COLUMBIA SPORTSWEAR CO
Form 10-Q
August 08, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE EXCHANGE ACT OF 1934

For the transition period from_______to_______

Commission file number 0-23939

COLUMBIA SPORTSWEAR COMPANY
(Exact name of registrant as specified in its charter)

Oregon (State or other jurisdiction of incorporation or organization)	93-0498284 (IRS Employer Identification Number)
14375 Northwest Science Park Drive Portland, Oregon (Address of principal executive offices)	97229 (Zip Code)

(503) 985-4000
(Registrant's telephone number, including area code)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

The number of shares of Common Stock outstanding on July 27, 2012 was 33,798,537.

COLUMBIA SPORTSWEAR COMPANY
JUNE 30, 2012
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PART I. FINANCIAL INFORMATION
Item 1 – FINANCIAL STATEMENTS
COLUMBIA SPORTSWEAR COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	June 30, 2012	December 31, 2011	June 30, 2011
ASSETS			
Current Assets:			
Cash and cash equivalents	$193,245	$241,034	$207,429
Short-term investments	35,266	2,878	90,842
Accounts receivable, net of allowance of $6,422, $7,545 and $6,718, respectively	203,157	351,538	174,822
Inventories, net (Note 3)	523,078	365,199	422,004
Deferred income taxes	52,180	52,485	45,069
Prepaid expenses and other current assets	45,446	36,392	60,242
Total current assets	1,052,372	1,049,526	1,000,408
Property, plant and equipment, at cost, net of accumulated depreciation of $293,008, $275,886 and $264,615, respectively	253,009	250,910	230,363
Intangible assets, net (Note 4)	38,319	39,020	39,721
Goodwill	14,438	14,438	14,438
Other non-current assets	27,957	28,648	27,921
Total assets	$1,386,095	$1,382,542	$1,312,851
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Current Liabilities:			
Accounts payable	$196,478	$148,973	$159,292
Accrued liabilities (Note 5)	84,242	104,496	81,624
Income taxes payable	5,020	12,579	9,541
Deferred income taxes	941	954	2,161
Total current liabilities	286,681	267,002	252,618
Income taxes payable	13,296	15,389	19,187
Deferred income taxes	1,716	1,753	1,714
Other long-term liabilities	25,684	23,853	23,374
Total liabilities	327,377	307,997	296,893
Commitments and contingencies (Note 11)			
Shareholders’ Equity:			
Preferred stock; 10,000 shares authorized; none issued and outstanding	—	—	—
Common stock (no par value); 125,000 shares authorized; 33,796, 33,638 and 34,001 issued and outstanding, respectively (Note 8)	10,381	3,037	17,801
Retained earnings	1,005,759	1,024,611	935,182
Accumulated other comprehensive income (Note 7)	42,578	46,897	62,975
Total shareholders’ equity	1,058,718	1,074,545	1,015,958
Total liabilities and shareholders’ equity	$1,386,095	$1,382,542	$1,312,851

See accompanying notes to condensed consolidated financial statements.

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COLUMBIA SPORTSWEAR COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	
Net sales	$290,357	$268,030	$623,498	
Cost of sales	172,489	155,617	357,694	
Gross profit	117,868	112,413	265,804	
Selling, general and administrative expenses	133,171	134,512	277,727	Zale, Signet's largest mall store competitor in the U.S., announced an 11.5% incr November sales, and a 7.4% increase in December sales, for an 8.5% total for th month

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period. The gain was greater than expected though it is not known if Zale had to
merchandise margins to achieve its sales results.

In addition to everything else, Signet announced a successor for long-time leader
Burman who retired.

The CEO designate is Michael Barnes, previously the president of Fossil, a highl
successful specialty retailer. We are optimistic that Signet's strong performance s
continue unimpeded.

In November, **Actuant** announced the cash acquisition of Mastervolt, a Netherla
manufacturer of electrical products sold mainly in Europe. Most important are pr
supporting the solar photovoltaic market, especially inverters, which connect sola
to the electrical grid and convert DC to AC.

The acquisition cost Actuant about $150 million for $110 million of revenue. Pro
was not disclosed.

After taking a couple of years off from acquisitions in order to buttress its balanc
during the recession, Actuant told its shareholders that it would be back in the ac
market in the current year. Buying Mastervolt appears to use up much of the avai
funds in one transaction. The allocation to the electrical segment is also concerni
that its returns have lagged the company averages in recent years. We will monit
situation closely.

Copart, a manager of auctions for salvage and high mileage vehicles, and a port
position for several years, has announced a large share repurchase program it wi
million shares at $38 (an 8% premium) about $460 million in total, reducing shar
outstanding by 15%.

As a market share leader in a high margin business, Copart has long generated ca
well in excess of its operating needs. Uses of cash in recent years have included s
domestic acquisitions, purchase of real estate previously leased, and several busi
acquisitions in the U.K., where Copart has quickly become the market leader. De
these expenditures, Copart's cash balances have continued to grow. As a result, w
overly concerned that the repurchase will threaten Copart's dominant market pos
an eventual expansion into Continental Europe.

Life Technologies last August announced the purchase of Ion Torrent, which ha
leading technology position in genetic sequencing. The cost was $375 million up
with an opportunity for Ion Torrent to earn an additional $350 million based on a
certain milestones.

The acquisition strengthens Life Technologies' position in the "next generation"
sequencing market, which offers the prospect of significantly reducing the capita
materials costs of analyzing genomes. A "personal genome analyzer" from Ion T
expected to be priced at about $50,000 compared to over $500,000 for prior gene
products. This would permit a huge expansion of its use in personalized medicin
as non-diagnostic markets.

Ion Torrent's founder, Jonathan Rothberg, has a strong track record in sequencin founded several companies in the field. He will continue to run the business, but greatly expanded research staff.

Several quarters ago we discussed a large acquisition by **Noble Corp.** the purch Frontier Drilling and the simultaneous 10-year contracts signed with Shell on tw deepwater drill ships. In total this represented a prospective $3.7 billion outlay fo drill ships and semis, almost all with advanced deepwater capabilities.

Noble was in the news again, in December enhancing its jackup fleet. The compa announced an order to build two high-spec jackups at the Jurong Shipyard in Sin The price will be $220 million each, with an option to construct four additional u combined cost of $1.3 billion.

There has been increasing industry interest in higher specification jack ups, espe those able to drill to great depths in relatively shallow water, often in harsh envir The Noble order certainly meets this test. These are high-spec jackups of advanc design, capable of drilling wells to 30,000 feet in up to 400 feet of water. They a horsepower with 2.5 million pounds of hook load capacity and a high-capacity m circulating system.

Leasing demand has been strong for higher-spec units like these, while it continu languish for older units with only average capabilities. Although there have been other recent orders for high-spec jackups, notably by Seadrill, a large Norwegian contractor, we believe it is still very early in the order cycle and that the Noble v will be in much demand when they start to be delivered in 2012.

Noble was back in the news yet again in mid January, announcing a contract wit Hyundai Heavy Industries for the construction of two ultra-deepwater drill ships of $600 million each. The contract includes an option for an additional two drill similar price, or $2.4 billion for all four vessels.

One of the ships will be assigned to Royal Dutch Shell under a recently announc of Intent. Shell will pay Noble about $440,000 a day for the five and a half year contract, an estimated after-tax return to Noble of 10-15%.

Total expenditures for the fleet expansions described above will be $7.4 billion, exercise of all options. Though a substantial sum, Noble should be able to fund t its available cash flow over the next five years.

In the past, reader feedback to shareholder letters came in written form or over th telephone. While those methods are still welcome, we are now pleased to also re comments at the email address, source@firstpacad.com.

