EBAY INC
Form DEF 14A
April 30, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

eBay Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

eBay Inc.
2145 Hamilton Avenue
San Jose, California 95125

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held On June 14, 2007

To the Stockholders of eBay Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of **eBAY INC.**, a Delaware corporation, will be held on Thursday, June 14, 2007, at 8:00 a.m. Eastern time at the Back Bay Events Center, Back Bay Grand Room, 180 Berkeley Street, Boston, Massachusetts 02116 for the following purposes:

1. To elect three directors to hold office until our 2010 Annual Meeting of Stockholders.

2. To approve an amendment to our 1999 Global Equity Incentive Plan to further satisfy the requirements of Section 162(m) of the Internal Revenue Code.

3. To approve an amendment to our 1998 Employee Stock Purchase Plan to extend the term of the Purchase Plan.

4. To ratify the selection of PricewaterhouseCoopers LLP as our independent auditors for our fiscal year ending December 31, 2007.

5. To transact such other business as may properly come before the meeting or any adjournment or postponement of the meeting.

These business items are described more fully in the Proxy Statement accompanying this Notice.

The Board of Directors has fixed the close of business on April 16, 2007 as the record date for identifying those stockholders entitled to notice of and to vote at this Annual Meeting and at any adjournment or postponement of this meeting.

By Order of the Board of Directors

Michael R. Jacobson
Secretary

San Jose, California
April 30, 2007

The proxy statement and the accompanying form of proxy are being mailed on or about May 4, 2007 in connection with the solicitation of proxies on behalf of the Board of Directors of eBay. All stockholders are cordially invited to attend the Annual Meeting in person. Whether or not you expect to attend the Annual Meeting, you are urged to vote your shares as soon as possible so that your shares can be voted at the Annual Meeting in accordance with your instructions on the proxy or voting instruction card. Telephone and Internet voting are available. For specific instructions on voting, please refer to the instructions on the proxy or voting instruction card.

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eBay Inc.
2145 Hamilton Avenue
San Jose, California 95125

PROXY STATEMENT

QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND OUR 2007 ANNUAL MEETING

Q: Why am I receiving these materials?

A: eBay s Board of Directors, or the Board, is providing these proxy materials to you in connection with the Board s solicitation of proxies for use at eBay s 2007 Annual Meeting of Stockholders, which will take place on June 14, 2007. Stockholders are invited to attend the Annual Meeting and are requested to vote on the proposals described in this proxy statement.

Q: What information is contained in these materials?

A: The information included in this proxy statement relates to the proposals to be voted on at the Annual Meeting, the voting process, the compensation of directors and our most highly paid executive officers, and certain other required information. eBay s 2006 Annual Report, which includes eBay s audited consolidated financial statements, is also enclosed with this Proxy Statement.

Q: What proposals will be voted on at the Annual Meeting?

A: There are four proposals scheduled to be voted on at the Annual Meeting:

the election of three directors for a three-year term;

the approval of an amendment to our 1999 Global Equity Incentive Plan to further satisfy the requirements of Section 162(m) of the Internal Revenue Code;

the approval of an amendment to our 1998 Employee Stock Purchase Plan to extend the term of the Purchase Plan; and

the ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditors for our fiscal year ending December 31, 2007.

Q: What are eBay s Board of Directors voting recommendations?

A:

eBay s Board recommends that you vote your shares FOR each of the nominees to the Board, FOR the approval of the amendments to our 1999 Global Equity Incentive Plan and 1998 Employee Stock Purchase Plan, and FOR the ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditors.

Q: How many shares are entitled to vote?

A: Each share of eBay s common stock outstanding as of the close of business on April 16, 2007, the record date, is entitled to one vote at the Annual Meeting. At the close of business on April 16, 2007, 1,363,838,463 shares of common stock were outstanding and entitled to vote. You may vote all of the shares owned by you as of the close of business on the record date of April 16, 2007 and are entitled to cast one vote per share of common stock held by you on the record date. These shares include shares that are (1) held of record directly in your name, including shares purchased through eBay s equity incentive plans, and (2) held for you as the beneficial owner through a stockbroker, bank, or other nominee.

Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner?

A: Most stockholders of eBay hold their shares beneficially through a stockbroker, bank, or other nominee rather than directly in their own name. There are some distinctions between shares held of record and shares owned beneficially, specifically:

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Shares held of record

If your shares are registered directly in your name with eBay s transfer agent, Mellon Investor Services, you are considered the stockholder of record with respect to those shares, and these proxy materials are being sent directly to you by eBay. As the stockholder of record, you have the right to grant your voting proxy directly to eBay or to vote in person at the Annual Meeting. eBay has enclosed a proxy card for you to use. You may also vote on the Internet or by telephone as described below under How can I vote my shares without attending the Annual Meeting?

Shares owned beneficially

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker or nominee who is considered, with respect to those shares, the stockholder of record. As the beneficial owner or nominee, you have the right to direct your broker or other nominee on how to vote the shares in your account, and you are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote these shares in person at the Annual Meeting unless you request and receive a valid proxy from your broker or other nominee. Your broker or nominee has enclosed a voting instruction card for you to use in directing the broker or nominee regarding how to vote your shares. You may also vote on the Internet or by telephone as described below under How can I vote my shares without attending the Annual Meeting?

Q: Can I attend the Annual Meeting?

A: You are invited to attend the Annual Meeting if you are a stockholder of record or a beneficial owner as of April 16, 2007. If you are a stockholder of record, you must bring proof of identification. If you hold your shares through a stockbroker or other nominee, you will need to provide proof of ownership by bringing either a copy of the voting instruction card provided by your broker or a copy of a brokerage statement showing your share ownership as of April 16, 2007. If you do not attend the Annual Meeting, you can listen to a webcast of the proceedings at eBay s investor relations site at *http://investor.ebay.com.*

Q: How can I vote my shares in person at the Annual Meeting?

A: Shares held directly in your name as the stockholder of record may be voted in person at the Annual Meeting. If you choose to vote in person, please bring proof of identification. Even if you plan to attend the Annual Meeting, eBay recommends that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the Annual Meeting. Shares held in street name through a brokerage account or by a bank or other nominee may be voted in person by you if you obtain a valid proxy from the record holder giving you the right to vote the shares.

Q: How can I vote my shares without attending the Annual Meeting?

A: Whether you hold shares directly as the stockholder of record or beneficially in street name, you may vote without attending the Annual Meeting by Internet, by telephone, or by completing and mailing your proxy card or voting instruction card in the enclosed pre-paid envelope. Please refer to the enclosed materials for details.

Q: Can I change my vote or revoke my proxy?

A:

If you are the stockholder of record, you may change your proxy instructions or revoke your proxy at any time before your proxy is voted at the Annual Meeting. Proxies may be revoked by any of the following actions: (1) filing a timely written notice of revocation with our Corporate Secretary at our principal executive office (2145 Hamilton Avenue, San Jose, California 95125); (2) submitting a new proxy at a later date, by Internet, by telephone, or by mail to our Corporate Secretary at our principal executive office; or (3) attending the Annual Meeting and voting in person (attendance at the meeting will not, by itself, revoke a proxy). If your shares are held in a brokerage account by a bank or other nominee, you should follow the instructions provided by your broker or nominee.

Q: How are votes counted?

A: In the election of directors, you may vote FOR all of the nominees or your vote may be WITHHELD with respect to one or more of the nominees. For the approval of the amendments to our 1999 Global Equity Incentive Plan and 1998 Employee Stock Purchase Plan, and the ratification of the selection of PricewaterhouseCoopers LLP, you may vote FOR , AGAINST, or ABSTAIN. If you ABSTAIN, it has the same effect as a vote AGAINST. If you sign and return your proxy card or broker voting instruction card without giving specific voting instructions, your shares will be voted as recommended by our Board. If you are a beneficial holder and do not return a voting instruction card, your broker may only vote on the election of directors and the ratification of the selection of PricewaterhouseCoopers LLP.

Q: Who will count the votes?

A: A representative of Broadridge Financial Solutions, Inc. will tabulate the votes and act as the inspector of election.

Q: What is the quorum requirement for the Annual Meeting?

A: The quorum requirement for holding the Annual Meeting and transacting business is a majority of the outstanding shares entitled to be voted. The shares may be present in person or represented by proxy at the Annual Meeting. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum.

Q: What is the voting requirement to approve each of the proposals?

A: In the election for directors, the three persons receiving the highest number of FOR votes will be elected. The proposals to amend our 1999 Global Equity Incentive Plan and 1998 Employee Stock Purchase Plan and the proposal to ratify the selection of the auditors each require the affirmative FOR vote of a majority of those shares present and entitled to vote to be approved. If you are a beneficial owner and do not provide the stockholder of record with voting instructions, your shares may constitute broker non-votes.

Q: What are broker non-votes and what effect do they have on the proposals?

A: Generally, broker non-votes occur when shares held by a broker in street name for a beneficial owner are not voted with respect to a particular proposal because (1) the broker has not received voting instructions from the beneficial owner and (2) the broker lacks discretionary voting power to vote those shares. A broker is entitled to vote shares held for a beneficial owner on routine matters, such as the election of our directors and the ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors, without instructions from the beneficial owner of those shares. On the other hand, absent instructions from the beneficial owner of such shares, a broker is not entitled to vote shares held for a beneficial owner on certain non-routine items, such as the approval of the amendments to our 1999 Global Equity Incentive Plan and 1998 Employee Stock Purchase Plan. Broker non-votes count for purposes of determining whether a quorum exists but do not count as entitled to vote with respect to individual proposals.

Q: What does it mean if I receive more than one proxy or voting instruction card?

A: It means your shares are registered differently or are in more than one account. Please provide voting instructions for each proxy and voting instruction card you receive to ensure that all of your shares are voted.

Q: Where can I find the voting results of the Annual Meeting?

A: eBay will announce preliminary voting results at the Annual Meeting and will publish final results in eBay s quarterly report on Form 10-Q for the second quarter of 2007.

Q: Who will bear the cost of soliciting votes for the Annual Meeting?

A: eBay will pay the entire cost of preparing, assembling, printing, mailing, and distributing these proxy materials. eBay will provide copies of these proxy materials to banks, brokerage houses, fiduciaries, and custodians holding in their names shares of our common stock beneficially owned by others so that they may forward these proxy materials to the beneficial owners. eBay has retained the services of D.F. King & Co., Inc., a professional proxy solicitation firm, to aid in the solicitation of proxies. D.F. King may solicit proxies by personal interview, mail, telephone, and electronic communications. eBay estimates that it will pay D.F. King its customary fee, estimated to be approximately $8,500, plus reasonable out-of-pocket expenses incurred in the process of soliciting proxies. In addition, eBay may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to such beneficial owners. Solicitations may also be made by personal interview, telephone, and electronic communication by directors, officers, and other employees of eBay, but we will not additionally compensate our directors, officers or other employees for these services.

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Q: May I propose actions for consideration at next year s Annual Meeting or nominate individuals to serve as directors?

A: You may submit proposals for consideration at future annual stockholder meetings. In order for a stockholder proposal to be considered for inclusion in the proxy materials for our 2008 Annual Meeting of Stockholders, your proposal must be received by our Corporate Secretary no later than December 29, 2007. A stockholder proposal or a nomination for director that is received after this date will not be included in our proxy statement and proxy but will otherwise be considered at the 2008 annual meeting so long as it is submitted to our Corporate Secretary no earlier than March 14, 2008 and no later than April 15, 2008. We advise you to review our Bylaws, which contain this and other requirements with respect to advance notice of stockholder proposals and director nominations. Our Bylaws were filed with the Securities and Exchange Commission, or SEC, as an exhibit to our quarterly report on Form 10-Q on November 13, 1998, which can be viewed by visiting our investor relations website at *http://investor.ebay.com/sec.cfm* and may also be obtained by writing to our Corporate Secretary at our principal executive office (2145 Hamilton Avenue, San Jose, California 95125).

Q: How can I get electronic access to the Proxy Statement and Annual Report?

A: This proxy statement and our 2006 Annual Report may be viewed online on our investor relations website at *http://investor.ebay.com/annuals.cfm.* You can also elect to receive an email that will provide an electronic link to future annual reports and proxy statements rather than receiving paper copies of these documents. Choosing to receive your proxy materials electronically will save us the cost of printing and mailing documents to you. You can choose to receive future proxy materials electronically by visiting our investor relations website at *http://investor.ebay.com/annuals.cfm.* If you choose to receive future proxy materials electronically, you will receive an email next year with instructions containing a link to those materials and a link to the proxy voting site. Your choice to receive proxy materials electronically will remain in effect until you contact eBay Investor Relations and tell us otherwise. You may visit our investor relations website at *http://investor.ebay.com* or contact eBay Investor Relations by mail at 2145 Hamilton Avenue, San Jose, California 95125 or by telephone at 866-696-3229.

