

PREFERRED INCOME FUND INCORPORATED

Dear Shareholder:

Spurred by declining interest rates and increased demand for preferred securities, the Preferred Income Fund continued to perform well during the second quarter of fiscal 2003. For the three months ending May 31st, the Fund produced an 8.7% total return on net asset value ("NAV"). For the first six months of the Fund's fiscal year, the return was 19.2%.

The return on the market value of the Fund's shares was somewhat lower as the premium of the market price over the NAV declined during the quarter. For the period, the total return based upon the market value of the Fund's shares equaled 3.1%, while the return for the first six months was 15.9%. Please keep in mind, however, that past performance does not guarantee future results.

Despite a quick and successful outcome to the Iraq war, the domestic economy has not yet demonstrated that it is on the road to recovery. The Federal Reserve has kept short-term interest rates at historic lows, and many believe that further reductions will be necessary. With inflation subdued and substantial slack in output capacity and labor markets (suggesting that short-term rates are likely to remain low for an extended period), long-term interest rates have also declined. Since the start of the Fund's fiscal year, yields on two-year and ten-year US Treasuries have fallen by approximately 0.75%. Lower short-term interest rates provide a direct benefit by reducing the variable cost of the Fund's leverage in the form of its Money Market Cumulative Preferred[™] Stock ("MMP[™]"). Recently, the rates have been running below 1¹/₄%.

When long-term interest rates decline, we expect to lose money on the Fund's hedges and make money on the securities in the portfolio. The hedging strategy, however, is intended to tilt the playing field in the Fund's favor, and it has been working! Since the hedge is constructed by purchasing put options on US Treasury bond futures, the Fund's loss on the hedge is limited to the cost of the puts. On the other hand, with the right issues in the portfolio, the gains on our preferred securities have more than offset the cost of the hedge, and the NAV has increased.

As we have written often in the past, our fundamental investment philosophy is to own the issues that offer the best value within the preferred securities universe. While this may seem obvious, it often means that we pass up issues offering higher yields. If we make sound investments with attractive yields and avoid serious credit losses, then the Fund will have more money to invest to generate income over time. This strategy should enable the Fund to meet its objective of high current income for shareholders.

In recent quarters, we have increased the portfolio's allocation to lower coupon, traditional preferred stocks. Falling interest rates and new legislation lowering the tax rate on Qualified Dividend Income ("QDI") to 15% have benefited these securities more than taxable (or "hybrid") preferreds.

Investors are still evaluating the new tax law and determining how to incorporate it into investment decisions (more on this in the Q&A section), but one thing is clear – certain dividend paying securities will be more valuable to individual investors. Issuers of preferred securities are also assessing the impact of the new law and we expect to see several new issues of preferred stock in the months to come. While the market tries to sort it all out, we'll stick to the basic game plan and keep looking for the best bargains within the various sectors of the preferred market.

We certainly haven't been perfect, and some of our holdings are on life support. We have previously mentioned Conseco, Inc. and Farmland Industries, and there is unfortunately not much new to report on these two. However, we need to add one additional issue to the short list of problem credits – Touch America Holdings. Formerly Montana Power Company, management sold off its electric utility assets to focus on its fiber optic business (i.e., they zigged when they should have zagged!). The issue we own remained with the fiber optic business and has not paid a dividend for the past two quarters. (These three issuers now account for 0.2% of the Fund.)

It is important to remember that the investment objective of the Fund is to produce high current income consistent with preservation of capital. While no one will apologize for the returns of the past six months, it would be imprudent to expect them to be repeated very often. Of course, that doesn't mean we won't try, but when yields on long-term US Treasuries are well below 5% and money market funds are earning less than 1%, investors need to keep their expectations realistic. The Fund is well positioned to participate in a continuation of the rally in the bond market, but its hedging strategy is there to help protect the Fund should interest rates rise significantly.

We encourage you to read the Questions and Answers section beginning on the next page, which contains additional information on the Fund's strategy and operation, including a description of the new information that we intend to post to the Fund's web site in the near future, and discussion of a possible change in the Fund's name.

Sincerely,

Donald F. Crumrine
Chairman of the Board

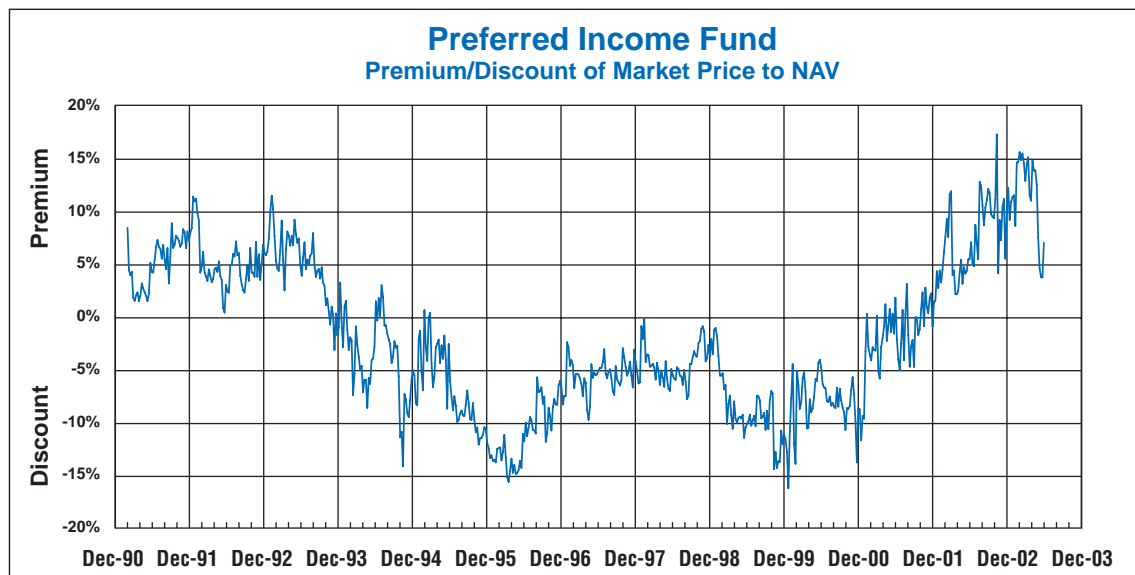
Robert M. Ettinger
President

June 30, 2003

QUESTIONS & ANSWERS

HOW DOES THE MARKET PRICE OF THE FUND'S SHARES COMPARE TO ITS NET ASSET VALUE?

