PREFERRED INCOME FUND INCORPORATED

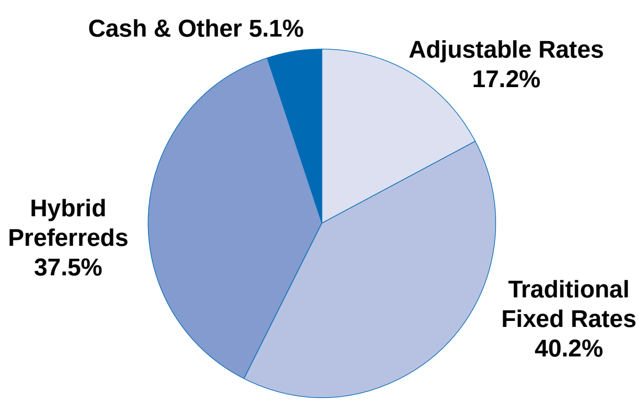
Dear Shareholder:

The Preferred Income Fund continued to do well in a period that was rather challenging for many investors. Through May 31, 2001, total returns on the Fund's net asset value were 6.96% for the first half of fiscal 2001 and 17.08% for the trailing twelve months. The total returns on the market price of the shares were better since the market discount from NAV narrowed.

Remember the ancient curse that says, "You shall live in interesting times!" Well, that's the way it has been in the preferred market lately. There were good places to be and also plenty of bad ones. Furthermore, that was true for broad market sectors as well as for individual preferreds within those sectors. The Fund is always seeking to take advantage of such market inefficiencies, and it has paid off. A good deal of the Fund's success has come from simply being in the right preferreds at the right time.

The following pie chart shows the allocation of the Fund's portfolio among major market sectors. For those who have lives away from preferreds, we should explain the distinction between hybrid and traditional preferreds. Hybrids do not offer any special tax advantages to investors. In contrast, traditional preferreds qualify for the Dividends Received Deduction (the "DRD") that makes their dividends 70% tax-free to corporate investors.

Portfolio Allocation as of 5/31/2001



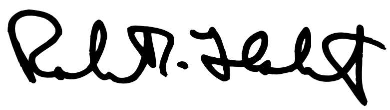
Generally speaking, hybrids performed very well, while traditional DRD eligible preferreds lagged far behind. On the surface, this disparity appears to have created some very attractive values among traditional preferreds. However, the specific issues that we would most like to own are still hard to find in the market. We are constantly looking for opportunities resulting from this situation.

The steps taken by the Federal Reserve to cut short-term interest rates helped us by reducing the cost of the Fund's leverage. The rate paid by the Fund on its outstanding shares of Money Market Cumulative Preferred™ stock is adjusted to the current level of short-term rates every 49 days through an auction process. Typically, the cost to the Fund comes down as short-term rates fall. That's good for the holders of our common stock.

In contrast, the Fed's shift toward easier money did not have much of an effect on long-term interest rates. A decline in those rates last winter was effectively reversed by a spurt in the spring. Although the ride was occasionally exciting, long-term interest rate shifts and the Fund's hedges did not play a major role in the results for the first half of fiscal 2001.

The following Questions & Answers section covers several additional key points concerning the Fund. We urge you to read it carefully. For updated information on the Fund at any time, we also recommend visiting our web site at **www.preferredincome.com**.

Sincerely,



Robert T. Flaherty
Chairman of the Board

June 20, 2001

QUESTIONS & ANSWERS

HOW WOULD MOVING MONEY FROM HYBRIDS INTO TRADITIONAL PREFERREDS AFFECT THE FUND'S INCOME?

The impact on income of adding a reasonable amount of traditional preferreds to the Fund's portfolio could be less than you might think. Traditional preferreds typically do yield less than hybrid preferreds, although that yield sacrifice is quite small at the moment. Furthermore, there are some offsetting factors. Traditional preferreds qualify for the Dividends Received Deduction (the "DRD"), which reduces the cost of the Fund's leverage in a rather complicated way. In addition, the cost of that leverage has come down due to lower short-term interest rates. All things considered, we are presently comfortable with the Fund's existing dividend rate.

In the long run, the best way to get more income is to have more money to invest. Our experience has shown that the best way to get more money is to buy the cheapest preferreds available. Realistically, the biggest challenge will probably be finding enough cheap traditional preferreds that fit well into the Fund's portfolio.

IS THE FUND INVOLVED IN THE CALIFORNIA UTILITY SITUATION?

The Fund does not own any shares of the big California electric utilities that are flirting with bankruptcy. That is a good thing, too. California seems to be making the worst of a bad situation.

We work hard on analyzing the creditworthiness of major utilities. After all, that's our job given the large concentration of utility preferreds in the Fund's portfolio. We probably won't be right every time, but we did understand the problem in California long before the market saw it coming. This brings to mind the saying often attributed to Ben Hogan. "Golf is a game of luck, and the more you practice, the luckier you get."

IS THERE ANYTHING NEW CONCERNING THE FUND'S HEDGING STRATEGIES?

Economics have favored continuing to hedge by purchasing put options on Treasury bond futures contracts as we have in the past. As previously discussed in these reports, we believe that the purchase of options on interest rate swaps (called "swaptions") could also be a very suitable part of our hedging strategy. We have been waiting for the "right price" for swaptions, and our patience has been well rewarded so far. No hedge can be any better than the price that you pay for it.

We have been willing to accept somewhat more exposure to the risk of rising long-term interest rates in return for reducing the potential cost of the hedge. This has seemed appropriate in view of the weakness in the economy, the demonstrated uncertainty in the common stock market, and the Federal Reserve's determined effort to lower interest rates. It is analogous to buying an insurance policy with a slightly larger deductible in order to save money on the premium. We would still expect the hedge to provide some welcome relief should long-term interest rates suddenly soar.

IS THE SHRINKING SIZE OF THE TREASURY BOND MARKET STILL A PROBLEM FOR THE FUND?

Not at the moment! The Treasury continues to use the federal budget surplus to buy back and retire some of its outstanding bonds. Nonetheless, the market has adjusted to this situation, much as we have previously suggested in these reports. Treasury bonds have resumed their role as lead dog, pointing the way for other fixed income securities. This has made hedging the Fund's portfolio much less difficult.

The battles in Washington over the recently enacted tax cuts and the competing proposals for spending the rest of the expected federal budget surpluses have only reinforced our view of Treasury bonds. "The idea that the folks in Washington can keep their fingers out of this fiscal cookie jar strains credibility. Furthermore, the projections assume away the possibility of recessions that could sharply reduce the expected surpluses. Before Treasury bonds dry up and blow away, new forces could easily come into play." The previous quotation is from our semi-annual report last year. The more things change, the more they stay the same!

