

FLAHERTY & CRUMRINE PREFERRED INCOME FUND

Dear Shareholder:

During the third fiscal quarter of 2005, the Flaherty & Crumrine Preferred Income Fund continued to deliver steady performance. For the three month period ended August 31, 2005, the Fund produced a total return on net asset value (“NAV”) of 0.9%¹. During the first three quarters of fiscal 2005, the Fund’s return on NAV has been 8.8%.

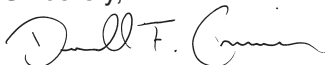
The Fund’s interest rate hedging strategy normally works best when long-term interest rates are rising *or* falling. In periods of relatively stable long-term interest rates, such as we’ve experienced for several quarters now, the costs of implementing the strategy can drag down investment performance—much like paying on-going premiums on an insurance policy but never making a claim. Given the Fund’s policy of maintaining a continuing interest-rate hedge on the portfolio, the Fund’s NAV returns are respectable. And don’t forget, the Fund still owns the “insurance policy”!

The country is still coming to grips with the impact of Hurricanes Katrina and Rita; our thoughts are very much with the victims of these terrible events. We are closely watching the effect on the Fund’s investment portfolio, and, so far, we have seen no material impact. Insurance companies have become much more adept at managing the financial risk they face from hurricanes and other catastrophic events. While claims from the hurricanes certainly will adversely impact insurance industry earnings, we believe there is no threat to industry solvency. Utilities in the region should be able to recover most of the expense they will incur in returning to operation from their customers. (The New Orleans subsidiary of Entergy Corp. has filed for bankruptcy protection; however, the Fund does not own any securities issued by this company.) Changes in the banking industry have encouraged companies to expand across state lines, resulting in larger, healthier banks that are unlikely to be hurt by the hurricanes. Diversification across companies, industries and geography is an important element of the Fund’s investment strategy, and helps to limit the impact of economic shocks, such as those delivered by Hurricanes Katrina and Rita.

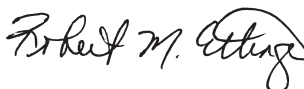
Recently, we have seen a pick-up in the supply of new preferred securities. Some were issued simply to take advantage of the low level of long-term interest rates and lock-in attractive financing costs. Other issues, however, have introduced new twists to the structure that are intended to help the issuer achieve specific financial objectives. Time will tell how broadly these new features get incorporated into the market, but for now, many of the recent new issues have fit nicely into the Fund’s investment portfolio.

There is not much new to report regarding the outlook for the Fund’s dividend rate. Several similar funds have recently reduced their dividends, but we don’t think any change is warranted at present for Flaherty & Crumrine Preferred Income Fund. We encourage you to take advantage of the Fund’s website, www.preferredincome.com. It contains a wide range of useful and up-to-date information about the Fund, including the factors which impact the Fund’s dividend policy. In addition, the website includes summaries of the Fund’s investment objective, its hedging strategy, its use of leverage and the risks applicable to the Fund.

Sincerely,



Donald F. Crumrine
Chairman of the Board



Robert M. Ettinger
President

October 17, 2005

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

DIVIDEND REINVESTMENT: BUILDING WEALTH ONE DIVIDEND AT A TIME

The Flaherty & Crumrine Preferred Income Fund offers a Dividend Reinvestment and Cash Purchase Plan, unglamorously nicknamed the “DRIP”, for those investors who desire a steady, reliable approach to building wealth.

Why invest in the DRIP?

- Disciplined monthly investing in both good and bad markets,
- When shares trade below the NAV, the Fund purchases shares in the market,
- When shares trade above the NAV, shares are issued at the higher of NAV or 95% of the market price. Participating shareholders get the benefit!
- \$1,000 invested at inception, January 1991, with dividend reinvestment would be worth over \$5,400 as of August 31, 2005 (12.28% annualized return).

To obtain information on the DRIP, contact your brokerage firm and ask if they are set up to participate. Information can also be found on the Fund’s website at www.preferredincome.com. Select the appropriate Fund and then select the link “Dividend Reinvestment Plan”. For investors who hold their shares in registered form, contact the DRIP’s agent, PFPC Inc., at 1-800-331-1710.

Past performance is no guarantee of future results. Participation in the DRIP does not relieve the investor of any income tax associated with the distribution. For additional performance information please refer to the attached quarterly report.

