

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC

Form N-30B-2

April 24, 2007

FLAHERTY & CRUMRINE PREFERRED INCOME FUND

To the Shareholders of the Flaherty & Crumrine Preferred Income Fund ("PFD"):

During the Fund's first fiscal quarter ended February 28, 2007, the Fund performed well in choppy, but ultimately little-changed, fixed-income markets by earning a total return of 1.7% on its net asset value (NAV). These three months saw the Fund continue its recent strong performance.

Interest rates were unchanged to slightly higher over the quarter, as the Federal Reserve left the federal funds rate unchanged and long-term Treasury rates rose only slightly. Corporate credit spreads also ended the quarter little changed, while the Fund's interest-rate hedge had only a minimal impact. Both the recent quarter and trailing twelve-month periods delivered what the Fund is intended to produce - current income and stability of principal.

As you can see on the following pages detailing actual holdings in the Fund's portfolio, the Fund invests in a relatively small number of industries, including utilities and insurers, banks and other finance companies. In fact, the Fund has an investment mandate to concentrate at least 25% of its assets in each of the banking and utilities industries. In terms of the industries the Fund's assets are in, its portfolio is no different than the overall preferred securities market. Because of the preferred securities market's overall emphasis in financial services, a portfolio of preferred securities, including the Fund's, can be at risk if the U.S. economy goes into recession.

One important area of recent concern for the U.S. economy in general, and U.S. credit markets in particular, is subprime mortgage lending, which has experienced increasing default and delinquency rates in recent months. The numbers here are large in an absolute sense, but they are small relative to a \$13 trillion U.S. economy and to the mortgage market as a whole. Because of this, while we cannot entirely rule it out, we currently do not believe that problems in subprime mortgages will push the economy into recession.

The Fund holds no positions in securities issued by mortgage brokers or subprime specialty lenders. Nonetheless, many of the banks and insurance companies in which we have invested do have some exposure to subprime mortgages in their lending or investment portfolios. While we are examining these companies very closely, the lack of detailed disclosure about subprime mortgages makes it impossible for us to make definitive statements about the Fund's potential exposure to the problem. However, given what we now know and can infer about the companies in which we invest, we expect that EARNINGS (which flow to the companies' common shareholders) will be reduced at some of the companies we hold as a result of the problems in subprime lending. However, we currently do not expect that they will suffer losses large enough to cut meaningfully into CAPITAL (which support the debt and preferred securities owned by the Fund). Although we cannot rule out the possibility - despite our best judgment to the contrary - that some of the Fund's investments could be seriously affected, we do not currently see any serious subprime credit problems in the holdings of the Fund.

The Fund's website at WWW.PREFERREDINCOME.COM has more information about Fund performance and a more complete discussion of the state of the economy (in our First Quarter Economic Update) and of subprime mortgages and their potential impact on the economy and the Fund's portfolio (in the "Frequently Asked

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-30B-2

Questions" section). We encourage you to explore the website for a wide range of additional information about your Fund.

Sincerely,

/S/ DONALD F. CRUMRINE
Donald F. Crumrine
Chairman of the Board

/S/ ROBERT M. ETTINGER
Robert M. Ettinger
President

April 20, 2007

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OVERVIEW
FEBRUARY 28, 2007 (UNAUDITED)

FUND STATISTICS ON 02/28/07

| | | |
|---------------------------------|----|------------|
| Net Asset Value | \$ | 15.80 |
| Market Price | \$ | 17.25 |
| Premium | | 9.18% |
| Yield on Market Price | | 5.98% |
| Common Stock Shares Outstanding | | 10,488,187 |

INDUSTRY CATEGORIES % OF PORTFOLIO

[GRAPHIC OMITTED]
EDGAR REPRESENTATION OF DATA POINTS

| | |
|--------------------|-----|
| REITs | 3% |
| Other | 2% |
| Banks | 37% |
| Utilities | 31% |
| Insurance | 14% |
| Financial Services | 7% |
| Energy | 6% |

MOODY'S RATINGS % OF PORTFOLIO

| | |
|-----|-------|
| AAA | 0.0% |
| AA | 4.6% |
| A | 19.9% |
| BBB | 52.2% |
| BB | 11.7% |

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-30B-2

Not Rated 10.3%

Below Investment Grade* 15.1%

* BELOW INVESTMENT GRADE BY BOTH MOODY'S AND S&P.

