PCM FUND, INC.
Form N-CSR
March 03, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-07816

PCM Fund, Inc.

(Exact name of registrant as specified in charter)

1345 Avenue of the Americas, New York, NY	**10105**
(Address of principal executive offices)	**(Zip code)**

Lawrence G. Altadonna

1345 Avenue of the Americas

New York, NY 10105

(Name and address of agent for service)

Registrant s telephone number, including area code: 212-739-3371

Date of fiscal year end: December 31, 2010

Date of reporting period: December 31, 2010

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-2001. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.

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ITEM 1. REPORT TO SHAREHOLDERS

Annual Report

December 31, 2010

PCM Fund, Inc.

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Hans W. Kertess

Chairman

Brian S. Shlissel

President & CEO

Dear Stockholder:

The U.S. economy expanded throughout 2010, as the recession of 2007-09 receded further into the rear view mirror. As the year progressed, this expansion gathered steam, with gross domestic product (GDP) growing at an annualized rate of 1.7% during the second quarter of 2010, 2.6% in the third quarter and 3.2% during the fourth quarter. The improving economy was also reflected in the solid performance stock market, equities ended the year perched at levels not seen since 2008. Bond prices experienced gains early in the year, but as the economy strengthened, some of those gains were given back as interest rates rose.

Twelve Months in Review

For the twelve-month fiscal period ended December 31, 2010, PCM Fund returned 45.93% on net asset value (NAV) and 54.01% on market price. The U.S. Treasury market, as measured by the Barclays Capital U.S. Treasury Index, gained 9.38% and the Barclays Capital Mortgage Index, a broad measure of mortgage bond performance, returned 5.50%. The Barclays Capital U.S. Aggregate Index, a broad measure of government and corporate bond performance, returned 6.54%, and the Barclays Capital U.S. Credit Index, a measure of corporate bond performance, returned 6.59% for the year ended December 31, 2010.

With one notable exception housing the U.S. economic recovery was fairly broad-based. Consumer confidence and with it retail sales perked up. The manufacturing sector approximately 9% of the U.S. economy expanded in December for the 17th consecutive month, according to a key gauge.

As the economy advanced, many investors responded by shifting out of the U.S. Treasury market a perceived safe haven during difficult times and into riskier asset classes such as stocks and corporate bonds.

However, progress was not linear. During the Spring of 2010, signs emerged that the U.S. economy which registered its slowest growth between April and June was slowing down. In Europe, a sovereign debt crisis affected several

countries, casting a shadow across the continent. Moreover, key emerging markets such as China and Brazil, showed signs of cooling off. Some investors reversed course, moving back into the Treasury market. Stocks fell accordingly.

The mid-year perception that the U.S. economy was cooling caused another reversal. The Federal Reserve (the Fed) announced it would purchase as much as $900 billion in Treasury bonds through June 2011. The goal of this so-called quantitative easing was to stimulate the economy by lowering lower interest rates.

Previously, the Fed had begun withdrawing similar stimulus measures that had been put in place during the recession. The Fed also raised the discount-rate - the interest rate it charges banks for direct loans to 0.75% from 0.50%. The move was seen as a signal for banks to borrow money not from the government, but from a healthier private sector. The Fed continued to maintain its closely-

watched Federal Funds Rate the interest rate banks charge to lend federal funds to other banks, usually on an overnight basis in the 0.0% to 0.25% range.

The Road Ahead

When we last reported to you six months ago, there were concerns that the U.S. economy could slip back into recession, or even deflation. Those concerns have largely evaporated. Although housing remains

troubled and unemployment is stubbornly high, our expectation is that economic growth will continue and may, in fact, shift into a relatively higher gear. At some point, unemployment is likely to decline, and with the American consumer representing approximately two-thirds of the economy, this should boost the recovery still further.

For specific information on the Fund and its performance, please review the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Fund s stockholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources are available on our Web site, www.allianzinvestors.com/closedendfunds.

Together with Allianz Global Investors Fund Management LLC, the Fund s investment manager, and Pacific Investment Management Company LLC (PIMCO), the Fund s subadviser, we thank you for investing with us.

Sincerely,

Hans W. Kertess	Brian S. Shlissel
Chairman	President & CEO

Receive this report electronically and eliminate paper mailings. To enroll, go to www.allianzinvestors.com/ edelivery.

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PCM Fund, Inc. Fund Insights

December 31, 2010 (unaudited)

For the fiscal year ended December 31, 2010, PCM returned 45.93% on net asset value and 54.01% on market price prior to the deduction of fees, outperforming the unmanaged Barclay s CMBS Investment Grade Index (the benchmark index), which returned 20.40% during the reporting period.

Overall bond markets turned in solid performance in 2010, though gains were moderated by a partial retracement during the fourth quarter. Sovereign and high-quality bonds in particular benefited from general risk aversion early in the year, as mounting concerns about the fiscal health of peripheral European economies as well as continued anemic employment and housing data in the U.S weighed on expectations. Concerns in the U.S. centered on the waning effects of policy stimulus as unemployment remained stubbornly high and consumer confidence weakened. The uncertain impact of new regulations for the health care and financial services industries added to the anxiety.

The creation of the Greek bailout package late in the second quarter served to reassure markets, as did the growing expectation for further quantitative easing by the Fed, leading to a sharp and sustained rally for risk assets from July 2010 through the end of October 2010. In November, the Federal Reserve (the Fed) announced its widely anticipated second round of quantitative easing (QE2), which included a commitment to purchase a total of as much as $850 to $900 billion of longer-maturity Treasuries through June 2011. Gains in manufacturing, retail sales and consumer confidence, as well as surging equity markets and a rise in inflation expectations indicated that the Fed s efforts were having an impact. While QE2 raised concern about long term inflation risk, actual levels of inflation excluding volatile food and fuel costs remained below the Fed s targeted range during the quarter. Treasury yields rose in the final months of the year as investors turned to riskier assets in pursuit of higher returns, though yields ended the year broadly lower at all segments of the curve.

Risk exposures drive absolute gains

The outperformance of riskier segments of the bond market for the calendar year supported the Fund s absolute returns. The Fund s exposure to commercial mortgage-backed securities (CMBS), one of the best performing asset classes during the reporting period, enhanced performance as investor demand for higher yielding assets and positive supply technicals benefitted the sector. That said, not all CMBS exposure was beneficial. A large allocation to super-senior CMBS detracted from Fund performance as the rally in risk assets was more beneficial to bonds from the lower (less senior) portion of the CMBS capital structure.

Exposure to financials also detracted from performance, as the sector underperformed the Barclays CMBS Index, largely a result of increased regulatory pressures. Although the non-Agency Mortgage - Backed Securities (MBS) sector benefitted from lack of new issue supply and investor demand for higher yielding assets, senior non-Agency MBS positions detracted from performance as the sector was unable to keep pace with the rally in BBB CMBS.

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PCM Fund, Inc. Fund Performance & Statistics

December 31, 2010 (unaudited)

Total Return[1]:	Market Price	NAV
1 Year	54.01%	45.93%
5 Year	6.71%	8.83%
10 Year	9.10%	8.66%
Commencement of Operations (9/2/93) to 12/31/10	8.23%	8.37%

Market Price/NAV Performance:

Commencement of Operations (9/2/93) to 12/31/10

Market Price/NAV:

Market Price	$10.80
NAV	$9.88
Premium to NAV	9.31%
Market Price Yield[2]	8.89%

Moody s Ratings

(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in net asset value (NAV) or market price (as applicable) in the specified period. The calculation assumes that all income dividends and capital gain distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges. Total return for a period of more than one year represents the average annual total return.

Performance at market price will differ from its results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund s shares, or changes in Fund dividends.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a onetime public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. NAV is equal to total assets less total liabilities divided by the number of shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly per share dividend (comprised of net investment income) payable to stockholders by the market price per share at December 31, 2010.

