

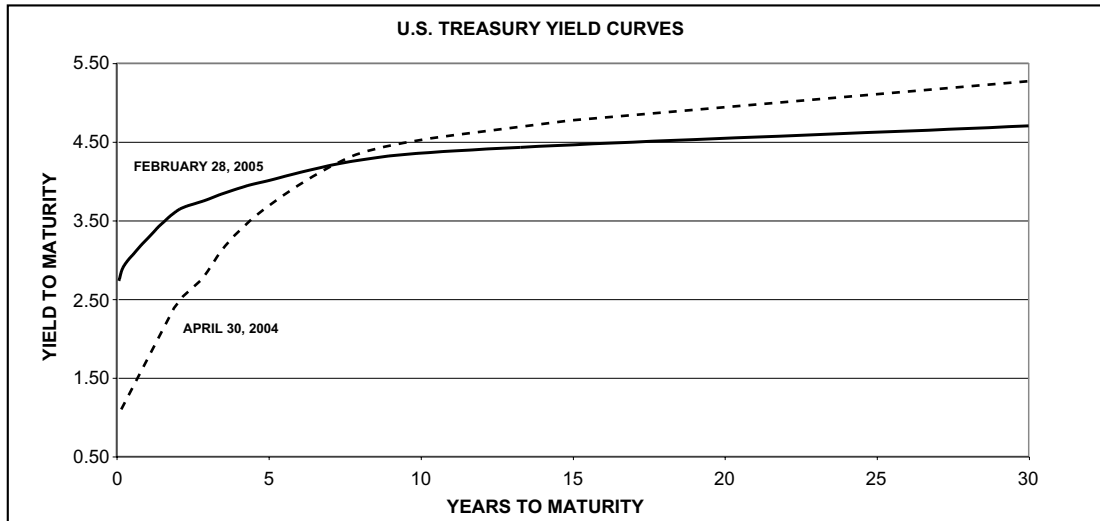
## FLAHERTY & CRUMRINE PREFERRED INCOME FUND

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%<sup>1</sup>. 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”). 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.



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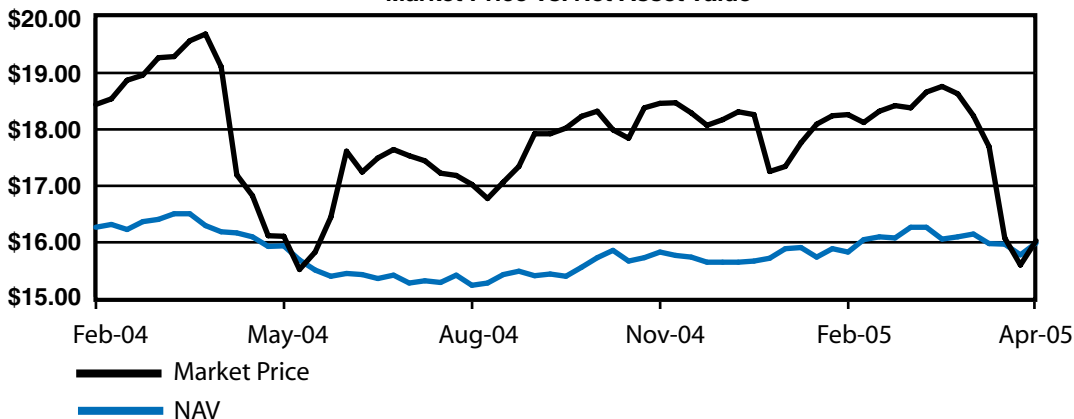
(1) Based on monthly data provided by Lipper Inc. Distributions are assumed to be reinvested at NAV in accordance with Lipper’s practice.

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 \$18<sup>3</sup>/<sub>4</sub>; as of this writing, they are trading around \$16.00. During the same period, the net asset value declined less than \$0.15!