PORTFOLIO OVERVIEW

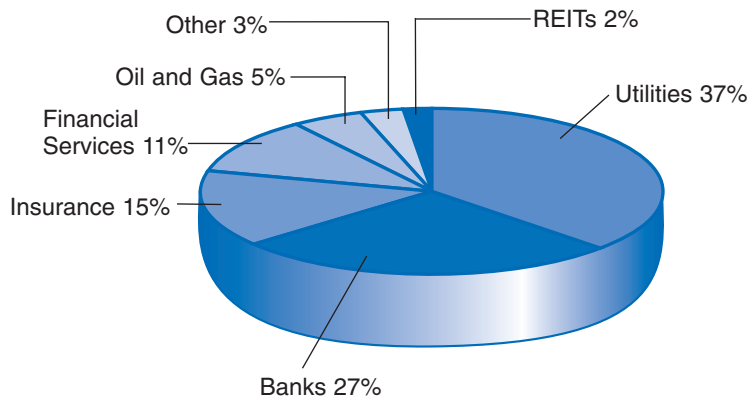
August 31, 2005 (Unaudited)

Fund Statistics on 08/31/05

Net Asset Value	\$	15.93
Market Price	\$	17.74
Premium		11.36%
Yield on Market Price		6.12%
Common Shares Outstanding		10,348,459

Industry Categories

% of Portfolio



Moody's Ratings

% of Portfolio

AAA	0.5%
AA	5.2%
A	23.2%
BBB	46.3%
BB	15.0%
Not Rated	8.7%
Below Investment Grade*	16.3%

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

Top 10 Holdings by Issuer

% of Portfolio

Interstate Power	5.3%
Lehman Brothers	4.4%
Alabama Power	4.0%
North Fork Bancorporation	3.6%
ABN AMRO	3.4%
Xcel Energy	3.2%
Principal Financial Group	3.0%
Cobank	2.8%
SLM Corporation	2.7%
EOG Resources	2.6%

% of Portfolio**

Holdings Generating Qualified Dividend Income (QDI) for Individuals	73%
Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD)	71%

** 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**August 31, 2005 (Unaudited)**

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — 96.7%		
Banking — 26.8%		
	ABN AMRO North America, Inc.:	
3,625	6.46% Pfd., 144A****	\$ 3,749,809*
4,500	6.59% Pfd., 144A****	4,646,497*
54,700	BAC Capital Trust I, 7.00% Pfd. 12/15/31	1,423,020
400	BancWest Capital I, 9.50% Pfd. 12/01/30	10,168 ⁽¹⁾
\$ 750,000	Barnett Capital II, 7.95% 12/01/26 Capital Security	810,446
\$ 1,500,000	BT Preferred Capital Trust II, 7.875% 02/25/27 Capital Security	1,618,927 ⁽¹⁾
\$ 250,000	Chase Capital I, 7.67% 12/01/26 Capital Security	268,427
	Citigroup, Inc.:	
9,876	6.213% Pfd., Series G	510,787*
26,200	6.231% Pfd., Series H	1,368,426*
65,350	6.365% Pfd., Series F	3,418,459*
	Cobank, ACB:	
50,000	7.00% Pfd., 144A****	2,658,500*
75,000	Adj. Rate Pfd., 144A****	4,179,375*
\$ 500,000	Comerica (Imperial) Capital Trust I, 9.98% 12/31/26 Capital Security, Series B	571,260
3,300	FBOP Corporation, Adj. Rate Pfd., 144A****	3,308,250*
\$ 2,250,000	First Hawaiian Capital I, 8.343% 07/01/27 Capital Security, Series B	2,468,036 ⁽¹⁾
	First Republic Bank:	
200,000	6.25% Pfd.	5,181,000*
10,000	6.70% Pfd.	259,900*
\$ 1,500,000	First Union Capital II, 7.95% 11/15/29 Capital Security	1,964,573
\$ 906,000	First Union Institutional Capital I, 8.04% 12/01/26 Capital Security	978,996
\$ 1,820,000	First Union Institutional Capital II, 7.85% 01/01/27 Capital Security	1,964,990
\$ 7,820,000	GreenPoint Capital Trust I, 9.10% 06/01/27 Capital Security	8,718,205
\$ 2,500,000	HBOS Capital Funding LP, 6.85% Pfd.	2,586,888 ⁽¹⁾
36,455	J.P. Morgan Chase & Co., 6.625% Pfd., Series H	1,864,856*
\$ 2,000,000	Keycorp Capital VII, 5.70% 06/15/35 Capital Security	1,980,890
\$ 270,000	Keycorp Institutional Capital B, 8.25% 12/15/26 Capital Security	292,316
\$ 674,000	NB Capital Trust II, 7.83% 12/15/26 Capital Security	726,946
16,000	PFGI Capital Corporation, 7.75% Pfd.	437,200
\$ 1,700,000	RBS Capital Trust B, 6.80% Pfd.	1,749,181 ^{**} (1)
16,500	Regions Financial Trust I, 8.00% Pfd.	424,875
\$ 2,635,000	Republic New York Capital II, 7.53% 12/04/26 Capital Security	2,819,187 ⁽¹⁾
10	Roslyn Real Estate, 8.95% Pfd., Pvt., Series C, 144A****	1,130,254
\$ 1,200,000	Wachovia Capital Trust V, 7.965% 06/01/27 Capital Security, 144A****	1,312,932
7,500	Wachovia Preferred Funding, 7.25% Pfd., Series A	216,338
		<u>65,619,914</u>