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PCM Fund, Inc. Schedule of Investments

December 31, 2010

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
MORTGAGE-BACKED SECURITIES 125.7%			
$575	Adjustable Rate Mortgage Trust, 3.047%, 1/25/36, CMO, VRN	Caa3/CCC	$393,611
	Banc of America Alternative Loan Trust, CMO,		
804	5.761%, 4/25/37, VRN	Ca/NR	585,951
387	6.25%, 1/25/37	C/NR	109,098
	Banc of America Commercial Mortgage, Inc., CMO (h),		
2,000	5.414%, 9/10/47	Aaa/AAA	2,096,128
2,500	7.224%, 4/15/36, VRN	A1/NR	2,507,963
150	7.812%, 11/15/31, VRN	Aaa/AAA	150,125
	Banc of America Funding Corp., CMO,		
1,170	2.997%, 12/20/34, VRN	NR/A-	798,907
435	5.701%, 3/20/36, FRN	Caa1/BB	364,241
1,138	7.00%, 10/25/37	NR/CCC	868,894
1,500	Banc of America Large Loan, Inc., 0.730%, 3/15/22, CMO, FRN (a)(c)	NR/BBB-	1,335,461
696	Banc of America Mortgage Securities, Inc., 5.023%, 6/25/35, CMO, FRN	B3/NR	626,914
1,000	BCRR Trust, 5.858%, 7/17/40, CMO, VRN (a)(c)	Aa2/NR	943,921
	Bear Stearns Adjustable Rate Mortgage Trust, CMO, FRN,		
2,000	2.871%, 10/25/35	NR/BB	1,686,527
467	4.752%, 5/25/34 (h)	A2/A+	456,872
	Bear Stearns Alt-A Trust, CMO,		
393	3.498%, 9/25/34, VRN	A2/AAA	322,643
702	4.967%, 5/25/36, VRN	Ca/CC	436,992
1,895	5.170%, 8/25/36, VRN	Caa3/D	1,044,796
322	5.325%, 7/25/35, FRN	Caa3/CCC	224,914
827	6.046%, 8/25/36, VRN	Caa3/CCC	546,982
280	Bear Stearns Asset Backed Securities Trust, 5.50%, 12/25/35, CMO	Caa2/D	241,377
	Bear Stearns Commercial Mortgage Securities, CMO,		
200	0.480%, 3/15/19, FRN (a)(c)	A2/BB+	189,044
1,300	5.625%, 3/13/40, VRN (a)(c)	NR/BBB+	1,102,654
3,000	5.694%, 6/11/50, VRN (h)	NR/A+	3,185,130
2,000	5.717%, 6/11/40, VRN (h)	Aaa/NR	2,137,111
1,000	5.811%, 5/11/39, VRN (a)(c)	NR/BBB+	894,701
1,103	6.50%, 2/15/32	NR/D	16,465
1,630	CBA Commercial Small Balance Commercial Mortgage, 5.54%, 1/25/39, CMO (a)(c)	C/BB-	818,895
800	Chase Mortgage Finance Corp., 6.00%, 3/25/37, CMO	Caa3/CCC	705,027
2,500	Citigroup Commercial Mortgage Trust, 5.698%, 12/10/49, CMO, VRN (h)	Aaa/AA	2,676,364
	Citigroup Mortgage Loan Trust, Inc., CMO, VRN,		
702	2.986%, 8/25/35	Caa2/NR	520,769
843	5.178%, 9/25/35	NR/CCC	752,167
871	5.536%, 11/25/36	NR/CCC	662,970
4,012	Citigroup/Deutsche Bank Commercial Mortgage Trust,		
	5.322%, 12/11/49, CMO (h)	Aaa/A-	4,164,779
276	Citimortgage Alternative Loan Trust, 5.50%, 4/25/22, CMO	B3/NR	247,473
3,000	Commercial Capital Access One, Inc., 7.883%, 11/15/28, CMO, VRN (a)(c)	NR/NR	1,144,892

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PCM Fund, Inc. Schedule of Investments

December 31, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	Commercial Mortgage Pass Through Certificates, CMO (a)(c),		
$1,500	6.586%, 7/16/34 (h)	Aaa/AAA	$1,528,660
1,500	6.811%, 7/16/34, VRN	Aa2/A+	1,498,525
	Countrywide Alternative Loan Trust, CMO,		
1,878	0.441%, 6/25/47, FRN	Caa3/CCC	1,147,367
558	0.541%, 2/25/37, FRN	Caa3/CCC	330,430
430	0.551%, 2/25/36, FRN	C/CC	129,847
370	6.00%, 11/25/35	Caa3/CCC	308,565
1,277	Countrywide Home Loan Mortgage Pass Through Trust,		
	6.00%, 5/25/37, CMO	Caa2/NR	969,966
	Credit Suisse First Boston Mortgage Securities Corp., CMO,		
22,169	1.402%, 12/15/35, IO, VRN (a)(c)(h)	NR/AAA	441,965
3,000	6.574%, 12/15/35 (h)	Aaa/AAA	3,119,535
153	7.00%, 2/25/33	Aaa/AAA	161,039
2,000	7.46%, 1/17/35, VRN	NR/NR	2,219,161
	Credit Suisse Mortgage Capital Certificates, CMO,		
5,000	5.467%, 9/15/39 (h)	Aaa/AAA	5,251,260
444	5.896%, 4/25/36	Caa3/CCC	315,080
357	6.50%, 5/25/36	Ca/D	233,022
1,925	CW Capital Cobalt Ltd., 5.223%, 8/15/48, CMO (h)	NR/AA-	2,006,537
3,442	FFCA Secured Lending Corp., 1.120%, 9/18/27, CMO, IO, VRN (a)(c)	Aaa/NR	65,074
371	First Horizon Alternative Mortgage Securities,		
	2.376%, 8/25/35, CMO, FRN	C/CCC	93,114
347	First Horizon Asset Securities, Inc., 2.875%, 4/25/35, CMO, FRN	Baa2/AAA	336,708
2,000	First Union-Lehman Brothers-Bank of America, 6.778%, 11/18/35, CMO (h)	Aaa/AAA	2,088,534
15,929	FREMF Mortgage Trust, 0.10%, 5/25/20, CMO, IO, VRN (b)(e)	NR/NR	95,249
	GMAC Commercial Mortgage Securities, Inc., CMO (a)(c),		
2,000	6.50%, 5/15/35 (h)	NR/B	2,082,822
1,500	6.975%, 5/15/30, VRN	NR/NR	1,189,348
1,500	8.192%, 9/15/35, VRN	NR/NR	1,493,289
	Greenwich Capital Commercial Funding Corp., CMO,		
1,500	5.419%, 1/5/36, VRN (a)(c)	A2/A+	1,516,318
2,000	5.444%, 3/10/39 (h)	Aaa/A	2,110,148
	GS Mortgage Securities Corp. II, CMO,		
18,405	1.587%, 8/10/43, IO, VRN (a)(c)	Aaa/NR	1,658,170
5,750	5.56%, 11/10/39 (h)	Aaa/NR	6,107,461
3,480	7.397%, 8/5/18, VRN (a)(c)	Baa2/NR	2,937,533
1,000	Harborview Mortgage Loan Trust, 5.881%, 6/19/36, CMO, VRN	Ca/D	595,626
280	Indymac Index Mortgage Loan Trust, 0.661%, 11/25/34, CMO, FRN	Ba1/BB	191,658
	JPMorgan Chase Commercial Mortgage Securities Corp., CMO,		
9,148	1.306%, 3/12/39, IO, VRN (a)(c)	Aaa/NR	215,953
2,000	5.653%, 3/18/51, VRN (a)(c)	A1/NR	1,890,399
1,400	5.742%, 2/12/49, VRN	Aa2/A+	1,489,596
1,195	5.794%, 2/12/51, VRN	Aaa/A+	1,274,767
1,150	5.989%, 2/15/51, VRN	Aaa/A-	1,205,956
2,000	6.162%, 5/12/34 (h)	Aaa/NR	2,079,386

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PCM Fund, Inc. Schedule of Investments

