LETTER TO SHAREHOLDERS

Dear Fellow Shareholders:

This Semi-Annual Report covers the six-month period ended March 31, 2008. Your Fund's net asset value (NAV) closed at $11.15. Dividends of $0.13 and $0.14 were paid on October 4 and December 21, 2007, to holders of record on September 28 and December 14, 2007, respectively. There were no capital gains distributions.

The following table shows the average annual total return for several different periods ended on that date for the Fund and comparative indices of securities prices. The data quoted represents past performance, and an investment in the Fund may fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost.

	Periods Ended March 31, 2008					
	1 Year	5 Years	10 Years	15 Years	20 Years	FPA Inception 7/1/84
FPA New Income (NAV)	6.49%*	4.79%*	5.61%*	6.31%*	7.56%*	9.11%*
FPA New Income (Net of Sales Charge)	2.77%**	4.04%**	5.23%**	6.06%**	7.36%**	8.95%**
Lipper A-Rated Bond Fund Average	3.28%	3.76%	4.98%	5.66%	7.03%	NA
Lehman Brothers Govt/Credit Index	8.35%	4.62%	6.12%	6.40%	7.51%	8.77%

The Fund's total rate of return for the six months was 3.60%* versus 1.94% and 1.87% for the Lipper Average and the Lehman Brothers Index, respectively. For the quarter ended March 31, 2008, your Fund's return was 1.83%, versus 0.19% for the Lipper Average and 2.53% for the Lehman Brothers Index. For the calendar year ended December 31, 2007, total returns were: FPA New Income, Inc., 6.03%*; Lipper Average, 4.47%; and the Lehman Index, 7.23%.

Commentary

It has been a wild ride in the debt markets for the past six months and year and we are pleased that your Fund's performance and stability have allowed most of you to sleep at night. In last year's semi-annual report we included, for the first time, a Special Commentary section to highlight various issues and risks that we saw developing in the capital markets. We thought it was extremely important to pay particular attention to these issues since we were of the opinion that "the word 'risk' does not seem to in the vocabulary of many investors." This section provided the basis for my speech, "Absence of Fear," that I gave to the CFA Society of Chicago on June 28. Since that time, the credit market has experienced the most severe disruption since the Great Depression and RISK has re-emerged into investor thinking.

Your Fund has avoided all the carnage that has taken place within the debt markets. For this reporting period, your Fund's 3.60% total return compares very favorably to the 1.94% and 1.87% total returns for the Lipper Average and the Lehman Brothers Index. This period was among the most calamitous ones for the debt market since the Great Depression. Many shareholders, individuals and corporations, learned that their fund holdings were not what they thought they were. Several funds experienced disruptions in their pricing capability or they held securities that were no longer able to be traded or valued. The dangers and risk of stretching for yield during these past few years by investors and bond fund managers has finally come home to roost. We are more than pleased to report that your Fund experienced none of these problems. For more than two years, your fixed-income management team has been culling out both credit and structure risk from your Fund's portfolio. In some cases, this has meant that we had to settle for a lower yield but we were convinced that we were not being adequately compensated for risk through a sufficiently high yield. You might say that we were "out of step" with much of the investment industry.

* Does not reflect deduction of the sales charge which, if reflected, would reduce the performance shown

** Reflects deduction of the maximum sales charge of 3.5% of the offering price

For the year ended March 31, 2008, your Fund has underperformed the Lehman Brothers Index by a wide margin, 6.49% versus 8.35%, though it has substantially outperformed the Lipper Index by a wide margin, 6.49% versus 3.28%. The reason for these differences in performance is the amount of Treasury securities a fund and index holds. During this period, five- and ten-year Treasury bond yields fell 2.09% and 1.23%, respectively. The decline in yields was even more pronounced for the three-month Treasury bill yield, with a decline of 3.71%. From a total return perspective, Treasury bonds, with a maturity between one and three years, produced a 8.99% total return while those with maturities between seven and ten years blew the lights out with a 15% return. Meanwhile, corporate bonds rated "A" and higher achieved only a 2.67% return while mortgage securities performed better with a 7.97% return. The differences in performance between Treasury securities, corporate bonds and mortgages reflect a flight to quality by investors who were afraid of the debt market chaos. Your Fund owned Treasury securities but they were primarily in the three-month range and thus, they did not achieve the performance of longer-term Treasury securities. Our focus was directed to Agency securities within the two- to three-year maturity range. These did perform quite well, with the Merrill Lynch Government Agency 1-3 Year Index producing a 8.11% total return. Our large liquidity exposure, money markets and bonds with maturities of less than one year, which represented 41% as of 3/31/07, held back the Fund's performance. As of March 31, 2008, liquidity represented 44%.

Your Fund has not and will not stretch for yield. It is at its highest weighted-average credit quality ever, with AAA or higher-rated securities representing nearly 95% of the Fund. A record low 0.4% is invested in high-yield securities. Within these totals, we have included the underlying credit grades of the commercial paper securities that we own. Money-market securities represent 25%. Government/Agency securities total 69% and are included in the 95% total.