The following chart shows the relationship between the market price of the Fund's shares and its net asset value ("NAV"). Recently, the share price has been flat while the NAV has been rising. You might expect the share price to track the NAV, although obviously this is not always the case.



The calculation of total return based upon the NAV is a straightforward measurement of the job management is doing. The linkage to performance based upon share price is less direct. While we continually promote the Fund's shares, the strongest endorsement comes from an evaluation of the NAV performance.

WHAT IS THE OUTLOOK FOR THE DIVIDEND PAID BY THE FUND?

The recent decline in interest rates has had two offsetting impacts. First, the rate that the Fund is paying on its MMP™ shares has declined, saving a substantial sum. Second, the income earned by the Fund is a bit lower than projected, as we have purchased securities at lower yields. For now, these two have roughly offset, and, at this point, we remain comfortable with the Fund's current dividend rate.

HOW WILL THE NEW TAX LAW TREAT PREFERRED SECURITIES?

On May 28, 2003, President Bush signed the Jobs and Growth Tax Relief Reconciliation Act of 2003. The cornerstone of the Act is a provision to lower the maximum rate paid by individuals on certain types of qualified dividend income ("QDI") to 15%. Prior to this legislation, dividend income was typically taxed at the same rate as ordinary income.

Back in January, the Bush Administration proposed eliminating the double taxation of dividends. When a company distributes a dividend to its shareholders, it does so with income left over after it has already paid taxes. Prior to the new legislation, shareholders were required to pay taxes at their maximum tax rate on that same dividend. So a dollar earned by a company could be taxed twice if it was distributed to the shareholders of the company. By lowering the tax rate, the new law reduces, but doesn't eliminate, this double taxation.

To be eligible for the lower tax rate as QDI, the dividend must be paid from the company's after-tax income. For this reason, it is important to understand the difference between taxable (or "hybrid") preferred securities and traditional preferred stock. Hybrid preferreds pay interest, which the issuer can deduct from revenue in determining its taxable income. Traditional preferreds pay dividends, which are distributed from income after taxes have been paid. Because of the different tax treatment, hybrid preferred securities normally have a higher yield than traditional preferred stocks.

For the investor, interest from hybrids is taxed as ordinary income, while dividends from traditional preferreds may be taxed at the new, lower rate. As a result, an investor in a low tax bracket or an IRA investor is more likely to purchase taxable preferreds for the higher pre-tax income, while an investor in a high tax bracket may prefer the QDI issue for the higher after-tax income. But this isn't always the case. The market tends to offset the tax impact pretty effectively, and securities that pay QDI will usually yield less (before taxes) than those that pay interest.

HOW WILL THE NEW TAX LAW IMPACT THE FUND?

We take all of this into consideration when making investments for the Fund. The Fund's investment objective is high current income, but that doesn't mean we will always own the securities with the highest yields. In recent years, the portion of the portfolio in traditional preferred stock has been steadily increasing. Traditional preferreds typically yield less than hybrid preferreds, but if that differential is small (as it was during this period), traditional preferreds can be more attractive.

The Fund's cost for its leverage may also be lower if more of the income from the portfolio comes from traditional preferreds. This is because the Fund must make additional payments to the holders of its MMP™ if some of the income distributed to them is from hybrid preferreds.

The allocation between traditional and hybrid preferreds is likely to change over time. Investors should **not** assume that there is a target level for traditional preferreds or other securities that pay QDI. The Fund will own these securities when we think they are more attractive than hybrid preferreds, taking all factors, including taxes, into account (even if the yield is lower). But if we are right, and relationships move back in line, we are likely to sell the traditional preferreds and buy hybrid preferreds.

HOW WILL THE FUND REPORT THE BREAKDOWN BETWEEN DIVIDENDS AND INTEREST?

At the end of the year, the Fund will calculate the breakdown according to the new rules and expects to report it to shareholders on Form 1099. We will also publish the breakdown on the Fund's web site and in the Annual Report to Shareholders.

CAN I REINVEST DIVIDENDS DIRECTLY INTO THE FUND?

Yes, the Fund's Dividend Reinvestment Plan (the "DRIP") provides a means of acquiring additional shares of the Fund without paying the full market premium. When the market price is at or above NAV, DRIP participants' dividends are reinvested into new shares acquired directly from the Fund at NAV. The only limitation is the IRS rule that the purchase cannot be more than 5% below the market price. If the shares are selling at a discount from NAV, reinvestments are executed in the market to take advantage of the discount.

More information on the DRIP is available. If your shares are held in a brokerage account, ask your broker if his/her firm is set up to participate. If you hold your shares in certificate form, or if you would just like more information, call the DRIP's agent, PFPC Inc., at 1-800-331-1710.

DOES THE FUND HAVE A WEB SITE?

Once again, we want to put in a plug for www.preferredincome.com, the web site for the Preferred Income Group of closed-end funds. You can find current information there on market prices, net asset values, discounts, yields, dividends, performance and portfolio holdings, as well as news items and general information about the Fund. In the near future, we intend to post on a monthly basis the industry concentrations, the percent of the portfolio holdings rated investment grade by at least one of the rating agencies (Moody's and S&P), and the month-end NAV. We will also post monthly the Fund's 1940 Act asset coverage ratio, which calculates the ratio of the liquidation value of the Fund's Money Market Cumulative Preferred™ Stock (MMP™) relative to the Fund's total net assets. We continue to improve the site, but we need to know what additionally would be helpful. Please let us hear from you.

IS THE FUND CONSIDERING CHANGING ITS NAME?

Yes. Fund management thinks it is important to have a name that more effectively distinguishes it from the myriad of other preferred funds. To minimize the chances of confusion, we are considering changing the name to one that is more clearly associated with the adviser.

Preferred Income Fund Incorporated

FINANCIAL DATA

Per Share of Common Stock (Unaudited)

	<u>Total Dividends Paid</u>	<u>Net Asset Value</u>	<u>NYSE Closing Price</u>	<u>Dividend Reinvestment Price (1)</u>
December 31, 2002 Extra	0.1285	13.65	15.10	14.35
December 31, 2002	0.0915	13.65	15.10	14.35
January 31, 2003	0.0915	14.45	16.70	15.87
February 28, 2003	0.0915	14.55	16.42	15.60
March 31, 2003	0.0915	14.64	16.10	15.30
April 30, 2003	0.0915	14.83	16.20	15.39
May 31, 2003	0.0915	15.54	16.63	15.80

(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.