December 31, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	JPMorgan Mortgage Trust, CMO,		
$585	2.978%, 7/25/35, FRN	B1/B+	$534,829
439	5.139%, 10/25/35, VRN	B1/NR	432,801
	LB Commercial Conduit Mortgage Trust, CMO,		
950	5.942%, 7/15/44, VRN	Aaa/A	1,017,764
1,100	6.41%, 6/15/31 (a)(c)	Ba2/NR	835,903
	LB-UBS Commercial Mortgage Trust, CMO,		
1,278	5.347%, 11/15/38 (h)	NR/AAA	1,352,984
1,500	5.683%, 7/15/35 (a)(c)	Ba1/BBB-	1,364,337
1,572	6.95%, 3/15/34, VRN (a)(c)	Aa2/A	1,618,654
1,714	Lehman Mortgage Trust, 6.00%, 5/25/37, CMO	NR/D	1,313,305
1,777	Luminent Mortgage Trust, 0.431%, 12/25/36, CMO, FRN	Caa2/B+	1,165,455
2,000	MASTR Asset Securitization Trust, 6.00%, 6/25/36, CMO, FRN	Caa2/CCC	1,739,122
1,500	Merrill Lynch Mortgage Investors, Inc., 6.838%, 12/15/30, CMO, VRN	Aaa/AA+	1,634,009
	Merrill Lynch/Countrywide Commercial Mortgage Trust, CMO,		
1,500	5.485%, 3/12/51, VRN (h)	Aaa/NR	1,531,989
2,300	5.70%, 9/12/49	NR/A+	2,404,256
	MLCC Mortgage Investors, Inc., CMO, FRN,		
603	0.471%, 7/25/30	A2/AAA	439,423
184	0.511%, 11/25/35	B1/BBB	166,537
633	0.511%, 11/25/35	B3/BBB	544,763
475	0.591%, 11/25/29	Aaa/AAA	420,006
	Morgan Stanley Capital I, CMO,		
2,000	5.447%, 2/12/44, VRN	Aaa/A	2,078,739
315	5.692%, 4/15/49, VRN	Aa2/A-	327,010
558	5.809%, 12/12/49	NR/A+	596,604
	Morgan Stanley Mortgage Loan Trust, CMO,		
771	3.242%, 1/25/35, VRN	NR/CCC	98,203
1,000	6.00%, 8/25/37	NR/CCC	908,486
1,540	Nationslink Funding Corp., 7.105%, 8/20/30, CMO, VRN (a)(c)	NR/BBB+	1,658,166
	Ocwen Residential MBS Corp., CMO, VRN (a)(c),		
129	6.845%, 6/25/39 (d)	NR/NR	5,171
1,856	7.00%, 10/25/40 (e)	C/NR	211,202
	RBSCF Trust, CMO, VRN (a)(c),		
1,000	5.223%, 8/16/48	NR/NR	967,076
1,000	5.331%, 2/16/44 (e)	NR/NR	958,409
1,000	5.336%, 5/16/47	NR/NR	975,982
2,744	6.068%, 2/17/51	NR/NR	2,607,689
	Residential Accredit Loans, Inc., CMO,		
916	5.302%, 1/25/36, VRN	Caa3/D	514,475
720	6.00%, 8/25/35	NR/CCC	623,978
761	6.50%, 9/25/37	NR/CC	516,326
578	Residential Asset Securitization Trust, 6.00%, 3/25/37, CMO	NR/D	399,683
1,000	Residential Funding Mortgage Securities I, 6.00%, 6/25/36, CMO	Caa2/CCC	892,014
	RMF Commercial Mortgage Pass Through Certificates, CMO (a)(c),		
212	7.471%, 1/15/19	NR/NR	211,931
265	9.350%, 1/15/19, VRN	NR/NR	264,756

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PCM Fund, Inc. Schedule of Investments

December 31, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
$303	Sequoia Mortgage Trust, 0.461%, 7/20/36, CMO, FRN	B1/BBB+	$247,743
	Structured Adjustable Rate Mortgage Loan Trust, CMO,		
500	5.510%, 9/25/36, FRN	NR/CCC	387,244
1,613	5.736%, 4/25/36, VRN	NR/CC	1,242,144
894	5.860%, 1/25/36, VRN	NR/CCC	702,807
1,378	6.014%, 11/25/36, VRN	NR/CC	1,063,550
1,854	Structured Asset Mortgage Investments, Inc., 0.471%, 8/25/36, CMO, FRN	Caa3/CCC	1,168,983
423	Structured Asset Securities Corp., 5.00%, 5/25/35, CMO	B2/A	438,119
390	TBW Mortgage-Backed Pass Through Certificates, 6.00%, 7/25/36, CMO	NR/D	254,147
1,500	TIAA Retail Commercial Trust, 5.77%, 6/19/33, CMO (a)(c)	NR/BBB	1,565,749
3,000	TrizecHahn Office Properties, 7.604%, 5/15/16, CMO (a)(c)	Baa1/A	2,985,330
	Wachovia Bank Commercial Mortgage Trust, CMO,		
41,416	0.455%, 10/15/41, IO, VRN (a)(c)	Aaa/AAA	783,317
551	1.261%, 9/15/21, FRN (a)(c)	Caa1/CCC-	509,975
2,500	5.188%, 2/15/41, VRN (a)(c)	Baa2/BBB-	2,232,042
1,000	5.509%, 4/15/47	Aa2/BBB+	1,021,328
5,044	5.605%, 2/15/35, VRN (a)(c)(h)	NR/AA-	4,990,859
1,825	5.902%, 2/15/51, VRN (h)	Aaa/BBB	1,887,489
1,133	WaMu Mortgage Pass Through Certificates, 5.302%, 12/25/36, CMO, VRN	NR/CCC	871,689
250	Wells Fargo Alternative Loan Trust, 5.50%, 7/25/22, CMO	NR/CC	221,634
900	Wells Fargo Mortgage-Backed Securities Trust,		
	5.739%, 10/25/36, CMO, VRN	Caa1/NR	775,165
Total Mortgage-Backed Securities (cost-$135,093,612)			142,020,177
CORPORATE BONDS & NOTES 44.1%			
Airlines 7.3%			
4,706	American Airlines Pass Through Trust, 6.817%, 11/23/12 (h)	B2/B+	4,750,707
460	Northwest Airlines, Inc., 1.034%, 5/20/14, FRN (MBIA) (h)	Baa2/A-	435,146
	United Air Lines Pass Through Trust (h),		
869	6.636%, 1/2/24	Baa2/BB+	871,018
952	9.75%, 1/15/17	Baa2/BBB+	1,094,484
944	10.40%, 5/1/18	Baa2/BBB+	1,090,674
			8,242,029
Automotive 0.7%			
750	Tenneco, Inc., 8.625%, 11/15/14 (h)	B3/B	775,312
Banking 4.8%			
1,000	American Express Bank FSB, 0.391%, 5/29/12, FRN (h)	A2/BBB+	995,960
2,200	Discover Bank, 7.00%, 4/15/20 (h)	Ba1/BBB-	2,369,158
2,000	Regions Financial Corp., 7.75%, 11/10/14 (h)	Ba3/BB+	2,081,720
			5,446,838
Energy 0.9%			
950	Consol Energy, Inc., 8.00%, 4/1/17 (a)(c)(h)	B1/BB	1,016,500

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PCM Fund, Inc. Schedule of Investments