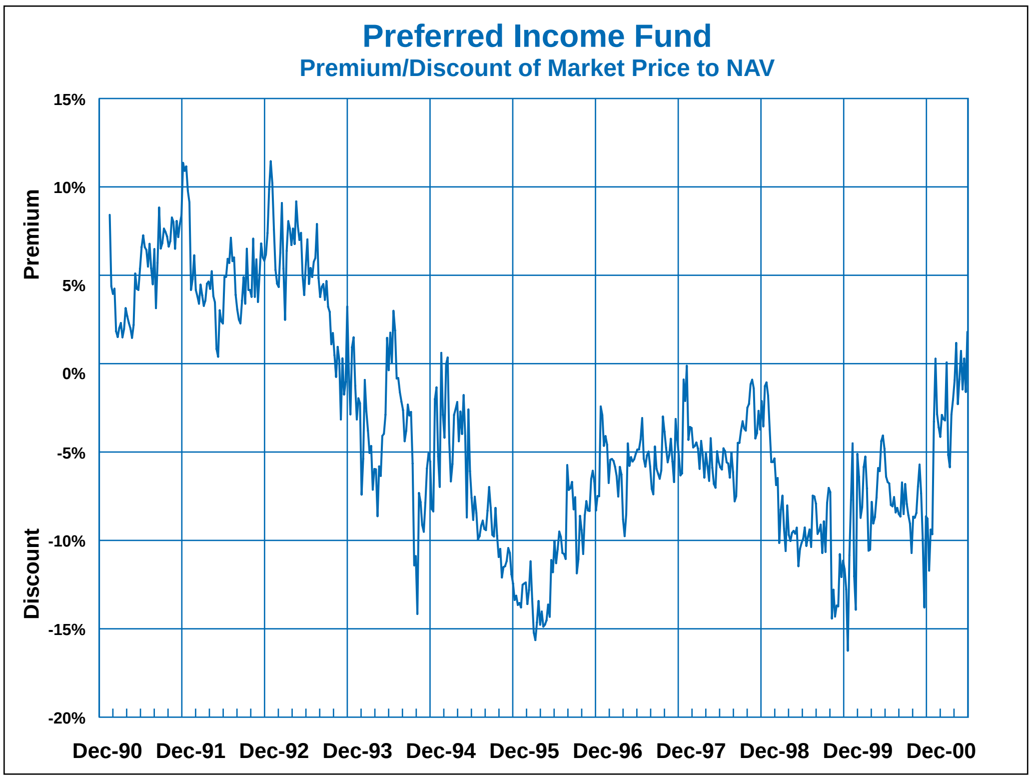
WHERE DO THINGS STAND NOW ON THE PROPOSED CHANGES IN MOODY'S RATING SYSTEM AND ITS EFFECT ON THE FUND?

As mentioned in the Fund's November 30, 2000 annual report, Moody's Investors Service intends to restructure the scale on which it rates preferred stocks in order to make those ratings more consistent with its ratings on bonds. In response, we have obtained the necessary approval from Moody's of some changes in the Fund's corporate articles governing its outstanding shares of Money Market Cumulative

Preferred™ stock ("MMP"). We currently expect that these changes, which will become effective when Moody's actually changes its rating scale, will help us avoid the unintended, but potentially substantial, negative effects of Moody's restructuring on the Fund's MMP. We are now awaiting the publication of Moody's rating changes, which could happen fairly soon.

HOW IS THE MARKET PRICE OF THE FUND'S SHARES TRACKING THEIR NET ASSET VALUE?

The following graph tells the story. Clearly, the premiums and discounts bounce around from week to week, reflecting changes in both the market price and the NAV. The best source of up-to-date data is our web site at www.preferredincome.com.



IS A SPECIAL YEAR-END DISTRIBUTION BY THE FUND LIKELY THIS YEAR?

We doubt it. Significant year-end special distributions typically come from net capital gains realized by the Fund. The Fund has a capital loss carryforward from last year, which is likely to offset for tax purposes any gains that might be realized in the current fiscal year. We know that this isn't as much fun as getting a big year-end check, but it may also keep our shareholders from paying taxes unnecessarily.

FINANCIAL DATA

Per Share of Common Stock (Unaudited)

	Dividends Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price (1)
December 31, 1999	$**0.5600**	$13.74	$12.2500	$12.64
January 31, 2000	0.0820	13.65	12.0000	12.62
February 29, 2000	0.0820	13.45	12.5000	12.49
March 31, 2000	0.0820	13.62	12.1875	12.28
April 30, 2000	0.0820	13.05	12.0625	12.08
May 31, 2000	0.0820	12.75	12.0625	12.22
June 30, 2000	0.0820	13.18	12.1250	12.24
July 31, 2000	0.0820	13.28	12.3125	12.29
August 31, 2000	0.0820	13.50	12.3750	12.47
September 30, 2000	0.0820	13.51	12.0625	12.23
October 31, 2000	0.0820	13.27	12.3750	12.38
November 30, 2000	0.0820	13.41	12.1250	12.12
December 31, 2000	0.0820	13.42	12.1250	12.77
January 31, 2001	0.0820	13.68	13.0000	13.29
February 28, 2001	0.0820	13.87	13.5000	13.66
March 31, 2001	0.0820	13.78	13.5000	13.57
April 30, 2001	0.0820	13.69	13.6500	13.69
May 31, 2001	0.0820	13.83	13.8800	13.83

(1) Whenever the net asset value per share of the Fund's common stock is less than or equal to the market price per share on the payment date, new shares issued will be valued at the higher of net asset value or 95% of the then current market price. Otherwise, the reinvestment shares of common stock will be purchased in the open market.

See Notes to Financial Statements.

Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS

May 31, 2001 (Unaudited)