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

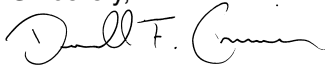


Unlike open-end mutual funds, investors in closed-end funds should have a longer investment horizon in order to weather swings in the relationship between market price and NAV. In that same vein, investors with a long-term investment horizon should stay focused on the NAV performance and dividend history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

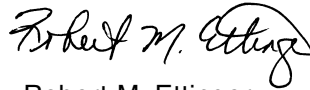
As was evident in its recent Proxy Statement, 2005 represents a year of transition in the individuals representing the Fund's shareholders. Martin Brody, who has served as a Director since the inception of the Fund, will not stand for reelection at the upcoming Shareholder's Meeting. Martin brought a 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,



Donald F. Crumrine  
Chairman of the Board



Robert M. Ettinger  
President

April 5, 2005



**PORTFOLIO OF INVESTMENTS****February 28, 2005 (Unaudited)**

<u>Shares/\$ Par</u>		<u>Value</u>
<b>Preferred Securities — 92.6%</b>		
<b>Banking — 25.0%</b>		
	ABN AMRO North America, Inc.:	
3,625	6.46% Pfd., 144A****	\$ 3,745,948*
4,500	6.59% Pfd., 144A****	4,687,560*
400	BancWest Capital I, 9.50% Pfd. 12/01/30	10,420 <sup>(1)</sup>
\$ 750,000	Barnett Capital II, 7.95% 12/01/26 Capital Security	822,214
\$ 1,500,000	BT Preferred Capital Trust II, 7.875% 02/25/27 Capital Security	1,639,042 <sup>(1)</sup>
\$ 250,000	Chase Capital I, 7.67% 12/01/26 Capital Security	271,486
	Citigroup, Inc.:	
113,427	5.864% Pfd., Series M	5,844,893*
9,876	6.213% Pfd., Series G	516,070*
26,200	6.231% Pfd., Series H	1,379,692*
65,350	6.365% Pfd., Series F	3,469,431*
	Cobank, ACB:	
50,000	7.00% Pfd., 144A****	2,778,750*
75,000	Adj. Rate Pfd., 144A****	4,227,750*
\$ 500,000	Comerica (Imperial) Capital Trust I, 9.98% 12/31/26 Capital Security, Series B	584,522
\$ 2,250,000	First Hawaiian Capital I, 8.343% 07/01/27 Capital Security, Series B	2,498,344 <sup>(1)</sup>
\$ 1,500,000	First Union Capital II, 7.95% 11/15/29 Capital Security	1,890,188
\$ 906,000	First Union Institutional Capital I, 8.04% 12/01/26 Capital Security	994,172
\$ 1,820,000	First Union Institutional Capital II, 7.85% 01/01/27 Capital Security	1,985,101
\$ 7,820,000	GreenPoint Capital Trust I, 9.10% 06/01/27 Capital Security	8,839,220
\$ 2,500,000	HBOS Capital Funding LP, 6.85% Pfd.	2,638,613 <sup>(1)</sup>
34,200	HSBC USA, Inc., \$2.8575 Pfd.	1,749,501*
37,500	J.P. Morgan Chase & Co., 6.625% Pfd., Series H	1,933,875*
\$ 270,000	Keycorp Institutional Capital B, 8.25% 12/15/26 Capital Security	297,100
\$ 674,000	NB Capital Trust II, 7.83% 12/15/26 Capital Security	737,990
\$ 1,700,000	RBS Capital Trust B, 6.80% Pfd.	1,784,176 <sup>**</sup> (1)
16,500	Regions Financial Trust I, 8.00% Pfd.	432,713
\$ 2,635,000	Republic New York Capital II, 7.53% 12/04/26 Capital Security	2,848,369 <sup>(1)</sup>
10	Roslyn Real Estate, 8.95% Pfd., Pvt., Series C, 144A****	1,079,875
\$ 1,200,000	Wachovia Capital Trust V, 7.965% 06/01/27 Capital Security, 144A****	1,325,124
7,500	Wachovia Preferred Funding, 7.25% Pfd., Series A	217,350
		<u>61,229,489</u>
<b>Financial Services — 14.5%</b>		
	The Bear Stearns Companies, Inc.:	
63,100	5.49% Pfd., Series G	3,171,090*
49,040	5.72% Pfd., Series F	2,558,662*