Respectfully submitted,

Eric S. Ende

President and
Chief Investment Officer

February 7, 2011

The discussion of Company investments represents the views of the Company's m
at the time of this report and are subject to change without notice. References to s
securities are for informational purposes only and should not be construed as
recommendations to purchase or sell individual securities. While the Company's
believe the Company's holdings are value stocks, there can be no assurance that o
will consider them as such. Further, investing in value stocks presents the risk tha
stocks may fall out of favor with investors and underperform growth stocks durin
periods.

The Russell 2000 Index is an unmanaged index comprised of the 2,000 smallest
companies in the Russell 3000 Index. The Russell 2500 Index is an unmanaged i
comprised of the 2,500 smallest companies in the Russell 3000 Index. The Russe
Index measures the performance of the 3,000 largest U.S. companies based on to
market capitalization. The S&P 500 Index is an index of 500 companies with larg
capitalization. The Nasdaq Composite Index is a market capitalization index com
over 3,000 stocks.

FORWARD LOOKING STATEMENT DISCLOSURE

As managers, one of our responsibilities is to communicate with shareholders in
and direct manner. Insofar as some of our opinions and comments in our letters t
shareholders are based on current management expectations, they are considered
"forward-looking statements," which may or may not be accurate over the long te
While we believe we have a reasonable basis for our comments and we have con
in our opinions, actual results may differ materially from those we anticipate. Yo
identify forward-looking statements by words such as "believe," "expect," "may,
"anticipate," and other similar expressions when discussing prospects for particul
portfolio holdings and/or the markets, generally. We cannot, however, assure fut
results and disclaim any obligation to update or alter any forward-looking statem
whether as a result of new information, future events, or otherwise. Further, infor
provided in this report should not be construed as a recommendation to purchase
any particular security.

PORTFOLIO SUMMARY

December 31, 2010
(Unaudited)

Common Stocks		**91.1%**
Producer Durable Goods	22.6%	
Retailing	16.7%	
Business Services & Supplies	15.5%	
Healthcare	14.2%	
Energy	7.9%	
Transportation	5.8%	
Technology	4.4%	
Entertainment	4.0%	
Preferred Stocks		**0.9%**
Convertible Bonds and Debentures		**0.9%**
Non-Convertible Bonds and Debentures		**2.7%**
Short-Term Investments		**4.5%**
Other Assets and Liabilities, Net		**(0.1)%**
Net Assets		**100.0%**

MAJOR PORTFOLIO CHANGES

Quarter Ended December 31, 2010
(Unaudited)

	Shares or Face Amount	Ownership a December 31, 2
NET PURCHASES		
Non-Convertible Security		
W&T Offshore, Inc. 8.25% 2014	$2,000,000	$3,000,000
NET SALES		
Common Stocks		
CarMax, Inc.	52,412 shs.	965,000 s
WABCO Holdings Inc.	60,000 shs.	485,000 s
Non-Convertible Securities		
Invacare Corporation 9.75% 2014	$3,000,000	
Polypore International Inc. 8.75% 2012	$2,000,000	
Sinclair Broadcast Group, Inc. 8% 2012	$1,721,000	

FEDERAL INCOME TAX INFORMATION

(Unaudited)

Calendar 2010

CASH Dividends and Distributions:

Date Paid	Amount Paid Per Share	(1) Ordinary Income Dividends	(2) Long-Term Capital Gai Distributio
PREFERRED STOCK:			
03/15/2010	$ 0.60	$ 0.60	
06/15/2010	0.60	0.60	
09/15/2010	0.60	0.60	
12/15/2010	0.60	0.60	
TOTAL	$ 2.40	$ 2.40	
COMMON STOCK:			
03/15/2010	$ 0.60		$ 0.60
06/15/2010	0.60		0.60
09/15/2010	0.60		0.60
12/15/2010	0.60		0.60
TOTAL	$ 2.40		$ 2.40

The amounts in column (1) are to be included as dividend income on your tax ret
96.7% of this amount is Qualified Dividend Income that qualifies for the 5% and
capital gains rates.

In accordance with the provisions of the Internal Revenue Code, the amounts in c
(2) are long-term capital gain distributions and qualify for the 5% and 15% capita
rates.

A Form 1099 has been mailed to all shareholders of record on dividend record da
setting forth the specific amounts to be included in their 2010 tax returns. For co
shareholders, 96.7% of the amount in column (1) qualifies for the 70% corporate
dividends received deduction. Source Capital did not elect to retain any undistrib
long-term capital gains for the year ended December 31, 2010. Therefore, Comm
shareholders will not receive a Form 2439 for 2010.

Notice to Dividend Reinvestment Plan Participants:

The information above shows the cash distributions paid by Source Capital durin
When additional shares are issued by Source Capital under the Automatic Reinve
Plan at a discount from the market price, a participant in the Plan is treated for fe
income tax purposes as having received a taxable distribution equal to the marke
the shares purchased. In effect, the discount from market price at which shares ar
purchased is added to the amount of the cash distribution to determine the total v

the taxable distribution. Such value also becomes the participant's tax basis for th
purchased under the Plan.

For the year ended December 31, 2010, none of the distributions paid was reinve
discount from the market price.

State Tax Information:

None of the amounts reported was derived from U.S. Treasury Securities.

Certain states have reduced tax rates for capital gains attributed to securities that
certain holding periods. The following percentages should be applied to the amou
column (2): 16.6% of these gains was derived from assets held from 1 to 2 years,
from 2 to 3 years, 0.2% from 5 to 6 years and 76.1% of these gains was derived f
assets held more than 6 years.

PORTFOLIO OF INVESTMENTS

December 31, 2010

COMMON STOCKS	Shares or Face Amount	Value
PRODUCER DURABLE GOODS 22.6%		
Actuant Corporation (Class A)	400,000	$ 10,648,
Franklin Electric Co., Inc.	285,900	11,127,
Graco Inc.	501,300	19,776,
HNI Corporation	627,933	19,591,
IDEX Corporation	540,900	21,160,
WABCO Holdings Inc.	485,000	29,551,
Zebra Technologies Corporation (Class A)*	486,900	18,497,
		$ 130,351,
RETAILING 16.7%		
CarMax, Inc.*	965,000	$ 30,764,
O'Reilly Automotive, Inc.*	600,000	36,252,
Signet Jewelers Limited*	672,400	29,182,
		$ 96,198,
BUSINESS SERVICES & SUPPLIES 15.5%		
Aggreko plc	48,500	$ 1,121,
Brady Corporation (Class A)	431,500	14,071,
CLARCOR Inc.	320,000	13,724,
Copart, Inc.*	435,000	16,247,
Manpower Inc.	300,000	18,828,
ScanSource, Inc.*	803,363	25,627,
		$ 89,620,
HEALTHCARE 14.2%		
Bio-Rad Laboratories, Inc. (Class A)*	187,200	$ 19,440,
Life Technologies Corporation*	524,698	29,120,
Lincare Holdings Inc.	720,000	19,317,
Varian Medical Systems Inc.*	53,200	3,685,
VCA Antech Inc.*	460,000	10,713,
		$ 82,278,
ENERGY 7.9%		
FMC Technologies, Inc.*	195,000	$ 17,337,
Helix Energy Solutions Group, Inc.*	367,900	4,466,
Noble Corporation	670,000	23,965,
		$ 45,769,
TRANSPORTATION 5.8%		
Heartland Express, Inc.	1,046,000	$ 16,756,
Knight Transportation, Inc.	887,200	16,856,

		$ 33,613,
TECHNOLOGY 4.4%		
Maxim Integrated Products, Inc.	392,000	$ 9,259,
Microchip Technology Incorporated	474,951	16,248,
		$ 25,507,
ENTERTAINMENT 4.0%		
Carnival Corporation (Class A)	499,900	$ 23,050,
TOTAL COMMON STOCKS 91.1% (Cost $338,794,123)		$ 526,388,

See notes to financial statements.