TOP 10 HOLDINGS BY ISSUER % OF PORTFOLIO

Interstate Power & Light 5.0%
Capital One Financial 4.3%
Liberty Mutual Group 4.1%
FBOP Corporation 3.8%
Banco Santander 3.8%
HSBC 3.7%
First Republic Bank 3.4%
RenaissanceRe Holdings 3.2%
SLM Corp 3.1%
Xcel Energy 3.1%

Holdings Generating Qualified Dividend Income (QDI) for Individuals
Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD)

3

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS
FEBRUARY 28, 2007 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- 94.5%

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-30B-2

BANKING -- 36.8%

| | |
|--------------|---|
| \$ 3,000,000 | Astoria Capital Trust I, 9.75% 11/01/29 Capital Security, Series B..... |
| | Auction Pass-Through Trust, Cl. B: |
| 11 | Series 2006-5, Variable Rate Pfd., 144A****..... |
| 11 | Series 2006-6, Variable Rate Pfd., 144A****..... |
| 54,700 | BAC Capital Trust I, 7.00% Pfd. 12/15/31..... |
| 7,700 | BAC Capital Trust II, 7.00% Pfd. 02/01/32..... |
| | Banco Santander: |
| 295,000 | 6.50% Pfd., 144A****..... |
| 69,400 | 6.80% Pfd., 144A****..... |
| \$ 1,500,000 | Barclays Bank PLC, 6.278% Pfd..... |
| \$ 800,000 | Barnett Capital II, 7.95% 12/01/26 Capital Security..... |
| \$ 2,000,000 | Capital One Capital III, 7.686% Pfd..... |
| 71,300 | Citigroup Capital VIII, 6.95% Pfd. 09/15/31..... |
| 19,648 | Citizens Funding Trust I, 7.50% Pfd. 09/15/66..... |
| | Cobank, ACB: |
| 50,000 | 7.00% Pfd., 144A****..... |
| 75,000 | 7.814% Pfd., 144A****..... |
| | Comerica (Imperial) Capital Trust I: |
| 5,000 | 7.60% Pfd. 07/01/50..... |
| \$ 500,000 | 9.98% 12/31/26 Capital Security, Series B..... |
| \$ 1,500,000 | Dime Capital Trust I, 9.33% 05/06/27 Capital Security, Series A..... |
| 9,000 | FBOP Corporation, Adj. Rate Pfd., 144A****..... |
| \$ 2,250,000 | First Hawaiian Capital I, 8.343% 07/01/27 Capital Security, Series B..... |
| | First Republic Bank: |
| 200,000 | 6.25% Pfd..... |
| 53,700 | 6.70% Pfd..... |
| 1,000 | First Republic Preferred Capital Corporation, 10.50% Pfd., 144A****..... |
| 22,500 | First Republic Preferred Capital Corporation II, 8.75% Pfd., Series B, 144A****.. |
| \$ 1,500,000 | First Union Capital II, 7.95% 11/15/29 Capital Security..... |
| 5,000 | Fleet Capital Trust VIII, 7.20% Pfd. 03/15/32..... |
| \$ 7,820,000 | GreenPoint Capital Trust I, 9.10% 06/01/27 Capital Security..... |
| | HBOS Capital Funding LP: |
| \$ 3,000,000 | 6.85% Pfd..... |
| \$ 2,000,000 | 6.413% Pfd., 144A****..... |
| 5,000 | HSBC Series II, Variable Inverse Pfd., Pvt..... |

Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2007 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)
 BANKING -- (CONTINUED)

| | |
|---------|--|
| | HSBC USA, Inc.: |
| 120,000 | 6.50% Pfd., Series H..... |
| 2,500 | \$2.8575 Pfd..... |
| 100,000 | Keycorp Capital IX, 6.75% Pfd. 12/15/66..... |

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-30B-2

| | |
|--------------|--|
| \$ 1,000,000 | Lloyds TSB Group PLC, 6.267%, Capital Security, 144A**** |
| 15,000 | National City Capital Trust II, 6.625% Pfd. 11/15/36 |
| \$ 674,000 | NB Capital Trust II, 7.83% 12/15/26 Capital Security |
| 16,000 | PFGI Capital Corporation, 7.75% Pfd. |
| \$ 650,000 | RBS Capital Trust B, 6.80% Pfd. |
| 10 | Roslyn Real Estate, 8.95% Pfd., Series C, 144A**** |
| 77,600 | Sovereign Bancorp, 7.30% Pfd., Series C |
| 30,600 | Sovereign Capital Trust V, 7.75% Pfd. 05/22/36 |
| \$ 1,000,000 | Sovereign Capital Trust VI, 7.908% 06/13/36 Capital Security |
| 16,000 | USB Capital VII, 5.875% Pfd. 08/15/35 |
| 96,700 | USB Capital VIII, 6.35% Pfd. 12/29/65 |
| 7,300 | USB Capital XI, 6.60% Pfd. 09/15/66 |
| 40,000 | Zions Capital Trust B, 8.00% Pfd. 09/01/32 |

FINANCIAL SERVICES -- 7.2%

| | |
|---------|---|
| 35,000 | Cabco Trust For Goldman Sachs Capital I, Adj. Rate Pfd. 02/15/34, Series GS |
| | Goldman Sachs Group, Inc.: |
| 25 | Pass-Through Certificates, Class B, 144A**** |
| 2,500 | STRIPES Custodial Receipts, Pvt |
| 3,000 | Merrill Lynch Series II STRIPES Custodial Receipts, Pvt |
| 5,870 | Morgan Stanley Capital Trust VI, 6.60% Pfd. |
| 136,855 | SLM Corporation, 6.97% Pfd., Series A |

INSURANCE -- 11.7%

| | |
|--------------|---|
| 15,000 | ACE Ltd., 7.80% Pfd., Series C |
| \$ 500,000 | AMBAC Financial Group Inc, 6.15% Pfd., 02/15/37 |
| \$ 2,500,000 | AON Capital Trust A, 8.205% 01/01/27 Capital Security |
| 10,000 | Arch Capital Group Ltd., 7.875% Pfd., Series B |
| \$ 2,500,000 | AXA 6.463% 12/14/18 Capital Security, 144A**** |

5

Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2007 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)
 INSURANCE -- (CONTINUED)

| | |
|--------|--|
| | Axis Capital Holdings: |
| 20,750 | 7.25% Pfd., Series A |
| 14,400 | 7.50% Pfd., Series B |
| 27,000 | Berkley W.R. Capital Trust II, 6.75% Pfd. 07/26/45 |
| 35,200 | Endurance Specialty Holdings, 7.75% Pfd. |
| 18,250 | Everest Re Capital Trust II, 6.20% Pfd., Series B |

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-30B-2

| | |
|--------------|---|
| \$ 1,250,000 | Glen Meadow Pass Through, 6.505% Capital Security 144A****..... |
| \$ 5,000,000 | Liberty Mutual Group, 7.80% 03/15/37 Capital Security, 144A****..... |
| 21,800 | Principal Financial Group, 6.518% Pfd..... |
| \$ 357,000 | Provident Financing Trust I, 7.405% 03/15/38 Capital Security..... |
| \$ 4,500,000 | Renaissancere Capital Trust, 8.54% 03/01/27 Capital Security, Series B..... |
| | Renaissancere Holdings Ltd.: |
| 25,200 | 6.08% Pfd., Series C..... |
| 100,000 | 6.60% Pfd., Series D..... |
| 119,500 | Scottish Re Group Ltd., 7.25% Pfd..... |
| 22,850 | XL Capital Ltd., 8.00% Pfd., Series A..... |

