

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 Principal 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

\*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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