FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC
Form N-CSR
January 29, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-06179

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INCORPORATED

(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720
PASADENA, CA 91101

(Address of principal executive offices) (Zip code)

Donald F. Crumrine
Flaherty & Crumrine Incorporated
301 E. Colorado Boulevard, Suite 720
PASADENA, CA 91101

(Name and address of agent for service)

registrant's telephone number, including area code: 626-795-7300

Date of fiscal year end: NOVEMBER 30

Date of reporting period: NOVEMBER 30, 2006

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

The Report to Shareholders is attached herewith.

FLAHERTY & CRUMRINE PREFERRED INCOME FUND

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

The Fund completed a successful fiscal year on November 30, 2006, returning +5.1%(1) total return on net asset value ("NAV") during the fourth fiscal quarter and +10.8%(1) for the full year. The total return based on the market price of the Fund's common shares for the year was similar at +10.5%, and the Fund's common stock continued to trade at a premium to its net asset value throughout the year.

The table below compares the return on the Fund since its inception with a broad group of fixed-income, closed-end funds. Although the investment strategies used by the Fund differ significantly from the strategies used by these other fixed-income funds, we believe that the Fund addresses similar investment goals with better results. As the numbers indicate, the Fund has performed very well, benefiting from strength in the overall market for preferred securities as well as some strategic shifts in the portfolio.

TOTAL RETURN PER YEAR ON NET ASSET VALUE(1)
FOR PERIODS ENDED NOVEMBER 30, 2006

	ONE YEAR	THREE YEARS	FIVE YEARS	TEN YEARS	LIFE OF FUND(2)
Flaherty & Crumrine Preferred Income Fund	10.8%	7.4%	9.5%	8.5%	11.5%
Lipper Domestic Investment Grade Funds(3)	7.3%	5.7%	6.3%	6.6%	7.6%

The steady stream of new preferred issues continued during the past quarter. In the twelve months ended November 30, 2006, roughly $75 billion of preferred securities were issued - over $23 billion in the last quarter alone. The recently-devised enhanced preferred security structure has been very popular with issuers and investors, and these issues comprised a large portion of the new supply. However, issuers have also brought to market traditional hybrid preferred securities and traditional DRD and QDI eligible issues, with both adjustable and fixed coupons. For us old-timers, it has been interesting to observe that billion dollar deals are commonplace and that investors usually can't get enough to satisfy their interest.

The Fund has benefited from the vibrant new issue market - not only have we been able to pick and choose from a variety of issues and issuers, but the new supply has improved liquidity in older issues as well. You can see the results of this new supply and additional liquidity in the turnover of the Fund's portfolio when compared to recent years.

Although the investor base for preferred securities appears to have grown materially, the current pace of new-issue supply has us wondering if demand can keep up. The trend is healthy, but only time will tell if these new investors are in it for the long haul.

In a number of instances, proceeds from new issues were used to redeem older, more expensive (from the issuer's perspective) issues. This is a trend we have anticipated and discussed often in the past, but it is worth reviewing once again. Just like a homeowner may refinance a mortgage when there are savings to be had, issuers of preferred securities will replace older issues with newer ones when there are benefits in doing so. The benefit may be simply to lower the "payments," or the issuer may find additional benefits from adding features that weren't available previously.

We work hard to anticipate redemptions. This is important because if the issuer can save money by "refinancing," the investor is probably going to earn less. While this trend may reduce the amount of income available for distribution to Common Stock Shareholders of the Fund, there are ways to mitigate the impact. The best way to avoid redemptions is to own securities that issuers either can't or don't want to redeem. We can also lessen the impact of redemptions by selling the security prior to the date it can be redeemed. This provides us with greater flexibility in replacing the position.

Forecasting redemptions is a critical step in determining the dividend rate the Fund can pay its Common Stock Shareholders. Some redemptions of securities held by the Fund are inevitable, and better understanding the income the Fund will receive guides us in making recommendations to the Board of Directors about dividend policy.

Since dividends are effectively driven by the net income of the Fund's portfolio, forecasting the Fund's expenses is also crucial in setting the dividend rate. A primary variable in the Fund's expenses is the cost of its use of leverage, which has been fairly unpredictable over the past several years. The Fund's leverage cost is directly impacted by the short-term interest rates set by the Federal Reserve. As the Federal Reserve raised interest rates (an unprecedented 17 consecutive times between June 2004 and June 2006), the cost of leverage increased by approximately 180%, from $1.2 million for the year ended November 30, 2004 to $3.3 million for the year ended November 30, 2006. During a two-year period in which the income earned on the portfolio increased only moderately, this additional cost had a negative impact on the amount of income available to be distributed to the holders of the Fund's 10.5 million outstanding shares of Common Stock.

Even in today's interest-rate environment, however, the use of leverage continues to be a beneficial strategy to the Fund's Common Stock Shareholders. In other words, the preferred securities in the portfolio continue to have a higher return than the short-term rates the Fund pays for its leverage, and that difference in return is passed on to the Fund's Common Stock Shareholders.

In August 2006, the Federal Reserve finally gave markets a reprieve from its relentless increasing of short-term interest rates, and now the market is unsure if the Federal Reserve will lower, increase or keep rates the same during coming months. These decisions will impact the Fund's available distributable income. If the Federal Reserve maintains its current pause on short-term rates, and long-term rates do not decrease materially, the Fund's leverage should continue to produce similar amounts of additional distributable income to what it does now. Of course, if the Federal Reserve lowers short-term interest rates, the Fund should see a greater benefit from its use of leverage and consequently have additional distributable income for its Common Stock Shareholders.

We hope investors will take advantage of the Fund's website at WWW.PREFERREDINCOME.COM. It contains a wide range of useful and up-to-date information about the Fund and, the "Frequently Asked Questions" section has enhanced discussions about many of the topics discussed in this Annual Report.

Sincerely,

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

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

January 23, 2007

QUESTIONS & ANSWERS

HOW DOES THE MARKET PRICE OF THE FUND'S SHARES RELATE TO NET ASSET VALUE?

While our focus is primarily on managing the Fund, we realize that an investor's actual return is comprised of monthly dividend payments plus changes in the market price of the Fund. We're pleased that for the year ended November 30, 2006 the market has responded favorably to the Fund's total return on net asset value of 10.8% - the total return on MARKET VALUE for the Fund's common shares was 10.5%. During the fourth quarter alone, the total return on MARKET VALUE was 4.5%.

We've often said that in a perfect world the market price would closely track net asset value; however, as seen in the chart below, in the real world deviations can be large.