Q: How do I obtain a separate set of proxy materials if I share an address with other stockholders?

A: To reduce expenses, in some cases, we are delivering one set of proxy materials to certain stockholders who share an address, unless otherwise requested. A separate proxy card is included in the proxy materials for each of these stockholders. If you reside at such an address and wish to receive a separate copy of the proxy materials, including our annual report, you may contact eBay Investor Relations at the website, address, or phone number in the previous paragraph. You may also contact eBay Investor Relations if you would like to receive separate proxy materials in the future or if you are receiving multiple copies of our proxy materials and would like to receive only one copy in the future.

Q: How can I obtain an additional proxy card?

A: If you lose, misplace or otherwise need to obtain a proxy card, and:

you are a stockholder of record, contact eBay Investor Relations by mail at 2145 Hamilton Avenue, San Jose, California 95125 or by telephone at 866-696-3229; or

you are the beneficial owner of shares held indirectly through a bank, broker, or similar institution, contact your account representative at that organization.

2007 ANNUAL MEETING OF STOCKHOLDERS

NOTICE OF ANNUAL MEETING AND PROXY STATEMENT

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CORPORATE GOVERNANCE

Our business is managed by our employees under the direction and oversight of the Board of Directors. Except for Ms. Whitman, none of our Board members is an employee of eBay. We keep Board members informed of our business through discussions with management, materials we provide to them, visits to our offices, and their participation in Board and Board committee meetings.

The Board has adopted corporate governance guidelines that, along with the charters of the Board committees and our Code of Business Conduct and Ethics, which we refer to as the Code of Conduct, provide the framework for the governance of the company. A complete copy of our governance guidelines, the charters of our Board committees, and our Code of Conduct may be found on our investor relations website at *http://investor.ebay.com/governance.* (Information contained on eBay s website is not part of this proxy statement.) The Board regularly reviews corporate governance developments and modifies these policies as warranted. Any changes in these governance documents will be reflected on the same location on our website.

OUR CORPORATE GOVERNANCE PRACTICES

We believe open, effective, and accountable corporate governance practices are key to our relationship with our stockholders. To help our stockholders understand our commitment to this relationship and our governance practices, the Board has adopted a set of governance guidelines to set a framework within which the Board will conduct its business. The governance guidelines can be found on our website at *http://investor.ebay.com/governance* and are summarized below along with certain other of our governance practices.

Committee Responsibilities. Board committees help the Board run effectively and efficiently, but do not replace the oversight of the Board as a whole. There are currently three principal committees: the Audit Committee, the Compensation Committee, and the Corporate Governance and Nominating Committee. Each committee meets regularly and has a written charter that has been approved by the Board. In addition, at each regularly scheduled Board meeting, a member of each committee reports on any significant matters addressed by the committee. Each committee performs an annual self-assessment to evaluate its effectiveness in fulfilling its obligations.

Independence. Nasdaq rules require listed companies to have a board of directors with at least a majority of independent directors. Under Nasdaq s rules, in order for a director to be deemed independent, our Board must determine that the individual does not have a relationship that would interfere with the director s exercise of independent judgment in carrying out his or her responsibilities. Our Board has adopted guidelines setting forth categories of relationships that it has deemed immaterial for purposes of making a determination regarding a director s independence. On an annual basis, each member of our Board is required to complete an independence questionnaire designed to provide information to assist the Board in determining whether the director is independent under Nasdaq rules and our corporate governance guidelines. Our Board has determined that each of our directors, other than Ms. Whitman and Mr. Omidyar, is independent under the listing standards of the Nasdaq Global Select Market. Our governance guidelines require any director who has previously been determined to be independent to inform the Chairman of the Board and our Corporate Secretary of any change in circumstance that may cause his or her status as an independent director to change. The Board limits membership on the Audit Committee, the Compensation Committee, and the Corporate Governance and Nominating Committee to independent directors.

Lead Independent Director. Our Board has a designated lead independent director who chairs and can call formal closed sessions of the outside directors, leads Board meetings in the absence of the Chairman, and leads the annual Board self-assessment. In addition, the lead independent director, together with the chair of the Corporate Governance and Nominating Committee, conducts interviews to confirm the continued qualification and willingness to serve of each director whose term is expiring at an annual meeting prior to the time at which directors are nominated for re-election. Mr. Tierney is currently the lead independent director, having been appointed to a second two-year term in 2006. He will serve as lead independent director until the Board meeting following our 2008 Annual Meeting of Stockholders.

Stockholder Communication. Stockholders may communicate with the Board or individual directors care of the Corporate Secretary, eBay Inc., 2145 Hamilton Avenue, San Jose, California 95125. The Corporate Governance and Nominating Committee has delegated responsibility for initial review of stockholder communications to our Corporate Secretary. In accordance with the committee s instructions, our Corporate Secretary will summarize all correspondence and make it available to each member of the Board. In addition, the Corporate Secretary will forward copies of all stockholder correspondence to each member of the Corporate Governance and Nominating Committee, except for communications that are (a) advertisements or promotional communications, (b) solely related to complaints by users with respect to ordinary course of business customer service and satisfaction issues, or (c) clearly unrelated to our business, industry, management, or Board or committee matters.

Attendance at Annual Meetings. Absent exigent circumstances, all directors are expected to attend the company s annual meeting of stockholders. Ten of our eleven directors attended our annual meeting of stockholders in 2006.

Formal Closed Sessions. At the conclusion of each regularly scheduled Board meeting, the outside directors have the opportunity to meet without our management or the other directors. The lead independent director leads the discussions.

Board Compensation. Board compensation is determined by the Compensation Committee. Since 2003, Board compensation has consisted of a mixture of equity compensation and cash compensation. Board compensation is reviewed annually by the Compensation Committee, which has not changed cash compensation since 2003 and has effectively reduced equity compensation by holding the number of options granted annually to the same absolute number notwithstanding two subsequent stock splits. Current Board compensation is described under the heading Compensation of Directors below.

Stock Ownership Guidelines. In September 2004, our Board adopted stock ownership guidelines to better align the interests of our directors and executives with the interests of our stockholders and further promote our commitment to sound corporate governance. Under these guidelines, our executive officers are required to achieve ownership of eBay common stock valued at three times their annual base salary (five times in the case of our Chief Executive Officer, or CEO). The guidelines provide that the required ownership level for each executive officer is re-calculated whenever an executive officer changes pay grade, and as of January 1 of every third year. Until an executive achieves the required level of ownership, he or she is required to retain 25% of the after-tax net shares received as the result of the exercise of eBay stock options or the vesting of restricted stock or restricted stock units. Directors are required to achieve ownership of eBay common stock valued at three times the amount of the annual retainer paid to directors within three years of joining the Board, or in the case of directors serving at the time the guidelines were adopted, within three years of the date of adoption of the guidelines. A more detailed summary of our stock ownership guidelines can be found on our website at *http://investor.ebay.com/governance.* All of our directors and all of our executive officers who began their employment with eBay prior to January 1, 2005 have achieved the level of stock ownership required under the guidelines. The ownership levels of our executives and directors as of March 30, 2007 are set forth in the section entitled Security Ownership of Certain Beneficial Owners and Management below.

Outside Advisors. The Board and each of its committees may retain outside advisors and consultants of their choosing at the company s expense. The Board need not obtain management s consent to retain outside advisors.

Conflicts of Interest. eBay expects its directors, executives, and employees to conduct themselves with the highest degree of integrity, ethics, and honesty. eBay s credibility and reputation depend upon the good judgment, ethical standards and personal integrity of each director, executive, and employee. In order to better protect eBay and its stockholders, eBay regularly reviews its Code of Conduct to ensure that it provides clear guidance to its employees and directors. The Code of Conduct was most recently updated in October 2005.

Transparency. eBay believes it is important that stockholders understand the governance practices of eBay. In order to help ensure the transparency of our practices, we have posted information regarding our corporate governance procedures on our website at *http://investor.ebay.com/governance.*

Board Effectiveness and Director Performance Reviews. It is important to eBay that the Board and its committees are performing effectively and in the best interest of the company and its stockholders. The Board performs an annual self-assessment, led by the lead independent director, to evaluate its effectiveness in fulfilling its obligations. As part of this annual self-assessment, directors are able to provide feedback on the performance of other directors. The lead independent director then follows up on this feedback and takes such further action with directors receiving comments and other directors as he deems appropriate.

Succession Planning. The Board recognizes the importance of effective executive leadership to eBay s success, and meets to discuss executive succession planning at least annually. As part of this process, the Board reviews the capabilities of the company s senior leadership as set out in written succession planning documents and identifies and discusses potential successors for members of the company s executive staff, including the CEO.

Auditor Independence. eBay has taken a number of steps to ensure continued independence of our outside auditors. Our independent auditors report directly to the Audit Committee, and we limit the use of our auditors for non-audit services. The fees for services provided by our auditors in 2006 and 2005 and our policy on pre-approval of non-audit services are described under Proposal 4 below.

Corporate Hotline. eBay has established a corporate hotline to allow any employee to confidentially and anonymously lodge a complaint about any accounting, internal control, auditing, or other matter of concern.

BOARD COMMITTEES AND MEETINGS

During 2006, our Board held four meetings, and each Board member attended at least 75% of the aggregate of all of our Board meetings and committee meetings for committees on which such director served. The Board has three principal committees: an Audit Committee, a Compensation Committee, and a Corporate Governance and Nominating Committee.

Audit Committee

Our Board has a separately-designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Our Audit Committee consists of Mr. Anderson, Ms. Lepore, and Mr. Schlosberg, each of whom is independent in accordance with the rules and regulations of the Nasdaq Global Select Market and the SEC. Mr. Anderson is the chairman of the committee. The Audit Committee held 13 meetings during 2006. The primary responsibilities of the Audit Committee are to meet with our independent auditors to review the results of the annual audit and to discuss the financial statements, including the independent auditors judgment about the quality of accounting principles, the reasonableness of significant judgments, the clarity of the disclosures in the financial statements, eBay s internal control over financial reporting, and management s report with respect to internal control over financial reporting. Additionally, the Audit Committee meets with our independent auditors to review the interim financial statements prior to the filing of our Quarterly Reports on Form 10-Q, recommends to the Board the independent auditors to be retained by us, oversees the independence of the independent auditors, evaluates the independent auditors performance, receives and considers the independent auditors comments as to controls, adequacy of staff and management performance and procedures in connection with audit and financial controls, including our system to monitor and manage business risks and legal and ethical compliance programs. The Audit Committee approves the compensation of our Vice President of Internal Audit, who meets with the committee regularly without other members of management present. The Audit Committee also prepares the Audit Committee Report for inclusion in our proxy statement, approves audit and non-audit services provided to us by our independent auditors, considers conflicts of interest and reviews all transactions with related persons involving executive officers or Board members that exceed specified thresholds, and meets with our General Counsel to discuss legal matters that may have a material impact on our financial statements or our compliance policies. Our Board has determined that Mr. Anderson is an audit committee financial expert as defined by the SEC. You can view our Audit Committee Charter on the corporate governance section of our investor relations website at *http://investor.ebay.com/governance.*

Compensation Committee

Our Compensation Committee consists of Messrs. Barnholt, Bourguignon, Kagle, and Tierney. Mr. Kagle was the chairman of the committee until April 1, 2006, when Mr. Barnholt became the chairman of the committee. Mr. Ford was a member of the committee until April 1, 2006, when he moved to the Corporate Governance and Nominating Committee. The committee met 12 times during 2006. The Compensation Committee reviews and

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approves all compensation programs applicable to directors and executive officers, the overall strategy for employee compensation, and the compensation of our CEO and our other executive officers. The committee also prepares the Compensation Committee Report for inclusion in our proxy statement. All members of our Compensation Committee are independent under the listing standards of the Nasdaq Global Select Market. The Compensation Committee Charter permits the committee to, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the committee. You can view our Compensation Committee Charter on the corporate governance section of our investor relations website at *http://investor.ebay.com/governance.*

A more detailed description of the role of the committee, including the role of executive officers and consultants in compensation decisions, can be found under Compensation Discussion and Analysis Role of the Compensation Committee and Role of Executive Officers and Consultants in Compensation Decisions below.

Compensation Committee Interlocks and Insider Participation. None.