During the one-year period ended March 31, 2008, your Fund's duration, a measure of portfolio volatility, declined from one year to 0.82 years. By comparison to other intermediate high-quality bond funds and the major bond indexes, your Fund's duration is incredibly short and, thus, your Fund is well protected from the negative effects of a rise in interest rates. The bigger the duration number, the more volatile an index or a fund will be. The Lehman Brothers Index has a duration of 5.37 years as of March 31.

Has our short duration hurt your Fund's performance over a longer period of measurement? On June 11, 2003, we wrote "Buyer's Strike," where we argued that there was little, if any, value in longer-term bonds, especially Treasury securities. Since that time, your Fund's duration has averaged approximately one year with a low of 0.5 years. As you can see, the current portfolio duration is close to the lowest it has ever been. For the period June 11, 2003 to March 31, 2008, your Fund's total return was 4.64% while that of the Merrill Lynch Corporate & Government Master Index (this index compares very closely to the Lehman Brothers Index but we can get the daily returns for it while for the Lehman Index we cannot) was a 3.78% total return. As of March 31, 2003, the Merrill Index duration was 5.28 years versus 1.19 years for your Fund. In essence, your Fund achieved 123% of the Merrill Index return after its expenses, approximately 0.61%, while starting with and averaging a duration that was approximately ⅕ of the index. The Fund produced a higher return while taking considerably less volatility risk. We believe that our conservative management style and philosophy will continue to serve our shareholders quite well through these high-volatility and chaotic markets.

For over two years, we have been warning about the credit excesses building within the U.S. economy. It began with our September 30, 2005 Letter to Shareholders. We sounded the alarm in March 2007 and have continued to express our rising concern ever since. We have updated our viewpoints with various commentaries that are on our website at www.fpafunds.com that include: "Absence of Fear" June 28, 2007; "Credit Crisis" January 22, 2008; and "Crossing the Rubicon" March 30, 2008. We urge all of you to read these because they provide a more

in-depth analysis of this credit crisis than what can be conveyed in a shareholder letter.

In our opinion, from the beginning of this credit crisis, the Fed has been behind the curve and did not fully comprehend the seriousness or the nature of the situation until sometime in January. Federal Reserve Chairman Bernanke gave us this impression in his Congressional testimony and public speeches. He expressed his and the Fed's opinion that there would be no contagion to other areas of the financial system from the subprime mortgage collapse. As recently as last August, the Fed's minutes of their meetings reflect a view of continued moderate economic growth.

Since the Fed took its extraordinary actions between March 11 and 16, the creation of two primary dealer credit facilities and the forced Bear Stearns marriage with JPMorgan Chase, there appears to be a sense within the financial markets that the credit crisis peak has passed and that we are on the road to recovery and normality. We do not share that opinion. There has been a gradual contraction in capital market credit spreads within some segments of the bond market; however, we believe we have a very long road to go before this economy and the credit markets return to some degree of normalcy. There are a few debt market transactions occurring in areas of stress but not to any significant degree. Some have referred to the narrowing of the spread between Libor and the Fed Funds rate, from its extremely wide levels of September and December, as an indication of easing in credit market conditions. This may be developing but there have been reports concerning the manipulation of the Libor rate and that it may have been held down by some members reporting artificially narrow or false reports. There is another way to evaluate the capital market's stress and that is by comparing the futures market rate for three-month Fed Funds versus three-month Libor via the currency market. This index appears to be less influenced by these particular issues. It did indicate an easing of stress conditions after the March 16 Fed actions but since then, the index has begun to rise again to a level close to the peaks of September and December. We are watching this for any indication that there may be additional financial company disruptions. Finally, the three-month T-bill yield still remains at a substantial discount to the Fed Funds rate, thereby indicating a continuing flight to liquidity and quality.

Outlook

It took the Greenspan Fed lowering of the Fed Funds rate to a record low level of 1% and keeping it in the 1% range for nearly three years, plus an explosion in structured-finance issuance and the emergence of consumer home-equity withdrawals to stimulate the U.S. economy. With these three major drivers, nominal and real GDP growth from December 31, 2002 through December 31, 2007 averaged 5.67% and 2.93%, respectively. In the next five years, we believe it is unlikely that structured-finance creation and mortgage equity withdrawal will be even remotely close to the levels we just witnessed in the preceding five years. Whether the capital markets realize it or not, with the collapse of these areas, and the greater restrictions that will likely be placed upon financial institutions, the U.S. economy should experience a structural reduction in credit availability. It was the explosion in non-bank credit creation that allowed the economy to expand in this last cycle. Even with capital contributions that are currently taking place, we are of the opinion that financial-company leverage ratios will be forced to be lowered and thus, capital availability is in a contracting phase and as such, economic growth will likely be constrained during this future period.

