

SOURCE CAPITAL INC /DE/  
Form N-Q  
May 25, 2006

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

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-1731

Source Capital, Inc.  
(Exact name of registrant as specified in charter)

11400 West Olympic Boulevard, Suite 1200, Los Angeles, California  
(Address of principal executive offices)

90064  
(Zip code)

J. Richard Atwood, Treasurer, Source Capital, Inc.,

11400 West Olympic Boulevard, Suite 1200, Los Angeles, California 90064  
(Name and address of agent for service)

Registrant's telephone number, including area code: (310) 473-0225

Date of fiscal year end: December 31

Date of reporting period: March 31, 2006

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ITEM 1. Schedule of Investments.

Source Capital, Inc.

Portfolio of Investments

March 31, 2006 (unaudited)

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|                                                 | Shares or<br>Principal<br>Amount |    | Value       |
|-------------------------------------------------|----------------------------------|----|-------------|
| <b>COMMON STOCKS</b>                            |                                  |    |             |
| <b>BUSINESS SERVICES &amp; SUPPLIES 16.5%</b>   |                                  |    |             |
| Brady Corporation (Class A)                     | 280,000                          | \$ | 10,488,800  |
| CDW Corporation*                                | 340,000                          |    | 20,009,000  |
| Charles River Laboratories International, Inc.* | 430,000                          |    | 21,078,600  |
| Copart, Inc.*                                   | 16,300                           |    | 447,435     |
| Invitrogen Corporation*                         | 212,500                          |    | 14,902,625  |
| Manpower Inc.                                   | 300,000                          |    | 17,154,000  |
| ScanSource Inc.*                                | 425,000                          |    | 25,674,250  |
|                                                 |                                  | \$ | 109,754,710 |
| <b>PRODUCER DURABLES 15.5%</b>                  |                                  |    |             |
| Franklin Electric Co., Inc.                     | 1,600                            | \$ | 87,440      |
| Graco Inc.                                      | 495,000                          |    | 22,487,850  |
| HNI Corporation                                 | 270,000                          |    | 15,930,000  |
| IDEX Corporation                                | 495,000                          |    | 25,824,150  |
| Oshkosh Truck Corporation                       | 360,000                          |    | 22,406,400  |
| Zebra Technologies Corporation (Class A)*       | 365,000                          |    | 16,322,800  |
|                                                 |                                  | \$ | 103,058,640 |
| <b>ENERGY 11.2%</b>                             |                                  |    |             |
| Helix Energy Solutions Group, Inc.*             | 695,000                          | \$ | 26,340,500  |
| Noble Corporation                               | 460,000                          |    | 37,306,000  |
| Tidewater Inc.                                  | 200,000                          |    | 11,046,000  |
|                                                 |                                  | \$ | 74,692,500  |
| <b>TECHNOLOGY 10.0%</b>                         |                                  |    |             |
| Cognex Corporation                              | 617,200                          | \$ | 18,293,808  |
| Microchip Technology Incorporated               | 270,000                          |    | 9,801,000   |
| Plantronics, Inc.                               | 670,000                          |    | 23,738,100  |
| SanDisk Corporation*                            | 250,000                          |    | 14,380,000  |
|                                                 |                                  | \$ | 66,212,908  |
| <b>RETAILING 9.2%</b>                           |                                  |    |             |
| CarMax, Inc.*                                   | 750,006                          | \$ | 24,510,196  |
| O'Reilly Automotive, Inc.*                      | 1,000,000                        |    | 36,560,000  |
|                                                 |                                  | \$ | 61,070,196  |
| <b>FINANCIAL 9.1%</b>                           |                                  |    |             |
| Brown & Brown, Inc.                             | 580,000                          | \$ | 19,256,000  |
| First American Corporation                      | 235,000                          |    | 9,202,600   |
| Arthur J. Gallagher & Co.                       | 440,000                          |    | 12,236,400  |
| North Fork Bancorporation, Inc.                 | 682,500                          |    | 19,676,475  |
|                                                 |                                  | \$ | 60,371,475  |
| <b>HEALTH CARE 7.6%</b>                         |                                  |    |             |
| AmSurg Corp.*                                   | 320,500                          | \$ | 7,272,145   |
| Bio-Rad Laboratories, Inc.*                     | 200,300                          |    | 12,488,705  |
| Health Management Associates, Inc.              | 575,800                          |    | 12,420,006  |
| Lincare Holdings, Inc.*                         | 465,000                          |    | 18,116,400  |
|                                                 |                                  | \$ | 50,297,256  |
| <b>ENTERTAINMENT 3.8%</b>                       |                                  |    |             |
| Carnival Corporation                            | 536,600                          | \$ | 25,418,742  |
| <b>CONSUMER DURABLES 3.4%</b>                   |                                  |    |             |
| Briggs & Stratton Corporation                   | 370,000                          | \$ | 13,086,900  |
| Polaris Industries Inc.                         | 175,000                          |    | 9,548,000   |
|                                                 |                                  | \$ | 22,634,900  |
| <b>TRANSPORTATION 2.9%</b>                      |                                  |    |             |
| Heartland Express, Inc.                         | 670,000                          | \$ | 14,599,300  |
| Knight Transportation, Inc.                     | 255,000                          |    | 5,036,250   |
|                                                 |                                  | \$ | 19,635,550  |