Corporate Governance and Nominating Committee

Our Corporate Governance and Nominating Committee consists of Mr. Cook, Mr. Ford, Ms. Lepore, Mr. Schlosberg, and Mr. Tierney. Mr. Ford became a member of the committee effective April 1, 2006. Mr. Cook is the chairman of the committee. The committee met four times during 2006. The Corporate Governance and Nominating Committee makes recommendations to the Board as to the appropriate size of the Board or any Board committee, reviews the qualifications of candidates for the Board of Directors, and makes recommendations to the Board of Directors on potential Board members (whether as a result of vacancies, including any vacancy created by an increase in the size of the Board, or as part of the annual election cycle). The committee considers nominee recommendations from a variety of sources, including nominees recommended by stockholders. The committee has from time to time retained an executive search firm to help facilitate the screening and interview process of director nominees. The committee has not established specific minimum age, education, experience, or skill requirements for potential members, but, in general, expects that qualified candidates will have high-level managerial experience in a complex organization and will be able to represent the interests of the stockholders as a whole rather than special interest groups or constituencies. The committee considers each candidate s integrity, judgment, skill, diversity of background, and time available to devote to Board activities. The committee will also consider the interplay of a candidate s skill and experience with that of other Board members, and the extent to which a candidate may be a desirable addition to any committee of the Board.

In addition to recommending director candidates, the Corporate Governance and Nominating Committee establishes procedures for the oversight and evaluation of the Board and management, reviews correspondence received from stockholders, and reviews on an annual basis a set of corporate governance guidelines for the Board. Stockholders wishing to submit recommendations or director nominations for our 2008 Annual Meeting of Stockholders should submit their proposals to the Corporate Governance and Nominating Committee in care of our Corporate Secretary in accordance with the time limitations, procedures, and requirements described under the heading May I propose actions for consideration at next year s Annual Meeting or nominate individuals to serve as directors? in the section entitled Questions and Answers about the Proxy Materials and Our 2007 Annual Meeting above. All members of our Corporate Governance and Nominating Committee are independent under the listing standards of the Nasdaq Global Select Market. You can view our Corporate Governance and Nominating Committee Charter on the corporate governance section of our investor relations website at *http://investor.ebay.com/governance.*

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known to us with respect to beneficial ownership of our common stock as of March 30, 2007, by (i) each stockholder known to us to be the beneficial owner of more than 5% of our common stock, (ii) each director and nominee for director, (iii) each of the executive officers named in the Summary Compensation Table below, and (iv) all executive officers and directors as a group.

	Shares Beneficially Owned(1)	
Name of Beneficial Owner	**Number**	**Percent**
Pierre M. Omidyar(2)	190,953,408	14.0%
Capital Research and Management Company(3)	84,843,500	6.2
Margaret C. Whitman(4)	33,769,267	2.5
Robert H. Swan(5)	117,406	*
Rajiv Dutta(6)	2,209,737	*
John J. Donahoe(7)	616,168	*
Michael R. Jacobson(8)	3,593,056	*
Fred D. Anderson(9)	35,062	*
Edward W. Barnholt(9)	11,687	*
Philippe Bourguignon(9)	93,812	*
Scott D. Cook(10)	1,225,366	*
William C. Ford(11)	125,300	*
Robert C. Kagle(12)	3,809,898	*
Dawn G. Lepore(13)	433,812	*
Richard T. Schlosberg, III(14)	35,062	*
Thomas J. Tierney(15)	81,812	*
All directors and executive officers as a group (18 persons)(16)	239,474,039	17.3

* Less than one percent.

(1) This table is based upon information supplied by officers, directors, and principal stockholders and Schedules 13D and 13G filed with the SEC. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Unless otherwise indicated in the footnotes to this table, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Shares of our common stock subject to options that are currently exercisable or exercisable within 60 days of March 30, 2007 are deemed to be outstanding for the purpose of computing the percentage ownership of the person holding those options, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. The percentage of beneficial ownership is based on 1,363,510,214 shares of common stock outstanding as of March 30, 2007.

(2) Mr. Omidyar is our founder and Chairman of the Board. Includes 185,000 shares held by his spouse as to which he disclaims beneficial ownership, and 17,303,078 shares Mr. Omidyar has pledged as security. The address for Mr. Omidyar is c/o eBay Inc., 2145 Hamilton Avenue, San Jose, California 95125.

(3) The address for Capital Research and Management Company is 333 South Hope Street, Los Angeles, California 90071.

(4) Ms. Whitman is our President and CEO. Includes 8,272,704 shares held by the Griffith R. Harsh, IV & Margaret C. Whitman TTEES of Sweetwater Trust U/A/D 10/15/99, 866,615 shares held by each of the Griffith R. Harsh, IV, TTEE, GRH 2006 Two Year GRAT and the Margaret C. Whitman, TTEE, MCW 2006 Two Year GRAT, 3,000,000 shares held by each of the Griffith R. Harsh, IV, TTEE, GRH March 2006 Two Year GRAT and the Margaret C. Whitman, TTEE, MCW March 2006 Two Year GRAT and 3,000,000 shares held by each of the Griffith R. Harsh, IV, TTEE, GRH March 2007 Two Year GRAT and the Margaret C. Whitman, TTEE, MCW March 2007 Two Year GRAT. In addition, includes 9,584 shares held by the Whitford Limited Partnership. The Managing General Partner is Griffith R. Harsh, IV, not individually but as trustee of the Griffith R. Harsh, IV & Margaret C. Whitman TTEES of Sweetwater Trust U/A/D 10/15/99. Includes

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7,793,749 shares Ms. Whitman has the right to acquire pursuant to outstanding options exercisable within 60 days of March 30, 2007. The address for Ms. Whitman is c/o eBay Inc., 2145 Hamilton Avenue, San Jose, California 95125.

(5) Mr. Swan is our Senior Vice President, Finance and Chief Financial Officer. Includes 109,374 shares Mr. Swan has the right to acquire pursuant to outstanding options exercisable within 60 days of March 30, 2007. The address for Mr. Swan is c/o eBay Inc., 2145 Hamilton Avenue, San Jose, California 95125.

(6) Mr. Dutta is our President, PayPal. Includes 2,166,499 shares Mr. Dutta has the right to acquire pursuant to outstanding options exercisable within 60 days of March 30, 2007. The address for Mr. Dutta is c/o eBay Inc., 2145 Hamilton Avenue, San Jose, California 95125.

(7) Mr. Donahoe is our President, eBay Marketplaces. Includes 614,582 shares Mr. Donahoe has the right to acquire pursuant to outstanding options exercisable within 60 days of March 30, 2007. The address for Mr. Donahoe is c/o eBay Inc., 2145 Hamilton Avenue, San Jose, California 95125.

(8) Mr. Jacobson is our Senior Vice President, Legal Affairs, General Counsel and Secretary. Includes 200,000 shares held by a family limited partnership. Includes 3,125,968 shares Mr. Jacobson has the right to acquire pursuant to outstanding options exercisable within 60 days of March 30, 2007. The address for Mr. Jacobson is c/o eBay Inc., 2145 Hamilton Avenue, San Jose, California 95125.

(9) Includes, in the case of Mr. Anderson, 29,062 shares Mr. Anderson has the right to acquire pursuant to outstanding options exercisable within 60 days of March 30, 2007, in the case of Mr. Barnholt, 7,187 shares Mr. Barnholt has the right to acquire pursuant to outstanding options exercisable within 60 days of March 30, 2007 and, in the case of Mr. Bourguignon, 87,812 shares Mr. Bourguignon has the right to acquire pursuant to outstanding options exercisable within 60 days of March 30, 2007. The address for Messrs. Anderson, Barnholt, and Bourguignon is c/o eBay Inc., 2145 Hamilton Avenue, San Jose, California 95125.

(10) Includes 1,062,360 shares Mr. Cook has the right to acquire pursuant to outstanding options exercisable within 60 days of March 30, 2007. The address for Mr. Cook is c/o Intuit, Inc., 2535 Garcia Avenue, Mountain View, California 94043.

(11) Includes (a) 25 shares held by Mr. Ford s spouse as a custodian for the trust for his children and as to which Mr. Ford disclaims beneficial ownership and (b) 275 shares held in a trust for two of Mr. Ford s children as to which Mr. Ford is trustee and as to which Mr. Ford disclaims beneficial ownership. The address for Mr. Ford is c/o Ford Motor Company, One American Road, Dearborn, Michigan 48126.

(12) Includes 447,812 shares Mr. Kagle has the right to acquire pursuant to outstanding options exercisable within 60 days of March 30, 2007. The address for Mr. Kagle is c/o Benchmark Capital, 2480 Sand Hill Road, Suite 200, Menlo Park, California 94025.

(13) Includes 393,812 shares Ms. Lepore has the right to acquire pursuant to outstanding options exercisable within 60 days of March 30, 2007. The address for Ms. Lepore is c/o drugstore.com, inc., 411 108th Avenue NE, Suite 1400, Bellevue, Washington 98004.

(14) Includes 29,062 shares Mr. Schlosberg has the right to acquire pursuant to outstanding options exercisable within 60 days of March 30, 2007. The address for Mr. Schlosberg is 9901 IT-10 West, Suite 800, San Antonio, Texas 78230.

(15) Includes 77,812 shares Mr. Tierney has the right to acquire pursuant to outstanding options exercisable within 60 days of March 30, 2007. The address for Mr. Tierney is c/o The Bridgespan Group, 535 Boylston Street, 10th Floor, Boston, Massachusetts 02116.

(16) Includes 18,094,790 shares subject to options exercisable within 60 days of March 30, 2007 and 17,303,078 shares pledged as security.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, executive officers, and holders of more than 10% of our common stock to file reports regarding their ownership and changes in ownership of our securities with the SEC, and to furnish us with copies of all Section 16(a) reports that they file.

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We believe that during the fiscal year ended December 31, 2006, our directors, executive officers, and greater than 10% stockholders complied with all applicable Section 16(a) filing requirements.

In making this statement, we have relied upon a review of the copies of Section 16(a) reports furnished to us and the written representations of our directors, executive officers, and greater than 10% stockholders.

TRANSACTIONS WITH RELATED PERSONS

The Audit Committee is charged with reviewing and approving potential conflict of interest situations under our Code of Conduct, and with reviewing and approving all transactions with related persons that are required to be disclosed in this section of our proxy statement. The charter of our Audit Committee and our Code of Conduct may be found on our investor relations website at *http://investor.ebay.com/governance*.

We have entered into indemnification agreements with each of our directors and executive officers. These agreements require us to indemnify such individuals, to the fullest extent permitted by Delaware law, for certain liabilities to which they may become subject as a result of their affiliation with eBay.

From time to time, we have entered into and may continue to enter into commercial arrangements with companies with which our directors or executive officers may have relationships, including as a director or executive officer, but with respect to which our directors or executive officers

500

0.759%, 6/12/12, FRN

Aa2/AA+ 464,014 1,000

6.875%, 1/10/39 (g)

Aa2/AA+ 901,705 1,000

Goldman Sachs Group, Inc., 1.639%, 1/12/15, FRN (g)

A1/A 877,491

International Lease Finance Corp. (g),

1,500

4.875%, 9/1/10

Baa2/BBB+ 1,344,922 2,200

4.95%, 2/1/11

Baa2/BBB+ 1,872,081 500

Merrill Lynch & Co., Inc., 1.228%, 11/1/11, FRN (g)

A2/A 458,706

Morgan Stanley, FRN (g),

1,000

1.449%, 1/9/14

A2/A 898,768 1,200

1.611%, 10/15/15

A2/A 1,029,876

SLM Corp. (g),

1,000

1.322%, 10/25/11, FRN

Ba1/BBB- 810,686 1,000

8.45%, 6/15/18

Ba1/BBB- 856,646 750

Tenneco Automotive, Inc., 8.625%, 11/15/14

Caa2/CCC 543,750 1,000

Wachovia Bank, 1.396%, 11/3/14, FRN (g)

Aa3/AA- 831,036 21,963,575 **Industrial 2.2%** 500

Bon-Ton Stores, Inc., 10.25%, 3/15/14

Caa3/CCC 220,000 250

Dynegy Holdings, Inc., 7.125%, 5/15/18

B3/B 171,250 500

SemGroup L.P., 8.75%, 11/15/15 (a)(b)(c)(d)

NR/NR 22,500 931

United Air Lines, Inc., 6.636%, 1/2/24

Ba1/BBB- 698,273 800

Verso Paper Holdings LLC and Verso Paper, Inc., 9.125%, 8/1/14

B2/B- 376,000 1,488,023

Total Corporate Bonds & Notes (cost-$24,812,979)

23,451,598

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PCM Fund, Inc. Schedule of Investments

