

SOURCE CAPITAL INC /DE/
Form DEF 14A
March 25, 2011

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

SOURCE CAPITAL, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:

(4)

Date Filed:

SOURCE CAPITAL, INC.

**11400 West Olympic Boulevard, Suite 1200
Los Angeles, California 90064-1550**

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To be held on Monday, May 2, 2011

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of Source Capital, Inc. (the "Fund"), will be held in the Century Ballroom on the Second Floor, of The Olympic Collection, 11301 Olympic Boulevard, Los Angeles, California 90064, on Monday, May 2, 2011, at 10:00 a.m. Pacific Time, to consider and vote on the following matters:

1. Election of four directors by the holders of Common Stock, \$1.00 par value ("Common Stock"), and election of two directors by the holders of \$2.40 Cumulative Preferred Stock, \$3.00 par value ("Preferred Stock");
2. Continuation of the Investment Advisory Agreement; and
3. Such other matters as may properly come before the meeting or any adjournment or adjournments thereof.

Your Directors recommend that you vote FOR all items.

March 4, 2011, has been fixed as the record date for the determination of shareholders entitled to notice of, and to vote at, the meeting, and only holders of Common Stock and Preferred Stock of record at the close of business on that date will be entitled to vote.

By Order of the Board of Directors

SHERRY SASAKI

Secretary

March 25, 2011

It is requested that you promptly execute the enclosed proxy and return it in the enclosed envelope thus enabling the Fund to avoid unnecessary expense and delay. No postage is required if mailed in the United States. You may also vote the enclosed proxy by telephone or over the Internet. The proxy is revocable and will not affect your right to vote in person if you attend the meeting.

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SOURCE CAPITAL, INC.

11400 West Olympic Boulevard, Suite 1200, Los Angeles, California 90064-1550

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the "Board" or "Board of Directors", and each member of the Board, a "Director") of Source Capital, Inc. (the "Fund"), of proxies to be voted at the annual meeting of shareholders of the Fund to be held at 10:00 a.m. (Los Angeles time) on Monday, May 2, 2011, in the Century Ballroom on the Second Floor, of The Olympic Collection, 11301 Olympic Boulevard, Los Angeles, California 90064 (the "Meeting"), and at any and all adjournments thereof. The Meeting will be held for the purposes set forth in the accompanying Notice. This Proxy Statement and the accompanying materials are being mailed by the Board on or about March 25, 2011.

The Fund is organized as a Delaware corporation. In addition, the Fund is a registered investment company.

If you hold shares in your name as a record holder, you may vote your shares by proxy through the mail, telephone, or Internet as described on the proxy card. If you submit your proxy via the Internet, you may incur costs such as telephone and Internet access charges. Submitting your proxy will not limit your right to vote in person at the Meeting. A properly completed and submitted proxy will be voted in accordance with your instructions, unless you subsequently revoke your instructions. If you submit a signed proxy card without indicating your vote, the person voting the proxy will vote your shares according to the Board's recommendations thereon. Proxy solicitation will be principally by mail but may also be made by telephone or personal interview conducted by officers and regular employees of First Pacific Advisors, LLC, the Fund's investment adviser ("FPA" or "Adviser"), or BNY Mellon Shareowner Services, the Fund's Transfer Agent, and the Fund reserves the right to retain outside agencies for the purpose of soliciting proxies. The cost of solicitation of proxies will be borne by the Fund, which will reimburse banks, brokerage firms, nominees, fiduciaries, and other custodians for reasonable expenses incurred by them in sending the proxy material to beneficial owners of shares of the Fund. This Proxy Statement was first mailed to shareholders on or about March 25, 2011. The Fund's annual report to shareholders for the year ended December 31, 2010, may be viewed at <http://bnymellon.mobular.net/bnymellon/sor> or may be obtained upon written request made to the Secretary of the Fund.

On March 4, 2011 (the record date for determining shareholders entitled to notice of and to vote at the Meeting), there were 8,655,240 shares of Common Stock and 1,969,212 shares of Preferred Stock outstanding. On February 28, 2011, the net assets of the Fund were \$593,936,993. Shareholders of both classes are entitled to one vote per share and vote together as a single class unless otherwise indicated in the description of a proposal. No person is known by management to own beneficially or of record as much as 5% of the outstanding Common Stock or as much as 5% of the outstanding Preferred Stock.

SUMMARY OF VOTING RIGHTS ON PROXY PROPOSALS

Proposal	Common Shareholders	Preferred Shareholders
1. Election of 6 Directors	Elect 4 Directors	Elect 2 Directors
2. Investment Advisory Agreement	Common and Preferred shareholders vote as a single class.	
3. Other Matters	Common and Preferred shareholders vote as a single class.	

