

SECURITIES AND EXCHANGE COMMISSION

FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

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FILER

PRICE T ROWE NEW INCOME FUND INC ET AL

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Business Address
100 EAST PRATT ST
BALTIMORE MD 21202
3015472000

FELLOW SHAREHOLDERS

Before we review the financial markets and your Fund's performance, we want to mention that you have received two consecutive annual reports because your Fund's fiscal year-end was recently changed from February 28 to May 31.

MARKET ENVIRONMENT

Interest rates rose sharply during the three months ended May 31. Yields on three-month Treasury bills increased approximately 80 basis points and those on 30-year Treasury bonds about 75 basis points. For the 12-month period, the increases were 113 basis points and 44 basis points, respectively. Since yields on short and intermediate maturities rose more than on long maturities, the yield curve has flattened.

Although the economy has slowed from the torrid pace of 1993's fourth quarter, it continues to perform very well. In an attempt to contain inflation by keeping the economy from overheating, the Federal Reserve started to tighten credit in February by pushing the federal funds rate higher. In four steps over four months, this basic money market rate was raised from 3% to 4.25%.

INTEREST RATE LEVELS CHART

A line graph compares the yields of the 30-Year Treasury Bond, the 5-Year Treasury Note, the 1-Year Treasury Bill, and the federal funds rate from 5/31/93 to 5/31/94.

PERFORMANCE AND STRATEGY REVIEW

In this difficult environment, your Fund provided a modest positive return for the 12-month period fell into negative territory for the quarter. While these numbers may not seem like a cause for cheering, they were significantly better than the average returns of our peer category and also the benchmark index, shown below.

PERFORMANCE COMPARISON

	Periods Ended	
	5/31/94	
	3 Months	12 Months
New Income Fund	-2.84%	1.40%
Lehman Brothers		
Aggregate Bond Index	-3.26	0.71
Lipper Average of Corporate		
Bond Funds - A Rated	-4.03	0.34

After making no real change in the Fund's 4.4 year duration for many months prior to the start of the quarter, we began raising it as interest rates rose and bond prices fell. We believe that the major move in long-term rates is behind us and want to take advantage of the new, higher yield levels as well as to increase the portfolio's potential for appreciation if rates should come down a bit. The weighted average quality of the portfolio was little changed over the 12-month period and remains high at AA.

The major sector change in the portfolio was a large increase in mortgage-backed securities, as you can see in the chart on the next page. From 9% in May a year ago, our mortgage position soon dropped to 5% as we sought to reduce our exposure to potential losses due to prepayments. (When interest rates fall, prices of mortgage securities frequently rise above par. Investors paying these "premium" prices suffer a loss when homeowners, perhaps seeking to refinance at lower rates, prepay their mortgages at par.) As rates began to rise in November of 1993 and prepayment concerns faded along with the pace of refinancings, we began to rebuild the mortgage-backed sector. As of May 31, it represented almost one-third of net assets.

PORTFOLIO DIVERSIFICATION CHART

Two pie charts showing percent invested in mortgages, corporate bonds, U.S. Government bonds, and Other for 5/31/93 to 5/31/94.

OUTLOOK

The rise in interest rates along with higher taxes should dampen the pace of economic growth during the balance of the year. However, consumer sentiment has been buoyed by the falling unemployment rate and gains in personal income, and interest rates are still relatively low compared with the 1980s. Therefore, any slowdown should be gradual. If economic growth is around a 3% rate in the second half, we expect the Federal Reserve to tighten monetary policy a bit further before the year is out.

The magnified response of note and bond yields to the initial phase of Fed tightening is probably over, to judge from the reaction of bond yields to the tightening in May. A flattening of the yield curve with short-term rates rising more than long-term yields is typical of this phase of the interest rate cycle. Nevertheless, bond investors are highly sensitive to signs of inflation and bond markets will remain volatile.