June 30, 2009 (unaudited) (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value
U.S. GOVERNMENT AGENCY SECURITIES (f) **14.8%**			
Freddie Mac 14.8%			
$6,673	0.657%, 4/1/11, FRN	Aaa/AAA	$6,695,561
3,512	0.703%, 3/9/11, FRN	Aaa/AAA	3,524,914
4	0.888%, 2/1/11, FRN	Aaa/AAA	3,994
Total U.S. Government Agency Securities (cost-$10,225,309)			10,224,469
REAL ESTATE ASSET-BACKED SECURITIES 7.7%			
337	Ameriquest Mortgage Securities, Inc., 5.939%, 2/25/33, FRN (d)	Ca/D	26,334
160	Asset Backed Securities Corp. Home Equity, 3.064%, 6/21/29, FRN	Caa1/NR	18,440
453	Banc of America Alternative Loan Trust, 6.25%, 1/25/37, CMO	Ca/NR	224,796
	Bear Stearns Alt-A Trust, CMO,		
351	5.471%, 7/25/35, FRN	Ba1/AAA	218,144
400	5.898%, 5/25/36, VRN	Caa2/CCC	180,715
951	6.25%, 8/25/36, VRN (g)	Caa2/BB	448,075
369	Bear Stearns Asset-Backed Securities Trust, 5.50%, 12/25/35, CMO	Caa1/AAA	276,016
122	CDC Mortgage Capital Trust, 5.409%, 3/25/33, FRN	C/D	2,292
419	Countrywide Alternative Loan Trust, 6.00%, 11/25/35, CMO	Caa2/B	249,979
489	Credit Suisse Mortgage Capital Certificates, 5.896%, 4/25/36, CMO	Caa1/BBB+	325,971
232	CS First Boston Mortgage Securities Corp., 7.00%, 2/25/33, CMO	Aaa/AAA	224,633
439	First Horizon Alternative Mortgage Securities, 5.388%, 8/25/35, CMO, FRN	B1/AAA	111,013
319	GSAA Trust, 0.584%, 6/25/35, ABS, FRN	Aa3/AAA	185,788
80	Keystone Owner Trust, 9.00%, 1/25/29 (a)(c)	Baa3/NR	74,164
795	Morgan Stanley Mortgage Loan Trust, 5.312%, 1/25/35, CMO, VRN	NR/A	190,418
1,000	Oakwood Mortgage Investors, Inc., 6.89%, 11/15/32, VRN	C/CCC-	273,385
	Ocwen Residential MBS Corp., CMO, VRN (a)(c),		
440	6.878%, 6/25/39	NR/NR	9,074
3,050	7.00%, 10/25/40	B3/NR	360,663
842	Residential Accredit Loans, Inc., 6.00%, 8/25/35, CMO	NR/AAA	586,228
817	Residential Asset Securitization Trust, 6.00%, 3/25/37, CMO	NR/B	486,648
68	Structured Asset Investment Loan Trust, 4.814%, 10/25/33, FRN	Caa2/CCC	3,885
433	TBW Mortgage, 6.00%, 7/25/36, CMO	NR/B	258,573
1,000	UCFC Manufactured Housing Contract, 7.90%, 1/15/28, VRN	Ca/NR	550,329
Total Real Estate Asset-Backed Securities (cost-$8,063,834)			5,285,563
ASSET-BACKED SECURITIES 3.8%			
2,706	American Airlines, Inc., 6.817%, 11/23/12	B1/BB-	2,178,330
557	Northwest Airlines, Inc., 1.535%, 5/20/14, FRN, MBIA	Baa1/BBB+	418,022
Total Asset-Backed Securities (cost-$2,458,187)			2,596,352
MUNICIPAL BONDS & NOTES 3.3%			
Arkansas 1.0%			
970	Little Rock Municipal Property Owners Multipurpose Improvement Dist., Special Tax, 7.20%, 3/1/32, Ser. B	NR/NR	702,464
Iowa 0.5%			

345	Dickinson Cnty. Rev., 7.75%, 12/1/12, Ser. B	NR/NR	362,440

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PCM Fund, Inc. Schedule of Investments

June 30, 2009 (unaudited) (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value
Virginia 0.8%			
$620	Lexington Industrial Dev. Auth. Rev., 8.00%, 1/1/15, Ser. C	NR/NR	$571,863
West Virginia 1.0%			
960	Tobacco Settlement Finance Auth. Rev., 7.467%, 6/1/47, Ser. A	Baa3/BBB	645,024
Total Municipal Bonds & Notes (cost-$2,826,141)			2,281,791
OTHER BONDS & NOTES 2.0%			
1,425	Denver Arena Trust, 6.94%, 11/15/19 (a)(c)	NR/NR	1,257,887
1,856	First International Bank NA, 6.069%, 4/15/26, ABS, FRN (c)	C/NR	75,404
131	PPM America High Yield CBO Ltd., 2.11%, 6/1/11 (b)(e)	NR/NR	54,998
Total Other Bonds & Notes (cost-$3,306,657)			1,388,289
SHORT-TERM INVESTMENTS 8.0%			
Repurchase Agreements 3.8%			
2,100	Goldman Sachs, dated 6/30/09, 0.58%, due 7/1/09, proceeds $2,100,034; collateralized by U.S. Treasury Bond, 5.375%, due 2/15/31, valued at $2,136,021 including accrued interest		2,100,000
541	State Street Bank & Trust Co., dated 6/30/09, 0.01%, due 7/1/09, proceeds $541,000; collateralized by U.S. Treasury Bills, 0.126%, due 8/27/09, valued at $554,889 including accrued interest		541,000
Total Repurchase Agreements (cost-$2,641,000)			2,641,000
Corporate Notes 3.5%			
Financial Services (g) **3.5%**			
2,000	CIT Group, Inc., 0.759%, 3/12/10, FRN	Ba2/BB-	1,703,752
750	Citigroup, Inc., 1.004%, 5/18/10, FRN	A3/A	736,658
Total Corporate Notes (cost-$2,456,210)			2,440,410
U.S. Treasury Bills (f) **0.7%**			
470	0.13%, 7/2/09 (cost-$469,999)		469,999
Total Short-Term Investments (cost-$5,567,209)			5,551,409
Total Investments (cost-$174,802,990) **190.7%**			131,354,235
Liabilities in excess of other assets (90.7)%			(62,483,952)
Net Assets 100%			**$68,870,283**

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PCM Fund, Inc. Notes to Schedule of Investments

June 30, 2009 (unaudited) (continued)

Notes to Schedule of Investments:

(a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of $35,620,571, representing 51.7% of net assets.
(b) Illiquid security.
(c) 144A Security Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
(d) In default.
(e) Fair-Valued Securities with an aggregate value of $111,897, representing 0.2% of net assets have been fair-valued as described in Note 1(a) in the Notes to Financial Statements.
(f) All or partial amount segregated as collateral for swaps.
(g) All or partial amount segregated as collateral for reverse repurchase agreements.

Glossary:

ABS	-	Asset-Backed Securities
CBO	-	Collateralized Bond Obligation
CMO	-	Collateralized Mortgage Obligation
FRN	-	Floating Rate Note. The interest rate disclosed reflects the rate in effect on June 30, 2009.
IO	-	Interest Only
MBIA	-	insured by Municipal Bond Investors Assurance
NR	-	Not Rated
VRN	-	Variable Rate Note. Instruments whose interest rates change on specified date (such as a coupon date or interest payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate). The interest rate disclosed reflects the rate in effect on June 30, 2009.

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PCM Fund, Inc. Statement of Assets and Liabilities

June 30, 2009 (unaudited)

Assets:	
Investments, at value (cost-$174,802,990)	$131,354,235
Cash	3,648
Interest receivable	1,368,869
Unrealized appreciation of swaps	253,065
Receivable from broker	12,014
Receivable for terminated swaps	2,729
Prepaid expenses	12,867
Total Assets	133,007,427
Liabilities:	
Payable for reverse repurchase agreements	50,384,010
Payable for terminated swaps	8,184,540
Unrealized depreciation of swaps	1,943,229
Payable for investments purchased	1,679,688
Dividends payable to shareholders	797,891
Premium for swaps sold	680,657
Payable to broker	162,863
Investment management fees payable	77,575
Interest payable for reverse repurchase agreements	29,002
Accrued expenses	197,689
Total Liabilities	64,137,144
Net Assets	$68,870,283
Composition of Net Assets :	
Common Stock:	
Par value ($0.001 per share, applicable to 11,398,441 shares issued and outstanding)	$11,398
Paid-in-capital in excess of par	153,642,303
Dividends in excess of net investment income	(2,424,211)
Accumulated net realized loss	(37,220,288)
Net unrealized depreciation of investments and swaps	(45,138,919)
Net Assets	$68,870,283
Net Asset Value Per Share	$6.04

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PCM Fund, Inc. Statement of Operations

Six months ended June 30, 2009 (unaudited)

Investment Income:	
Interest	$4,858,121
Expenses:	
Investment management fees	448,590
Interest expense	392,260
Shareholder communications	47,479
Custodian and accounting agent fees	44,288
Audit and tax services	42,806
Legal fees	24,453
Transfer agent fees	16,407
Directors fees and expenses	12,704
Miscellaneous	16,123
Net expenses	1,045,110
Net Investment Income	3,813,011
Realized and Change in Unrealized Gain (Loss):	
Net realized loss on:	
Investments	(1,988,237)
Swaps	(1,104,255)
Net change in unrealized appreciation/depreciation of:	
Investments	7,786,304
Swaps	(571,874)
Net realized and change in unrealized gain on investments and swaps	4,121,938
Net Increase in Net Assets Resulting from Investment Operations	$7,934,949

 See accompanying Notes to Financial Statements

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PCM Fund, Inc. Statement of Changes in Net Assets

	Six Months ended June 30, 2009 (unaudited)	Year ended December 31, 2008
Investment Operations:		
Net investment income	$3,813,011	$5,505,191
Net realized gain (loss) on investments and swaps	(3,092,492)	5,470,278
Net change in unrealized appreciation/depreciation of investments and swaps	7,214,430	(60,577,934)
Net increase (decrease) in net assets resulting from investment operations	7,934,949	(49,602,465)
Dividends to Shareholders from net investment income	(4,783,747)	(13,069,472)
Capital Share Transactions:		
Reinvestment of dividends	147,443	151,216
Total increase (decrease) in net assets	3,298,645	(62,520,721)
Net Assets:		
Beginning of period	65,571,638	128,092,359
End of period (including dividends in excess of net investment income of $(2,424,211) and $(1,453,475), respectively)	$68,870,283	$65,571,638
Shares Issued in reinvestment of dividends	24,489	18,269

See accompanying Notes to Financial Statements 6.30.09 PCM Fund, Inc. Semi-Annual Report **13**

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PCM Fund, Inc. **Statement of Cash Flows**

Six months ended June 30, 2009 (unaudited)

Decrease in Cash from:	
Cash Flows provided by Operating Activities:	
Net increase in net assets resulting from investment operations	$7,934,949
Adjustments to reconcile net increase in net assets resulting from investments operations to net cash provided by operating activities:	
Purchases of long-term investments	(41,050,859)
Proceeds from sales of long-term investments	30,919,234
Sales of short-term portfolio investments, net	12,345,756
Net change in unrealized appreciation/depreciation of investments and swaps	(7,214,430)
Net realized loss on investments and swaps	3,044,438
Net amortization on investments	(998,785)
Decrease in interest receivable	212,849
Increase in receivable from broker	(12,014)
Decrease in payable to broker for collateral	(5,460,000)
Decrease in receivable for principal paydown	7,142
Increase in prepaid expenses	(10,795)
Decrease in interest payable for reverse repurchase agreements	(52,319)
Periodic and termination payments of swaps, net	652,927
Increase in investment management fees payable	3,583
Increase in accrued expenses	40,055
Net cash provided by operating activities	361,731
Cash Flows used for Financing Activities:	
Increase in reverse repurchase agreements	4,141,510
Cash dividends paid (excluding reinvestment of dividends of $147,443)	(7,363,346)
Net cash used for financing activities	(3,221,836)
Net decrease in cash	(2,860,105)
Cash at beginning of period	2,863,753
Cash at end of period	$3,648

The Fund paid $444,579 in cash for interest primarily on reverse repurchase agreements.

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PCM Fund, Inc. Notes to Financial Statements

June 30, 2009 (unaudited)

1. Organization and Significant Accounting Policies

PCM Fund, Inc. (the Fund) commenced operations on September 2, 1993. The Fund is registered under the Investment Company Act of 1940 as amended (the Act), as a closed-end, non-diversified, management investment company and is organized as a Maryland corporation. Allianz Global Investors Fund Management LLC (the Investment Manager) serves as the Fund s investment manager and is an indirect, wholly-owned subsidiary of Allianz Global of America LP (Allianz Global). Allianz Global is an indirect, wholly-owned subsidiary of Allianz SE, a publicly traded European insurance and financial services company. The Fund has an unlimited amount of $0.001 par value per share of common stock authorized.

The Fund s primary investment objective is to achieve high current income by investing in a portfolio comprised primarily of commercial mortgage-backed securities. These securities are fixed income instruments representing an interest in mortgage loans on commercial real estate properties such as office buildings, shopping malls, hotels, apartment buildings, nursing homes and industrial properties. Capital gains from the disposition of investments is a secondary objective of the Fund.