Shares/$ Par		Value (Note 1)
	PREFERRED STOCKS AND SECURITIES — 94.9%	
	ADJUSTABLE RATE PREFERRED STOCKS — 17.2%	
	BANKING — 12.2%	
	Bank One Corporation:	
107,775	Series B, Adj. Rate Pfd.	$ 9,645,862*
4,900	Series C, Adj. Rate Pfd.	472,850*
	Citigroup Inc.:	
45,000	Series Q, Adj. Rate Pfd.	959,062*
102,850	Series R, Adj. Rate Pfd.	2,191,991*
	J.P. Morgan Chase & Co.:	
20,050	Series A, Adj. Rate Pfd.	1,553,875*
26,000	Series L, Adj. Rate Pfd.	2,216,500*
30,000	Series N, Adj. Rate Pfd.	652,500*
134,850	Wells Fargo & Company, Series B, Adj. Rate Pfd.	5,933,400*
	TOTAL BANKING ADJUSTABLE RATE PREFERRED STOCKS	23,626,040
	UTILITIES — 5.0%	
37,000	Delmarva Power & Light, Adj. Rate Pfd.	3,302,250*
	Niagara Mohawk Power Corporation:	
154,879	Series A, Adj. Rate Pfd.	3,600,937*
29,674	Series B, Adj. Rate Pfd.	734,431*
88,745	Series C, Adj. Rate Pfd.	2,196,439*
	TOTAL UTILITIES ADJUSTABLE RATE PREFERRED STOCKS	9,834,057
	TOTAL ADJUSTABLE RATE PREFERRED STOCKS	33,460,097
	FIXED RATE PREFERRED STOCKS AND SECURITIES — 77.7%	
	BANKING — 21.2%	
200	ABN AMRO North America., 6.59% Pfd., Series 144A	191,921*
	BancWest Corporation:	
$6,500,000	First Hawaiian Capital I, 8.343% 7/1/27 Capital Security, Series B	6,391,060
	Citigroup Inc.:	
132,377	5.864% Pfd., Series M	5,698,168*
21,850	6.231% Pfd., Series H	995,158*
	First Union Corporation:	
$1,500,000	First Union Capital II, 7.95% 11/15/29 Capital Security	$ 1,512,967
$1,750,000	First Union Institutional Capital II, 7.85% 1/1/27 Capital Security	1,702,391
$2,500,000	First Union Institutional Capital I, 8.04% 12/1/26 Capital Security	2,483,137
2,800	Firstar Realty LLC, 8.875% Pfd. REIT, 144A***	2,947,238
	GreenPoint Financial Corporation:	
$2,725,000	GreenPoint Capital Trust I, 9.10% 6/1/27 Capital Security	2,545,818
	HSBC USA, Inc.:	
60,600	$2.8575 Pfd.	2,763,360*
$2,635,000	Republic New York Capital II, 7.53% 12/4/26 STOPS	2,514,093
62,189	J.P. Morgan Chase & Co. Pfd.10.84%	1,593,282*
	Keycorp:	
$1,870,000	Keycorp Institutional Capital B, 8.25% 12/15/26 Capital Security	1,889,317
$1,000,000	Keycorp Institutional Capital II, 6.875% 3/17/29 Capital Security	879,840
	Bank of America Corporation:	
$3,160,000	NB Capital Trust IV 8.25%, 4/15/27 Capital Security	3,209,533
	Fleet Boston Financial Corporation:	
$1,000,000	Summit Capital Trust I, 8.40% 3/15/27 Capital Security, Series B	1,037,280
$2,750,000	Washington Mutual, Inc., 8.375% 6/1/27 Capital Security	2,770,982
	TOTAL BANKING FIXED RATE PREFERRED STOCKS AND SECURITIES	41,125,545
	FINANCIAL SERVICES — 15.0%	
	Bear Stearns Companies, Inc.:	
218,840	5.49% Pfd., Series G	8,446,130*
11,790	5.72% Pfd., Series F	474,017*
7,733	6.15% Pfd., Series E	334,298*
$3,972,000	Countrywide Credit Capital I, 8.00% 12/15/26 Capital Security	3,845,134

See Notes to Financial Statements.

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2001 (Unaudited)

Shares/$ Par		Value (Note 1)
	PREFERRED STOCKS AND SECURITIES (Continued)	
	FIXED RATE PREFERRED STOCKS AND SECURITIES (Continued)	
	FINANCIAL SERVICES (Continued)	
2,500	Heller Financial, Inc., 6.95% Pfd., Series D	$ 239,600*
	Household International, Inc.:	
10,000	$4.30 Pfd.	596,600*
2,405	5.00% Pfd.	81,542*
	Lehman Brothers Holdings, Inc.:	
50,650	5.67%, Series D	2,058,416*
121,050	5.94% Pfd., Series C	5,117,994*
165,055	USA Education, Inc., 6.97% Pfd., Series A	8,000,216*
	TOTAL FINANCIAL SERVICES FIXED RATE PREFERRED STOCKS AND SECURITIES	29,193,947
	INSURANCE — 10.3%	
	Allstate Corporation:	
$1,900,000	Allstate Financing II, 7.83% 12/1/45 Capital Security	1,816,048
	AON Corporation:	
$3,120,000	AON Capital Trust A, 8.205% 1/1/27 Capital Security	3,055,182
	Conseco, Inc.:	
14,850	Conseco Financing Trust I, 9.16% TOPrS	327,368
75,000	Conseco Financing Trust VI, 9.00% TOPrS	1,612,875
29,350	Conseco Financing Trust V, 8.70% TOPrS	630,438
21	Prudential Human Resources Management Company, Inc., 6.30% Private Placement, Sinking Fund Pfd., Series A	2,044,689*
	SAFECO Corporation:	
$2,480,000	SAFECO Capital Trust I, 8.072% 7/15/37 Capital Security	2,108,397
	The St. Paul Companies, Inc.:	
$4,700,000	MMI Capital Trust I, 7.625% 12/15/27 Capital Security, Series B	4,444,343
	UnumProvident Corporation:	
$4,000,000	Provident Financing Trust I, 7.405% 3/15/38 Capital Security	$ 3,390,780
	Zurich Financial Services AG:	
500	Zurich Registered Caps II, 6.58%	510,847*
	TOTAL INSURANCE FIXED RATE PREFERRED STOCKS AND SECURITIES	19,940,967
	OIL AND GAS — 3.6%	
3,700	Anadarko Petroleum Corporation, 5.46% Pfd.	312,668*
41,300	Apache Corporation, 5.68% Pfd., Series B	3,586,079*
	Coastal Corporation,:	
42,800	Coastal Finance I, 8.375% TOPrS	1,092,256
1,860	EOG Resources, Inc., 7.195% Pfd., Series B	1,929,145*
	TOTAL OIL AND GAS FIXED RATE PREFERRED STOCKS AND SECURITIES	6,920,148
	MISCELLANEOUS INDUSTRIES — 2.0%	
5	BHP Operations, 6.76% Pfd. 144A***	512,145*
7,500	E.I. Du Pont de Nemours and Company, $4.50 Pfd., Series B	528,225*
57,600	Farmland Industries, Inc., 8.00% Pfd. 144A***	1,276,128*
6,000	Ocean Spray Cranberries, 6.25% Pfd. 144A***	486,270*
9,520	Viad Corporation, $4.75 Sinking Fund Pfd.	522,981*
	Worldcom Inc.:	
22,500	Corts Worldcom, 7.60% Pfd. CorTS	547,425
	TOTAL MISCELLANEOUS INDUSTRIES FIXED RATE PREFERRED STOCKS AND SECURITIES	3,873,174

See Notes to Financial Statements.