Annual reports are sent to shareholders of record of the Fund following the Fund's fiscal year end. The Fund's annual report is available at <http://bnymellon.mobular.net/bnymellon/sor>, and the Fund will furnish, without charge, a copy of its annual report and most recent quarterly report succeeding the annual report, if any, to a shareholder upon request. Such written or oral requests should be directed to the Fund at 11400 West Olympic Boulevard, Suite 1200, Los Angeles, California 90064-1550, or call (800) 982-4372 ext. 419. Please note that only one annual report or Proxy Statement may be delivered to two or more shareholders of the Fund who share an address, unless the Fund has received instructions to the contrary. To request a separate copy of an annual report or the Proxy Statement, or for instructions as to how to request a separate copy of these documents or as to how to request a single copy if multiple copies of these documents are received, shareholders should contact the Fund at the address and phone number set forth above.

1. ELECTION OF THE BOARD OF DIRECTORS

The Fund's Board of Directors is comprised of individuals with considerable and varied business experiences, backgrounds, skills, and qualifications who collectively have a strong knowledge of business and financial matters and are committed to helping the Fund achieve its investment objective while acting in the best interests of the Fund's shareholders. Several members of the Board have had a long and continued service with the Fund. As noted in the table below, the nominees bring a variety of experiences and qualifications through their business backgrounds in the fields of accounting, consulting and strategic planning, entertainment, business journalism, and senior corporate management of a manufacturing corporation. The Board believes that each particular nominee's financial and business experience give him the qualifications and skills to serve as a director.

At the Meeting, six directors are to be elected to serve until the next annual meeting of shareholders or until their successors are duly elected and qualified. The holders of the Preferred Stock, as a separate class, are entitled to elect two directors, and the holders of Common Stock, as a separate class, are entitled to elect the remaining directors. Shares of both classes have cumulative voting rights, which means that, with regard to the election of directors only, each shareholder has the right to cast a number of votes equal to the number of shares owned multiplied by the number of directors to be elected by that class of stock, and each shareholder may cast the whole number of votes for one candidate or distribute such votes among candidates as such shareholder chooses. Unless otherwise instructed, the proxy holders intend to vote proxies received by them for the six nominees named below, reserving the right, however, to cumulate such votes in each class and distribute them among nominees at the discretion of the proxy holders. The affirmative votes of a majority of the shares of each class present in person or represented by proxy at the meeting are required to elect each director to be elected by that class. The following table sets forth certain information regarding each nominee for election as director. All of the nominees are incumbent directors.

Name, Address*Position & With Age Fund "Non-Interested" Directors	Year First Elected as Director of the Fund	Principal Occupation(s) During Past 5 Years (5)	Number of FPA Fund Boards on Which Director Serves	Other Directorships Held by Directors
Willard Director H. Altman, Jr., 75 (1,2,3)	1998	Former Partner of Ernst & Young LLP, a public accounting firm. Director/Trustee of FPA Capital Fund, Inc., of FPA New Income, Inc., of FPA Paramount Fund, Inc., of FPA Perennial Fund, Inc., and of FPA Funds Trust's FPA Crescent Fund (4). Chairman of the Board of FPA Capital Fund, Inc., of FPA New Income, Inc., of FPA Paramount Fund, Inc., of FPA Perennial Fund, Inc., and of FPA Funds Trust's FPA Crescent Fund. Vice President of Evangelical Council for Financial Accountability, an accreditation organization for Christian non-profit	6	0

entities, from 1995 to 2002.

<p>Thomas Director P. Merrick, 73 (1,2)</p>	<p>2006</p>	<p>Private consultant. President of Strategic Planning Consultants for more than the past five years. Director of FPA Paramount Fund, Inc. (since January 2008), of FPA Perennial Fund, Inc. (since August 2008), of FPA Capital Fund, Inc. (since July 2009), of FPA Funds Trust's FPA Crescent Fund (since July 2009) and of FPA New Income, Inc. (since July 2009) (4). Former Executive Committee member and Vice President of Fluor Corporation, responsible for strategic planning, from 1993 to 1998.</p>	<p>6</p>	<p>0</p>
<p>Patrick Director B. Purcell, 68 (1,2)</p>	<p>2010</p>	<p>Retired. Former Consultant from March 1998 to August 2000, and Executive Vice President, Chief Financial and Administrative Officer from 1989 to March 1998, of Paramount Pictures. Director/Trustee (since May 2006) of FPA Capital Fund, Inc., of FPA New Income, Inc., and of FPA Funds Trust's FPA Crescent Fund (4).</p>	<p>4</p>	<p>The Ocean Conservancy and The Motion Picture and Television Fund</p>

