

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC  
Form N-Q  
April 25, 2008

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

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-06179  
-----

Flaherty & Crumrine Preferred Income Fund Incorporated  
-----

(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720  
Pasadena, CA 91101  
-----

(Address of principal executive offices) (Zip code)

Donald F. Crumrine  
Flaherty & Crumrine Incorporated  
301 E. Colorado Boulevard, Suite 720  
Pasadena, CA 91101  
-----

(Name and address of agent for service)

Registrant's telephone number, including area code: 626-795-7300  
-----

Date of fiscal year end: November 30  
-----

Date of reporting period: February 29, 2008  
-----

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (ss.ss. 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q 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 the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

# Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

## ITEM 1. SCHEDULE OF INVESTMENTS.

The Schedule(s) of Investments is attached herewith.

### FLAHERTY & CRUMRINE PREFERRED INCOME FUND

To the Shareholders of the Preferred Income Fund:

The Fund's performance during the first fiscal quarter of 2008, which ended on February 29th, is summarized below:

Total Return on Net Asset Value 1:	+ 0.2%
Total Return on Market Value 2:	- 1.3%

While these returns were not impressive on an absolute basis, they actually were quite good given the turbulent securities markets we saw during the quarter. We believe the Fund's portfolio of investments remains sound and will continue to provide common stock shareholders with high current income.

Conditions in the financial markets remain difficult as many of the adverse trends that surfaced in the second half of 2007 have persisted during the first few months of 2008. The dramatic downturn in the housing market is clearly at the root of our current economic problems. The housing bubble, fueled by lenders willing to fund anyone who could fog a mirror, is correcting itself at a jarring pace. In addition, the impact has been magnified because the alchemists of Wall Street, with an assist from the rating agencies, took these leaden mortgages and turned them not into gold, but rather into an alphabet soup of mortgage-backed securities, some of which turned out to be toxic waste.

The Fund never invested in these structured mortgage products, but we did underestimate the impact they would have on many of the companies we own. Since the beginning of the credit crisis last year, financial companies have written off more than \$200 billion of bad loans and investments, and they have lost about 27.4%<sup>3</sup> of their equity market value. While common equity holders will ultimately bear the brunt of these losses, the preferred securities of many financial companies have fallen sharply in market price. Financial companies comprise more than 75% of the preferred security universe, and, given the mandate of the Fund, the portfolio will always own a lot of these financial issues.

As of February 29th, 60.3% of the portfolio was invested in preferred securities of the financial sector. Commercial banks comprised 30% of the total portfolio, along with 16% in finance companies (including investment banks and brokers), 14% in insurance companies and 0.3% in the housing agencies Freddie Mac and Fannie Mae. The remainder of the portfolio is mostly utilities, other energy companies, and cash.

Another topic in the news recently is the collapse of the auction rate preferred market. A wide range of entities have issued this type of security, and for years it was an effective way to borrow money. Last fall, the auction process began to break down. In February the auction market suddenly collapsed and the long-term viability of the product became in doubt.

Many closed-end funds have issued auction rate preferred as a means to enhance income for the common shareholders. Historically, rates PAID by the Fund (on the preferred stock) have been well below what the Fund EARNS on its investments.

-----  
1 Based on monthly data provided by Lipper Inc. in each calendar month during the quarter. Distributions are assumed to be reinvested at NAV in accordance with Lipper's practice, which may differ from other methodology

## Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

- used elsewhere in this report.
- 2 Based on Bloomberg data; distributions are assumed to be reinvested at market price.
  - 3 The return on the Standard and Poor's 500 Financial index for the period 6/30/07 through 2/29/08, price change only.

As you know, PFD employs leverage and therefore has two classes of shareholders--common stock and auction preferred stock. Both share in the income generated by the investment portfolio, but in a different way. The amount paid to holders of the preferred stock is determined periodically via a Dutch auction process. These auctions are designed to determine a rate that will "clear" the market, i.e., attract enough buyers to absorb any shares being sold. There is, however, a maximum rate at each auction based on a formula. If the maximum rate is not sufficient to attract enough buyers, the auction is said to "fail" and holders wishing to sell cannot. The terminology is unfortunate: a "failed" auction means sellers can't sell, but it has nothing to do with the Fund's ability to distribute income.