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

In the normal course of business, the Fund enters into contracts that contain a variety of representations that provide general indemnifications. The Fund s maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, the Fund expects the risk of any loss to be remote.

The following is a summary of significant accounting policies consistently followed by the Fund:

(a) Valuation of Investments

Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Market value is generally determined on the basis of last reported sales prices, or if no sales are reported, on the basis of quotes obtained from a quotation reporting system, established market makers, or independent pricing services.

Portfolio securities and other financial instruments for which market quotations are not readily available or for which a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to procedures established by the Board of Directors, or persons acting at their discretion pursuant to procedures established by the Board of Directors, including certain fixed income securities which may be valued with reference to securities whose prices are more readily available. The Fund s investments, including over-the-counter options, are valued daily using prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the last quoted mean price for those securities for which the over-the-counter market is the primary market or for listed securities in which there were no sales. Independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Exchange-traded options, futures and options on futures are valued at the settlement price determined by the relevant exchange. Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days.

The prices used by the Fund to value securities may differ from the value that would be realized if the securities were sold and these differences could be material to the financial statements. The Fund s net asset value (NAV) is normally determined as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange (NYSE) on each day the NYSE is open for business.

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PCM Fund, Inc. Notes to Financial Statements

June 30, 2009 (unaudited)

1. Organization and Significant Accounting Policies (continued)

(b) Fair Value Measurement

The Fund has adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosure about the use of the fair value measurements. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants. The three levels of the fair value hierarchy under FAS 157 are described below:

Level 1 quoted prices in active markets for identical investments that the Fund has the ability to access
Level 2 valuations based on other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.) or quotes from inactive exchanges
Level 3 valuations based on significant unobservable inputs (including the Fund s own assumptions in determining the fair value of investments)

The Funds have adopted FASB Staff Position No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are not Orderly (FAS 157-4).

FAS 157-4 provides guidance on determining when there has been a significant decrease in the volume and level of activity for an asset or liability, when a transaction is not orderly, and how that information must be incorporated into a fair value measurement. FAS 157-4 emphasizes that even if there has been a significant decrease in the volume and level of activity for an asset or liability and regardless of the valuation techniques used, the objective of a fair value measurement remains the same.

An investment asset or liability s level within the fair value hierarchy is based on the lowest level input, individually or in the aggregate, that is significant to fair value measurement.

The valuation techniques used by the Fund to measure fair value during the six months ended June 30, 2009 maximized the use of observable inputs and minimized the use of unobservable inputs. The Fund utilized the fair value technique of multi-dimensional relational pricing models.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

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PCM Fund, Inc. Notes to Financial Statements

June 30, 2009 (unaudited)

1. Organization and Significant Accounting Policies (continued)

A summary of the inputs used as of June 30, 2009, in valuing the Fund s assets and liabilities is listed below by industry, country or investment types, for more detail on the Total Investment in Securities please refer to the Fund s Schedule of Investments:

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 6/30/2009
Investments in Securities Assets				
Mortgaged-Backed Securities		$ 80,517,865	$ 56,899	$ 80,574,764
Corporate Bonds & Notes		22,753,325	698,273	23,451,598
U.S. Government Agency Securities		10,224,469		10,224,469
Real Estate Asset-Backed Securities		5,285,563		5,285,563
Asset-Backed Securities		2,178,330	418,022	2,596,352
Municipal Bonds & Notes		2,281,791		2,281,791
Other Bonds & Notes		1,333,291	54,998	1,388,289
Short-Term Investments		5,551,409		5,551,409
Total Investments in Securities Assets		$ 130,126,043	$ 1,228,192	$ 131,354,235
Investments in Securities Liabilities				
Other Financial Instruments*		(1,690,164)		(1,690,164)
Total Investments in Securities		$ 128,435,879	$ 1,228,192	$ 129,664,071

* Other financial instruments are derivative instruments not reflected in the Schedule of Investments, such as swap contracts, which are valued at the unrealized appreciation/depreciation on the instrument.

A roll forward of fair value measurements using significant unobservable inputs (Level 3) at June 30, 2009, were as follows:

	Beginning Balance 12/31/2008	Net Purchases (Sales) and Settlements	Accrued Discounts (Premiums)	Total Realized Gain (Loss)	Total Change in Unrealized Gain (Loss)	Transfers in and/or out of Level 3	Ending Balance 6/30/2009
Investments in Securities Assets							
Mortgaged-Backed Securities	$ 74,899	$ (17,220)	$ (96)	$ (118)	$ (566)	$	$ 56,899
Corporate Bonds & Notes		(20,428)			155,556	563,145	698,273
Asset-Backed Securities		440,316	883		(23,177)		418,022
Other Bonds & Notes	84,541	(6,612)	4,440	1,274	(28,645)		54,998
Total Investments in Securities Assets	$ 159,440	$ 396,056	$ 5,227	$ 1,156	$ 103,168	$ 563,145	$ 1,228,192
Investments in Securities Liabilities							
Other Financial Instruments*	$ 1,024,699	$ (1,024,699)	$	$	$	$	$

Total Investments in Securities	$ 1,184,139	$ (628,643)	$ 5,227	$ 1,156	$ 103,168	$ 563,145	$ 1,228,192

Realized gain (loss) and change in unrealized appreciation/depreciation is recorded on the Statement of Operations.

* Other Financial Instruments are derivative instruments not reflected in the Schedule of Investments, such as swap agreements, which are valued at the unrealized appreciation/depreciation on the instrument.

PCM Fund, Inc. Notes to Financial Statements

June 30, 2009 (unaudited)

1. Organization and Significant Accounting Policies (continued)

(c) Investment Transactions and Investment Income

Investment transactions are accounted for on the trade date. Securities purchased and sold on a when-issued or delayed-delivery basis may be settled a month or more after the trade date. Realized gains and losses on investments are determined on an identified cost basis. Interest income is recorded on an accrual basis. Discounts or premiums on debt securities purchased are accreted or amortized to interest, respectively, to interest income over the lives of the respective securities using the effective interest method. Paydown gains and losses on mortgage related and other asset-backed securities are recorded as interest income on the Statement of Operations.

(d) Federal Income Taxes

The Fund intends to distribute all of its taxable income and to comply with the other requirements of the U.S. Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, no provision for U.S. federal income taxes is required.

The Fund has applied FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (the Interpretation). The Interpretation establishes for all entities, including pass-through entities such as the Fund, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. The Fund s management has determined that its evaluation of the Interpretation has resulted in no material impact to the Fund s financial statements at June 30, 2009. The Fund s federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

(e) Dividends and Distributions

The Fund declares dividends from net investment income monthly to shareholders. Distributions of net realized capital gains, if any, are paid annually. The Fund records dividends and distributions to its shareholders on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. These book-tax differences are considered either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal income tax treatment, temporary differences do not require reclassification. To the extent dividends and/or distributions exceed current and accumulated earnings and profits for federal income tax purposes; they are reported as dividends and/or distributions of paid-in-capital in excess of par.

(f) Repurchase Agreements

The Fund may enter into transactions with its custodian bank or securities brokerage firms whereby it purchases securities under agreements to resell at an agreed upon price and date (repurchase agreements). Such agreements are carried at the contract amount in the financial statements, which is considered to represent fair-value. Collateral pledged (the securities received), which consists primarily of U.S. government obligations and asset-backed securities, are held by the custodian bank until maturity of the repurchase agreement. Provisions of the repurchase agreements and the procedures adopted by the Fund require that the market value of the collateral, including accrued interest thereon, is sufficient in the event of default by the counterparty. If the counterparty defaults and the value of the collateral declines or if the counterparty enters an insolvency proceeding, realization of the collateral by the Fund may be delayed or limited.

(g) Reverse Repurchase Agreements

The Fund may enter into reverse repurchase agreements. In a reverse repurchase agreement, the Fund sells securities to a bank or broker-dealer and agrees to repurchase the securities at a mutually agreed date and price. Generally, the effect of such a transaction is that the Fund can recover and reinvest all or most of the cash invested in the portfolio securities involved during the term of the reverse repurchase agreement and still be entitled to the returns associated with those portfolio securities. Such transactions are advantageous if the interest cost to the Fund of the reverse repurchase transaction is less than the returns it obtains on investments purchased with the cash. Unless the Fund covers its positions in reverse repurchase agreements (by segregating liquid assets at least

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PCM Fund, Inc. Notes to Financial Statements

June 30, 2009 (unaudited)

1. Organization and Significant Accounting Policies (continued)

equal in amount to the forward purchase commitment), its obligations under the agreements will be subject to the Fund s limitations on borrowings. Reverse repurchase agreements involve leverage risk and also the risk that the market value of the securities that the Fund is obligated to repurchase under the agreement may decline below the repurchase price. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Fund s use of the proceeds of the agreement may be restricted pending determination by the other party, or its trustee or receiver, whether to enforce the Fund s obligation to repurchase the securities.

(h) Mortgage-Related and Other Asset-Backed Securities

The Fund may invest in mortgage-related or other asset-backed securities. These securities include mortgage pass-through securities, collateralized mortgage obligations (CMOs), commercial mortgage-backed securities, mortgage dollar rolls, CMO residuals, stripped mortgage-backed securities (SMBSs) and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. The value of some mortgage-related or asset backed securities may be particularly sensitive to changes in prevailing interest rates. Early repayment of principal on some mortgage-related securities may expose the Fund to a lower rate of return upon reinvestment of principal. The value of these securities may fluctuate in response to the market s perception of the creditworthiness of the issuers. Additionally, although mortgages and mortgage-related securities are generally supported by some form of government or private guarantee and/or insurance, there is no assurance that private guarantors or insurers will meet their obligations.

One type of SMBSs involves one class receiving all or a portion of the interest from the mortgage assets (the interest-only, or IO class and/or the high coupon rate with relatively low principal amount, or IOette class), while the other class will receive all of the principal (the principal-only, or PO class). Payments received for IOs and IOettes are included in interest income on the Statement of Operations. Because little to no principal will be received at the maturity of an IO or IOettes, adjustments are made to the book value of the security on a daily basis until maturity. SMBS represent a participation in, or are secured by and payable from, mortgage loans on real property, and may be structured in classes with rights to receive varying proportions of principal and interest. SMBS include interest-only securities (IOs), which receive all of the interest, and principal-only securities (POs), which receive all of the principal. If the underlying mortgage assets experience greater than anticipated payments of principal, the Fund may fail to recoup some or all of its initial investment in these securities. The market value of these securities is highly sensitive to changes in interest rates. These adjustments are included in interest income on the Statement of Operations. Payments received for POs are treated as reductions to the cost and par value of the securities.

(i) U.S. Government Agencies or Government-Sponsored Enterprises

Securities issued by U.S. Government agencies or government-sponsored enterprises may not be guaranteed by the U.S. Treasury. The Government National Mortgage Association (GNMA or Ginnie Mae), a wholly owned U.S. Government corporation, is authorized to guarantee, with the full faith and credit of the U.S. Government, the timely payment of principal and interest on securities issued by institutions approved by GNMA and backed by pools of mortgages insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Government-related guarantors (i.e., not backed by the full faith and credit of the U.S. Government) include the Federal National Mortgage Association (FNMA or Fannie Mae) and the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac). Pass-through securities issued by FNMA are guaranteed as to timely payment of principal and interest by FNMA but are not backed by the full faith and credit of the U.S. Government. FHLMC guarantees the timely payment of interest and ultimate collection of principal, but its participation certificates are not backed by the full faith and credit of the U.S. Government.

(j) Custody Credits on Cash Balances

The Fund benefits from an expense offset arrangement with its custodian bank, whereby uninvested cash balances earn credits which reduce monthly custodian and accounting agent expenses. Had these cash balances been invested in income-producing securities, they would have generated income for the Fund.

PCM Fund, Inc. Notes to Financial Statements

June 30, 2009 (unaudited)

1. Organization and Significant Accounting Policies (continued)

(k) Interest Expense

Interest expense relates to the Fund s liability in connection with reverse repurchase agreements. Interest expense is recorded as it is incurred.

(l) Credit-Linked Trust Certificates

Credit-linked trust certificates are investments in a limited purpose trust or other vehicle formed under state law which, in turn, invests in a basket of derivative instruments, such as credit default swaps, interest rate swaps and other securities, in order to provide exposure to the high yield or another fixed income market.

Similar to an investment in a bond, investments in credit-linked trust certificates represent the right to receive periodic income payments (in the form of distributions) and payment of principal at the end of the term of the certificate. However, these payments are conditioned on the trust s receipt of payments from, and the trust s potential obligations to, the counterparties to the derivative instruments and other securities in which the trust invests.