Name, Address* & Age (1,2)	Position With Fund	Year First Elected as Director of the Fund	Principal Occupation(s) During Past 5 Years (5)	Number of FPA Fund Boards on Which Director Serves	Other Directorships Held by Directors
David Rees, 87 (1,2)	Director	1968	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 for more than the preceding five years.	1	International Institute of Los Angeles
Paul G. Schloemer, 82 (1,2,3)	Director	1999	Retired. President and Chief Executive Officer (1984-1993) of Parker Hannifin Corporation (a manufacturer of motion control products).	1	0
"Interested" Directors					
Eric S. Ende, 66**	Director, President & Chief Investment Officer	2000	Partner of FPA (since October 2006). Director, President and Portfolio Manager of FPA Paramount Fund, Inc. and of FPA Perennial Fund, Inc., and Vice President of FPA Capital Fund, Inc., of FPA New Income, Inc., and of FPA Funds Trust's FPA Crescent Fund (4). Formerly, Senior Vice President of First Pacific Advisors, Inc. (1994 to September 2006).	3	0

* The address for each director is 11400 West Olympic Boulevard, Suite 1200, Los Angeles, California 90064-1550.

** "Interested person" within the meaning of the Investment Company Act of 1940 ("Act" or "1940 Act") by virtue of his affiliation with FPA.

(1) Member of the Audit Committee of the Board of Directors.

(2) Member of the Corporate Responsibility Committee of the Board of Directors.

(3) Director elected by the holders of the Preferred Stock.

(4) FPA Capital Fund, Inc., FPA New Income, Inc., FPA Paramount Fund, Inc., FPA Perennial Fund, Inc., and FPA Funds Trust's FPA Crescent Fund are other investment companies advised by FPA. See "Information Concerning FPA" herein.

(5) "Principal Occupation" includes all positions held with affiliates of the Fund during the past five years.

All nominees have consented to being named in this Proxy Statement and have indicated their intention to serve if elected. Should any nominee for director withdraw or otherwise become unavailable for reasons not presently known, it is intended that the proxy holders will vote for the election of such other person or persons as the Board of Directors may designate.

The Board of Directors has designated the five members identified by footnote (1) to the preceding table as the Audit Committee of the Board. All members of the Audit Committee are "independent," as that term is defined in the applicable listing standards of the New York Stock Exchange ("NYSE"). No member is considered an "interested person" of the Fund within the meaning of the 1940 Act. The Audit Committee makes recommendations to the Board of Directors concerning the selection of the Fund's independent registered public accounting firm and reviews with such firm the results of the annual audit, including the scope of auditing procedures, the adequacy of internal controls and compliance by the Fund with the accounting, recording, and financial reporting requirements of the 1940 Act. In each instance, before an accountant has been engaged by the Fund, the engagement has been approved by the Audit Committee. The Audit Committee met four times during the last fiscal year. Willard H. Altman, Jr. and Thomas P. Merrick, each a member of the Audit Committee of the Fund, also serve as a member of the Audit Committees of FPA Capital Fund, Inc., FPA New Income, Inc., FPA Paramount Fund, Inc., FPA Perennial Fund, Inc., and FPA Funds Trust's FPA Crescent Fund, all of which are registered open-end investment companies. Patrick B. Purcell, a member of the Audit Committee of the Fund, also serves as a member of the Audit Committee of FPA Capital Fund, Inc., FPA New Income, Inc., and FPA Funds Trust's FPA Crescent Fund. FPA is the investment adviser of the Fund and each of the registered open-end investment companies named above. The Board of Directors of the Fund, at a meeting held on August 2, 2010, considered the matter of simultaneous service, and determined that Messrs. Altman's, Merrick's, and Purcell's simultaneous service as a member of those Audit Committees does not impair their ability to serve on the Audit Committee of the Fund. The responsibilities of the Audit Committee are set forth in the Audit Committee Charter, which is available on the Fund's website, www.fpafunds.com, and is available without charge, upon request, by calling (800) 982-4372.

The Board recommends that shareholders vote FOR the nominated directors.

AUDIT COMMITTEE REPORT

To the Board of Directors
of Source Capital, Inc.: February 11, 2011

Our Committee has reviewed and discussed with management of the Fund and Deloitte & Touche LLP, the independent registered public accounting firm of the Fund, the audited financial statements of the Fund as of December 31, 2010, and the financial highlights for the year then ended (the "Audited Financial Statements"). In addition, we have discussed with Deloitte & Touche LLP the matters required by Codification of Statements on Auditing Standards No. 114 regarding communications with audit committees.