[GRAPHIC OMITTED]
EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC AS FOLLOWS:
FLAHERTY & CRUMRINE PREFERRED INCOME FUND (PFD)
PREMIUM/DISCOUNT OF MARKET PRICE TO NAV THROUGH 12/31/06

12/28/90	
1/4/91	
1/11/91	
1/18/91	
1/25/91	
2/1/91	
2/8/91	0.0842
2/15/91	0.0438
2/22/91	0.0395
3/1/91	0.0424
3/8/91	0.0183
3/15/91	0.0151
3/22/91	0.0201
3/29/91	0.023
4/5/91	0.0149
4/12/91	0.0196
4/19/91	0.0314
4/26/91	0.0268
5/3/91	0.023
5/10/91	0.0199
5/17/91	0.0146
5/24/91	0.0219
5/31/91	0.051
6/7/91	0.0423
6/14/91	0.0417
6/21/91	0.0536
6/28/91	0.0659
7/5/91	0.0726
7/12/91	0.0659
7/19/91	0.0643
7/26/91	0.0549
8/2/91	0.0678
8/9/91	0.054
8/16/91	0.0449
8/23/91	0.0648
8/30/91	0.0314
9/6/91	0.057

9/13/91	0.0883
9/20/91	0.0651
9/27/91	0.0682
10/4/91	0.0764
10/11/91	0.0745
10/18/91	0.0719
10/25/91	0.0662
11/1/91	0.0693
11/8/91	0.0827
11/15/91	0.0801
11/22/91	0.065
11/29/91	0.0807
12/6/91	0.0716
12/13/91	0.0791
12/20/91	0.0839
12/27/91	0.1136
1/3/92	0.1091
1/10/92	0.1116
1/17/92	0.0978
1/24/92	0.0912
1/31/92	0.0417
2/7/92	0.0478
2/14/92	0.0613
2/21/92	0.0417
2/28/92	0.0381
3/6/92	0.0339
3/13/92	0.0447
3/20/92	0.0387
3/27/92	0.0327
4/3/92	0.0357
4/10/92	0.0452
4/17/92	0.0464
4/24/92	0.0423
5/1/92	0.0523
5/8/92	0.0382
5/15/92	0.0347
5/22/92	0.0083
5/29/92	0.0039
6/5/92	0.0302
6/12/92	0.0239
6/19/92	0.0227
6/26/92	0.0491
7/3/92	0.0491
7/10/92	0.0593
7/17/92	0.057
7/24/92	0.0712
7/31/92	0.058
8/7/92	0.0601
8/14/92	0.0389
8/21/92	0.0306
8/28/92	0.025
9/4/92	0.0228
9/11/92	0.0356
9/18/92	0.0489
9/25/92	0.0339
10/2/92	0.065
10/9/92	0.0417
10/16/92	0.0417
10/23/92	0.0378
10/30/92	0.0707
11/6/92	0.0378
11/13/92	0.059

11/20/92	0.0349
11/27/92	0.0506
12/4/92	0.068
12/11/92	0.0601
12/18/92	0.0582
12/25/92	0.0618
1/1/93	0.0739
1/8/93	0.0987
1/15/93	0.1145
1/22/93	0.1021
1/29/93	0.076
2/5/93	0.053
2/12/93	0.0452
2/19/93	0.0434
2/26/93	0.0628
3/5/93	0.0909
3/12/93	0.0538
3/19/93	0.0248
3/26/93	0.0638
4/2/93	0.0806
4/9/93	0.0764
4/16/93	0.0671
4/23/93	0.0764
4/30/93	0.0677
5/7/93	0.0918
5/14/93	0.0779
5/21/93	0.07
5/28/93	0.074
6/4/93	0.0497
6/11/93	0.0388
6/18/93	0.056
6/25/93	0.0703
7/2/93	0.0451
7/9/93	0.0541
7/16/93	0.049
7/23/93	0.0576
7/30/93	0.0598
8/6/93	0.079
8/13/93	0.0484
8/20/93	0.0377
8/27/93	0.0434
9/3/93	0.045
9/10/93	0.0361
9/17/93	0.0467
9/24/93	0.0321
10/1/93	0.0293
10/8/93	0.011
10/15/93	0.0173
10/22/93	0.0048
10/29/93	-0.0075
11/5/93	0.0095
11/12/93	0.0019
11/19/93	-0.0316
11/26/93	0.003
12/3/93	-0.0175
12/10/93	-0.0103
12/17/93	0.0323
12/24/93	-0.0051
12/31/93	-0.0287
1/7/94	0.0093
1/14/94	0.0149
1/21/94	-0.0126

1/28/94	-0.0316
2/4/94	-0.0196
2/11/94	-0.0224
2/18/94	-0.0741
2/25/94	-0.0539
3/4/94	-0.0092
3/11/94	-0.027
3/18/94	-0.0379
3/25/94	-0.0505
4/1/94	-0.0466
4/8/94	-0.0713
4/15/94	-0.0596
4/22/94	-0.0598
4/29/94	-0.0863
5/6/94	-0.0581
5/13/94	-0.0635
5/20/94	-0.0409
5/27/94	-0.0397
6/3/94	-0.0289
6/10/94	0.0146
6/17/94	-0.0037
6/24/94	0.0175
7/1/94	0.0006
7/8/94	0.0299
7/15/94	0.0188
7/22/94	-0.0084
7/29/94	-0.0082
8/5/94	-0.0161
8/12/94	-0.0215
8/19/94	-0.0263
8/26/94	-0.0439
9/2/94	-0.0379
9/9/94	-0.0232
9/16/94	-0.0293
9/23/94	-0.0273
9/30/94	-0.0565
10/7/94	-0.1141
10/14/94	-0.1089
10/21/94	-0.1416
10/28/94	-0.0732
11/4/94	-0.0783
11/11/94	-0.0912
11/18/94	-0.0951
11/25/94	-0.0788
12/2/94	-0.0593
12/9/94	-0.0508
12/16/94	-0.0554
12/23/94	-0.0822
12/30/94	-0.0836
1/6/95	-0.0201
1/13/95	-0.0134
1/20/95	-0.0525
1/27/95	-0.0697
2/3/95	0.0061
2/10/95	-0.0289
2/17/95	-0.0419
2/24/95	-0.0004
3/3/95	0.0035
3/10/95	-0.0445
3/17/95	-0.0666
3/24/95	-0.0568
3/31/95	-0.029

