

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC

Form N-30B-2

October 23, 2006

FLAHERTY & CRUMRINE PREFERRED INCOME FUND

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

During the Fund's 3rd fiscal quarter, the economy slowed from its rapid growth earlier in the year and, for the first time in two years, the Federal Reserve paused in its ratcheting up of short-term interest rates. In this environment, the Fund performed very well, earning a total return of +3.0% on its net asset value (NAV) in the three months ended August 31st and +5.5% over its fiscal year-to-date.

In a reversal of the weak markets for Treasury securities earlier in the year, when the Fund's hedging strategies contributed significantly to results, long-term interest rates declined during the recent fiscal quarter and the interest-rate hedge proved unnecessary. However, as always, we follow the Fund's investment strategy of maintaining the hedge in place, while attempting to control its cost. Doing so helps protect the value of the Fund's holdings against significant increases in long-term interest rates and potentially results in an increase in the Fund's distributable income. During the recent fiscal quarter, the Fund's NAV performed very well, even after absorbing the cost of the hedge.

Conditions in the market for preferred securities continue to be positive. This market is somewhat amorphous, so we find it useful to break it down into smaller groups of similarly-structured issues. The market for traditional preferred STOCK (issues that pay dividends and may have tax advantages to certain investors which the Fund can pass through to its shareholders) has been delivering strong relative returns for some time. As of August 31st, this type of security comprised 62% of the Fund's portfolio.

Since the beginning of 2006, fourteen new traditional preferred stock issues totaling \$5.7 billion have been brought to market (increasing the sector total by roughly 10%); the additional supply has helped focus interest on traditional preferred stock and appears to have attracted new investors. Several of these recent issues have dividend rates that adjust every quarter to reflect changes in short-term interest rates. This floating-rate feature fits the Fund nicely because it tends to offset changes in the cost of the Fund's leverage and requires only a minimal interest-rate hedge. However, unless the level of income we can earn on this type of security goes up, we don't anticipate increasing the Fund's holdings much beyond present levels.

The other major category of the preferred market is the fully taxable or "hybrid" preferred. Income from these issues is taxed as ordinary income to investors and is a deductible expense to the issuer. Taxable preferred securities comprise the lion's share of the preferred market, and the segment continues to grow rapidly. Over \$24 billion of new taxable preferred securities have come to market in 2006. As of August 31st, 33% of the Fund's portfolio was invested in fully-taxable preferred securities.

Much of the recent growth in taxable preferred securities has come from issuance of "enhanced" preferreds. These issues have certain terms and conditions which may result in better credit ratings for the issuer (which in turn helps keep their borrowing costs down). Since most of these features favor the issuer, investors should require a higher return. In our view, too often this is not the case. As a result, the portfolio's allocation to enhanced preferreds has increased at a much slower pace than that of the overall market.

While changes in short-term interest rates affect the valuation of some of the Fund's securities (and therefore its NAV), short-term rates more directly

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affect the Fund's income and the amount of its dividend by influencing both the cost of its Money Market PreferredTM Stock (MMP(R)) leverage and its hedging strategy. The Fund's leverage generally produces additional distributable income for its Common Stock shareholders. The amount of this additional income is influenced by the "spread" between the income generated by the portfolio and the cost of leverage.

As the Fed increased short-term interest rates through June 2006, these spreads narrowed significantly and the Fund generated less additional distributable income. If the Fed maintains its pause on short-term rates, and long-term rates do not decrease materially, the Fund's leverage should continue to produce the same additional distributable income as it does now. Of course, if the Fed lowers short-term interest rates, the Fund should see a greater benefit from its use of leverage and consequently have more additional distributable income for its Common Stock shareholders.

The cost of the Fund's hedging strategy is also directly affected by the slope of the yield curve (in other words, the difference between short- and long-term interest rates). When the yield curve is steep - as it was for most of the period from mid-2001 through 2004 - hedging tends to be expensive, because the market charges the difference between long- and short-term yields to those hedging. However, if the slope of the yield curve is as flat as it has been this year, the market will not charge as much to hedge and the Fund should not need to spend as much on its hedging strategy as it has over the past few years.

We hope investors will take advantage of the Fund's website, WWW.PREFERREDINCOME.COM. On it, there is a more extensive discussion of enhanced hybrid preferred securities, the impact of changing short-term interest rates on the additional distributable income provided by the Fund's leverage and how the slope of the yield curve affects the cost of the Fund's hedging strategy. It also contains a wide range of additional information about the Fund.