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

PORTFOLIO OF INVESTMENTS

May 31, 2003 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value (Note 2)</u>	<u>Shares/\$ Par</u>		<u>Value (Note 2)</u>
PREFERRED SECURITIES — 94.2%					
ADJUSTABLE RATE PREFERRED SECURITIES — 9.5%					
BANKING — 9.1%					
75,000	Cobank, Adj. Rate Pfd., Pvt. 144A***	\$ 4,125,000*			
121,675	J.P. Morgan Chase & Co.: Series A, Adj. Rate Pfd.	11,984,988*	\$ 1,000,000	Deutsche Bank: BT Preferred Capital Trust II, 7.875% 2/25/27 Capital Security	1,154,535
24,000	Series L, Adj. Rate Pfd.	2,370,000*	2,800	Firststar Realty LLC, 8.875% Pfd., REIT, Pvt., 144A***	3,741,836
129,200	Series N, Adj. Rate Pfd.	<u>3,238,075*</u>		GreenPoint Financial Corporation: GreenPoint Capital Trust I, 9.10% 6/1/27 Capital Security	9,460,871
	TOTAL BANKING ADJUSTABLE RATE PREFERRED SECURITIES	<u>21,718,063</u>	\$ 7,820,000	HSBC USA, Inc.: \$2.8575 Pfd. Republic New York Capital II, 7.53% 12/4/26 Capital Security, STOPS	2,984,546
	FINANCIAL SERVICES — 0.2%		34,200	Keycorp Institutional Capital B, 8.25% 12/15/26 Capital Security	327,363
10,500	Bear Stearns Companies, Inc., Series A, Adj. Rate Pfd.	<u>530,906*</u>	\$ 2,635,000	Regions Financial Trust I, 8.00% 2/28/31 Pfd.	453,915
	UTILITIES — 0.2%		16,500	Wachovia Corporation: First Union Capital II, 7.95% 11/15/29 Capital Security	1,938,743
7,465	Northern Indiana Public Service Company, Series A, Adj. Rate Pfd.	<u>370,451*</u>	\$ 270,000	First Union Institutional Capital I, 8.04% 12/1/26 Capital Security	3,530,601
	TOTAL ADJUSTABLE RATE PREFERRED SECURITIES	<u>22,619,420</u>		First Union Institutional Capital II, 7.85% 1/1/27 Capital Security	2,182,162
	FIXED RATE PREFERRED SECURITIES — 84.2%		\$ 1,500,000	Wachovia Cap Trust V, 7.965% 6/01/27 Capital Security, Pvt. 144A***	1,811,550
	BANKING — 19.8%		\$ 2,906,000	Wachovia Preferred Funding, 7.25% Pfd., Series A, REIT	<u>207,375</u>
1,375	ABN AMRO North America, Inc.: 6.46% Pfd., Pvt., 144A***	1,524,579*	\$ 1,820,000	TOTAL BANKING FIXED RATE PREFERRED SECURITIES	<u>46,978,892</u>
1,000	6.59% Pfd., Pvt., 144A***	1,101,305*	\$ 1,500,000	FINANCIAL SERVICES — 10.5%	
400	BancWest Corporation: BancWest Capital I, 9.50% 12/01/30 QUIPS	11,648	7,500	Bear Stearns Companies, Inc.: 5.49% Pfd., Series G	4,932,000*
\$ 2,250,000	First Hawaiian Capital I, 8.343% 7/1/27 Capital Security, Series B	2,773,935		5.72% Pfd., Series F	1,725,921*
\$ 750,000	Bank of America Corporation: Barnett Capital II, 7.95% 12/01/26 Capital Security	897,727	65,400	Lehman Brothers Holdings, Inc.: 5.67% Pfd., Series D	3,415,188*
\$ 674,000	NB Capital Trust II, 7.83% 12/15/26 Capital Security	806,384	151,275	5.94% Pfd., Series C	8,053,125*
151,177	Citigroup, Inc.: 5.864% Pfd., Series M	7,985,169*			
12,276	6.213% Pfd., Series G	665,789*			
17,850	6.231% Pfd., Series H	970,861*			

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Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2003 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value (Note 2)</u>	<u>Shares/\$ Par</u>	<u>Value (Note 2)</u>
PREFERRED SECURITIES (Continued)		UTILITIES — 38.7%	
FIXED RATE PREFERRED SECURITIES (Continued)		Alabama Power Company:	
FINANCIAL SERVICES (Continued)		5,734	4.72% Pfd. \$ 545,160*
123,805	SLM Corporation, 6.97% Pfd., Series A	5	4.95% Pfd. 554,999*
	<u>\$ 6,909,557*</u>	91,100	5.20% Pfd. 2,355,390*
TOTAL FINANCIAL SERVICES FIXED		4,000	Appalachian Power Company, 5.92% Sinking Fund Pfd. 410,120*
RATE PREFERRED SECURITIES		26,125	Avista Corporation, \$6.95 Sinking Fund Pfd., Series K ... 2,392,136*
	<u>25,035,791</u>	10,000	Boston Edison Company, 4.78% Pfd. 909,150*
INSURANCE — 9.8%		10,357	Carolina Power & Light Company, \$5.44 Pfd. 1,041,811*
47,000	ACE Ltd., 7.80% Pfd., Series C	45,000	CenterPoint Energy, Inc.: Houston Light & Power, Capital Trust I, 8.125% QUIPS
	1,226,465	53,500,000	Houston Light & Power, Capital Trust II, 8.257%, 2/1/37 Capital Security, Series B
	AON Corporation: AON Capital Trust A, 8.205% 1/1/27 Capital Security	60,150	REI Trust I, 7.20% TOPrS, Series C
	1,919,205	5,000	Central Hudson Gas & Electric Corporation: 4.35% Pfd., Series D, Pvt. 398,525*
	Conseco, Inc.: Conseco Financing Trust V, 8.70% TOPrS	750	4.96% Pfd., Series E, Pvt. 68,164*
	4,550†	10,000	Central Illinois Light Company: 4.64% Pfd. 883,600*
	75,000	10,000	5.85% Sinking Fund Pfd. 1,049,950*
	11,625†	9,375	Central Vermont Public Service Corporation, 8.30% Pvt. Sinking Fund Pfd. 1,004,625*
	14,850		Connecticut Light & Power Company: \$3.24 Pfd. 274,880*
	2,450†		5.28% Pfd. 413,710*
	1,250	200	6.56% Pfd., Series 1968
	1,467,775*	2,100	Consolidated Edison Company of New York, 4.65% Pfd., Series C
	11,200	6,870	Dayton Power and Light Company, 3.90% Pfd., Series C
	285,544		432,157*
	SAFECO Corporation: SAFECO Capital Trust I, 8.072% 7/15/37 Capital Security		
	592,040		
	The St. Paul Companies, Inc.: MMI Capital Trust I, 7.625% 12/15/27 Capital Security, Series B		
	6,237,465		
	12,000		
	313,320		
	UnumProvident Corporation: Provident Financing Trust I, 7.405% 3/15/38 Capital Security		
	3,681,980		
	Zurich RegCaPS Fund Trust I: 6.01% Pfd., Pvt., 144A***		
	6,236,165*		
	1,200		
	<u>1,165,320*</u>		
TOTAL INSURANCE FIXED RATE			
PREFERRED SECURITIES			
	<u>23,143,904</u>		

