1ST SOURCE CORP
Form 11-K
June 28, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

(Mark One)

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

For the fiscal year ended December 31, 2011

OR

o 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 help pursuant to the plan and the address of its principle 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, 2011 and 2010,
and the Year Ended December 31, 2011

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Report of Independent Registered Public Accounting Firm

Audit Committee of the Board of Directors
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 as of December 31, 2011 and 2010, and the related statement of changes in net assets available for benefits for the year ended December 31, 2011. 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, 2011 and 2010, and the changes in its net assets available for benefits for the year ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2011, 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. Such information is the responsibility of the Plan's management. The information 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

June 28, 2012

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1st Source Corporation
Employee Stock Ownership and Profit Sharing Plan

Statement of Net Assets Available for Benefits

	December 31	
	2011	2010
Assets		
Cash	$ 119,910	$ –
Receivables:		
Notes receivable from participants	1,037,500	1,078,123
Employer contributions receivable	4,318,911	3,985,659
Total receivables	5,356,411	5,063,782
Investments at fair value:		
Mutual funds	55,143,728	64,511,065
1st Source Corporation common stock	38,256,127	28,428,375
1st Source Bank common trust funds	41,103,072	30,301,319
Short-term investment fund	–	106,978
Total investments	134,502,927	123,347,737
Accrued investment income	–	2
Total assets	139,979,248	128,411,521
Liabilities		
Excess contributions payable	37,436	97,036
Trade payable	113,968	21,570
Total liabilities	151,404	118,606
Net assets available for benefits, at fair value	139,827,844	128,292,915
Adjustment from fair value to contract value for benefit-responsive investment contracts	56,719	(281,171)
Net assets available for benefits	$ 139,884,563	$ 128,011,744

See accompanying notes.

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1st Source Corporation
Employee Stock Ownership and Profit Sharing Plan

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31, 2011

Additions		
Investment income – interest and dividends	$	2,115,759
Interest income on notes receivable from participants		59,476
Contributions:		
Employer – cash		1,675,639
Employer – noncash		2,643,271
Participants		4,654,918
Rollover		556,966
		9,530,794
Net realized and unrealized appreciation in fair value of investments		6,091,743
Total additions		17,797,772
Deductions		
Benefits paid to participants		5,803,028
Administrative fees		121,925
Total deductions		5,924,953
Net increase in net assets available for benefits		11,872,819
Net assets available for benefits:		
Beginning of year		128,011,744
End of year	$	139,884,563

See accompanying notes.

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1st Source Corporation
Employee Stock Ownership and Profit Sharing Plan

Notes to Financial Statements

December 31, 2011

1. Description of the Plan

General

The 1st Source Corporation Employee Stock Ownership and Profit Sharing Plan (the Plan) is a defined-contribution plan offered to all employees of 1st Source Corporation (1st Source) and its subsidiaries who have at least 90 consecutive days of service. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

The Executive Compensation and Human Resources Committee is responsible for the general administration of the Plan. 1st Source Bank is the trustee of the Plan. Swerdlin & Company is the record-keeper of the Plan.

Effective January 1, 2011, eligible participants are automatically enrolled in the Plan once they have completed 90 consecutive days of service unless they affirmatively accept or decline to participate. The Plan has an automatic pre-tax deferral of 4% of compensation if a participant does not elect a different compensation deferral percentage.

Contributions

Participants are permitted to defer up to 100% of their annual eligible compensation on a pre-tax basis, up to $16,500, 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 2011 and 2010, called catch-up contributions, to the Plan. Participants direct their contributions into various investment options offered by the Plan. The Plan currently offers 11 different fund options, one of which is primarily 1st Source common stock.

The Plan provides for the following 1st Source contributions:

Matching contribution – contribution is discretionary. The first 4% of a participant's eligible compensation contributed to the Plan is matched 100%, and the next 2% of a participant's eligible compensation contributed to the Plan is matched 50%.

2% employer contribution – equals 2% of each eligible participant's eligible annual compensation.

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

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1st Source Corporation
Employee Stock Ownership and Profit Sharing Plan

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

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

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.

Participant Accounts

The Plan provides participants with an Employees' Stock Ownership Plan (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 elected 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.

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.

Vesting

Vesting of the 1st Source Employer Contributions, including match, 2% employer contribution, discretionary profit sharing, and regular contributions, is based on years of credited service. A credited year of service is at least 1,000 hours worked in a 12-month period. A participant is 10%, 20%, 40%, 60%, or 100% vested after completing one, two, three, four, or five or more years of credited service, respectively. A participant can also become 100% vested upon reaching early retirement age, normal retirement age, or disability.

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1st Source Corporation
Employee Stock Ownership and Profit Sharing Plan

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

Forfeitures

Upon termination of employment, participants forfeit their non-vested balances. Forfeitures of non-vested terminated participants' accounts are used to pay plan expenses and offset employer contributions. Unallocated forfeitures amounted to $94,138 and $108,214 as of December 31, 2011 and 2010, respectively; forfeitures used to reduce Plan expenses for 2011 were $105,132.

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 5 years except for loans used to acquire or construct a participant's principal residence, in which case the repayment term may exceed 5 years but no more than 15 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 survivor and annuity requirements.

Hardship withdrawals are allowed for participants incurring an immediate and heavy financial need, as defined by the Plan. Hardship withdrawals are strictly regulated by the IRS, and a participant must exhaust all available loan options prior to requesting a hardship withdrawal.

Administrative Expenses

The Plan's administrative expenses are paid by either the Plan or the Company, as provided by the Plan's provisions. Administrative expenses paid by the Plan include record-keeping fees. Expenses relating to purchases, sales, or transfers of the Plan's investments are charged to the particular investment fund to which the expenses relate.

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1st Source Corporation
Employee Stock Ownership and Profit Sharing Plan

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

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 summary plan description or plan document for a more complete description of the Plan's provisions. Copies are available from the 1st Source Human Resources Department.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

Use of Estimates

The financial statements of the Plan are presented on the accrual basis and are prepared in conformity with United States generally accepted accounting principles (GAAP), 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.

Payment of Benefits

Benefits are recorded when paid.

Notes Receivable from Participants

Notes receivable from participants represent participant loans that are recorded at their unpaid principal balance. Interest income on notes receivable from participants is recorded when it is earned. No allowance for credit losses has been recorded as of December 31, 2011 or 2010. If a terminated participant ceases to make loan repayments and the plan administrator deems the participant loan to be a distribution, the terminated participant's vested balance is reduced and a benefit payment is recorded.