Sincerely,

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

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

October 19, 2006

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OVERVIEW
AUGUST 31, 2006 (UNAUDITED)

FUND STATISTICS ON 08/31/06

| | | |
|-----------------------|----|-------|
| Net Asset Value | \$ | 15.29 |
| Market Price | \$ | 16.51 |
| Premium | | 7.98% |
| Yield on Market Price | | 6.25% |

Common Stock Shares

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Outstanding 10,444,513

INDUSTRY CATEGORIES % OF PORTFOLIO

[GRAPHIC OMITTED]

EDGAR REPRESENTATION OF DATA POINTS

| | |
|--------------------|-----|
| Utilities | 33% |
| Banks | 31% |
| Insurance | 14% |
| Financial Services | 12% |
| Oil and Gas | 5% |
| Other | 3% |
| REITs | 2% |

MOODY'S RATINGS % OF PORTFOLIO

| | |
|-------------------------|-------|
| AAA | 0.4% |
| AA | 4.6% |
| A | 21.4% |
| BBB | 48.1% |
| BB | 12.0% |
| Not Rated | 11.7% |
| Below Investment Grade* | 14.9% |

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

TOP 10 HOLDINGS BY ISSUER % OF PORTFOLIO

| | |
|---------------------------|------|
| Interstate Power & Light | 4.9% |
| HSBC | 3.9% |
| FBOP Corporation | 3.8% |
| Goldman Sachs | 3.6% |
| North Fork Bancorporation | 3.5% |
| SLM Corporation | 3.4% |
| Xcel Energy | 3.1% |
| Lehman Brothers | 2.9% |
| First Republic Bank | 2.9% |
| Cobank | 2.8% |

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.

Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS
 AUGUST 31, 2006 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- 94.4%

BANKING -- 31.2%

| | |
|--------------|-----------------------------------------------------------------------------------|
| \$ 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..... |
| 6,000 | BAC Capital Trust II, 7.00% Pfd. 02/01/32..... |
| \$ 1,500,000 | Barclays Bank PLC, Adj. Rate Pfd..... |
| \$ 800,000 | Barnett Capital II, 7.95% 12/01/26 Capital Security..... |
| \$ 2,000,000 | Capital One Capital III, 7.686% Pfd..... |
| 74,700 | Citigroup Capital VIII, 6.95% Pfd. 09/15/31..... |
| | Cobank, ACB: |
| 50,000 | 7.00% Pfd., 144A****..... |
| 75,000 | Adj. Rate 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..... |
| 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..... |
| 16,500 | Fleet Capital Trust VII, 7.20% Pfd. 12/15/31..... |
| 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..... |
| \$ 3,000,000 | HBOS Capital Funding LP, 6.85% Pfd..... |
| 5,000 | HSBC Series II, Variable Inverse Pfd., Pvt..... |
| | HSBC USA, Inc.: |
| 140,000 | 6.50% Pfd., Series H..... |

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| | | |
|----|---------|-----------------------------------------------------------------------|
| | 3,250 | \$2.8575 Pfd..... |
| \$ | 270,000 | Keycorp Institutional Capital B, 8.25% 12/15/26 Capital Security..... |
| \$ | 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..... |

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 Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2006 (UNAUDITED)

SHARES/\$ PAR

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

| | | |
|----|-----------|------------------------------------------------------------------------|
| | 1,100 | SunTrust Capital V, 7.05% Pfd. 12/15/31..... |
| | 9,100 | USB Capital V, 7.25% Pfd. 12/15/31..... |
| | 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 X, 6.50% Pfd. 04/12/66..... |
| \$ | 2,400,000 | Washington Mutual Preferred Funding, Variable Rate Pfd., 144A****..... |
| | 40,000 | Zions Capital Trust B, 8.00% Pfd. 09/01/32..... |

 FINANCIAL SERVICES -- 11.1%

| | | |
|--|---------|--------------------------------------------------------------|
| | | Goldman Sachs Group, Inc.: |
| | 100,000 | Adj. Rate Pfd., Series D..... |
| | 25 | Pass-Through Certificates, Class B, 144A****..... |
| | 2,500 | STRIPES Custodial Receipts, Pvt..... |
| | | Lehman Brothers Holdings, Inc.: |
| | 36,280 | 5.67% Pfd., Series D..... |
| | 104,475 | 5.94% Pfd., Series C..... |
| | 3,000 | Merrill Lynch Series II STRIPES Custodial Receipts, Pvt..... |
| | 9,200 | Morgan Stanley Capital Trust IV, 6.25% Pfd..... |
| | 5,870 | Morgan Stanley Capital Trust VI, 6.60% Pfd..... |
| | | SLM Corporation: |
| | 136,855 | 6.97% Pfd., Series A..... |
| | 7,500 | Adj. Rate Pfd., Series B..... |

