

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

PREFERRED INCOME FUND INC

Form N-30B-2

April 19, 2005

FLAHERTY & CRUMRINE PREFERRED INCOME FUND

Dear Shareholder:

The Flaherty & Crumrine Preferred Income Fund ("PFD") delivered very respectable results during the most recently concluded fiscal quarter. For the three month period ending February 28, 2005, the Fund produced a total return on net asset value ("NAV") of 5.8%(1). All segments of the investment portfolio performed well during the period; however, the Adjustable Rate Preferred securities in the Fund (approximately 8% of the portfolio at the beginning of the quarter) were exceptionally strong. The Fund's hedges were a modest drag on investment results, as long-term interest rates declined during the period.

In recent letters, we have indicated that the Fund is susceptible to the same factors that have forced many other income-oriented funds to reduce their dividend distributions. In April, the Fund's monthly dividend was set at \$0.0905 per share, a 4.7% reduction from the prior month.

As is the case with other leveraged funds, rising short-term interest rates have increased the amount the Fund must pay on its Money Market Cumulative Preferred Stock ("MMP(R)"). Typically, rising short-term interest rates are accompanied by rising long-term rates, which should increase the value of the Fund's hedges. The gains on the hedges can then be invested in additional securities, which in turn increase the Fund's income, and, on balance, help keep the Fund's dividend relatively stable.

[GRAPHIC OMITTED]

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

| Maturity | 4/30/04 | 2/28/05 |
|----------|---------|---------|
| 0.25     | 0.97    | 2.74    |
| 0.50     | 1.14    | 2.97    |
| 2.00     | 2.31    | 3.58    |
| 3.00     | 2.75    | 3.75    |
| 5.00     | 3.61    | 3.99    |
| 10.00    | 4.50    | 4.36    |
| 30.00    | 5.28    | 4.71    |

As the above chart shows, current market conditions are anything but typical--since the Federal Reserve signaled its intent to raise short-term interest rates last April, short-term interest rates have increased by approximately 175 basis points, while long-term interest rates have FALLEN by over 50 basis points! As a result, the Fund's MMP(R) expense is significantly higher, but the hedges have not enabled us to produce more income. While we do not expect these conditions to persist for long periods, at this time it is necessary to adjust the monthly distribution to a more sustainable amount.

Over the longer term, a "flatter" yield curve (as measured by the difference in short- and long-term interest rates) is not a bad thing for the Fund. Obviously, the cost of the Fund's leverage will go up, but at the same time, the cost of the Fund's hedging strategy should go down. This effect can be significant

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(1) Based on monthly data provided by Lipper Inc. Distributions are assumed to be reinvested at NAV in accordance with Lipper's practice.

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since the leverage comprises roughly 33% of the Fund's assets, while the ENTIRE portfolio is hedged. The impact of the higher leverage cost occurs almost immediately, while the benefits of lower hedging costs take a bit longer to impact the Fund's income. The mathematics of all this can be a bit daunting, but over the long run, these two effects have tended to offset each other.

As a rule, we don't comment on the market price of the Fund's common shares; however, recent market activity certainly does warrant some observations. Over the long run, the market price SHOULD track the net asset value. From time to time we expect to see some deviation due to factors or circumstances unique to the Fund. For example, most investors cannot replicate PFD's investment portfolio, hedging strategy, or leverage, and therefore may be willing to pay a premium to the NAV.

The chart below plots the recent market price and net asset value of PFD. For most of this period, the market price traded at a premium to the NAV. We attributed this in part to the Fund's long history and successful track record, plus an attractive dividend rate which may be taxed at favorable rates for certain investors. During late February of this year, shares were trading around \$183/4; as of this writing, they are trading around \$16.00. During the same period, the net asset value declined less than \$0.15!