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2005 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value</u>
<b>Preferred Securities — (continued)</b>		
<b>Financial Services — (continued)</b>		
	Fannie Mae:	
60,000	4.75% Pfd., Series M .....	\$ 2,516,400*
120,000	Adj. Rate Pfd. ....	6,756,000*
	Freddie Mac:	
6,975	5.00% Pfd., Series F .....	308,121*
28,350	5.30% Pfd .....	1,327,489*
	Lehman Brothers Holdings, Inc.:	
68,280	5.67% Pfd., Series D .....	3,493,205*
154,475	5.94% Pfd., Series C .....	7,926,112*
15,000	6.50% Pfd., Series F .....	401,325*
123,805	SLM Corporation, 6.97% Pfd., Series A .....	7,025,934*
		<u>35,484,338</u>
<b>Insurance — 8.4%</b>		
\$ 2,000,000	AON Capital Trust A, 8.205% 01/01/27 Capital Security .....	2,290,780
21,000	Everest Re Capital Trust II, 6.20% Pfd. Series B .....	515,550 <sup>(1)</sup>
\$ 5,150,000	MMI Capital Trust I, 7.625% 12/15/27 Capital Security, Series B .....	5,814,144
18	Premium Assets, Series A, Zurich RegCaPS Variable Inverse Pfd., Pvt. ....	2,049,026*
\$ 4,000,000	Provident Financing Trust I, 7.405% 03/15/38 Capital Security .....	3,858,100
7,000	St. Paul Capital Trust I, 7.60% Pfd. ....	184,030
	Zurich RegCaPS Funding Trust:	
2,850	6.01% Pfd., 144A**** .....	2,889,629*
2,950	6.58% Pfd., 144A**** .....	3,116,277*
		<u>20,717,536</u>
<b>Utilities — 37.7%</b>		
	Alabama Power Company:	
300	4.52% Pfd. ....	27,918*
5,734	4.72% Pfd. ....	557,201*
111,600	5.20% Pfd. ....	2,797,812*
275,000	5.30% Pfd. ....	7,026,250*
10,000	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993 .....	1,044,050*
	Central Hudson Gas & Electric Corporation:	
5,000	4.35% Pfd., Series D, Pvt. ....	424,625*
900	4.96% Pfd., Series E, Pvt. ....	83,947*
10,000	Central Illinois Light Company, 4.64% Pfd. ....	938,050*
11,000	Central Illinois Public Service Corporation, 4.90% Pfd. ....	1,057,705*
16,679	Central Vermont Public Service Corporation, 8.30% Sinking Fund Pfd., Pvt. ....	1,734,533*

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2005 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value</u>
<b>Preferred Securities — (continued)</b>		
<b>Utilities — (continued)</b>		
	Connecticut Light & Power Company:	
2,024	4.50% Pfd., Pvt. ....	\$ 83,419*
9,300	5.28% Pfd. ....	453,840*
1,905	6.56% Pfd., Series 1968 ....	98,603*
15,778	\$3.24 Pfd. ....	828,108*
2,100	Consolidated Edison Company of New York, 4.65% Pfd., Series C ....	196,381*
2,886	Dayton Power and Light Company, 3.90% Pfd., Series C ....	212,511*
	Duke Energy Corporation:	
4,556	4.50% Pfd., Series C, Pvt. ....	400,655*
519	7.04% Pfd., Series Y ....	53,569*
30,762	7.85% Pfd., Series S ....	3,188,635*
	Duquesne Light Company:	
7,675	4.10% Pfd. ....	284,167*
6,330	4.15% Pfd. ....	237,217*
910	4.20% Pfd. ....	34,512*
25,775	6.50% Pfd. ....	1,407,444*
5,490	\$2.10 Pfd., Series A ....	208,208*
5,000	Energy East Capital Trust I, 8.25% Pfd. ....	131,975
	Entergy Arkansas, Inc.:	
5,574	7.32% Pfd. ....	581,898*
11,350	7.40% Pfd. ....	1,180,911*
5,030	7.80% Pfd. ....	526,113*
3,822	7.88% Pfd. ....	398,883*
30,266	\$1.96 Pfd. ....	757,407*
4,555	Entergy Gulf States, Inc., 7.56% Pfd. ....	463,790*
	Entergy Louisiana, Inc.:	
260	7.84% Pfd. ....	27,187*
106,138	8.00% Pfd., Series 92 ....	2,677,331*
	Entergy Mississippi, Inc.:	
5,000	4.92% Pfd. ....	427,250*
8,600	7.44% Pfd. ....	891,218*
10,800	Enterprise Capital Trust I, 7.44% Pfd., Series A ....	274,590
	Florida Power Company:	
17,769	4.58% Pfd. ....	1,608,805*
5,157	4.60% Pfd. ....	466,605*
18,535	4.75% Pfd. ....	1,731,725*
50,000	Georgia Power Capital Trust V, 7.125% Pfd. ....	1,331,250
2,010	Great Plains Energy, Inc., 4.50% Pfd. ....	163,433*
\$ 3,500,000	Houston Light & Power, Capital Trust II, 8.257%, 02/01/37 Capital Security ....	3,840,217