 INSURANCE -- 11.6%

| | | |
|--|--------|-------------------------------------|
| | 15,000 | ACE Ltd., 7.80% Pfd., Series C..... |
| | | Aegon NV: |

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| | |
|---------|---------------------------------------------------------|
| 27,750 | 6.375% Pfd..... |
| 25,000 | 6.50% Pfd..... |
| 10,000 | Arch Capital Group Ltd., 7.875% Pfd., Series B..... |
| | Axis Capital Holdings: |
| 70,750 | 7.25% Pfd., Series A..... |
| 9,300 | Variable Rate Pfd., Series B..... |
| 27,000 | Berkley W.R. Capital Trust II, 6.75% Pfd. 07/26/45..... |
| 61,200 | Endurance Specialty Holdings, 7.75% Pfd..... |
| 18,250 | Everest Re Capital Trust II, 6.20% Pfd., Series B..... |
| 140,000 | MetLife Inc., 6.50% Pfd., Series B..... |

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 Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2006 (UNAUDITED)

SHARES/\$ PAR

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

| | |
|--------------|-----------------------------------------------------------------------------|
| \$ 1,625,000 | Oil Insurance Ltd., Variable Rate Pfd., 144A****..... |
| 13,900 | PartnerRe Capital Trust I, 7.90% Pfd. 12/31/31..... |
| 2,010 | PartnerRe Ltd., 6.75% Pfd., Series C..... |
| 151,800 | 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..... |
| 6,300 | 7.30% Pfd., Series B..... |
| 6,100 | 8.10% Pfd., Series A..... |
| 119,500 | Scottish Re Group Ltd., 7.25% Pfd..... |
| 7,500 | St. Paul Capital Trust I, 7.60% Pfd. 10/15/50..... |
| \$ 1,250,000 | USF&G Capital, 8.312% 07/01/46 Capital Security, 144A****..... |
| 22,850 | XL Capital Ltd., 8.00% Pfd., Series A..... |

 UTILITIES -- 31.7%

| | |
|--------|-------------------------------------------------------------------------------|
| | 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..... |
| 11,119 | 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..... |

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

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 Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2006 (UNAUDITED)

SHARES/\$ PAR

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

| | |
|--------------|-------------------------------------------------------------------------------|
| \$ 1,500,000 | Dominion Resources Capital Trust III, 8.40% 01/15/31 Capital Security..... |
| | Duquesne Light Company: |
| 7,675 | 4.10% Pfd..... |
| 9,190 | 4.15% Pfd..... |
| 910 | 4.20% Pfd..... |
| 40,575 | 6.50% 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., 144A****..... |
| 5,000 | Entergy Mississippi, Inc., 4.92% Pfd..... |
| | Florida Power Company: |
| 5,157 | 4.60% Pfd..... |
| 18,535 | 4.75% Pfd..... |
| 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..... |
| 24,000 | Gulf Power Company, 6.00% Pfd., Series 1..... |
| 50,000 | Hawaiian Electric Company, Inc., 5.25% Pfd., Series H, Pvt..... |
| \$ 3,500,000 | Houston Light & Power Capital Trust II, 8.257% 02/01/37 Capital Security..... |
| 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)
 AUGUST 31, 2006 (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..... |
| | 75,000 | Southern Union Company, 7.55% Pfd..... |
| \$ | 750,000 | TXU Electric Capital V, 8.175% 01/30/37 Capital Security..... |
| | | Union Electric Company: |
| | 14,150 | 4.56% Pfd..... |
| | 8,800 | \$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..... |
| \$ | 1,021,000 | Enterprise Products Partners, Variable Rate Pfd..... |
| | 5,985 | EOG Resources, Inc., 7.195% Pfd., Series B..... |
| \$ | 1,675,000 | KN Capital Trust III, 7.63% 04/15/28 Capital Security..... |
| | 10,000 | Iasmo America Limited, 8.15% Pfd., 144A****..... |

 REAL ESTATE INVESTMENT TRUST (REIT) -- 2.4%

| | | |
|--|--------|-------------------------------------------------|
| | 21,400 | BRE Properties, Inc., 8.08% Pfd., Series B..... |
|--|--------|-------------------------------------------------|

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20,000 Duke Realty Corporation, 6.625% Pfd., Series J.....