Respectfully submitted,

/signature/Charles P. Smith

Charles P. Smith
 President and Chairman of the
 Investment Advisory Committee

June 17, 1994

STATISTICAL HIGHLIGHTS

T. ROWE PRICE NEW INCOME FUND / MAY 31, 1994

KEY STATISTICS

	Periods Ended 5/31/94
Dividend Yield*	
-----	-----
3 Months	6.46%
12 Months	6.06
Dividend Per Share	
-----	-----
3 Months	\$0.14
12 Months	0.54
Change in Per-Share Value	
-----	-----
3 Months (From \$9.12 to \$8.65)	-\$0.47[dagger]
12 Months (From \$9.19 to \$8.65)	-0.54[dagger][dagger]
-----	-----

* Dividends earned and reinvested for the periods indicated are annualized and divided by the average daily net asset values per share for the same period.

[dagger] Includes the reduction in the share price resulting from a \$0.07 capital gain distribution.

[dagger][dagger] Includes the reductions in the share prices resulting from \$0.14 in capital gain distributions.

QUALITY DIVERSIFICATION

	Percent of Net Assets		
TRPA Quality Rating*	5/31/93	2/28/94	5/31/94
-----	-----	-----	-----
1	39%	40%	45%
2	21	17	13
3	29	31	28
4 & Below	11	12	14
-----	-----	-----	-----
WEIGHTED AVERAGE	2.2	2.2	2.1
-----	-----	-----	-----

*On a scale of 1 to 10, with Grade 1 representing highest quality.

MATURITY DIVERSIFICATION

	Percent of Net Assets		
Range	5/31/93	2/28/94	5/31/94

Short-Term (0 to 1 Year)	7%	10%	6%
Short Intermediate-Term (1+ to 5 Years)	47	45	43
Long Intermediate-Term (5+ to 10 Years)	24	21	28
Long-Term (Over 10 Years)	22	24	23

WEIGHTED AVERAGE MATURITY (YRS.)	8.3	8.8	9.1
WEIGHTED AVERAGE EFFECTIVE DURATION (YRS.)	4.4	4.4	4.9

SECTOR DIVERSIFICATION*

Percent of Net Assets
5/31/93 2/28/94 5/31/94

U.S. Governments, Agencies, & Agency-Backed	40%	37%	45%
Banking	11	12	14
Industrial	8	9	8
Electric Utilities	4	5	6
Finance & Credit	7	5	4
Auto-Backed	1	4	4
Investment Dealers	6	5	4
Miscellaneous	5	3	3
Telephone	3	3	3
U.S. \$ Denominated Foreign Securities	4	4	3
Petroleum	3	3	3

*Sectors representing at least 2% of net assets on 5/31/94.

FISCAL-YEAR PERFORMANCE COMPARISON CHART

A line graph compares the 5/31/94 value of a hypothetical \$10,000 investment made ten years earlier in both the New Income Fund and the Lehman Brothers Aggregate Index. At 5/31/94, the Fund investment would have been worth \$25333, the Lehman Index investment would have been worth \$30424.

FISCAL-YEAR PERFORMANCE

New Income Fund
Periods Ended May 31, 1994

	Since Inception (8/31/73)*	
1 Year	5 Years*	
1.40%	8.49%	8.99%

* Average Annual Compound Total Return

Income return and principal value represent past performance and will vary. Shares may be worth more or less at redemption than at original purchase.

INVESTMENT RECORD

T. ROWE PRICE NEW INCOME FUND

The table below shows the investment record of one share of the T. Rowe Price New Income Fund, purchased at the original offering price of \$10.00. Over this time, interest rates have been volatile.

The results shown should not be considered a representation of the dividend income or capital gain or loss which may be realized from an investment made

in the Fund today.