|                            |                     |                      |           |                    |
|----------------------------|---------------------|----------------------|-----------|--------------------|
| <b>TOTAL COMMON STOCKS</b> | <b>89.2% (Cost)</b> | <b>\$333,255,295</b> | <b>\$</b> | <b>593,146,877</b> |
|----------------------------|---------------------|----------------------|-----------|--------------------|

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**PREFERRED STOCKS****REAL ESTATE INVESTMENT TRUST**

|                                                        |         |    |            |
|--------------------------------------------------------|---------|----|------------|
| CBL & Associates Properties, Inc. (Series C)           | 100,000 | \$ | 2,551,000  |
| Duke-Weeks Realty Corp. (Series B)                     | 40,000  |    | 2,080,000  |
| Pennsylvania Real Estate Investment Trust (Series A)   | 59,000  |    | 3,330,550  |
| ProLogis Trust 6.75% (Series G)                        | 120,000 |    | 3,000,000  |
| <b>TOTAL PREFERRED STOCKS 1.6% (Cost \$10,179,446)</b> |         | \$ | 10,961,550 |

**CONVERTIBLE BONDS AND DEBENTURES****TECHNOLOGY 0.9%**

|                                          |    |           |    |           |
|------------------------------------------|----|-----------|----|-----------|
| BEA Systems, Inc. 4% 2006                | \$ | 2,000,000 | \$ | 1,990,000 |
| International Rectifier Corp. 4.25% 2007 |    | 2,000,000 |    | 1,960,000 |
| LSI Logic Corporation 4% 2006            |    | 2,000,000 |    | 1,982,500 |
|                                          |    |           | \$ | 5,932,500 |

**BUSINESS SERVICES & SUPPLIES 0.3%**

|                                                                         |    |           |    |           |
|-------------------------------------------------------------------------|----|-----------|----|-----------|
| Pegasus Solutions, Inc. 3.875% 2023                                     | \$ | 2,000,000 | \$ | 1,920,000 |
| <b>TOTAL CONVERTIBLE BONDS &amp; DEBENTURES 1.2% (Cost \$7,690,000)</b> |    |           | \$ | 7,852,500 |

