

FLAHERTY & CRUMRINE PREFERRED INCOME FUND

To the Shareholders of the Preferred Income Fund:

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

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

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

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

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

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

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

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

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

² Based on Bloomberg data; distributions are assumed to be reinvested at market price.

³ The return on the Standard and Poor's 500 Financial index for the period 6/30/07 through 2/29/08, price change only.

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

The dividend paid to common stock shareholders is simply the income left over after paying preferred stock dividends and other expenses of the Fund. Thus, the higher the rates paid by the Fund on its preferred stock, the less income available for common shareholders. Under current market conditions, even with preferred stock dividends being at the current maximum rate, *the yield earned on the portfolio remains well above the cost of leverage.*

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

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

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

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

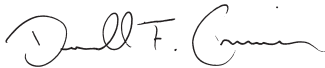
We are cautiously optimistic that the extraordinary steps taken by the Federal Reserve Bank will be effective in avoiding a severe economic downturn. The Fed’s objective is to make certain that capital markets in general, and the banking system in particular, are functioning properly and providing adequate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

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

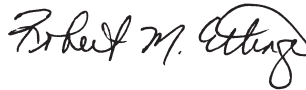
During periods of unusual market volatility, these letters provide a welcome opportunity to step back and discuss a wide variety of items affecting your Fund. Some of these deserve more attention than space here allows and are covered in greater depth on the Fund's website. Other situations, like the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

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

Sincerely,



Donald F. Crumrine
Chairman of the Board



Robert M. Ettinger
President

April 9, 2008

PORTFOLIO OVERVIEW

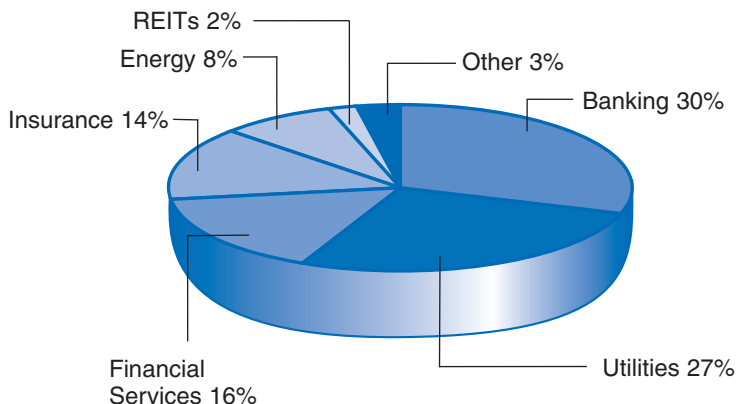
February 29, 2008 (Unaudited)

Fund Statistics on 02/29/08

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

Industry Categories

% of Portfolio



Moody's Ratings	% of Portfolio
AA	6.1%
A	17.0%
BBB	47.7%
BB	17.3%
Below "BB"	1.1%
Not Rated	8.0%
Below Investment Grade*	16.8%

* Below investment grade by both Moody's and S&P.

Top 10 Holdings by Issuer

% of Portfolio

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

	% of Portfolio**
Holdings Generating Qualified Dividend Income (QDI) for Individuals	59%
Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD)	52%