4/7/95	-0.0256
4/14/95	-0.0217
4/21/95	-0.0439
4/28/95	-0.0271
5/5/95	-0.0398
5/12/95	-0.0178
5/19/95	-0.041
5/26/95	-0.087
6/2/95	-0.0259
6/9/95	-0.0608
6/16/95	-0.0759
6/23/95	-0.0884
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8/18/95	-0.0942
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9/1/95	-0.0698
9/8/95	-0.0816
9/15/95	-0.0968
9/22/95	-0.0978
9/29/95	-0.0816
10/6/95	-0.0974
10/13/95	-0.1094
10/20/95	-0.1048
10/27/95	-0.121
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11/24/95	-0.1043
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12/8/95	-0.1192
12/15/95	-0.1244
12/22/95	-0.1337
12/29/95	-0.1313
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1/12/96	-0.1354
1/19/96	-0.1379
1/26/96	-0.1251
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2/9/96	-0.1238
2/16/96	-0.136
2/23/96	-0.1281
3/1/96	-0.1118
3/8/96	-0.1332
3/15/96	-0.1521
3/22/96	-0.1564
3/29/96	-0.1464
4/5/96	-0.1343
4/12/96	-0.1477
4/19/96	-0.1402
4/26/96	-0.1488
5/3/96	-0.1477
5/10/96	-0.1452
5/17/96	-0.1363
5/24/96	-0.1432
5/31/96	-0.1111
6/7/96	-0.118

6/14/96	-0.1003
6/21/96	-0.1129
6/28/96	-0.1049
7/5/96	-0.095
7/12/96	-0.098
7/19/96	-0.1071
7/26/96	-0.1077
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12/20/96	-0.0749
12/27/96	-0.075
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8/1/97	-0.0498
8/8/97	-0.0583
8/15/97	-0.0708

8/22/97	-0.0739
8/29/97	-0.0469
9/5/97	-0.0595
9/12/97	-0.0623
9/19/97	-0.0651
9/26/97	-0.0604
10/3/97	-0.0299
10/10/97	-0.0385
10/17/97	-0.0477
10/24/97	-0.0558
10/31/97	-0.0517
11/7/97	-0.0425
11/14/97	-0.0554
11/21/97	-0.067
11/28/97	-0.0313
12/5/97	-0.0431
12/12/97	-0.0519
12/19/97	-0.0632
12/26/97	-0.0621
1/2/98	-0.009
1/9/98	-0.0211
1/16/98	-0.0012
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9/11/98	-0.0379
9/18/98	-0.0326
9/25/98	-0.0367
10/2/98	-0.0379
10/9/98	-0.0249
10/16/98	-0.0228
10/23/98	-0.0117

10/30/98	-0.0091
11/6/98	-0.014
11/13/98	-0.0423
11/20/98	-0.0394
11/27/98	-0.0267
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12/11/98	-0.0212
12/18/98	-0.0355
12/25/98	-0.0127
1/1/99	-0.0106
1/8/99	-0.0182
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3/26/99	-0.106
4/2/99	-0.0802
4/9/99	-0.0969
4/16/99	-0.1003
4/23/99	-0.0957
4/30/99	-0.0946
5/7/99	-0.0962
5/14/99	-0.0928
5/21/99	-0.1146
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6/25/99	-0.1031
7/2/99	-0.0979
7/9/99	-0.0938
7/16/99	-0.1037
7/23/99	-0.0747
7/30/99	-0.0751
8/6/99	-0.0792
8/13/99	-0.0963
8/20/99	-0.0946
8/27/99	-0.0911
9/3/99	-0.1071
9/10/99	-0.0892
9/17/99	-0.1065
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10/1/99	-0.0703
10/8/99	-0.0727
10/15/99	-0.1442
10/22/99	-0.1279
10/29/99	-0.1431
11/5/99	-0.1368
11/12/99	-0.1373
11/19/99	-0.1078
11/26/99	-0.1207
12/3/99	-0.1115
12/10/99	-0.1164
12/17/99	-0.1277
12/24/99	-0.1624
12/31/99	-0.1084

1/7/00	-0.0771
1/14/00	-0.0451
1/21/00	-0.1203
1/28/00	-0.1392
2/4/00	-0.0511
2/11/00	-0.0641
2/18/00	-0.0872
2/25/00	-0.0812
3/3/00	-0.0585
3/10/00	-0.0526
3/17/00	-0.0706
3/24/00	-0.1058
3/31/00	-0.1052
4/7/00	-0.0782
4/14/00	-0.0904
4/21/00	-0.0868
4/28/00	-0.0757
5/5/00	-0.0591
5/12/00	-0.0608
5/19/00	-0.0438
5/26/00	-0.0407
6/2/00	-0.0482
6/9/00	-0.0639
6/16/00	-0.067
6/23/00	-0.0678
6/30/00	-0.08
7/7/00	-0.0807
7/14/00	-0.0755
7/21/00	-0.0842
7/28/00	-0.0816
8/4/00	-0.0851
8/11/00	-0.0865
8/18/00	-0.0672
8/25/00	-0.0851
9/1/00	-0.0681
9/8/00	-0.0794
9/15/00	-0.0858
9/22/00	-0.0905
9/29/00	-0.1071
10/6/00	-0.0866
10/13/00	-0.0872
10/20/00	-0.0845
10/27/00	-0.0695
11/3/00	-0.0571
11/10/00	-0.0734
11/17/00	-0.0991
11/24/00	-0.1379
12/1/00	-0.0864
12/8/00	-0.0877
12/15/00	-0.1171
12/22/00	-0.0939
12/29/00	-0.0965
1/5/01	-0.0328
1/12/01	0.0028
1/19/01	-0.0285
1/26/01	-0.036
2/2/01	-0.0414
2/9/01	-0.029
2/16/01	-0.0314
2/23/01	-0.0321
3/2/01	0.0007
3/9/01	-0.0517

3/16/01	-0.0586
3/23/01	-0.0288
3/30/01	-0.0203
4/6/01	-0.0094
4/13/01	0.0117
4/20/01	-0.0229
4/27/01	-0.0088
5/4/01	0.0072
5/11/01	-0.0146
5/18/01	0.0029
5/25/01	-0.016
6/1/01	0.018
6/8/01	-0.0215
6/15/01	-0.0405
6/22/01	-0.0503
6/29/01	-0.0258
7/6/01	0.0064
7/13/01	-0.041
7/20/01	0.0021
7/27/01	0.0308
8/3/01	-0.0175
8/10/01	-0.0473
8/17/01	-0.0282
8/24/01	-0.0221
8/31/01	-0.0475
9/7/01	-0.0007
9/14/01	-0.0007
9/21/01	-0.0173
9/28/01	-0.012
10/5/01	0.0069
10/12/01	0.023
10/19/01	-0.009
10/26/01	0.0275
11/2/01	0.0089
11/9/01	0.0034
11/16/01	0.0178
11/23/01	0.022
11/30/01	-0.0096
12/7/01	0.0138
12/14/01	0.0152
12/21/01	0.043
12/28/01	0.0271
1/4/02	0.0437
1/11/02	0.0323
1/18/02	0.0447
1/25/02	0.0608
2/1/02	0.0754
2/8/02	0.0924
2/15/02	0.0755
2/22/02	0.1158
3/1/02	0.1186
3/8/02	0.0395
3/15/02	0.0437
3/22/02	0.0212
3/29/02	0.0212
4/5/02	0.0246
4/12/02	0.0423
4/19/02	0.0539
4/26/02	0.0312
5/3/02	0.0468
5/10/02	0.0408
5/17/02	0.0434