Fiscal Year Ended	Net Asset Value	Income Dividends	Capital Gain Distributions/2/	With Dividends Reinvested	With Dividends and Capital Gains Reinvested/2/	Total Return
[S]	[C]	[C]	[C]	[C]	[C]	[C]
12/31/73 /1/	\$9.97	-		\$9.97	\$9.97	-0.30%
1974	9.39	\$0.66		10.07	10.07	1.00
1975	9.66	0.79		11.27	11.27	11.92
1976	10.23	0.78		12.93	12.93	14.76
1977	10.01	0.77		13.66	13.66	5.65
1978	9.66	0.76	\$0.01	14.26	14.29	4.56
1979	9.22	1.184		15.42	15.44	8.09
1980	8.35	1.13		15.86	15.88	2.86
1981	7.79	1.07		16.95	16.97	6.86
1982	8.46	1.07		21.03	21.07	24.12
2/28/83 /3/	8.56	0.17		21.71	21.75	3.23
1984	8.24	0.955		23.40	23.44	7.79
1985	8.18	0.94		26.06	26.10	11.34
1986	8.95	0.88		31.64	31.69	21.40
1987	9.17	0.75		35.17	35.23	11.17
1988	8.76	0.76		36.67	36.73	4.27
1989	8.26	0.81		38.02	38.08	3.67
1990	8.37	0.75		42.10	42.16	10.73
1991	8.60	0.70	0.01	47.00	47.12	11.77
1992	8.94	0.67	0.02	52.74	52.97	12.40
1993	9.24	0.57		58.08	58.33	10.12
1994	9.12	0.54	0.07	60.73	61.45	5.36
5/31/946	8.65	0.14	0.07	58.54	59.71	-2.84
TOTAL		\$16.84	\$0.18			

/1/ From inception 8/31/73 to 12/31/73.

/2/ Includes long-term capital gain of \$0.01 on 1/4/78; short-term capital gain of \$0.01 on 12/31/90; short-term capital gain of \$0.02 on 12/31/91; long-term capital gain of \$0.07 on 12/31/93; and long-term capital gain of \$0.07 on 3/31/94.

/3/ Fiscal year-end changed from December 31 to February 28; figures are for two months from 1/1/83-2/28/83.

/4/ Declaration of dividends changed from quarterly to monthly.

/5/ Declaration of dividends changed from monthly to daily.

/6/ Fiscal year-end changed from February 28 to May 31; figures are for three months from 3/1/94-5/31/94.

STATEMENT OF NET ASSETS (AMOUNTS IN THOUSANDS)
T. ROWE PRICE NEW INCOME FUND / MAY 31, 1994

<TABLE>
<CAPTION>
Corporate Bonds & Notes---48.8%

	Face Amount	Value
<S>	<C>	<C>
BANKING---13.7%		
Banesto Delaware, Gtd. Notes, 8.25%, 7/28/02	\$5,700	\$5,481
BankAmerica, Sub. Notes, 10.00%, 2/1/03	9,625	10,793
Banponce Financial, MTN, 5.25%, 1/30/95	15,000	14,958
Banque Paribas, 8.35%, 6/15/07	7,500	7,519
Barclays North America Capital, Gtd. Cap. Notes, 10.50%, 12/15/17	13,000	14,763
Central Fidelity Banks, 4.38%, 8/7/95	15,000	14,511
Chase Manhattan, Sub. Notes, 7.75%, 11/1/99	6,500	6,548
8.00%, 5/15/04	9,000	8,904
Citicorp, MTN, 5.70%, 2/12/96	15,000	14,881
Colonial National Bank USA Delaware, Sub. Notes, 7.00%, 8/1/03	5,000	4,596
First Chicago, MTN, 5.50%, 4/15/96	5,000	4,927
8.20%, 11/14/96	5,000	5,172
First Security, Sub. Deb., 7.50%, 9/1/02	2,800	2,673
First USA Bank Wilmington, Delaware, 4.55%, 8/23/95	10,000	9,616