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2001 (Unaudited)

Shares/$ Par		Value (Note 1)
	PREFERRED STOCKS AND SECURITIES (Continued)	
	FIXED RATE PREFERRED STOCKS AND SECURITIES (Continued)	
	UTILITIES — 25.6%	
97,500	Alabama Power Company, 5.20% Pfd.	$ 1,925,137*
76,450	Appalachian Power Company, 8.00% QUIDS, Series B	1,910,103
6,250	Avista Corporation, $6.95 Pfd., Series K	572,406*
15,000	Baltimore Gas & Electric Company, 6.99% Pfd., Series 1995	1,548,600*
10,000	Boston Edison Company, 4.78% Pfd.	704,850*
	Central Hudson Gas & Electric Corporation:	
5,000	4.35% Pfd., Series D, Pvt.	324,800*
750	4.96% Pfd., Series E, Pvt.	54,758*
12,450	Columbus Southern Power Company, 7.92%, Jr. Sub. Debt., Series B	309,258
	Connecticut Light and Power Company:	
885	$2.06 Pfd.	24,740*
5,073	$3.24 Pfd.	221,462*
2,000	4.50% Pfd.	61,070*
9,300	5.28% Pfd.	335,172*
6,870	Dayton Power and Light Company, 3.90% Pfd., Series C	398,254*
	Duke Energy Corporation:	
5,550	4.50% Pfd., Series C	376,956*
6,412	7.85% Pfd., Series S	675,761*
	Entergy Arkansas, Inc.:	
2,800	7.32% Pfd.	260,554*
11,350	7.40% Pfd.	1,067,695*
1,147	7.88% Pfd.	119,879*
4,440	Entergy Gulf States Inc., 7.56% Pfd.	400,199*
	Entergy Louisiana, Inc.:	
260	7.84% Pfd.	26,072*
106,138	8.00% Pfd., Series 92	2,600,912*
8,500	Entergy Mississippi, Inc., 7.44% Pfd.	819,103*
5,350	Florida Power & Light Company, 4.35% Pfd., Series E, Pvt.	336,087*
5,000	Green Mountain Power, 7.32% Pfd., Series 1	$ 393,225*
	Hawaiian Electric Company, Inc.:	
20,000	HECO Capital Trust I, 8.05% QUIPS	497,800
	Illinois Power Company:	
4,530	4.08% Pfd., Series A	128,856*
8,960	4.42% Pfd., Series D	276,058*
29,370	4.70% Pfd., Series E	962,308*
785	7.75% Pfd.	39,450*
10,000	Indiana Michigan Power Company, 8.00% Pfd., Series A TOPrS	251,850
12,000	Indianapolis Power & Light Company, 5.65% Pfd.	955,860*
6,429	Jersey Central Power & Light Company, 7.52% Sinking Fund Pfd., Series K	665,659*
1,810	Kansas City Power & Light Company, 4.50% Pfd.	113,605*
8,500	Monongahela Power Company, $7.73 Pfd., Series L	891,310*
11,000	Montana Power Co., $6.875 Pfd.	1,084,270*
3,500	Northern Indiana Public Service Company, 7.44% Pfd.	358,033*
6,170	Ohio Edison Company, 4.44% Pfd.	368,164*
	Ohio Power Company:	
36,200	7.375% Sr. Notes	888,348
15,500	7.92% QUIDS, Series B	386,958
33,600	8.16% Pfd., Series A	847,728
	PacifiCorp:	
260	$4.56 Pfd.	17,317*
6,158	$4.72 Pfd.	424,563*
900	Pacificorp Capital 8.25% Quips	22,055
	PECO Energy Company:	
5,000	$4.40 Pfd., Series C	317,225*
$1,050,000	Capital Trust III, $7.38 4/6/28 Capital Security, Series D	911,274
7,500	$7.48 Pfd.	770,775*
5,000	PPL Electric Utilities Corporation, 6.75% Pfd.	473,225*

See Notes to Financial Statements.

PORTFOLIO OF INVESTMENTS (Continued)
May 31, 2001 (Unaudited)

Shares/$ Par		Value (Note 1)
PREFERRED STOCKS AND SECURITIES (Continued)		
FIXED RATE PREFERRED STOCKS AND SECURITIES (Continued)		
UTILITIES (Continued)		
9,410	PSI Energy, Inc., 4.32% Pfd.	$ 149,995*
10,000	Public Service Company of New Mexico, 4.58% Private Pfd.	614,400*
	Public Service Enterprise Group Inc.:	
26,000	Enterprise Capital Trust I, 7.44% TOPrS, Series A	611,260
	Puget Sound Energy, Inc.:	
82,200	7.45% Pfd., Series II	2,080,482*
10,190	7.75% Sinking Fund Pfd.	1,057,111*
	Reliant Energy, Inc.:	
45,000	HL&P Capital Trust I, 8.125% QUIPS	1,127,700
$3,500,000	Houston Light & Power, Capital Trust II, 8.257%, 2/1/37 Capital Security, Series B	3,310,335
57,750	REI Trust I, 7.20% TOPrS, Series C	1,348,751
4,984	Rochester Gas & Electric Corporation, 4.10% Pfd., Series H	291,664*
	Sierra Pacific Resources:	
30,000	Sierra Pacific Power, 7.80% Pfd., Series 1	736,650*
30,000	NVP Capital III, 7.75% TIPS	652,200
27,860	NVP Capital I, 8.20% QUIPS, Series A	633,954
	South Carolina Electric & Gas Company:	
26,311	5.125% Purchase Fund Pfd.	1,037,706*
6,703	6.00% Purchase Fund Pfd.	307,198*
	Southern Union Company:	
64,700	Southern Union Financing I, 9.48% TOPrS	$ 1,652,438
7,050	TransCanada PipeLines Ltd., 8.25%	179,775
10	TXU Corporation, 7.24% Pfd., Series B	1,046,136*
	Union Electric Power Company:	
3,500	$7.64 Pfd.	369,058*
$3,800,000	7.69% 12/15/36 Capital Security, Series A	3,514,791
	XCEL Energy, Inc.:	
14,200	$4.10 Pfd., Series C	866,058*
38,000	PSCO Capital Trust I, 7.60% TOPrS	939,170
	TOTAL UTILITIES FIXED RATE PREFERRED STOCKS AND SECURITIES	49,646,576
	TOTAL FIXED RATE PREFERRED STOCKS AND SECURITIES	150,700,357
	TOTAL PREFERRED STOCKS AND SECURITIES (Cost $182,673,432)	184,160,454
COMMON STOCKS — 0.4% (Cost $561,856)		
27,500	Wisconsin Energy Corporation	640,063*
PUT OPTION — 0.4% (Cost $932,384)		
1,200	Put Options on U.S. Treasury: Bond September Futures, Expiring 8/25/01†	839,063

See Notes to Financial Statements.

Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2001 (Unaudited)

Principal Amount			Value (Note 1)
COMMERCIAL PAPER — 0.4% (Cost $789,000)			
$ 789,000	General Electric Commercial Paper 4.12%		$ 789,000
TOTAL INVESTMENTS (Cost $184,956,672**)		96.1%	186,428,580
OTHER ASSETS AND LIABILITIES (Net)		3.9	7,624,935
NET ASSETS		100.0%	$194,053,515

* Securities eligible for the Dividends Received Deduction.
** Aggregate cost of securities held.
*** Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers.
† Non-income producing.