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PORTFOLIO OF INVESTMENTS

December 31, 2010

PREFERRED STOCKS 0.9%	Shares or Face Amount	Value
REAL ESTATE INVESTMENT TRUST		
CBL & Associates Properties, Inc.	100,000	$ 2,436,0
ProLogis (Series G)	120,000	2,752,8
TOTAL PREFERRED STOCK (Cost $5,726,454)		$ 5,188,8
CONVERTIBLE BONDS AND DEBENTURES 0.9%		
Diodes Inc. 2.25% 2026	$ 2,000,000	$ 2,017,5
Transocean Inc. 1.5% 2037	3,000,000	2,955,0
TOTAL CONVERTIBLE BONDS AND DEBENTURES (Cost $3,648,125)		$ 4,972,5
NON-CONVERTIBLE BONDS AND DEBENTURES 2.7%		
Brown Shoe Company 8.75% 2012	$ 3,000,000	$ 3,052,5
Deluxe Corporation 5% 2012	2,000,000	2,021,8
Helix Energy Solutions 9.5% 2016	2,000,000	2,064,0
Nova Chemicals 6.5% 2012	1,970,000	2,038,3
PolyOne Corporation 6.58% 2011	1,500,000	1,500,7
Rock-Tenn Co. 9.25% 2016	2,000,000	2,186,0
W&T Offshore, Inc. 8.25% 2014	3,000,000	2,908,1
TOTAL NON-COVERTIBLE BONDS AND DEBENTURES (Cost $14,832,025)		$ 15,771,6
TOTAL INVESTMENT SECURITIES 95.6% (Cost $363,000,727)		$ 552,321,8
SHORT TERM INVESTMENTS 4.5%		
Short-term Corporate Notes:		
General Electric Capital Corporation 0.15% 01/03/11	$ 10,850,000	$ 10,849,9
Chevron Funding Corporation 0.16% 01/05/11	15,000,000	14,999,7
TOTAL SHORT-TERM INVESTMENTS (Cost $25,849,643)		$ 25,849,6

TOTAL INVESTMENTS	
100.1% (Cost $388,850,370)	$ 578,171,4
Other assets and liabilities, net	
(0.1)%	(636,8
TOTAL NET ASSETS	
100.0%	$ 577,534,6

* Non-income producing securities

See notes to financial statements.

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STATEMENT OF ASSETS AND LIABILITIES

		December 31, 2010
ASSETS		
Investments at value:		
Investment securites at market value (cost $363,000,727) Note A	$ 552,321,844	
Short-term investments at amortized cost (maturities 60 days or less) Note A	25,849,643	$ 578,171,
Cash		
Receivable for:		
Accrued interest	$ 281,798	
Investment securities sold	179,430	461,
		$ 578,632,
LIABILITIES		
Payable for:		
Investment securities purchased	$ 537,093	
Advisory fees	331,301	
Accrued dividends Preferred Stock	196,921	
Accrued expenses	33,000	1,098,
TOTAL NET ASSETS December 31, 2010		$ 577,534,
Assets applicable to Preferred Stock at a liquidation preference of $27.50 per share (asset coverage 1,066%) Note C		$ 54,153,
Net assets applicable to Common Stock $60.47 per share		$ 523,381,
SUMMARY OF SHAREHOLDERS' EQUITY		
$2.40 Cumulative Preferred Stock par value $3 per share; authorized 3,000,000 shares; outstanding 1,969,212 shares Note C		$ 5,907,
Common Stock par value $1 per share; authorized 12,000,000 shares; outstanding 8,655,240 shares Note C		8,655,
Additional Paid-in Capital		369,029,
		368,

Undistributed net investment income	
Undistributed net realized gains	4,253,
Unrealized appreciation of investments	189,321,
TOTAL NET ASSETS December 31, 2010	$ 577,534,

See notes to financial statements.

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STATEMENT OF OPERATIONS

For the year ended December 31, 2010

INVESTMENT INCOME		
Income		
Dividends		$ 6,724,
Interest		1,860,
		$ 8,585,
Expenses Note A:		
Advisory fees	$ 3,486,676	
Transfer agent fees and expenses	346,104	
Reports to shareholders	168,673	
Directors' fees and expenses	157,568	
Taxes, other than federal income tax	90,885	
Legal and auditing fees	57,621	
Custodian fees and expenses	47,850	
Registration and filing fees	30,025	
Insurance	15,769	
Other expenses	21,530	4,422,
Net investment income Note A		$ 4,162,
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS		
Net realized gain on investments:		
Proceeds from sale of investment securities (excluding short-term corporate notes with maturities 60 days or less)	$ 97,212,404	
Cost of investment securities sold	73,233,943	
Net realized gain on investments Notes A and D		$ 23,978,
Unrealized appreciation of investments:		
Unrealized appreciation at beginning of year	$ 104,471,664	
Unrealized appreciation at end of year	189,321,117	
Change in unrealized appreciation of investments		84,849,
Net realized and unrealized gain on investments		$ 108,827,
NET INCREASE IN TOTAL NET ASSETS RESULTING FROM OPERATIONS		$ 112,990,

See notes to financial statements.

STATEMENT OF CHANGES IN TOTAL NET ASSETS

	For the year ended December 31, 2010		2009	
INCREASE IN TOTAL NET ASSETS				
Operations:				
Net investment income	$ 4,162,813		$ 2,159,299	
Net realized gain on investments Notes A and D	23,978,461		15,683,005	
Change in unrealized appreciation of investments	84,849,453		140,516,517	
Change in total net assets resulting from operations		$ 112,990,727		$ 158,35
Distributions to Preferred shareholders:				
From net investment income	$ (4,709,617)		$ (1,317,326)	
From net realized capital gains	(16,492)	(4,726,109)	(3,408,783)	(4,72
Distributions to Common shareholders from net realized capital		(20,772,576)		(17,31

gains		
Net change in net assets	$ 87,492,042	$ 136,32
TOTAL NET ASSETS		
Beginning of year	490,042,573	353,72
End of year	$ 577,534,615	$ 490,04

See notes to financial statements.

Notice of Source of Distributions

(Unaudited)

(Common Stock Only)

Since the sources from which distributions are paid cannot be determined until th
each fiscal year, the following information amends the statements forwarded to C
shareholders with each distribution.

		Source of Distributions	
Date Paid	Amount Paid Per Share	Net Investment Income	Net Realized Capital Gains
3/15/2010	$ 0.60	$	$ 0.60
6/15/2010	0.60		0.60
9/15/2010	0.60		0.60
12/15/2010	0.60		0.60
	$ 2.40	$	$ 2.40

See page 8 for federal income tax information.

FINANCIAL HIGHLIGHTS

Selected data for a share of Common Stock outstanding throughout each y

	Year ended December 31, 2010	2009	2008	2007	20
Common Stock:					
Per share operating performance:					
Net asset value at beginning of year	$ 50.36	$ 34.61	$ 64.75	$ 64.81	$ 6
Income from investment operations:					
Net investment income	$ 0.48	$ 0.25	$ 0.49	$ 0.55	$
Net realized and unrealized gain (loss) on investment securities	12.58	18.05	(26.58)	3.94	
Total from investment operations	$ 13.06	$ 18.30	$ (26.09)	$ 4.49	$
Distributions to Preferred shareholders:					
From net investment income	$ (0.55)	$ (0.15)	$ (0.53)	$ (0.55)	$
From net realized capital gains		(0.40)	(0.02)		
Distributions to Common shareholders:					
From net investment income				(0.18)	
	(2.40)	(2.00)	(3.50)	(3.82)	

From net realized capital gains									
Total distributions	$	(2.95)	$	(2.55)	$	(4.05)	$	(4.55)	$
Effect of shares issued for distributions reinvested by shareholders									$
Net asset value at end of year	$	60.47	$	50.36	$	34.61	$	64.75	$
Per share market value at end of year	$	53.20	$	43.04	$	28.29	$	60.08	$
Total investment return(1)		30.0%		60.9%		(49.3)%		(5.5)%	
Net asset value total return(2)		26.0%		53.0%		(42.8)%		6.1%	
Ratios/supplemental data:									
Net assets at end of year (in thousands)	$	577,535	$	490,043	$	353,720	$	614,585	$
Ratios based on average net assets applicable to Common Stock:									
Expenses(3)		0.98%		1.04%		0.97%		0.91%	

Net investment income(3)	0.92%	0.60%	0.95%	0.82%	
Portfolio turnover rate	12.59%	8.65%	19.43%	11.97%	1
Preferred Stock:					
Total shares outstanding(4)	1,969,212	1,969,212	1,969,212	1,969,212	1,969
Asset coverage per share(4)	$ 293.28	$ 248.85	$ 179.62	$ 312.10	$ 31
Involuntary liquidation preference per share	$ 27.50	$ 27.50	$ 27.50	$ 27.50	$ 2
Average market value per share(5)	$ 34.27	$ 31.05	$ 31.49	$ 32.55	$ 3

(1) Based on market value per share, adjusted for reinvestment of distributions.