The dividend paid to common stock shareholders is simply the income left over after paying preferred stock dividends and other expenses of the Fund. Thus, the higher the rates paid by the Fund on its preferred stock, the less income available for common shareholders. Under current market conditions, even with preferred stock dividends being at the current maximum rate, THE YIELD EARNED ON THE PORTFOLIO REMAINS WELL ABOVE THE COST OF LEVERAGE.

The breakdown of the auction market is a symptom of a larger malady affecting financial markets--illiquidity. Just as banks and other traditional lenders have dramatically cut back on making certain types of loans, investors have become much less willing to part with cash. Since July 2007, additions to money market funds (a substitute for cash) have increased by nearly one trillion dollars.

And while many are hoarding cash, others are scrambling to raise it. It is clear that as a nation we had purchased too many things with borrowed money. This was obviously the case in the housing market, and now many homeowners are being forced to sell. In the securities markets, it has become apparent that many hedge funds and other investment firms were operating without sufficient capital and are also being forced to sell assets. There is ample evidence that in aggregate, hedge funds have been shrinking their investment portfolios, and we have observed several of our trading partners at brokerage firms aggressively trying to reduce their trading positions.

Another source of selling pressure has come from a steady supply of new issues, as companies have sought to shore up their balance sheets after taking big write downs. It wasn't long ago that the decision to issue new equity, whether common or preferred, was based on strategic or opportunistic factors. Now, many companies are being forced to issue to rebuild capital for defensive reasons, and they are paying rates that are historically high (in relation to risk-free U.S. Treasury securities).

Every financial bubble eventually bursts and asset prices fall to sustainable levels. Tulips and dotcom companies are one thing, but the U.S. housing market is a whole different ballgame in terms of its economic impact. In order for the U.S. economy to avoid a deep and lasting recession, the housing sector will need to stabilize. For this to happen, the glut of homes for sale must shrink. This in turn will likely require some relief for over-extended borrowers and a return to more normal mortgage markets. For that to happen, home prices will need to fall to a "clearing" level that certainly is lower than today's prices. However, lower home prices, while necessary, may amplify current economic weakness. Needless to say, the path to economic recovery will be bumpy

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

and hard to navigate.

We are cautiously optimistic that the extraordinary steps taken by the Federal Reserve Bank will be effective in avoiding a severe economic downturn. The Fed's objective is to make certain that capital markets in general, and the banking system in particular, are functioning properly and providing adequate liquidity to businesses and individuals. The financial system is far more complex today than just a few years ago, making the Fed's job much more difficult. We encourage you to read our Quarterly Economic Update on the Fund's website for a more detailed discussion of current conditions in the housing sector and our thoughts on the economy in general.

2

Our job remains the same--research each and every credit in the portfolio, and try to construct the best portfolio of securities that will enable the Fund to meet its objectives. While market sentiment is certainly depressed at the moment, we see tremendous long-term value in preferred securities at today's prices.

During periods of unusual market volatility, these letters provide a welcome opportunity to step back and discuss a wide variety of items affecting your Fund. Some of these deserve more attention than space here allows and are covered in greater depth on the Fund's website. Other situations, like the status of our auction preferred stock, are rapidly changing, and we'll post to the website as much up-to-date information as possible.

We may never know the origins of the old curse "may you live in interesting times," but whoever coined it certainly got his wish.

Sincerely,

/s/ Donald F. Crumrine

/s/ Robert M. Ettinger

Donald F. Crumrine  
Chairman of the Board

Robert M. Ettinger  
President

April 9, 2008

3

-----  
Flaherty & Crumrine Preferred Income Fund Incorporated  
PORTFOLIO OVERVIEW  
FEBRUARY 29, 2008 (UNAUDITED)  
-----

FUND STATISTICS ON 02/29/08  
-----

Net Asset Value	\$	12.62
Market Price	\$	12.00
Discount		4.91%
Yield on Market Price		7.75%
Common Stock Shares Outstanding		10,550,676

MOODY'S RATINGS

% OF PORTFOLIO

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

AA	6.1%
A	17.0%
BBB	47.7%
BB	17.3%
Below "BB"	1.1%
Not Rated	8.0%
-----	
Below Investment Grade*	16.8%

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

[THE FOLLOWING TABLE WAS REPRESENTED BY A PIE CHART IN THE PRINTED MATERIAL.]