UTILITIES -- 29.5%

| | |
|--------------|---|
| | Alabama Power Company: |
| 300 | 4.52% Pfd..... |
| 5,734 | 4.72% Pfd..... |
| 10,000 | Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993..... |
| 10,000 | Calenergy Capital Trust III, 6.50% Pfd. 09/01/27..... |
| | Central Hudson Gas & Electric Corporation: |
| 5,000 | 4.35% Pfd., Series D, Pvt..... |
| 900 | 4.96% Pfd., Series E, Pvt..... |
| 8,340 | Central Vermont Public Service Corporation, 8.30% Sinking Fund Pfd., Pvt..... |
| | Connecticut Light & Power Company: |
| 12,124 | 4.50% Pfd., Series 1963, Pvt..... |
| 34,300 | 5.28% Pfd., Series 1967..... |
| 1,905 | 6.56% Pfd., Series 1968..... |
| 15,778 | \$3.24 Pfd..... |
| 2,100 | Consolidated Edison Company of New York, 4.65% Pfd., Series C..... |
| 2,886 | Dayton Power and Light Company, 3.90% Pfd., Series C..... |
| \$ 1,500,000 | Dominion Resources Capital Trust III, 8.40% 01/15/31 Capital Security..... |

Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2007 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)
 UTILITIES -- (CONTINUED)

| | |
|---------|---|
| | Duquesne Light Company: |
| 7,675 | 4.10% Pfd..... |
| 9,190 | 4.15% Pfd..... |
| 910 | 4.20% Pfd..... |
| 5,490 | \$2.10 Pfd., Series A..... |
| 100,000 | Entergy Arkansas, Inc., 6.45% Pfd..... |
| 4,555 | Entergy Gulf States, Inc., 7.56% Pfd..... |
| 36,000 | Entergy Louisiana, Inc., 6.95% Pfd..... |
| 5,000 | Entergy Mississippi, Inc., 4.92% Pfd..... |

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-30B-2

| | |
|------------|---|
| | Florida Power Company: |
| 5,157 | 4.60% Pfd..... |
| 18,535 | 4.75% Pfd..... |
| 18,300 | FPC Capital I, 7.10% Pfd., Series A..... |
| 101,000 | FPL Group Capital, Inc., 6.60% Pfd. 10/01/66, Series A..... |
| 13,100 | Georgia Power Capital Trust, 6.125% Pfd..... |
| 50,000 | Georgia Power Capital Trust V, 7.125% Pfd. 03/31/42..... |
| 2,010 | Great Plains Energy, Inc., 4.50% Pfd..... |
| 50,000 | Hawaiian Electric Company, Inc., 5.25% Pfd., Series H, Pvt..... |
| 32,650 | Indianapolis Power & Light Company, 5.65% Pfd..... |
| 384,000 | Interstate Power & Light Company, 8.375% Pfd., Series B..... |
| | Pacific Enterprises: |
| 27,430 | \$4.50 Pfd..... |
| 10,000 | \$4.75 Pfd., Series 53..... |
| | Pacific Gas & Electric Co.: |
| 7,600 | 4.50% Pfd., Series H..... |
| 41,500 | 5.00% Pfd., Series D..... |
| 79,086 | 5.00% Pfd., Series E..... |
| | PacifiCorp: |
| 1,095 | 5.40% Pfd..... |
| 1,225 | \$4.56 Pfd..... |
| 14,542 | \$4.72 Pfd..... |
| 10,278 | \$7.48 Sinking Fund Pfd..... |
| \$ 500,000 | PECO Energy Capital Trust III, 7.38% 04/06/28 Capital Security, Series D..... |
| 8,137 | Portland General Electric, 7.75% Sinking Fund Pfd..... |
| 5,000 | PPL Electric Utilities Corporation, 6.75% Pfd..... |
| 10,000 | Public Service Company of New Mexico, 4.58% Pfd., Series 1965..... |

 Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2007 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)
 UTILITIES -- (CONTINUED)

| | |
|------------|---|
| | San Diego Gas & Electric Company: |
| 1,200 | 4.40% Pfd..... |
| 700 | 4.50% Pfd..... |
| 77,000 | \$1.70 Pfd..... |
| | South Carolina Electric & Gas Company: |
| 24,924 | 5.125% Purchase Fund Pfd., Pvt..... |
| 6,703 | 6.00% Purchase Fund Pfd., Pvt..... |
| 10,600 | Southern California Edison, 6.00% Pfd..... |
| | Southern Union Company: |
| \$ 200,000 | 7.20% Pfd. 11/01/66, Capital Security..... |
| 64,800 | 7.55% Pfd..... |
| \$ 750,000 | TXU Electric Capital V, 8.175% 01/30/37 Capital Security..... |
| | Union Electric Company: |
| 14,150 | 4.56% Pfd..... |

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-30B-2

| | |
|--------|---|
| 18,800 | \$7.64 Pfd..... |
| 12,500 | Virginia Electric & Power Company, \$7.05 Pfd..... |
| 13,500 | Virginia Power Capital Trust, 7.375% Pfd. 07/30/42..... |
| | Wisconsin Power & Light Company: |
| 1,220 | 4.50% Pfd..... |
| 546 | 4.80% Pfd..... |
| 13,000 | 6.20% Pfd..... |
| | Xcel Energy, Inc.: |
| 16,030 | \$4.08 Pfd., Series B..... |
| 26,200 | \$4.10 Pfd., Series C..... |
| 22,000 | \$4.11 Pfd., Series D..... |
| 17,750 | \$4.16 Pfd., Series E..... |
| 10,000 | \$4.56 Pfd., Series G..... |

OIL AND GAS -- 4.5%

| | |
|--------------|--|
| 8,000 | Devon Energy Corporation, 6.49% Pfd., Series A..... |
| \$ 1,500,000 | Enterprise Products Partners, 8.375% Pfd..... |
| 5,985 | EOG Resources, Inc., 7.195% Pfd., Series B..... |
| \$ 1,225,000 | KN Capital Trust III, 7.63% 04/15/28 Capital Security..... |
| 10,000 | Lasmo America Limited, 8.15% Pfd., 144A****..... |

8

Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2007 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)

REAL ESTATE INVESTMENT TRUST (REIT) -- 2.7%

| | |
|---------|--|
| 21,400 | BRE Properties, Inc., 8.08% Pfd., Series B..... |
| 10,000 | Equity Office Property Trust, 7.75% Pfd., Series G..... |
| 1,000 | Equity Residential Properties, 8.29% Pfd., Series K..... |
| | Public Storage, Inc.: |
| 153,770 | 6.45% Pfd., Series F..... |
| 44,000 | 6.625% Pfd., Series M..... |
| 2,800 | 6.75% Pfd., Series E..... |
| 10,000 | 6.75% Pfd., Series L..... |
| 10,000 | 7.25% Pfd., Series K..... |
| 10,000 | Realty Income Corp., 6.75% Pfd., Series E..... |

MISCELLANEOUS INDUSTRIES -- 1.9%

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-30B-2

| | |
|--------|---|
| 13,600 | E.I. Du Pont de Nemours and Company, \$4.50 Pfd., Series B..... |
| 40,000 | Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****..... |
| 26,000 | Touch America Holdings, \$6.875 Pfd..... |

U.S. GOVERNMENT SECURITIES -- 0.2%

| | |
|--------|---|
| 11,000 | Federal Home Loan Mortgage, Adj. Rate Pfd., Series B..... |
|--------|---|

TOTAL PREFERRED SECURITIES
(Cost \$218,981,849).....

