

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC  
Form N-Q  
April 24, 2007

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  
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FLAHERTY & CRUMRINE PREFERRED INCOME FUND INCORPORATED  
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(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720  
PASADENA, CA 91101  
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(Address of principal executive offices) (Zip code)

Donald F. Crumrine  
Flaherty & Crumrine Incorporated  
301 E. Colorado Boulevard, Suite 720  
PASADENA, CA 91101  
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(Name and address of agent for service)

Registrant's telephone number, including area code: 626-795-7300  
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Date of fiscal year end: NOVEMBER 30, 2007  
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Date of reporting period: FEBRUARY 28, 2007  
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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.

ITEM 1. SCHEDULE OF INVESTMENTS.

The Schedule(s) of Investments is attached herewith.

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

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Sincerely,

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

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

April 20, 2007

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 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<br>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% |
| Not Rated | 10.3% |

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-----  
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% |

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Holdings Generating Qualified Dividend Income (QDI) for Individuals  
Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD)  
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Flaherty & Crumrine Preferred Income Fund Incorporated  
PORTFOLIO OF INVESTMENTS  
FEBRUARY 28, 2007 (UNAUDITED)  
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SHARES/\$ PAR  
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PREFERRED SECURITIES -- 94.5%  
BANKING -- 36.8%  
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|              |   |
|--------------|---|
| \$ 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.....                                   |

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

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|    |           |   |
|----|-----------|---|
| \$ | 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****.....        |

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

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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.....               |
| \$ | 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****..... |

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|              |   |
|--------------|---|
| 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)

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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..... |
|         | Florida Power Company:                    |
| 5,157   | 4.60% Pfd.....                            |

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|            |   |
|------------|---|
| 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.....            |

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 Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 FEBRUARY 28, 2007 (UNAUDITED)  
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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.....  |
| 18,800     | \$7.64 Pfd.....   |
| 12,500     | Virginia Electric & Power Company, \$7.05 Pfd.....            |



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|        |   |
|--------|---|
| 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.....                              |

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OIL AND GAS -- 4.5%

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|              |  |
|--------------|--|
| 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****.....           |

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

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PREFERRED SECURITIES -- (CONTINUED)

REAL ESTATE INVESTMENT TRUST (REIT) -- 2.7%

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|         |  |
|---------|--|
| 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.....           |

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MISCELLANEOUS INDUSTRIES -- 1.9%

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|        |   |
|--------|---|
| 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****.....        |

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|   |   |
|---|---|
| 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<br>(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%                    |  |
| 15,000                                   | AT&T Inc, 6.375% 02/15/56.....             |

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|                                 |   |
|---------------------------------|---|
| 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)                | .....   |

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 Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 FEBRUARY 28, 2007 (UNAUDITED)  
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SHARES/\$ PAR  
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|   |  |
|---|--|
| 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                            | .....  |

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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.....

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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<br>DIVIDENDS<br>PAID | NET ASSET<br>VALUE | NYSE<br>CLOSING PRICE |
|------------------------|----------------------------|--------------------|-----------------------|
| December 31, 2006..... | \$0.0860                   | \$15.56            | \$16.86               |
| January 31, 2007.....  | 0.0860                     | 15.61              | 17.20                 |
| February 28, 2007..... | 0.0860                     | 15.80              | 17.25                 |

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

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 in certificate form, contact the Fund's Transfer Agent & Shareholder Servicing Agent --

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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](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 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

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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 23, 2007  
-----

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 23, 2007  
-----

By (Signature and Title)\* /S/ R. ERIC CHADWICK

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

Date APRIL 23, 2007  
-----

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