** 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.

PORTFOLIO OF INVESTMENTS**February 29, 2008 (Unaudited)**

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — 93.8%		
Banking — 30.1%		
\$ 3,000,000	Astoria Capital Trust I, 9.75% 11/01/29, Series B	\$ 3,199,200
	Banco Santander:	
25,000	Adj. Rate Pfd.	450,000 ^{**} (1)
301,200	6.50% Pfd.	6,654,653 ^{**} (1)
63,200	6.80% Pfd.	1,455,578 ^{**} (1)
	Bank of America Corp.:	
50,000	6.204% Pfd., Series D	1,151,565*
\$ 2,000,000	8.00%	2,074,400*
\$ 2,500,000	Capital One Capital III, 7.686% 08/15/36	1,910,250
\$ 3,500,000	CBG Florida REIT Corporation, 7.114%, 144A****	2,628,500
20,000	Citigroup, Inc., 8.125% Pfd., Series AA	509,800*
19,648	Citizens Funding Trust I, 7.50% Pfd. 09/15/66	427,959
	Cobank, ACB:	
50,000	7.00% Pfd., 144A****	2,501,000*
75,000	7.814% Pfd., 144A****	4,173,750*
\$ 3,975,000	Comerica Capital Trust II, 6.576% 02/20/37	2,825,827
9,000	FBOP Corporation, Adj. Rate Pfd., 144A****	8,415,000*
\$ 2,250,000	First Hawaiian Capital I, 8.343% 07/01/27, Series B	2,348,797 ⁽¹⁾
\$ 1,500,000	First Union Capital II, 7.95% 11/15/29	1,600,686
\$ 550,000	HBOS PLC, 6.657%, 144A****	438,020 ^{**} (1)
5,000	HSBC Series II, Variable Inverse Pfd., Pvt.	3,055,000*
2,500	HSBC USA, Inc., \$2.8575 Pfd.	109,453*
40,000	Keycorp Capital IX, 6.75% Pfd. 12/15/66	892,500
40,000	National City Corporation, 9.875% Pfd.	1,077,600*
\$ 5,000,000	National City Preferred Capital Trust I, 12.00%	5,165,500
31,500	PFGI Capital Corporation, 7.75% Pfd.	689,850
\$ 425,000	Regions Financing Trust II, 6.625% 05/15/47	332,330
10	Roslyn Real Estate, 8.95% Pfd., Series C, 144A****	1,041,361
88,480	Sovereign Bancorp, 7.30% Pfd., Series C	2,040,570*
30,600	Sovereign Capital Trust V, 7.75% Pfd. 05/22/36	707,549 ⁽²⁾
\$ 1,600,000	Sovereign Capital Trust VI, 7.908% 06/13/36	1,320,800
	U.S. Bancorp, Auction Pass-Through Trust, Cl. B:	
11	Series 2006-5, Variable Rate Pfd., 144A****	5,500*†
11	Series 2006-6, Variable Rate Pfd., 144A****	5,500*†
75,000	Wachovia Corporation, 8.00% Pfd., Series J	1,923,000*
\$ 1,000,000	Washington Mutual Preferred Funding IV, 9.75%, 144A****	861,278
\$ 1,600,000	Webster Capital Trust IV, 7.65% 06/15/37	1,245,440
40,000	Zions Capital Trust B, 8.00% Pfd. 09/01/32	998,752
		64,236,968

PORTFOLIO OF INVESTMENTS (Continued)

February 29, 2008 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Financial Services — 15.1%		
291,500	CIT Group, Inc., 6.35% Pfd., Series A	\$ 5,966,655*
25,000	Countrywide Capital IV, 6.75% Pfd.	437,500
50,300	Countrywide Capital V, 7.00% Pfd., 11/01/36	869,310 ⁽²⁾
1,250	First Republic Preferred Capital Corporation, 10.50% Pfd., 144A****	1,354,513
22,500	First Republic Preferred Capital Corporation II, 8.75% Pfd., Series B, 144A**** ...	572,400
Goldman Sachs:		
168,000	Adj. Rate Pfd., Series D	3,370,500*
20,200	Cabco Trust Capital I, Adj. Rate Pfd. 02/15/34	381,907
11	Pass-Through Certificates, Class B, 144A****	525,800*†
2,500	STRIPES Custodial Receipts, Pvt.	1,262,500*
Lehman Brothers Holdings, Inc.:		
10,000	5.94% Pfd., Series C	416,700*
80,000	7.95% Pfd.	1,994,400*
Merrill Lynch:		
92,000	Adj. Rate Pfd., Series 5	1,561,130*
16,000	Adj. Rate Pfd., Series 2	268,200*
3,000	Series II STRIPES Custodial Receipts, Pvt.	255,000*†
200,000	6.25% Pfd.	4,660,000*
53,700	6.70% Pfd.	1,343,574*
SLM Corporation:		
9,000	Adj. Rate Pfd., Series B	528,750*
136,855	6.97% Pfd., Series A	6,488,296*
		<u>32,257,135</u>
Insurance — 11.4%		
\$ 1,000,000	AMBAC Financial Group, Inc., 6.15% 02/15/37	591,700
\$ 3,750,000	AON Capital Trust A, 8.205% 01/01/27	3,865,635
Arch Capital Group Ltd.:		
10,000	7.875% Pfd., Series B	251,875** ⁽¹⁾
36,300	8.00% Pfd., Series A	935,861** ⁽¹⁾
30,900	Axis Capital Holdings, 7.50% Pfd., Series B	3,001,008 ⁽¹⁾
90,600	Delphi Financial Group, 7.376% Pfd. 05/15/37	2,018,568
\$ 2,275,000	Everest Re Holdings, 6.60% 05/15/37	1,936,707
\$ 4,500,000	Liberty Mutual Group, 7.80% 03/15/37, 144A****	3,747,600
50,000	MetLife, Inc., 6.50% Pfd., Series B	1,217,190*
\$ 2,000,000	PartnerRe Finance II, 6.44% 12/01/66	1,693,804 ⁽¹⁾