December 31, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
Financial Services	**12.2%**		
	Ally Financial, Inc.,		
$10	5.90%, 1/15/19	B3/B	$8,530
20	6.00%, 2/15/19	B3/B	17,167
106	6.00%, 3/15/19	B3/B	91,023
30	6.15%, 3/15/16	B3/B	27,728
20	6.30%, 8/15/19	B3/B	17,555
16	6.50%, 10/15/16	B3/B	14,878
23	6.65%, 6/15/18	B3/B	21,127
25	6.70%, 6/15/18	B3/B	23,033
19	6.75%, 8/15/16	B3/B	17,863
12	6.75%, 6/15/17	B3/B	11,215
18	6.75%, 9/15/18	B3/B	16,448
35	6.75%, 10/15/18	B3/B	31,829
2	6.80%, 10/15/18	B3/B	1,826
12	6.85%, 4/15/16	B3/B	11,392
174	6.90%, 8/15/18	B3/B	161,070
30	7.00%, 6/15/17	B3/B	28,254
3	7.00%, 2/15/18	B3/B	2,847
100	7.00%, 3/15/18	B3/B	94,612
5	7.00%, 5/15/18	B3/B	4,680
55	7.00%, 8/15/18	B3/B	51,219
14	7.05%, 3/15/18	B3/B	13,283
32	7.05%, 4/15/18	B3/B	30,258
100	7.125%, 8/15/12	B3/B	100,019
6	7.15%, 9/15/18	B3/B	5,617
60	7.20%, 10/15/17	B3/B	56,833
5	7.25%, 9/15/17	B3/B	4,724
38	7.25%, 4/15/18	B3/B	36,156
60	7.25%, 8/15/18	B3/B	56,677
30	7.25%, 9/15/18	B3/B	28,253
195	7.30%, 12/15/17	B3/B	187,350
102	7.30%, 1/15/18	B3/B	97,927
76	7.35%, 4/15/18	B3/B	73,095
20	7.375%, 11/15/16	B3/B	19,493
36	7.40%, 12/15/17	B3/B	34,256
14	7.50%, 8/15/17	B3/B	13,323
12	7.50%, 11/15/17	B3/B	11,628
8	7.75%, 10/15/17	B3/B	7,837
19	8.00%, 10/15/17	B3/B	18,846
18	8.00%, 11/15/17	B3/B	17,894
5	8.20%, 3/15/17	B3/B	5,014
322	9.00%, 7/15/20 (h)	B3/B	326,138
1,000	Cantor Fitzgerald L.P., 7.875%, 10/15/19 (a)(c)(h)	Baa3/BBB	1,031,448
	CIT Group, Inc. (h),		
183	7.00%, 5/1/13	B3/B+	187,533
275	7.00%, 5/1/14	B3/B+	278,548
275	7.00%, 5/1/15	B3/B+	276,485
459	7.00%, 5/1/16	B3/B+	461,381

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PCM Fund, Inc. Schedule of Investments

December 31, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
Financial Services (continued)			
$642	7.00%, 5/1/17	B3/B+	$645,133
	Ford Motor Credit Co. LLC (h),		
1,000	6.625%, 8/15/17	Ba2/B+	1,052,396
500	8.00%, 12/15/16	Ba2/B+	559,398
500	General Electric Capital Corp., 0.422%, 6/12/12, FRN	Aa2/AA+	493,034
1,600	International Lease Finance Corp., 7.125%, 9/1/18 (a)(c)(h)	Ba3/BBB-	1,708,000
1,000	Merrill Lynch & Co., Inc., 0.749%, 1/15/15, FRN (h)	A2/A	947,496
1,200	Morgan Stanley, 0.769%, 10/15/15, FRN (h)	A2/A	1,126,397
	SLM Corp. (h),		
1,000	8.00%, 3/25/20	Ba1/BBB-	1,015,545
1,100	8.45%, 6/15/18	Ba1/BBB-	1,144,871
1,000	Stone Street Trust, 5.902%, 12/15/15 (a)(c)	A3/A-	1,037,936
			13,764,518
Hotels/Gaming 1.1%			
1,100	MGM Resorts International, 9.00%, 3/15/20 (a)(c)(h)	B1/B	1,215,500
Insurance 7.7%			
	American International Group, Inc. (h),		
2,000	4.25%, 5/15/13	A3/A-	2,074,348
500	5.45%, 5/18/17	A3/A-	507,672
3,500	5.85%, 1/16/18	A3/A-	3,619,360
1,350	6.25%, 5/1/36	A3/A-	1,303,818
1,100	6.40%, 12/15/20	A3/A-	1,156,254
			8,661,452
Oil & Gas 2.6%			
	Anadarko Petroleum Corp. (h),		
200	6.20%, 3/15/40	Ba1/BBB-	195,885
1,000	6.375%, 9/15/17	Ba1/BBB-	1,090,800
1,400	6.45%, 9/15/36	Ba1/BBB-	1,400,704
285	Global Geophysical Services, Inc., 10.50%, 5/1/17	B3/B	285,000
			2,972,389
Paper/Paper Products 0.9%			
1,000	Weyerhaeuser Co., 7.375%, 3/15/32 (h)	Ba1/BBB-	1,013,595
Real Estate Investment Trust 2.8%			
1,000	Kilroy Realty L.P., 5.00%, 11/3/15 (h)	Baa3/BBB-	993,802
2,000	Reckson Operating Partnership L.P., 7.75%, 3/15/20 (h)	Ba2/BB+	2,143,548
			3,137,350
Retail 2.5%			
	CVS Pass Through Trust (h),		
1,748	5.88%, 1/10/28	Baa2/NR	1,778,371
984	7.507%, 1/10/32 (a)(c)	Baa2/BBB+	1,121,495

2,899,866

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PCM Fund, Inc. Schedule of Investments

December 31, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
Utilities 0.6%			
$250	Dynegy Holdings, Inc., 7.125%, 5/15/18 (h)	Caa2/B-	$160,000
500	Energy Future Holdings Corp., 10.00%, 1/15/20 (a)(c)(h)	Caa3/B	516,887
			676,887
Total Corporate Bonds & Notes (cost-$44,758,014)			49,822,236
ASSET-BACKED SECURITIES 7.8%			
999	Advanta Business Card Master Trust, 0.511%, 6/20/14, FRN	Ca/CCC-	829,821
191	Ameriquest Mortgage Securities, Inc., 5.886%, 2/25/33, FRN	Ca/D	14,595
158	Asset Backed Securities Corp. Home Equity, 3.011%, 6/21/29, FRN	Caa1/NR	34,353
668	Bayview Financial Acquisition Trust, 0.541%, 12/28/36, FRN	Baa1/BB	471,955
	Bear Stearns Asset Backed Securities Trust,		
118	0.641%, 6/25/36, FRN	NR/BB	89,076
1,033	3.433%, 7/25/36, VRN	NR/CCC	674,260
40	CDC Mortgage Capital Trust, 5.361%, 3/25/33, FRN	C/D	544
1,000	CWALT, Inc., 5.467%, 9/15/39 (a)(c)	NR/NR	975,635
985	Denver Arena Trust, 6.94%, 11/15/19 (a)(c)	NR/NR	922,760
577	EMC Mortgage Loan Trust, 0.911%, 2/25/41, FRN (a)(c)	NR/NR	490,873
359	GE Mortgage Services LLC, 6.705%, 4/25/29, VRN	NR/NR	329,001
247	GSAA Trust, 0.531%, 6/25/35, FRN	B2/AA+	195,368
56	Keystone Owner Trust, 9.00%, 1/25/29 (a)(c)	Caa1/NR	51,401
899	Lehman XS Trust, 5.42%, 11/25/35	A3/AAA	881,570
2,455	Merrill Lynch First Franklin Mortgage Loan Trust,		
	0.501%, 5/25/37, FRN	Ca/CCC	1,147,342
930	Oakwood Mortgage Investors, Inc., 6.89%, 11/15/32, VRN	C/D	266,928
99	Residential Asset Mortgage Products, Inc., 0.631%, 9/25/32, FRN	Baa3/CCC	62,123
88	Southern Pacific Secured Asset Corp., 0.601%, 7/25/29, FRN	B3/BB+	52,617
68	Structured Asset Investment Loan Trust, 4.761%, 10/25/33, FRN	Caa2/CC	6,444
1,000	UCFC Manufactured Housing Contract, 7.90%, 1/15/28, VRN	Ca/NR	1,142,218
1,856	UPS Capital Business Credit, 6.010%, 4/15/26, FRN	C/NR	120,260
Total Asset-Backed Securities (cost-$9,668,163)			8,759,144
MUNICIPAL BONDS & NOTES 1.8%			
Arkansas 0.5%			
865	Little Rock Municipal Property Owners Multipurpose Improvement Dist. No. 10, Special Tax, Capital Improvement Projects, 7.20%, 3/1/32, Ser. B	NR/NR	629,547
Iowa 0.2%			
240	Dickinson Cnty. Rev., Spirit Lake, 7.75%, 12/1/12, Ser. B	NR/NR	253,267
Virginia 0.5%			
565	Lexington Industrial Dev. Auth. Rev., 8.00%, 1/1/15, Ser. C	NR/NR	544,818
West Virginia 0.6%			
945	Tobacco Settlement Finance Auth. Rev., 7.467%, 6/1/47, Ser. A	Baa3/BB+	656,501
Total Municipal Bonds & Notes (cost-$2,548,972)			2,084,133