5/24/02	0.0542
5/31/02	0.0543
6/7/02	0.0704
6/14/02	0.0505
6/21/02	0.0478
6/28/02	0.087
7/5/02	0.0691
7/12/02	0.0545
7/19/02	0.1276
7/26/02	0.1241
8/2/02	0.1051
8/9/02	0.0865
8/16/02	0.1032
8/23/02	0.1103
8/30/02	0.1209
9/6/02	0.1169
9/13/02	0.0972
9/20/02	0.0948
9/27/02	0.0932
10/4/02	0.111
10/11/02	0.1724
10/18/02	0.0412
10/25/02	0.0914
11/1/02	0.0724
11/8/02	0.1039
11/15/02	0.1113
11/22/02	0.055
11/29/02	0.1005
12/6/02	0.1217
12/13/02	0.0917
12/20/02	0.1085
12/27/02	0.1129
1/3/03	0.1149
1/10/03	0.0859
1/17/03	0.1459
1/24/03	0.1461
1/31/03	0.1557
2/7/03	0.1483
2/14/03	0.1544
2/21/03	0.145
2/28/03	0.1285
3/7/03	0.1442
3/14/03	0.1508
3/21/03	0.1146
3/28/03	0.1098
4/4/03	0.1478
4/11/03	0.1382
4/18/03	0.1384
4/25/03	0.1251
5/2/03	0.0749
5/9/03	0.0459
5/16/03	0.0373
5/23/03	0.0371
5/30/03	0.0701
6/6/03	0.0286
6/13/03	0.0336
6/20/03	0.0453
6/27/03	0.0483
7/4/03	0.0605
7/11/03	0.0217
7/18/03	0.009
7/25/03	0.002

8/1/03	-0.0282
8/8/03	-0.0206
8/15/03	-0.023
8/22/03	-0.0148
8/29/03	-0.0019
9/5/03	0.0026
9/12/03	-0.0051
9/19/03	-0.0151
9/26/03	-0.0393
10/3/03	-0.0233
10/10/03	-0.0196
10/17/03	-0.0309
10/24/03	-0.022
10/31/03	0.0314
11/7/03	0.0076
11/14/03	0.0413
11/21/03	0.0882
11/28/03	0.1136
12/5/03	0.1202
12/12/03	0.1321
12/19/03	0.1348
12/26/03	0.1471
1/2/04	0.155
1/9/04	0.1432
1/16/04	0.1418
1/23/04	0.1599
1/30/04	0.1306
2/6/04	0.134
2/13/04	0.1366
2/20/04	0.1633
2/27/04	0.1588
3/5/04	0.1749
3/12/04	0.169
3/19/04	0.1859
3/26/04	0.2086
4/2/04	0.181
4/9/04	0.0637
4/16/04	0.0453
4/23/04	0.0119
4/30/04	0.0107
5/7/04	-0.0108
5/14/04	0.0206
5/21/04	0.0682
5/28/04	0.1405
6/4/04	0.118
6/11/04	0.1393
6/18/04	0.1446
6/25/04	0.1479
7/2/04	0.139
7/9/04	0.1269
7/16/04	0.1148
7/23/04	0.1175
7/30/04	0.0982
8/6/04	0.1063
8/13/04	0.1201
8/20/04	0.1635
8/27/04	0.1613
9/3/04	0.1708
9/10/04	0.1722
9/17/04	0.1653
9/24/04	0.1349
10/1/04	0.1391

10/8/04	0.1691
10/15/04	0.1668
10/22/04	0.1718
10/29/04	0.1626
11/5/04	0.1553
11/12/04	0.1617
11/19/04	0.1706
11/26/04	0.1659
12/3/04	0.098
12/10/04	0.0919
12/17/04	0.1169
12/24/04	0.1499
12/31/04	0.1485
1/7/05	0.1541
1/14/05	0.1296
1/21/05	0.1385
1/28/05	0.1461
2/4/05	0.1303
2/11/05	0.1475
2/18/05	0.1687
2/25/05	0.1578
3/4/05	0.13
3/11/05	0.1076
3/18/05	0.0069
3/25/05	-0.0114
4/1/05	0.0025
4/8/05	0.0214
4/15/05	0.0206
4/22/05	0.0056
4/29/05	0.0449
5/6/05	0.0592
5/13/05	0.0462
5/20/05	0.0477
5/27/05	0.047
6/3/05	0.0546
6/10/05	0.0631
6/17/05	0.0377
6/24/05	0.0456
7/1/05	0.0848
7/8/05	0.1081
7/15/05	0.1289
7/22/05	0.1312
7/29/05	0.1009
8/5/05	0.1136
8/12/05	0.1132
8/19/05	0.1237
8/26/05	0.1152
9/2/05	0.1153
9/9/05	0.1387
9/16/05	0.1465
9/23/05	0.1068
9/30/05	0.0504
10/7/05	0.0924
10/14/05	0.0507
10/21/05	0.0378
10/28/05	0.0252
11/4/05	0.0262
11/11/05	0.0502
11/18/05	0.0698
11/25/05	0.0885
12/2/05	0.0479
12/9/05	0.0603

12/16/05	0.047
12/23/05	0.0461
12/30/05	0.0462
1/6/06	0.0636
1/13/06	0.0542
1/20/06	0.0823
1/27/06	0.0977
2/3/06	0.0877
2/10/06	0.0797
2/17/06	0.0775
2/24/06	0.0689
3/3/06	0.0945
3/10/06	0.0561
3/17/06	0.0425
3/24/06	0.0388
3/31/06	0.0442
4/7/06	0.0384
4/14/06	0.0162
4/21/06	0.0065
4/28/06	0.021
5/5/06	0.0256
5/12/06	0.0355
5/19/06	0.0242
5/26/06	0.0205
6/2/06	0.0244
6/9/06	0.0013
6/16/06	0.014
6/23/06	0.0228
6/30/06	0.0167
7/7/06	0.0073
7/14/06	0.0073
7/21/06	0.0413
7/28/06	0.0605
8/4/06	0.0603
8/11/06	0.074
8/18/06	0.0552
8/25/06	0.0672
9/1/06	0.0869
9/8/06	0.0773
9/15/06	0.0778
9/22/06	0.0616
9/29/06	0.07
10/6/06	0.0924
10/13/06	0.0805
10/20/06	0.0841
10/27/06	0.0695
11/3/06	0.0722
11/10/06	0.071
11/17/06	0.0739
11/24/06	0.0843
12/1/06	0.0601
12/8/06	0.077
12/15/06	0.0785
12/22/06	0.0789
12/29/06	0.0835

For additional information about premiums and discounts, please see the "Frequently Asked Questions" section of the Fund's website at WWW.PREFERREDINCOME.COM.