PORTFOLIO OF INVESTMENTS (Continued)**August 31, 2005 (Unaudited)**

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Financial Services — 11.0%		
175,000	CIT Group, Inc., 6.35% Pfd., Series A	\$ 4,543,875*
50,000	Fannie Mae, 4.75% Pfd., Series M	2,171,000*
	Freddie Mac:	
17,825	5.00% Pfd., Series F	825,476*
28,350	5.30% Pfd	1,386,599*
	Lehman Brothers Holdings, Inc.:	
48,280	5.67% Pfd., Series D	2,457,693*
154,475	5.94% Pfd., Series C	8,015,708*
15,000	6.50% Pfd., Series F	395,925*
19,700	National Rural Utility CFC, 5.95% Pfd. 02/15/45	483,241
115,805	SLM Corporation, 6.97% Pfd., Series A	6,516,926*
		<u>26,796,443</u>
Insurance — 13.7%		
40,000	ACE Ltd., 7.80% Pfd., Series C	1,067,000**(1)
40,000	Aegon NV, 6.375% Pfd.	1,033,600**(1)
\$ 2,000,000	AON Capital Trust A, 8.205% 01/01/27 Capital Security	2,367,620
17,000	Berkley W.R. Capital Trust II, 6.75% 07/26/45	427,295
21,000	Everest Re Capital Trust II, 6.20% Pfd., Series B	511,245 ⁽¹⁾
140,000	MetLife Inc., 6.50% Pfd., Series B	3,649,100*
\$ 5,150,000	MMI Capital Trust I, 7.625% 12/15/27 Capital Security, Series B	5,990,763
275,000	Principal Financial Group, 6.518% Pfd.	7,466,250*
\$ 4,000,000	Provident Financing Trust I, 7.405% 03/15/38 Capital Security	3,657,340
89,000	Scottish Re Group Ltd., 7.25% Pfd.	2,249,920**(1)
7,000	St. Paul Capital Trust I, 7.60% Pfd.	181,895
	Zurich RegCaPS Funding Trust:	
2,050	6.01% Pfd., 144A****	2,052,860*
2,800	6.58% Pfd., 144A****	2,968,280*
		<u>33,623,168</u>
Utilities — 36.6%		
	Alabama Power Company:	
300	4.52% Pfd.	27,621*
5,734	4.72% Pfd.	551,295*
89,100	5.20% Pfd.	2,275,168*
275,000	5.30% Pfd.	7,022,125*
10,000	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993	1,041,100*