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PCM Fund, Inc. Schedule of Investments

December 31, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
CONVERTIBLE BONDS 1.1%			
Real Estate Investment Trust 1.1%			
$1,200	SL Green Operating Partnership L.P., 3.00%, 10/15/17 (a)(c) (cost-$1,191,258)	NR/NR	$1,231,500

Shares			
COMMON STOCK 0.0%			
Oil, Gas & Consumable Fuels 0.0%			
1,294	SemGroup Corp., Class A (g) (cost-$33,638)		35,152

Units			
WARRANTS 0.0%			
Oil, Gas & Consumable Fuels 0.0%			
1,362	SemGroup Corp., expires 11/30/14 (g) (cost-$6,128)		10,555

Principal Amount (000s)			
U.S. GOVERNMENT AGENCY SECURITIES 0.0%			
$8	Federal Housing Administration, 8.36%, 1/1/12 (e) (cost-$8,464)	Aaa/AAA	8,450
SHORT-TERM INVESTMENTS 8.1%			
Corporate Notes (h) **7.2%**			
Financial Services 7.2%			
900	American General Finance Corp., 0.552%, 12/15/11, FRN	B3/B	843,036
	Ford Motor Credit Co. LLC,		
2,000	7.25%, 10/25/11	Ba2/B+	2,067,498
2,000	9.875%, 8/10/11	Ba2/B+	2,082,184
2,200	International Lease Finance Corp., 4.95%, 2/1/11	B1/BB+	2,211,000
1,000	SLM Corp., 0.518%, 10/25/11, FRN	Ba1/BBB-	986,220
Total Corporate Notes (cost-$7,832,657)			8,189,938
U.S. Treasury Bills (f) **0.6%**			
660	0.183%, 6/9/11 (cost-$659,475)		659,554
Asset-Backed Securities (b)(e) **0.0%**			
131	PPM America High Yield CBO Ltd., 1.309%, 6/1/11 (cost-$115,746)	NR/NR	55,663
U.S. Government Agency Securities (f) **0.0%**			
4	Freddie Mac, 0.147%, 2/1/11, FRN (cost-$4,000)	Aaa/AAA	4,000

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PCM Fund, Inc. Schedule of Investments

December 31, 2010 (continued)

Principal Amount (000s)		Value
Repurchase Agreement 0.3%		
$285	State Street Bank & Trust Co., dated 12/31/10, 0.01%, due 1/3/11, proceeds $285,000; collateralized by U.S. Treasury Notes, 2.125%, due 5/31/15, valued at $294,930 including accrued interest (cost-$285,000)	$285,000
Total Short-Term Investments (cost-$8,896,878)		9,194,155
Total Investments (cost-$202,205,127) **188.6%**		213,165,502
Liabilities in excess of other assets (88.6%)		(100,145,179)
Net Assets 100%		**$113,020,323**

Notes to Schedule of Investments:

* Unaudited.
(a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of $59,014,107, representing 52.2% of net assets.
(b) Illiquid.
(c) 144A 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 $1,328,973, representing 1.2% of net assets. See Note 1(a) and Note 1(b) in the Notes to Financial Statements.
(f) All or partial amount segregated for the benefit of the counterparty as collateral for derivatives.
(g) Non-income producing.
(h) All or partial amount segregated for the benefit of the counterparty as collateral for reverse repurchase agreements.

Glossary:

CBO	-	Collateralized Bond Obligation
CMO	-	Collateralized Mortgage Obligation
FRN	-	Floating Rate Note. The interest rate disclosed reflects the rate in effect on December 31, 2010.
IO	-	Interest Only
MBIA	-	insured by Municipal Bond Investors Assurance
MBS	-	Mortgage-Backed Securities
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 December 31, 2010.

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PCM Fund, Inc. Statement of Assets and Liabilities

December 31, 2010

Assets:	
Investments, at value (cost-$202,205,127)	$213,165,502
Cash	336
Interest receivable	1,925,249
Unrealized appreciation of swaps	1,091,608
Receivable from broker	6,608
Prepaid expenses	1,854
Total Assets	216,191,157
Liabilities:	
Payable for reverse repurchase agreements	97,282,738
Dividends payable to stockholders	4,062,068
Swap premiums received	957,933
Payable to broker for cash collateral received	320,000
Unrealized depreciation of swaps	278,508
Investment management fees payable	144,575
Interest payable for reverse repurchase agreements	39,546
Accrued expenses	85,466
Total Liabilities	103,170,834
Net Assets	$113,020,323
Composition of Net Assets :	
Common Stock:	
Par value ($0.001 per share, applicable to 11,444,425 shares issued and outstanding)	$11,444
Paid-in-capital in excess of par	151,585,044
Dividends in excess of net investment income	(338,254)
Accumulated net realized loss	(50,011,386)
Net unrealized appreciation of investments and swaps	11,773,475
Net Assets	$113,020,323
Net Asset Value Per Share	$9.88

See accompanying Notes to Financial Statements

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PCM Fund, Inc. Statement of Operations

Year ended December 31, 2010

Investment Income:	
Interest	$15,270,484
Expenses:	
Investment management fees	1,564,191
Interest expense	697,832
Stockholder communications	87,640
Audit and tax services	53,015
Legal fees	47,091
Custodian and accounting agent fees	45,601
Transfer agent fees	34,817
New York Stock Exchange listing fees	21,396
Directors fees and expenses	10,339
Insurance expense	3,201
Miscellaneous	2,981
Total Expenses	2,568,104
Net Investment Income	12,702,380
Realized and Change in Unrealized Gain (Loss):	
Net realized gain (loss) on:	
Investments	(788,930)
Swaps	232,932
Net change in unrealized appreciation/depreciation of:	
Investments	25,992,712
Swaps	667,889
Net realized and change in unrealized gain on investments and swaps	26,104,603
Net Increase in Net Assets Resulting from Investment Operations	$38,806,983

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PCM Fund, Inc. Statement of Changes in Net Assets

	Year ended December 31, 2010	2009
Investment Operations:		
Net investment income	$12,702,380	$9,215,948
Net realized loss on investments and swaps	(555,998)	(12,484,991)
Net change in unrealized appreciation/depreciation of investments and swaps	26,660,601	37,466,223
Net increase in net assets resulting from investment operations	38,806,983	34,197,180
Dividends to Stockholders from Net Investment Income	(14,350,337)	(11,743,224)
Capital Share Transactions:		
Reinvestment of dividends	273,777	264,306
Total increase in net assets	24,730,423	22,718,262
Net Assets:		
Beginning of year	88,289,900	65,571,638
End of year (including dividends in excess of net investment income of $(338,254) and $226,152, respectively)	$113,020,323	$88,289,900
Shares Issued in reinvestment of dividends	29,473	41,000

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PCM Fund, Inc. Statement of Cash Flows

