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EXCELSIOR INCOME SHARES INC

Form N-30D

August 14, 2001

DEAR FELLOW SHAREHOLDERS:

The economic expansion we have experienced over the past decade lost considerable momentum during the first half of 2001, and there is now a real risk of a recession in the coming months. Recent corporate results have been very disappointing, and analysts have repeatedly lowered earnings expectations for the balance of the year. In response to these developments, the Federal Reserve has reduced interest rates six times so far this year, and more cuts are anticipated.

We are pleased to report that against this unsettling investment backdrop, EIS Fund has produced an excellent total return over the past six months of more than 11 percent, based on appreciation and reinvestment of dividends. These results are directly due to the Fund's longstanding policy of maintaining only high quality corporate and government bonds combined with low portfolio turnover and moderate investment management expenses.

As you know, EIS Fund has historically sold at a market price that is lower than its Net Asset Value. This "discount" has generally been within industry norms for closed-end funds. Furthermore, since most of our shareholders benefited from this discount when they purchased their shares, we consider it at worst a moot point and arguably a modest benefit to long-term investors. Nevertheless, certain shareholders have suggested that the Fund should endeavor to reduce the prevailing discount by increasing our dividend to an artificially high level, far in excess of the portfolio's income. These dissident shareholders have also suggested large buy-backs of EIS stock in order to temporarily inflate the market price. This same minority faction recently solicited shareholders to remove the present Board of Directors, but received only a small percentage of votes in support of the proposal. In addition, another shareholder refused to vote a large block of stock, which significantly impeded the Fund's ability to achieve a quorum at its regular Annual Meeting. As a result, the Fund must now incur the unnecessary expense of holding a new Annual Meeting and election this September.

The Board believes that the only cost-effective way of eliminating the discount is to liquidate the Fund in its entirety. Accordingly, you will soon have an opportunity to vote on a plan of liquidation, which the Board of Directors has put on the proxy as a means of allowing shareholders to determine the future of the Fund. As I mentioned earlier, the Board of Directors considers this discount to be a non-issue, but will of course implement the liquidation plan forthwith, if the requisite two-thirds of shares vote in favor of it.

If shareholders vote to continue EIS Fund and maintain the current Directors, we will make sure that your Fund is managed with the same conservative investment principles that have guided the Fund over the past quarter of a century. We urge all shareholders to vote in this important matter.

Finally, I would like to take this opportunity to thank Townsend Brown, II, who retired from his post of Chairman and President of the Fund last April, after nine years of service. We are grateful for his dedication and keen insight, and we hope that he remains on the Board of Directors for many years to come.

Thank you for your confidence and support.

Sincerely,

Perry W. Skjelbred

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Chairman and President

July 31, 2001

EIS Fund

SCHEDULE OF INVESTMENTS

June 30, 2001 (Note 1)

U.S. GOVERNMENT AND FEDERAL AGENCIES OBLIGATIONS--46.72%	Moody's Rating**	Face Amount	Cost*	V
Federal National Mortgage Assn., Deb., 6%, 3/1/28	(1)	\$ 2,431,000	\$ 2,391,116	\$ 2,
Government National Mortgage Assn., 6%, 7/20/27	(1)	197,888	198,847	
6%, 11/20/28	(1)	2,531,229	2,493,656	2,
7%, 5/15/22	(1)	179,491	179,267	
7%, 4/15/23	(1)	2,048,925	2,050,206	2,
7%, 5/15/23	(1)	408,460	407,247	
7%, 3/15/24	(1)	936,322	926,374	
7%, 7/20/29	(1)	3,272,917	3,228,042	3,
7.50%, 12/15/25	(1)	445,603	444,907	
8%, 8/15/24	(1)	501,452	498,710	
8%, 1/15/25	(1)	386,023	373,236	
8%, I, 4/15/30	(1)	636,962	640,545	
8%, II, 3/20/30	(1)	1,335,886	1,345,487	1,
8%, II, 4/20/30	(1)	1,303,488	1,309,598	1,
8.50%, 7/15/17	(1)	354,873	363,910	
8.50%, 5/15/21	(1)	132,759	136,140	
10%, 1/15/18	(1)	321,165	348,515	
U.S. Treasury Bond, 7.25%, 5/15/16	(1)	1,000,000	975,000	1,
		18,424,443	18,310,803	18,