[GRAPHIC OMITTED]

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

### Flaherty & Crumrine Preferred Income Fund Market Price vs. Net Asset Value

|         | MARKET PRICE | NAV   |
|---------|--------------|-------|
| 2/6/04  | 18.45        | 16.27 |
| 2/13/04 | 18.55        | 16.32 |
| 2/20/04 | 18.88        | 16.23 |
| 2/27/04 | 18.97        | 16.37 |
| 3/5/04  | 19.28        | 16.41 |
| 3/12/04 | 19.3         | 16.51 |
| 3/19/04 | 19.58        | 16.51 |
| 3/26/04 | 19.7         | 16.3  |
| 4/2/04  | 19.12        | 16.19 |
| 4/9/04  | 17.2         | 16.17 |
| 4/16/04 | 16.83        | 16.1  |
| 4/23/04 | 16.12        | 15.93 |
| 4/30/04 | 16.11        | 15.94 |
| 5/7/04  | 15.52        | 15.69 |
| 5/14/04 | 15.83        | 15.51 |
| 5/21/04 | 16.45        | 15.4  |
| 5/28/04 | 17.62        | 15.45 |
| 6/4/04  | 17.25        | 15.43 |
| 6/11/04 | 17.5         | 15.36 |
| 6/18/04 | 17.65        | 15.42 |
| 6/25/04 | 17.54        | 15.28 |
| 7/2/04  | 17.45        | 15.32 |
| 7/9/04  | 17.23        | 15.29 |
| 7/16/04 | 17.19        | 15.42 |
| 7/23/04 | 17.03        | 15.24 |
| 7/30/04 | 16.78        | 15.28 |
| 8/6/04  | 17.07        | 15.43 |
| 8/13/04 | 17.35        | 15.49 |
| 8/20/04 | 17.93        | 15.41 |
| 8/27/04 | 17.93        | 15.44 |
| 9/3/04  | 18.03        | 15.4  |
| 9/10/04 | 18.24        | 15.56 |

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|          |       |       |
|----------|-------|-------|
| 9/17/04  | 18.33 | 15.73 |
| 9/24/04  | 18    | 15.86 |
| 10/1/04  | 17.85 | 15.67 |
| 10/8/04  | 18.39 | 15.73 |
| 10/15/04 | 18.47 | 15.83 |
| 10/22/04 | 18.48 | 15.77 |
| 10/29/04 | 18.3  | 15.74 |
| 11/5/04  | 18.08 | 15.65 |
| 11/12/04 | 18.18 | 15.65 |
| 11/19/04 | 18.32 | 15.65 |
| 11/26/04 | 18.27 | 15.67 |
| 12/3/04  | 17.26 | 15.72 |
| 12/10/04 | 17.35 | 15.89 |
| 12/17/04 | 17.77 | 15.91 |
| 12/24/04 | 18.1  | 15.74 |
| 12/31/04 | 18.25 | 15.89 |
| 1/7/05   | 18.27 | 15.83 |
| 1/14/05  | 18.13 | 16.05 |
| 1/21/05  | 18.33 | 16.1  |
| 1/28/05  | 18.43 | 16.08 |
| 2/4/05   | 18.39 | 16.27 |
| 2/11/05  | 18.67 | 16.27 |
| 2/18/05  | 18.77 | 16.06 |
| 2/25/05  | 18.64 | 16.1  |
| 3/4/05   | 18.25 | 16.15 |
| 3/11/05  | 17.7  | 15.98 |
| 3/18/05  | 16.08 | 15.97 |
| 3/25/05  | 15.6  | 15.78 |
| 4/4/05   | 16.03 | 15.99 |

Unlike open-end mutual funds, investors in closed-end funds should have a longer investment horizon in order to weather swings in the relationship between market price and NAV. In that same vein, investors with a long-term investment horizon should stay focused on the NAV performance and dividend history of the Fund. We plan to stay the course and hopefully will continue to meet and exceed the objectives of the Fund.

