We hope that investors will find FPA commentaries helpful to understand application of the same investment discipline in various markets, and can refer to particular items that interest them.

You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details the Fund's objective and policies, charges, and other matters of interest to the prospective investor. Please read this Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at www.fpafunds.com, by email at crm@fpafunds.com, toll-free by calling 1-800-982-4372 or by contacting the Fund in writing.

Average Annual Total Returns

As of March 31, 2014

Fund/Index	MTD	YTD	1 Year	3 Years**	5 Years**	10 Years**	15 Years**	20 Years**	Since 7/11/84**
FPA Capital	2.75%	6.01%	18.99%	8.39%	24.04%	8.88%	11.56%	13.35%	14.97%
Russell 2500	-0.36 %	2.30 %	24.01 %	13.95 %	25.33 %	9.43 %	10.19 %	11.02 %	12.07 %

** Annualized.
Inception for FPA Management was July 11, 1984.
A redemption fee of 2.00% will be imposed on redemptions within 90 days. Expense ratio calculated as of the date of the most recent prospectus is 0.83%.

Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. This data represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost. Current month-end performance data may be obtained by calling toll-free, 1-800-982-4372.

To view portfolio holdings from the most recent quarter end, please refer to the end of this document or at www.fpafunds.com.

Portfolio composition will change due to ongoing management of the fund. References to individual securities are for informational purposes only and should not be construed as recommendations by the Funds, Advisor or Distributor.

The views expressed and any forward-looking statements are as of the date of the publication and are those of the portfolio managers and/or the Advisor. Future events or results may vary significantly from those expressed and are subject to change at any time in response to changing circumstances and industry developments. This information and data has been prepared from sources believed reliable. The accuracy and completeness of the information cannot be guaranteed and is not a complete summary or statement of all available data.

The Russell 2500 Index consist of the 2,500 smallest companies in the Russell 3000 total capitalization universe offers investors access to the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 Value Index measures the performance of those Russell 2500 companies with lower price-to-book-ratios and lower forecasted growth values.

Indices are unmanaged and investors cannot invest directly in an index. These indices do not reflect any commissions or fees which would be incurred by an investor purchasing the stocks they represent. The performance of the Fund and of the Averages is computed on a total return basis which includes reinvestment of all distributions. S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The index focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, but is also considered a proxy for the total market.

Fund Risks

Investments in mutual funds carry risks and investors may lose principal value. Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The Fund may purchase foreign securities, including American Depository Receipts (ADRs) and other depository receipts, which are subject to interest rate, currency exchange rate, economic and political risks; this may be enhanced when investing in emerging markets. Small and mid cap stocks involve greater risks and they can fluctuate in price more than larger company stocks. Groups of stocks, such as value and growth, go in and out of favor which may cause certain funds to underperform other equity funds.

The FPA Funds are distributed by UMB Distribution Services, LLC, 803 W. Michigan Street, Milwaukee, WI, 53233.

Introduction

Just as night follows day and winter follows fall, it seems the market's returns are on an inexorable and predictable march to the next highest level. All of the major indices, except for the NASDAQ, reached record highs in the first quarter. While the pacing slowed in the March quarter compared to the torrid sprint in 2013, the Russell 2500 generated a 2.3% return. Despite the elevated cash levels, the Fund substantially outperformed the benchmark during the quarter, especially risk-adjusted. In addition, the Fund had an average P/E[1] of roughly 15x, substantially lower than the benchmark's 28x.

We would like to take this time to inform you that Arik Ahitov has been promoted to Portfolio Manager and will join me to help run our Small/Mid-Cap Absolute Value strategy. Furthermore, we recently hired Chris Moreno, who will join Nile Garritson as an analyst for our strategy. These investments in human resources are consistent with how FPA has always managed its business, and we look forward to great contributions from both Arik and Chris.

Market Commentary

While the major indices reached new highs in the first quarter, there was more volatility this quarter than the previous eight to ten quarters. For instance, at one point during the quarter the Russell 2500 was down over 5% for the year, only to rally roughly 10% from its intra-quarter low to close out the quarter with a positive return.