The Committee also has received and reviewed the written disclosures and the letter from Deloitte & Touche LLP required by Public Company Accounting Oversight Board (United States) Ethics and Independence Rule 3526 (Communication with Audit Committees Concerning Independence), and we have discussed with that firm its independence from the Fund and its adviser. We also have discussed with management of the Fund and the independent registered public accounting firm such other matters and received such assurances from them as we deemed appropriate.

Management is responsible for the Fund's internal controls and the financial reporting process. Deloitte & Touche LLP is responsible for performing an independent audit of the Fund's financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The Committee's responsibility is to monitor and oversee these processes.

Based on the foregoing review and discussions and a review of the report of Deloitte & Touche LLP with respect to the Audited Financial Statements, and relying thereon, we have recommended to the Fund's Board of Directors the inclusion of the Audited Financial Statements in the Fund's Annual Report to Shareholders for the year ended December 31, 2010, for filing with the Securities and Exchange Commission.

Audit Committee:

David Rees, Chairman
Willard H. Altman, Jr.
Thomas P. Merrick
Patrick B. Purcell
Paul G. Schloemer

The Board of Directors has designated the five members identified by footnote (2) to the preceding table as the Corporate Responsibility Committee. All members of the Corporate Responsibility Committee are "independent," as that term is defined in the applicable listing standards of the NYSE. No member is considered an "interested person" of the Fund within the meaning of the 1940 Act. The Corporate Responsibility Committee recommends to the full Board of Directors nominees for election as directors of the Fund to fill vacancies on the Board, when and as they occur. While the Corporate Responsibility Committee expects to be able to identify from its own resources an ample number of qualified candidates, it will review recommendations from shareholders of persons to be considered as nominees to fill future vacancies. The determination of nominees recommended by the Corporate Responsibility Committee is within the sole discretion of the Corporate Responsibility Committee, and the final selection of nominees is within the sole discretion of the Board. Therefore, no assurance can be given that persons recommended by shareholders will be nominated as directors. The responsibilities of the Corporate Responsibility Committee are set forth in the Corporate Responsibility Committee Charter, a copy of which is attached as Exhibit A hereto. The Corporate Responsibility Committee met four times during the last fiscal year.

The Corporate Responsibility Committee is responsible for searching for director candidates that meet the evolving needs of the Board of Directors. Director candidates must have the highest personal and professional ethics and integrity. Additional criteria weighed by the Corporate Responsibility Committee in the director identification and selection process include the relevance of a candidate's experience in investment company and/or public company businesses, enterprise or business leadership and managerial experience, broad economic and policy knowledge, the candidate's independence from conflict or direct economic relationship with the Fund, financial literacy and knowledge, and the candidate's ability and willingness to devote the proper time to prepare for, attend and participate in discussions in meetings. The Committee also takes into account whether a candidate satisfies the criteria for independence under the rules and regulations of the 1940 Act and of the NYSE, and if a nominee is sought for service on the Audit Committee, the financial and accounting expertise of a candidate, including whether the candidate would qualify as an Audit Committee financial expert. While the Corporate Responsibility Committee does not have a formal policy respecting diversity on the Board of Directors, consideration is given to nominating persons with different perspectives and experience to enhance the deliberation and decision-making processes of the Board of Directors.

During 2010, the Board of Directors held five meetings. Each director attended more than 75% of the aggregate of (1) the total number of meetings of the Board of Directors and (2) the total number of meetings held by all Committees of the Board on which they served. All of the directors attended the Fund's prior year's annual meeting.

Corporate Governance

As noted above, the Fund has adopted a charter for both its Audit Committee and Corporate Responsibility Committee. The Board has also adopted a Code of Ethics, which applies to, among others, all of the Fund's officers and directors, as well as a Code of Ethics for Senior Executive and Financial Officers that applies to and has been signed by all officers of the Fund, including the Principal Executive Officer and Principal Financial Officer of the Fund. These materials are available on the website of the Securities and Exchange Commission, www.sec.gov, or without charge, upon request, by calling (800) 982-4372.

The Board of Directors and Its Leadership Structure

The Board of Directors has general oversight responsibility with respect to the Fund's business and affairs. Although the Board has delegated day-to-day oversight to the Adviser, all Fund operations are supervised by the Fund's Board, which meets quarterly.

The Board is currently composed of six directors, including five directors who are not "interested persons" of the Fund, as that term is defined in the 1940 Act (each an "Independent Director"). The Board holds executive sessions (with and without partners and/or employees of the Adviser) in connection with its regularly scheduled Board meetings, and the Independent Directors frequently correspond with each other in between meetings to discuss specific matters that may require attention at or prior to the Board's next regularly scheduled meeting. The Audit Committee of the Board of Directors meets quarterly at regularly scheduled meetings and the Corporate Responsibility Committee meets at least twice a year. The Independent Directors have retained "independent legal counsel" as defined in the 1940 Act.