PORTFOLIO OF INVESTMENTS (Continued)

February 29, 2008 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Insurance — (continued)		
	Renaissancere Holdings Ltd.:	
28,650	6.08% Pfd., Series C	\$ 578,730** ⁽¹⁾
110,300	6.60% Pfd., Series D	2,426,600** ⁽¹⁾
2,100	7.30% Pfd., Series B	50,203** ⁽¹⁾
119,500	Scottish Re Group Ltd., 7.25% Pfd.	1,195,000** ⁽¹⁾
\$ 750,000	USF&G Capital, 8.312% 07/01/46, 144A****	828,525
		<u>24,339,006</u>
Utilities — 26.1%		
	Alabama Power Company:	
300	4.52% Pfd.	23,166*
5,734	4.72% Pfd.	462,332*
5,000	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993	489,600*
103,200	Calenergy Capital Trust III, 6.50% Pfd. 09/01/27	5,000,040
900	Central Hudson Gas & Electric Corporation, 4.96% Pfd., Series E, Pvt.	76,662*
5,560	Central Vermont Public Service Corporation, 8.30% Sinking Fund Pfd., Pvt.	573,014*
	Connecticut Light & Power Company:	
34,300	5.28% Pfd., Series 1967	1,486,562*
1,905	6.56% Pfd., Series 1968	94,107*
2,100	Consolidated Edison Company of New York, 4.65% Pfd., Series C	176,484*
	Duquesne Light Company:	
7,675	4.10% Pfd.	274,919*
9,190	4.15% Pfd.	333,137*
910	4.20% Pfd.	33,388*
5,490	\$2.10 Pfd., Series A	203,185*
100,000	Entergy Arkansas, Inc., 6.45% Pfd.	2,505,000*
46,000	Entergy Louisiana, Inc., 6.95% Pfd.	4,577,000*
5,000	Entergy Mississippi, Inc., 4.92% Pfd.	421,400*
18,535	Florida Power Company, 4.75% Pfd.	1,557,681*
	Georgia Power Company:	
13,100	6.125% Pfd.	322,522*
10,000	6.50% Pfd., Series 07-A	995,000*
2,010	Great Plains Energy, Inc., 4.50% Pfd.	165,704*
50,000	Hawaiian Electric Company, Inc., 5.25% Pfd., Series H, Pvt.	915,625*
32,650	Indianapolis Power & Light Company, 5.65% Pfd.	2,840,550*
384,000	Interstate Power & Light Company, 8.375% Pfd., Series B	11,420,160*
	Pacific Enterprises:	
27,430	\$4.50 Pfd.	2,202,903*
10,000	\$4.75 Pfd., Series 53	847,600*

PORTFOLIO OF INVESTMENTS (Continued)**February 29, 2008 (Unaudited)**

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Utilities — (continued)		
	PacifiCorp:	
1,095	5.40% Pfd.	\$ 111,099*
14,542	\$4.72 Pfd.	1,196,225*
\$ 500,000	PECO Energy Capital Trust III, 7.38% 04/06/28, Series D	481,100
5,000	PPL Electric Utilities Corporation, 6.75% Pfd.	516,000*
\$ 2,100,000	Puget Sound Energy, Inc., 6.974% 06/01/67	1,868,370
	San Diego Gas & Electric Company:	
1,200	4.40% Pfd.	19,272*
700	4.50% Pfd.	11,494*
77,000	\$1.70 Pfd.	2,021,250*
	South Carolina Electric & Gas Company:	
24,924	5.125% Purchase Fund Pfd., Pvt.	1,283,586*
6,703	6.00% Purchase Fund Pfd., Pvt.	341,987*
	Southern Union Company:	
\$ 200,000	7.20% 11/01/66	180,340
64,800	7.55% Pfd.	1,640,736*
\$ 750,000	TXU Electric Capital V, 8.175% 01/30/37	647,400
	Union Electric Company:	
14,150	4.56% Pfd.	1,164,262*
18,800	\$7.64 Pfd.	1,893,160*
12,500	Virginia Electric & Power Company, \$7.05 Pfd.	1,266,798*
45,200	Virginia Power Capital Trust, 7.375% Pfd. 07/30/42	1,141,300 ⁽³⁾
\$ 1,900,000	Wisconsin Energy Corporation, 6.25% 05/15/67	1,731,641
546	Wisconsin Power & Light Company, 4.80% Pfd.	47,857*
		<u>55,561,618</u>
	Energy — 6.3%	
\$ 4,000,000	Enbridge Energy Partners LP, 8.05% 10/01/37	3,806,920
	Enterprise Products Partners:	
\$ 2,600,000	7.034% 01/15/68	2,255,510
\$ 1,640,000	8.375% 08/01/66	1,612,750
3,500	Kinder Morgan GP, Inc., 8.33% Pfd., 144A****	3,515,400*
\$ 1,225,000	KN Capital Trust III, 7.63% 04/15/28	1,133,125
10,000	Lasmo America Limited, 8.15% Pfd., 144A****	1,044,400* ⁽¹⁾
		<u>13,368,105</u>
	Real Estate Investment Trust (REIT) — 2.2%	
40,000	Duke Realty Corporation, 8.375% Pfd., Series O	998,400
30,000	PS Business Parks, Inc., 7.375% Pfd., Series O	690,939