This increased volatility, particularly in January, allowed our investment team to allocate additional capital to a number of existing positions and initiate a new position in the Fund's portfolio. The market then rebounded in February and March, allowing us to trim back a number of positions and lock in profits for those shares sold. We will discuss the portfolio specifics for both the additions and reductions of stocks in the portfolio commentary section later in this letter.

Clients, consultants, and other investors have recently asked us about the cause of the increased volatility and whether we expect it to continue into the second quarter. Our response is that we have been expecting increased market volatility for the better part of a year and were somewhat surprised we did not see more volatility in 2013. When valuations are stretched as high as they are, at least for small/mid-cap and technology stocks (as of March 31, 2014, Russell 2500 was trading at 27.5x trailing P/E and S&P 500 at 18.6x), coupled with the Federal Reserve being in the process of altering its monetary policies, it should come as no great shocker that some investors will get concerned and reduce their risk exposures.

The antidote to rich valuations, of course, is strong earnings growth. Unfortunately, earnings growth was weak in 2013 and we do not foresee a sudden surge in the growth rate of earnings this year. The reason why we do not expect a large increase in the earnings growth rate is that corporate profit margins are very near post World War II highs and unlikely to materially improve from current levels. Moreover, the U.S. and global economies are unlikely to deviate much from their current growth trends, at least until more growth-friendly fiscal policies emerge from Washington and other world capitals.

The above opinion does not mean the U.S. economy is destined for a recession in 2014, nor does it imply earnings are going to crater this year. Our hazy, fuzzy crystal ball shows that the economy and earnings should grow at a modest rate this year, barring any major macro-economic event like a war in Europe, Asia, or the Mideast.

However, as we mentioned last quarter, corporate profit margins are roughly 350 basis points above their normalized levels. If margins decline merely 200 basis points over the next five years, corporate revenues

[1] Price/Earnings ratio (P/E) is the price of a stock divided by its earnings per share.

grow a couple of percent annually, and the P/E ratio for the Russell 2500 contracts to 15x, then the index could collapse 50% over the next five years.

So the onus is once again on global central bankers like the Federal Reserve and European Central Bank to try to stimulate the economy. While the Federal Reserve has recently telegraphed that it expects to continue to taper its Quantitative Easing III (QE) policies for the balance of the year, we would not be surprised if the Fed stopped short of tapering all the way, from its current $55 billion of monthly asset purchases. One reason why the Fed may slow or cease its current tapering program is that a reduction in the growth of liquidity could spell trouble for the stock market, and the Fed is, in our opinion, reluctant to see a substantial sell off in stocks over a short period of time.

Even if the Federal Reserve chooses to close out their current QE program by the end of the year, we continue to expect the Fed to hold short-term interest rates at very low levels well into 2015. Remember, the Fed's QE III policy is geared toward buying longer-dated securities like mortgages and ten-year treasuries. Thus, the Fed will likely remain in an accommodating position toward the banking sector keeping short-term rates low, in order to encourage faster nominal GDP growth.

We have stated our hypothesis in the past that the Fed's tapering program would increase volatility in the capital markets, but not necessarily have a direct impact on the economy. The prior paragraph mentions that QE III is geared toward longer-dated securities. So the question is who holds those securities? The holders are more likely to be pension plans and large global investors (including other central banks around the globe), and not as much your local bank. When pension plans and global investors sell their mortgage holdings and longer-dated treasuries they receive cash in exchange. They typically then look to buy another security with a similar or higher return than the mortgage or longer-dated treasury security they sold. In our opinion, a rising stock market has seduced a large number of these investors to increase their risk weighting, which has fueled an even higher stock market.

