demands for additional lending, however, are unclear and uncertain, and we could be forced to make loans that involve risks or terms that we would not otherwise find acceptable or in our shareholders best interest. Such loans could adversely affect our results of operations and financial condition, and may be in conflict with bank regulations and requirements as to liquidity and capital. The profitability of funding such loans using deposits may also be adversely affected by increased FDIC insurance premiums.

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Our ability to repurchase the preferred shares issued to the U.S. Treasury (and therefore obtain relief from the limitations and restrictions of TARP and ARRA) is limited.

The rules and policies applicable to recipients of capital under the TARP Capital Purchase Program continue to evolve and their scope, timing and effect cannot be predicted. Any redemption of the securities sold to the U.S. Treasury to avoid these restrictions would require prior Federal Reserve and U.S. Treasury approval. Based on recently issued Federal Reserve guidelines, institutions seeking to redeem the preferred stock issued pursuant to the Capital Purchase Program must demonstrate an ability to access the long-term debt markets without reliance on the FDIC s Temporary Liquidity Guarantee Program, successfully demonstrate access to public equity markets and meet a number of additional requirements and considerations before we can redeem any securities sold to the U.S. Treasury. Therefore, it is uncertain if we will be able to redeem such securities even if we have sufficient financial resources to do so.

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

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

(a) The Company held its Annual Shareholders Meeting on May 7, 2009.

(b) The names of the Directors elected at the Annual Meeting were as follows:

Name	Votes For	Votes Withheld
Robert C. Dabagia	2,484,244	72,563
Lawrence E. Burnell	2,505,160	51,649
Peter L. Pairitz	2,501,234	55,573
Spero W. Valavanis	2,495,711	61,096

(c) Ratification of BKD, LLP as independent accountants.

Votes for	2,532,164
Votes against	11,038
Votes abstained	13,601

(d) Advisory vote on executive compensation.

Votes for	2,445,198
Votes against	70,853
Votes abstained	40,755

ITEM 5. OTHER INFORMATION

Not Applicable

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ITEM 6. EXHIBITS

(a) Exhibits

Exhibit 3.1	Amended and Restated Bylaws of Horizon Bancorp (as amended through July 14, 2009)
Exhibit 31.1	Certification of Craig M. Dwight
Exhibit 31.2	Certification of Mark E. Secor
Exhibit 32	Certification of Chief Executive and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	HORIZON BANCORP
Dated: August 14, 2009	/s/ Craig M. Dwight
	Craig M. Dwight Chief Executive Officer
Dated: August 14, 2009	/s/ Mark E. Secor
	Mark E. Secor Chief Financial Officer

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INDEX TO EXHIBITS

The following documents are included as Exhibits to this Report.

Exhibit	
3.1	Amended and Restated Bylaws of Horizon Bancorp (as amended through July 14, 2009) (incorporated by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K filed on July 16, 2009)
31.1	Certification of Craig M. Dwight
31.2	Certification of Mark E. Secor
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.