INDUSTRY CATEGORIES	% OF PORTFOLIO
Banking	30%
Utilities	27%
Financial Services	16%
Insurance	14%
Energy	8%
REITs	2%
Other	3%

TOP 10 HOLDINGS BY ISSUER	% OF PORTFOLIO
Interstate Power & Light	5.4%
Merrill Lynch	4.7%
Banco Santander	4.0%
FBOP Corp	3.9%
Liberty Mutual Group	3.8%
SLM Corp	3.3%
National City	3.3%
Kinder Morgan	3.2%
CoBank ACB	3.1%
CIT Group	2.8%

% OF PO

Holdings Generating Qualified Dividend Income (QDI) for Individuals

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

\*\* THIS DOES NOT REFLECT YEAR-END RESULTS OR ACTUAL TAX CATEGORIZATION OF FUND DISTRIBUTIONS. THESE PERCENTAGES CAN, AND DO, CHANGE, PERHAPS SIGNIFICANTLY, DEPENDING ON MARKET CONDITIONS. INVESTORS SHOULD CONSULT THEIR TAX ADVISOR REGARDING THEIR PERSONAL SITUATION.

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

SHARES/\$ PAR

PREFERRED SECURITIES -- 93.8%  
 BANKING -- 30.1%

\$ 3,000,000	Astoria Capital Trust I, 9.75% 11/01/29, Series B .....
	Banco Santander:
25,000	Adj. Rate Pfd. ....
301,200	6.50% Pfd. ....
63,200	6.80% Pfd. ....
	Bank of America Corp.:
50,000	6.204% Pfd., Series D .....
\$ 2,000,000	8.00% .....
\$ 2,500,000	Capital One Capital III, 7.686% 08/15/36 .....
\$ 3,500,000	CBG Florida REIT Corporation, 7.114%, 144A**** .....
20,000	Citigroup, Inc., 8.125% Pfd., Series AA .....
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**** .....
\$ 3,975,000	Comerica Capital Trust II, 6.576% 02/20/37 .....
9,000	FBOP Corporation, Adj. Rate Pfd., 144A**** .....
\$ 2,250,000	First Hawaiian Capital I, 8.343% 07/01/27, Series B .....
\$ 1,500,000	First Union Capital II, 7.95% 11/15/29 .....
\$ 550,000	HBOS PLC, 6.657%, 144A**** .....
5,000	HSBC Series II, Variable Inverse Pfd., Pvt. ....
2,500	HSBC USA, Inc., \$2.8575 Pfd. ....
40,000	Keycorp Capital IX, 6.75% Pfd. 12/15/66 .....
40,000	National City Corporation, 9.875% Pfd. ....
\$ 5,000,000	National City Preferred Capital Trust I, 12.00% .....
31,500	PFGI Capital Corporation, 7.75% Pfd. ....
\$ 425,000	Regions Financing Trust II, 6.625% 05/15/47 .....
10	Roslyn Real Estate, 8.95% Pfd., Series C, 144A**** .....
88,480	Sovereign Bancorp, 7.30% Pfd., Series C .....
30,600	Sovereign Capital Trust V, 7.75% Pfd. 05/22/36 .....
\$ 1,600,000	Sovereign Capital Trust VI, 7.908% 06/13/36 .....
	U.S. Bancorp, Auction Pass-Through Trust, Cl. B:
11	Series 2006-5, Variable Rate Pfd., 144A**** .....
11	Series 2006-6, Variable Rate Pfd., 144A**** .....
75,000	Wachovia Corporation, 8.00% Pfd., Series J .....
\$ 1,000,000	Washington Mutual Preferred Funding IV, 9.75%, 144A**** .....
\$ 1,600,000	Webster Capital Trust IV, 7.65% 06/15/37 .....
40,000	Zions Capital Trust B, 8.00% Pfd. 09/01/32 .....