An investor recently asked us why the stock market hasn't crashed if the Fed is in the process of taking away the proverbial punch bowl. The answer is the Fed's tapering program is not taking away the punch bowl, it is merely adding less punch to the bowl. Think about it this way: when the Fed was buying $85 billion of securities per month last year it was in a way adding 85 gallons of liquid to the punch bowl, which allowed more people to drink or the same number of drinkers to drink more punch. Now the Fed is "only" buying $55 billion of securities, or adding 55 gallons of punch to the bowl. At the margin, fewer drinkers can be added around the punch bowl than when the 85 gallons were added a few months ago, or people will have to drink less to accommodate the same number of incremental drinkers that were added when the Fed poured 85 gallons of punch into the bowl.

If we play this out to a logical endgame and the Fed eventually ceases its purchasing activity, it is clear that ultimately there will be no incremental punch added for the party-goers to enjoy. Hence, as the Fed reduces its incremental security purchases, pension plans and other large global investors will have, at the margin, less cash coming in to buy riskier assets, all else being equal. This scenario combined with rich valuations engenders a more volatile environment, but not necessarily a full-fledged bear market.

Thus far, credit spreads have remained in a fairly tight band and have not widened out. This is consistent with our outlook for a more volatile market environment, but one where the economy can continue to grow –albeit, not at a rate that will substantially boost earnings growth. Should the Fed continue with its tapering program and completely stop buying longer-dated fixed income securities later this year, one should not be surprised if credit spreads widen from the current tight ranges.

In short, we are finally seeing increased volatility in the equity markets and we are in a strong position to capitalize on any small/mid-cap equity opportunity that meets our strict investment criteria. We expect the recent increased volatility to continue into the second quarter and beyond, as we believe the Federal Reserve will carry on with its tapering program and we foresee modest growth in corporate earnings.

Portfolio Commentary

Similar to the equity markets up and down behavior in the first quarter, the stocks in the Fund's portfolio also exhibited increased volatility. Roughly 75% of the stocks in the portfolio produced positive returns in the quarter while the balance experienced negative results. Interestingly, the energy stocks were both among the best and worst performers in the quarter. For example, Helmerich & Payne (HP), an on-shore drilling contractor, appreciated nearly 29% in the quarter, but SM Energy (SM), an oil & gas exploration & production company, declined 14%. Each of these stocks had their own individual reasons for behaving the way they did, and the overall equity market movement had very little influence on their respective stock prices.

We added to a number of existing positions in the quarter and started one new position, which is too small of a position to talk about at this point. Among the stocks that we added to in the quarter were Atwood Oceanics (ATW) and Ensco plc (ESV). Both of these companies are off-shore oil & gas drilling contractors.

ATW decreased almost 6% in the quarter as the market became increasingly concerned about the prices the company can charge to rent out its equipment to its customers. Atwood owns off-shore drilling rigs, some of which cost upwards of $600 million apiece to construct today. These $600 million rigs, typically very sophisticated drill ships, allow ATW's oil & gas exploration customers to drill in the ultra-deep waters (UDW) of the Gulf of Mexico, off the coast of western Africa, or in the deep waters of Brazil. These deep water basins, and other basins, hold the potential to extract over a hundred billion barrels of oil over the next few decades. However, these are very expensive and long-term projects, which not every oil company has access to or the capital to risk. Hence, ATW's drillships can potentially be rented out to a narrower group of customers than rigs for shallow water drilling (typically four-hundred feet of water depth), where the company's jack-up drilling rigs operate.

While there are a number of potentially large oil & gas reserves in the UDW, generally 7,500 feet of water or deeper, the timing of when these projects get started can be lumpy. Additionally, ATW is not the only drilling rig operator that sees this very large opportunity, so the company's competitors have also ordered new UDW drill ships. Thus, the market is concerned about a temporary supply and demand imbalance for UDW drill ships.

In our conservative analysis, we think UDW drill ship rental rates may fall from roughly $600,000/day, which is where day rates were in late 2013, to roughly $500,000 a day. In this downside scenario, ATW would earn close to $5.00 a share this year and over $7.00 a share in 2015 and 2016. This also assumes one of the company's semi-submersible rigs is idled later this year. With ATW trading in the mid $40s, we believe the risk-to-reward ratio warrants additional capital being deployed in the stock.