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2005 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value</u>
<b>Preferred Securities — (continued)</b>		
<b>Utilities — (continued)</b>		
32,650	Indianapolis Power & Light Company, 5.65% Pfd. . . . .	\$ 3,108,770*
384,000	Interstate Power & Light Company, 8.375% Pfd., Series B . . . . .	12,963,840*
14,250	Narragansett Electric Company, 4.64% Pfd. . . . .	658,136*
	Northern Indiana Public Service Company:	
3,905	7.44% Pfd. . . . .	399,228*
7,465	Adj. Rate Pfd., Series A . . . . .	379,222*
6,170	Ohio Edison Company, 4.44% Pfd. . . . .	498,783*
	Pacific Enterprises:	
27,430	\$4.50 Pfd. . . . .	2,464,860*
10,000	\$4.75 Pfd., Series 53 . . . . .	948,500*
	PacifiCorp:	
451	5.40% Pfd. . . . .	47,964*
1,225	\$4.56 Pfd. . . . .	110,011*
14,542	\$4.72 Pfd. . . . .	1,351,752*
14,388	\$7.48 Sinking Fund Pfd. . . . .	1,540,379*
5,000	PECO Energy Company, \$4.40 Pfd., Series C . . . . .	406,850*
790	Pennsylvania Power Company, 7.75% Pfd. . . . .	80,197*
11,194	Portland General Electric, 7.75% Sinking Fund Pfd. . . . .	1,134,232*
5,000	PPL Electric Utilities Corporation, 6.75% Pfd. . . . .	522,775*
10,000	Public Service Company of New Mexico, 4.58% Pfd., Series 1965 . . . . .	789,600*
	San Diego Gas & Electric Company:	
1,200	4.40% Pfd. . . . .	21,192*
700	4.50% Pfd. . . . .	12,645*
67,000	\$1.70 Pfd. . . . .	1,746,020*
18,750	\$1.7625 Sinking Fund Pfd. . . . .	483,844*
125,000	Savannah Electric & Power Company, 6.00% Pfd. . . . .	3,248,750*
	South Carolina Electric & Gas Company:	
25,373	5.125% Purchase Fund Pfd., Pvt. . . . .	1,305,695*
6,703	6.00% Purchase Fund Pfd., Pvt. . . . .	341,652*
54,100	Southern California Edison, 4.08% Pfd. . . . .	1,054,138*
75,000	Southern Union Company, 7.55% Pfd. . . . .	2,072,625*
\$ 750,000	TXU Electric Capital V, 8.175% 01/30/37 Capital Security . . . . .	825,244
	TXU US Holdings Company:	
10,000	\$4.00 Pfd., Series TES . . . . .	745,750*
5,700	\$4.00 Pfd., Series TPL . . . . .	425,077*
1,000	\$4.84 Pfd. . . . .	90,230*
	Union Electric Company:	
14,150	4.56% Pfd. . . . .	1,309,158*
4,000	\$7.64 Pfd. . . . .	417,580*