The Board has not appointed a Chairman of the Board. J. Richard Atwood, Treasurer of the Fund and an interested person, acts as chairman at meetings of the Board (other than executive sessions). In such a capacity, Mr. Atwood also initiates the preparation of the agenda for Board meetings (with input from the Independent Directors), determines which matters need to be acted upon by the Board, and seeks to ensure that the Board obtains all the information necessary to perform its functions and take actions. Mr. Atwood also acts, with the assistance of staff, as a liaison with service providers, officers, attorneys, and the Independent Directors between meetings. The Board has determined that formally designating an Independent Director to serve as Chairman of the Board or "lead" Independent Director is not desirable at the present time. Rather, the Board believes that it is in the best interests of the Fund to review these determinations from time to time based upon the then-existing position and direction of the Fund and the membership of the Board. Considering its present composition, the Board believes that its current structure ensures a greater shared role for the Independent Directors in the oversight of the Fund's business and affairs and active participation of the Independent Directors in helping to set agendas and establish Board priorities and procedures.

The Board of Directors has delegated day-to-day Fund management and risk oversight to the Adviser, which is responsible for managing all Fund operations and the Fund's risk management processes. The Board oversees the processes implemented by the Adviser or other service providers to manage relevant risks and considers risk management issues as part of its responsibilities throughout the year at regular meetings. The Audit Committee also considers risk management issues affecting the Fund's financial reporting and controls at its regular meetings throughout the year. The Adviser and other service providers prepare regular reports for Board and Audit Committee meetings that address a variety of risk-related matters, and the Board as a whole or the Audit Committee may also receive special written reports or presentations on a variety of risk issues at their request. For example, the portfolio managers of the Fund meet regularly with the Board to discuss portfolio performance, including investment risk, counterparty risk and the impact on the Fund of investments in particular securities. The Adviser also prepares reports for the Board regarding various issues, including valuation and liquidity.

The Board has also appointed a chief compliance officer ("CCO") for the Fund. The CCO reports directly to the Board and participates in the meetings of the Board. The Independent Directors meet quarterly in executive session with the CCO, and the CCO prepares and presents periodic written compliance reports which update compliance activities to date and results thereon. Additionally, the CCO presents an annual report to the Board in accordance with the Fund's compliance policies and procedures. The CCO would report any material risk, should it arise to the Board. The CCO is also the CCO of the Adviser.

Shareholders wishing to communicate with the Board may do so by sending a written communication to the Secretary of the Fund, at the following address: 11400 West Olympic Boulevard, Suite 1200, Los Angeles, California 90064-1550.

The Fund's directors and officers are required to file reports with the Securities and Exchange Commission and the NYSE concerning their ownership and changes in ownership of the Fund's Common and Preferred Stock. Based on its review of such reports, the Fund believes that all filing requirements were met by its directors and officers during 2010.

During 2010, the Fund did not pay any salaries directly to officers but paid an investment advisory fee to FPA. The following information relates to director compensation. During 2010, each director who was not an interested person of FPA was compensated by the Fund at the rate of \$22,000 per year plus a fee of \$2,000 per day for Board of Directors meetings attended, a fee of \$500 per day to the Chairman of the Audit and Chairman of the Corporate Responsibility Committees for Committee meetings attended, a fee of \$1,250 per day for Committee meetings attended on a day other than a Board meeting, and \$500 per day for Special Board of Directors or Committee meetings held and attended via telephone conference. The five directors who were not interested persons of FPA received total directors' fees of \$156,000 for 2010. Each such director is also reimbursed for out-of-pocket expenses incurred as a director.

Name	Aggregate Compensation* From the Fund	Total Compensation* From All FPA Funds, Including the Fund
"Non-Interested" Directors		
Willard H. Altman, Jr.	\$ 30,000	\$ 114,000**
Thomas P. Merrick	30,000	102,000**
Patrick B. Purcell (elected May 2010)	22,500	70,500***
David Rees	32,000	32,000
Paul G. Schloemer	32,000	32,000
	9,500	43,000**

Lawrence J. Sheehan (retired
May 2010)

"Interested" Directors

Eric S. Ende	0	0
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* No pension or retirement benefits are provided to directors by the Fund or the FPA Funds.