CORPORATE DEBT SECURITIES -- 5.2%
INSURANCE -- 2.5%

| | |
|--------------|--|
| \$ 900,000 | Farmers Exchange Capital, 7.20% 07/15/48, 144A****..... |
| \$ 4,729,000 | Liberty Mutual Insurance, 7.697% 10/15/97, 144A****..... |

UTILITIES -- 1.5%

| | |
|--------------|--|
| \$ 1,000,000 | Duquesne Light Holdings, 6.25% 08/15/35..... |
| 5,000 | Entergy Louisiana LLC, 7.60% 04/01/32..... |
| 45,000 | Northern States Power Company, 8.00%..... |
| | Southern Union Company: |
| \$ 850,000 | 7.60% 02/01/24, Senior Notes..... |
| \$ 500,000 | 8.25% 11/15/29, Senior Notes..... |

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
FEBRUARY 28, 2007 (UNAUDITED)

SHARES/\$ PAR

CORPORATE DEBT SECURITIES -- (CONTINUED)
OIL AND GAS -- 1.1%

| | |
|--------------|--|
| \$ 2,450,000 | KN Energy, Inc., 7.45% 03/01/98..... |
| 15,000 | Nexen, Inc., 7.35% Subordinated Notes..... |

MISCELLANEOUS -- 0.1%

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-30B-2

| | | |
|--------------------------|---|--|
| 15,000 | AT&T Inc, 6.375% 02/15/56..... | |
| ----- | | |
| | TOTAL CORPORATE DEBT SECURITIES | |
| | (Cost \$12,093,470)..... | |
| COMMON STOCK -- 0.5% | | |
| | BANKING -- 0.5% | |
| ----- | | |
| 68,921 | New York Community Bancorp, Inc..... | |
| ----- | | |
| | TOTAL COMMON STOCK | |
| | (Cost \$1,135,835)..... | |
| OPTION CONTRACTS -- 0.1% | | |
| 1,540 | June Put Options on June U.S. Treasury Bond Futures, Expiring 05/25/07..... | |
| ----- | | |
| | TOTAL OPTION CONTRACTS | |
| | (Cost \$662,442)..... | |

10

 Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2007 (UNAUDITED)

SHARES/\$ PAR

| | | |
|--|--|----------|
| MONEY MARKET FUND -- 0.1% | | |
| 241,644 | BlackRock Provident Institutional, TempFund..... | |
| ----- | | |
| | TOTAL MONEY MARKET FUND | |
| | (Cost \$241,644)..... | |
| TOTAL INVESTMENTS (Cost \$233,115,240***)..... | | 100.4% |
| OTHER ASSETS AND LIABILITIES (Net)..... | | (0.4)% |
| | | ----- |
| TOTAL NET ASSETS AVAILABLE TO COMMON AND PREFERRED STOCK..... | | 100.0%++ |
| | | ----- |
| MONEY MARKET CUMULATIVE PREFERRED (TM) STOCK (MMP (R)) REDEMPTION VALUE..... | | |
| TOTAL NET ASSETS AVAILABLE TO COMMON STOCK..... | | |

 Flaherty & Crumrine Preferred Income Fund Incorporated
 STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK(1)
 FOR THE PERIOD FROM DECEMBER 1, 2006 THROUGH FEBRUARY 28, 2007 (UNAUDITED)

OPERATIONS:

Net investment income.....
 Net realized gain/(loss) on investments sold during the period.....
 Change in net unrealized appreciation/depreciation of investments held
 during the period.....
 Distributions to MMP(R)* Shareholders from net investment income,
 including changes in accumulated undeclared distributions

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS.....

DISTRIBUTIONS:

Dividends paid from net investment income to Common Stock Shareholders(2).....
 TOTAL DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS.....

FUND SHARE TRANSACTIONS:

Increase from shares issued under the Dividend Reinvestment
 and Cash Purchase Plan.....
 NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK RESULTING
 FROM FUND SHARE TRANSACTIONS.....

NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK
 FOR THE PERIOD

 NET ASSETS AVAILABLE TO COMMON STOCK:

Beginning of period.....
 Net increase in net assets during the period.....
 End of period.....

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-30B-2

FOR A COMMON STOCK SHARE OUTSTANDING THROUGHOUT THE PERIOD.

PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of period.....

INVESTMENT OPERATIONS:

Net investment income.....

Net realized and unrealized gain/(loss) on investments.....

DISTRIBUTIONS TO MMP(R)* SHAREHOLDERS:

From net investment income.....

From net realized capital gains.....

Total from investment operations.....

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income.....

From net realized capital gains.....

Total distributions to Common Stock Shareholders.....

Net asset value, end of period.....

Market value, end of period.....

Common Stock shares outstanding, end of period.....

RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:

Net investment income+.....

Operating expenses.....

SUPPLEMENTAL DATA:++

Portfolio turnover rate.....

Total net assets available to Common and Preferred Stock, end of period (in 000's).....

Ratio of operating expenses to total average net assets available to
Common and Preferred Stock.....

Flaherty & Crumrine Preferred Income Fund Incorporated

FINANCIAL HIGHLIGHTS (CONTINUED)

PER SHARE OF COMMON STOCK (UNAUDITED)

| | TOTAL DIVIDENDS PAID | NET ASSET VALUE | NYSE CLOSING PRICE |
|------------------------|----------------------------|--------------------|-----------------------|
| December 31, 2006..... | \$0.0860 | \$15.56 | \$16.86 |

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-30B-2

| | | | |
|------------------------|--------|-------|-------|
| January 31, 2007..... | 0.0860 | 15.61 | 17.20 |
| February 28, 2007..... | 0.0860 | 15.80 | 17.25 |

14

Flaherty & Crumrine Preferred Income Fund Incorporated
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. AGGREGATE INFORMATION FOR FEDERAL INCOME TAX PURPOSES

At February 28, 2007, the aggregate cost of securities for federal income tax purposes was \$233,362,589, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$17,667,381 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$4,197,008.

15

DIRECTORS

Donald F. Crumrine, CFA
Chairman of the Board
David Gale
Morgan Gust
Karen H. Hogan
Robert F. Wulf, CFA

OFFICERS

Donald F. Crumrine, CFA
Chief Executive Officer
Robert M. Ettinger, CFA
President
R. Eric Chadwick, CFA
Chief Financial Officer,
Vice President and Treasurer
Chad C. Conwell
Chief Compliance Officer,
Vice President and Secretary
Bradford S. Stone
Vice President and
Assistant Treasurer
Laurie C. Lodolo
Assistant Compliance Officer,
Assistant Treasurer and
Assistant Secretary

INVESTMENT ADVISER

Flaherty & Crumrine Incorporated
e-mail: flaherty@pfdincome.com

QUESTIONS CONCERNING YOUR SHARES OF FLAHERTY &
CRUMRINE PREFERRED INCOME FUND?

- o If your shares are held in a Brokerage Account, contact your Broker.
- o If you have physical possession of your shares

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-30B-2

in certificate form, contact the Fund's Transfer
Agent & Shareholder Servicing Agent --
PFPC Inc.
P.O. Box 43027
Providence, RI 02940-3027
1-800-331-1710

THIS REPORT IS SENT TO SHAREHOLDERS OF FLAHERTY & CRUMRINE PREFERRED INCOME FUND
INCORPORATED FOR THEIR INFORMATION. IT IS NOT A PROSPECTUS, CIRCULAR OR
REPRESENTATION INTENDED FOR USE IN THE PURCHASE OR SALE OF SHARES OF THE FUND OR
OF ANY SECURITIES MENTIONED IN THIS REPORT.

[GRAPHIC OMITTED]
LIGHTHOUSE ART

FLAHERTY & CRUMRINE
=====

PREFERRED INCOME FUND

QUARTERLY
REPORT

FEBRUARY 28, 2007

www.preferredincome.com