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2005 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities – (continued)		
Utilities – (continued)		
Central Hudson Gas & Electric Corporation:		
5,000	4.35% Pfd., Series D, Pvt.	\$ 469,075*
900	4.96% Pfd., Series E, Pvt.	89,658*
16,679	Central Vermont Public Service Corporation, 8.30% Sinking Fund Pfd., Pvt.	1,734,783*
Connecticut Light & Power Company:		
2,124	4.50% Pfd., Pvt.	89,442*
34,300	5.28% Pfd., Series 1967	1,678,985*
1,905	6.56% Pfd., Series 1968	98,527*
15,778	\$3.24 Pfd.	822,192*
2,100	Consolidated Edison Company of New York, 4.65% Pfd., Series C	198,177*
2,886	Dayton Power and Light Company, 3.90% Pfd., Series C	216,594*
Duke Energy Corporation:		
3,000	4.50% Pfd., Series C, Pvt.	285,750*
519	7.04% Pfd., Series Y	53,205*
30,762	7.85% Pfd., Series S	3,164,333*
Duquesne Light Company:		
7,675	4.10% Pfd.	294,413*
9,190	4.15% Pfd.	356,802*
910	4.20% Pfd.	35,754*
40,575	6.50% Pfd.	2,161,836*
5,490	\$2.10 Pfd., Series A	215,702*
5,000	Energy East Capital Trust I, 8.25% Pfd.	129,750
Entergy Arkansas, Inc.:		
5,574	7.32% Pfd.	581,898*
11,350	7.40% Pfd.	1,180,911*
5,332	7.80% Pfd.	557,701*
3,822	7.88% Pfd.	398,883*
30,266	\$1.96 Pfd.	757,407*
4,555	Entergy Gulf States, Inc., 7.56% Pfd.	463,631*
Entergy Louisiana, Inc.:		
260	7.84% Pfd.	27,184*
106,538	8.00% Pfd., Series 92	2,686,888*
5,000	Entergy Mississippi, Inc., 4.92% Pfd.	434,400*
10,800	Enterprise Capital Trust I, 7.44% Pfd., Series A	275,130
Florida Power Company:		
17,769	4.58% Pfd.	1,707,956*
5,157	4.60% Pfd.	495,227*
18,535	4.75% Pfd.	1,837,931*

PORTFOLIO OF INVESTMENTS (Continued)**August 31, 2005 (Unaudited)**

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities – (continued)		
Utilities – (continued)		
50,000	Georgia Power Capital Trust V, 7.125% Pfd.	\$ 1,311,750
2,010	Great Plains Energy, Inc., 4.50% Pfd.	177,503*
\$ 3,500,000	Houston Light & Power, Capital Trust II, 8.257%, 02/01/37 Capital Security	3,777,007
32,650	Indianapolis Power & Light Company, 5.65% Pfd.	3,159,540*
384,000	Interstate Power & Light Company, 8.375% Pfd., Series B	13,000,320*
14,250	Narragansett Electric Company, 4.64% Pfd.	721,335*
	Northern Indiana Public Service Company:	
3,905	7.44% Pfd.	399,130*
7,465	Adj. Rate Pfd., Series A	377,169*
6,170	Ohio Edison Company, 4.44% Pfd.	536,697*
	Pacific Enterprises:	
27,430	\$4.50 Pfd.	2,392,582*
10,000	\$4.75 Pfd., Series 53	920,700*
	Pacific Gas & Electric Co.:	
41,500	5.00% Pfd., Series D	937,692*
45,500	5.00% Pfd., Series E	1,046,955*
	PacifiCorp:	
936	5.40% Pfd.	94,896*
1,225	\$4.56 Pfd.	109,938*
14,542	\$4.72 Pfd.	1,350,879*
12,333	\$7.48 Sinking Fund Pfd.	1,299,097*
9,666	Portland General Electric, 7.75% Sinking Fund Pfd.	985,739*
5,000	PPL Electric Utilities Corporation, 6.75% Pfd.	522,700*
10,000	Public Service Company of New Mexico, 4.58% Pfd., Series 1965	854,250*
	San Diego Gas & Electric Company:	
1,200	4.40% Pfd.	21,390*
700	4.50% Pfd.	12,757*
77,000	\$1.70 Pfd.	1,999,690*
13,100	Savannah Electric & Power Company, 6.00% Pfd.	359,136*
	South Carolina Electric & Gas Company:	
25,373	5.125% Purchase Fund Pfd., Pvt.	1,305,314*
6,703	6.00% Purchase Fund Pfd., Pvt.	341,652*
	Southern California Edison:	
54,100	4.08% Pfd.	1,067,393*
10,050	Adj. Rate Pfd.	1,032,617*
75,000	Southern Union Company, 7.55% Pfd.	2,082,000*
\$ 750,000	TXU Electric Capital V, 8.175% 01/30/37 Capital Security	807,686