(2) Based on net asset value per share, adjusted for reinvestment of distributions

(3) Does not reflect the effect of dividend payments to Preferred shareholders.
These ratios based on total net assets are as follows:

	2010	2009	2008	2007	2
Expenses	0.88%	0.91%	0.87%	0.83%	
Net investment income	0.82%	0.52%	0.84%	0.75%	

(4) Information shown as of the end of the year.

(5) The average of all month-end market values during each year.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE A Significant Accounting Policies

Source Capital, Inc. (the "Company"), is registered under the Investment Compa 1940 as a diversified, closed-end management investment company. The investm objective of the Company is to seek maximum total return for Common sharehol both capital appreciation and investment income to the extent consistent with pro invested capital and provision of sufficient income to meet the dividend requirem Preferred shareholders. The significant accounting policies followed by the Com the preparation of its financial statements include the following:

1. SECURITIES VALUATION The Company's investments are reported at fair defined by accounting principles generally accepted in the United States of Amer Company generally determines its net asset value as of approximately 4:00 p.m. York time each day the New York Stock Exchange is open. Further discussion of valuation methods, inputs and classifications can be found under Note F.

2. USE OF ESTIMATES The preparation of the financial statements in accorda accounting principles generally accepted in the United States requires manageme make estimates and assumptions that affect the amounts reported. Actual results differ from those estimates.

3. OTHER Securities transactions are accounted for on the date the securities ar purchased or sold. Dividend income is recorded on the ex-dividend date. Interest and expenses are recorded on an accrual basis. Dividends payable by the Compa Preferred Stock are recorded on an accrual basis, and distributions payable on the Common Stock are recorded on the ex-dividend date. The ratios of expenses and investment income to average net assets do not reflect the effect of dividend pay Preferred shareholders.

NOTE B Risk Considerations

Investing in the Fund may involve certain risks including, but not limited to, thos described below.

Market Risk: Because the values of the Fund's investments will fluctuate with ma conditions, so will the value of your investment in the Fund. You could lose mon your investment in the Fund or the Fund could underperform other investments.

Common Stocks and Other Securities: The prices of common stocks and other se held by the Fund may decline in response to certain events taking place around th including those directly involving companies whose securities are owned by the conditions affecting the general economy; overall market changes; local, regiona global political, social or economic instability; and currency, interest rate and co price fluctuations. In addition, the Adviser's emphasis on a value-oriented invest approach generally results in the Fund's portfolio being invested primarily in me smaller sized companies. Smaller companies may be subject to a greater degree c in earnings and business prospects than larger, more established companies. Also securities of smaller companies are traded in lower volumes than those issued by companies and may be more volatile than those of larger companies. In light of t characteristics of smaller companies and their securities, the Fund may be subjec greater risk than that assumed when investing in the equity securities of larger co

Interest Rate and Credit Risk: The values of, and the income generated by, most securities held by the Company may be affected by changing interest rates and by in the effective maturities and credit ratings of these securities. For example, the debt securities in the Company's portfolio generally will decline when interest ra and increase when interest rates fall. In addition, falling interest rates may cause to redeem, call or refinance a security before its stated maturity, which may resul Company having to reinvest the proceeds in lower yielding securities. The value Company's investments may also decline in response to events affecting the issue credit rating. Lower rated debt securities in which the Company may invest are c speculative and are generally subject to greater volatility and risk of loss than inv grade securities, particularly in deteriorating economic conditions.

NOTE C Capital Stock

The Preferred Stock is entitled in liquidation to $27.50 per share plus accrued div and may be called for redemption, at the option of the Company, at $27.50 per sh accrued dividends. Dividends may not be declared on the Common Stock if Pref dividends are in arrears or if the Preferred Stock would not thereafter have an ass coverage of 200% or more. Preferred asset coverage was 1,066% at December 3

The Company did not issue any shares of Common Stock under its Dividend Reinvestment Plan for Common and Preferred shareholders during the year ende December 31, 2010.

NOTE D Advisory Fees and Other Affiliated Transactions

Pursuant to an investment advisory agreement, the Company pays First Pacific A LLC ("Investment Adviser"), monthly investment advisory fees calculated at an rate of 0.725% for the first $100 million of total net assets, 0.700% for the next $ million of total net assets, and 0.675% for any total net assets in excess of $200 r The Agreement obligates the Investment Adviser to reduce its fee to the extent n to reimburse the Company for any annual expenses (exclusive of interest, taxes, of brokerage and research services, legal expenses related to portfolio securities, extraordinary expenses such as litigation) in excess of 1 1/2% of the first $30 mil 1% of the remaining average total net assets of the Company for the year.

For the year ended December 31, 2010, the Company paid aggregate fees of $15 all Directors who are not affiliated persons of the Investment Adviser.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE E Federal Income Tax

No provision for federal taxes is considered necessary because the Company has
to be taxed as a "regulated investment company" under the Internal Revenue Coc
Company intends to maintain this qualification and to distribute to shareholders e
all of its taxable net investment income and taxable net realized gain on investme
accordance with the minimum distribution requirements of the Code.

Dividends and distributions paid to shareholders are based on net investment inco
net realized gains determined on a tax reporting basis, which may differ from fin
reporting. For federal income tax purposes, the components of distributable earni
December 31, 2010, were as follows:

Undistributed ordinary income	$ 369,692
Undistributed net realized gains	$ 4,425,126

The tax status of dividends and distributions paid during the fiscal years ended D
31, 2010 and 2009, were as follows:

	2010	2009
Dividends from ordinary income:		
Preferred	$ 4,726,109	$ 3,599,888
Distributions from Long-term capital gains:		
Preferred		$ 1,126,221
Common	$ 20,772,576	$ 17,310,480

The cost of purchases of investment securities (excluding short-term investments
maturities of 60 days or less) aggregated $60,656,069 during the year ended Dec
2010. Realized gains and losses are based on the specific identification method.

The cost of securities was $363,174,057 for federal income tax purposes. Gross u
appreciation and depreciation for all investments at December 31, 2010, for fede
income tax purposes was $192,167,512 and $3,019,725, respectively, resulting ir
unrealized appreciation of $189,147,787. As of and during the year ended Decem
2010, the Company did not have any liability for unrecognized tax benefits. The
recognizes interest and penalties, if any, related to unrecognized tax benefits as ir
tax expense in the Statement of Operations. During the year, the Company did no
any interest or penalties. The Company is not subject to examination by U.S. fed
authorities for years ended on or before December 31, 2006 or by state tax autho
years ended on or before December 31, 2005.

During the year ended December 31, 2010, the Company reclassified $15,315 fro
undistributed net realized gains to undistributed net investment income to align f

reporting with tax reporting relating to differences in the methods used to amorti discount.