We believe investors are underestimating the magnitude of impact from the credit crisis and the hits to consumer psychology from declining home values and a 92% increase in oil prices since the beginning of 2007. The consumer is being hammered from all sides and this is reflected in consumer sentiment indexes that are at levels lower than the lows of 1990 and are now approaching the 1980-82 recession level. A key determinant of whether we will be proven correct in this assessment will be employment. Should employment trends continue to worsen, our negative scenario becomes more likely; however, the employment contraction should be less than in prior recession cycles since we did not experience a sizeable expansion in employment during the previous

recovery. In our opinion, the domestic economy is in recession. It may not be technically designated a recession because the international side of the economy could potentially keep the GDP reports slightly positive. We are not interested in technicalities but rather in reality and perception.

With slower economic growth, eroding corporate profit margins and constrained credit availability, it seems reasonable that the economy and the financial markets will likely experience a continuing high level of volatility. We have been more than slightly disturbed by the recent Fed actions and the prospective Congressional "rescue" (our term is bailout) mortgage policy actions. We have a heightened level of concern, as reflected by our conclusion in the "Crossing the Rubicon" commentary, which expects a higher level of inflation to be the outcome from actions taken by the Fed as well as the potential new policies that are likely to be implemented by Congress. In the next five years, we believe the odds favor a rise in inflation to a range between 3% and 5%. We do not believe this inflation range is expected by the capital markets since the five-year TIPS indicate an inflation level of approximately 2.4%. If we are correct, this level of inflation will not be positive for bonds since virtually all Treasury-bond maturities would generate negative real yields at current yield levels. Any small upward adjustment in yield would drive total rates of return into the less than 3% range. In light of this, we believe prospective bond-market returns will likely have difficulty beating the return of the Lehman Brothers Index's previous five-year total return of 4.62%. Your Fund's extremely short duration should protect the Fund well from the negative effects of rising interest rates, and our large liquidity holding will provide us the flexibility to invest at higher yields both in high-quality and high-yield securities. With those closing comments, Tom Atteberry will convey his thoughts to you.

Thomas H. Atteberry Commentary

As the subprime mortgage crisis unfolded during the summer of 2007, it was our opinion that it would not be contained to just that segment of the bond market but would in fact expand to encompass all of the residential mortgage market and to some degree the overall bond market. We felt it was not just a liquidity problem but would also involve solvency issues for some financial institutions. As we have seen in the past, those investors in trouble try as quickly as possible to raise cash and shrink their balance sheets in order to increase their chances of survival or mitigate the damage. What happens is they sell whichever assets are the easiest to sell, and that means the highest-quality assets are sold first.

Knowing that, we saw an opportunity to commit some capital during the past six months to these high-quality assets that were being sold in these "forced" liquidations. Our concentration was in the mortgage segment of the bond market and only with securities backed by FNMA, FHLMC or GNMA. We further focused on bonds issued prior to early 2006 and with a loan-to-value ratio less than 80%. From an average life standpoint we concentrated on those securities that we expect to have an average life between approximately 1.5 and 5 years. As a result, our expected yield-to-maturity would be in a range of 4.5% to 5%.

We want to continue to maintain an allocation to cash and equivalents around the 20% to 25% area so that we will have ample liquidity to take advantage of periods of time when there will be more forced selling of securities. Throughout the past six months there has been, at best, limited liquidity within the fixed-income markets. We do not want to be in a position to be a forced seller of bonds, as the price discount due to this limited liquidity is quite steep.

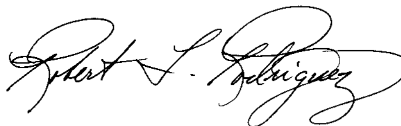
As we move forward through 2008, we expect to continue the acquisition of only high-quality assets. In the mortgage portion of the market the credit sensitive segment is still a very volatile arena. House prices continue to decline and it is our estimation that a further 10% to 20% decline in the median house price on a national basis during 2008 is not out of the question. Delinquencies, defaults and foreclosures continue to rise as the problems migrate from the subprime borrower to a higher-quality borrower in the Alt-A segment of the mortgage market to even the prime borrower. The inventory overhang in the home market continues to drag down prices as this number of

homes exceeds the number of buyers, thus resulting in a longer time on the market for homes for sale. It is our view this problem will persist into 2009.

From the perspective of the high-yield corporate-bond market, opportunities have not arrived yet either. While the yield-to-maturity and credit spread over the Treasury market are approaching attractive levels, it is still too early to commit capital. Traditionally, this market segment is attractive when defaults rise, and that does not happen until the latter stage of the recession. We need to see corporate defaults accelerate and investors capitulate before we find a wide variety of opportunities within the high-yield sector of the bond market.

We thank your for your patience, support and trust that you have demonstrated by your investment in FPA New Income during this challenging investment environment.

Respectfully submitted,



Robert L. Rodriguez
President and Chief Investment Officer

Thomas H. Atteberry
Vice President and Portfolio Manager

April 25, 2008

The discussion of Fund investments represents the views of the Fund's managers at the time of this report and are subject to change without notice. References to individual securities are for informational purposes only and should not be construed as recommendations to purchase or sell individual securities.

FORWARD LOOKING STATEMENT DISCLOSURE

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