**NON-CONVERTIBLE BONDS AND DEBENTURES****CORPORATE 3.9%**

|                                          |    |           |    |            |
|------------------------------------------|----|-----------|----|------------|
| Central Garden & Pet Company 9.125% 2013 | \$ | 2,000,000 | \$ | 2,110,000  |
| HMH Properties, Inc. 7.875% 2008         |    | 1,338,000 |    | 1,359,742  |
| Host Marriott Corporation 9.25% 2007     |    | 2,000,000 |    | 2,110,000  |
| JLG Industries, Inc. 8.25% 2008          |    | 2,000,000 |    | 2,095,000  |
| Manitowoc Company, Inc., The 10.5% 2012  |    | 1,300,000 |    | 1,433,250  |
| Metaldyne Corporation 11% 2012           |    | 2,000,000 |    | 1,600,000  |
| OM Group, Inc. 9.25% 2011                |    | 4,000,000 |    | 4,150,000  |
| Orbital Sciences Corporation 9% 2011     |    | 3,000,000 |    | 3,217,500  |
| PolyOne Corporation 10.625% 2010         |    | 950,000   |    | 1,031,938  |
| Realty Income Corporation 8.25% 2008     |    | 2,000,000 |    | 2,112,000  |
| Unisys Corporation 7.875% 2008           |    | 1,500,000 |    | 1,496,250  |
| Windmere Durable Holdings Inc. 10% 2008  |    | 3,000,000 |    | 2,880,000  |
|                                          |    |           | \$ | 25,595,680 |

**U.S. GOVERNMENT AND AGENCIES 0.0%**

|                                                                   |    |         |    |         |
|-------------------------------------------------------------------|----|---------|----|---------|
| Federal Home Loan Mortgage Corporation (Interest Only) 6.5% 2023  | \$ | 47,048  | \$ | 2,713   |
| Government National Mortgage Association (Mobile Home) 9.75% 2010 |    | 225,695 |    | 238,249 |
|                                                                   |    |         | \$ | 240,962 |

**TOTAL NON-CONVERTIBLE BONDS**

|                                                               |  |  |    |             |
|---------------------------------------------------------------|--|--|----|-------------|
| <b>AND DEBENTURES 3.9% (Cost \$25,600,319)</b>                |  |  | \$ | 25,836,642  |
| <b>TOTAL INVESTMENT SECURITIES 95.9% (Cost \$376,725,060)</b> |  |  | \$ | 637,797,569 |

**SHORT-TERM INVESTMENTS 4.1% (Cost \$27,041,101)**

## Short-term Corporate Notes:

|                                                   |    |            |    |            |
|---------------------------------------------------|----|------------|----|------------|
| ChevronTexaco Funding Corporation 4.48% 4/3/06    | \$ | 15,500,000 | \$ | 15,496,142 |
| General Electric Capital Corporation 4.74% 4/3/06 |    | 11,548,000 |    | 11,544,959 |

**TOTAL SHORT-TERM INVESTMENTS**

|                                                         |  |  |    |             |
|---------------------------------------------------------|--|--|----|-------------|
| <b>TOTAL INVESTMENTS 100.0% (Cost \$403,766,161)(A)</b> |  |  | \$ | 664,838,670 |
| Other assets and liabilities, net 0.0%                  |  |  |    | 65,696      |
| <b>TOTAL NET ASSETS 100%</b>                            |  |  | \$ | 664,904,366 |

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\*Non-income producing security

(A) The cost stated also approximates the aggregate cost for Federal income tax purposes. Net unrealized appreciation consists of:

|                                |    |             |
|--------------------------------|----|-------------|
| Gross unrealized appreciation: | \$ | 264,564,779 |
|--------------------------------|----|-------------|

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|                                |    |             |
|--------------------------------|----|-------------|
| Gross unrealized depreciation: |    | 3,492,270   |
| Net unrealized appreciation:   | \$ | 261,072,509 |

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ITEM 2. CONTROLS AND PROCEDURES.

(a) The principal executive officer and principal financial officer of the registrant have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) are effective based on their evaluation of the disclosure controls and procedures as of a date within 90 days of the filing date of this report.

(b) There have been no significant changes in the registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal controls over financial reporting.

ITEM 3. EXHIBITS.

(a) Separate certification for the registrant's principal executive officer and principal financial officer, as required by Rule 30a-2(a) under the Investment Company Act of 1940. Attached hereto.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOURCE CAPITAL, INC.

By: /s/ ERIC S. ENDE  
Eric S. Ende, President

Date: May 25, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOURCE CAPITAL, INC.

By: /s/ J. RICHARD ATWOOD  
J. Richard Atwood, Treasurer

Date: May 25, 2006

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