On December 22, 2010, The Regulated Investment Company Modernization Act (the "Modernization Act") was enacted. The Modernization Act is the first major legislation affecting Regulated Investment Companies ("RICs") since 1986 and i modernizes several of the federal income and excise tax provisions related to RIC highlights of the enacted provisions are as follows: new capital losses may now b forward indefinitely, and retain the character of the original loss; several provisio aimed at preventing disqualification of a RIC for "inadvertent" failures of the ass diversification and/or qualifying income tests; and, the Modernization Act exemp from the preferential dividend rule, and repealed the 60-day designation requiren certain types of pay-through income and gains. Except for the simplification prov related to RIC qualification, the Modernization Act is effective for taxable years beginning after December 22, 2010.

NOTE F Disclosure of Fair Value Measurements

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

Equity securities are generally valued at the official closing price of, or the last re sale price on, the exchange or market on which such securities are traded, as of th of business on the day the securities are being valued or, lacking any sales, at the available bid price. Prices for each security are taken from the principal exchang market in which the security trades. Securities that are unlisted and fixed-income convertible securities listed on a national securities exchange for which the over-the-counter market more accurately reflects the securities' value in the judg the Company's officers, are valued at the most recent bid price. However, most fi income securities are generally valued at prices obtained from pricing vendors. V value such securities based on one or more of the following inputs: transactions, offers quotations from dealers and trading systems, and relationships observed in markets among comparable securities. Short-term corporate notes with maturitie days or less are valued at amortized cost, which approximates market value.

Securities for which representative market quotations are not readily available or considered unreliable by the Investment Adviser are valued as determined in goo by, or under the direction of, the Board of Directors. Various inputs may be revie order to make a good faith determination of a security's value. These inputs inclu are not limited to, the type and cost of the security; contractual or legal restrictio resale of the security; relevant financial or business developments of the issuer; a

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

traded similar or related securities; conversion or exchange rights on the security
corporate actions; significant events occurring after the close of trading in the sec
and changes in overall market conditions. Fair valuations and valuations of inves
that are not actively trading involve judgment and may differ materially from val
of investments that would have been used had greater market activity occurred.

The Company classifies its assets based on three valuation methodologies. Level
are based on quoted market prices in active markets for identical assets. Level 2
based on significant observable market inputs, such as quoted prices for similar a
quoted prices in inactive markets or other market observable inputs. Level 3 valu
based on significant unobservable inputs that reflect the Company's determinatio
assumptions that market participants might reasonably use in valuing the assets.
valuation levels are not necessarily an indication of the risk associated with inves
those securities. The following table presents the valuation levels of the Compan
investments as of December 31, 2010:

Investments	Level 1	Level 2	Level 3	Tota
Common Stocks	$ 526,388,845			$ 526,38
Preferred Stocks	5,188,800			5,18
Convertible Bonds & Debentures		$ 4,972,500		4,97
Non-Convertible Bonds & Debentures		15,771,699		15,77
Short-Term Investments		25,849,643		25,84
Total Investments	$ 531,577,645	$ 46,593,842		$ 578,17

Note G Subsequent Events

As of February 11, 2011, the date the financial statements were available to be is
subsequent events or transactions had occurred that would have materially impac
financial statements as presented.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF SOURCE CAPITAL, INC.

We have audited the accompanying statement of assets and liabilities of Source C Inc. (the "Company"), including the portfolio of investments, as of December 31 the related statement of operations for the year then ended, the statements of cha net assets for each of the two years in the period then ended, and the financial hi for each of the five years in the period then ended. These financial statements an financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with standards of the Public Company A Oversight Board (United States). Those standards require that we plan and perfo audit to obtain reasonable assurance about whether the financial statements and f highlights are free of material misstatement. The Company is not required to hav were we engaged to perform, an audit of its internal control over financial report audits included consideration of internal control over financial reporting as a bas designing audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Company's internal over financial reporting. Accordingly, we express no such opinion. An audit also examining, on a test basis, evidence supporting the amounts and disclosures in th financial statements, assessing the accounting principles used and significant esti made by management, as well as evaluating the overall financial statement prese Our procedures included confirmation of securities owned as of December 31, 2 correspondence with the custodian and brokers. We believe that our audits provi reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above fairly, in all material respects, the financial position of Source Capital, Inc., as of December 31, 2010, the results of its operations for the year then ended, the char net assets for each of the two years in the period then ended, and the financial hi for each of the five years in the period then ended, in conformity with accountin principles generally accepted in the United States of America.

Los Angeles, California
February 11, 2011

DIRECTORS AND OFFICERS

Name, Age & Address	Position(s) with Company	Term of Office and Length of Time Served	Principal Occupation(s) During the past 5 years	Number of Portfolios in Fund Complex Overseen by Director	O Dire
Willard H. Altman, Jr. - (75)*	Director	Term: 1 Year Time Served: 12 Years	Retired. Formerly, until 1995, Partner of Ernst & Young LLP a public accounting firm.	6	
Thomas P. Merrick - (73)*	Director	Term: 1 Year Time Served: 4 Years	Private consultant. President of Strategic Planning Consultants for more than the past five years. Former Executive Committee member and Vice President of Fluor Corporation, responsible for strategic planning, from 1984 to 1998.	6	
Patrick B. Purcell - (67)*	Director	Term: 1 Year Time Served: < 1 Year	Retired. Formerly Consultant from March 1998 to August 2000, and Executive Vice President, Chief Financial and Administrative Officer from 1989 to March 1998, of Paramount Pictures.	4	The Con and Mot Pictu Tele Fun
David Rees - (87)*	Director	Term: 1 Year Time Served: 42 Years	Private investor. Formerly President and Chief Executive Officer of the International Institute of Los Angeles. Formerly, until 1995, the Senior Editor of Los Angeles Business Journal.	1	Inter Insti Los
Paul G. Schloemer - (82)*	Director	Term: 1 Year Time Served: 11 Years	Retired President and Chief Executive Officer (1984-1993) of Parker Hannifin Corporation.	1	

Eric S. Ende - (66)	Director President & Chief Investment Officer	Term: 1 Year Time Served: 26 Years	Partner of the Adviser since 2006. Formerly Senior Vice President of First Pacific Advisors, Inc. from 1984 to 2006.	3	
Steven R. Geist - (57)	Executive Vice President and Portfolio Manager	Time Served: 14 Years	Partner of the Adviser since 2006. Formerly Vice President of First Pacific Advisors, Inc. from 1992 to 2006.		
J. Richard Atwood - (50)	Treasurer	Time Served: 14 Years	Chief Operating Officer of the Adviser. President of FPA Fund Distributors, Inc.		FPA Dist Inc.
Sherry Sasaki - (56)	Secretary	Time Served: 28 Years	Assistant Vice President and Secretary of the Adviser and Secretary of FPA Fund Distributors, Inc.		
Christopher H. Thomas - (53)	Chief Compliance Officer	Time Served: 16 Years	Vice President and Chief Compliance Officer of the Adviser and Vice President of FPA Fund Distributors, Inc.		FPA Dist Inc.
E. Lake Setzler III - (43)	Assistant Treasurer	Time Served: 5 Years	Vice President and Controller of the Adviser since 2005. Formerly Chief Operating Officer of Inflective Asset Management, LLC (2004-2005) and Vice President of Transamerica Investment Management, LLC (2000-2004).		

Each of the above individuals can be contacted at 11400 W. Olympic Blvd., Suit
Los Angeles, CA, 90064.

* Audit committee member

Messrs. Altman, Merrick, and Purcell serve as members of the audit committee o
investment companies managed by First Pacific Advisors, LLC ("FPA"), the Co
investment adviser. The Company's Board of Directors has considered the matte
simultaneous service and determined that serving simultaneously as a member o
audit committees does not impair their ability to serve as a member of the Audit
Committee of the Company.

The Company's schedule of portfolio holdings, filed the first and third quarter on
N-Q with the SEC, is available on the SEC's website at www.sec.gov. Form N-Q
available at the SEC's Public Reference Room in Washington, D.C., and informa

the operations of the Public Reference Room may be obtained by calling 1-202-9
To obtain information on Form N-Q from the Company, shareholders can call 1-800-982-4372.