2. Principal Risk

In the normal course of business the Fund trades financial instruments and enters into financial transactions where risk of potential loss exists due to changes in the market (market risk) or failure of the other party to a transaction to perform (credit risk). The main risks from derivative instruments are interest rate, market price and credit risks.

Interest rate risk is the risk that fixed income securities will decline in value because of changes in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by the Fund is likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is useful primarily as a measure of the sensitivity of a fixed income s market price to interest rate (i.e. yield) movements.

The Fund s investments in commodity-linked derivative instruments may subject the Fund to greater market price volatility than investments in traditional securities. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments.

The market values of equity securities, such as common stocks and preferred stocks or equity-related investments such as futures and options, may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities and equity-related investments generally have greater market price volatility than fixed income securities.

The Fund will be exposed to credit risk on parties with whom it trades and will also bear the risk of settlement default. The Fund minimizes concentrations of credit risk by undertaking transactions with a large number of customers and counterparties on recognized and reputable exchanges. The Fund could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a derivatives contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

Similar to credit risk, the Fund may be exposed to counterparty risk, or the risk that an institution or other entity with which the Fund has unsettled or open transactions will default. The potential loss could exceed the value of the financial assets recorded in the financial statements. Financial assets, which potentially expose the Fund to credit risk, consist principally of cash due from counterparties and investments.

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PCM Fund, Inc. Notes to Financial Statements

June 30, 2009 (unaudited)

2. Principal Risk (continued)

The Fund s Sub-Adviser, Pacific Investment Management Company LLC (PIMCO or the Sub-Adviser), seeks to minimize credit risks to the Fund by performing reviews of each counterparty. All transactions in listed securities are settled/ paid for upon delivery using approved counterparties. The risk of default is considered minimal, as delivery of securities sold is only made once the Fund has received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

The Fund is party to International Swaps and Derivatives Association, Inc. Master Agreements (ISDA Master Agreements) with select counterparties that govern transactions, over-the-counter derivative and foreign exchange contracts entered into by the Fund and those counterparties. The ISDA Master Agreements maintain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements.

The considerations and factors surrounding the settlement of certain purchases and sales made on a delayed-delivery basis are governed by Master Securities Forward Transaction Agreements (Master Forward Agreements) between the Fund and select counterparties. The Master Forward Agreements maintain provisions for, amount other things, initiation and confirmation, payment and transfer, events of default, termination, and maintenance of collateral.

The Fund is also governed by Master Repurchase Agreements (Master Repo Agreements) between the Fund and select counterparties. The Master Repo Agreements maintain provision for, initiation, income payments, events of default, and maintenance of collateral.

The credit risk associated with favorable contracts is reduced by master netting arrangements to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Fund s overall exposure to credit risk subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

3. Market and Credit Risk

On September 15, 2008, Lehman Brothers Holdings Inc. filed for protection under Chapter 11 of the United States Bankruptcy Code. On September 19, 2008, a proceeding under the Securities Investor Protection Act (SIPA) was commenced with respect to Lehman Brothers Inc., a broker-dealer. A trustee appointed under SIPA is administering the bankruptcy estate of Lehman Brothers Inc. Lehman Brothers International (Europe) was placed in administration under the UK Insolvency Act on September 15, 2008. Lehman Brothers Special Financing Inc. filed for protection under Chapter 11 of the United States Bankruptcy Code on October 3, 2008. In connection with these filings, the Lehman Brothers group of companies (collectively Lehman Brothers) will be reorganized and/or liquidated in an orderly fashion, subject to court approval. Each Lehman Brothers entity is a separate legal entity that is subject to its own bankruptcy proceeding.

The Fund had select holdings, credit default swap agreements, securities and derivatives transactions outstanding with Lehman Brothers entities as issuer, referenced entity, counterparty or guarantor at the time the relevant Lehman Brothers entity filed for protection or was placed in administration. The security holdings, credit default swap agreements, securities and derivatives transactions associated with Lehman Brothers as counterparty, have been written down to their estimated recoverable values. Anticipated losses for securities and derivatives transactions associated with Lehman Brothers have been incorporated as receivable from broker and payable to broker on the Statement of Assets and Liabilities and net realized gain (loss) on the Statement of Operations. These amounts are based on Investment Manager s legal interpretation under its netting agreements and recoverability estimates and may differ significantly from the amount which might ultimately be realized or paid. A facilitated auction occurred on October 10, 2008 comprising multiple pre-approved brokerage agencies to determine the estimated recovery rate for holdings and credit default swap agreements with Lehman Brothers Holdings Inc. as

PCM Fund, Inc. Notes to Financial Statements

June 30, 2009 (unaudited)

3. Market and Credit Risk (continued)

referenced entity. These recovery rates as well as the current value of senior Lehman bonds, have been utilized in determining estimated recovery values for certain holdings. Financial assets and liabilities may be offset and the net amount may be reported in the Statement of Assets and Liabilities where there is a legally enforceable right to set off the recognized amounts and the provisions of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts (FIN 39) have been met.

The Sub-Adviser has delivered notices of default and in some cases, claim notices, to certain entities of Lehman Brothers in accordance with the terms of the applicable agreements. For transactions with Lehman Brothers counterparties, the Sub-Adviser has terminated the trades and has obtained quotations from brokers for replacement trades.

4. Financial Derivative Instruments

The FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133, (FAS 161) requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The disclosure requirements of FAS 161 distinguish between derivatives which are accounted for as hedges and those that do not qualify for such accounting. The Fund reflects derivatives at fair value and recognize changes in fair value through the statement of operations, and such do not qualify for FAS 161 hedge accounting treatment.

(a) Option Transactions

The Fund may purchase and write (sell) put and call options on securities for hedging purposes, risk management purposes or as part of its investment strategies. The risk associated with purchasing an option is that the Fund pays a premium whether or not the option is exercised. Additionally, the Fund bears the risk of loss of premium and change in market value should the counterparty not perform under the contract. Put and call options purchased are accounted for in the same manner as portfolio securities. The cost of securities acquired through the exercise of call options is increased by the premiums paid. The proceeds from securities sold through the exercise of put options is decreased by the premiums paid.

When an option is written, the premium received is recorded as an asset with an equal liability which is subsequently marked to market to reflect the current market value of the option written. These liabilities are reflected as options written in the Statement of Assets and Liabilities. Premiums received from writing options which expire unexercised are recorded on the expiration date as a realized gain. The difference between the premium received and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or if the premium is less than the amount paid for the closing purchased transactions, as a realized loss. If a call option written by the Fund is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether there has been a realized gain or loss. If a put option written by the Fund is exercised, the premium reduces the cost basis of the security. In writing an option, the Fund bears the market risk of an unfavorable change in the price of the security underlying the written option. Exercise of a written option could result in the Fund purchasing a security at a price different from its current market value.

(b) Swap Agreements

Swap agreements are privately negotiated agreements between the Fund and a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. The Fund may enter into credit default, cross-currency, interest rate, total return, variance and other forms of swap agreements in order to manage its exposure to credit, currency and interest rate risk. In connection with these agreements, securities may be identified as collateral in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default or bankruptcy/insolvency.

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PCM Fund, Inc. Notes to Financial Statements

June 30, 2009 (unaudited)

4. Financial Derivative Instruments (continued)

Payments received or made at the beginning of the measurement period are reflected as such on the Statement of Assets and Liabilities and represent payments made or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions (credit spreads, currency exchange rates, interest rates, and other relevant factors). These upfront payments are recorded as realized gains or losses on the Statement of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Statement of Operations. Net periodic payments received or paid by the Fund are included as part of realized gains or losses on the Statement of Operations.

Entering into these agreements involves, to varying degrees, elements of credit, legal, market and documentation risk in excess of the amounts recognized on the Statement of Assets and Liabilities. Such risks include the possibility that there will be no liquid market for these agreements, that the counterparties to the agreements may default on their obligation to perform or disagree as to the meaning of contractual terms in the agreements and that there may be unfavorable changes in interest rates.

Credit Default Swap Agreements   Credit default swap agreements involve one party (referred to as the buyer of protection) making a stream of payments to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other credit event for the referenced entity, obligation or index. As a seller of protection on credit default swap agreements, the Fund will generally receive from the buyer of protection a fixed rate of income throughout the term of the swap provided that there is no credit event. As the seller, the Fund would effectively add leverage to its portfolio because, in addition to its total net assets, the Fund would be subject to investment exposure on the notional amount of the swap.

If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. If the Fund is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. Recovery values are assumed by market makers considering either industry standard recovery rates or entity specific factors and considerations until a credit event occurs. If a credit event has occurred, the recovery value is determined by a facilitated auction whereby a minimum number of allowable broker bids, together with a specified valuation method, are used to calculate the settlement value.

Credit default swap agreements on corporate issues or sovereign issues of an emerging country involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default or other credit event. If a credit event occurs and cash settlement is not elected, a variety of other deliverable obligations may be delivered in lieu of the specific referenced obligation. The ability to deliver other obligations may result in a cheapest-to-deliver option (the buyer of protection s right to choose the deliverable obligation with the lowest value following a credit event). The Fund may use credit default swaps on corporate issues or sovereign issues of an emerging country to provide a measure of protection against defaults of the issuers (i.e., to reduce risk where the Fund owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer s default.

Credit default swap agreements on asset-backed securities involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default or other credit events. Unlike credit default swaps on corporate issues or sovereign issues of an emerging country, deliverable obligations

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PCM Fund, Inc. Notes to Financial Statements

June 30, 2009 (unaudited)

4. Financial Derivative Instruments (continued)

in most instances would be limited to the specific referenced obligation as performance for asset-backed securities can vary across deals. Prepayments, principal paydowns, and other writedown or loss events on the underlying mortgage loans will reduce the outstanding principal balance of the referenced obligation. These reductions may be temporary or permanent as defined under the terms of the swap agreement and the notional amount for the swap agreement will be adjusted by corresponding amounts. The Fund may use credit default swaps on asset-backed securities to provide a measure of protection against defaults of the referenced obligation or to take an active long or short position with respect to the likelihood of a particular referenced obligation s default.

Credit default swap agreements on credit indices involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising the credit index. A credit index is a list of a basket of credit instruments or exposures designed to be representative of some part of the credit market as a whole. These indices are made up of reference credits that are judged by a poll of dealers to be the most liquid entities in the credit default swap market based on the sector of the index. Components of the indices may include, but are not limited to, investment grade securities, high yield securities, asset backed securities, emerging markets, and/or various credit ratings within each sector. Credit indices are traded using credit default swaps with standardized terms including a fixed spread and standard maturity dates. An index credit default swap references all the names in the index, and if there is a default, the credit event is settled based on that name s weight in the index. The composition of the indices changes periodically, usually every six months, and for most indices, each name has an equal weight in the index. The Fund may use credit default swaps on credit indices to hedge a portfolio of credit default swaps or bonds with a credit default swap on indices which is less expensive than it would be to buy many credit default swap to achieve a similar effect. Credit-default swap on indices are benchmarks for protecting investors owning bonds against default, and traders use them to speculate on changes in credit quality.

Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate issues or sovereign issues of an emerging country as of period end are disclosed later in the Notes (see 6(a)) and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values serve as the indicator of the current status of the payment/performance risk. Wider credit spreads and increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

The maximum potential amount of future payments (undiscounted) that the Fund as a seller of protection could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. Notional amounts of all credit default swap agreements outstanding as of June 30, 2009 for which the Fund is the seller of protection are disclosed later in the Notes (see 6(a)). These potential amounts would be partially offset by any recovery values of the respective referenced obligations, upfront payments received upon entering into the agreement, or net amounts received from the settlement of buy protection credit default swap agreements entered into by the Fund for the same referenced entity or entities.

Interest Rate Swap Agreements Interest rate swap agreements involve the exchange by the Fund with a counterparty of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments, with respect to the notional amount of principal. Certain forms of interest rate swap agreements may include: (i) interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or cap , (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or floor , (iii) interest rate collars, under which a party sells a cap and purchases a

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PCM Fund, Inc. Notes to Financial Statements

June 30, 2009 (unaudited)

4. Financial Derivative Instruments (continued)

floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels, (iv) callable interest rate swaps, under which the counterparty may terminate the swap transaction in whole at zero cost by a predetermined date and time prior to the maturity date, (v) spreadlocks, which allow the interest rate swap users to lock in the forward differential (or spread) between the interest rate swap rate and a specified benchmark, or (vi) basis swap, under which two parties can exchange variable interest rates based on different money markets.