BONDS AND NOTES--15.68%

Commercial Mortgage Asset Trust, 6.64%, 9/17/10	Aaa	1,000,000	1,012,969	1,
KFW International Finance Inc., Notes, 7.20%, 3/15/14	Aaa	2,000,000	1,978,500	2,
Nationslink Funding Corp., 6.476%, 7/20/08	Aaa	1,000,000	1,014,414	1,
Wisconsin Elec. Power Co., 7.25%, 8/1/04	Aa2	2,000,000	1,988,600	2,
		6,000,000	5,994,483	6,

SHORT-TERM HOLDINGS--37.60%

Dreyfus Government Cash Management Fund		1,800,000	1,800,000	1,
Federal Home Loan Banks, Disc. Note 7/2/01		2,000,000	1,992,868	1,
Federal Home Loan Banks, Disc. Note 7/16/01		8,000,000	7,967,911	7,
Federal Home Loan Banks, Disc. Note 7/27/01		2,000,000	1,992,231	1,
Fidelity Treasury Cash Portfolio		1,243,055	1,243,055	1,

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	----- 15,043,055 -----	----- 14,996,065 -----	----- 14, -----
TOTAL INVESTMENTS IN SECURITIES	\$39,467,498 =====	\$39,301,351 =====	\$39, =====

Percentages are based on total investments.

The accompanying notes are an integral part of this schedule.

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EIS Fund

SCHEDULE OF INVESTMENTS (continued)
June 30, 2001 (Note 1)

The aggregate market value at June 30, 2001 for the long-term holdings in terms of Quality Ratings is as follows:

Rating**	Value	Percent
-----	-----	-----
Aaa (1)	\$22,794,804	91.60
Aa2	2,089,558	8.40
	-----	-----
Total	\$24,884,362 =====	100.00 =====

(1) These securities which are issued and/or guaranteed by the U.S. Government or Federal Agencies are not rated but are deemed to be Aaa quality for purposes of this report.

*Based on cost for Federal income tax purposes:

Aggregate gross unrealized appreciation	\$ 716,923
Aggregate gross unrealized depreciation	(137,847)

Net unrealized appreciation	\$ 579,076 =====
Cost for Federal Income Tax Purposes	\$39,301,351 =====

**Credit ratings are unaudited.

STATEMENT OF ASSETS AND LIABILITIES
June 30, 2001

ASSETS:

Investments (Note 1) in securities at value (identified cost \$39,301,351):	
U.S. Government and Federal Agencies obligations	\$18,631,973
Bonds and notes	6,252,389
Short-term holdings	14,996,065 -----

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Total Investments	\$39,880,427
Cash	2,693
Interest receivable	269,710
Prepaid expenses	15,927

Total Assets	40,168,757

LIABILITIES:

Accrued advisory fee (Note 3)	40,630
Accrued operating expenses	126,218

Total Liabilities	166,848

Net Assets	\$40,001,909
	=====

NET ASSETS consist of:

Undistributed net investment income	\$ 118,029
Accumulated net realized losses from investment transactions	(102,779)
Unrealized appreciation on investments	579,076
Capital shares (Note 5)	21,691
Additional paid-in capital	39,385,892

\$40,001,909

=====

Net Asset Value per share (\$40,001,909 / 2,169,091 shares)	\$18.44
	=====

The accompanying notes are an integral part of this statement.