Year ended December 31, 2010

Decrease in Cash from:	
Cash Flows used for Operating Activities:	
Net increase in net assets resulting from investment operations	$38,806,983
Adjustments to reconcile net increase in net assets resulting from investment operations to net cash used for operating activities:	
Purchases of long-term investments	(91,325,490)
Proceeds from sales of long-term investments	66,124,525
Purchases of short-term portfolio investments, net	(2,861,447)
Net change in unrealized appreciation/depreciation of investments and swaps	(26,660,601)
Net realized loss on investments and swaps	555,998
Net amortization on investments	(1,971,941)
Decrease in receivable for investments sold	403,333
Increase in interest receivable	(446,401)
Decrease in receivable for paydown principal	31,405
Decrease in receivable from broker	11,412
Increase in prepaid expenses	(274)
Decrease in payable for investments purchased	(403,955)
Increase in payable to brokers for cash collateral received	320,000
Increase in periodic and termination payment of swaps, net	793,258
Increase in investment management fees payable	38,708
Increase in interest payable for reverse repurchase agreements	9,904
Decrease in accrued expenses	(29,775)
Net cash used for operating activities*	(16,604,358)
Cash Flows provided by Financing Activities:	
Increase in payable for reverse repurchase agreements	28,594,685
Cash dividends paid (excluding reinvestment of dividends of $273,777)	(12,182,931)
Net cash provided by financing activities	16,411,754
Net decrease in cash	(192,604)
Cash at beginning of year	192,940
Cash at end of year	$336

* Included in operating expenses is cash paid for interest primarily related to participation in reverse repurchase agreement transactions of $687,905.

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PCM Fund, Inc. Notes to Financial Statements

December 31, 2010

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 (the Act), as amended, as a non-diversified, closed-end management investment company 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 L.P. (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 the authority to issue three hundred million shares of $0.001 par value common stock.

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. There is no guarantee that the Fund will meet its stated objectives.

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 Fund s financial statements. Actual results could differ from those estimates.

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.

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 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 mean between the last quoted bid and ask price. 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. 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 Fund s financial statements. The Fund s net asset value 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

December 31, 2010

1. Organization and Significant Accounting Policies (continued)

(b) Fair Value Measurements

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 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)

An investment asset s or liability s level within the fair value hierarchy is based on the lowest level input, individually or in aggregate, that is significant to fair value measurement. The objective of fair value measurement remains the same even when there is a significant decrease in the volume and level of activity for an asset or liability and regardless of the valuation techniques used.

The valuation techniques used by the Fund to measure fair value during the year ended December 31, 2010 maximized the use of observable inputs and minimized the use of unobservable inputs. When fair-valuing securities, the Fund utilized option adjusted spread pricing techniques.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following are certain inputs and techniques that the Fund generally uses to evaluate how to classify each major category of assets and liabilities for Level 2 and Level 3, in accordance with Generally Accepted Accounting Principles (GAAP).

Equity Securities (Common and Preferred Stock) Equity securities traded in inactive markets are valued using inputs which include broker-dealer quotes, recently executed transactions adjusted for changes in the benchmark index, or evaluated price quotes received from independent pricing services that take into account the integrity of the market sector and issuer, the individual characteristics of the security, and information received from broker-dealers and other market sources pertaining to the issuer or security. To the extent that these inputs are observable, the values of equity securities are categorized as Level 2. To the extent that these inputs are unobservable the values are categorized as Level 3.

U.S. Treasury Obligations U.S. Treasuries are valued by independent pricing services based on pricing models that evaluate the mean between the most recently quoted bid and ask price. The models also take into consideration data received from active market makers and broker-dealers, yield curves, and the spread over comparable U.S. Treasury issues. The spreads change daily in response to market conditions and are generally obtained from the new issue market and broker-dealer sources. To the extent that these inputs are observable, the values of U.S. Treasury obligations are categorized as Level 2. To the extent that these inputs are unobservable the values are categorized as Level 3.

Government Sponsored Enterprise and Mortgage-Backed Securities Government sponsored enterprise and mortgage-backed securities are valued by independent pricing services using pricing models based on inputs that include issuer type, coupon, cash flows, mortgage prepayment projection tables and Adjustable Rate Mortgage evaluations that incorporate index data, periodic and life caps, the next coupon reset date, and the convertibility of the bond. To the extent that these inputs are observable, the values of government sponsored enterprise and mortgage-backed securities are categorized as Level 2. To the extent that these inputs are unobservable the values are categorized as Level 3.

Municipal Bonds & Notes Municipal bonds and notes are valued by independent pricing services based on pricing models that take into account, among other factors, information received from market makers and broker-dealers, current trades, bid-want lists, offerings, market movements, the callability of the bond, state of issuance,

PCM Fund, Inc. Notes to Financial Statements

December 31, 2010

1. Organization and Significant Accounting Policies (continued)

benchmark yield curves, and bond insurance. To the extent that these inputs are observable, the values of municipal bonds and notes are categorized as Level 2. To the extent that these inputs are unobservable the values are categorized as Level 3.

Corporate Bonds & Notes   Corporate bonds and notes are generally comprised of two main categories: investment grade bonds and high yield bonds. Investment grade bonds are valued by independent pricing services using various inputs and techniques, which include broker-dealer quotations, live trading levels, recently executed transactions in securities of the issuer or comparable issuers, and option adjusted spread models that include base curve and spread curve inputs. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. High yield bonds are valued by independent pricing services based primarily on broker-dealer quotations from relevant market makers and recently executed transactions in securities of the issuer or comparable issuers. The broker-dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds and sector-specific trends. To the extent that these inputs are observable, the values of corporate bonds and notes are categorized as Level 2. To the extent that these inputs are unobservable the values are categorized as Level 3.

Convertible Bonds   Convertible bonds are valued by independent pricing services based on various inputs and techniques, which include broker-dealer quotations from relevant market makers and recently executed transactions in securities of the issuer or comparable issuers. The broker-dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds and sector-specific trends. To the extent that these inputs are observable, the values of convertible bonds are categorized as Level 2. To the extent that these inputs are unobservable the values are categorized as Level 3.

Asset-Backed Securities and Collateralized Mortgage Obligations   Asset-backed securities and collateralized mortgage obligations are valued by independent pricing services using pricing models based on a security s average life volatility. The models also take into account tranche characteristics such as coupon average life, collateral types, ratings, the issuer and tranche type, underlying collateral and performance of the collateral, and discount margin for certain floating rate issues. To the extent that these inputs are observable, the values of asset-backed securities and collateralized mortgage obligations are categorized as Level 2. To the extent that these inputs are unobservable the values are categorized as Level 3.

Credit Default Swaps   Credit default swaps are valued by independent pricing services using pricing models that take into account, among other factors, information received from market makers and broker-dealers, default probabilities from index specific credit spread curves, recovery rates, and cash flows. To the extent that these inputs are observable, the values of credit default swaps are categorized as Level 2. To the extent that these inputs are unobservable the values are categorized as Level 3.

The Fund s policy is to recognize transfers between levels at the end of the reporting period.

A summary of the inputs used at December 31, 2010 in valuing the Fund s assets and liabilities is listed below:

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 12/31/10
Investments in Securities Assets				
Mortgage-Backed Securities		$ 140,755,317	$ 1,264,860	$ 142,020,177
Corporate Bonds & Notes:				
Airlines			8,242,029	8,242,029
All Other		41,580,207		41,580,207
Asset-Backed Securities		8,759,144		8,759,144

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PCM Fund, Inc. Notes to Financial Statements

December 31, 2010

1. Organization and Significant Accounting Policies (continued)

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 12/31/10
Municipal Bonds & Notes		$ 2,084,133		$ 2,084,133
Convertible Bonds		1,231,500		1,231,500
Common Stock	$ 35,152			35,152
Warrants			$ 10,555	10,555
U.S. Government Agency Securities			8,450	8,450
Short-Term Investments:				
Asset-Backed Securities			55,663	55,663
All Other		9,138,492		9,138,492
Total Investments in Securities Assets	$ 35,152	$ 203,548,793	$ 9,581,557	$ 213,165,502
Other Financial Instruments* Assets				
Credit Contracts		$ 1,091,608		$ 1,091,608
Other Financial Instruments* Liabilities				
Credit Contracts		$ (278,508)		$ (278,508)
Total Investments	$ 35,152	$ 204,361,893	$ 9,581,557	$ 213,978,602

* Other Financial Instruments are swap agreements not reflected in the Schedule of Investments which are valued at the unrealized appreciation (depreciation) of the instrument.