ARE THERE ANY FEDERAL TAX ADVANTAGES TO THE DISTRIBUTIONS MADE BY THE FUND IN

2006?

Yes. In 2006, the Fund passed on a portion of its income to individuals in the form of qualified dividend income or QDI. QDI is taxed at a maximum 15% rate instead of an individual's ordinary income tax rate. In calendar year 2006, 76.1% of the distributions made by the Fund was eligible for QDI treatment. For an individual in the 28% tax bracket, this means that the Fund's total distributions will only be taxed at a blended 18.1% rate versus the 28% rate which would apply to distributions by a fund comprised of traditional corporate bonds. This tax advantage means that, all other things being equal, an individual in the 28% tax bracket who held 100 shares of Common Stock of the Fund for the calendar year would have had to receive approximately $118 in distributions from a traditional corporate bond fund to net the same after-tax amount as the $104 in distributions paid by the Fund.

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For detailed information about the tax treatment of the particular distributions you received from the Fund, please see the Form 1099 you receive from either the Fund or your broker.

Corporate shareholders also receive a federal tax benefit from the 70.2% of the distributions that were eligible for the inter-corporate dividends received deduction or DRD.

It is important to remember that portfolio composition and income distributions can change from one year to the next and that the QDI or DRD portions of next year's distributions may not be the same (or even similar) to this year's.

WHAT WERE THE COMPONENTS OF THE FUND'S TOTAL RETURN ON NET ASSET VALUE FOR THE YEAR?

One technique to better understand the Fund's net asset value (NAV) performance is to begin with the Fund's total return on its investment portfolio, and then adjust for the impact of hedging, expenses and leverage to arrive at total return based on NAV (which factors in all of these items).

During fiscal 2006, the Fund's unhedged portfolio before the impact of leverage and expenses returned 10.1%. Over the first half of the Fund's fiscal year, intermediate and long-term U.S. Treasury yields increased significantly, and the Fund's interest rate hedging strategies contributed positively to its results. However, in the past six months longer-term Treasury yields reversed direction, ending the fiscal year almost unchanged. Consequently, the hedged portfolio's annual return before the impact of expenses and leverage declined slightly to 9.9%.

Converting these returns on the portfolio to the returns on the Fund's Common Stock requires the consideration of two additional factors: the favorable impact of leverage and the expenses incurred in operating the Fund. As discussed in greater detail below, the Fund's use of leverage served to boost the Fund's return on its portfolio by 2.4%. After accounting for the Fund's 1.5% expense ratio on the Common Stock, this resulted in the Fund's overall total return on NAV of 10.8%.

HOW DOES THE FUND RECEIVE A BENEFIT FROM ITS USE OF LEVERAGE WHEN THE U.S. TREASURY YIELD CURVE IS FLAT OR INVERTED?

As long as short-term U.S. Treasury interest rates are not dramatically above long-term rates, the Fund continues to benefit from the use of leverage in a flat or inverted yield curve. As discussed above, during fiscal 2006 the leverage utilized by the Fund both completely offset the expenses of the Fund and boosted the Fund's overall total return on net asset value.

Fundamentally, leverage is the use of borrowed funds to improve one's rate of return from an investment, although with an increase in risk. The Fund acquires its additional funds through the issuance of Money Market Cumulative PreferredTM Stock (MMP(R)). Generally, the rate paid on the MMP(R) is well below the rate the Fund CAN earn on its total investment portfolio, and the rate the Fund pays on the MMP(R) is relatively low compared witH other means of financing. This is particularly true because of the tax advantages to corporations and U.S. individual taxpayers of investing in MMP(R). The additional cash flow generated by leverage produces additionaL income available for distribution to Common Stock Shareholders.

The incremental income is greatest when the "spread" between the income generated by the portfolio and the rate paid on the MMP(R) is wide. However, the converse is also true; as the U.S Treasury yield curve "flattens" (short-term rates and long-term rates approach equality), the amount of additional income generated by the leverage will decrease. The Fund still benefits from additional income generated by the leverage, just not as much as when the Treasury yield curve is steeper. Of course, nothing is that simple. The

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Fund's income is determined by several factors, the cost of leverage being only one.

In the case of a slightly inverted U.S. Treasury yield curve (short-term rates higher than long-term rates), the Fund should continue to benefit from the use of leverage. Preferred and debt securities generally trade at yields higher than the Treasury yields, commonly referred to as the "credit spread." So, although the Treasury curve may be inverted, the securities in the portfolio ordinarily will continue to have a higher return than the short-term rates the Fund pays for its leverage.

If the Federal Reserve maintains its current pause on short-term rates and long-term rates do not decrease materially, the Fund's leverage should continue to produce similar amounts of additional distributable income to what it does now. If the Federal Reserve resumes raising short-term rates, the Fund's leverage could produce lesser amounts of additional distributable income. Of course, if the Fed lowers short-term interest rates, the Fund should see a greater benefit from its use of leverage and consequently have more additional distributable income for its Common Stock Shareholders.

WHAT ARE ENHANCED PREFERRED SECURITIES?

Over the past eighteen months, the preferred securities market has seen significant innovation in the form of "enhanced" preferred securities, with over $46 billion of U.S dollar issuance since August 2005. As discussed below, this new breed of securities offers issuers higher equity credit treatment by their rating agencies. Essentially, higher equity treatment of an issuer's preferred securities can result in a higher senior debt rating for the issuer - or help it to avoid a downgrade. These enhanced preferred securities offer this better equity credit treatment at a lower cost than issuing common shares, and without the dilution of earnings per share that would come with it. In addition, many of these securities have accomplished this feat while maintaining the tax-deductibility of interest payments. The combination of equity credit and tax deductibility makes for an attractive financing vehicle, so it's no surprise that issuance has been brisk.

The change that prompted the emergence of enhanced preferred securities was the adoption in February 2005 by Moody's Investors Service of a revised methodology for preferred and hybrid preferred securities which granted an issuer varying degrees of equity credit, ranging from 0% to 100%, depending upon the terms of the issue. Just prior to that time, Moody's generally gave no equity credit for hybrid preferred securities, no matter what features they contained, and limited equity credit for traditional perpetual preferred securities. Because other rating agencies already gave issuers some equity credit for preferred securities, Moody's action relieved a critical constraint upon the financing decisions of issuers, and thus on the preferred securities market in general.

It has taken Wall Street bankers time to obtain tax opinions, master the accounting and line up issuers, and structures have continued to evolve - each seeking the right combination of terms for the market, the rating agencies and the regulators. While structures have begun to converge into more standardized forms, there has been a good deal of experimentation, and the past year has produced a number of unique structures. We view this as good news for the Fund's shareholders and we have actively traded in these new structures. The heterogeneity of preferred securities is why we invest in them. Enhanced preferred securities, in all their various permutations, simply add to the complexity and allow managers who specialize in this market to excel.