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

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2003 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value (Note 2)</u>	<u>Shares/\$ Par</u>		<u>Value (Note 2)</u>
	PREFERRED SECURITIES (Continued)		2,717	Idaho Power Co.,	
	FIXED RATE PREFERRED SECURITIES (Continued)			7.68% Pfd., Series 1	\$ 281,277*
	UTILITIES (Continued)		8,000	Indiana Michigan Power Company,	
	Duke Energy Corporation:			6.875% Sinking Fund Pfd.	810,720*
4,556	4.50% Pfd., Series C, Pvt.	\$ 322,861*	32,650	Indianapolis Power & Light Company,	
31,965	6.75% Pfd., Series X,			5.65% Pfd.	2,627,999*
	Sinking Fund Pfd.	3,317,328*	384,000	Interstate Power & Light Company,	
519	7.04% Pfd., Series Y	53,631*		8.375% Pfd., Series B	11,339,520*
25,762	7.85% Pfd., Series S	2,673,452*	4,500	Kentucky Utilities Company,	
	Duquesne Light Company:			6.53% Pfd.	471,128*
5,490	\$2.10 Pfd. Series A	170,547*	5,000	Mississippi Power Company,	
7,675	4.10% Pfd.	232,744*		7.00% Pfd.	522,300*
6,330	4.15% Pfd.	194,331*	22,000	Monongahela Power Company,	
910	4.20% Pfd.	28,269*		\$7.73 Pfd., Series L	1,878,140*
5,000	Energy East Capital Trust I,		14,250	Narragansett Electric Company,	
	8.25% TOPRS	136,400		4.64% Pfd.	614,674*
	Entergy Arkansas, Inc.:		3,905	Northern Indiana Public Service Company,	
2,800	7.32% Pfd.	293,090*		7.44% Pfd.	399,618*
11,350	7.40% Pfd.	1,183,975*		Northern States Power Company,	
1,322	7.88% Pfd.	138,142*	11,000	NSP Financing I,	
30,000	\$1.96 Pfd.	762,000*		7.875% Pfd., TOPRS	280,720
4,440	Entergy Gulf States, Inc.,		6,170	Ohio Edison Company,	
	7.56% Pfd.	445,110*		4.44% Pfd.	413,729*
	Entergy Louisiana, Inc.:		2,500	Ohio Power Company,	
260	7.84% Pfd.	27,218*		5.90% Sinking Fund Pfd.	250,500*
106,138	8.00% Pfd., Series 92	2,719,256*		PECO Energy Company:	
8,500	Entergy Mississippi, Inc.,		5,000	\$4.40 Pfd., Series C	385,275*
	7.44% Pfd.	881,832*	67,500	\$7.48 Pfd.	7,059,488*
	Florida Power Company:		5,000	PPL Electric Utilities Corporation,	
4,348	4.58% Pfd.	377,993*		6.75% Pfd.	523,625*
2,657	4.60% Pfd.	230,880*	9,410	PSI Energy, Inc.,	
	Florida Power & Light Company:			4.32% Pfd.	183,166*
6,000	4.32% Pfd., Series D	493,620*		PacifiCorp:	
5,350	4.35% Pfd., Series E, Pvt.	439,075*	1,225	\$4.56 Pfd.	95,072*
170	4.50% Pfd., Series A, Pvt.	14,432*	6,618	\$4.72 Pfd.	531,657*
50,000	Georgia Power Capital Trust V,		2,750	\$7.48 Sinking Fund Pfd.	293,838*
	7.125% Pfd.	1,360,000	86,350	8.25% QUIPS	2,215,309
2,010	Great Plains Energy, Inc.,			Pacific Enterprises:	
	4.50% Pfd.	148,418*	18,830	\$4.50 Pfd.	1,485,969*
	Hawaiian Electric Company, Inc.:		10,000	\$4.75 Pfd., Series 53	833,050*
20,000	HECO Capital Trust I,		790	Pennsylvania Power Company,	
	8.05% QUIPS	510,300		7.75% Pfd.	80,165*

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Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2003 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value (Note 2)</u>	<u>Shares/\$ Par</u>	<u>Value (Note 2)</u>
PREFERRED SECURITIES (Continued)		OIL AND GAS — 3.3%	
FIXED RATE PREFERRED SECURITIES (Continued)		17,200	Anadarko Petroleum Corporation, 5.46% Pfd. \$ 1,794,562*
UTILITIES (Continued)		36,300	Apache Corporation, 5.68% Pfd., Series B 3,826,564*
14,250	Portland General Electric, 7.75%, Sinking Fund Pfd. \$ 1,452,218*	1,860	EOG Resources, Inc., 7.195% Pfd., Series B <u>2,141,381*</u>
29,500	Public Service Company of Colorado, Capital Trust I, 7.60% TOPrS 754,315	TOTAL OIL AND GAS FIXED RATE PREFERRED SECURITIES 7,762,507	
10,000	Public Service Company of New Mexico, 4.58% Pfd., Pvt. 617,050*	MISCELLANEOUS INDUSTRIES — 2.1%	
10,800	Public Service Enterprise Group, Inc., Enterprise Capital Trust I, 7.44% TOPrS, Series A 270,162	13,600	E.I. Du Pont de Nemours and Company, \$4.50 Pfd., Series B 1,324,096*
29,846	Puget Sound Energy, Inc., 7.75% Sinking Fund Pfd. 3,167,556*	36,200	Farmland Industries, Inc., 8.00% Pfd., Pvt., 144A*** 298,650*†
	Rochester Gas & Electric Corporation:	23,250	Ocean Spray Cranberries, Inc., 6.25% Pfd., Pvt., 144A*** 2,063,089*
4,984	4.10% Pfd., Series H 339,211*	26,000	Touch America Holdings, \$6.875 Pfd. 627,250*†
10,000	4.55% Pfd., Series M, Pvt. 755,300*	9,520	Viad Corporation, \$4.75 Sinking Fund Pfd. <u>659,450*</u>
	San Diego Gas & Electric Company:	TOTAL MISCELLANEOUS INDUSTRIES FIXED RATE PREFERRED SECURITIES 4,972,535	
40,000	\$1.70 Pfd. 1,041,000*	TOTAL FIXED RATE PREFERRED SECURITIES 199,669,628	
23,750	\$1.7625 Sinking Fund Pfd. 637,688*	INVERSE FLOATING RATE PREFERRED — 0.5%	
1,200	4.40% Pfd. 18,606*	14	Premium Assets, Series A, Zurich Financial Reg. Capital <u>1,259,546*</u>
	South Carolina Electric & Gas Company:	TOTAL PREFERRED SECURITIES (Cost \$200,062,143) <u>223,548,594</u>	
25,373	5.125% Purchase Fund Pfd., Pvt. . . . 1,186,695*		
6,703	6.00% Purchase Fund Pfd., Pvt. 336,424*		
60,400	Southern Union Company, Southern Union Financing I, 9.48% TOPrS 1,569,796		
	TXU US Holdings Company:		
23,500	\$6.98, Sinking Fund Pfd. 2,416,858*		
\$ 750,000	TXU Electric Capital V, 8.175% 1/30/37 Capital Security 824,831		
8,150	Union Electric Company, 4.56% Pfd. 690,590*		
	Xcel Energy, Inc.:		
16,030	\$4.08 Pfd., Series B 1,039,065*		
26,200	\$4.10 Pfd., Series C 1,693,437*		
22,000	\$4.11 Pfd., Series D 1,425,380*		
17,750	\$4.16 Pfd., Series E 1,163,956*		
10,000	\$4.56 Pfd., Series G <u>697,350*</u>		
	TOTAL UTILITIES FIXED RATE PREFERRED SECURITIES <u>91,775,999</u>		