** Includes compensation from the Fund and from five open-end investment companies.

*** Includes compensation from the Fund and from three open-end investment companies.

Fund Shares Owned by Directors and Nominees as of March 4, 2011*

Name	Common Shares Held	Preferred Shares Held	Dollar Range of Fund Shares Owned	Aggregate Dollar Ranges of Shares Owned in All FPA Funds Overseen by Director
"Non-Interested" Directors				
Willard H. Altman, Jr.	1,050	3,000	Over \$100,000	Over \$100,000
Thomas P. Merrick	400	none	\$10,001 to \$50,000	Over \$100,000
Patrick B. Purcell	2,128	none	Over \$100,000	Over \$100,000
David Rees	9,469	240	Over \$100,000	Over \$100,000
Paul G. Schloemer	1,939	340	Over \$100,000	Over \$100,000
"Interested" Directors				
Eric S. Ende	5,972	none	Over \$100,000	Over \$100,000

* All officers and directors of the Fund as a group owned beneficially less than 1% of the outstanding shares of Common Stock and Preferred Stock of the Fund.

The following information relates to the executive officers of the Fund who are not directors of the Fund. Each officer also serves as an officer of FPA. The business address of each of the following officers is 11400 West Olympic Boulevard, Suite 1200, Los Angeles, California 90064-1550.

Name and Position With Fund	Principal Occupation During Past Five Years (1)	Age	Officer Since
Steven R. Geist (Executive Vice President & Portfolio Manager)	Partner of FPA (since October 2006). Mr. Geist also serves as Executive Vice President and Portfolio Manager of FPA Paramount Fund, Inc. and of FPA Perennial Fund, Inc. Vice President of First Pacific Advisors, Inc. from 1994 to September 2006; and Senior Vice President and Fixed-Income Manager of the Fund from 1999 to November 2006.	57	1996
J. Richard Atwood (Treasurer)	Managing Partner, Chief Operating Officer, Chief Financial Officer and Treasurer of FPA (since October 2006); and Director, President, Chief Executive Officer, Chief Financial Officer and Treasurer for more than the past five years, and Chief Compliance Officer (since August 2004), of FPA Fund Distributors, Inc. ("Fund Distributors"). Mr. Atwood also serves as Treasurer of FPA Capital Fund, Inc., of FPA New Income, Inc., of FPA Paramount Fund, Inc., of FPA Perennial Fund, Inc., and of FPA Funds Trust's FPA Crescent Fund. Director, Principal, Chief Operating Officer and Chief Financial Officer (from 1997) of First Pacific Advisors, Inc. from 2000 to September 2006.	50	1997
Sherry Sasaki (Secretary)	Assistant Vice President and Secretary of FPA (since October 2006); and Secretary of Fund Distributors for more than the past five years. Ms. Sasaki also serves as Secretary of FPA Capital Fund, Inc., of FPA New Income, Inc., of FPA Paramount Fund, Inc., of FPA Perennial Fund, Inc., and of FPA Funds Trust's FPA Crescent Fund. Assistant Vice President (from 1992) and Secretary (from 1991) of First Pacific Advisors, Inc. to September 2006.	56	1982
Christopher H. Thomas (Chief Compliance Officer)	Vice President and Chief Compliance Officer of FPA (since October 2006); Director, Vice President and Controller for more than the past five years of Fund Distributors; and Chief Compliance Officer (since August 2004) of FPA Capital Fund, Inc., of FPA New Income, Inc., of FPA Funds Trust's FPA Crescent Fund, of FPA Paramount Fund, Inc. and of FPA Perennial Fund, Inc. Controller from 1995 to 2005, and Vice President (from 1995) and Chief Compliance Officer (from 2004) of First Pacific Advisors, Inc. to September 2006; and Assistant Treasurer of the Fund, of FPA Capital Fund, Inc., of FPA New Income, Inc., of FPA Funds Trust's FPA Crescent Fund (from September 2002), of FPA Paramount Fund, Inc. and of FPA Perennial Fund, Inc. from 1995 to February 2006.	54	1995

(1) "Principal Occupation" includes all positions held with affiliates of the Fund during the past five years.

Information Concerning Independent Registered Public Accounting Firm

The Board of Directors, including a majority of the directors who are not considered "interested persons" of the Fund as defined in the 1940 Act (the "Independent Board Members"), has selected Deloitte & Touche LLP to serve as the

Fund's independent registered public accounting firm for the fiscal year ending December 31, 2011. The employment of such firm is conditioned upon the right of the Fund, by vote of a majority of its outstanding voting securities, to terminate such employment forthwith without any penalty. Deloitte & Touche LLP has served as the independent registered public accounting firm for the Fund since November 11, 2002. Representatives of Deloitte & Touche LLP are expected to be present at the Meeting, with the opportunity to make a statement if they desire to do so, and such representatives are expected to be available to respond to any appropriate questions from shareholders.