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 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2006 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)

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

 10,000 Equity Office Property Trust, 7.75% Pfd., Series G.....
 1,000 Equity Residential Properties, 8.29% Pfd., Series K.....
 16,000 PS Business Parks, Inc., 7.00% Pfd., Series H.....
 Public Storage, Inc.:
 19,000 6.18% Pfd., Series D.....
 123,270 6.45% Pfd., Series F.....
 10,000 6.45% Pfd., Series X.....
 3,500 6.60% Pfd., Series C.....
 2,800 6.75% Pfd., Series E.....
 10,000 7.25% Pfd., Series K.....

MISCELLANEOUS INDUSTRIES -- 1.9%

 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.....

TOTAL PREFERRED SECURITIES
 (Cost \$215,118,029)

CORPORATE DEBT SECURITIES -- 4.5%

FINANCIAL SERVICES -- 0.4%

 36,300 Saturns-GS, 6.00% 02/15/33, Series Goldman Sachs.....

INSURANCE -- 2.3%

 \$ 900,000 Farmers Exchange Capital, 7.20% 07/15/48, 144A****.....
 Liberty Mutual Insurance:
 \$ 572,000 7.50% 08/15/36, 144A****.....
 \$ 4,142,000 7.697% 10/15/97, 144A****.....

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UTILITIES -- 0.9%

| | |
|--------------|----------------------------------------------|
| \$ 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%..... |

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Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2006 (UNAUDITED)

SHARES/\$ PAR

CORPORATE DEBT SECURITIES -- (CONTINUED)
 OIL AND GAS -- 0.9%

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

TOTAL CORPORATE DEBT SECURITIES
 (Cost \$10,612,460).....

OPTION CONTRACTS -- 0.0%

| | |
|-------|-----------------------------------------------------------------------------------|
| 1,273 | December Put Options on December U.S. Treasury Bond Futures, Expiring 11/21/06... |
| 312 | October Put Options on December U.S. Treasury Bond Futures, Expiring 09/22/06.... |

TOTAL OPTION CONTRACTS
 (Cost \$822,205).....

MONEY MARKET FUND -- 0.4%

| | |
|---------|---------------------------------------------------|
| 867,667 | BlackRock Provident Institutional, TempFund |
|---------|---------------------------------------------------|

TOTAL MONEY MARKET FUND
 (Cost \$867,667).....

| | |
|------------------------------------------------|-------|
| TOTAL INVESTMENTS (Cost \$227,420,361***)..... | 99.3% |
| OTHER ASSETS AND LIABILITIES (Net)..... | 0.7% |

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

-
- * 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.
 - + Non-income producing.
 - ++ The percentage shown for each investment category is the total value of that category as a percentage of net assets available to Common and Preferred Stock.

ABBREVIATIONS:

- PFD. -- Preferred Securities
- PVT. -- Private Placement Securities
- REIT -- Real Estate Investment Trust

Flaherty & Crumrine Preferred Income Fund Incorporated
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK(1)
FOR THE PERIOD FROM DECEMBER 1, 2005 THROUGH AUGUST 31, 2006 (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

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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

- * Money Market Cumulative PreferredTM Stock.
(1) These tables summarize the nine months ended August 31, 2006 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2005.
(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, 2005 THROUGH AUGUST 31, 2006 (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 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:

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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 nine months ended August 31, 2006 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2005.

* Money Market Cumulative PreferredTM Stock.

** Annualized.

*** Not Annualized.

+ The net investment income ratios reflect income net of operating expenses and payments to MMP(R)* Shareholders.

++ Information presented under heading Supplemental Data includes MMP(R)*.

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, 2005 | \$0.0905 | \$15.38 | \$16.09 |
| January 28, 2006 | 0.0905 | 15.43 | 16.89 |
| February 28, 2006 | 0.0905 | 15.57 | 16.65 |
| March 31, 2006 | 0.0860 | 15.40 | 16.08 |
| April 30, 2006 | 0.0860 | 15.23 | 15.55 |
| May 31, 2006 | 0.0860 | 15.10 | 15.55 |
| June 30, 2006 | 0.0860 | 14.94 | 15.19 |
| July 31, 2006 | 0.0860 | 14.89 | 15.73 |
| August 31, 2006 | 0.0860 | 15.29 | 16.51 |

(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 payment 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.

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

1. AGGREGATE INFORMATION FOR FEDERAL INCOME TAX PURPOSES

At August 31, 2006, the aggregate cost of securities for federal income tax purposes was \$227,705,319, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$15,485,858, and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$5,047,776.

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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
Christopher D. Ryan, CFA
Vice President
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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[GRAPHIC OMITTED]
LIGHTHOUSE ART

FLAHERTY & CRUMRINE
PREFERRED INCOME FUND

QUARTERLY
REPORT

AUGUST 31, 2006

www.preferredincome.com