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PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2003 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value (Note 2)</u>	<u>Shares/\$ Par</u>		<u>Value (Note 2)</u>
CORPORATE DEBT SECURITIES — 0.9%			MONEY MARKET FUND — 0.7% (Cost \$1,602,183)		
UTILITIES — 0.9%			1,602,183	BlackRock Provident Institutional TempFund, 1.19%	\$ 1,602,183
45,000	Northern States Power Company, 8.00% PINES	\$ 1,229,850	TOTAL INVESTMENTS (Cost \$212,907,362**) 99.4%		
36,200	Ohio Power Company, 7.375% Sr. Notes	923,824	OTHER ASSETS AND LIABILITIES (Net) 0.6%		
TOTAL CORPORATE DEBT SECURITIES (Cost \$1,980,700)			TOTAL NET ASSETS AVAILABLE TO COMMON AND PREFERRED STOCK 100.0%†		
			<u>\$237,261,379</u>		
COMMON STOCKS AND CONVERTIBLE SECURITIES — 3.2%			MONEY MARKET CUMULATIVE PREFERRED STOCK (MMP) REDEMPTION VALUE		
115,000	Allegheny Energy, Inc.	997,625*†	(80,000,000)		
5,000	American Electric Power, 9.25% Pfd., Convertible	215,550	ACCUMULATED UNDECLARED DISTRIBUTIONS TO MMP		
102,500	CenterPoint Energy, Inc.	976,312*	(72,001)		
107,500	Duke Energy Corporation	2,077,438*	TOTAL NET ASSETS AVAILABLE TO COMMON STOCK		
27,500	FPL Group, Inc., 8.50% Pfd., Convertible	1,628,413	<u>\$157,189,378</u>		
80,831	Reliant Resources, Inc.	543,588†			
40,000	TXU Corporation, 8.75% Pfd., Convertible	1,208,000			
TOTAL COMMON STOCKS AND CONVERTIBLE SECURITIES (Cost \$8,234,364)					
			<u>7,646,926</u>		
OPTION CONTRACTS — 0.4% (Cost \$1,027,972)					
1,150	Put Option on US Treasury Bond September Futures, Expiring 08/23/2003	769,906†			

* 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.

‡ The percentage shown for each investment category is the total value of that category as a percentage of net assets available to Common and Preferred Stock.

ABBREVIATIONS (Note 7):**PINES** — Public Income Notes**QUIPS** — Quarterly Income Preferred Securities**REIT** — Real Estate Investment Trust**STOPS** — Semi-Annual Trust Originated Pass Through Securities**TOPrS** — Trust Originated Preferred Securities**Pfd.** — Preferred Securities**Pvt.** — Private Placement Securities

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

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

Preferred Income Fund Incorporated

STATEMENT OF ASSETS AND LIABILITIES

May 31, 2003 (Unaudited)

ASSETS:

Investments, at value (Cost \$212,907,362) (See accompanying schedule)		\$235,721,283
Dividends and interest receivable		2,162,048
Prepaid expenses.		<u>242,564</u>
Total Assets.		238,125,895

LIABILITIES:

Payable for securities purchased	\$495,180	
Dividends payable to Common Shareholders	157,420	
Investment advisory fee payable	110,181	
Professional fees payable.	33,594	
Accrued expenses and other payables	68,141	
Accumulated undeclared distributions to Money Market Cumulative Preferred™ Stock	<u>72,001</u>	
Total Liabilities.		<u>936,517</u>

Money Market Cumulative Preferred™ Stock (800 shares outstanding) redemption value		<u>80,000,000</u>
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NET ASSETS AVAILABLE TO COMMON STOCK \$157,189,378

NET ASSETS AVAILABLE TO COMMON STOCK consist of:

Distributions in excess of net investment income	\$	(137,122)
Accumulated net realized (loss) on investments sold		(10,788,659)
Unrealized appreciation of investments		22,813,921
Par value of Common Stock.		101,122
Paid-in capital in excess of par value of Common Stock.		<u>145,200,116</u>
Total Net Assets Available to Common Stock.		<u><u>\$157,189,378</u></u>

NET ASSET VALUE PER SHARE OF COMMON STOCK:

Common Stock (10,112,215 shares outstanding)	\$	<u><u>15.54</u></u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF OPERATIONS
For the Six Months Ended May 31, 2003 (Unaudited)

INVESTMENT INCOME:

Dividends ^{††}	\$ 5,952,012
Interest	<u>1,576,743</u>
Total Investment Income	7,528,755

EXPENSES:

Investment advisory fee	\$ 625,821
Administrator's fee	112,699
Money Market Cumulative Preferred [™] broker commissions and auction agent fees	107,163
Professional fees	54,293
Insurance expense	51,178
Shareholder servicing agent fees and expenses	41,480
Directors' fees and expenses	38,233
Custodian fees and expenses	14,944
Other	<u>48,609</u>
Total Expenses	<u>1,094,420</u>

NET INVESTMENT INCOME

6,434,335

REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS

Net realized (loss) on investments sold during the period	(1,218,969)
Change in unrealized appreciation of investments during the period ..	<u>21,450,376</u>

NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS

20,231,407

DISTRIBUTIONS TO MONEY MARKET CUMULATIVE PREFERRED[™]
STOCK SHAREHOLDERS:

From net investment income (including changes in accumulated undeclared distributions)	<u>(590,408)</u>
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NET INCREASE IN NET ASSETS TO COMMON STOCK RESULTING
FROM OPERATIONS

\$26,075,334

^{††} For Federal income tax purposes, a significant portion of this amount does not qualify for the inter-corporate dividends received deduction ("DRD") or as Qualified Dividend Income ("QDI") for individuals.