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)

FINANCIAL SERVICES -- 15.1%

291,500	CIT Group, Inc., 6.35% Pfd., Series A .....
25,000	Countrywide Capital IV, 6.75% Pfd. ....
50,300	Countrywide Capital V, 7.00% Pfd., 11/01/36 .....
1,250	First Republic Preferred Capital Corporation, 10.50% Pfd., 144A**** .....
22,500	First Republic Preferred Capital Corporation II, 8.75% Pfd., Series B, 144A**** ..
	Goldman Sachs:
168,000	Adj. Rate Pfd., Series D .....
20,200	Cabco Trust Capital I, Adj. Rate Pfd. 02/15/34 .....
11	Pass-Through Certificates, Class B, 144A**** .....
2,500	STRIPES Custodial Receipts, Pvt. ....
	Lehman Brothers Holdings, Inc.:
10,000	5.94% Pfd., Series C .....
80,000	7.95% Pfd. ....
	Merrill Lynch:
92,000	Adj. Rate Pfd., Series 5 .....
16,000	Adj. Rate Pfd., Series 2 .....
3,000	Series II STRIPES Custodial Receipts, Pvt. ....
200,000	6.25% Pfd. ....
53,700	6.70% Pfd. ....
	SLM Corporation:
9,000	Adj. Rate Pfd., Series B .....
136,855	6.97% Pfd., Series A .....

INSURANCE -- 11.4%

\$ 1,000,000	AMBAC Financial Group, Inc., 6.15% 02/15/37 .....
\$ 3,750,000	AON Capital Trust A, 8.205% 01/01/27 .....
	Arch Capital Group Ltd.:
10,000	7.875% Pfd., Series B .....
36,300	8.00% Pfd., Series A .....
30,900	Axis Capital Holdings, 7.50% Pfd., Series B .....
90,600	Delphi Financial Group, 7.376% Pfd. 05/15/37 .....
\$ 2,275,000	Everest Re Holdings, 6.60% 05/15/37 .....
\$ 4,500,000	Liberty Mutual Group, 7.80% 03/15/37, 144A**** .....
50,000	MetLife, Inc., 6.50% Pfd., Series B .....
\$ 2,000,000	PartnerRe Finance II, 6.44% 12/01/66 .....

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

SHARES/\$ PAR  
-----

PREFERRED SECURITIES -- (CONTINUED)

INSURANCE -- (CONTINUED)

Renaissancere Holdings Ltd.:	
28,650	6.08% Pfd., Series C .....
110,300	6.60% Pfd., Series D .....
2,100	7.30% Pfd., Series B .....
119,500	Scottish Re Group Ltd., 7.25% Pfd. ....
\$ 750,000	USF&G Capital, 8.312% 07/01/46, 144A**** .....

UTILITIES -- 26.1%

Alabama Power Company:	
300	4.52% Pfd. ....
5,734	4.72% Pfd. ....
5,000	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993 .....
103,200	Calenergy Capital Trust III, 6.50% Pfd. 09/01/27 .....
900	Central Hudson Gas & Electric Corporation, 4.96% Pfd., Series E, Pvt. ....
5,560	Central Vermont Public Service Corporation, 8.30% Sinking Fund Pfd., Pvt. ....
Connecticut Light & Power Company:	
34,300	5.28% Pfd., Series 1967 .....
1,905	6.56% Pfd., Series 1968 .....
2,100	Consolidated Edison Company of New York, 4.65% Pfd., Series C .....
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. ....
46,000	Entergy Louisiana, Inc., 6.95% Pfd. ....
5,000	Entergy Mississippi, Inc., 4.92% Pfd. ....
18,535	Florida Power Company, 4.75% Pfd. ....
Georgia Power Company:	
13,100	6.125% Pfd. ....
10,000	6.50% Pfd., Series 07-A .....
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 .....