The Company's complete proxy voting record for the 12 months ended June 30, 2
available without charge, upon request, by calling 1-800-982-4372 and on the SE
website at www.sec.gov.

The Company's Audit Committee Charter is available on its website, www.fpafu
and is available without charge, upon request, by calling 1-800-982-4372. The C
Annual CEO Certification as required by the NYSE's Corporate Governance listi
standards for the fiscal year ended December 31, 2009, was submitted to the NY
May 5, 2010. The Company's Chief Executive Officer and Chief Financial Offic
Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 were fi
the Company's Form N-CSR and are available on the Securities and Exchange Commission's Web site at http://www.sec.gov.

Additional information about the Company is available online at www.fpafunds.
information includes, among other things, holdings, top sectors and performance
updated on or about the 15th business day after the end of each quarter.

SOURCE CAPITAL, INC.

INVESTMENT ADVISER

First Pacific Advisors, LLC
11400 West Olympic Blvd., Suite 1200
Los Angeles, California 90064-1550
(800) 982-4372 or (310) 473-0225

CUSTODIAN

State Street Bank and Trust Company
Boston, Massachusetts

LEGAL COUNSEL

O'Melveny & Myers LLP
Los Angeles, California

TRANSFER AND SHAREHOLDER SERVICE AGENT AND REGISTRA

BNY Mellon Shareowner Services
480 Washington Boulevard
Jersey City, NJ 07310
(800) 279-1241 or (201) 329-8660
http://melloninvestor.com/isd

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP
Los Angeles, California

STOCK EXCHANGE LISTING

New York Stock Exchange:
Symbols: SOR Common Stock
SOR+ Preferred Stock

DIVIDEND REINVESTMENT PLAN

Holders of record (other than brokers or nominees of banks and other financial institutions) of Common and Preferred Stock are eligible to participate in the Div Reinvestment Plan ("Plan"), pursuant to which distributions to shareholders are p reinvested in shares of Common Stock of the Company ("Dividend Shares"). Me Bank, N.A. ("Agent") c/o BNY Mellon Shareowner Services, Investment Servic Box 3338, South Hackensack, New Jersey 07606-1938, acts as Agent for partici under the Plan.

A shareholder may join the Plan by signing and returning an authorization form t be obtained from the Agent. A shareholder may elect to withdraw from the Plan time by written notice to the Agent and thereby elect to receive cash in lieu of Di Shares. There is no penalty for withdrawal from the Plan, and shareholders who l previously withdrawn from the Plan may rejoin at any time. The Company reserv right to amend or terminate the Plan.

Purchases of the Company's shares are made by the Agent, on behalf of the partic the Plan, promptly after receipt of funds, and in no event later than 30 days from receipt except when restricted under applicable federal securities laws. The Agen purchases outstanding shares in the market when the price plus estimated commi the Company's Common Stock on the NYSE is lower than the Company's most r calculated net asset value per share. To the extent that outstanding shares are not at a cost of less than per share net asset value, the Agent, on behalf of the particip the Plan, accepts payment of the dividend, or the remaining portion thereof, in au but unissued shares of Common Stock of the Company on the payment date. Suc are issued at a per share price equal to the higher of (1) the net asset value per sh payment date, or (2) 95% of the closing market price per share on the payment d are no brokerage charges with respect to shares issued directly by the Company t the dividend reinvestment requirements. However, each participant pays a pro ra of brokerage commissions incurred with respect to the Agent's open market purc shares. In each case, the cost per share of shares purchased for each shareholder's is the average cost, including brokerage commissions, of any shares purchased in market plus the cost of any shares issued by the Company.

For Federal income tax purposes, shareholders who reinvest distributions are trea receiving distributions in an amount equal to the fair market value, determined as payment date, of the shares received if the shares are purchased from the Compa value may exceed the amount of the cash distribution that would have been paid. outstanding shares are purchased in the open market, the taxable distribution equ cash distribution that would have been paid. In either event, the cost basis in the received equals the amount recognized as a taxable distribution.

In the case of foreign participants whose dividends are subject to United States in withholding and in the case of any participants subject to 31% federal backup withholding, the Agent will reinvest dividends after deduction of the amount req be withheld.

All record holders of Common Stock are also offered the opportunity, on a volun basis, to send in cash payments of not less than $100 each up to a total of $7,500 month to purchase additional shares of the Common Stock of the Company throu participation in the Cash Investment Plan ("Cash Plan"). Under the Cash Plan, sh purchased in the market and no shares are issued by the Company. A brochure de the terms and conditions of the Cash Plan, including fees and expenses, is availal the Agent.

SOURCE CAPITAL, INC.

11400 West Olympic Boulevard, Suite 1200

Los Angeles, California 90064-1550

Item 2. Code of Ethics.

(a) The registrant has adopted a code of ethics that applies to the registrant s senior executiv
financial officers.

(b) Not Applicable

(c) During the period covered by this report, there were not any amendments to the provision
code of ethics adopted in 2(a) above.

(d) During the period covered by this report, there were not any implicit or explicit waivers t
provisions of the code of ethics adopted in 2(a).

(e) Not Applicable

(f) A copy of the registrant s code of ethics is filed as an exhibit to this Form N-CSR. Upon
person may obtain a copy of this code of ethics, without charge, by calling (800) 982-4372.

Item 3. Audit Committee Financial Expert.

The registrant s board of directors has determined that Willard H. Altman, Jr., a member of the re
audit committee and board of directors, is an audit committee financial expert and is independ
terms are defined in this Item. This designation will not increase the designee s duties, obligation
as compared to his duties, obligations and liability as a member of the audit committee and of the b
directors. This designation does not affect the duties, obligations or liability of any other member c
committee or the board of directors.

Item 4. Principal Accountant Fees and Services.

		2009	2010
(a)	Audit Fees	$ 36,700	$ 36,700

(b)	Audit Related Fees		-0-		-0-
(c)	Tax Fees	$	7,150	$	7,150
(d)	All Other Fees		-0-		-0-

(e)(1) Disclose the audit committee s pre-approval policies and procedures described in paragra
Rule 2-01 of Regulation S-X. The audit committee shall pre-approve all audit and permissible non
services that the committee considers compatible with maintaining the independent auditors indep
The pre-approval requirement will extend to all non-audit services provided to the registrant, the ac
any entity

controlling, controlled by, or under common control with the adviser that provides ongoing service
registrant, if the engagement relates directly to the operations and financial reporting of the registra
provided, however, that an engagement of the registrant s independent auditors to perform attest s
the registrant, the adviser or its affiliates required by generally accepted auditing standards to comp
examination of the registrant s financial statements (such as an examination conducted in accorda
Statement on Auditing Standards Number 70 issued by the American Institute of Certified Public
Accountants), will be deem pre-approved if: (i) the registrant s independent auditors inform the a
committee of the engagement, (ii) the registrant s independent auditors advise the audit committee
annually that the performance of this engagement will not impair the independent auditor s indepe
respect to the registrant, and (iii) the audit committee receives a copy of the independent auditor s
prepared in connection with such services. The committee may delegate to one or more committee
the authority to review and pre-approve audit and permissible non-audit services. Actions taken un
such delegation will be reported to the full committee at its next meeting.

(e)(2) Disclose the percentage of services described in each of paragraphs (b) (d) of this Item
approved by the audit committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X
the services provided to the registrant described in paragraphs (b) (d) of this Item were pre-appro
audit committee pursuant to paragraph (e)(1) of this Item. There were no services provided to the
adviser or any entity controlling, controlled by or under common control with the adviser describe
paragraphs (b) (d) of this Item that were required to be pre-approved by the audit committee.

(f) If greater than 50%, disclose the percentage of hours expended on the principal accounta
engagement to audit the registrant s financial statements for the most recent fiscal year that were a
work performed by persons other than the principal accountant s full-time, permanent employees.
performed on the engagement to audit the registrant s financial statements for the most recent fisc
were performed by the principal accountant s full-time, permanent employees.