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EIS Fund

STATEMENT OF OPERATIONS
for the six months ended June 30, 2001
(Note 1)

INVESTMENT INCOME:

INCOME--Interest	\$ 1,338,866
------------------	--------------

EXPENSES:

Investment advisory fee	\$99,727
Directors' fees and expenses	19,745
Officer's salary	204,142
Postage and printing	16,390
Professional fees	212,972
Insurance	10,369
Transfer agent and registrar fees	4,987
The New York Stock Exchange, Inc.--annual fee	10,917
Miscellaneous	81,192

Total expenses	660,441

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Investment Income--Net 678,425

REALIZED GAIN AND UNREALIZED APPRECIATION
(DEPRECIATION) ON INVESTMENTS--NET:

Realized (loss) from
security transactions
(excluding short-term
securities):
Proceeds from sales \$10,547,714
Cost of sales 10,237,724

Net realized loss 309,990
Unrealized appreciation
(depreciation)
on investment securities:
Beginning of period 663,466
End of period 579,076

Change in unrealized
appreciation--net (84,390)

Net realized (loss) and change
in unrealized appreciation
(depreciation) on investments 225,600

Net increase in Net Assets
Resulting from Operations \$ 904,025
=====

STATEMENT OF CHANGES IN NET ASSETS

	For the six months ended June 30, 2001	For the year ended Dec. 31, 2000
	-----	-----
INCREASE (DECREASE) IN NET ASSETS:		

Operations:		
Investment income-- net (Note 1)	\$ 678,425	\$ 2,316,836
Realized (loss)/gain on investments--net (Note 2)	309,990	(139,067)
Change in unrealized appreciation--net	(84,390)	1,516,089
	-----	-----
Net increase in net assets resulting from operations	904,025	3,693,858
Dividends to share- holders from:		
Investment income-- net	(542,273)	(2,279,870)
Cost of shares purchased pursuant to Section 23 of the		

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Investment Company Act of 1940 (Note 5)	--	(56,530)
	-----	-----
Total increase (decrease) in net assets	361,752	1,357,458
NET ASSETS:		
	-----	-----
Beginning of period	39,640,157	38,282,699
	-----	-----
End of period (including undistributed net investment income of \$118,029 and \$13,230 in 2001 and 2000, respectively)	\$40,001,909	\$39,640,157
	=====	=====

The accompanying notes are an integral part of these statements.

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EIS Fund

FINANCIAL HIGHLIGHTS

	For the six months ended 6/30/01	For the year ended			
	-----	2000	1999	1998	1997
	-----	-----	-----	-----	-----
Per Share Operating Performance:					
Net asset value, beginning of period	\$ 18.28	\$ 17.62	\$ 18.78	\$ 18.52	\$ 18.23
	-----	-----	-----	-----	-----
Net investment income	.31	1.07	1.03	1.06	1.08
Net gain (loss) on securities (realized and unrealized)	.10	.63	(1.20)	.23	.38
	-----	-----	-----	-----	-----
Total from investment operations	.41	1.70	(.17)	1.29	1.46
	-----	-----	-----	-----	-----
Less Dividends and Distributions:					
Dividends from net investment income	.25	(1.05)	(1.01)	(1.03)	(1.17)
	-----	-----	-----	-----	-----
Total dividends and distributions	.25	(1.05)	(1.01)	(1.03)	(1.17)
	-----	-----	-----	-----	-----
Treasury stock transaction	--	.01	.02	--	.00
	-----	-----	-----	-----	-----
Net asset value, end of period	\$ 18.44	\$ 18.28	\$ 17.62	\$ 18.78	\$ 18.52
	=====	=====	=====	=====	=====
Market value per share, end of					

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period	\$ 17.10 =====	\$15.875 =====	\$ 14.25 =====	\$ 16.56 =====	\$ 16.75 =====
Total Investment Return:					
Based on market value per share	11.18%	19.02%	(8.39%)	5.55%	14.51%
Ratios To Average Net Assets:					
Expenses	1.64%	1.06%	1.05%	0.97%	1.08%
Net investment income	1.68%	5.97%	5.60%	5.62%	5.89%
Supplemental Data:					
Net assets at end of period					
(000 omitted)	\$40,002	\$39,640	\$38,283	\$41,069	\$40,490
Portfolio turnover rate	32.82%	15.87%	16.09%	15.88%	2.91%

The accompanying notes are an integral part of this schedule.