Ensco declined 6% in the quarter, for largely the same reasons that impacted Atwood. However, ESV has fewer UDW rigs as a percent of its total fleet than ATW, but ESV has more mid-water rigs that could experience lower day rates as newer deeper-water rigs potentially encroach into that space. With ESV's robust fleet of premium jack-up rigs working in various waters around the world, we expect the company to earn over $6 this year and nearly $7 next year. The company's current dividend yield is also over 6%, so investors are being paid to wait for a better industry environment. As you might expect, we recently added to our ESV position and would likely add more to the position should the stock weaken further.

Given the increased volatility in the quarter, with periods of stronger performance at the outset of the quarter and richer valuations again in March, we trimmed back a number of positions in the portfolio, but did not eliminate any of the positions.

Among the stocks we reduced in the quarter were Oshkosh (OSK) and Signet Jewelers (SIG). Both of these stocks also had strong performance in the quarter, with OSK appreciating 17% and SIG increasing more than 34%.

Oshkosh is an industrial company that makes large vehicles, including but not limited to military trucks, refuse trucks, fire trucks, large snow-removal trucks, and a number of aerial-platform and lift equipment used around construction sites and warehouses.

OSK has performed very strongly for the portfolio over the last couple of years. For instance, OSK was trading at roughly $16 a share in September, 2011 and recently reached over $60 a share. We believe the management team of OSK is operating the company exceptionally well and is adhering to a sound capital-allocation strategy. However, with the stock nearing an all-time high and at roughly 15x earnings, we believe it is wise to take some chips off the table. OSK exemplifies our investment strategy of buy into weakness and sell into strength.

Signet Jewelers is another stock that has performed exceedingly well for the portfolio over the last several years. Our investment strategy initiated its position prior to the financial crisis and then added to the position as the stock declined into the mid-single digits. During the most recent quarter, SIG reached an all-time high at over $105 a share.

The most recent run up in SIG shares is due to investor excitement of the company's announced acquisition of its strongest U.S. competitor, Zale Corp. Signet owns and runs the Kay Jewelers and Jared jewelry retailers. If federal regulators agree to the merger between Zale and Signet, SIG would be in a position to substantially improve Zale's operating profits. Besides buying diamonds at a better price than Zale currently pays for them, SIG can add its branded jewelry products to Zale's current offerings. SIG's branded products, such as Neil Lane, Jane Seymour, and Tolkowsky, provide materially higher profit margins than more commoditized diamond products. Zale does not have these brands and would likely benefit from carrying these brands and others in their stores.

Nonetheless, with the huge run up in SIG's share price, we have reduced our position and now have less than a 2% position. We believe the merger will be approved by the regulators, and SIG's profits should be enhanced by the combination. However, if the merger is not allowed to proceed, SIG's stock would likely decline materially, in our opinion. Therefore, we made the decision to reduce the SIG position in the quarter and will likely pare the position further should the stock continue to rise.

In summary, the increased market volatility allowed us to deploy more capital in the first quarter. Our team constantly monitors our existing investments and is able to take advantage of the increased volatility. Additionally, we have many companies in our pipeline that are thoroughly researched and all we need is lower valuations before they enter the portfolio. Despite the ever-increasing stock prices of the last three plus years, we have initiated 14 new positions and, despite the high market multiples, we initiated these positions at an average P/E of just 10x. Nine of these 14 companies were in a net cash position at the time of our investment. As we have proven over the past 30 years, we will not stray away from our investment strategy. We will continue to invest in market leading companies with a history of profitability, strong balance sheets, and good management teams but only when they are absolutely cheap.

We thank you for your continued trust and confidence in our strategy.

Respectfully submitted,

Dennis Bryan
Chief Executive Officer and Portfolio Manager

Arik Ahitov
Managing Director and Portfolio Manager

April 15, 2014

FPA Capital Fund, Inc.