-----  
 Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 FEBRUARY 29, 2008 (UNAUDITED)  
 -----



Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

SHARES/\$ PAR  
-----

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

		PacifiCorp:
	1,095	5.40% Pfd. ....
	14,542	\$4.72 Pfd. ....
\$	500,000	PECO Energy Capital Trust III, 7.38% 04/06/28, Series D .....
	5,000	PPL Electric Utilities Corporation, 6.75% Pfd. ....
\$	2,100,000	Puget Sound Energy, Inc., 6.974% 06/01/67 .....
		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. ....
		Southern Union Company:
\$	200,000	7.20% 11/01/66 .....
	64,800	7.55% Pfd. ....
\$	750,000	TXU Electric Capital V, 8.175% 01/30/37 .....
		Union Electric Company:
	14,150	4.56% Pfd. ....
	18,800	\$7.64 Pfd. ....
	12,500	Virginia Electric & Power Company, \$7.05 Pfd. ....
	45,200	Virginia Power Capital Trust, 7.375% Pfd. 07/30/42 .....
\$	1,900,000	Wisconsin Energy Corporation, 6.25% 05/15/67 .....
	546	Wisconsin Power & Light Company, 4.80% Pfd. ....

ENERGY -- 6.3%

\$	4,000,000	Enbridge Energy Partners LP, 8.05% 10/01/37 .....
		Enterprise Products Partners:
\$	2,600,000	7.034% 01/15/68 .....
\$	1,640,000	8.375% 08/01/66 .....
	3,500	Kinder Morgan GP, Inc., 8.33% Pfd., 144A**** .....
\$	1,225,000	KN Capital Trust III, 7.63% 04/15/28 .....
	10,000	Lasmo America Limited, 8.15% Pfd., 144A**** .....

REAL ESTATE INVESTMENT TRUST (REIT) -- 2.2%

	40,000	Duke Realty Corporation, 8.375% Pfd., Series O .....
	30,000	PS Business Parks, Inc., 7.375% Pfd., Series O .....

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)

REAL ESTATE INVESTMENT TRUST (REIT) -- (CONTINUED)

---

	Public Storage, Inc.:
81,170	6.45% Pfd., Series F .....
55,600	6.625% Pfd., Series M .....

---

MISCELLANEOUS INDUSTRIES -- 2.3%

---

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**** .....

---

U.S. GOVERNMENT SECURITIES -- 0.3%

---

24,000	Fannie Mae, 8.25% Pfd.. .....
--------	-------------------------------

---

TOTAL PREFERRED SECURITIES

(Cost \$215,127,034) .....

CORPORATE DEBT SECURITIES -- 3.3%

INSURANCE -- 2.1%

---

\$ 4,729,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A**** .....
--------------	---

---

UTILITIES -- 0.0%

---

3,050	Entergy Louisiana LLC, 7.60% 04/01/32, 1st Mortgage .....
-------	---

---

ENERGY -- 1.2%

---

\$ 2,450,000	KN Energy, Inc., 7.45% 03/01/98.....
11,300	Nexen, Inc., 7.35% Subordinated Notes .....

---

TOTAL CORPORATE DEBT SECURITIES

(Cost \$7,150,895) .....

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 FEBRUARY 29, 2008 (UNAUDITED)

SHARES/\$ PAR

OPTION CONTRACTS -- 0.2%

75	April Call Options on June U.S. Treasury Bond Futures, Expiring 03/20/08 .....
150	June Call Options on June U.S. Treasury Bond Futures, Expiring 05/23/08 .....
382	June Put Options on June U.S. Treasury Bond Futures, Expiring 05/23/08 .....

TOTAL OPTION CONTRACTS  
 (Cost \$282,698) .....

MONEY MARKET FUND -- 1.8%

3,801,247	BlackRock Provident Institutional, TempFund .....
-----------	---

TOTAL MONEY MARKET FUND  
 (Cost \$3,801,247) .....

SECURITIES LENDING COLLATERAL -- 0.3%

754,200	BlackRock Institutional Money Market Trust .....
---------	--

TOTAL SECURITIES LENDING COLLATERAL  
 (Cost \$754,200) .....