ABBREVIATIONS (Note 6):
QUIDS — Quarterly Income Debt Securities
QUIPS — Quarterly Income Preferred Securities
REIT — Real Estate Investment Trust
STOPS — Semi-Annual Trust Originated Pass Through Securities
TIPS — Trust Issued Preferred Securities
TOPrS — Trust Originated Preferred Securities
CorTS — Corporate Backed Trust Securities

Capital Securities are considered debt instruments for financial statement purposes and the amounts shown in the Shares/$ Par column are dollar amounts of par value.

See Notes to Financial Statements.

STATEMENT OF ASSETS AND LIABILITIES

May 31, 2001 (Unaudited)

ASSETS:		
Investments, at value (Cost $184,956,672) (Note 1) See accompanying schedule		$186,428,580
Receivable for investments sold		5,952,309
Dividends and interest receivable		1,878,162
Prepaid expenses		133,047
Total Assets		194,392,098
LIABILITIES:		
Dividends payable to Common Shareholders	$ 160,561	
Investment advisory fee payable (Note 2)	92,823	
Professional fees payable	24,662	
Accrued expenses and other payables	60,537	
Total Liabilities		338,583
NET ASSETS		$194,053,515
NET ASSETS CONSIST OF:		
Undistributed net investment income (Note 1)		$ 216,241
Accumulated net realized loss on investments sold (Note 1)		(7,150,965)
Unrealized appreciation of investments (Note 3)		1,471,908
Par value of Common Stock		98,520
Paid-in capital in excess of par value of Common Stock		141,917,811
Money Market Cumulative Preferred™ Stock (Note 5)		57,500,000
Total Net Assets		$194,053,515
	Per Share	
NET ASSETS AVAILABLE TO:		
Money Market Cumulative Preferred™ Stock (575 shares outstanding) redemption value	$100,000.00	$ 57,500,000
Accumulated undeclared dividends on Money Market Cumulative Preferred™ Stock (Note 9)	509.11	292,736
	$100,509.11	57,792,736
Common Stock (9,852,037 shares outstanding)	$13.83	136,260,779
TOTAL NET ASSETS		$194,053,515

See Notes to Financial Statements.

Preferred Income Fund Incorporated

STATEMENT OF OPERATIONS

For the Six Months Ended May 31, 2001 (Unaudited)

INVESTMENT INCOME:		
Dividends		$ 4,713,528
Interest		2,346,085
Total Investment Income		7,059,613
EXPENSES:		
Investment advisory fee (Note 2)	$541,293	
Administration fee (Note 2)	114,951	
Money Market Cumulative Preferred™ broker commissions and Auction Agent fees	78,793	
Insurance premiums	50,526	
Legal and audit fees	54,989	
Shareholder servicing agent fees and expenses (Note 2)	37,054	
Directors' fees and expenses (Note 2)	36,078	
Custodian fees and expenses (Note 2)	14,219	
Other	34,201	
Total Expenses		962,104
NET INVESTMENT INCOME		6,097,509
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS (Notes 1 and 3):		
Net realized loss on investments sold during the period		(1,610,883)
Change in net unrealized appreciation of investments during the period		5,951,700
NET REALIZED LOSS AND UNREALIZED GAIN ON INVESTMENTS		4,340,817
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		$10,438,326

See Notes to Financial Statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended May 31, 2001 (Unaudited)	Year Ended November 30, 2000
INCREASE / (DECREASE) IN NET ASSETS		
OPERATIONS:		
Net investment income	$ 6,097,509	$ 12,986,217
Net realized loss on investments sold during the period	(1,610,883)	(4,274,778)
Change in net unrealized appreciation (depreciation) of investments during the period	5,951,700	(1,234,988)
Net increase in net assets resulting from operations	10,438,326	7,476,451
DISTRIBUTIONS:		
Dividends paid from net investment income to Money Market Cumulative Preferred™ Stock Shareholders (Note 5)	(1,709,682)	(2,821,469)
Distributions paid from net realized capital gains to Money Market Cumulative Preferred™ Stock Shareholders (Note 5)	—	(151,753)
Dividends paid from net investment income to Common Stock Shareholders	(4,841,811)	(10,268,842)
Distributions paid from net realized capital gains to Common Stock Shareholders	—	(4,115,149)
Total Distributions	(6,551,493)	(17,357,213)
FUND SHARE TRANSACTIONS:		
Increase from Common Stock transactions	184,149	—
NET INCREASE (DECREASE) IN NET ASSETS FOR THE PERIOD	4,070,982	(9,880,762)
NET ASSETS:		
Beginning of period	189,982,533	199,863,295
End of period (including undistributed net investment income of $216,241 and $670,224, respectively)	$194,053,515	$189,982,533

See Notes to Financial Statements.

Preferred Income Fund Incorporated

FINANCIAL HIGHLIGHTS

For a Common share outstanding throughout each period.

Contained below is per share operating performance data, total investment returns, ratios to average net assets and other supplemental data. This information has been derived from information provided in the financial statements and market price data for the Fund's shares.

	Six Months Ended May 31, 2001 (Unaudited)	Year Ended November 30, 2000	1999	1998	1997	1996
PER SHARE OPERATING PERFORMANCE:						
Net asset value, beginning of year	$ 13.41	$ 14.41	$ 16.43	$ 16.71	$ 16.50	$ 15.80
INVESTMENT OPERATIONS:						
Net investment income	0.62	1.32	1.29	1.28	1.27	1.37
Net realized and unrealized gain/(loss) on investments	0.44	(0.56)	(1.35)	0.05	1.00	0.65
Total from investment operations	1.06	0.76	(0.06)	1.33	2.27	2.02
DISTRIBUTIONS:						
Dividends paid from net investment income to MMP* Shareholders	(0.17)	(0.29)	(0.20)	(0.17)	(0.22)	(0.15)
Distributions paid from net realized capital gains to MMP* Shareholders	—	(0.01)	(0.08)	(0.07)	(0.06)	(0.08)
Dividends paid from net investment income to Common Stock Shareholders	(0.49)	(1.04)	(1.12)	(1.05)	(1.15)	(1.08)
Distributions paid from net realized capital gains to Common Stock Shareholders	—	(0.42)	(0.53)	(0.30)	(0.65)	—
Change in accumulated undeclared dividends on MMP*	0.02 †	(0.00)†	(0.03)†	(0.02)	0.02	(0.01)
Total distributions	(0.64)	(1.76)	(1.96)	(1.61)	(2.06)	(1.32)
Net asset value, end of period	$ 13.83	$ 13.41 †	$ 14.41 †	$ 16.43	$ 16.71	$ 16.50
Market value, end of period	$ 13.880	$ 12.125	$ 12.750	$ 15.938	$ 16.188	$ 15.500
Total investment return based on net asset value**	6.96%	4.55%	(1.81)%	6.91%	13.65%	12.78%
Total investment return based on market value**	18.67%	6.88%	(10.43)%	7.05%	17.20%	18.50%
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:						
Operating expenses	1.43%***	1.41%	1.37%	1.32%	1.34%	1.51%
Net investment income****	6.98%***	7.58%	6.66%	6.13%	6.22%	7.22%
SUPPLEMENTAL DATA:††						
Portfolio turnover rate	13%	66%	65%	87%	74%	98%
Net assets, end of period (in 000's)	$194,054	$189,983	$199,863	$219,398	$221,990	$220,088
Ratio of operating expenses to total average net assets	1.00%***	0.98%	0.99%	0.97%	0.99%	1.10%

* Money Market Cumulative Preferred™ Stock.
** Assumes reinvestment of distributions at the price obtained by the Fund's Dividend Reinvestment Plan.
*** Annualized.
**** The net investment income ratios reflect income net of operating expenses and payments to MMP* Shareholders.
† Includes effect of additional distribution available to MMP* Shareholders ($0.03 per Common Share in 2000 and $0.05 per Common Share in 1999). (See Note 5 to the Financial Statements.)
†† Information presented under heading Supplemental Data includes MMP*.