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EIS Fund

NOTES TO FINANCIAL STATEMENTS
June 30, 2001

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

EIS Fund (the "Company") was incorporated on March 16, 1973 and commenced operations on May 15, 1973. The Company is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The significant accounting policies of the Company, which are in conformity with generally accepted accounting principles, are as follows:

a) Investments--Security transactions are recorded as of the trade date. Investments owned at June 30, 2001, are reflected in the accompanying financial statements at value. Valuations of the Company's investments are supplied by a pricing service approved by the Board of Directors or by dealers who regularly trade in the security being valued. Short-term holdings are carried at cost plus accrued interest, which approximates value.

The difference between cost and value is reflected separately as unrealized appreciation (depreciation) of investments.

The cost basis of bonds is not adjusted for amortization of premiums or accretion of discounts, except for original issue discount which is accreted.

Realized gains and losses on security transactions are determined on the basis of identified cost.

b) Federal Income Taxes--No provision for Federal income taxes has been made in the accompanying financial statements since the Company intends to comply with the provisions of Subchapter M of the Internal Revenue Code and to distribute to its shareholders substantially all of its net investment income and net realized capital gains, if any. For Federal income tax purposes the Company has capital loss carryforwards of \$102,779 expiring in varying amounts through December 31, 2008, available to offset future capital gains, if any.

c) Investment Income Recognition--The Company records interest and expenses on the accrual basis.

d) Dividend Distributions--The Company records dividend distributions to shareholders as of the ex-dividend date. The character of distributions made during the year from net investment income or net realized gains may differ from

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their ultimate characterization for federal income tax purposes due to differences in the recognition of income and expense items for financial statement and federal income tax purposes.

e) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

(2) DISTRIBUTIONS:

Realized gains from security transactions to the extent they exceed accumulated net realized losses are distributed to shareholders in the succeeding year.

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EIS Fund
NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2001

(3) RELATED PARTY TRANSACTIONS:

Under an investment advisory agreement, United States Trust Company of New York (the "Advisor") furnishes investment advisory services to and performs certain administrative functions for the Company. Quarterly fees for such services are based on the net assets of the Company, as of the close of the last business day of each quarter, at the annual rate of 0.5% of the first \$100,000,000 of such net assets, and at reduced rates thereafter.

The investment advisory agreement also provides that the Advisor will reimburse the Company for all expenses (excluding interest, taxes, brokerage commissions and certain other expenses, if any) borne by the Company in any calendar year in excess of 1.5% of the first \$30,000,000 of annual average net assets, and 1% of annual average net assets in excess of \$30,000,000.

Each director who is not an employee of United States Trust Company of New York, receives from the Company an annual fee of \$5,000, an attendance fee of \$300, and \$100 for each audit committee meeting attended.

The Advisor has informed the Company that it does not intend to renew the advisory agreement. The Company's Board is in the process of evaluating alternatives.

Two officers of the Company are officers of United States Trust Company of New York.

Mr. Alexander R. Powers, has been principal Investment Advisor since August 1997. Mr. Powers has been a managing director of the Fixed Income Division of United States Trust Company of New York since March 1998 and was Senior Vice President from August 1997 to March 1998.

(4) PURCHASES AND PROCEEDS FROM SALES OF SECURITIES:

For the period ended June 30, 2001, purchases and proceeds from sales of securities other than short-term United States Government and Federal Agencies obligations aggregated \$-0- and \$7,654,736, respectively. Purchases and proceeds from sales of United States Government and Federal Agencies obligations aggregated \$-0- and \$2,892,978, respectively.

(5) CAPITAL STOCK:

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At June 30, 2001, 2,169,091 shares of \$.01 par value common stock (15,000,000 shares authorized) were outstanding.