TOTAL INVESTMENTS (Cost \$227,116,074\*\*\*) .....

OTHER ASSETS AND LIABILITIES (Net) .....

TOTAL NET ASSETS AVAILABLE TO COMMON AND PREFERRED STOCK ..... 1

AUCTION PREFERRED STOCK (APS) REDEMPTION VALUE .....

TOTAL NET ASSETS AVAILABLE TO COMMON STOCK .....

\* Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.

\*\* Securities distributing Qualified Dividend Income only.

\*\*\* Aggregate cost of securities held.

\*\*\*\* Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. These securities have been determined to be liquid under the guidelines established by the Board of Directors.

(1) Foreign Issuer.

(2) A portion of this security is on loan.

(3) A portion of this security has been pledged as collateral for written option positions.

+ Non-income producing.

++ The percentage shown for each investment category is the total value of

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

that category as a percentage of net assets available to Common and Preferred Stock.

ABBREVIATIONS:

PFD. -- Preferred Securities  
 PVT. -- Private Placement Securities

10

-----  
 Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 FEBRUARY 29, 2008 (UNAUDITED)  
 -----

OPEN OPTION CONTRACTS WRITTEN

CONTRACTS	CONTRACT DESCRIPTION
75	April Call Options on June U.S. Treasury Bond Futures, Expiring 03/20/08, Strike Price 120 .....
150	June Call Options on June U.S. Treasury Bond Futures, Expiring 05/23/08, Strike Price 118 .....
-----	
	TOTAL OPEN OPTION CONTRACTS WRITTEN (premiums received: \$404,401) .....

11

-----  
 Flaherty & Crumrine Preferred Income Fund Incorporated  
 STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK(1)  
 FOR THE PERIOD FROM DECEMBER 1, 2007 THROUGH FEBRUARY 29, 2008 (UNAUDITED)  
 -----

OPERATIONS:

Net investment income .....

Net realized gain/(loss) on investments sold during the period .....

Change in net unrealized appreciation/depreciation of investments .....

Distributions to APS\* 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 .....

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

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 DECREASE IN NET ASSETS AVAILABLE TO COMMON STOCK  
 FOR THE PERIOD .....

-----  
 NET ASSETS AVAILABLE TO COMMON STOCK:

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

- \* Auction Preferred Stock (formerly known as Money Market Cumulative Preferred(TM) Stock).  
 (1) These tables summarize the three months ended February 29, 2008 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2007.  
 (2) May include income earned, but not paid out, in prior fiscal year.

-----  
 Flaherty & Crumrine Preferred Income Fund Incorporated  
 FINANCIAL HIGHLIGHTS(1)  
 FOR THE PERIOD FROM DECEMBER 1, 2007 THROUGH FEBRUARY 29, 2008 (UNAUDITED)  
 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 APS\* SHAREHOLDERS:

From net investment income .....

Total from investment operations .....

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income .....

Total distributions to Common Stock Shareholders .....

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

Market value, end of period .....

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

# Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

## 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 .....

- (1) These tables summarize the three months ended February 29, 2008 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2007.
- \* Auction Preferred Stock (formerly known as Money Market Cumulative Preferred(TM) Stock).
- \*\* Annualized.
- \*\*\* Not Annualized.
- + The net investment income ratios reflect income net of operating expenses and payments to APS\* Shareholders.
- ++ Information presented under heading Supplemental Data includes APS\*.

## Flaherty & Crumrine Preferred Income Fund Incorporated FINANCIAL HIGHLIGHTS (CONTINUED) PER SHARE OF COMMON STOCK (UNAUDITED)

	TOTAL DIVIDENDS PAID	NET ASSET VALUE	NYSE CLOSING PRICE	D REI P
December 31, 2007 .....	\$ 0.0860	\$12.29	\$11.70	
January 31, 2008 .....	0.0860	12.93	12.82	
February 29, 2008 .....	0.0775	12.62	12.00	

- (1) Whenever the net asset value per share of the Fund's Common Stock is less than or equal to the market price per share on the reinvestment date, new shares issued will be valued at the higher of net asset value or 95% of the then current market price. Otherwise, the reinvestment shares of Common Stock will be purchased in the open market.

