

SOURCE CAPITAL INC /DE/
Form N-Q
November 30, 2015

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)

11601 WILSHIRE BLVD., STE. 1200

LOS ANGELES, CALIFORNIA
(Address of principal executive offices)

90025
(Zip code)

J. RICHARD ATWOOD, PRESIDENT

Copy to:
MARK D. PERLOW, ESQ.

SOURCE CAPITAL INC.

DECHERT LLP

11601 WILSHIRE BLVD., STE. 1200

ONE BUSH STREET, STE. 1600

LOS ANGELES, CALIFORNIA 90025
(Name and address of agent for service)

SAN FRANCISCO, CA 94104

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

Date of fiscal year end: December 31

Date of reporting period: September 30,
2015

Item 1. Schedule of Investments.

SOURCE CAPITAL, INC.

PORTFOLIO OF INVESTMENTS

September 30, 2015

(Unaudited)

| | Shares | Fair Value |
|--|-----------|----------------|
| COMMON STOCKS | | |
| Automotive Retailers 26.9% | | |
| CarMax, Inc.* | 754,600 | \$ 44,762,872 |
| Copart, Inc.* | 680,200 | 22,378,580 |
| O Reilly Automotive, Inc.* | 410,300 | 102,575,000 |
| | | \$ 169,716,452 |
| Flow Control Equipment 14.0% | | |
| Franklin Electric Co., Inc. | 446,700 | 12,163,641 |
| Graco, Inc. | 391,800 | 26,262,354 |
| IDEX Corp. | 402,000 | 28,662,600 |
| Nordson Corp. | 199,800 | 12,575,412 |
| Rotork plc (Britain) | 3,582,580 | 8,931,412 |
| | | \$ 88,595,419 |
| Jewelry & Watch Stores 9.2% | | |
| Signet Jewelers, Ltd. (Bermuda) | 427,200 | \$ 58,154,736 |
| Trucking 7.4% | | |
| Heartland Express, Inc. | 1,123,000 | 22,392,620 |
| Knight Transportation, Inc. | 1,011,000 | 24,264,000 |
| | | \$ 46,656,620 |
| Commercial Vehicles 6.3% | | |
| WABCO Holdings, Inc.* | 379,200 | \$ 39,751,536 |
| Other Wholesalers 4.1% | | |
| ScanSource, Inc.* | 736,263 | \$ 26,107,886 |
| Oil & Gas Services & Equipment 3.6% | | |
| Core Laboratories NV (Netherlands) | 35,400 | 3,532,920 |
| FMC Technologies, Inc.* | 431,400 | 13,373,400 |
| Noble Corp. plc (Britain) | 523,900 | 5,715,749 |
| | | \$ 22,622,069 |
| Home & Office Furnishings 3.5% | | |
| HNI Corp. | 508,633 | \$ 21,820,356 |
| Semiconductor Devices 3.2% | | |
| Microchip Technology, Inc. | 465,651 | \$ 20,064,901 |
| Measurement Instruments 2.3% | | |
| Halma plc (Britain) | 1,325,000 | \$ 14,461,696 |
| Home Products Stores 2.2% | | |
| Bed Bath & Beyond, Inc.* | 242,500 | \$ 13,827,350 |
| Engineering Services 1.9% | | |
| Spirax-Sarco Engineering plc (Britain) | 284,611 | \$ 12,059,569 |

| | | | |
|------------------------------------|-------------|---------|---------------|
| Pollution Control Equipment | 1.9% | | |
| CLARCOR, Inc. | | 250,200 | \$ 11,929,536 |

See notes to financial statements.

| | Shares or Principal Amount | Fair Value |
|---|----------------------------------|----------------|
| COMMON STOCKS (Continued) | | |
| Medical Devices 1.4% | | |
| Sonova Holding AG (Switzerland) | 68,000 | \$ 8,749,436 |
| Other Hardware 1.3% | | |
| FEI Co. | 114,900 | \$ 8,392,296 |
| Industrial Distribution & Rental 1.2% | | |
| Aggreko plc (Britain) | 537,009 | \$ 7,725,544 |
| Medical Equipment 1.0% | | |
| Varian Medical Systems, Inc.* | 84,400 | \$ 6,227,032 |
| Comml & Res Bldg Equip & Sys 0.2% | | |
| Belimo Holding AG (Switzerland) | 757 | \$ 1,592,294 |
| TOTAL COMMON STOCKS 91.6% | | |
| (Cost \$285,118,206) | | \$ 578,454,728 |
| BONDS & DEBENTURES | | |
| Corporate Bonds & Notes 0.4% | | |
| Industrial 0.4% | | |
| Quality Distribution LLC / QD Capital Corp. 9.875% 11/1/2018 | 2,267,000 | 2,336,144 |
| TOTAL INVESTMENT SECURITIES 92.0% | | |
| (Cost \$287,393,707) | | \$ 580,790,872 |
| Short-term Investments 8.0% | | |
| Exxon Mobil Corporation | | |
| 0.16% 10/7/2015 | 15,000,000 | \$ 14,999,600 |
| 0.09% 10/13/2015 | 15,000,000 | 14,999,550 |
| State Street Bank Repurchase Agreement 0.00% 10/1/2015 | | |
| (Dated 09/30/2015, repurchase price of \$20,559,000, collateralized by \$19,670,000 principal amount U.S. Treasury Note - 2.375% - 2.750% 2023 - 2024, fair value \$20,972,100) | 20,559,000 | 20,559,000 |
| TOTAL SHORT-TERM INVESTMENTS | | |
| (Cost \$50,558,150) | | \$ 50,558,150 |
| TOTAL INVESTMENTS 100.0% | | |
| (Cost \$337,951,857) | | \$ 631,349,022 |
| Other Assets And Liabilities, net 0.0% | | 98,793 |
| NET ASSETS 100.0% NOTE 2 | | \$ 631,447,815 |

*Non-income producing security.