Fair Value of Derivative Instruments as of June 30, 2009

The following is a summary of the fair valuations of the Fund s derivative instruments categorized by risk exposure:

Location	Credit Contracts	Total
Asset Derivatives		
Unrealized appreciation on swaps	$ 253,065	$ 253,065
Total Asset Derivatives	$ 253,065	$ 253,065
Liability Derivatives		
Unrealized depreciation on swaps	$ (1,943,229)	$ (1,943,229)
Total Liability Derivatives	$ (1,943,229)	$ (1,943,229)

The Effect of Derivative Instruments on the Statement of Operations for the six months ended June 30, 2009:

Location	Interest Rate Contracts	Credit Contracts	Total
Realized Gain (Loss) on:			
Swaps	$ 1,017,814	$ (2,122,069)	$ (1,104,255)
Total Realized Gain (Loss)	$ 1,017,814	$ (2,122,069)	$ (1,104,255)
Net change in unrealized appreciation (depreciation) of:			
Swaps	$ 452,826	$ (1,024,700)	$ (571,874)
Total change in unrealized appreciation (depreciation)	$ 452,826	$ (1,024,700)	$ (571,874)

The volumes indicated in the Credit Default Swap agreements table is indicative of the amounts throughout the period.

5. Investment Manager/Sub-Adviser

The Fund has an Investment Management Agreement (the Agreement) with the Investment Manager. Subject to the supervision of the Fund s Board of Directors, the Investment Manager is responsible for managing, either directly or through others selected by it, the Fund s investment activities, business affairs and administrative matters. Pursuant to the Agreement, the Investment Manager receives an annual fee, payable monthly, at an annual rate of 0.80% of the Fund s average daily total managed assets. Total managed assets refers to the total assets of the Fund (including assets attributable to any reverse repurchase agreements and borrowings), minus accrued liabilities (other than liabilities representing reverse repurchase agreements and borrowings).

The Investment Manager has retained its affiliate, Pacific Investment Management Company LLC (the Sub-Adviser), to manage the Fund s investments. Subject to the supervision of the Investment Manager, the Sub-Adviser is responsible for making all of the Fund s investment decisions. The Investment Manager and not the Fund, pays a portion of the fees it receives as Investment Manager to the Sub-Adviser in return for its services.

6. Investments in Securities

For the six months ended June 30, 2009, purchases and sales of investments, other than short-term securities and U.S. government obligations were $27,645,426 and $24,007,518, respectively. Purchases and sales in U.S. Government obligations were $13,522,139 and $3,308,920, respectively.

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PCM Fund, Inc. Notes to Financial Statements

June 30, 2009 (unaudited)

6. Investments in Securities (continued)

(a) Credit default swap agreements:

Sell protection swap agreements outstanding at June 30, 2009(1):

Swap Counterparty/ Referenced Debt Issuer	Notional Amount Payable on Default (000)(3)	Credit Spread(2)	Termination Date	Payments Received by Fund	Market Value(4)	Upfront Premiums Received	Unrealized Appreciation (Depreciation)
Barclays Bank:							
CIT Group	$ 3,000	16.24%	3/20/14	6.80%	$ (734,980)	$	$ (734,980)
BNP Paribas:							
General Electric	1,000	4.34%	12/20/13	4.70%	14,657		14,657
Citigroup:							
American Express	1,700	2.34%	12/20/13	4.25%	129,929		129,929
SLM	1,000	8.25%	12/20/13	5.00%	(103,622)	(157,500)	53,878
Credit Suisse First Boston:							
Home Equity Index	837	25.08%	7/25/45	0.18%	(257,284)	(37,657)	(219,627)
Deutsche Bank:							
American International Group	2,000	16.02%	3/20/13	2.10%	(680,584)		(680,584)
CIT Group	1,000	16.48%	12/20/13	5.00%	(290,118)	(265,000)	(25,118)
General Electric	700	4.34%	12/20/13	4.70%	10,260		10,260
SLM	1,000	8.25%	12/20/13	5.00%	(103,623)	(122,500)	18,877
SLM	3,000	7.25%	3/20/19	5.35%	(282,920)		(282,920)
Merrill Lynch & Co.:							
SLM	700	8.25%	12/20/13	5.00%	(72,536)	(98,000)	25,464
					$ (2,370,821)	$ (680,657)	$ (1,690,164)

(1) If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(2) Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements as of year end serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

(3) The maximum potential amount the Fund could be required to make as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

(4) The quoted market prices and resulting values for credit default swap agreements serve as an indicator of the status at June 30, 2009 of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement been closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of

the agreement.

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PCM Fund, Inc. Notes to Financial Statements

June 30, 2009 (unaudited)

6. Investments in Securities (continued)

(b) The weighted average daily balance of reverse repurchase agreements outstanding during the six months ended June 30, 2009 was $50,955,117 at a weighted average interest rate of 1.52%. The total market value of underlying collateral (refer to the Schedule of Investments for positions segregated as collateral for reverse repurchase agreements) for open reverse repurchase agreements at June 30, 2009 was $68,046,419. Open reverse repurchase agreements at June 30, 2009 were:

Counterparty	Rate	Trade Date	Maturity Date	Principal & Interest	Principal
Bank of America:	2.31%	6/22/09	7/22/09	$ 2,487,436	$ 2,486,000
Barclays Bank:	0.80%	6/3/09	7/2/09	7,879,900	7,875,000
	0.80%	6/5/09	7/6/09	7,935,582	7,931,000
	1.57%	6/12/09	7/13/09	1,696,404	1,695,000
	1.57%	6/22/09	7/22/09	5,212,045	5,210,000
Credit Suisse:	0.80%	6/4/09	7/6/09	1,262,757	1,262,000
	0.80%	6/17/09	7/17/09	2,428,508	2,427,753
	1.50%	6/17/09	7/17/09	8,874,431	8,869,257
	1.55%	6/12/09	7/13/09	5,223,269	5,219,000
JPMorgan:	1.60%	6/15/09	7/15/09	2,037,448	2,036,000
	1.60%	6/17/09	7/17/09	2,246,397	2,245,000
	1.60%	6/25/09	7/29/09	3,128,834	3,128,000
					$ 50,384,010

The Fund received $695,372 in U.S. government agency securities as collateral for reverse repurchase agreements.

7. Income Tax Information

The cost basis of portfolio securities of $174,802,990 is substantially the same for both federal income tax purposes. Aggregate gross unrealized appreciation for securities in which there is an excess of value over tax cost is $2,712,876; aggregate gross unrealized depreciation for securities in which there is an excess of tax cost over value is $46,161,631; net unrealized depreciation for federal income tax purposes is $43,448,755.

8. Subsequent Dividend Declarations

On July 1, 2009, a dividend of $0.07 per share was declared to shareholders payable August 3, 2009 to shareholders of record on July 13, 2009.

On August 3, 2009, a dividend of $0.07 per share was declared to shareholders payable September 1, 2009 to shareholders of record on August 13, 2009.

9. Legal Proceedings

In June and September 2004, the Investment Manager and certain of its affiliates (including PEA Capital LLC (PEA), Allianz Global Investors Distributors LLC and Allianz Global Investors of America, L.P.), agreed to settle, without admitting or denying the allegations, claims brought by the Securities and Exchange Commission (SEC) and the New Jersey Attorney General alleging violations of federal and state securities laws with respect to certain open-end funds for which the Investment Manager serves as investment adviser. The settlements related to an alleged market timing arrangement in certain open-end funds formerly sub-advised by PEA. The Investment Manager and its affiliates agreed to pay a total of $68 million to settle the claims. In addition to monetary payments, the settling parties agreed to undertake certain corporate governance, compliance and disclosure reforms related to market timing, and consented to cease and desist orders and censures. Subsequent to these events, PEA deregistered as an investment adviser and dissolved. None of the settlements alleged that any inappropriate activity took place with respect to the Fund.

Since February 2004, the Investment Manager, the Sub-Adviser, and certain of their affiliates and their employees have been named as defendants in a number of pending lawsuits concerning market timing, which allege the

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PCM Fund, Inc. Notes to Financial Statements

June 30, 2009 (unaudited)

9. Legal Proceedings (continued)

same or similar conduct underlying the regulatory settlements discussed above. The market timing lawsuits have been consolidated in a multi-district litigation proceeding in the U.S. District Court for the District of Maryland. Any potential resolution of these matters may include, but not be limited to, judgments or settlements for damages against the Investment Manager, the Sub-Adviser, or their affiliates or related injunctions.

The Investment Manager and the Sub-Adviser believe that these matters are not likely to have a material adverse effect on the Fund or on their ability to perform their respective investment advisory activities relating to the Fund.

The foregoing speaks only as of the date hereof.

10. Subsequent Events

The Fund has adopted FASB Statement of Financial Accounting Standard No. 165, Subsequent Events (FAS 165). Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued.

The objective of FAS 165 is to establish principles and requirements for subsequent events. In particular, FAS 165 sets forth:

a. The period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements.

b. The circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements.

c. The disclosures that an entity shall make about events or transactions that occurred after the balance sheet date.

Fund management had determined there were no subsequent events following the fiscal year ended June 30, 2009 through August 24, 2009, the date the financial statements were available to be issued.

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PCM Fund, Inc. Financial Highlights

For a share of common stock outstanding throughout each period:

	Six Months ended June 30, 2009 (unaudited)	Year ended December 31, 2008	2007	2006	2005	2004
Net asset value, beginning of period	$5.77	$11.28	$11.85	$11.94	$12.49	$12.53
Investment Operations:						
Net investment income (1)	0.34	0.48	0.80	0.90	0.98	1.01
Net realized and change in unrealized gain (loss) on investments, futures contracts and swaps	0.35	(4.84)	(0.48)	0.14	(0.40)	0.08
Total from investment operations	0.69	(4.36)	0.32	1.04	0.58	1.09
Dividends to Shareholders from Net investment income	(0.42)	(1.15)	(0.89)	(1.13)	(1.13)	(1.13)
Net asset value, end of period	$6.04	$5.77	$11.28	$11.85	$11.94	$12.49
Market price, end of period	$6.20	$6.13	$10.25	$14.40	$14.03	$13.17
Total Investment Return (2)	9.07%	(30.79)%	(23.17)%	11.17%	15.40%	(1.62)%
RATIOS/SUPPLEMENTAL DATA:						
Net assets end of period (000)	$68,870	$65,572	$128,092	$134,259	$134,792	$140,267
Ratio of expenses to average net assets, including interest expense (3)	3.37%*	4.22%	4.03%	3.69%	2.77%	1.75%
Ratio of expenses to average net assets, excluding interest expense	2.11%*	1.67%	1.08%	1.03%	1.07%	1.00%
Ratio of net investment income to average net assets	12.31%*	5.24%	6.94%	7.64%	8.00%	8.09%
Portfolio turnover	28%	23%	17%	21%	8%	24%

* Annualized.

(1) Calculated on average of shares outstanding.

(2) Total investment return is calculated assuming a purchase of a share of common stock at the current market price on the first day and a sale of a share of common stock at the current market price on the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund s dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges. Total investment return for a period of less than one year is not annualized.

(3) Interest expense relates to investments in reverse repurchase agreement transactions.

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PCM Fund, Inc. Matters Relating to the Directors Consideration of the Investment

Management and Portfolio Management Agreements (unaudited)

The Investment Company Act of 1940, as amended, requires that both the full Board of Directors (the Directors) and a majority of the non-interested Directors (the Independent Directors), voting separately, approve the Fund s Management Agreements with the Investment Manager (the Advisory Agreement) and Portfolio Management Agreement (the Sub-Advisory Agreement , and together with the Advisory Agreement, the Agreements) between the Investment Manager and the Sub-Adviser. The Directors met in person on June 16-17, 2009 (the contract review meeting) for the specific purpose of considering whether to approve the continuation of the Advisory Agreement and the Sub-Advisory Agreement. The Independent Directors were assisted in their evaluation of the Agreements by independent legal counsel, from whom they received separate legal advice and with whom they met separately from Fund management during the contract review meeting.

Based on their evaluation of factors that they deemed to be material, including those factors described below, the Board of Directors, including a majority of the Independent Directors, concluded that the continuation of the Fund s Advisory Agreement and the Sub-Advisory Agreement should be approved for a one-year period commencing July 1, 2009.

In connection with their deliberations regarding the continuation of the Agreements, the Directors, including the Independent Directors, considered such information and factors as they believed, in light of the legal advice furnished to them and their own business judgment, to be relevant. As described below, the Directors considered the nature, quality, and extent of the various investment management, administrative and other services performed by the Investment Manager or the Sub-Adviser under the applicable Agreements.

In connection with their contract review meeting, the Directors received and relied upon materials provided by the Investment Manager which included, among other items: (i) information provided by Lipper Inc. (Lipper) on the total return investment performance (based on net assets) of the Fund for various time periods, the investment performance of a group of funds with substantially similar investment classifications/objectives as the Fund identified by Lipper and the performance of applicable benchmark indices, (ii) information provided by Lipper on the Fund s management fees and other expenses and the management fees and other expenses of comparable funds identified by Lipper, (iii) information regarding the investment performance and management fees of comparable portfolios of other clients of the Sub-Adviser, (iv) the profitability to the Investment Manager and the Sub-Adviser from their relationship with the Fund for the one year period ended March 31, 2009, (v) descriptions of various functions performed by the Investment Manager and the Sub-Adviser for the Fund, such as portfolio management, compliance monitoring and portfolio trading practices, and (vi) information regarding the overall organization of the Investment Manager and the Sub-Adviser, including information regarding senior management, portfolio managers and other personnel providing investment management, administrative and other services to the Fund.