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

1. AGGREGATE INFORMATION FOR FEDERAL INCOME TAX PURPOSES

At February 29, 2008 the aggregate cost of securities for federal income tax purposes was \$226,944,288, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$6,392,678 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$21,363,015.

2. ADDITIONAL ACCOUNTING STANDARDS

ADOPTION OF STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 157 "FAIR VALUE MEASUREMENTS" ("FAS 157")

In September 2006, the Financial Accounting Standards Board issued FAS 157 effective for fiscal years beginning after November 15, 2007. This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. The Fund has adopted FAS 157 as of December 1, 2007. The three levels of the fair value hierarchy under FAS 157 are described below:

- o Level 1 - quoted prices in active markets for identical securities
- o Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- o Level 3 - significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. A summary of the inputs used to value the Funds' net assets as of February 29, 2008 is as follows:

VALUATION INPUTS	INVESTMENTS IN SECURITIES (MARKET VALUE)	OTHER FINANCIAL INSTRUMENTS (UNREALIZED APPRECIATION/ DEPRECIATION) *
Level 1 - Quoted Prices - Investments .....	\$ 54,328,250	\$ --
Level 1 - Quoted Prices - Written Options .....	(590,625)	--
Level 2 - Other Significant Observable Inputs ....	156,891,501	--
Level 3 - Significant Unobservable Inputs .....	--	--
TOTAL .....	\$ 210,629,126	\$ --

\* Other financial instruments are derivative instruments not reflected in the Schedule of Investments, such as futures, forwards and swaps which are valued at the unrealized appreciation/depreciation on the investment. As of February 29, 2008 the Fund does not have any other financial instruments.

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

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

3. SECTION 19 NOTICES

Section 19 of the Investment Company Act of 1940 requires registered investment companies to include a notice with the payment of a dividend if a portion of that dividend may come from sources other than undistributed net income (other sources could include realized gains from the sale of securities and non-taxable return of capital). Copies of the Section 19 notices for the Fund are available on the website at [www.preferredincome.com](http://www.preferredincome.com).

The amounts and sources of distributions reported below are only estimates and are not being provided for tax reporting purposes. Form 1099-DIV will be sent to shareholders in January 2009 reporting the amount and tax characterization of distributions for the 2008 calendar year.

	SOURCE OF DISTRIBUTIONS			AS OF 2/29/08
	NET INVESTMENT INCOME	NET REALIZED CAPITAL GAINS	RETURN OF CAPITAL	TOTAL COMM SHAR
Calendar 2008 Distributions .....	\$0.1553	\$0.00	\$0.0082	\$0.16
Percentage of Total Distributions .....	95.0%	0.0%	5.0%	

[This page intentionally left blank]

[This page intentionally left blank]

[This page intentionally left blank]

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



Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

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 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.

[LOGO] Flaherty & Crumrine  
=====

PREFERRED INCOME FUND

Quarterly  
Report

February 29, 2008

[www.preferredincome.com](http://www.preferredincome.com)

ITEM 2. CONTROLS AND PROCEDURES.

- (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.

SIGNATURES

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

(Registrant) Flaherty & Crumrine Preferred Income Fund Incorporated  
-----

By (Signature and Title)\* /s/ Donald F. Crumrine  
-----

Donald F. Crumrine, Director, Chairman of the Board and  
Chief Executive Officer  
(principal executive officer)

Date April 18, 2008  
-----

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

By (Signature and Title)\* /s/ Donald F. Crumrine  
-----

Donald F. Crumrine, Director, Chairman of the Board and  
Chief Executive Officer  
(principal executive officer)

Date April 18, 2008  
-----

By (Signature and Title)\* /s/ R. Eric Chadwick  
-----

R. Eric Chadwick, Chief Financial Officer,  
Treasurer and Vice President (principal  
financial officer)

Date April 18, 2008  
-----

\* Print the name and title of each signing officer under his or her signature.