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

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK

	<u>Six Months Ended May 31, 2003 (Unaudited)</u>	<u>Year Ended November 30, 2002</u>
OPERATIONS:		
Net investment income	\$ 6,434,335	\$ 12,922,272
Net realized (loss) on investments sold during the period	(1,218,969)	(2,835,267)
Change in net unrealized appreciation/(depreciation) of investments held during the period	21,450,376	(7,213,141)
Distributions to Money Market Cumulative Preferred™ Stock Shareholders from net investment income, including changes in accumulated undeclared distributions	<u>(590,408)</u>	<u>(1,253,932)</u>
Net increase in net assets resulting from operations	26,075,334	1,619,932
DISTRIBUTIONS:		
Dividends paid from net investment income to Common Stock Shareholders	(6,826,662)	(10,982,983)
Distributions paid from net realized capital gains to Common Stock Shareholders	<u>—</u>	<u>—</u>
FUND SHARE TRANSACTIONS:		
Increase from Common Stock transactions	1,190,788	1,963,583
Decrease due to Money Market Cumulative Preferred™ Offering Cost	<u>(6,318)</u>	<u>(493,959)</u>
NET INCREASE/(DECREASE) IN NET ASSETS TO COMMON STOCK FOR THE PERIOD	20,433,142	(7,893,427)
NET ASSETS AVAILABLE TO COMMON STOCK:		
Beginning of period	<u>136,756,236</u>	<u>144,649,663</u>
End of period (including (overdistributed)/undistributed net investment income of (\$137,122) and \$845,613, respectively)	<u>\$ 157,189,378</u>	<u>\$ 136,756,236</u>

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

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, 2003 (Unaudited)	Year Ended November 30,				
		2002	2001	2000	1999	1998
PER SHARE OPERATING PERFORMANCE:						
Net asset value, beginning of period.....	\$ 13.63	\$ 14.62	\$ 13.41	\$ 14.41	\$ 16.43	\$ 16.71
INVESTMENT OPERATIONS:						
Net investment income.....	0.64	1.29	1.23	1.32	1.29	1.28
Net realized and unrealized gain/(loss) on investments.....	2.01	(1.01)	1.19	(0.56)	(1.35)	0.05
DISTRIBUTIONS TO MMP* SHAREHOLDERS:						
From net investment income.....	(0.06)	(0.12)†	(0.23)†	(0.29)†	(0.23)†	(0.19)
From net realized capital gains.....	—	—	—	(0.01)	(0.08)	(0.07)
Total from investment operations.....	2.59	0.16	2.19	0.46	(0.37)	1.07
Cost of Issuance of Additional MMP* (Note 6).....	—	(0.05)	—	—	—	—
DISTRIBUTIONS TO COMMON SHAREHOLDERS:						
From net investment income.....	(0.68)	(1.10)	(0.98)	(1.04)	(1.12)	(1.05)
From net realized capital gains.....	—	—	—	(0.42)	(0.53)	(0.30)
Total distributions to Common Shareholders.....	(0.68)	(1.10)	(0.98)	(1.46)	(1.65)	(1.35)
Net asset value, end of period.....	\$ 15.54	\$ 13.63 †	\$ 14.62 †	\$ 13.41 †	\$ 14.41 †	\$ 16.43
Market value, end of period.....	\$ 16.63	\$ 15.00	\$ 14.47	\$ 12.125	\$ 12.75	\$ 15.938
Total investment return based on net asset value**.....	19.20%(2)	0.58%	17.01%	4.55%	(1.81)%	6.91%
Total investment return based on market value**.....	15.91%(2)	11.84%	28.02%	6.88%	(10.43)%	7.05%
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:						
Total net assets, end of year (in 000's).....	\$157,189	\$136,756	\$144,650	\$131,892	\$141,802	\$161,613
Operating expenses.....	1.50%(1)	1.48%	1.42%	1.41%	1.37%	1.32%
Net investment income***.....	8.00%(1)	8.32%	7.21%	7.58%	6.66%	6.13%
SUPPLEMENTAL DATA:††						
Portfolio turnover rate.....	15%(2)	30%	39%	66%	65%	87%
Total net assets available to Common and Preferred Stock, end of period (in 000's).....	\$237,261	\$216,974	\$202,412	\$189,983	\$199,863	\$219,398
Ratio of operating expenses to total average net assets available to Common and Preferred Stock.....	0.97%(1)	0.99%	1.00%	0.98%	0.99%	0.97%

* Money Market Cumulative Preferred™ Stock.

** Assumes reinvestment of distributions at the price obtained by the Fund's Dividend Reinvestment Plan.

*** 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 (\$0.00 per Common Share at May 2003, \$0.01 per Common Share at November 2002, \$0.02 per Common Share at November 2001, \$0.03 per Common Share at November 2000 and \$0.05 per Common Share at November 1999). (See Note 6 to the Financial Statements.)

†† Information presented under heading Supplemental Data includes MMP*.

(1) Annualized.

(2) Not annualized.

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

Preferred Income Fund Incorporated

FINANCIAL HIGHLIGHTS (Continued)

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

<u>At Period End</u>	<u>Total Shares Outstanding (1)</u>	<u>Asset Coverage Per Share (3)</u>	<u>Involuntary Liquidating Preference Per Share (2)</u>	<u>Average Market Value Per Share (1) & (2)</u>
5/31/03*	800	\$296,577	\$100,000	\$100,000
11/30/02	800	271,218	100,000	100,000
11/30/01	575	352,021	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

(1) See Note 6.

(2) Excludes accumulated undeclared dividends.

(3) Calculated by subtracting the Fund's total liabilities (excluding the MMP™) from the Fund's total assets and dividing that amount by the number of MMP™ shares outstanding.