PORTFOLIO OF INVESTMENTS (Continued)

February 29, 2008 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Real Estate Investment Trust (REIT) — (continued)		
	Public Storage, Inc.:	
81,170	6.45% Pfd., Series F	\$ 1,795,886
55,600	6.625% Pfd., Series M	1,256,215
		<u>4,741,440</u>
Miscellaneous Industries — 2.3%		
13,600	E.I. Du Pont de Nemours and Company, \$4.50 Pfd., Series B	1,125,944*
40,000	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****	3,797,600*
		<u>4,923,544</u>
U.S. Government Securities — 0.3%		
24,000	Fannie Mae, 8.25% Pfd.	616,560*
		<u>616,560</u>
Total Preferred Securities		
(Cost \$215,127,034)		<u>200,044,376</u>
Corporate Debt Securities — 3.3%		
Insurance — 2.1%		
\$ 4,729,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	4,425,010
		<u>4,425,010</u>
Utilities — 0.0%		
3,050	Entergy Louisiana LLC, 7.60% 04/01/32, 1st Mortgage	77,680
		<u>77,680</u>
Energy — 1.2%		
\$ 2,450,000	KN Energy, Inc., 7.45% 03/01/98	2,241,750
11,300	Nexen, Inc., 7.35% Subordinated Notes	271,906 ⁽¹⁾
		<u>2,513,656</u>
Total Corporate Debt Securities		
(Cost \$7,150,895)		<u>7,016,346</u>

PORTFOLIO OF INVESTMENTS (Continued)

February 29, 2008 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Option Contracts — 0.2%	
75 April Call Options on June U.S. Treasury Bond Futures, Expiring 03/20/08	14,063†
150 June Call Options on June U.S. Treasury Bond Futures, Expiring 05/23/08	260,156†
382 June Put Options on June U.S. Treasury Bond Futures, Expiring 05/23/08	83,563†
Total Option Contracts (Cost \$282,698)	<u>357,782</u>
Money Market Fund — 1.8%	
3,801,247 BlackRock Provident Institutional, TempFund	3,801,247
Total Money Market Fund (Cost \$3,801,247)	<u>3,801,247</u>
Securities Lending Collateral — 0.3%	
754,200 BlackRock Institutional Money Market Trust	754,200
Total Securities Lending Collateral (Cost \$754,200)	<u>754,200</u>
Total Investments (Cost \$227,116,074***)	99.4% 211,973,951
Other Assets And Liabilities (Net)	0.6% <u>1,222,008</u>
Total Net Assets Available to Common and Preferred Stock	<u>100.0%‡</u> \$ <u>213,195,959</u>
Auction Preferred Stock (APS) Redemption Value	<u>(80,000,000)</u>
Total Net Assets Available To Common Stock	<u>\$ 133,195,959</u>

* Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.
 ** Securities distributing Qualified Dividend Income only.
 *** Aggregate cost of securities held.
 **** Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. These securities have been determined to be liquid under the guidelines established by the Board of Directors.
 (1) Foreign Issuer.
 (2) A portion of this security is on loan.
 (3) A portion of this security has been pledged as collateral for written option positions.
 † Non-income producing.
 ‡ The percentage shown for each investment category is the total value of that category as a percentage of net assets available to Common and Preferred Stock.