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2005 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Utilities — (continued)		
	Union Electric Company:	
14,150	4.56% Pfd.	\$ 1,334,982*
4,000	\$7.64 Pfd.	414,780*
12,500	Virginia Electric & Power Company, \$7.05 Pfd.	1,280,625*
	Wisconsin Power & Light Company:	
1,220	4.50% Pfd.	114,137*
546	4.80% Pfd.	53,926*
13,000	6.20% Pfd.	1,333,995*
	Xcel Energy, Inc.:	
16,030	\$4.08 Pfd., Series B	1,323,277*
26,200	\$4.10 Pfd., Series C	2,173,421*
22,000	\$4.11 Pfd., Series D	1,829,300*
17,750	\$4.16 Pfd., Series E	1,493,929*
10,000	\$4.56 Pfd., Series G	922,550*
		<u>89,697,870</u>
Oil and Gas — 5.2%		
17,200	Anadarko Petroleum Corporation, 5.46% Pfd.	1,767,300*
7,000	Apache Corporation, 5.68% Pfd., Series B	721,490*
8,000	Devon Energy Corporation, 6.49% Pfd., Series A	823,600*
5,985	EOG Resources, Inc., 7.195% Pfd., Series B	6,439,142*
\$ 1,675,000	KN Capital Trust III, 7.63% 04/15/28 Capital Security	1,937,690
10,000	Lasmo America Limited, 8.15% Pfd., 144A****	1,126,150*(1)
		<u>12,815,372</u>
Real Estate Investment Trust (REIT) — 1.6%		
	PS Business Parks, Inc.:	
16,000	7.00% Pfd., REIT, Series H	400,560
20,000	7.20% Pfd., REIT, Series M	503,700
	Public Storage, Inc.:	
13,300	6.18% Pfd., REIT, Series D	322,990
22,500	6.75% Pfd., REIT, Series E	571,613
40,000	Realty Income Corporation, 7.375%, Pfd., REIT, Series D	1,047,800
40,000	Regency Centers Corporation, 7.25% Pfd., REIT	1,029,400
		<u>3,876,063</u>

PORTFOLIO OF INVESTMENTS (Continued)**August 31, 2005 (Unaudited)**

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Miscellaneous Industries — 1.8%		
13,600	E.I. Du Pont de Nemours and Company, \$4.50 Pfd., Series B	\$ 1,261,672*
36,200	Farmland Industries, Inc., 8.00% Pfd., 144A****	18,100*†
33,250	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****	3,131,152*
26,000	Touch America Holdings, \$6.875 Pfd.	—*†
		<u>4,410,924</u>
	Total Preferred Securities (Cost \$216,897,926)	<u>236,839,754</u>
Corporate Debt Securities — 0.9%		
Utilities — 0.9%		
\$ 1,000,000	Duquesne Light Holdings, 6.25% 08/15/35	1,034,970
45,000	Northern States Power Company, 8.00%	1,208,475
		<u>2,243,445</u>
	Total Corporate Debt Securities (Cost \$2,103,487)	<u>2,243,445</u>
Common Stock and Convertible Security — 1.1%		
Banking — 0.3%		
50,000	New York Community Bancorp, Inc.	876,250*
		<u>876,250</u>
Insurance — 0.8%		
50,000	UnumProvident Corporation, 8.25% Mandatory Convertible, 05/16/06	1,862,750
		<u>1,862,750</u>
	Total Common Stock and Convertible Security (Cost \$2,540,805)	<u>2,739,000</u>
Option Contracts — 0.2%		
1,525	December Put Options on December U.S. Treasury Bond Futures, Expiring 11/22/05	512,891†
	Total Option Contracts (Cost \$1,591,621)	<u>512,891</u>

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2005 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Money Market Fund — 0.5%	
1,118,377 BlackRock Provident Institutional, TempFund	\$ 1,118,377
<hr/>	
Total Money Market Fund (Cost \$1,118,377)	<u>1,118,377</u>
Total Investments (Cost \$224,252,216 ^{***})	99.4% 243,453,467
Other Assets And Liabilities (Net)	0.6% <u>1,418,304</u>
Total Net Assets Available to Common and Preferred Stock	<u>100.0%†</u> \$ <u>244,871,771</u>
Money Market Cumulative Preferred Stock™ (MMP®) Redemption Value	<u>(80,000,000)</u>
Total Net Assets Available To Common Stock	<u>\$ 164,871,771</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.