There were no significant transfers between Levels 1 and 2 during the year ended December 31, 2010.

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for the year ended December 31, 2010, was as follows:

	Beginning Balance 12/31/09	Net Purchases (Sales) and Settlements	Accrued Discounts (Premiums)	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation/ Depreciation	Transfers into Level 3**	Transfers out of Level 3***	Ending Balance 12/31/10
Investments in Securities Assets								
Mortgage-Backed Securities	$ 5,440,288	$ (860,794)	$ 142,031	$ 489,453	$ 2,372,617		$ (6,318,735)	$ 1,264,860
Corporate Bonds & Notes:								
Airlines	3,298,685	(222,070)	18,906	13,222	382,579	$ 4,750,707		8,242,029
Common Stock	33,314				1,837		(35,151)	
Warrants	6,128				4,427			10,555
U.S. Government Agency Securities	40,161	(31,504)	(25)	(183)	1			8,450
Short Term Investments:								

Asset-Backed Securities	58,579		7,088		(10,004)			55,663
Total Investments	$ 8,877,155	$ (1,114,368)	$ 168,000	$ 502,492	$ 2,751,457	$ 4,750,707	$ (6,353,886)	$ 9,581,557

** Transferred out of Level 2 into Level 3 because sufficient observable inputs were not available.
*** Transferred out of Level 3 into Level 2 because sufficient observable inputs were available.

The net change in unrealized appreciation/depreciation of Level 3 investments which the Fund held at December 31, 2010, was $96,702. Net realized gain (loss) and net change in unrealized appreciation/depreciation are reflected on the Statement of Operations.

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PCM Fund, Inc. Notes to Financial Statements

December 31, 2010

1. Organization and Significant Accounting Policies (continued)

(c) Investment Transactions and Investment Income

Investment transactions are accounted for on the trade date. Realized gains and losses on investments are determined on an identified cost basis. Interest income adjusted for the accretion of discount and amortization of premium is recorded on an accrual basis. Discounts or premiums on debt securities purchased are accreted or amortized, respectively, to interest income over the lives of the respective securities. Paydown gains and losses are netted and 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.

Accounting for uncertainty in income taxes 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. Fund management has determined that its evaluation has resulted in no material impact to the Fund s financial statements at December 31, 2010. The Fund s federal tax returns for the prior three years remain subject to examination by the Internal Revenue Service.

(e) Dividends and Distributions

The Fund declares dividends from net investment income to stockholders monthly. Distributions of net realized capital gains, if any, are paid annually. The Fund records dividends and distributions to its respective stockholders on the ex-dividend date. The amount of dividends from net investment income and distributions from net realized capital gains are determined in accordance with federal income tax regulations, which may differ from GAAP. 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 to stockholders from return of capital.

(f) Repurchase Agreements

The Fund enters into transactions with its custodian bank or securities brokerage firms whereby it purchases securities under agreements to resell such securities at an agreed upon price and date (repurchase agreements). The Fund, through its custodian, takes possession of securities collateralizing the repurchase agreement. 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, is held by the custodian bank for the benefit of the Fund 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, be 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

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 upon 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 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. To the extent a Fund does not cover its positions in reverse repurchase agreements (by segregating liquid assets at least equal in amount to the forward purchase

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PCM Fund, Inc. Notes to Financial Statements

December 31, 2010

1. Organization and Significant Accounting Policies (continued)

commitment), the Fund s uncovered 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

Investments in mortgage-related or other asset-backed 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. The decline in liquidity and prices of these types of securities may have made it more difficult to determine fair market value. 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.

(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 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) Interest Expense

Interest expense primarily relates to the Fund s participation in reverse repurchase agreement transactions. Interest expense is recorded as it is incurred.

2. Principal Risks

In the normal course of business, the Fund trades financial instruments and enters into financial transactions where risk of potential loss exists due to, among other things, changes in the market (market risk) or failure of the other party to a transaction to perform (counterparty risk). The Fund also is exposed to various risks such as, but not limited to, interest rate 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 used primarily as a measure of the sensitivity of a fixed income security s market price to interest rate (*i.e.* yield) movements.

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PCM Fund, Inc. Notes to Financial Statements

December 31, 2010

2. Principal Risks (continued)

Variable and floating rate securities generally are less sensitive to interest rate changes but may decline in value if their interest rates do not rise as much, or as quickly, as interest rates in general. Conversely, floating rate securities will not generally increase in value if interest rates decline. Inverse floating rate securities may decrease in value if interest rates increase. Inverse floating rate securities may also exhibit greater price volatility than a fixed rate obligation with similar credit quality. When the Fund holds variable or floating rate securities, a decrease (or, in the case of inverse floating rate securities, an increase) in market interest rates will adversely affect the income received from such securities and the net asset value of the Fund s shares.

Mortgage-related and other asset-backed securities often involve risks that are different from or more acute than risks associated with other types of debt instruments. Generally, rising interest rates tend to extend the duration of fixed rate mortgage-related securities, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, if the Fund holds mortgage-related securities, it may exhibit additional volatility. This is known as extension risk. In addition, adjustable and fixed rate mortgage-related securities are subject to prepayment risk. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce the returns of the Fund because the Fund may have to reinvest that money at the lower prevailing interest rates. The Fund s investments in other asset-backed securities are subject to risks similar to those associated with mortgage-related securities, as well as additional risks associated with the nature of the assets and the servicing of those assets.

The Fund is exposed to credit risk, which is the risk of losing money if the issuer or guarantor of a fixed income security is unable or unwilling, or is perceived (whether by market participants, rating agencies, pricing services or otherwise) as 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.

The market values of equity securities, such as common and preferred stock, 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. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities generally have greater market price volatility than fixed income securities.

The Fund is 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 to the Fund could exceed the value of the financial assets recorded in the Fund s financial statements. Financial assets, which potentially expose the Fund to counterparty risk, consist principally of cash due from counterparties and investments. The Fund s Sub-Adviser, Pacific Investment Management Company LLC (the Sub-Adviser), an affiliate of the Investment Manager, seeks to minimize the Fund s counterparty risk by performing reviews of each counterparty and by minimizing concentration of counterparty risk by undertaking transactions with multiple customers and counterparties on recognized and reputable exchanges. 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.

Leverage will cause the value of the Fund s shares to be more volatile than if the Fund did not use leverage. This is because leverage tends to exaggerate the effect of any increase or decrease in the value of the Fund s portfolio securities. The Fund may engage in transactions (such as reverse repurchase agreements) or purchase instruments that give rise to forms of leverage. In addition, to the extent the Fund employs leverage, interest costs may not be recovered by any appreciation of the securities purchased with the leverage proceeds and could exceed the Fund s investment returns, resulting in greater losses.

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 contain provisions for

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PCM Fund, Inc. Notes to Financial Statements

December 31, 2010

2. Principal Risks (continued)

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 of the Fund.

The Fund is also a party to Master Repurchase Agreements (Master Repo Agreements) with select counterparties. The Master Repo Agreements maintain provisions for initiation, income payments, events of default, and maintenance of collateral.

The counterparty risk associated with certain contracts may be 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 counterparty risk with respect to transactions subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

The Fund had security transactions outstanding with Lehman Brothers entities as counterparty at the time the relevant Lehman Brothers entity filed for protection or was placed in administration. The security transactions associated with Lehman Brothers Inc. (SLH) as counterparty were written down to their estimated recoverable values. Anticipated losses for security transactions associated with SLH have been incorporated as net realized gain (loss) on the Fund s Statement of Operations. The remaining balances due from SLH are included in receivable from broker on the Fund s Statement of Assets and Liabilities. The estimated recoverable value of receivable is determined by independent broker quotes.