4.80%, 9/15/95	5,000	4,832
Great Western Bank, Sub. Notes, 10.25%, 6/15/00	8,860	9,823
Hartford National, Sub. Capital Notes, 9.85%, 6/1/99	5,000	5,454
Mercantile Bankshares, Sr. Notes, 6.13%, 7/15/98 (Private Placement)	5,000	4,978
Napa Valley Bancorp, Sr. Notes, 10.87%, 6/30/95	5,000	5,315
Scotland International, (144a), 8.80%, 1/27/04	10,000	10,494
Society, MTN, Zero Coupon, 3/11/96	7,000	6,821
Wells Fargo & Company, MTN, 5.57%, 8/21/95	10,000	9,966
5.61%, 8/18/95	5,300	5,285
		188,310
BEVERAGES---1.0%		
Coca-Cola Enterprises, Notes, 8.35%, 6/20/95	11,000	11,263
Seagram (Joseph E.) & Sons, Notes, 7.00%, 4/15/08	3,000	2,679
		13,942
ELECTRIC UTILITIES---5.5%		
Alabama Power, 1st Mtg. Bonds, 7.75%, 2/1/23	3,650	3,381
Commonwealth Edison, 1st Mtg. Bonds, 6.50%, 4/15/00	5,000	4,669
7.00%, 7/1/05	8,200	7,370
7.50%, 7/1/13	7,400	6,675
9.375%, 2/15/00	5,000	5,313
Connecticut Light & Power, 1st Mtg. Bonds, 7.50%, 7/1/23	5,400	4,739
Consumers Power Company, 1st Mtg. Bonds, 6.375%, 9/15/03	5,000	4,393
Cooperative Utility Trust, Equip. Trust Cert., 10.70%, 9/15/17	2,500	2,878
Florida Power & Light, MTN, 4.85%, 6/24/96	4,600	4,458
Georgia Power, 1st Mtg. Bonds, 7.625%, 3/1/23	5,750	5,290
7.95%, 2/1/23	4,800	4,589
Gulf States Utilities, 1st Mtg. Bonds, 5.375%, 2/1/97	4,000	3,665
Long Island Lighting Company, 1st Mortgage, 5.50%, 4/1/97	5,500	5,169
Pacificorp, MTN, 7.12%, 8/15/02	3,900	3,769
Southern California Edison, 1st Mtg. Bonds, 9.25%, 6/15/21	5,000	5,347
Texas Utilities Electric, 1st Mtg. Bonds, 7.875%, 3/1/23	3,450	3,167
		74,872
FINANCE & CREDIT---4.4%		
Advanta, Notes, 5.125%, 11/15/96	10,000	9,596
American General Finance, Notes, 8.50%, 8/15/98	5,000	5,218
Associates Corporation of North America, 4.50%, 2/15/96	2,400	2,326
AVCO Financial Services, MTN, 4.33%, 3/3/95	5,000	4,962
GPA Leasing USA Sub I, Equip. Trust Cert., (144a), 9.125%, 12/2/96	9,677	8,624
Greyhound Financial, MTN, 5.75%, 7/28/95	9,550	9,506
6.95%, 5/19/95	10,000	10,096
Transamerica Finance Group, Sr. Sub. Notes, 8.30%, 5/1/95	10,000	10,217
		60,545
GAS & GAS TRANSMISSION---0.9%		
Southern California Gas, MTN, 4.69%, 6/16/95	13,000	12,859
INDUSTRIALS---8.2%		
Chrysler Financial, MTN, 4.62%, 10/13/95	10,000	9,713
Clark Equipment, MTN, 5.57%, 6/11/96	5,000	4,889
Clorox, Notes, 8.80%, 7/15/01	5,000	5,343
Deere & Company, MTN, 8.47%, 3/18/96	9,000	9,327
Ford Holdings, Gtd. Notes, 9.25%, 3/1/00	5,000	5,381
Ford Motor Credit, MTN, 9.70%, 6/2/95	5,000	5,185
General Motors Acceptance Corporation, MTN, 6.00%, 1/30/95	15,000	15,037
IBM Credit, MTN, 4.70%, 8/1/95	31,000	30,567
MCA Funding, MTN, 4.88%, 5/20/96	5,000	4,854
Qantas Airways, Sr. Notes, (144a), 6.625%, 6/30/98	7,000	6,743
United Technologies, Deb., 8.875%, 11/15/19	4,340	4,598
Weyerhaeuser, Notes, 9.05%, 2/1/03	10,600	11,304
		112,941
INVESTMENT DEALERS---3.5%		
Goldman Sachs Group, L.P., Notes, (144a), 7.80%, 7/15/02	10,000	9,831
PaineWebber Group, MTN, 7.07%, 8/11/97	8,000	7,969
Notes, 7.625%, 2/15/14	5,000	4,418
Sr. Notes, 9.25%, 12/15/01	5,000	5,267
Salomon, MTN, Zero Coupon, 6/15/99	6,000	6,007
5.50%, 1/19/95	14,500	14,489
		47,981
MISCELLANEOUS---3.2%		
Capital Cities/ABC, Notes, 8.75%, 8/15/21	11,500	12,143
8.875%, 12/15/00	10,000	10,867
ITT, Notes, 8.375%, 3/15/96	5,000	5,149
Kaiser Foundation Health Plan, Notes, 9.00%, 11/1/01	10,325	11,083
Waste Management, Deb., 7.875%, 8/15/96	5,000	5,117
		44,359
PETROLEUM---2.7%		
Atlantic Richfield, Deb., 8.50%, 4/1/12	6,650	6,816
BP America, Gtd. Notes, 8.50%, 4/15/01	5,000	5,226
Mobil, Deb., 7.625%, 2/23/33	9,250	8,613
Texaco Capital, Deb., 7.875%, 5/1/95	10,000	10,180