Pursuant to Section 23 of the Investment Company Act of 1940, the Company may in the future purchase shares of Excelsior Income Shares, Inc. Common Stock on the open market from time to time, at such times, and in such amounts as may be deemed advantageous to the Company. Nothing herein shall be considered a commitment to purchase such shares. For the year ended December 31, 1997 the Company purchased 2,000 shares in the open market at a cost of \$30,805. For the year ended December 31, 1999, the Company purchased 13,300 shares in the open market at a cost of \$199,098. For the year ended December 31, 2000, the Company purchased 4,000 shares in the open market at a cost of \$56,530.

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EIS FUND

114 W. 47th Street, 14th Floor
New York, NY 10036-1532
(212) 852-3732

DIRECTORS

Townsend Brown II
Geoffrey J. O'Connor
John H. Reilly
Perry W. Skjelbred
Philip J. Tilearcio

OFFICERS

Perry W. Skjelbred, Chairman,
President, Chief Executive Officer
Robert D. Cummings
Secretary and Treasurer
Robert R. Johnson
Assistant Treasurer
and Assistant Secretary

INVESTMENT ADVISOR

United States Trust Company
of New York
114 West 47th Street
New York, NY 10036-1532

TRANSFER AGENT REGISTRAR & CUSTODIAN

Firstar Mutual Funds Services, LLC
615 E. Michigan Street
Milwaukee, WI 53202
(800) 637-7549

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
1177 Avenue of the Americas
New York, NY 10036

Listed on N.Y. Stock Exchange--Symbol EIS

A "Closed-End Bond Funds" table, which includes current data on EIS Fund, is published weekly by The Wall Street Journal and The New York Times.

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[LOGO]

EIS
Fund

Semi-Annual Report
June 30, 2001

EIS Fund Audit Committee Charter
page 1

EXCELSIOR INCOME SHARES, INC.
d/b/a/ EIS Fund
Audit Committee Charter

ORGANIZATION

There shall be a committee of the Board of Directors, selected and voted upon by the full Board of Directors of the EIS Fund, to be known as the Audit Committee. The members shall be all disinterested directors of the EIS Fund.

STATEMENT OF POLICY

The Audit Committee oversees the financial reporting process for the EIS Fund. The Audit Committee must monitor the process and the results to assure accuracy of performance reporting and asset valuation. Both are key to providing shareholders and regulators adequate, meaningful information for decision making. Members of the Audit Committee must be knowledgeable and current regarding the accounting process and the control structure in place. Open communication with management, the independent auditors and the internal audit staff is essential.

RESPONSIBILITIES OF THE AUDIT COMMITTEE

The following listed committee responsibilities describe areas of attention in broad terms in order to provide flexibility.

- * The Audit Committee's role is clearly one of overview and not of direct management of the audit process.
- * Audit Committee members are responsible for a general understanding of the EIS Fund accounting systems and controls.
- * The Audit Committee considers management's recommendations of the Fund's independent audit firms. Committee members continuously evaluate the independent audit firm's performance, costs, and financial stability. The Audit Committee will make recommendations to the full board of the selection of independent audit firms.
- * The Audit Committee, working with the Fund's advisors is responsible for reviewing audit plans prepared by the Fund's independent auditors and the internal audit staff. Special attention is to be given by the committee to see that the two plans are coordinated.
- * The Audit Committee is responsible for recording the minutes of all meetings and reporting all activity to the full board. The Audit Committee meets regularly with the Fund's counsel in order to be well informed on all legal issues having the possibility of impacting the financial reporting process or database. This would include items of industry wide importance and internal

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issues such as litigation.

EIS Fund Audit Committee Charter

page 2

- * Because all Fund assets and cash management are held by or performed under third party contractual arrangements, the Audit Committee has responsibility to review and assure the full board that such arrangements properly provide audit opportunity to ensure accurate, timely financial reporting.
- * The Audit Committee is responsible for reviewing financial statements contained in the annual and other periodic reports to shareholders with management and the independent auditors to determine that the independent auditors are satisfied with the disclosure and content of the annual financial statements.
- * The Audit Committee should keep apprised of the data processing procedures and programs.
- * The Audit Committee should keep apprised of regulatory changes and new accounting pronouncements that affect net asset value calculations and financial statement reporting requirements.