ABBREVIATIONS:

Pfd. — Preferred Securities
Pvt. — Private Placement Securities

PORTFOLIO OF INVESTMENTS (Continued)

February 29, 2008 (Unaudited)

Open Option Contracts Written

<u>Contracts</u>	<u>Contract Description</u>	<u>Value</u>
75	April Call Options on June U.S. Treasury Bond Futures, Expiring 03/20/08, Strike Price 120	\$ (77,344)†
150	June Call Options on June U.S. Treasury Bond Futures, Expiring 05/23/08, Strike Price 118	(513,281)†
Total Open Option Contracts Written (premiums received: \$404,401)		(590,625)

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK⁽¹⁾
For the period from December 1, 2007 through February 29, 2008 (Unaudited)

	<u>Value</u>
OPERATIONS:	
Net investment income	\$ 3,585,705
Net realized gain/(loss) on investments sold during the period	898,148
Change in net unrealized appreciation/depreciation of investments	(2,951,183)
Distributions to APS* Shareholders from net investment income, including changes in accumulated undeclared distributions	<u>(1,319,805)</u>
Net increase in net assets resulting from operations	212,865
DISTRIBUTIONS:	
Dividends paid from net investment income to Common Stock Shareholders ⁽²⁾	<u>(2,631,970)</u>
Total Distributions to Common Stock Shareholders	(2,631,970)
FUND SHARE TRANSACTIONS:	
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan	<u>60,549</u>
Net increase in net assets available to Common Stock resulting from Fund share transactions	60,549
NET DECREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD	<u><u>\$ (2,358,556)</u></u>

NET ASSETS AVAILABLE TO COMMON STOCK:

Beginning of period	\$ 135,554,515
Net decrease in net assets during the period	<u>(2,358,556)</u>
End of period	<u><u>\$ 133,195,959</u></u>

* Auction Preferred Stock (formerly known as Money Market Cumulative Preferred™ Stock).

⁽¹⁾ These tables summarize the three months ended February 29, 2008 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2007.

⁽²⁾ May include income earned, but not paid out, in prior fiscal year.

FINANCIAL HIGHLIGHTS⁽¹⁾

**For the period from December 1, 2007 through February 29, 2008 (Unaudited)
For a Common Stock share outstanding throughout the period.**

PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of period	\$ 12.85
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INVESTMENT OPERATIONS:

Net investment income	0.34
Net realized and unrealized gain/(loss) on investments	(0.19)

DISTRIBUTIONS TO APS* SHAREHOLDERS:

From net investment income	(0.13)
Total from investment operations	0.02

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income	(0.25)
Total distributions to Common Stock Shareholders	(0.25)

Net asset value, end of period	\$ 12.62
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Market value, end of period	\$ 12.00
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Common Stock shares outstanding, end of period	10,550,676
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RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:

Net investment income†	6.81%**
Operating expenses	1.67%**

SUPPLEMENTAL DATA:††

Portfolio turnover rate	23%***
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Total net assets available to Common and Preferred Stock, end of period (in 000's) . . .	\$ 213,196
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Ratio of operating expenses to total average net assets available to Common and Preferred Stock	1.04%**
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⁽¹⁾ These tables summarize the three months ended February 29, 2008 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2007.

* Auction Preferred Stock (formerly known as Money Market Cumulative PreferredTM Stock).

** Annualized.

*** Not Annualized.

† The net investment income ratios reflect income net of operating expenses and payments to APS* Shareholders.

†† Information presented under heading Supplemental Data includes APS*.

FINANCIAL HIGHLIGHTS (Continued)
Per Share of Common Stock (Unaudited)

	<u>Total Dividends Paid</u>	<u>Net Asset Value</u>	<u>NYSE Closing Price</u>	<u>Dividend Reinvestment Price⁽¹⁾</u>
December 31, 2007	\$0.0860	\$12.29	\$11.70	\$12.17
January 31, 2008	0.0860	12.93	12.82	12.92
February 29, 2008	0.0775	12.62	12.00	12.03

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

NOTES TO FINANCIAL STATEMENTS (Unaudited)**1. Aggregate Information for Federal Income Tax Purposes**

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

2. Additional Accounting Standards

Adoption of Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("FAS 157")

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

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

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

Valuation Inputs	Investments in Securities (Market Value)	Other Financial Instruments (Unrealized Appreciation/ Depreciation)*
Level 1 – Quoted Prices – Investments	\$ 54,328,250	\$ —
Level 1 – Quoted Prices – Written Options	(590,625)	—
Level 2 – Other Significant Observable Inputs	156,891,501	—
Level 3 – Significant Unobservable Inputs	—	—
Total	\$ 210,629,126	\$ —

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

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

3. Section 19 Notices

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

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

Source of Distributions as of 2/29/08

	Net Investment Income	Net Realized Capital Gains	Return of Capital	Total Per Common Share
Calendar 2008 Distributions	\$0.1553	\$0.00	\$0.0082	\$0.1635
Percentage of Total Distributions	95.0%	0.0%	5.0%	

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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
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?

- If your shares are held in a Brokerage Account, contact your Broker.
- 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.



Flaherty & Crumrine

PREFERRED INCOME FUND

Quarterly Report

February 29, 2008

www.preferredincome.com