Audit Fees

Aggregate fees paid to Deloitte & Touche LLP for professional services for the audits of the Fund's annual financial statements during the fiscal years ended December 31, 2009 and 2010, and the reviews of the financial statements included in the Fund's filings on Form N-SAR for those fiscal years, was \$36,700 for each year, respectively.

Tax Fees

Aggregate fees for tax services provided by Deloitte & Touche LLP to the Fund during the 2009 and 2010 fiscal years was \$7,150 for each year, respectively, in connection with the preparation and review of the federal and state tax returns for the Fund.

No other services were provided to the Fund by Deloitte & Touche LLP.

2. CONTINUATION OF THE INVESTMENT ADVISORY AGREEMENT

First Pacific Advisors, LLC ("FPA" or "Adviser"), a Delaware limited liability company, maintains its principal office at 11400 West Olympic Boulevard, Suite 1200, Los Angeles, California 90064. It provides investment management and advisory services to the Fund pursuant to an investment advisory agreement, dated October 1, 2006 ("Advisory Agreement"), the continuation of which was approved by shareholders of the Company on May 3, 2010. The Advisory Agreement provides that it may be renewed from year to year by (i) the Board of Directors of the Fund or by the vote of a majority (as defined in the Act) of the outstanding voting securities of the Fund, and (ii) by the vote of a majority of Independent Board Members cast in person at a meeting called for the purpose of voting on such approval. The continuance of the Advisory Agreement through April 30, 2012, has been approved by the Board of Directors and by a majority of the Independent Board Members. The Board of Directors recommends approval by shareholders of such continuance. Such approval requires the affirmative vote of (a) 67% or more of the voting securities represented at the meeting, if more than 50% of the outstanding voting securities are present or represented by proxy, or (b) more than 50% of all outstanding voting securities, whichever is less.

Under the Advisory Agreement, the Fund retains the Adviser to manage the investment of the Fund's assets, including the placing of orders for the purchase and sale of portfolio securities. The Adviser agrees to obtain and evaluate economic, statistical and financial information to formulate and implement the Fund's investment programs. In addition to providing management and investment advisory services, the Adviser furnishes office space, facilities, and equipment. It also compensates all officers and other personnel of the Fund except directors who are not affiliated with the Adviser.

For providing these services, the Adviser receives a monthly fee equal to 1/12 of the annualized percentage indicated below of total net assets. The annualized percentage is determined by the total net assets of the Fund on the last business day of each month, in accordance with the following table:

0.725% for the first \$100 million of total net assets;

0.700% for the next \$100 million of total net assets; and

0.675% for the total net assets over \$200 million.

This fee is higher than the fee paid by some other investment companies. For 2010, the Adviser received \$3,486,676 in advisory fees from the Company. The Fund's average net assets during the fiscal year were \$505,142,822. The total net assets of the Fund were \$577,534,615 on December 31, 2010.

The Adviser provides, at its expense, personnel to serve as officers of the Fund and office space, facilities, and equipment for managing the affairs of the Fund. All other expenses incurred in the operation of the Fund are borne by the Fund. Expenses incurred by the Fund include brokerage commissions on portfolio transactions, fees and expenses of directors who are not affiliated with the Adviser, taxes, transfer agent fees, dividend disbursement and reinvestment and custodian fees, auditing and legal fees, the cost of printing and mailing reports and proxy materials to shareholders, expenses of printing and engraving stock certificates, expense of trade association memberships, and advertising and public relations expenses. No advertising or public relations expenses have been incurred by the Fund except in connection with shareholder relations and shareholder communications.

The Advisory Agreement includes a provision for a reduction in the advisory fees payable to the Adviser in the amount by which certain defined operating expenses of the Fund for any fiscal year exceed 1.5% of the first \$30 million of average total net assets of the Fund, plus 1% of the remaining average total net assets. Operating expenses, as defined in the Advisory Agreement, exclude interest, taxes, any expenditures for brokerage services, any

uncapitalized legal expenses relating to specific portfolio securities or any proposed acquisition or disposition thereof, and extraordinary expenses such as those of litigation, merger, reorganization, or recapitalization. All expenditures, including costs incurred in connection with the purchase, holding, or sale of portfolio securities, which are capitalized in accordance with generally accepted accounting principles applicable to investment companies, are accounted for as capital items and not as expenses. This expense limitation provision does not require any payment by the Adviser beyond the return of the advisory fees for a fiscal year.