(g) Disclose the aggregate non-audit fees billed by the registrant s accountant for services re
registrant, and rendered to the registrant s investment adviser (not including any sub-adviser whos
primarily portfolio management and is subcontracted with or overseen by another investment advis
any entity controlling, controlled by, or under

common control with the adviser that provides ongoing services to the registrant for each of the las years of the registrant. None.

(h) Disclose whether the registrant s audit committee of the board of directors has considere provision of non-audit services that were rendered to the registrant s investment adviser (not inclu sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by investment adviser), and any entity controlling, controlled by, or under common control with the ir adviser that provides ongoing services to the registrant that were not pre-approved pursuant to para (c)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant independence. Not Applicable.

Item 5. Audit Committee of Listed Registrants.

The registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, consisting of all the independent direc registrant. The members of the audit committee are: Willard H. Altman, Jr., Thomas P. Merrick, P Purcell, David Rees and Paul G. Schloemer.

Item 6. Schedule of Investments. The schedule of investments is included as part of the stockholders filed under Item 1 of this Form.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Managemen Investment Companies.

POLICY

First Pacific Advisors, LLC (Adviser) acts as discretionary investment adviser for various client SEC-registered closed-end and open-end investment companies (RIC clients) and separately ma accounts (including those governed under the laws and provisions of ERISA) (collectively referred or clients). The Adviser is authorized to vote proxies on behalf of its clients, unless a client specifi retains or delegates this authority to another party, in writing. The Adviser will vote all proxies in manner as part of its full discretionary authority over client assets in accordance with these Policies Procedures.

When voting proxies for clients, the Adviser s utmost concern is that all decisions be made solely interest of the client (and for ERISA accounts, plan beneficiaries and participants, in accordance w and spirit of ERISA). The Adviser will act in a prudent and diligent manner intended to enhance th the assets of the client s account.

PURPOSE

The purpose of these Policies and Procedures is to enable the Adviser to comply with its fiduciary responsibilities to clients and the requirements under the Investment Advisers Act of 1940, as amer (Advisers Act), and the Investment Company Act of 1940, as amended (1940 Act). These P Procedures also reflect the fiduciary standards and responsibilities set forth by the Department of L ERISA accounts.

PROCEDURES

The Adviser is ultimately responsible for ensuring that all proxies received by the Adviser are vote timely manner and in a manner consistent with the Adviser s determination of the client s best int Although many proxy proposals can be voted in accordance with the Adviser s guidelines (see C below), the Adviser recognizes that some proposals require special consideration which may dictat Adviser make an exception to the Guidelines.

CONFLICTS OF INTEREST

Where a proxy proposal raises a material conflict between the Adviser s interests and a client s in Adviser will resolve such a conflict in the manner described below:

Vote in Accordance with the Guidelines. To the extent that the Adviser has little or no discretion t from the Guidelines with respect to the proposal in question, the Adviser shall vote in accordance v pre-determined voting policy.

Obtain Consent of Clients. To the extent that the Adviser has discretion to deviate from the Guidel respect to the proposal in question, the Adviser will disclose the conflict to the relevant clients and consent to the proposed vote prior to voting the securities. The disclosure to the client will include detail regarding the matter to be voted on and the nature of the Adviser s conflict that the client w to make an informed decision regarding the vote. If a client does not respond to such a conflict dis request or denies the request, the Adviser will abstain from voting the securities held by that client

Client Directive to Use an Independent Third Party. Alternatively, a client may, in writing, specifi the Adviser to forward all proxy matters in which the Adviser has a conflict of interest regarding th securities to an identified independent third party for review and recommendation. Where such inc third party s recommendations are received on a timely basis, the Adviser will vote all such proxie accordance with such third party s recommendation. If the third party s recommendations are no received, the Adviser will abstain from voting the securities held by that client s account.

The Adviser will review the proxy proposal for conflicts of interest as part of the overall vote revie
All material conflicts of interest so identified by the Adviser will be addressed as above. Matters t
reviewed include: (i) whether the issuer of the portfolio security to be voted, or an affiliate or empl
of the issuer, is a client of the Adviser; (ii) whether the Adviser has made or is actively considering
proposal to provide services to the

issuer or an affiliate or employee group of the issuer; (iii) whether the Adviser has any other mater relationship with the issuer or an affiliate of the issuer; (iv) whether an officer or director of the Ad portfolio manager responsible for recommending the proxy vote is a close relative or has a persona business relationship with an executive, director or director candidate of the issuer or is a participa proxy contest; and (v) whether there is any other business or personal relationship where the portfo manager has a personal interest in the outcome of the matter to be voted upon.

LIMITATIONS

In certain circumstances where the Adviser has determined that it is in the client s best interest, th will not vote proxies received. The following are some, but not all, circumstances where the Advis limit its role in voting proxies:

Client Maintains Proxy Voting Authority. Where the client has instructed the Adviser in writing, t will not vote the securities and will direct the relevant custodian to send the proxy material directly client. If any proxy material is received by the Adviser, it will promptly be forwarded to the client specified third party.

Terminated Account. Once a client account has been terminated with the Adviser in accordance w investment advisory agreement, the Adviser may refrain from voting any proxies received after the termination. However, the client may specify in writing who the proxies shall be forwarded to.

Securities No Longer Held. The Adviser may refrain from voting proxies received for securities w longer held by the client s account.

Securities Lending Programs. When securities are out on loan, they are transferred into the borrow and are voted by the borrower, in its discretion. However, where the Adviser determines that a pro materially important to the client s account, the Adviser may recall the security for purposes of vo

PROCEDURES FOR VOTING

Proxies and annual or other reports received by the Adviser for issuers in clients accounts under r are promptly forwarded to the appropriate portfolio manager, who votes the proxy and returns it to operations department to process the votes.

When voting telephonically. The telephone number on the proxy is called and voted, verification c is made after all proposals have been voted, the date of the telephone call is noted on the proxy and

account s file. Note of the date of the telephone call is also made on the cross-reference report and
alphabetically in a binder by issuer.

When voting manually. Sign and date after manually checking each proposal being voted and send
the regular postal service. A copy of the proxy is filed in the account s file.

Note of the date of mailing is also made on the cross reference report and filed alphabetically in a b
issuer.

When voting electronically. Go online and vote each proxy as designated. A confirmation is then
through e-mail. These confirmations are printed and are then filed with the proxy in the account s
the date of voting is also made on the cross reference report and filed alphabetically in a binder by

If there is a disagreement as to how a proxy is to be voted, it is the responsibility of the portfolio m
the Adviser to discuss and substantiate their voting. See Guidelines below for further explanation o
voting procedures.

RECORD KEEPING

In accordance with the Rules under the Advisers Act, the Adviser will maintain for the time period
in the Rules the following information:

1. these proxy voting policies and procedures, and all amendments thereto;

2. all proxy statements received regarding client securities (provided however, that the Adviser m
the proxy statement filed on EDGAR as its records);

3. a record of all votes cast on behalf of clients;

4. records of all client requests for proxy voting information;

5. any documents prepared by the Adviser that were material in making a decision and/or used a
for the decision; and

6. all records relating to requests made to clients regarding conflicts of interest in voting the prox
requests will be kept in the client proxy file.

The Adviser will disclose its proxy voting policies and procedures and will inform clients how they
obtain information on how the Adviser voted proxies with respect to the clients portfolio securitie
may obtain information on how their securities were voted or a copy of the Adviser s Policies and
by written request addressed to the Adviser. The Adviser will prepare all the information required
by its RIC clients on Form N-PX with the Securities and Exchange Commission.

GUIDELINES

Each proxy issue will be considered individually. The following guidelines are a partial list to be u
voting proposals contained the proxy statements, but will not be used as rigid rules.