As was evident in its recent Proxy Statement, 2005 represents a year of transition in the individuals representing the Fund's shareholders. Martin Brody, who has served as a Director since the inception of the Fund, will not stand for reelection at the upcoming Shareholder's Meeting. Martin brought a wealth of wisdom and experience to the board, and will be missed. Karen Hogan has been nominated by the Board to replace Martin. Karen brings an extensive financial and investment banking background to the Board; her knowledge will certainly benefit Shareholders. In addition, to comply with recent SEC rule amendments requiring that independent directors constitute 75% of the Board, Robert Ettinger has resigned as a Director. However, Bob will continue to be very involved with the management of the Fund, continuing to serve as President of both the Fund and Flaherty & Crumrine Incorporated, the Fund's Investment Adviser.

Please take advantage of the Fund's website, [WWW.PREFERREDINCOME.COM](http://WWW.PREFERREDINCOME.COM). It contains a wide range of useful and up-to-date information about the Fund. We have also addressed in greater detail many of the topics discussed in this letter.

Sincerely,

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

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

April 5, 2005

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Flaherty & Crumrine Preferred Income Fund Incorporated  
PORTFOLIO OVERVIEW  
FEBRUARY 28, 2005 (UNAUDITED)  
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FUND STATISTICS ON 2/28/05

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Net Asset Value                                 \$       16.03  
  
Market Price                                     \$       18.77  
  
Premium   17.09%  
  
Yield on Market Price                                 6.07%  
  
Common Shares  
Outstanding   10,300,010

MOODY'S RATINGS                                 % OF PORTFOLIO

-----  
Aaa   0.5%  
  
Aa   9.7%  
  
A   23.6%  
  
Baa   39.7%  
  
Ba   14.5%  
  
Not Rated   6.3%

-----  
Below Investment Grade\*                                 13.8%

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

INDUSTRY CATEGORIES                                 % OF PORTFOLIO

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[GRAPHIC OMITTED]  
EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC  
  
Utilities                                 42%  
Banks                                     25%  
Financial Services                     15%

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|             |    |
|-------------|----|
| Insurance   | 9% |
| Oil and Gas | 4% |
| Other       | 4% |
| REITs       | 1% |

| TOP 10 HOLDINGS BY ISSUER | % OF PORTFOLIO |
|---------------------------|----------------|
| Interstate Power          | 5.3%           |
| Lehman Brothers           | 4.8%           |
| Citigroup                 | 4.6%           |
| Alabama Power             | 4.2%           |
| Fannie Mae                | 3.8%           |
| North Fork Bancorporation | 3.6%           |
| ABN Amro                  | 3.4%           |
| Zurich RegCaPS            | 3.3%           |
| Xcel Energy               | 3.0%           |
| SLM Corporation           | 2.9%           |

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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, 2005 (UNAUDITED)  
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PREFERRED SECURITIES -- 92.6%  
     BANKING -- 25.0%

-----  
 ABN AMRO North America, Inc.:  
 3,625      6.46% Pfd., 144A\*\*\*\* .....

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|    |           |  |
|----|-----------|--|
|    | 4,500     | 6.59% Pfd., 144A****   |
|    | 400       | BancWest Capital I, 9.50% Pfd. 12/01/30  |
| \$ | 750,000   | Barnett Capital II, 7.95% 12/01/26 Capital Security                            |
| \$ | 1,500,000 | BT Preferred Capital Trust II, 7.875% 02/25/27 Capital Security                |
| \$ | 250,000   | Chase Capital I, 7.67% 12/01/26 Capital Security                               |
|    |           | Citigroup, Inc.:   |
|    | 113,427   | 5.864% Pfd., Series M  |
|    | 9,876     | 6.213% Pfd., Series G  |
|    | 26,200    | 6.231% Pfd., Series H  |
|    | 65,350    | 6.365% Pfd., Series F  |
|    |           | Cobank, ACB:   |
|    | 50,000    | 7.00% Pfd., 144A****   |
|    | 75,000    | Adj. Rate Pfd., 144A****   |
| \$ | 500,000   | Comerica (Imperial) Capital Trust I, 9.98% 12/31/26 Capital Security, Series B |
| \$ | 2,250,000 | First Hawaiian Capital I, 8.343% 07/01/27 Capital Security, Series B           |
| \$ | 1,500,000 | First Union Capital II, 7.95% 11/15/29 Capital Security                        |
| \$ | 906,000   | First Union Institutional Capital I, 8.04% 12/01/26 Capital Security           |
| \$ | 1,820,000 | First Union Institutional Capital II, 7.85% 01/01/27 Capital Security          |
| \$ | 7,820,000 | GreenPoint Capital Trust I, 9.10% 06/01/27 Capital Security                    |
| \$ | 2,500,000 | HBOS Capital Funding LP, 6.85% Pfd.  |
|    | 34,200    | HSBC USA, Inc., \$2.8575 Pfd.  |
|    | 37,500    | J.P. Morgan Chase & Co., 6.625% Pfd., Series H                                 |
| \$ | 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                           |
| \$ | 1,700,000 | RBS Capital Trust B, 6.80% Pfd.  |
|    | 16,500    | Regions Financial Trust I, 8.00% Pfd.  |
| \$ | 2,635,000 | Republic New York Capital II, 7.53% 12/04/26 Capital Security                  |
|    | 10        | Roslyn Real Estate, 8.95% Pfd., Pvt., Series C, 144A****                       |
| \$ | 1,200,000 | Wachovia Capital Trust V, 7.965% 06/01/27 Capital Security, 144A****           |
|    | 7,500     | Wachovia Preferred Funding, 7.25% Pfd., Series A                               |