For additional information regarding enhanced preferred securities, including a description of how Moody's analysis works, please the "Frequently Asked Questions" section of the Fund's website at WWW.PREFERREDINCOME.COM.

PORTFOLIO OVERVIEW

NOVEMBER 30, 2006 (UNAUDITED)

FUND STATISTICS ON 11/30/06	
Net Asset Value	$ 15.80
Market Price	$ 16.98
Premium	7.47%
Yield on Market Price	6.08%
Common Stock Shares Outstanding	10,474,050

MOODY'S RATINGS	% OF PORTFOLIO
AAA	0.9%
AA	5.1%
A	19.3%
BBB	51.0%
BB	14.8%

Not Rated	7.9%
Below Investment Grade*	18.3%

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

[GRAPHIC OMITTED]

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC AS FOLLOWS:

Banking	33%
Utilities	33%
Insurance	12%
Financial Services	11%
Oil and Gas	5%
Other	4%
REITs	2%

TOP 10 HOLDINGS BY ISSUER	% OF PORTFOLIO
Interstate Power & Light	5.0%
FBOP Corporation	3.7%
HSBC	3.7%
Goldman Sachs	3.6%
North Fork Bancorporation	3.4%
First Republic Bank	3.4%
Xcel Energy	3.1%
SLM Corp.	3.0%
Lehman Brothers	2.9%
Cobank	2.7%

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

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS
NOVEMBER 30, 2006

SHARES/$ PAR

PREFERRED SECURITIES -- 93.1%
BANKING -- 33.2%

$	3,000,000	Astoria Capital Trust I, 9.75% 11/01/29 Capital Security, Series B...........
		Auction Pass-Through Trust, Cl. B:
	11	Series 2006-5, Variable Rate Pfd., 144A****................................
	11	Series 2006-6, Variable Rate Pfd., 144A****................................
	54,700	BAC Capital Trust I, 7.00% Pfd. 12/15/31....................................
	6,000	BAC Capital Trust II, 7.00% Pfd. 02/01/32...................................
	100,000	Banco Santander, 6.80% Pfd., 144A****.......................................
$	1,500,000	Barclays Bank PLC, Adj. Rate Pfd..
$	800,000	Barnett Capital II, 7.95% 12/01/26 Capital Security.........................
$	2,000,000	Capital One Capital III, 7.686% Pfd...
	71,300	Citigroup Capital VIII, 6.95% Pfd. 09/15/31.................................
	19,648	Citizens Funding Trust I, 7.50% Pfd. 09/15/66...............................
		Cobank, ACB:
	50,000	7.00% Pfd., 144A****..
	75,000	Adj. Rate Pfd., 144A****..
		Comerica (Imperial) Capital Trust I:
	5,000	7.60% Pfd. 07/01/50...
$	500,000	9.98% 12/31/26 Capital Security, Series B...................................
$	1,500,000	Dime Capital Trust I, 9.33% 05/06/27 Capital Security, Series A..............
	9,000	FBOP Corporation, Adj. Rate Pfd., 144A****..................................
$	2,250,000	First Hawaiian Capital I, 8.343% 07/01/27 Capital Security, Series B.........
		First Republic Bank:
	200,000	6.25% Pfd...
	53,700	6.70% Pfd...
	1,000	First Republic Preferred Capital Corporation, 10.50% Pfd., 144A****...........
	22,500	First Republic Preferred Capital Corporation II, 8.75% Pfd., Series B, 144A****
$	1,500,000	First Union Capital II, 7.95% 11/15/29 Capital Security......................
	5,000	Fleet Capital Trust VIII, 7.20% Pfd. 03/15/32...............................
$	7,820,000	GreenPoint Capital Trust I, 9.10% 06/01/27 Capital Security..................
$	3,000,000	HBOS Capital Funding LP, 6.85% Pfd..
	5,000	HSBC Series II, Variable Inverse Pfd., Pvt..................................
		HSBC USA, Inc.:
	120,000	6.50% Pfd., Series H..
	3,250	$2.8575 Pfd...
	100,000	Keycorp Capital IX, 6.75% Pfd. 12/15/66.....................................
$	1,000,000	Lloyds TSB Group PLC, Variable Rate, Capital Security, 144A****...............
	5,000	National City Capital Trust II, 6.625% Pfd. 11/15/36.........................
$	674,000	NB Capital Trust II, 7.83% 12/15/26 Capital Security.........................

The accompanying notes are an integral part of the financial statements.

SHARES/$ PAR

PREFERRED SECURITIES -- (CONTINUED)

BANKING -- (CONTINUED)

	16,000	PFGI Capital Corporation, 7.75% Pfd..
$	700,000	PNC Preferred Funding Trust, Variable Rate, Capital Security, 144A****........
$	650,000	RBS Capital Trust B, 6.80% Pfd...
	10	Roslyn Real Estate, 8.95% Pfd., Series C, 144A****...........................
	77,600	Sovereign Bancorp, 7.30% Pfd., Series C......................................
	30,600	Sovereign Capital Trust V, 7.75% Pfd. 05/22/36...............................
	1,100	SunTrust Capital V, 7.05% Pfd. 12/15/31......................................
	9,100	USB Capital V, 7.25% Pfd. 12/15/31...
	16,000	USB Capital VII, 5.875% Pfd. 08/15/35..
	96,700	USB Capital VIII, 6.35% Pfd. 12/29/65..
	7,300	USB Capital XI, 6.60% Pfd. 09/15/66..
	25,000	Wells Fargo Capital Trust IV, 7.00% Pfd. 09/01/31............................
	40,000	Zions Capital Trust B, 8.00% Pfd. 09/01/32...................................

FINANCIAL SERVICES -- 10.5%

9,000	Cabco Trust For Goldman Sachs Capital I, Adj. Rate Pfd. 02/15/34, Series GS...
	Goldman Sachs Group, Inc.:
75,000	Adj. Rate Pfd., Series D...
25	Pass-Through Certificates, Class B, 144A****.................................
2,500	STRIPES Custodial Receipts, Pvt..
	Lehman Brothers Holdings, Inc.:
36,280	5.67% Pfd., Series D...
104,475	5.94% Pfd., Series C...
3,000	Merrill Lynch Series II STRIPES Custodial Receipts, Pvt......................
5,870	Morgan Stanley Capital Trust VI, 6.60% Pfd...................................
136,855	SLM Corporation, 6.97% Pfd., Series A..

INSURANCE -- 9.5%

15,000	ACE Ltd., 7.80% Pfd., Series C...
10,000	Arch Capital Group Ltd., 7.875% Pfd., Series B...............................
	Axis Capital Holdings:
20,750	7.25% Pfd., Series A...
19,400	Variable Rate Pfd., Series B...
27,000	Berkley W.R. Capital Trust II, 6.75% Pfd. 07/26/45...........................
61,200	Endurance Specialty Holdings, 7.75% Pfd......................................