Portfolio Holdings

3/31/14

CUSIP	TICKER	SHARES / PRINCIPAL	SECURITY	MKT PRICE ($)		MKT VALUE ($)	% OF NET ASSET VALUE
002535300	AAN	444,500	AARON'S INC	30.24	$	13,441,680.00	0.98%
037604105	APOL	1,787,100	APOLLO GROUP INC.- CLASS A	34.24		61,190,304.00	4.46%
04269Q100	ARRS	1,525,200	ARRIS GROUP	28.18		42,980,136.00	3.13%
042735100	ARW	1,255,100	ARROW ELECTRONICS	59.36		74,502,736.00	5.43%
050095108	ATW	991,306	ATWOOD OCEANICS	50.39		49,951,909.34	3.64%
053807103	AVT	1,541,600	AVNET	46.53		71,730,648.00	5.23%
057224107	BHI	366,672	BAKER HUGHES	65.02		23,841,013.44	1.74%
127097103	COG	80,800	CABOT OIL & GAS	33.88		2,737,504.00	0.20%
15135B101	CNC	138,200	CENTENE CORPORATION	62.25		8,602,950.00	0.63%
171798101	XEC	185,200	CIMAREX ENERGY	119.11		22,059,172.00	1.61%
251893103	DV	1,151,708	DEVRY, INC.	42.39		48,820,902.12	3.56%
29358Q109	ESV	899,800	ENSCO PLC	52.78		47,491,444.00	3.46%
314211103	FII	524,443	FEDERATED INVESTORS INC- CLASS B	30.54		16,016,489.22	1.17%
344849104	FL	583,500	FOOT LOCKER	46.98		27,412,830.00	2.00%
423452101	HP	177,700	HELMERICH & PAYNE INC.	107.56		19,113,412.00	1.39%
45867G101	IDCC	1,176,200	INTERDIGITAL, INC.	33.11		38,943,982.00	2.84%
651290108	NFX	719,800	NEWFIELD EXPLORATION	31.36		22,572,928.00	1.64%
688239201	OSK	557,500	OSHKOSH TRUCK CORPORATION	58.87		32,820,025.00	2.39%
			OTHER			6,641,264.00	0.48%
703481101	PTEN	687,100	PATTERSON-UTI ENERGY	31.68		21,767,328.00	1.59%
759509102	RS	209,908	RELIANCE STEEL & ALUMINIUM	70.66		14,832,099.28	1.08%
777779307	ROSE	1,338,300	ROSETTA RESOURCES	46.58		62,338,014.00	4.54%
779382100	RDC	2,065,700	ROWAN COMPANIES	33.68		69,572,776.00	5.07%
78454L100	SM	301,500	ST. MARY LAND & EXPLORATION	71.29		21,493,935.00	1.56%
G81276100	SIG	155,600	SIGNET JEWELERS	105.86		16,471,816.00	1.20%
88830M102	TWI	734,600	TITAN INTERNATIONAL	18.99		13,950,054.00	1.02%
896522109	TRN	286,300	TRINITY INDUSTRIES	72.07		20,633,641.00	1.50%
922417100	VECO	241,700	VEECO	41.93		10,134,481.00	0.74%
958102105	WDC	602,800	WESTERN DIGITAL	91.82		55,349,096.00	4.03%
			TOTAL EQUITIES:		**$**	**937,414,569.40**	**68.31%**
912828KV1		85,000,000	US TREASURY NOTE 2.250% 05/31/2014	100.36		85,303,807.00	6.22%
912828QU7		85,000,000	US TREASURY NOTE 0.625% 07/15/2014	100.16		85,135,719.50	6.20%
			TOTAL US GOVT AND AGENCIES:		**$**	**170,439,526.50**	**12.42%**
			CASH & EQUIVALENTS (NET OF LIABILITIES):		**$**	**264,481,909.76**	**19.27%**
			TOTAL NET ASSETS:		**$**	**1,372,336,005.66**	**100.00%**
			NO. OF EQUITY POSITIONS			**28**	

Portfolio Holding Submission Disclosure

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