FINANCIAL SERVICES -- 14.5%

|  |        |                                   |
|--|--------|-----------------------------------|
|  |        | The Bear Stearns Companies, Inc.: |
|  | 63,100 | 5.49% Pfd., Series G              |
|  | 49,040 | 5.72% Pfd., Series F              |

Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 FEBRUARY 28, 2005 (UNAUDITED)

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PREFERRED SECURITIES -- (CONTINUED)  
 FINANCIAL SERVICES -- (CONTINUED)

|  |         |                      |
|--|---------|----------------------|
|  |         | Fannie Mae:          |
|  | 60,000  | 4.75% Pfd., Series M |
|  | 120,000 | Adj. Rate Pfd.       |
|  |         | Freddie Mac:         |

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|         |   |
|---------|---|
| 6,975   | 5.00% Pfd., Series F .....                  |
| 28,350  | 5.30% Pfd .....                             |
|         | Lehman Brothers Holdings, Inc.:             |
| 68,280  | 5.67% Pfd., Series D .....                  |
| 154,475 | 5.94% Pfd., Series C .....                  |
| 15,000  | 6.50% Pfd., Series F .....                  |
| 123,805 | SLM Corporation, 6.97% Pfd., Series A ..... |

INSURANCE -- 8.4%

|              |   |
|--------------|---|
| \$ 2,000,000 | AON Capital Trust A, 8.205% 01/01/27 Capital Security .....               |
| 21,000       | Everest Re Capital Trust II, 6.20% Pfd. Series B .....                    |
| \$ 5,150,000 | MMI Capital Trust I, 7.625% 12/15/27 Capital Security, Series B .....     |
| 18           | Premium Assets, Series A, Zurich RegCaPS Variable Inverse Pfd., Pvt. .... |
| \$ 4,000,000 | Provident Financing Trust I, 7.405% 03/15/38 Capital Security .....       |
| 7,000        | St. Paul Capital Trust I, 7.60% Pfd. ....                                 |
|              | Zurich RegCaPS Funding Trust:   |
| 2,850        | 6.01% Pfd., 144A**** .....  |
| 2,950        | 6.58% Pfd., 144A**** .....  |

UTILITIES -- 37.7%

|         |  |
|---------|--|
|         | Alabama Power Company:   |
| 300     | 4.52% Pfd. ....  |
| 5,734   | 4.72% Pfd. ....  |
| 111,600 | 5.20% Pfd. ....  |
| 275,000 | 5.30% Pfd. ....  |
| 10,000  | Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993 .....                |
|         | Central Hudson Gas & Electric Corporation:                                     |
| 5,000   | 4.35% Pfd., Series D, Pvt. ....  |
| 900     | 4.96% Pfd., Series E, Pvt. ....  |
| 10,000  | Central Illinois Light Company, 4.64% Pfd. ....                                |
| 11,000  | Central Illinois Public Service Corporation, 4.90% Pfd. ....                   |
| 16,679  | Central Vermont Public Service Corporation, 8.30% Sinking Fund Pfd., Pvt. .... |

Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 FEBRUARY 28, 2005 (UNAUDITED)

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

|       |                                    |
|-------|------------------------------------|
|       | Connecticut Light & Power Company: |
| 2,024 | 4.50% Pfd., Pvt. ....              |
| 9,300 | 5.28% Pfd. ....                    |
| 1,905 | 6.56% Pfd., Series 1968 .....      |

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|              |  |
|--------------|--|
| 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 .....                       |
|              | Duke Energy Corporation:   |
| 4,556        | 4.50% Pfd., Series C, Pvt. ....  |
| 519          | 7.04% Pfd., Series Y .....   |
| 30,762       | 7.85% Pfd., Series S .....   |
|              | Duquesne Light Company:  |
| 7,675        | 4.10% Pfd. ....  |
| 6,330        | 4.15% Pfd. ....  |
| 910          | 4.20% Pfd. ....  |
| 25,775       | 6.50% Pfd. ....  |
| 5,490        | \$2.10 Pfd., Series A .....  |
| 5,000        | Energy East Capital Trust I, 8.25% Pfd.  |
|              | Entergy Arkansas, Inc.:  |
| 5,574        | 7.32% Pfd. ....  |
| 11,350       | 7.40% Pfd. ....  |
| 5,030        | 7.80% Pfd. ....  |
| 3,822        | 7.88% Pfd. ....  |
| 30,266       | \$1.96 Pfd. ....   |
| 4,555        | Entergy Gulf States, Inc., 7.56% Pfd. ....                                       |
|              | Entergy Louisiana, Inc.:   |
| 260          | 7.84% Pfd. ....  |
| 106,138      | 8.00% Pfd., Series 92 .....  |
|              | Entergy Mississippi, Inc.:   |
| 5,000        | 4.92% Pfd. ....  |
| 8,600        | 7.44% Pfd. ....  |
| 10,800       | Enterprise Capital Trust I, 7.44% Pfd., Series A .....                           |
|              | Florida Power Company:   |
| 17,769       | 4.58% Pfd. ....  |
| 5,157        | 4.60% Pfd. ....  |
| 18,535       | 4.75% Pfd. ....  |
| 50,000       | Georgia Power Capital Trust V, 7.125% Pfd. ....                                  |
| 2,010        | Great Plains Energy, Inc., 4.50% Pfd. ....                                       |
| \$ 3,500,000 | Houston Light & Power, Capital Trust II, 8.257%, 02/01/37 Capital Security ..... |

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 Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 FEBRUARY 28, 2005 (UNAUDITED)  
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PREFERRED SECURITIES -- (CONTINUED)  
 UTILITIES -- (CONTINUED)  
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|         |   |
|---------|---|
| 32,650  | Indianapolis Power & Light Company, 5.65% Pfd. ....           |
| 384,000 | Interstate Power & Light Company, 8.375% Pfd., Series B ..... |
| 14,250  | Narragansett Electric Company, 4.64% Pfd. ....                |
|         | Northern Indiana Public Service Company:                      |
| 3,905   | 7.44% Pfd. ....   |
| 7,465   | Adj. Rate Pfd., Series A .....                                |
| 6,170   | Ohio Edison Company, 4.44% Pfd. ....                          |