**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2005 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value</u>
<b>Preferred Securities — (continued)</b>		
<b>Utilities — (continued)</b>		
12,500	Virginia Electric & Power Company, \$7.05 Pfd. ....	\$ 1,289,500*
	Wisconsin Power & Light Company:	
1,220	4.50% Pfd. ....	111,978*
394	4.80% Pfd. ....	38,184*
13,000	6.20% Pfd. ....	1,334,255*
	Xcel Energy, Inc.:	
16,030	\$4.08 Pfd., Series B ....	1,237,516*
26,200	\$4.10 Pfd., Series C ....	2,032,596*
22,000	\$4.11 Pfd., Series D ....	1,710,830*
17,750	\$4.16 Pfd., Series E ....	1,397,191*
10,000	\$4.56 Pfd., Series G ....	862,850*
		<u>92,379,547</u>
<b>Oil and Gas — 4.4%</b>		
17,200	Anadarko Petroleum Corporation, 5.46% Pfd. ....	1,764,720*
7,000	Apache Corporation, 5.68% Pfd., Series B ....	730,450*
8,000	Devon Energy Corporation, 6.49% Pfd., Series A ....	847,360*
5,985	EOG Resources, Inc., 7.195% Pfd., Series B ....	6,386,953*
10,000	Lasmo America Limited, 8.15% Pfd., 144A**** ....	1,104,650*
		<u>10,834,133</u>
<b>Real Estate Investment Trust (REIT) — 0.9%</b>		
40,000	Realty Income Corporation, 7.375%, Pfd., REIT, Series D ....	1,067,800
40,000	Regency Centers Corporation, 7.25% Pfd., REIT ....	1,041,400
		<u>2,109,200</u>
<b>Miscellaneous Industries — 1.7%</b>		
13,600	E.I. Du Pont de Nemours and Company, \$4.50 Pfd., Series B ....	1,269,220*
36,200	Farmland Industries, Inc., 8.00% Pfd., 144A**** ....	18,100*†
33,250	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A**** ....	2,796,491*
26,000	Touch America Holdings, \$6.875 Pfd. ....	—*†
		<u>4,083,811</u>
<b>Total Preferred Securities</b>		
	(Cost \$204,979,528) .....	<u>226,838,054</u>

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2005 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
<b>Corporate Debt Security — 0.5%</b>	
<b>Utilities — 0.5%</b>	
45,000 Northern States Power Company, 8.00% .....	\$ 1,231,650
<b>Total Corporate Debt Security</b> (Cost \$1,107,375) .....	<u>1,231,650</u>
<b>Common Stocks and Convertible Securities — 5.1%</b>	
<b>Banking — 0.4%</b>	
50,000 New York Community Bancorp, Inc. ....	913,750*
	<u>913,750</u>
<b>Insurance — 0.7%</b>	
50,000 UnumProvident Corporation, 8.25% Mandatory Convertible, 05/16/06 .....	1,715,750
	<u>1,715,750</u>
<b>Utilities — 4.0%</b>	
107,500 Duke Energy Corporation .....	2,905,188*
88,278 FPL Group, Inc. ....	7,015,894*
	<u>9,921,082</u>
<b>Total Common Stocks and Convertible Securities</b> (Cost \$11,227,229) .....	<u>12,550,582</u>
<b>Option Contracts — 0.9%</b>	
1,425 June Put Options on June U.S. Treasury Bond Futures, Expiring 05/20/05 .....	2,317,578†
<b>Total Option Contracts</b> (Cost \$1,693,679) .....	<u>2,317,578</u>

**PORTFOLIO OF INVESTMENTS (Continued)****February 28, 2005 (Unaudited)**

<u>Shares/\$ Par</u>	<u>Value</u>
<b>Money Market Fund — 0.5%</b>	
1,159,750 BlackRock Provident Institutional, TempFund .....	\$ 1,159,750
<hr/>	
<b>Total Money Market Fund</b> (Cost \$1,159,750) .....	<u>1,159,750</u>
<b>Total Investments</b> (Cost \$220,167,561***) .....	99.6% 244,097,614
<b>Other Assets And Liabilities (Net)</b> .....	0.4% <u>983,537</u>
<b>Total Net Assets Available to Common and Preferred Stock</b> .....	<u>100.0%†</u> \$ <u>245,081,151</u>
<b>Money Market Cumulative Preferred™ Stock (MMP®) Redemption Value</b> .....	<u>(80,000,000)</u>
<b>Total Net Assets Available to Common Stock</b> .....	<u>\$ 165,081,151</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

Capital Securities are treated as debt instruments for financial statement purposes and the amounts shown in the Shares/\$ Par column are dollar amounts of par value.