1. Issues regarding the issuer s Board entrenchment and anti-takeover measures such as the following:

    1. Proposals to stagger board members terms;
    2. Proposals to limit the ability of shareholders to call special meetings;

3. Proposals to require super majority votes;
4. Proposals requesting excessive increases in authorized common or preferred shares where management provides no explanation for the use or need of these additional shares;
5. Proposals regarding fair price provisions;
6. Proposals regarding poison pill provisions; and
7. Permitting green mail.

2. Providing cumulative voting rights

3. Social issues, unless specific client guidelines supersede

4. Election of directors recommended by management, except if there is a proxy fight

5. Election of independent auditors recommended by management, unless seeking to replace if there exists a dispute over policies

6. Date and place of annual meeting

7. Limitation on charitable contributions or fees paid to lawyers

8. Ratification of directors actions on routine matters since previous annual meeting

9. Confidential voting

   Confidential voting is most often proposed by shareholders as a means of eliminating undue management pressure on shareholders regarding their vote on proxy issues

   The Adviser will generally approve these proposals as shareholders can later divulge their votes to management on a selective basis if a legitimate reason arises

10. Limiting directors liability

11. Eliminate preemptive right

    Preemptive rights give current shareholders the opportunity to maintain their current percentage ownership through any subsequent equity offerings. These provisions are no longer common in the U.S., and can restrict managements ability to raise new capital

The Adviser generally approves the elimination of preemptive rights, but will oppose the elimination of limited preemptive rights, e.g., on proposed issues representing more than an acceptable level of total dilution

12.	Employee Stock Purchase Plan	Ap
13.	Establish 401(k) Plan	Ap
14.	Pay director solely in stocks	Ca
15.	Eliminate director mandatory retirement policy	Ca
16.	Rotate annual meeting location/date	Ca
17.	Option and stock grants to management and directors	Ca
18.	Allowing indemnification of directors and/or officers after reviewing the applicable laws and extent of protection requested	Ca
19.	Sale of assets, divisions, product rights, etc.	Ca
20.	Other business that may arise at the annual meeting	Ca
21.	Other issues not included on this list	Ca

NOTICE TO CLIENTS OF FIRST PACIFIC ADVISORS, LLC

REGARDING PROXY VOTING POLICIES AND PROCEDURES

Unless specifically noted otherwise in writing by the Client, First Pacific Advisors, LLC (Advise
authority and responsibility to vote proxies for any stocks held in Accounts under its management.

In accordance with Rule 207.206(4)-6 of the Advisers Act of 1940 with respect to proxy voting pro
the Adviser, we are hereby notifying you of your right to obtain information about our proxy votin
and procedures, including how we vote shares held in your Account. If at any time you would like
information on our proxy voting policy and procedures, you may send a request in writing to J. Ric
Atwood, Chief Operating Officer, First Pacific Advisors, LLC, 11400 West Olympic Boulevard, S
Los Angeles, CA 90064, or fax your request to (310) 996-5450, or by e-mail to atwood@firstpaca

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

(a)(1) Eric S. Ende and Steven R. Geist are primarily responsible for the day-to-day managemer
registrant.

Mr. Ende has been the President, Chief Investment Officer and Director of the registrant for more t
past five years and Partner of the Adviser since October 2006. Mr. Ende also serves as Director, P
Portfolio Manager of FPA Paramount Fund, Inc. and of FPA Perennial Fund, Inc., and as Vice Pre
FPA Capital Fund, Inc., FPA New Income, Inc. and FPA Funds Trust s FPA Crescent Fund for m
past five years. Mr. Ende served as Senior Vice President of First Pacific Advisors, Inc. from Dece
to September 2006.

Mr. Geist has been the Executive Vice President and Portfolio Manager of the registrant since
November 2006, and Partner of the Adviser since October 2006. Mr. Geist also serves as Executiv
President and Portfolio Manager of FPA Paramount Fund, Inc. and of FPA Perennial Fund, Inc. fo
the past five years. Mr. Geist served as Senior Vice President and Fixed-Income Manager of the re
from November 1999 to November 2006, and Vice President of the First Pacific Advisors, Inc. fro
December 1994 to September 2006.

FPA Capital Fund, Inc., FPA Funds Trust s FPA Crescent Fund, FPA New Income, Inc., FPA Par
Fund, Inc. and FPA Perennial Fund, Inc. are registered investment companies managed by the Adv

(a)(2) The Portfolio Managers, Eric S. Ende and Steven R. Geist, are also responsible for the da
management of two open-end investment companies and three other accounts, with total aggregate
$572 million at December 31, 2010. None of these accounts have an advisory fee based on the perf
the account. The Adviser does not believe any material conflicts of interest exist as a result of the P
Managers managing the registrant and the other accounts noted above. The Adviser seeks to alloca
transactions equitably whenever concurrent decisions are made to purchase or sell identical securit
several clients managed by the Adviser. The Adviser may aggregate orders for its client accounts f
security where concurrent decisions are made to purchase or to sell identical securities for several c
managed by the Adviser and such aggregation will generally result in more favorable net results fo
In these cases, the Adviser will allocate the securities or proceeds arising out of those transactions
related expenses) on an average price basis among the various participants. While the Adviser beli
combining orders in this way will, over time, be advantageous to all participants, in

particular cases, this procedure could have an adverse effect on the price or the amount of securitie or sold by any one client. In making such allocations, the main factors considered by the Adviser a respective investment objectives, the relative size of portfolio holdings of the same or comparable the availability of cash for investment, the size of investment commitments generally held and the the persons responsible for recommending the investment.

(a)(3) Compensation of the Adviser s Portfolio Managers is primarily through participation in t revenues and profits. The participation in revenues and profits is primarily based on the revenues r the assets managed by those Portfolio Managers, including the Fund s assets, and partly based on profitability of the Adviser. This participation has both fixed and variable components. The variabl participation is based upon the Adviser s assessment of the Portfolio Managers performance in a key areas including product management and business development, succession planning and team identity, and long term performance. In addition, the Adviser further provides for a discretionary b can be allocated to any member of the firm, including Portfolio Managers who are equity owners, i recognize outstanding achievements in any given year. In addition, for Portfolio Managers who are owners of the Adviser, the value of their ownership interest is dependent upon their ability to effec manage their business over the long term. The Adviser offers a 401(k) plan whereby the Portfolio I as well as all permanent employees of the Adviser, may elect to contribute up to the legal limit.

(a)(4) The dollar value of shares of Common Stock of the registrant owned at December 31, 201 Mr. Ende was between $100,001 and $500,000 and by Mr. Geist was between $10,001 and $50,00

(b) Not Applicable.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Compan Affiliated Purchasers. Not Applicable.

Item 10. Submission of Matters to a Vote of Security Holders. There has been no materi the procedures by which shareholders may recommend nominees to the registrant s board of direc

Item 11. Controls and Procedures.

(a) The principal executive officer and principal financial officer of the registrant have conclu 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
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
defined in Rule 30a-3(d) under the Investment Company Act of 1940) that occurred during the sec
quarter of the period covered by this report that have materially affected, or is reasonably likely to
affect, the registrant s internal controls over financial reporting.

Item 12. Exhibits.

(a)(1) Code of ethics as applies to the registrant s officers and directors, as required to be disclo
Item 2 of Form N-CSR. Attached hereto as Ex.99.CODE.ETH.

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

(a)(3) Not Applicable

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

SIGNATURES

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

SOURCE CAPITAL, INC.

By: /s/ ERIC S. ENDE
Eric S. Ende, President
(Principal Executive Officer)

Date: February 16, 2011

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

SOURCE CAPITAL, INC.

By: /s/ ERIC S. ENDE
Eric S. Ende, President
(Principal Executive Officer)

Date: February 16, 2011

By: /s/ J. RICHARD ATWOOD
J. Richard Atwood, Treasurer
(Principal Financial Officer)

Date: February 16, 2011