8.65%, 1/30/98	6,000	6,309
RAILROADS---0.4%		37,144
Consolidated Rail, Deb., 9.75%, 6/15/20	5,000	5,765
RETAIL---1.5%		
Dayton Hudson, Notes, 7.875%, 6/15/23	5,000	4,613
9.40%, 2/15/01	5,620	6,108
Sears, Roebuck & Company, MTN, 6.65%, 4/17/95	4,500	4,532
The May Department Stores, Deb., 9.875%, 12/1/02	5,000	5,622
		20,875
SAVINGS & LOAN---0.7%		
World Savings & Loan Assn., MTN, 4.875%, 3/1/96	10,150	9,902
TELEPHONE---3.1%		
AT&T, 8.125%, 7/15/24	5,000	4,945
AT&T Capital, MTN, 6.87%, 10/23/95	5,000	5,055
Bellsouth Telecom, 7.875%, 8/1/32	6,400	6,121
GTE, Deb., 9.375%, 12/1/00	10,000	10,827
NYNEX Credit, MTN, (144a), 6.30%, 6/15/94	4,000	4,004
6.45%, 9/15/94	2,000	2,009
Pacific Bell, 6.625%, 10/15/34	11,200	9,099
		42,060

TOTAL CORPORATE BONDS & NOTES (COST---\$674,015)		671,555
U.S. Government Mortgage-Backed Securities---29.5%		
U.S. GOVERNMENT GUARANTEED OBLIGATIONS---25.3%		
Government National Mortgage Assn., I, 6.50%, 1/15 - 2/15/24	2,668	2,406
7.00%, 1/15/23 - 3/15/24	32,742	30,639
7.50%, 8/15/16 - 1/15/24	77,749	75,175
8.00%, 7/15/16 - 9/15/22	39,898	39,797
8.50%, 9/15/16 - 5/15/24	23,336	23,768
9.00%, 1/15/09 - 5/15/20	16,539	17,166
9.50%, 2/15/16 - 1/15/22	59,937	63,347
10.00%, 11/15/09 - 6/15/21	52,367	56,113
11.00%, 1/15/10 - 10/15/17	18,600	21,030
II, 9.00%, 6/20/16 - 5/20/22	13,739	14,081
Graduated Payment Mortgage, I, 10.25%, 8/15/17 - 9/15/20	3,719	3,879
		347,401
U.S. GOVERNMENT AGENCY OBLIGATIONS---4.2%		
Federal Home Loan Mortgage, 6.50%, 11/1/04 - 6/1/24	12,859	11,774
7.00%, 2/1/24	5,264	4,978
7.50%, 5/1/24 - 6/1/24	10,883	10,594
8.00%, 6/1/08	211	211
9.00%, 3/1/21 - 5/1/22	11,418	11,778
9.75%, 12/1/17	4,338	4,548
10.50%, 2/1/01 - 8/1/20	2,023	2,192
11.00%, 5/1/11 - 7/1/20	1,213	1,336
11.50%, 6/1/01	28	30
Federal National Mortgage Assn., 7.80%, 12/25/04	4,545	4,583
8.75%, 3/1/10	34	35
10.50%, 7/1/09 - 4/1/22	4,947	5,440
		57,499