The Advisory Agreement provides that the Adviser shall have no liability to the Fund or any shareholders of the Fund for any error of judgment, mistake of law, or any loss arising out of any investment, or for any other act or omission in the performance by the Adviser of its duties under the Advisory Agreement, except for liability resulting from willful misfeasance, bad faith, or negligence on the part of the Adviser or the reckless disregard of its duties under the Advisory Agreement. The Advisory Agreement may be terminated without penalty by the Board of Directors of the Fund or the vote of a majority (as defined in the Act) of the outstanding voting securities of the Fund upon 60 days' written notice to the Adviser or by the Adviser upon like notice to the Fund. The Advisory Agreement will automatically terminate in the event of its assignment, as that term is defined in the Act.

In determining whether to renew the Advisory Agreement, the Independent Board Members met separately to evaluate information provided by the Adviser in accordance with the 1940 Act and to determine their recommendation to the full Board of Directors. The following paragraphs summarize the material information and factors considered by the Board of Directors at a meeting held on February 7, 2011, as well as their conclusions relative to such factors.

Nature, Extent and Quality of Services. The Board and the Independent Directors considered information regarding the Adviser and its staffing in connection with the Fund, including the Fund's portfolio managers and the senior analyst on their team, the scope of accounting, administrative, shareholder, and other services supervised and provided by the Adviser, and the absence of any significant service problems reported to the Board. The Board noted the experience, length of service, and the reputation of the Fund's portfolio managers, Eric Ende and Steven Geist, who have managed the Fund since 1996. The Board and the Independent Directors concluded that the nature, extent, and quality of services provided by the Adviser have benefited and should continue to benefit the Fund and its shareholders.

Investment Performance. The Board and the Independent Directors reviewed the overall investment performance of the Fund. They also received information from an independent consultant, Lipper Inc. ("Lipper"), regarding the Fund's performance relative to a peer group of other value funds selected by Lipper (the "Peer Group"). They noted the Fund's competitive longer-term investment performance when compared to the Peer Group. They further concluded that the Adviser's continued management of the Fund should benefit the Company and its shareholders.

Advisory Fees and Company Expenses; Adviser Profitability; Economies of Scale and Sharing of Economies of Scale. The Board and the Independent Directors were provided information by the Adviser to enable consideration of the Fund's advisory fees and total expense levels, as well as the overall profitability of the Adviser, the benefits to the Adviser from its relationship to the Fund, the extent to which economies of scale with respect to the management of the Fund, if any, would be realized, and whether the Fund is sharing, or will share, in those economies.

The Board and the Independent Directors reviewed comparative information relative to fees and expenses for the mutual Fund industry generally and for the Peer Group. The Board and the Independent Directors noted that the Fund's fees and expenses were at the lower end of the range for the Peer Group. The Board and the Independent Directors noted that the overall expense ratio of the Fund was also at the lower end of the range when compared to the Peer Group. The Board and the Independent Directors noted that the fee rate charged to the Fund at its current asset level is similar to the fee rate charged by the Adviser on the other products managed in a similar style by the portfolio managers. The Board and the Independent Directors concluded that the overall fee rate was reasonable and fair to the Fund and its shareholders in light of the nature and quality of the services provided by the Adviser. The Board and the Independent Directors considered whether there have been economies of scale with respect to the management of the Fund, whether the Fund has appropriately benefited from any economies of scale, and whether the fee rate is reasonable in relation to the Fund's assets and any economies of scale that may exist. The Independent Directors discussed the fact that the fee structure does not have any additional breakpoints. The mutual fund industry has trended toward companies having breakpoints in the advisory fee structure as a means by which to share in economies of scale as a company's assets grow; however, not all funds have breakpoints in their fee structures. The Adviser stated its belief that additional breakpoints currently were not appropriate for the Fund and that no meaningful income and expense forecasts for its business could be prepared given uncertainties regarding the direction of the economy, rising inflation, increasing costs for personnel and systems, and growth (or not) in the Fund's assets, all of which could negatively impact the Adviser. In addition, since the Fund is a closed-end fund, and based upon the Fund's current operating policies, the ability to raise additional assets is limited. The Board and the Independent Directors noted that the Adviser had not increased the fee rate charged to the Fund despite the Adviser's claims of increases in the Adviser's internal costs of providing investment management services to the Fund, in part due to administrative burdens and expenses resulting from recent legislative and regulatory actions such as Sarbanes-Oxley. According to the Adviser, such increased costs have included a significant investment in the senior analyst who assists with the management of the Fund, additions to administrative personnel and systems that enhance the quality of services provided to the Fund and the establishment of a full-time Chief Compliance Officer and his assistant. The Board and the Independent Directors also noted that asset levels of the Fund are currently lower than they were three years ago, yet the Adviser has continued to make investments in personnel servicing the Fund.

Conclusions. The Board and the Independent Directors deter