* Unaudited.

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

NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. Organization

Preferred Income Fund Incorporated (the "Fund") was incorporated as a Maryland corporation on September 28, 1990, and commenced operations on January 31, 1991 as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended. The Fund's investment objective is to provide its Common Shareholders with high current income consistent with the preservation of capital.

2. Significant Accounting Policies

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements is in conformity with accounting principles generally accepted in the United States of America and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

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, except as described hereafter. In the absence of sales of listed securities and with respect to (a) securities for which the most recent sale prices are not deemed to represent fair market value and (b) 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 ("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 one or more valuations obtained from one or more broker/dealers or banks that are not counterparties 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. Investments in Money Market Funds are valued at the net asset value of such funds.

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

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.

The AICPA Audit and Accounting Guide, Audits of Investment Companies, requires that, for book accounting purposes, the Fund amortize premium and accrete discount on those fixed-income securities, such as capital securities, which trade and are quoted on an “accrued income” basis. Prior to December 1, 2001, the Fund was not required to amortize premium and accrete discounts for these securities. Adopting these accounting principles has not affected the Fund’s net asset value, but changes the classification of certain amounts between interest income and realized and unrealized gain/loss in the Statement of Operations. The adoption of this principle was not material to the financial statements.

The Statement of Changes in Net Assets and Financial Highlights for prior periods have not been restated to reflect these changes in presentation.

Options: 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 capital gains corporate tax rate. Subject to the Fund’s 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.

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

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 proportionate allocation of income and gains to all classes of shareholders.

Distributions from net realized gains for book purposes may include short-term capital gains, which are included as ordinary income for tax purposes and may exclude amortization of premium on "accrued income" securities, which are not reflected in ordinary income for tax purposes. The tax character of distributions paid, including changes in accumulated undeclared distributions to MMP™ Shareholders, during 2002 and year-to-date was as follows:

	<u>Distributions paid in fiscal year 2003</u>		<u>Distributions paid in fiscal year 2002</u>	
	<u>Ordinary Income</u>	<u>Long-Term Capital Gains</u>	<u>Ordinary Income</u>	<u>Long-Term Capital Gains</u>
Common	N/A	N/A	\$10,982,983	—
Preferred	N/A	N/A	\$1,253,932	—

As of November 30, 2002, the components of distributable earnings (i.e., ordinary income and capital gain/(loss)) available to Common and Preferred Stock Shareholders, on a tax basis were as follows:

<u>Capital (Loss) Carryforward</u>	<u>Undistributed Ordinary Income</u>	<u>Undistributed Long-Term Gain</u>	<u>Unrealized Appreciation/(Depreciation)</u>
\$(7,288,104)	\$1,427,327	—	\$(918,040)

At November 30, 2002, the composition of the Fund's \$7,288,104 accumulated realized capital losses was \$6,014,198, \$513,821 and \$760,085 in 2000, 2001 and 2002, respectively. These losses may be carried forward and offset against any future capital gains through 2008, 2009 and 2010, respectively.

Excise Tax: 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. During the fiscal year ending November 30, 2003, the Fund paid \$1,812 of Federal excise taxes attributable to calendar year 2002.

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

3. Investment Advisory Fee, Directors' Fees, Administration Fee, Transfer Agent Fee and Custodian 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 total net assets available to Common and Preferred Stock up to \$100 million and 0.50% of the value of the Fund's average monthly total net assets available to Common and Preferred Stock 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, Inc. ("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 0.10% of the Fund's average monthly total net assets available to Common and Preferred Stock. 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 total net assets available to Common and Preferred Stock plus certain out-of-pocket expenses.

PFPC Trust Company ("PFPC Trust") serves as the Fund's Custodian. 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 total net assets available to Common and Preferred Stock.

4. Purchases and Sales of Securities

Cost of purchases and proceeds from sales of securities for the six months ended May 31, 2003, excluding short-term investments, aggregated \$35,826,294 and \$33,051,679, respectively.

At May 31, 2003, aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$31,720,165 and aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$8,906,244.

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

5. Common Stock

At May 31, 2003, 240,000,000 shares of \$0.01 par value Common Stock were authorized.

Common Stock transactions excluding costs of additional MMP™ issuance in June 2002 (See Note 6) were as follows:

	<u>Six Months Ended</u> <u>5/31/03</u>		<u>Year Ended</u> <u>11/30/02</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Issued as reinvestment of dividends under the Dividend Reinvestment and Cash Purchase Plan	<u>79,670</u>	<u>\$1,190,788</u>	<u>135,557</u>	<u>\$1,963,583</u>

6. 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.

Under Emerging Issues Task Force (EITF) promulgation Topic D-98, Classification and Measurement of Redeemable Securities, which was issued on July 19, 2001, preferred securities that are redeemable for cash or other assets are to be classified outside of permanent equity to the extent that the redemption is at a fixed or determinable price and at the option of the holder or upon the occurrence of an event that is not solely within the control of the issuer. Subject to the guidance of the EITF, the Fund's Money Market Cumulative Preferred™ Stock, which was previously classified as a component of total net assets, has been reclassified outside of permanent equity (net assets available to common stock) in the accompanying financial statements. Prior year amounts have also been reclassified to conform with this presentation. The impact of this reclassification creates no change to the net assets available to Common Shareholders.

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

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

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 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.

On June 4, 2002, the Fund issued 225 shares of additional Money Market Cumulative Preferred™ Stock with an initial dividend rate equal to 2.04%. These newly issued shares are identical to the previously outstanding 575 shares in all respects on and after their first auction date, which was June 5, 2002. Consequently, the Fund now has 800 shares of Money Market Cumulative Preferred™ Stock now outstanding in one series, which represents a par value of \$80 million.

The newly issued shares were underwritten by Lehman Brothers. The underwriter's discount of 1.25% of the \$22.5 million face value totaled \$281,250 and was immediately charged to common equity capital upon completion of the offering.

Costs of the issue, including legal, printing, registration, rating fees, etc. of \$219,027 were charged against common equity capital. The sum of underwriters discount and cost of the issue totaled \$500,277.

At May 31, 2003, 800 shares of Money Market Cumulative Preferred™ Stock were outstanding at the annual rate of 1.21%. 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.