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
NOVEMBER 30, 2006

SHARES/$ PAR

PREFERRED SECURITIES -- (CONTINUED)

INSURANCE -- (CONTINUED)

18,250	Everest Re Capital Trust II, 6.20% Pfd., Series B............................
140,000	MetLife Inc., 6.50% Pfd., Series B...
$ 1,625,000	Oil Insurance Ltd., Variable Rate Pfd., 144A****.............................
13,900	PartnerRe Capital Trust I, 7.90% Pfd. 12/31/31...............................
21,800	Principal Financial Group, 6.518% Pfd..
$ 357,000	Provident Financing Trust I, 7.405% 03/15/38 Capital Security................
$ 4,500,000	Renaissancere Capital Trust, 8.54% 03/01/27 Capital Security, Series B........
	Renaissancere Holdings Ltd.:
25,200	6.08% Pfd., Series C..
14,100	8.10% Pfd., Series A..
119,500	Scottish Re Group Ltd., 7.25% Pfd..
$ 1,250,000	USF&G Capital, 8.312% 07/01/46 Capital Security, 144A****....................
22,850	XL Capital Ltd., 8.00% Pfd., Series A..

UTILITIES -- 31.2%

	Alabama Power Company:
300	4.52% Pfd...
5,734	4.72% Pfd...
10,000	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993....................
10,000	Calenergy Capital Trust III, 6.50% Pfd. 09/01/27.............................
	Central Hudson Gas & Electric Corporation:
5,000	4.35% Pfd., Series D, Pvt...
900	4.96% Pfd., Series E, Pvt...
11,119	Central Vermont Public Service Corporation, 8.30% Sinking Fund Pfd., Pvt......
	Connecticut Light & Power Company:
12,124	4.50% Pfd., Series 1963, Pvt..
34,300	5.28% Pfd., Series 1967...
1,905	6.56% Pfd., Series 1968...
15,778	$3.24 Pfd...
2,100	Consolidated Edison Company of New York, 4.65% Pfd., Series C................
2,886	Dayton Power and Light Company, 3.90% Pfd., Series C.........................
$ 1,500,000	Dominion Resources Capital Trust III, 8.40% 01/15/31 Capital Security.........
	Duquesne Light Company:
7,675	4.10% Pfd...
9,190	4.15% Pfd...
910	4.20% Pfd...

The accompanying notes are an integral part of the financial statements.

SHARES/$ PAR

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

5,490	$2.10 Pfd., Series A..
100,000	Entergy Arkansas, Inc., 6.45% Pfd..
4,555	Entergy Gulf States, Inc., 7.56% Pfd...

36,000	Entergy Louisiana, Inc., 6.95% Pfd., 144A****................................
5,000	Entergy Mississippi, Inc., 4.92% Pfd..
	Florida Power Company:
5,157	4.60% Pfd..
18,535	4.75% Pfd..
101,000	FPL Group Capital, Inc., 6.60% Pfd. 10/01/66, Series A......................
13,100	Georgia Power Capital Trust, 6.125% Pfd.....................................
50,000	Georgia Power Capital Trust V, 7.125% Pfd. 03/31/42.........................
2,010	Great Plains Energy, Inc., 4.50% Pfd..
50,000	Hawaiian Electric Company, Inc., 5.25% Pfd., Series H, Pvt..................
$ 3,500,000	Houston Light & Power Capital Trust II, 8.257% 02/01/37 Capital Security......
32,650	Indianapolis Power & Light Company, 5.65% Pfd...............................
384,000	Interstate Power & Light Company, 8.375% Pfd., Series B.....................
	Pacific Enterprises:
27,430	$4.50 Pfd..
10,000	$4.75 Pfd., Series 53..
	Pacific Gas & Electric Co.:
7,600	4.50% Pfd., Series H...
41,500	5.00% Pfd., Series D...
79,086	5.00% Pfd., Series E...
	PacifiCorp:
1,095	5.40% Pfd..
1,225	$4.56 Pfd..
14,542	$4.72 Pfd..
10,278	$7.48 Sinking Fund Pfd...
$ 500,000	PECO Energy Capital Trust III, 7.38% 04/06/28 Capital Security, Series D......
8,137	Portland General Electric, 7.75% Sinking Fund Pfd...........................
5,000	PPL Electric Utilities Corporation, 6.75% Pfd...............................
10,000	Public Service Company of New Mexico, 4.58% Pfd., Series 1965................
	San Diego Gas & Electric Company:
1,200	4.40% Pfd..
700	4.50% Pfd..
77,000	$1.70 Pfd..
	South Carolina Electric & Gas Company:
24,924	5.125% Purchase Fund Pfd., Pvt...

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
NOVEMBER 30, 2006

SHARES/$ PAR

PREFERRED SECURITIES -- (CONTINUED)

UTILITIES -- (CONTINUED)

6,703	6.00% Purchase Fund Pfd., Pvt..
10,600	Southern California Edison, 6.00% Pfd.......................................
	Southern Union Company:
$ 200,000	Variable Rate Pfd. 11/01/66, Capital Security..............................
75,000	7.55% Pfd..
$ 750,000	TXU Electric Capital V, 8.175% 01/30/37 Capital Security....................
	Union Electric Company:
14,150	4.56% Pfd..
18,800	$7.64 Pfd..

12,500	Virginia Electric & Power Company, $7.05 Pfd.
13,500	Virginia Power Capital Trust, 7.375% Pfd. 07/30/42
	Wisconsin Power & Light Company:
1,220	4.50% Pfd.
546	4.80% Pfd.
13,000	6.20% Pfd.
	Xcel Energy, Inc.:
16,030	$4.08 Pfd., Series B
26,200	$4.10 Pfd., Series C
22,000	$4.11 Pfd., Series D
17,750	$4.16 Pfd., Series E
10,000	$4.56 Pfd., Series G

OIL AND GAS -- 4.4%

8,000	Devon Energy Corporation, 6.49% Pfd., Series A
$ 721,000	Enterprise Products Partners, Variable Rate Pfd.
5,985	EOG Resources, Inc., 7.195% Pfd., Series B
$ 1,675,000	KN Capital Trust III, 7.63% 04/15/28 Capital Security
10,000	Lasmo America Limited, 8.15% Pfd., 144A****

REAL ESTATE INVESTMENT TRUST (REIT) -- 2.2%

21,400	BRE Properties, Inc., 8.08% Pfd., Series B
10,000	Equity Office Property Trust, 7.75% Pfd., Series G
1,000	Equity Residential Properties, 8.29% Pfd., Series K

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
NOVEMBER 30, 2006

SHARES/$ PAR

PREFERRED SECURITIES -- (CONTINUED)