See notes to financial statements.

NOTE 1 Disclosure of Fair Value Measurements

The Company uses the following methods and inputs to establish the fair value of its assets and liabilities. Use of particular methods and inputs may vary over time based on availability and relevance as market and economic conditions evolve.

Equity securities are generally valued each day at the official closing price of, or the last reported sale price on, the exchange or market on which such securities principally are traded, as of the close of business on that day. If there have been no sales that day, equity securities are generally valued at the last available bid price. Securities that are unlisted and fixed-income and convertible securities listed on a national securities exchange for which the over-the-counter (OTC) market more accurately reflects the securities value in the judgment of the Company s officers, are valued at the most recent bid price. However, most fixed income securities are generally valued at prices obtained from pricing vendors and brokers. Short-term corporate notes with maturities of 60 days or less at the time of purchase are valued at amortized cost.

Securities for which representative market quotations are not readily available or are considered unreliable by the Adviser are valued as determined in good faith under procedures adopted by the authority of the Company s Board of Directors. Various inputs may be reviewed in order to make a good faith determination of a security s value. These inputs include, but are not limited to, the type and cost of the security; contractual or legal restrictions on resale of the security; relevant financial or business developments of the issuer; actively traded similar or related securities; conversion or exchange rights on the security; related corporate actions; significant events occurring after the close of trading in the security; and changes in overall market conditions. Fair valuations and valuations of investments that are not actively trading involve judgment and may differ materially from valuations of investments that would have been used had greater market activity occurred.

The Company classifies its assets based on three valuation methodologies. Level 1 values are based on quoted market prices in active markets for identical assets. Level 2 values are based on significant observable market inputs, such as quoted prices for similar assets and quoted prices in inactive markets or other market observable inputs as noted above including spreads, cash flows, financial performance, prepayments, defaults, collateral, credit enhancements, and interest rate volatility. Level 3 values are based on significant unobservable inputs that reflect the Company s determination of assumptions that market participants might reasonably use in valuing the assets. The valuation levels are not necessarily an indication of the risk associated with investing in those securities. The following table presents the valuation levels of the Company s investments as of September 30, 2015:

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| Investments | Level 1 | Level 2 | Level 3 | Total |
|----------------------------------|----------------|---------------|---------|----------------|
| Common Stocks | | | | |
| Automotive Retailers | \$ 169,716,452 | \$ | \$ | \$ 169,716,452 |
| Flow Control Equipment | 88,595,419 | | | 88,595,419 |
| Jewelry & Watch Stores | 58,154,736 | | | 58,154,736 |
| Trucking | 46,656,620 | | | 46,656,620 |
| Commercial Vehicles | 39,751,536 | | | 39,751,536 |
| Other Wholesalers | 26,107,886 | | | 26,107,886 |
| Oil & Gas Services & Equipment | 22,622,069 | | | 22,622,069 |
| Home & Office Furnishings | 21,820,356 | | | 21,820,356 |
| Semiconductor Devices | 20,064,901 | | | 20,064,901 |
| Measurement Instruments | 14,461,696 | | | 14,461,696 |
| Home Products Stores | 13,827,350 | | | 13,827,350 |
| Engineering Services | 12,059,569 | | | 12,059,569 |
| Pollution Control Equipment | 11,929,536 | | | 11,929,536 |
| Medical Devices | 8,749,436 | | | 8,749,436 |
| Other Hardware | 8,392,296 | | | 8,392,296 |
| Industrial Distribution & Rental | 7,725,544 | | | 7,725,544 |
| Medical Equipment | 6,227,032 | | | 6,227,032 |
| Comml & Res Bldg Equip & Sys | 1,592,294 | | | 1,592,294 |
| Corporate Bonds & Notes | | 2,336,144 | | 2,336,144 |
| Short-term Investments | | 50,558,150 | | 50,558,150 |
| | \$ 578,454,728 | \$ 52,894,294 | \$ | \$ 631,349,022 |

See notes to financial statements.

Transfers of investments between different levels of the fair value hierarchy are recorded at market value as of the end of the reporting period. There were no transfers between Levels 1, 2, or 3 during the period ended September 30, 2015.

NOTE 2 Federal Income Tax

The cost of investment securities held at September 30, 2015 (excluding short-term investments), was \$287,549,756 for federal income tax purposes. Net Unrealized appreciation consists of:

| | | |
|--------------------------------|----|--------------|
| Gross unrealized appreciation: | \$ | 321,073,525 |
| Gross unrealized depreciation: | | (27,832,409) |
| Net unrealized appreciation: | \$ | 293,241,116 |

Item 2. Controls and Procedures.

(a) The registrant's principal executive and principal financial officers have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective, as of a date within 90 days of the filing date of this Form N-Q based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934.

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d)) under the 1940 Act that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

The certifications required by Rule 30a-2(a) under the 1940 Act are attached hereto.

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/ J. Richard Atwood
J. Richard Atwood
President (principal executive officer)

Date: November 30, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ J. Richard Atwood
J. Richard Atwood
President (principal executive officer)

Date: November 30, 2015

By: /s/ E. Lake Setzler III
E. Lake Setzler III
Treasurer (principal financial officer)

Date: November 30, 2015