The Directors conclusions as to the continuation of the Agreements were based on a comprehensive consideration of all information provided to the Directors and were not the result of any single factor. Some of the factors that figured particularly in the Directors deliberations are described below, although individual Directors may have evaluated the information presented differently from one another, attributing different weights to various factors.

As part of their review, the Directors examined the Investment Manager s and the Sub-Adviser s abilities to provide high quality investment management and other services to the Fund. The Directors considered the investment philosophy and research and decision-making processes of the Sub-Adviser; the experience of key advisory personnel of the Sub-Adviser responsible for portfolio management of the Fund; the ability of the Investment Manager and the Sub-Adviser to attract and retain capable personnel; the capability and integrity of the senior management and staff of the Investment Manager and the Sub-Adviser; and the level of skill required to manage the Fund. In addition, the Directors reviewed the quality of the Investment Manager s and the Sub-Adviser s services with respect to regulatory compliance and compliance with the investment policies of the Fund; the nature and quality of certain administrative services the Investment Manager is responsible for providing to the Fund; and conditions that might affect the Investment Manager s or the Sub-Adviser s ability to provide high quality services to the Fund in the future under the Agreements, including each organization s respective business reputation,

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PCM Fund, Inc. Matters Relating to the Directors Consideration of the Investment

Management and Portfolio Management Agreements (unaudited)

financial condition and operational stability. Based on the foregoing, the Directors concluded that the Sub-Adviser s investment process, research capabilities and philosophy were well suited to the Fund given its investment objective and policies, and that the Investment Manager and the Sub-Adviser would be able to continue to meet any reasonably foreseeable obligations under the Agreements.

Based on information provided by Lipper, the Directors also reviewed the Fund s total return investment performance as well as the performance of comparable funds identified by Lipper. In the course of their deliberations, the Directors took into account information provided by the Investment Manager in connection with the contract review meeting, as well as during investment review meetings conducted with portfolio management personnel during the course of the year regarding the Fund s performance.

In assessing the reasonableness of the Fund s fees under the Agreements, the Directors considered, among other information, the Fund s management fee and the total expense ratio as a percentage of average net assets attributable to common shares and the management fee and total expense ratios of comparable funds identified by Lipper.

The Directors specifically took note of how the Fund compared to its Lipper peers as to performance, management fee expense and total expenses. The Directors noted that the Investment Manager had provided a memorandum containing comparative information on the performance and expenses information of the Fund compared to the its Lipper peer categories. The Directors noted that while the Fund is not charged a separate administration fee, it was not clear whether the peer funds in the Lipper categories were charged such a fee by their investment managers.

For the one-year, three-year, five-year, and ten-year periods ended March 31, 2009, the Fund has had performance in the fifth quintile. The Fund is ranked fifth out of 6 funds in its expense peer group for actual management fees and last for actual total expenses. However, the Directors noted that as of May 31, 2009, the Fund s performance moved into the first and second quintiles for the 3-months and year-to-date periods, respectively. At the request of the Directors, the Investment Manager and Sub-Adviser agreed to provide performance information related to the Fund on a monthly basis.

After reviewing these and related factors, the Directors concluded, within the context of their overall conclusions regarding the Agreement, that they were satisfied with the Investment Manager s and the Sub-Adviser s responses and efforts to continue to improve the Fund s investment performance. The Directors agreed to reassess the services provided by the Investment Manager and Sub-Adviser under the Agreements in light of the Fund s ongoing performance at each quarterly Board meeting.

Because the Sub-Adviser does not manage any funds or institutional separate accounts with investment strategies similar to the Fund, the Directors did not consider the management fees charged by the Sub-Adviser to other clients.

Based on a profitability analysis provided by the Investment Manager, the Directors also considered the profitability of the Investment Manager and the Sub-Adviser from their relationship with the Fund and determined that such profitability was not excessive.

The Directors also took into account that, as a closed-end investment company, the Fund does not currently intend to raise additional assets, so the assets of the Fund will grow (if at all) only through the investment performance of the Fund. Therefore, the Directors did not consider potential economies of scale as a principal factor in assessing the fee rates payable under the Agreements.

Additionally, the Directors considered so-called fall-out benefits to the Investment Manager and the Sub-Adviser, such as reputational value derived from serving as Investment Manager and Sub-Adviser to the Fund.

After reviewing these and other factors described herein, the Directors concluded with respect to the Fund, within the context of their overall conclusions regarding the Agreements, that the fees payable under the Agreements represent reasonable compensation in light of the nature and quality of the services being provided by the Investment Manager and Sub-Adviser.

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PCM Fund, Inc. Annual Shareholder Meeting Results/

Proxy Voting Policies & Procedures/

Changes to the Fund s Investment Policies (unaudited)

Annual Shareholder Meeting Results:

The Fund held its annual meeting of shareholders on April 14, 2009. Shareholders voted to re-elect Paul Belica and Robert E. Connor and newly elect Diana L. Taylor as Directors as indicated below:

	Affirmative	Withheld Authority
Re-election of Paul Belica Class III Director to serve until 2012	10,142,578	385,411
Re-election of Robert E. Connor Class III Director to serve until 2012	10,153,049	374,940
Election of Diana L. Taylor* Class I Director to serve until 2010	10,163,311	364,677

Messrs. John C. Maney**, Hans W. Kertess, William B. Ogden, IV and R. Peter Sullivan III continue to serve as Directors of the Fund.

* In May 2008, Diana L. Taylor was appointed to serve as a Director of the Fund.
** Mr. Maney is an Interested Director of the Fund.

Proxy Voting Policies & Procedures:

A description of the policies and procedures that the Fund has adopted to determine how to vote proxies relating to portfolio securities and information about how the Fund voted proxies relating to portfolio securities held during the most recent twelve month period ended June 30 is available (i) without charge, upon request, by calling the Fund s shareholder servicing agent at (800) 254-5197; (ii) on the Fund s website at www.allianzinvestors.com/closedendfunds; and (iii) on the Securities and Exchange Commission website at www.sec.gov

Changes to the Fund s Investment Policies

Commercial mortgage-backed securities. Effective April 6, 2009, the Fund s non-fundamental investment policy regarding its minimum investment in commercial mortgage-backed securities (CMBS) has been revised such that the Fund s policy is now to normally invest at least 50% of its total assets in CMBS (rather than a minimum of 65% as under the prior policy). The Board of Directors approved the change based on a recommendation from AGIFM and the Fund s sub-adviser that this change is in the best interests of the Fund and the Fund s shareholders. In light of the ongoing adverse market conditions, the reduction in the Fund s minimum investment in CMBS allows the Fund additional flexibility to invest a greater portion of its portfolio in other asset classes, including high-quality securities such as agency-guaranteed mortgage-backed securities and potentially investment-grade corporate debt securities.

Preferred Stock and Convertible Securities: Conversion to Common Stock. The Fund may invest in preferred stock and convertible securities, and these securities may allow for conversion into common stock. Effective April 6, 2009, the Fund s investment policies are revised to make explicit that the Fund may hold common stock received from conversion of other portfolio securities, such that common stocks may represent up to 20% of the Fund s total assets. The Board of Directors formally approved of this policy based on a recommendation from AGIFM and PIMCO that having the ability to hold common stock under these circumstances would be in the best interest of the Fund and the Fund s shareholders. PIMCO believes it is in the best interests of the Fund to have the flexibility to participate in such conversions and to hold common stock received in such conversions until adequate value can be realized or it otherwise deems it appropriate to dispose of common stock holdings.

Holding common stock involves risks different from or in addition to the risks associated with debt instruments. The market price of common stocks and other equity securities may go up or down, sometimes rapidly or unpredictably.

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PCM Fund, Inc. Annual Shareholder Meeting Results/

Proxy Voting Policies & Procedures/

Changes to the Fund s Investment Policies (unaudited)

The value of a company s equity securities may fall as a result of factors directly relating to that company, such as decisions made by its management or lower demand for the company s products or services. The value of an equity security may also fall because of factors affecting not just the company, but also companies in the same industry or sector, or in a number of different industries or sectors, such as increases in production costs. The value of a company s equity securities may also be affected by changes in financial markets that are relatively unrelated to the company or its industry, such as changes in interest rates or currency exchange rates, adverse circumstances involving the credit markets, periods of relative illiquidity, volatility, and perceived or actual instability in the banking and financial service sectors. In addition, because a company s equity securities rank junior in priority to the interests of bond holders and other creditors, a company s equity securities will usually react more strongly than its bonds and other debt to actual or perceived changes in the company s financial condition or prospects. Equity securities generally have greater price volatility and usually produce lower yields than bonds and other debt securities.

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Directors
Hans W. Kertess
Chairman of the Board of Directors
Paul Belica
Robert E. Connor
John C. Maney
William B. Ogden, IV
R. Peter Sullivan III
Diana L. Taylor

Fund Officers
Brian S. Shlissel
President & Chief Executive Officer
Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer
Thomas J. Fuccillo
Vice President, Secretary & Chief Legal Officer
Scott Whisten
Assistant Treasurer
Richard J. Cochran
Assistant Treasurer
Youse E. Guia
Chief Compliance Officer
Kathleen A. Chapman
Assistant Secretary
Lagan Srivastava
Assistant Secretary

Investment Manager

Allianz Global Investors Fund Management LLC

1345 Avenue of the Americas

New York, NY 10105

Sub-Adviser

Pacific Investment Management Company LLC

840 Newport Center Drive

Newport Beach, CA 92660

Custodian & Accounting Agent

State Street Bank & Trust Co.

801 Pennsylvania

Kansas City, MO 64105-1307

Transfer Agent, Dividend Paying Agent and Registrar

PNC Global Investment Servicing

P.O. Box 43027

Providence, RI 02940-3027

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP

1100 Walnut Street, Suite 1300

Kansas City, MO 64106-2797

Legal Counsel

Ropes & Gray LLP

One International Place

Boston, MA 02110-2624

This report, including the financial information herein, is transmitted to the shareholders of PCM Fund, Inc. for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

The financial information included herein is taken from the records of the Fund without examination by an independent registered public accounting firm, who did not express an opinion.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase shares of its stock in the open market.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of its fiscal year on Form N-Q. The Fund s Form N-Q is available on the SEC s website at www.sec.gov and may be reviewed and copied at the SEC s Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. The information on Form N-Q is also available on the Fund s website at www.allianzinvestors.com/closedendfunds.

On April 21, 2009, the Fund submitted CEO annual certification to the New York Stock Exchange (NYSE) on which the Fund s principal executive officer certified that he was not aware, as of the date, of any violation by the Fund of the NYSE s Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, the Fund s principal executive and principal financial officer made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q relating to, among other things, the Fund s disclosure controls and procedures and internal control over financial reporting, as applicable.

Information on the Fund is available at www.allianzinvestors.com/closedendfunds or by calling the Fund s shareholder servicing agent at (800) 254-5197.

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ITEM 2. CODE OF ETHICS
Not required in this filing.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT
Not required in this filing.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES
Not required in this filing.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANT
Not required in this filing.

ITEM 6. SCHEDULE OF INVESTMENTS
Schedule of Investments is included as part of the report to shareholders filed under Item 1 of this form.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.
Not required in this filing.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES
Not required in this filing.

ITEM 9. Purchase of Equity Securities by Closed-End Management Investment Company and Affiliated Companies
None

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
There have been no material changes to the procedures by which shareholders may recommend nominees to the Fund s Board of Trustees since the Fund last provided disclosure in response to this item.

ITEM 11. CONTROLS AND PROCEDURES
(a) The registrant s President & Chief Executive Officer and Treasurer, Principal Financial & Accounting Officer have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a-2(c) under the Act (17 CFR 270.30a-3(c))), as amended are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant changes over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d))) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrants control over financial reporting.

ITEM 12. EXHIBITS

(a) Exhibit 99.302 Cert. - Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(b) Exhibit 99.906 Cert. - Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) PCM Fund, Inc.

By: /s/ Brian S. Shlissel
Brian S. Shlissel
President & Chief Executive Officer
Date: November 6, 2009

By: /s/ Lawrence G. Altadonna
Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer
Date: November 6, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Brian S. Shlissel
Brian S. Shlissel
President & Chief Executive Officer
Date: November 6, 2009

By: /s/ Lawrence G. Altadonna
Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer
Date: November 6 , 2009