See Notes to Financial Statements.

FINANCIAL HIGHLIGHTS (Continued)

The table below sets out information with respect to Money Market Cumulative Preferred™ Stock currently outstanding.

	Total Shares Outstanding	Asset Coverage Per Share	Involuntary Liquidating Preference Per Share (1)	Average Market Value Per Share (1) & (2)
05/31/01*	575	$337,484	$100,000	$100,000
11/30/00	575	330,404	100,000	100,000
11/30/99	575	347,588	100,000	100,000
11/30/98	575	381,562	100,000	100,000
11/30/97	575	386,070	100,000	100,000
11/30/96	575	382,762	100,000	100,000

(1) Excludes accumulated undeclared dividends.
(2) See Note 5.
* Unaudited.

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. Significant Accounting Policies

Preferred Income Fund Incorporated (the "Fund") is a diversified, closed-end management investment company organized as a Maryland corporation and is registered with the Securities and Exchange Commission ("SEC") under the Investment Company Act of 1940, as amended. The policies described below are followed consistently by the Fund in the preparation of its financial statements in conformity with generally accepted accounting principles.

Portfolio valuation: The net asset value of the Fund's Common Stock is determined by the Fund's administrator no less frequently than on the last business day of each week and month. It is determined by dividing the value of the Fund's net assets attributable to common shares by the number of shares of Common Stock outstanding. The value of the Fund's net assets attributable to common shares is deemed to equal the value of the Fund's total assets less (i) the Fund's liabilities, (ii) the aggregate liquidation value of the outstanding Money Market Cumulative Preferred™ Stock and (iii) accumulated and unpaid dividends on the outstanding Money Market Cumulative Preferred™ Stock. Securities listed on a national securities exchange are valued on the basis of the last sale on such exchange on the day of valuation. In the absence of sales of listed securities and with respect to securities for which the most recent sale prices are not deemed to represent fair market value and unlisted securities (other than money market instruments), securities are valued at the mean between the closing bid and asked prices when quoted prices for investments are readily available. Investments in over-the-counter derivative instruments, such as interest rate swaps and options thereon (i.e., "swaptions") are valued at the prices obtained from the broker/dealer or bank that is the counterparty to such instrument, subject to comparison of such valuation with a valuation obtained from a broker/dealer or bank that is not a counterparty to the particular derivative instrument. Investments for which market quotations are not readily available or for which management determines that the prices are not reflective of current market conditions are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund, including reference to valuations of other securities which are comparable in quality, maturity and type. Investments in money market instruments, which mature in 60 days or less, are valued at amortized cost.

Securities transactions and investment income: Securities transactions are recorded as of the trade date. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded on ex-dividend dates. Interest income is recorded on the accrual basis.

In November 2000, a revised AICPA Audit and Accounting Guide, *Audits of Investment Companies,* was issued, and is effective for fiscal years beginning after December 15, 2000. The revised Guide will require the Fund to amortize premium and discount on bonds and notes. Upon initial adoption, the Fund will be required to adjust the cost of its bonds and notes by the cumulative amount of amortization that would have been recognized had amortization been in effect from the purchase date of each holding. Adopting this accounting principle will not affect the Fund's net asset value, but will change the classification of certain amounts between interest income and realized and unrealized gain/loss in the

Statement of Operations. The Fund has not at this time undertaken to quantify the impact, if any, resulting from the adoption of this principle on the financial statements.

Option accounting principles: Upon the purchase of an option by the Fund, the total purchase price paid is recorded as an investment. The market valuation is determined as set forth in the preceding portfolio valuation paragraph. When the Fund enters into a closing sale transaction, the Fund will record a gain or loss depending on the difference between the purchase and sale price. The risks associated with purchasing options and the maximum loss the Fund would incur are limited to the purchase price originally paid.

Repurchase agreements: The Fund may engage in repurchase agreement transactions. The Fund's Investment Adviser reviews and approves the eligibility of the banks and dealers with which the Fund may enter into repurchase agreement transactions. The value of the collateral underlying such transactions is at least equal at all times to the total amount of the repurchase obligations, including interest. The Fund maintains possession of the collateral through its custodian and, in the event of counterparty default, the Fund has the right to use the collateral to offset losses incurred. There is the possibility of loss to the Fund in the event the Fund is delayed or prevented from exercising its rights to dispose of the collateral securities.

Dividends and distributions to shareholders: The Fund expects to declare dividends on a monthly basis to shareholders of Common Stock. The shareholders of Money Market Cumulative Preferred™ Stock are entitled to receive cumulative cash dividends as declared by the Fund's Board of Directors. Distributions to shareholders are recorded on the ex-dividend date. Any net realized short-term capital gains will be distributed to shareholders at least annually. Any net realized long-term capital gains may be distributed to shareholders at least annually or may be retained by the Fund as determined by the Fund's Board of Directors. Capital gains retained by the Fund are subject to tax at the corporate tax rate. Subject to the Fund qualifying as a regulated investment company, any taxes paid by the Fund on such net realized long-term gains may be used by the Fund's Shareholders as a credit against their own tax liabilities.

Federal income taxes: The Fund intends to continue to qualify as a regulated investment company by complying with the requirements under subchapter M of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies and intends to distribute substantially all of its taxable net investment income to its shareholders. Therefore, no Federal income tax provision is required.

Income and capital gain distributions are determined and characterized in accordance with income tax regulations which may differ from generally accepted accounting principles. These differences are primarily due to (1) differing treatments of income and gains on various investment securities held by the Fund, including timing differences, (2) the attribution of expenses against certain components of taxable investment income, and (3) federal regulations requiring proportional allocation of income and gains to all classes of Shareholders.

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

The Internal Revenue Code of 1986, as amended, imposes a 4% nondeductible excise tax on the Fund to the extent the Fund does not distribute by the end of any calendar year at least (1) 98% of the sum of its net investment income for that year and its capital gains (both long term and short term) for its fiscal year and (2) certain undistributed amounts from previous years.