3. Financial Derivative Instruments

Disclosure about derivative instruments and hedging activities requires qualitative disclosure regarding objectives and strategies for using derivatives, quantitative disclosure about fair value amounts of gains and losses on derivative instruments, and disclosure about credit-risk-related contingent features in derivative agreements. The disclosure requirements distinguish between derivatives which are accounted for as hedges and those that do not qualify for such accounting. Although the Fund sometimes use derivatives for hedging purposes, the Fund reflects derivatives at fair value and recognizes changes in fair value through the Fund s Statement of Operations, and such derivatives do not qualify for hedge accounting treatment.

(a) 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 enters 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.

Payments received or made at the beginning of the measurement period are reflected as such on the Fund s 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 Fund s 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 Fund s Statement of Operations. Net periodic payments received or paid by the Fund are included as part of realized gains or losses on the Fund s 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 Fund s 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

PCM Fund, Inc. Notes to Financial Statements

December 31, 2010

3. Financial Derivative Instruments (continued)

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 investment 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 market 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 uses 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 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 uses 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 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

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PCM Fund, Inc. Notes to Financial Statements

December 31, 2010

3. Financial Derivative Instruments (continued)

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, or in the case of a tranched index credit default swap, the credit event is settled based on the name s weight in the index that falls within the tranche for which the Fund bears exposure. 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 uses 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 swaps to achieve a similar effect. Credit-default swaps 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 market country as of period end are disclosed later in the Notes to Financial Statements (see 5(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 December 31, 2010 for which the Fund is the seller of protection are disclosed later in the Notes to Financial Statements (see 5(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.

Fair Value of Derivative Instruments at December 31, 2010

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

The effect of derivative instruments on the Fund s Statement of Assets and Liabilities at December 31, 2010:

Location	Credit Contracts
Asset derivatives:	
Unrealized appreciation of swaps	$ 1,091,608

Liability derivatives:	
Unrealized depreciation of swaps	$ (278,508)

The effect of derivative instruments on the Fund s Statement of Operations for the year ended December 31, 2010:

Location	Credit Contracts
Net realized gain on:	
Swaps	$ 232,932
Net change in unrealized appreciation/depreciation of:	
Swaps	$ 667,889

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PCM Fund, Inc. Notes to Financial Statements

December 31, 2010

3. Financial Derivative Instruments (continued)

The average volume of derivative instrument activity during the year ended December 31, 2010 was:

Credit Default Swap Agreements[1]	
Purchased	Sold
$1,400	$9,187

[1] Notional amount (in thousands)

4. 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 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.

5. Investments in Securities

Purchases and sales of investments, other than short-term securities and U.S. government obligations, for the year ended December 31, 2010, were $90,357,490 and $52,376,402, respectively. Purchases and sales in U.S. government obligations were $968,000 and $742,542, respectively.

(a) Credit default swap agreements:

Buy protection swap agreements outstanding at December 31, 2010[1]:

Swap Counterparty/ Referenced Debt Issuer	Notional Amount	Credit Spread[3]*	Termination Date	Payments Made	Market Value[5]	Upfront Premiums	Unrealized Depreciation

	Payable on Default (000s)[4]					Received	
Bank of America:							
American International Group	$ 3,500	2.09%	3/20/18	(5.00)%	$ (623,247)	$ (344,739)	$ (278,508)

Sell protection swap agreements outstanding at December 31, 2010[2]:

Swap Counterparty/ Referenced Debt Issuer	Notional Amount Payable on Default (000s)[4]	Credit Spread[3]*	Termination Date	Payments Received	Market Value[5]	Upfront Premiums Received	Unrealized Appreciation
Bank of America:							
MetLife	$ 3,500	1.56%	9/20/15	1.00%	$ (84,816)	$ (235,194)	$ 150,378
Citigroup:							
SLM	1,000	2.12%	12/20/13	5.00%	84,365	(157,500)	241,865

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PCM Fund, Inc. Notes to Financial Statements

December 31, 2010

5. Investments in Securities (continued)

Swap Counterparty/ Referenced Debt Issuer	Notional Amount Payable on Default (000s)(4)	Credit Spread(3)*	Termination Date	Payments Received	Market Value(5)	Upfront Premiums Received	Unrealized Appreciation
Deutsche Bank:							
American International Group	$ 2,000	0.98%	3/20/13	2.10%	$ 50,717		$ 50,717
SLM	1,000	2.12%	12/20/13	5.00%	84,365	$ (122,500)	206,865
SLM	3,000	3.83%	3/20/19	5.35%	284,727		284,727
Merrill Lynch:							
SLM	700	2.12%	12/20/13	5.00%	59,056	(98,000)	157,056
					$ 478,414	$ (613,194)	$ 1,091,608

* Unaudited.

(1) 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 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.

(2) 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.

(3) 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.

(4) This represents the maximum potential amount the Fund could be required to make available 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.

(5) The quoted market prices and resulting values for credit default swap agreements serve as an indicator of the status at December 31, 2010 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.

(b) Open reverse repurchase agreements at December 31, 2010 were:

Counterparty	Rate	Trade Date	Maturity Date	Principal & Interest	Principal
Bank of America	0.45%	11/23/10	1/5/11	$ 1,002,739	$ 1,002,250
	0.50%	12/13/10	1/24/11	2,585,733	2,585,051
	0.65%	12/22/10	1/27/11	2,321,856	2,321,437
	0.95%	12/17/10	2/18/11	2,525,999	2,525,000
	0.96%	12/28/10	1/26/11	353,038	353,000
	0.96%	12/29/10	1/28/11	7,287,583	7,287,000

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PCM Fund, Inc. Notes to Financial Statements

December 31, 2010

5. Investments in Securities (continued)

Counterparty	Rate	Trade Date	Maturity Date	Principal & Interest	Principal
Barclays Bank	0.50%	12/1/10	1/6/11	$ 1,653,712	$ 1,653,000
	0.50%	12/2/10	1/11/11	7,289,036	7,286,000
	0.50%	12/7/10	1/12/11	3,452,198	3,451,000
	0.50%	12/13/10	1/14/11	283,075	283,000
	0.50%	12/14/10	1/21/11	918,230	918,000
	0.50%	12/17/10	1/18/11	2,639,550	2,639,000
	0.70%	11/30/10	1/6/11	3,313,060	3,311,000
	0.70%	12/7/10	1/12/11	1,836,893	1,836,000
	0.70%	12/13/10	1/14/11	1,052,389	1,052,000
	0.70%	12/17/10	1/18/11	2,243,654	2,243,000
	0.70%	12/22/10	1/27/11	3,602,700	3,602,000
	0.865%	12/2/10	1/11/11	5,651,071	5,647,000
Credit Suisse First Boston	0.50%	11/30/10	1/6/11	1,732,770	1,732,000
	0.50%	12/13/10	1/19/11	1,054,278	1,054,000
	0.60%	12/9/10	1/12/11	2,797,072	2,796,000
	0.65%	11/30/10	1/6/11	797,460	797,000
	0.70%	12/6/10	1/12/11	1,104,558	1,104,000
	0.70%	12/17/10	1/12/11	2,700,788	2,700,000
Greenwich Capital Markets	0.50%	11/24/10	1/5/11	1,241,655	1,241,000
	0.764%	12/9/10	1/12/11	7,522,670	7,519,000
	0.861%	12/20/10	1/26/11	10,442,996	10,440,000
	0.864%	12/8/10	1/14/11	1,782,026	1,781,000
	0.864%	12/9/10	1/12/11	3,713,048	3,711,000
	0.961%	12/20/10	1/26/11	419,134	419,000
	0.965%	12/2/10	1/7/11	2,279,832	2,278,000
	1.061%	12/20/10	1/26/11	1,931,683	1,931,000
JPMorgan Chase	0.60%	12/3/10	1/11/11	1,873,905	1,873,000
	0.60%	12/8/10	1/12/11	2,462,985	2,462,000