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|            |   |
|------------|---|
|            | Pacific Enterprises:  |
| 27,430     | \$4.50 Pfd. ....  |
| 10,000     | \$4.75 Pfd., Series 53 .....  |
|            | PacifiCorp:   |
| 451        | 5.40% Pfd. ....   |
| 1,225      | \$4.56 Pfd. ....  |
| 14,542     | \$4.72 Pfd. ....  |
| 14,388     | \$7.48 Sinking Fund Pfd. ....                                       |
| 5,000      | PECO Energy Company, \$4.40 Pfd., Series C .....                    |
| 790        | Pennsylvania Power Company, 7.75% Pfd. ....                         |
| 11,194     | 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 ..... |
|            | San Diego Gas & Electric Company:                                   |
| 1,200      | 4.40% Pfd. ....   |
| 700        | 4.50% Pfd. ....   |
| 67,000     | \$1.70 Pfd. ....  |
| 18,750     | \$1.7625 Sinking Fund Pfd. ....                                     |
| 125,000    | Savannah Electric & Power Company, 6.00% Pfd. ....                  |
|            | South Carolina Electric & Gas Company:                              |
| 25,373     | 5.125% Purchase Fund Pfd., Pvt. ....                                |
| 6,703      | 6.00% Purchase Fund Pfd., Pvt. ....                                 |
| 54,100     | Southern California Edison, 4.08% Pfd. ....                         |
| 75,000     | Southern Union Company, 7.55% Pfd. ....                             |
| \$ 750,000 | TXU Electric Capital V, 8.175% 01/30/37 Capital Security .....      |
|            | TXU US Holdings Company:  |
| 10,000     | \$4.00 Pfd., Series TES .....                                       |
| 5,700      | \$4.00 Pfd., Series TPL .....                                       |
| 1,000      | \$4.84 Pfd. ....  |
|            | Union Electric Company:   |
| 14,150     | 4.56% Pfd. ....   |
| 4,000      | \$7.64 Pfd. ....  |

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 Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 FEBRUARY 28, 2005 (UNAUDITED)  
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PREFERRED SECURITIES -- (CONTINUED)  
 UTILITIES -- (CONTINUED)  
 -----

|        |   |
|--------|---|
| 12,500 | Virginia Electric & Power Company, \$7.05 Pfd. .... |
|        | Wisconsin Power & Light Company:                    |
| 1,220  | 4.50% Pfd. ....                                     |
| 394    | 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 -- 4.4%

|        |  |
|--------|--|
| 17,200 | Anadarko Petroleum Corporation, 5.46% Pfd. ....      |
| 7,000  | Apache Corporation, 5.68% Pfd., Series B .....       |
| 8,000  | Devon Energy Corporation, 6.49% Pfd., Series A ..... |
| 5,985  | EOG Resources, Inc., 7.195% Pfd., Series B .....     |
| 10,000 | Lasmo America Limited, 8.15% Pfd., 144A**** .....    |

REAL ESTATE INVESTMENT TRUST (REIT) -- 0.9%

|        |   |
|--------|---|
| 40,000 | Realty Income Corporation, 7.375%, Pfd., REIT, Series D ..... |
| 40,000 | Regency Centers Corporation, 7.25% Pfd., REIT .....           |

MISCELLANEOUS INDUSTRIES -- 1.7%

|        |  |
|--------|--|
| 13,600 | E.I. Du Pont de Nemours and Company, \$4.50 Pfd., Series B ..... |
| 36,200 | Farmland Industries, Inc., 8.00% Pfd., 144A**** .....            |
| 33,250 | Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A**** .....        |
| 26,000 | Touch America Holdings, \$6.875 Pfd. ....                        |

TOTAL PREFERRED SECURITIES

(Cost \$204,979,528) .....

Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 FEBRUARY 28, 2005 (UNAUDITED)

SHARES/\$ PAR

CORPORATE DEBT SECURITY -- 0.5%

UTILITIES -- 0.5%

|        |  |
|--------|--|
| 45,000 | Northern States Power Company, 8.00% ..... |
|--------|--|

TOTAL CORPORATE DEBT SECURITY

(Cost \$1,107,375) .....

COMMON STOCKS AND CONVERTIBLE SECURITIES -- 5.1%

BANKING -- 0.4%

|        |                                       |
|--------|---------------------------------------|
| 50,000 | New York Community Bancorp, Inc. .... |
|--------|---------------------------------------|

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INSURANCE -- 0.7%

-----  
 50,000 UnumProvident Corporation, 8.25% Mandatory Convertible, 05/16/06 .....  
 -----

UTILITIES -- 4.0%

-----  
 107,500 Duke Energy Corporation .....  
 88,278 FPL Group, Inc. ....  
 -----

TOTAL COMMON STOCKS AND CONVERTIBLE SECURITIES  
 (Cost \$11,227,229) .....