7. Portfolio Investments, Concentration and Investment Quality

The Fund invests primarily in traditional DRD-eligible preferred securities (i.e., adjustable and fixed rate preferred and preference stocks) and similar hybrid, i.e., fully taxable, preferred securities. Under normal market conditions, at least 80% of the value of the Fund's net assets will be invested in preferred securities. Also, 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

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

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 25% of its assets at the time of purchase in securities rated below investment grade. These securities must be rated at least either "Ba3" by Moody's Investors Service, Inc. or "BB-" by Standard & Poor's or judged to be comparable in quality, in either case, at the time of purchase; however, these securities must be issued by an issuer having a class of senior debt rated investment grade outstanding. The percentage limitation was raised from 15% by the Fund's Board of Directors at its regular board meeting on April 19, 2002.

The Fund may invest up to 15% of its assets in common stocks and, under normal market conditions, up to 20% 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 20% limitation to the extent that, in the opinion of the Fund's Investment Adviser, such investments are deemed to be debt-like in key characteristics. Typically, a security will not be considered debt-like (a) if an issuer can defer payment of income for eighteen months or more without triggering an event of default and (b) if such issue is a junior and fully subordinated liability of an issuer or its ultimate guarantor.

8. 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 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, 2003, the Fund owned put options on US 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.

Preferred Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

9. Significant Shareholders

At July 7, 2003, the Commerce Group, Inc. and its affiliates owned approximately 19.9% of the Fund's outstanding Common Stock, according to a Schedule 13G filing dated July 17, 2003.

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 period ended May 31, 2003, no brokerage commissions were incurred.

ADDITIONAL INFORMATION (Unaudited) (Continued)

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 by PFPC Inc. under the Plan.

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.

ADDITIONAL INFORMATION (Unaudited) (Continued)

Meeting of Shareholders

On April 25, 2003, the Fund held its Annual Meeting of Shareholders (the "Meeting") to elect three Directors of the Fund ("Proposal 1"). The results of the proposal are as follows:

Proposal 1: Election of Directors.

<u>Name</u>	<u>For</u>	<u>Withheld</u>
Common Stock		
Robert M. Ettinger	9,468,259	72,806
Robert F. Wulf	9,470,416	70,649
	<u>For</u>	<u>Withheld</u>
Preferred Stock		
Donald F. Crumrine	646	—

Martin Brody, David Gale and Morgan Gust continue to serve in their capacities as Directors of the Fund.

ADDITIONAL INFORMATION (Unaudited) (Continued)**Information about Fund Directors and Officers**

The business and affairs of the Fund are managed under the direction of the Fund's Board of Directors. Information pertaining to the Directors and officers of the Fund is set forth below.

<u>Name, Address, and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served*</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Funds in Fund Complex Overseen by Director</u>	<u>Other Directorships Held by Director</u>
NON-INTERESTED DIRECTORS:					
Martin Brody c/o HMK Associates 30 Columbia Turnpike Florham Park, NJ 07932 Age: 81	Director	Class I Director since 1991	Retired	3	Director, Jaclyn, Inc. (luggage and accessories). Director Emeritus, Smith Barney Mutual Funds (18 Funds).
David Gale Delta Dividend Group, Inc. 220 Montgomery Street Suite 426 San Francisco, CA 94104 Age: 54	Director	Class I Director since 1997	President & CEO of Delta Dividend Group, Inc. (investments).	3	Director, Golden State Vintners, Inc.
Morgan Gust† Giant Industries, Inc. 23733 N. Scottsdale Road Scottsdale, AZ 85255 Age: 56	Director	Class III Director since 1991	Since March 2002, President and previously held other officerships of Giant Industries, Inc. (petroleum refining and marketing)	3	—
Robert F. Wulf 3560 Deerfield Drive South Salem, OR 97302 Age: 66	Director	Class II Director since 1991	Financial Consultant; Trustee, University of Oregon Foundation; Trustee, San Francisco Theological Seminary.	3	—

* The Fund's Board of Directors is divided into three classes, each class having a term of three years. Each year the term of office of one class expires and the successor or successors elected to such class serve for a three year term. The three year term for each class expires as follows:

Class I Directors – three year term expires at the Fund's 2005 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified.

Class II Directors – three year term expires at the Fund's 2006 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified.

Class III Directors – three year term expires at the Fund's 2004 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified.

† As a Director, represents holders of shares of the Fund's Money Market Cumulative Preferred™ Stock.

ADDITIONAL INFORMATION (Unaudited) (Continued)

<u>Name, Address, and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served*</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Funds in Fund Complex Overseen by Director</u>	<u>Other Directorships Held by Director</u>
INTERESTED DIRECTORS:					
Donald F. Crumrine†, †† 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 55	Director, Chairman of the Board and Chief Executive Officer	Class II Director since 1991	Chairman of the Board, Director of Flaherty & Crumrine Incorporated.	3	—
Robert M. Ettinger†† 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 44	Director, President	Class III Director since 2002	President and Director of Flaherty & Crumrine Incorporated.	2	—
OFFICERS:					
Peter C. Stimes 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 47	Chief Financial Officer, Chief Accounting Officer, Vice President, Treasurer, and Assistant Secretary	Since 1991	Vice President of Flaherty & Crumrine Incorporated.	—	—
R. Eric Chadwick 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 28	Vice President, Secretary and Assistant Treasurer	Since October 2002	Since August 2001, Vice President of Flaherty & Crumrine Incorporated, from January 1997 through November 1998, portfolio manager of Koch Industries, Inc.	—	—

* The Fund's Board of Directors is divided into three classes, each class having a term of three years. Each year the term of office of one class expires and the successor or successors elected to such class serve for a three year term. The three year term for each class expires as follows:

Class I Directors – three year term expires at the Fund's 2005 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified.

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Class III Directors – three year term expires at the Fund's 2004 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified.

† As a Director, represents holders of shares of the Fund's Money Market Cumulative Preferred™ Stock.

†† "Interested person" of the Fund as defined in the Investment Company Act of 1940. Messrs. Crumrine and Ettinger are each considered an "interested person" because of their affiliation with Flaherty & Crumrine Incorporated which acts as the Fund's investment adviser.

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Directors

Martin Brody
Donald F. Crumrine, CFA
Robert M. Ettinger, CFA
David Gale
Morgan Gust
Robert F. Wulf, CFA

Officers

Donald F. Crumrine, CFA
Chairman of the Board
and Chief Executive Officer
Robert M. Ettinger, CFA
President
Peter C. Stimes, CFA
Chief Financial Officer,
Chief Accounting Officer,
Vice President, Treasurer,
and Assistant Secretary
Robert E. Chadwick, CFA
Vice President, Secretary and
Assistant 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 43027
Providence, RI 02940-3027
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.



Semi-Annual Report

May 31, 2003

web site: www.preferredincome.com