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK<sup>(1)</sup>**  
**For the period from December 1, 2004 through February 28, 2005 (Unaudited)**

	<u>Value</u>
<b>OPERATIONS:</b>	
Net investment income . . . . .	\$ 3,192,856
Net realized gain on investments sold during the period . . . . .	2,324,693
Change in net unrealized appreciation of investments held during the period . . . . .	3,974,833
Distributions to Money Market Cumulative Preferred™ Stock	
Shareholders from net investment income, including changes in accumulated undeclared distributions . . . . .	<u>(437,500)</u>
<b>Net increase in net assets from operations . . . . .</b>	<b>9,054,882</b>
<b>DISTRIBUTIONS:</b>	
Dividends paid from net investment income to Common Stock Shareholders <sup>(2)</sup> . . . . .	<u>(3,600,705)</u>
<b>Total Distributions to Common Stock Shareholders . . . . .</b>	<b>(3,600,705)</b>
<b>FUND SHARE TRANSACTIONS:</b>	
Increase from Common Stock Transactions . . . . .	<u>525,972</u>
<b>Net increase in net assets available to Common Stock resulting from Fund share transactions . . . . .</b>	<b>525,972</b>
<b>NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD . . . . .</b>	<b><u>\$ 5,980,149</u></b>

**NET ASSETS AVAILABLE TO COMMON STOCK:**

Beginning of period . . . . .	\$ 159,101,002
Net increase during the period . . . . .	<u>5,980,149</u>
End of period . . . . .	<u><u>\$ 165,081,151</u></u>

<sup>(1)</sup> These tables summarize the three months ended February 28, 2005 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2004.

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

**FINANCIAL HIGHLIGHTS<sup>(1)</sup>**

**For the period from December 1, 2004 through February 28, 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 . . . . . 0.31

Net realized and unrealized gain on investments . . . . . 0.62

**DISTRIBUTIONS TO MMP<sup>®\*</sup> SHAREHOLDERS:**

From net investment income . . . . . (0.04)

From net realized capital gains . . . . . —

Total from investment operations . . . . . 0.89

**DISTRIBUTIONS TO COMMON SHAREHOLDERS:**

From net investment income . . . . . (0.35)

From net realized capital gains . . . . . —

Total distributions to Common Shareholders . . . . . (0.35)

Net asset value, end of period . . . . . \$ 16.03

Market value, end of period . . . . . \$ 18.77

Common shares outstanding, end of period . . . . . 10,300,010

**RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:**

Net investment income † . . . . . 6.70%\*\*

Operating expenses . . . . . 1.52%\*\*

**SUPPLEMENTAL DATA:††**

Portfolio turnover rate . . . . . 10%\*\*\*

Total net assets available to Common and Preferred Stock, end of period (in 000's) . . \$ 245,081

Ratio of operating expenses to total average net assets available to  
Common and Preferred Stock . . . . . 1.03%\*\*\*

<sup>(1)</sup> These tables summarize the three months ended February 28, 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<sup>™</sup> Stock.

\*\* Annualized.

\*\*\* Not Annualized.

† The net investment income ratios reflect income net of operating expenses and payments to MMP<sup>®\*</sup> Shareholders.

†† Information presented under heading Supplemental Data includes MMP<sup>®\*</sup>.

**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<sup>(1)</sup></u>
December 31, 2004 - <b>Extra</b> .....	\$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

<sup>(1)</sup> 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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## 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](mailto: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**  

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**PREFERRED INCOME FUND**

## Quarterly Report

**February 28, 2005**

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