TOTAL U.S. GOVERNMENT MORTGAGE-BACKED SECURITIES (COST---\$419,413)		404,900
Asset-Backed Securities---4.4%		
AUTO LOANS-BACKED---3.6%		
Capital Auto Receivables Asset Trust, 4.20%, 11/15/95	7,190	7,145
Daimler-Benz Auto Grantor Trust, 3.90%, 10/15/98	7,209	7,056
Ford Credit Grantor Trust, 4.30%, 7/15/98	5,252	5,141
GMAC Grantor Trust, 4.15%, 3/15/98	4,375	4,323
Olympic Automobile Receivable, 4.95%, 10/15/99	3,933	3,832
Premier Auto Trust, 4.22%, 3/2/99	10,000	9,665
RCSB Grantor Trust, 7.75%, 11/15/96	1,827	1,839
Toyota Auto Receivables, 3.90%, 8/17/98	6,493	6,359
Zions Auto Trust, 4.65%, 6/15/99	3,883	3,825
		49,185
CREDIT CARD RECEIVABLES-BACKED---0.7%		
Standard Credit Card Trust, Credit Card Participation Cert., 9.375%, 8/10/96	10,000	10,325
WHOLE LOANS-BACKED---0.1%		
Home Equity Loan Remic Trust, 5.65%, 11/15/14	1,325	1,279

TOTAL ASSET-BACKED SECURITIES (COST---\$61,414)		60,789

Interest income	\$25,545	\$102,703
	-----	-----
Expenses		
Investment management fees.....	1,748	7,750
Shareholder servicing fees & expenses.....	940	4,439
Custodian and accounting fees & expenses.....	79	323
Prospectus & shareholder reports.....	32	166
Legal & auditing fees.....	15	33
Registration fees & expenses.....	10	52
Directors' fees & expenses.....	5	27
Miscellaneous expenses.....	9	35
	-----	-----
Total expenses.....	2,838	12,825
	-----	-----
Net investment income.....	22,707	89,878
	-----	-----
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized gain.....	1,015	24,262
Change in unrealized appreciation or depreciation.....	(65,071)	(32,142)
	-----	-----
Net loss on investments.....	(64,056)	(7,880)
	-----	-----
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS.....	\$ (41,349)	\$81,998
	-----	-----
	-----	-----

[double dagger]The Fund's fiscal year-end was changed to May 31.

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN NET ASSETS
T. ROWE PRICE NEW INCOME FUND

</TABLE>
<TABLE>
<CAPTION>

	Three Months Ended May 31, 1994 [double dagger]	Year Ended	
		Feb. 28, 1994	Feb. 28, 1993
		-----	-----
		Amounts in Thousands	
		-----	-----
<S>	<C>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS			
Operations			
Net investment income.....	\$22,707	\$89,878	\$89,940
Net realized gain on investments.....	1,015	24,262	14,333
Change in unrealized appreciation or depreciation of investments.....	(65,071)	(32,142)	34,028
	-----	-----	-----
Increase (decrease) in net assets from operations.....	(41,349)	81,998	138,301
	-----	-----	-----
Distributions to shareholders			
Net investment income.....	(22,682)	(89,878)	(89,986)
Net realized gain on investments.....	(11,110)	(11,782)	-
	-----	-----	-----
Decrease in net assets from distributions to shareholders.....	(33,792)	(101,660)	(89,986)
	-----	-----	-----

Capital share transactions/1/

Sold.....	60,807	323,889	451,404
Distributions reinvested.....	30,328	90,466	78,877
Redeemed.....	(98,897)	(464,033)	(357,971)
	-----	-----	-----
Increase (decrease) in net assets from capital share transactions.....	(7,762)	(49,678)	172,310
	-----	-----	-----
Total increase (decrease).....	(82,903)	(69,340)	220,625
NET ASSETS			
Beginning of period.....	1,457,959	1,527,299	1,306,674
	-----	-----	-----
End of period.....	\$1,375,056	\$1,457,959	\$1,527,299
	-----	-----	-----

/1/Share transactions			
Sold.....	6,891 shs.	34,796 shs.	50,001 shs.
Distributions reinvested.....	3,456	9,735	8,737
Redeemed.....	(11,216)	(49,912)	(39,701)
	-----	-----	-----
Increase (decrease) in shares outstanding.....	(869) shs.	(5,381) shs.	19,037 shs.
	-----	-----	-----

<FN>

[double dagger]The Fund's fiscal year-end was changed to May 31.