OPTION CONTRACTS -- 0.9%

-----  
 1,425 June Put Options on June U.S. Treasury Bond Futures, Expiring 05/20/05 .....  
 -----

TOTAL OPTION CONTRACTS  
 (Cost \$1,693,679) .....

10

-----  
 Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 FEBRUARY 28, 2005 (UNAUDITED)  
 -----

SHARES/\$ PAR  
 -----

MONEY MARKET FUND -- 0.5%

-----  
 1,159,750 BlackRock Provident Institutional, TempFund .....  
 -----

TOTAL MONEY MARKET FUND  
 (Cost \$1,159,750) .....

TOTAL INVESTMENTS (Cost \$220,167,561\*\*\*) ..... 99.6%  
 OTHER ASSETS AND LIABILITIES (NET) ..... 0.4%

TOTAL NET ASSETS AVAILABLE TO COMMON AND PREFERRED STOCK ..... 100.0%+  
 -----

MONEY MARKET CUMULATIVE PREFERRED(TM) STOCK (MMP(R)) REDEMPTION VALUE .....

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

-----  
Flaherty & Crumrine Preferred Income Fund Incorporated  
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK(1)  
FOR THE PERIOD FROM DECEMBER 1, 2004 THROUGH FEBRUARY 28, 2005 (UNAUDITED)  
-----

OPERATIONS:

Net investment income .....  
Net realized gain on investments sold during the period .....  
Change in net unrealized appreciation of investments held during the period .....  
Distributions to Money Market Cumulative PreferredTM Stock  
Shareholders from net investment income, including changes in accumulated  
undeclared distributions .....  
  
NET INCREASE IN NET ASSETS 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 Common Stock Transactions .....  
  
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 during the period .....  
  
End of period .....

-----  
Flaherty & Crumrine Preferred Income Fund Incorporated  
FINANCIAL HIGHLIGHTS(1)  
FOR THE PERIOD FROM DECEMBER 1, 2004 THROUGH FEBRUARY 28, 2005(UNAUDITED)  
FOR A COMMON SHARE OUTSTANDING THROUGHOUT THE 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 on investments .....

DISTRIBUTIONS TO MMP(R)\* SHAREHOLDERS:

From net investment income .....

From net realized capital gains .....

Total from investment operations .....

DISTRIBUTIONS TO COMMON SHAREHOLDERS:

From net investment income .....

From net realized capital gains .....

Total distributions to Common Shareholders .....

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

Market value, end of period .....

Common 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, 2004 - EXTRA ..... | \$0.0650                   | \$15.89            | \$18.25               |
| December 31, 2004 .....         | 0.0950                     | 15.89              | 18.25                 |
| January 31, 2005 .....          | 0.0950                     | 16.12              | 18.30                 |
| February 28, 2005 .....         | 0.0950                     | 16.03              | 18.77                 |

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DIRECTORS

Martin Brody  
Donald F. Crumrine, CFA  
Robert M. Ettinger, CFA  
David Gale  
Morgan Gust  
Robert F. Wulf, CFA

OFFICERS

Donald F. Crumrine, CFA  
Chairman of the Board  
and Chief Executive Officer  
Robert M. Ettinger, CFA  
President  
R. Eric Chadwick, CFA  
Chief Financial Officer,  
Vice President, Treasurer  
and Secretary  
Peter C. Stimes, CFA  
Chief Compliance  
Officer and Vice President  
Bradford S. Stone  
Vice President  
Laurie 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.

[GRAPHIC OMITTED]  
LIGHTHOUSE LOGO ART

FLAHERTY & CRUMRINE  
=====

PREFERRED INCOME FUND

Quarterly

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Report

February 28, 2005

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