

1ST SOURCE CORP
Form 11-K
June 29, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-6233

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

1st SOURCE CORPORATION EMPLOYEE STOCK OWNERSHIP AND PROFIT SHARING PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

1st Source Corporation

100 N. Michigan Street
South Bend, Indiana 46601

1st Source Corporation
Employee Stock Ownership and Profit Sharing Plan
Financial Statements and Supplemental Schedule
December 31, 2009 and 2008,
and the Year Ended December 31, 2009

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Report of Independent Registered Public Accounting Firm

The Executive Compensation and Human Resources Committee
1st Source Corporation

We have audited the accompanying statements of net assets available for benefits of 1st Source Corporation Employee Stock Ownership and Profit Sharing Plan (the Plan) as of December 31, 2009 and 2008, and the related statement of changes in net assets available for benefits for the year ended December 31, 2009. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2009 and 2008, and the changes in its net assets available for benefits for the year ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2009, is presented for the purpose of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/Ernst & Young LLP

Chicago, Illinois
June 29, 2010

1st Source Corporation
Employee Stock Ownership and Profit Sharing Plan

Statements of Net Assets Available for Benefits

| | December 31 | |
|--|---------------|---------------|
| | 2009 | 2008 |
| Assets | | |
| Cash | \$1,149 | \$178,508 |
| Investments at fair value: | | |
| Mutual funds | 73,159,846 | 59,703,445 |
| 1st Source Corporation common stock | 20,310,391 | 28,156,539 |
| 1st Source Bank common trust fund | 11,207,374 | 9,438,886 |
| Participant loans | 1,066,708 | 837,501 |
| Short-term investment fund | 106,330 | 105,548 |
| Total investments | 105,850,649 | 98,241,919 |
| Employer contributions receivable | 4,013,463 | 4,044,960 |
| Accrued investment income | 6 | 22 |
| Net assets available for benefits, at fair value | 109,865,267 | 102,465,409 |
| Adjustment from fair value to contract value for benefit-responsive investments contracts | (88,947) | (10,371) |
| Net assets available for benefits | \$109,776,320 | \$102,455,038 |

See accompanying notes.

1st Source Corporation
Employee Stock Ownership and Profit Sharing Plan

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31, 2009

| | |
|---|----------------|
| Additions | |
| Investment income | \$2,185,660 |
| Contributions: | |
| Employer – cash | 1,468,420 |
| Employer – noncash | 2,545,043 |
| Employees | 4,739,736 |
| Rollover | 3,863 |
| | 8,757,062 |
| Net realized and unrealized appreciation in fair value of investments | 1,193,466 |
| Total additions | 12,136,188 |
| Deductions | |
| Benefits paid to participants | 4,667,101 |
| Administrative fees | 147,805 |
| Total deductions | 4,814,906 |
| Net increase in net assets available for benefits | 7,321,282 |
| Net assets available for benefits: | |
| Beginning of year | 102,455,038 |
| End of year | \$ 109,776,320 |

See accompanying notes.

1st Source Corporation

Employee Stock Ownership and Profit Sharing Plan

Notes to Financial Statements

December 31, 2009

1. Description of the Plan

General

The 1st Source Corporation Employee Stock Ownership and Profit Sharing Plan (the Plan) is a defined-contribution plan covering substantially all employees of 1st Source Corporation (1st Source) and its subsidiaries. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Effective January 1, 2008, the First National Bank, Valparaiso Employees' Retirement and Savings Investment Plan (FNBV) was transferred into the Plan.

Contributions and Vesting

Participants are permitted to designate up to \$16,500 or 100% of their annual pretax compensation, as defined by Internal Revenue Service (IRS) limits, as a salary reduction contribution to the Plan. In addition, participants age 50 or older may elect to defer up to an additional \$5,500 in 2009 and \$5,000 in 2008, called catch-up contributions, to the Plan. Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan currently offers 11 different fund options, one of which is the 1st Source Stock Fund, which primarily consists of 1st Source common stock.

The Plan provides for the following 1st Source contributions:

Matching contribution – amount is discretionary but may not exceed 100% of the first 4% of a participant's compensation contributed to the Plan and 50% of the next 2% of a participant's compensation contributed to the Plan.

Fixed profit sharing contribution – equals 2% of each eligible participant's annual compensation.

Discretionary profit sharing contribution – amount is discretionary as determined annually by the Board of Directors.

Regular contribution – amount is discretionary as determined annually by the Board of Directors.

1st Source Corporation

Employee Stock Ownership and Profit Sharing Plan

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

All 1st Source contributions may be made in either cash or shares of 1st Source common stock. Cash contributions are invested in a diversified portfolio of funds as directed by the 1st Source Retirement Plan Committee. Contributions were made equally in 1st Source common stock and cash during 2009, and all contributions were made in cash in 2008.