</TABLE>

NOTES TO FINANCIAL STATEMENTS

T. ROWE PRICE NEW INCOME FUND / MAY 31, 1994

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

T. Rowe Price New Income Fund (the Fund) is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. Effective March 1, 1994, the fiscal year-end of the Fund changed from February 28 to May 31.

A) Security valuation - Debt securities are generally traded in the over-the-counter market. Investments in securities with remaining maturities of one year or more are stated at fair value as furnished by dealers who make markets in such securities or by an independent pricing service, which considers yield or price of bonds of comparable quality, coupon, maturity, and type, as well as prices quoted by dealers who make markets in such securities. Securities with remaining maturities less than one year are stated at fair value which is determined by using a matrix system that establishes a value for each security based on money market yields.

Assets and liabilities for which the above valuation procedures are inappropriate or are deemed not to reflect fair value are stated at fair value as determined in good faith by, or under the supervision of, the officers of the Fund, as authorized by the Board of Directors.

B) Premiums and Discounts - Premiums and discounts on debt securities are amortized for both financial and tax reporting purposes.

C) Other - Income and expenses are recorded on the accrual basis. Investment transactions are accounted for on the trade date. Realized gains and losses are reported on an identified cost basis. Distributions to shareholders are recorded by the Fund on the ex-dividend date. Income and capital gain distributions are determined in accordance with federal income tax regulations which may differ from generally accepted accounting principles.

NOTE 2 - FINANCIAL INSTRUMENTS

As a part of its investment program, the Fund engages in the following activities, the nature and risk of which are set forth more fully in the Fund's Prospectus and Statement of Additional Information.

A) Securities Lending - To earn additional income, the Fund lends its securities to approved brokers. At May 31, 1994, the market value of securities on loan was \$179,886,000 for which the Fund was fully collateralized by cash. Although the risk is mitigated by the collateral, the Fund could experience a delay in recovering its securities and possibly

experience a capital loss if the borrower fails to return them.

B) Other - Purchases and sales of portfolio and U.S. Government securities excluding short-term were as follows:

	Three	
	Months Ended May 31, 1994	Year Ended Feb. 28, 1994
Portfolio Securities		
Purchases.....	\$55,162,000	\$386,154,000
Sales.....	123,317,000	332,772,000
U.S. Government Securities		
Purchases.....	\$310,019,000	\$509,553,000
Sales.....	195,322,000	648,331,000

NOTE 3 - FEDERAL INCOME TAXES

No provision for federal income taxes is required since the Fund intends to continue to qualify as a regulated investment company and distribute all of its taxable income.

At May 31, 1994, the aggregate cost of investments for federal income tax and financial reporting purposes was \$1,404,738,000 and net unrealized depreciation aggregated \$14,761,000, of which \$21,720,000 related to appreciated investments and \$36,481,000 to depreciated investments.

NOTE 4 - RELATED PARTY TRANSACTIONS

The investment management agreement between the Fund and T. Rowe Price Associates, Inc. (the Manager) provides for an annual investment management fee, computed daily and paid monthly, consisting of an Individual Fund Fee equal to 0.30% of average daily net assets and a Group Fee. The Group Fee is based on the combined assets of certain mutual funds sponsored by the Manager or Rowe Price-Fleming International, Inc. (the Group). The Group Fee rate ranges from 0.48% for the first \$1 billion of assets to 0.31% for assets in excess of \$34 billion. The effective annual Group Fee rate at May 31, 1994 and for the three months then ended was 0.34%. The rate at February 28, 1994 was 0.34%, and for the year then ended was 0.35%. The Fund pays a pro rata portion of the Group Fee based on the ratio of the Fund's net assets to those of the Group.