Other: The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

2. Investment Advisory Fee, Directors' Fees, Administration Fee and Transfer Agent Fee

Flaherty & Crumrine Incorporated (the "Adviser") serves as the Fund's Investment Adviser. The Fund pays the Adviser a monthly fee at an annual rate of 0.625% of the value of the Fund's average monthly net assets up to $100 million and 0.50% of the value of the Fund's average monthly net assets in excess of $100 million.

The Fund currently pays each Director who is not a director, officer or employee of the Adviser a fee of $9,000 per annum, plus $500 for each in-person meeting of the Board of Directors or any committee and $100 for each telephone meeting. In addition, the Fund will reimburse all Directors for travel and out-of-pocket expenses incurred in connection with such meetings.

PFPC Inc., a member of the PNC Financial Services Group ("PNC Financial Services"), serves as the Fund's Administrator and Transfer Agent. As Administrator, PFPC Inc. calculates the net asset value of the Fund's shares and generally assists in all aspects of the Fund's administration and operation. As compensation for PFPC Inc.'s services as Administrator, the Fund pays PFPC Inc. a monthly fee at an annual rate of 0.12% of the Fund's average monthly net assets. PFPC Inc. also serves as the Fund's Common Stock servicing agent (transfer agent), dividend-paying agent and registrar and, as compensation for PFPC Inc.'s services as such, the Fund pays PFPC Inc. a fee at an annual rate of 0.02% of the Fund's average monthly net assets plus certain out-of-pocket expenses.

PFPC Trust Company ("PFPC Trust") began serving as the Fund's Custodian on April 9, 2001. PFPC Trust is an indirect subsidiary of PNC Financial Services. As compensation for PFPC Trust's services as custodian, the Fund pays PFPC Trust a monthly fee at the annual rate of 0.01% of the Fund's average monthly net assets. Prior to April 9, 2001, Boston Safe Deposit and Trust Company ("Boston Safe"), a wholly-owned subsidiary of Mellon Bank Corporation, served as the Fund's Custodian.

Bankers Trust Corporate & Agency Services, a wholly-owned subsidiary of Deutsche Bank, AG ("Auction Agent"), serves as the Fund's Money Market Cumulative Preferred™ Stock transfer agent, registrar, dividend disbursing agent and redemption agent.

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

3. Purchase and Sales of Securities

Cost of purchases and proceeds from sales of securities for the period ended May 31, 2001, excluding short-term investments, aggregated $25,029,557 and $32,447,311, respectively.

At May 31, 2001, aggregate gross unrealized appreciation for all securities in which there is an excess of value over cost was $6,859,296 and aggregate gross unrealized depreciation for all securities in which there is an excess of cost over value was $5,387,388.

4. Common Stock

At May 31, 2001, 240,000,000 shares of $0.01 par value Common Stock were authorized.

Common Stock transactions were as follows:

	Six Months Ended 5/31/01	
	Shares	**Amount**
Issued as reinvestment of dividends under the Dividend Reinvestment and Cash Purchase Plan	13,466	$184,189

There were no Common Stock transactions for the year ended November 30, 2000.

5. Money Market Cumulative Preferred™ Stock

The Fund's Articles of Incorporation authorize the issuance of up to 10,000,000 shares of $0.01 par value preferred stock. The Money Market Cumulative Preferred™ Stock is senior to the Common Stock and results in the financial leveraging of the Common Stock. Such leveraging tends to magnify both the risks and opportunities to Common Stock Shareholders. Dividends on shares of Money Market Cumulative Preferred™ Stock are cumulative.

The Fund is required to meet certain asset coverage tests with respect to the Money Market Cumulative Preferred™ Stock. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, Money Market Cumulative Preferred™ Stock at a redemption price of $100,000 per share plus an amount equal to the accumulated and unpaid dividends on such shares in order to meet these requirements. Additionally, failure to meet the foregoing asset requirements could restrict the Fund's ability to pay dividends to Common Stock Shareholders and could lead to sales of portfolio securities at inopportune times.

If the Fund allocates any net gains or income ineligible for the Dividends Received Deduction to shares of the Money Market Cumulative Preferred™ Stock, the Fund is required to make additional distributions to Money Market Cumulative Preferred™ Stock Shareholders or to pay a higher dividend rate in amounts needed to provide a return, net of tax, equal to the return had such originally paid distributions been eligible for the Dividends Received Deduction. Prior to November 30, 1999, additional distributions

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

were not reported as available to Money Market Cumulative Preferred™ Stock until declared by the Board of Directors. The amount of additional distributions payable for any year may be highly uncertain and will not be known until after a fiscal year has been completed.

An auction of the Money Market Cumulative Preferred™ Stock is generally held every 49 days. Existing shareholders may submit an order to hold, bid or sell such shares at par value on each auction date. Money Market Cumulative Preferred™ Stock Shareholders may also trade shares in the secondary market between auction dates.

At May 31, 2001, 575 shares of Money Market Cumulative Preferred™ Stock were outstanding at the annual rate of 3.22%. The dividend rate, as set by the auction process, is generally expected to vary with short-term interest rates. These rates may vary in a manner unrelated to the income received on the Fund's assets, which could have either a beneficial or detrimental impact on net investment income and gains available to Common Stock Shareholders. While the Fund expects to structure its portfolio holdings and hedging transactions to lessen such risks to Common Stock Shareholders, there can be no assurance that such results will be attained.

6. Portfolio Investments, Concentration and Investment Quality

The Fund invests primarily in adjustable and fixed rate preferred stocks and similar hybrid, i.e., fully taxable, preferred securities. Under normal market conditions, the Fund invests at least 25% of its assets in securities issued by utilities and at least 25% of its assets in securities issued by companies in the banking industry. The Fund's portfolio may therefore be subject to greater risk and market fluctuation than a portfolio of securities representing a broader range of investment alternatives. The risks could adversely affect the ability and inclination of companies in these industries to declare and pay dividends or interest and the ability of holders of securities of such companies to realize any value from the assets of the issuer upon liquidation or bankruptcy. The Fund may invest up to 15% of its assets at the time of purchase in securities rated below investment grade, provided that no such investment may be rated below both "Ba" by Moody's Investors Service, Inc. and "BB" by Standard & Poor's or judged to be comparable in quality at the time of purchase; however, any such securities must be issued by an issuer having an outstanding class of senior debt rated investment grade. The Fund may invest up to 15% of its assets in common stock. Under normal conditions, the Fund may invest up to 35% of its assets in debt securities. Certain of its investments in hybrid, i.e., fully taxable, preferred securities, such as TOPrS, TIPS, QUIPS, MIPS, QUIDS, QUICS, QIB's, STOPS, CorTS, REIT, Capital Securities, and other similar or related investments, will be subject to the foregoing 35% limitation to the extent that, in the opinion of the Fund's Adviser, such investments are deemed to be debt-like in key characteristics.