⁽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:

REIT — Real Estate Investment Trust

Pfd. — Preferred Securities

Pvt. — Private Placement Securities

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK⁽¹⁾
For the period from December 1, 2004 through August 31, 2005 (Unaudited)

	<u>Value</u>
OPERATIONS:	
Net investment income	\$ 9,625,459
Net realized gain on investments sold during the period	6,460,138
Change in net unrealized depreciation of investments held during the period	(753,969)
Distributions to Money Market Cumulative Preferred™ Stock	
Shareholders from net investment income, including changes in	
accumulated undeclared distributions	<u>(1,625,576)</u>
Net increase in net assets resulting from operations	13,706,052
DISTRIBUTIONS:	
Distributions paid from net investment income to Common Stock Shareholders ⁽²⁾	<u>(9,255,401)</u>
Total Distributions to Common Stock Shareholders	(9,255,401)
FUND SHARE TRANSACTIONS:	
Increase from Common Stock Transactions	<u>1,320,118</u>
Net increase in net assets available to Common Stock resulting	
 from Fund share transactions	1,320,118
NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK	
 FOR THE PERIOD	<u>\$ 5,770,769</u>

NET ASSETS AVAILABLE TO COMMON STOCK:

Beginning of period	\$ 159,101,002
Net increase during the period	<u>5,770,769</u>
End of period	<u>\$ 164,871,771</u>

⁽¹⁾ These tables summarize the nine months ended August 31, 2005 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2004.

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

FINANCIAL HIGHLIGHTS⁽¹⁾

For the period from December 1, 2004 through August 31, 2005 (Unaudited)

For a Common share outstanding throughout the period.

PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of period \$ 15.49

INVESTMENT OPERATIONS:

Net investment income 0.93

Net realized and unrealized gain on investments 0.57

DISTRIBUTIONS TO MMP[®]* SHAREHOLDERS:

From net investment income (0.16)

From net realized capital gains —

Total from investment operations 1.34

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income (0.90)

From net realized capital gains —

Total distributions to Common Stock Shareholders (0.90)

Net asset value, end of period \$ 15.93

Market value, end of period \$ 17.74

Common shares outstanding, end of period 10,348,459

RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:

Net investment income † 6.49%**

Operating expenses 1.49%**

SUPPLEMENTAL DATA:††

Portfolio turnover rate 36%***

Total net assets available to Common and Preferred Stock, end of period (in 000's) . . \$ 244,872

Ratio of operating expenses to total average net assets available to
Common and Preferred Stock 1.00%**

⁽¹⁾ These tables summarize the nine months ended August 31, 2005 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2004.

* Money Market Cumulative Preferred[™] Stock.

** Annualized.

*** Not Annualized.

† The net investment income ratio reflects income net of operating expenses and payments to MMP[®]* Shareholders.

†† Information presented under heading Supplemental Data includes MMP[®]*.

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, 2004 - Extra	\$0.0650	\$15.89	\$18.25	\$17.34
December 31, 2004	0.0950	15.89	18.25	17.34
January 31, 2005	0.0950	16.12	18.30	17.39
February 28, 2005	0.0950	16.03	18.77	17.83
March 31, 2005	0.0950	15.93	15.74	15.93
April 30, 2005	0.0905	16.03	16.75	16.03
May 31, 2005	0.0905	16.06	16.95	16.10
June 30, 2005	0.0905	15.98	17.00	16.15
July 31, 2005	0.0905	15.66	17.24	16.38
August 31, 2005	0.0905	15.93	17.74	16.85

⁽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.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. Aggregate Information for Federal Income Tax Purposes

At August 31, 2005, the aggregate cost of securities for federal income tax purposes was \$225,602,795, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$23,759,337 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$5,908,665.

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Directors

Donald F. Crumrine, CFA
David Gale
Morgan Gust
Karen H. Hogan
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
Chad C. Conwell
Vice President and Asst. Compliance Officer
Bradford S. Stone
Vice President and Asst. Treasurer
Christopher D. Ryan, CFA
Vice President
Laurie Lodolo
Asst. Compliance Officer,
Asst. Treasurer and Asst. 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

August 31, 2005

web site: www.preferredincome.com