T. Rowe Price Services, Inc. (TRPS) and Retirement Plan Services, Inc. (RPS) are wholly owned subsidiaries of the Manager. TRPS provides transfer and dividend disbursing agent functions and shareholder services for all accounts. RPS provides subaccounting and recordkeeping services for certain retirement accounts invested in the Fund. The Manager, under a separate agreement, calculates the daily share price and maintains the financial records of the Fund. The Fund is one of several T. Rowe Price mutual funds (the Underlying Funds) in which the T. Rowe Price Spectrum Income Fund (Spectrum) invests. In accordance with an Agreement between Spectrum, the Underlying Funds, the Manager and TRPS, expenses from the operation of Spectrum are borne by the Underlying Funds based on each Underlying Fund's proportionate share of assets owned by Spectrum. For the three months ended May 31, 1994, and the year ended February 28, 1994, the Fund incurred fees totalling approximately \$848,000 and \$4,072,000, respectively, for these services provided by related parties. At May 31, 1994, investment management and service fees payable were \$1,167,000.

FINANCIAL HIGHLIGHTS

T. ROWE PRICE NEW INCOME FUND

<TABLE>
<CAPTION>

	For a share outstanding throughout each period					
	Three Months Ended May 31, 1994	Year Ended				
	[double dagger]	Feb. 28, 1994	Feb. 28, 1993	Feb. 29, 1992	Feb. 28, 1991	Feb. 28, 1990
<S>	<C>	<C>	<C>	<C>	<C>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD.....	\$9.12	\$9.24	\$8.94	\$8.60	\$8.37	\$8.26

Investment Activities

Net investment income.....	0.14	0.54	0.57	0.67	0.70	0.75
Net realized and unrealized gain (loss).....	(0.40)	(0.05)	0.30	0.36	0.24	0.12
Total from Investment Activities.....	(0.26)	0.49	0.87	1.03	0.94	0.87
Distributions						
Net investment income.....	(0.14)	(0.54)	(0.57)	(0.67)	(0.70)	(0.75)
Net realized gain.....	(0.07)	(0.07)	-	(0.02)	(0.01)	(0.01)
Total Distributions.....	(0.21)	(0.61)	(0.57)	(0.69)	(0.71)	(0.76)
NET ASSET VALUE, END OF PERIOD.....	\$8.65	\$9.12	\$9.24	\$8.94	\$8.60	\$8.37
RATIOS/SUPPLEMENTAL DATA						
Total Return.....	(2.84)%	5.36%	10.12%	12.40%	11.77%	10.73%
Ratio of Expenses to Average Net Assets.....	0.80%	0.82%	0.84%	0.87%	0.88%	0.86%
Ratio of Net Investment Income to Average Net Assets.....	[dagger] 6.43%	5.77%	6.36%	7.64%	8.33%	8.85%
Portfolio Turnover Rate.....	[dagger] 91.5%	58.3%	85.8%	49.7%	20.7%	51.1%
Net Assets, End of Period (in thousands).....	\$1,375,056	\$1,457,959	\$1,527,299	\$1,306,674	\$1,130,857	\$992,566

<FN>

[double dagger]The Fund's fiscal year-end was changed to May 31.

[dagger]Annualized.

</TABLE>

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of
T. Rowe Price New Income Fund, Inc.

In our opinion, the accompanying statement of net assets and the related statements of operations and of changes in net assets and the selected per share data and information (which appears under the heading "Financial Highlights") present fairly, in all material respects, the financial position of T. Rowe Price New Income Fund, Inc. at May 31, 1994, the results of its operations, the changes in its net assets and the selected per share data and information for each of the fiscal periods presented in conformity with generally accepted accounting principles. These financial statements and selected per share data and information (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at May 31, 1994 by correspondence with custodians and brokers and, where appropriate, the application of alternative auditing procedures for unsettled security transactions, provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE

Baltimore, Maryland
June 17, 1994