7. Special Investment Techniques

The Fund may employ certain investment techniques in accordance with its fundamental investment policies. These may include the use of when-issued and delayed delivery transactions. Securities purchased or sold on a when-issued or delayed delivery basis may be settled within 45 days after the date of the transaction. Such transactions may expose the Fund to credit and market valuation risk greater than that associated with regular trade settlement procedures. The Fund may also enter into transactions, in accordance with its fundamental investment policies, involving any or all of the following: lending of portfolio securities, short sales of securities, futures contracts, interest rate swaps, options on futures contracts, options on securities and options on interest rate swaps, i.e., swaptions. As in the case of when-issued securities, the use of over-the-counter derivatives, such as interest rate swaps and swaptions, may expose the Fund to greater credit, operations, and market value risk than is the case with regulated, exchange traded futures and options. With the exception of purchasing securities on a when-issued or delayed delivery basis or lending portfolio securities, these transactions are used for hedging or other appropriate risk-management purposes or, under certain other circumstances, to increase income. As of May 31, 2001, the Fund owned put options on U.S. Treasury bond futures contracts. No assurance can be given that such transactions will achieve their desired purposes or will result in an overall reduction of risk to the Fund.

8. Significant Shareholders

At May 31, 2001, the Commerce Group, Inc. owned approximately 30.1% of the Fund's outstanding Common Stock, according to a Schedule 13D filing dated December 1, 2000.

ADDITIONAL INFORMATION (Unaudited)

Dividend Reinvestment and Cash Purchase Plan

Under the Fund's Dividend Reinvestment and Cash Purchase Plan (the "Plan"), a shareholder whose Common Stock is registered in his own name will have all distributions reinvested automatically by PFPC Inc. as agent under the Plan, unless the shareholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in "street name") may be reinvested by the broker or nominee in additional shares under the Plan, but only if the service is provided by the broker or nominee, unless the shareholder elects to receive distributions in cash. A shareholder who holds Common Stock registered in the name of a broker or other nominee may not be able to transfer the Common Stock to another broker or nominee and continue to participate in the Plan. Investors who own Common Stock registered in street name should consult their broker or nominee for details regarding reinvestment.

The number of shares of Common Stock distributed to participants in the Plan in lieu of a cash dividend is determined in the following manner. Whenever the market price per share of the Fund's Common Stock is equal to or exceeds the net asset value per share on the valuation date, participants in the Plan will be issued new shares valued at the higher of net asset value or 95% of the then current market value. Otherwise, PFPC Inc. will buy shares of the Fund's Common Stock in the open market, on the New York Stock Exchange or elsewhere, on or shortly after the payment date of the dividend or distribution and continuing until the ex-dividend date of the Fund's next distribution to holders of the Common Stock or until it has expended for such purchases all of the cash that would otherwise be payable to the participants. The number of purchased shares that will then be credited to the participants' accounts will be based on the average per share purchase price of the shares so purchased, including brokerage commissions. If PFPC Inc. commences purchases in the open market and the then current market price of the shares (plus any estimated brokerage commissions) subsequently exceeds their net asset value most recently determined before the completion of the purchases, PFPC Inc. will attempt to terminate purchases in the open market and cause the Fund to issue the remaining dividend or distribution in shares. In this case, the number of shares received by the participant will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares. These remaining shares will be issued by the Fund at the higher of net asset value or 95% of the then current market value.

Plan participants are not subject to any charge for reinvesting dividends or capital gains distributions. Each Plan participant will, however, bear a proportionate share of brokerage commissions incurred with respect to PFPC Inc.'s open market purchases in connection with the reinvestment of dividends or capital gains distributions. For the six months ended May 31, 2001, $1,855 in brokerage commissions were incurred.

The automatic reinvestment of dividends and capital gains distributions will not relieve Plan participants of any income tax that may be payable on the dividends or capital gains distributions. A participant in the Plan will be treated for Federal income tax purposes as having received, on the dividend payment date, a dividend or distribution in an amount equal to the cash that the participant could have received instead of shares.

In addition to acquiring shares of Common Stock through the reinvestment of cash dividends and distributions, a shareholder may invest any further amounts from $100 to $3,000 semi-annually at the then current market price in shares purchased through the Plan. Such semi-annual investments are subject to any brokerage commission charges incurred.

A shareholder whose Common Stock is registered in his or her own name may terminate participation in the Plan at any time by notifying PFPC Inc. in writing, by completing the form on the back of the Plan account statement and forwarding it to PFPC Inc. or by calling PFPC Inc. directly. A termination will be effective immediately if notice is received by PFPC Inc. not less than 10 days before any dividend or distribution record date. Otherwise, the termination will be effective, and only with respect to any subsequent dividends or distributions, on the first day after the dividend or distribution has been credited to the participant's account in additional shares of the Fund. Upon termination and according to a participant's instructions, PFPC Inc. will either (a) issue certificates for the whole shares credited to the shareholder's Plan account and a check representing any fractional shares or (b) sell the shares in the market. Shareholders who hold Common Stock registered in the name of a broker or other nominee should consult their broker or nominee to terminate participation.

The Plan is described in more detail in the Fund's Plan brochure. Information concerning the Plan may be obtained from PFPC Inc. at 1-800-331-1710.

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ADDITIONAL INFORMATION (Unaudited) (Continued)

Meeting of Shareholders

On April 27, 2001, the Fund held its Annual Meeting of Shareholders (the "Meeting") to (1) elect two Directors of the Fund ("Proposal 1") and (2) ratify the selection of PricewaterhouseCoopers LLP as independent accountants for the Fund for the fiscal year ending November 30, 2001 ("Proposal 2"). The results of each proposal are as follows:

Proposal 1: Election of Directors.

Name	For	Withheld
Common Stock		
Robert T. Flaherty	6,327,410	63,548
Preferred Stock		
Morgan Gust	575	—

Martin Brody, Donald F. Crumrine, David Gale and Robert F. Wulf continue to serve in their capacities as Directors of the Fund.

Proposal 2: Ratify the selection of PricewaterhouseCoopers LLP as independent auditors.

	For	Against	Abstained
Common Stock and Preferred Stock (voting together as a single class)			
Voted	6,293,193	18,319	80,021

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Directors
Martin Brody
Donald F. Crumrine, CFA
Robert T. Flaherty, CFA
David Gale
Morgan Gust
Robert F. Wulf, CFA

Officers
Robert T. Flaherty, CFA
Chairman of the Board
and President
Donald F. Crumrine, CFA
Vice President
and Secretary
Robert M. Ettinger, CFA
Vice President
Peter C. Stimes, CFA
Vice President
and Treasurer

Investment Adviser
Flaherty & Crumrine Incorporated
e-mail: flaherty@fin-mail.com

Questions concerning your shares of Preferred Income Fund?

- If your shares are held in a Brokerage Account, contact your Broker.
- If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent & Shareholder Servicing Agent —
  PFPC Inc.
  P.O. Box 1376
  Boston, MA 02104
  1-800-331-1710

This report is sent to shareholders of Preferred Income Fund Incorporated for their information. It is not a Prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.

Preferred Income FUND

Semi-Annual Report

May 31, 2001

web site: www.preferredincome.com