Participant Accounts

The Plan provides participants with an ESOP account and a 401(k) account. The ESOP account is made up of participant and 1st Source contributions invested in 1st Source common stock and cash not yet invested in common stock. The 401(k) account consists of participant and 1st Source contributions not invested in 1st Source common stock, including amounts previously included in the ESOP account that a participant elects to diversify. Participants may elect to have dividends paid on the 1st Source common stock held in their ESOP account either in cash or remain in the Plan and be reinvested in additional shares of 1st Source common stock.

After completing 90 consecutive days of service, participant contributions are allowed and vesting is immediate upon contribution to the Plan. Vesting of 1st Source employer contributions, including matching, fixed profit sharing, discretionary profit sharing, and regular contributions, is based on years of credited service. A participant is 100% vested after five years of credited service or upon reaching early retirement age, normal retirement age, or disability.

Forfeitures of nonvested terminated participants' accounts are used to pay plan expenses and offset employer contributions. The amount of forfeitures was \$82,106 for 2009.

Each participant's account is credited with the participant's contribution and an allocation of: (a) 1st Source's contribution, and (b) the Plan's earnings. Allocations are based on participant compensation or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account balance.

1st Source Corporation

Employee Stock Ownership and Profit Sharing Plan

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

Participant Loans

Participants may borrow from the Plan amounts not to exceed the lesser of one-half of the participant's vested balance from his or her 401(k) account or \$50,000. The loans are collateralized by the participant's vested account balance and bear interest at fixed rates of 1% above 1st Source Bank's (a wholly owned subsidiary of 1st Source) prime rate. The loans are repayable over five years except for loans used to acquire or construct a participant's principal residence, in which case the repayment term may exceed five years.

Payment of Benefits

On termination of service, a participant generally receives a lump-sum amount equal to the value of his or her vested account balance. Benefits of money purchase account amounts are subject to joint and survivor and qualified preretirement survivor annuity requirements.

Plan Termination

Although it has not expressed any intention to do so, 1st Source has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants will become fully vested in their accounts.

The foregoing description of the Plan provides only general information. Participants should refer to the Plan Agreement for a more complete description of the Plan's provisions. Copies are available from the 1st Source Human Resources Division.

1st Source Corporation

Employee Stock Ownership and Profit Sharing Plan

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Payment of Benefits

Benefits are recorded when paid.

Use of Estimates

The financial statements of the Plan are presented on the accrual basis and are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

Investments held by the Plan are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). See Note 4 for further discussion and disclosures related to fair value measurements.

The 1st Source Bank Guaranteed Income Fund invests in fully benefit-responsive investment contracts. These investment contracts are recorded at fair value; however, since these contracts are fully benefit responsive, an adjustment is reflected in the statements of net assets available for benefits to present these investments at contract value. Contract value is the relevant measurement attributable to fully benefit-responsive investment contracts because the contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The contract value represents contributions plus earnings, less participant withdrawals and administrative expenses.

1st Source Corporation

Employee Stock Ownership and Profit Sharing Plan

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Generally accepted accounting principles establish a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used in the measurement are observable or unobservable. Observable inputs reflect market-driven or market-based information obtained from independent sources, while unobservable inputs reflect estimates about market data. The degree of management judgment involved in determining the fair value of a financial instrument is dependant upon the availability of quoted market prices or observable market data.

The hierarchy established gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Plan's investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement.

The three levels of the fair value hierarchy and its applicability to the Plan's investments, are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to the security.

Level 3 – Pricing inputs are unobservable for the asset or liability. That is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Level 3 includes private portfolio investments that are supported by little or no market activity.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

1st Source Corporation

Employee Stock Ownership and Profit Sharing Plan

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP 157-4). FSP 157-4 amended FASB Statement No. 157 (codified as Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures) to provide additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to its normal market activity. FSP 157-4 also provided additional guidance on circumstances that may indicate that a transaction is not orderly and on defining major categories of debt and equity securities to comply with the disclosure requirements of ASC 820. The Plan adopted the guidance in FSP 157-4 for the reporting period ended December 31, 2009. Adoption of FSP 157-4 did not have a material effect on the Plan's net assets available for benefits or its changes in net assets available for benefits.

In May 2009, the FASB issued FASB Statement No. 165, Subsequent Events, which was codified into ASC 855, Subsequent Events, to provide 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. ASC 855 was amended in February 2010. The Plan has adopted ASC 855, as amended.

In September 2009, the FASB issued Accounting Standards Update 2009-12, Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2009-12). ASU 2009-12 amended ASC 820 to allow entities to use net asset value (NAV) per share (or its equivalent), as a practical expedient, to measure fair value when the investment does not have a readily determinable fair value, and the NAV is calculated in a manner consistent with investment company accounting. The Plan adopted the guidance in ASU 2009-12 for the reporting period ended December 31, 2009, and has utilized the practical expedient to measure the fair value of investments within the scope of this guidance based on the investment's NAV. In addition, as a result of adopting ASU 2009-12, the Plan has provided additional disclosures regarding the nature and risks of investments within the scope of this guidance. Refer to Note 4 for these disclosures. Adoption of ASU 2009-12 did not have a material effect on the Plan's net assets avail