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

	Public Storage, Inc.:
19,000	6.18% Pfd., Series D
133,270	6.45% Pfd., Series F
2,800	6.75% Pfd., Series E
10,000	6.75% Pfd., Series L
10,000	7.25% Pfd., Series K
10,000	Realty Income Corp., 6.75% Pfd., Series E

MISCELLANEOUS INDUSTRIES -- 1.9%

13,600	E.I. Du Pont de Nemours and Company, $4.50 Pfd., Series B

40,000	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****..........................
26,000	Touch America Holdings, $6.875 Pfd..
	U.S. GOVERNMENT SECURITIES -- 0.2%
11,000	Federal Home Loan Mortgage, Adj. Rate Pfd., Series B.........................
	TOTAL PREFERRED SECURITIES(Cost $213,165,783)
CORPORATE DEBT	SECURITIES -- 6.1%
	FINANCIAL SERVICES -- 0.4%
36,300	Saturns-GS, 6.00% 02/15/33, Series Goldman Sachs.............................
	INSURANCE -- 2.5%
$ 900,000	Farmers Exchange Capital, 7.20% 07/15/48, 144A****...........................
$ 4,729,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****..........................
	UTILITIES -- 1.5%
$ 1,000,000	Duquesne Light Holdings, 6.25% 08/15/35......................................
5,000	Entergy Louisiana LLC, 7.60% 04/01/32..
45,000	Northern States Power Company, 8.00%...

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
NOVEMBER 30, 2006

SHARES/$ PAR	
CORPORATE DEBT	SECURITIES -- (CONTINUED)
	UTILITIES -- (CONTINUED)
	Southern Union Company:
$ 850,000	7.60% 02/01/24, Senior Notes...
$ 500,000	8.25% 11/15/29, Senior Notes...
	OIL AND GAS -- 0.9%
$ 2,000,000	KN Energy, Inc., 7.45% 03/01/98
15,000	Nexen, Inc., 7.35% Subordinated Notes..

	MISCELLANEOUS -- 0.8%	
$ 2,000,000	Reliance Steel & Aluminum, 6.85% 11/15/36, 144A****...........................	
	TOTAL CORPORATE DEBT SECURITIES(Cost $14,113,982)	
OPTION CONTRACTS -- 0.0%		
1,540	March Put Options on March U.S. Treasury Bond Futures, Expiring 02/23/07......	
	TOTAL OPTION CONTRACTS(Cost $382,885)...	

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
NOVEMBER 30, 2006

SHARES/$ PAR		
MARKET FUND -- 0.9%		
2,186,687	BlackRock Provident Institutional, TempFund...................................	
	TOTAL MONEY MARKET FUND (Cost $2,186,687)...	
SECURITIES LENDING COLLATERAL -- 0.2%		
385,560	Institutional Money Market Trust..	
	TOTAL SECURITIES LENDING COLLATERAL (Cost $385,560)...	
TOTAL INVESTMENTS (Cost $230,234,897***).....................................		100.3%
OTHER ASSETS AND LIABILITIES (Net)...		(0.3%)
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..		

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
STATEMENT OF ASSETS AND LIABILITIES
NOVEMBER 30, 2006

ASSETS:	
Investments, at value (Cost $230,234,897).............................	
Dividends and interest receivable.....................................	
Prepaid expenses..	
Total Assets..	
LIABILITIES:	
Payable for securities lending collateral............................	$ 385,560
Payable for Investments purchased.....................................	1,503,300
Investment advisory fee payable.......................................	110,277
Administration, Transfer Agent and Custodian fees payable..............	33,833
Professional fees payable...	65,080
Directors' fees payable...	439
Accrued expenses and other payables...................................	27,874
Accumulated undeclared distributions to Money Market Cumulative Preferred(TM) Stock Shareholders....................................	471,537
Total Liabilities...	
MONEY MARKET CUMULATIVE PREFERRED(TM) STOCK (800 SHARES OUTSTANDING) REDEMPTION VALUE	
NET ASSETS AVAILABLE TO COMMON STOCK	
NET ASSETS AVAILABLE TO COMMON STOCK consist of:	
Distributions in excess of net investment income.......................	
Accumulated net realized loss on investments sold......................	
Unrealized appreciation of investments................................	
Par value of Common Stock...	
Paid-in capital in excess of par value of Common Stock.................	
Total Net Assets Available to Common Stock.....................	
NET ASSET VALUE PER SHARE OF COMMON STOCK:	
Common Stock (10,474,050 shares outstanding).........................	

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED NOVEMBER 30, 2006

INVESTMENT INCOME:	
Dividends+	
Interest	
Total Investment Income	
EXPENSES:	
Investment advisory fee	$ 1,324,571
Administrator's fee	218,844
Money Market Cumulative Preferred(TM) Stock broker commissions and auction agent fees	215,290
Professional fees	124,209
Insurance expense	154,036
Transfer agent fees	82,335
Directors' fees	70,275
Custodian fees	29,438
Compliance fees	38,299
Other	118,356
Total Expenses	
NET INVESTMENT INCOME	
REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS	
Net realized gain/(loss) on investments sold during the year	
Change in net unrealized appreciation/depreciation of investments held during the year	
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	
DISTRIBUTIONS TO MONEY MARKET CUMULATIVE PREFERRED(TM) STOCK SHAREHOLDERS:	
From net investment income (including changes in accumulated undeclared distributions)	
NET INCREASE IN NET ASSETS TO COMMON STOCK RESULTING FROM OPERATIONS	

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK(1)

YEAR ENDED
NOVEMBER 30, 200

OPERATIONS:	
Net investment income	$ 13,495,031
Net realized gain/(loss) on investments sold during the year	3,864,722
Change in net unrealized appreciation/depreciation of investments held during the year	2,445,387
Distributions to MMP(R)* Shareholders from net investment income, including changes in accumulated undeclared distributions	(3,280,255)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	16,524,885
DISTRIBUTIONS:	
Dividends paid from net investment income to Common Stock Shareholders(1)	(10,898,373)
TOTAL DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS	(10,898,373)
FUND SHARE TRANSACTIONS:	
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan	1,571,205
NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK RESULTING FROM FUND SHARE TRANSACTIONS	1,571,205
NET INCREASE/(DECREASE) IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE YEAR	$ 7,197,717
NET ASSETS AVAILABLE TO COMMON STOCK:	
Beginning of year	$ 158,277,368
Net increase/(decrease) in net assets during the year	7,197,717
End of year (including distributions in excess of net investment income of ($534,804) and ($82,317), respectively)	$ 165,475,085

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated

FINANCIAL HIGHLIGHTS

FOR A COMMON STOCK SHARE OUTSTANDING THROUGHOUT EACH YEAR.

Contained below is per share operating performance data, total investment returns, ratios to average net assets, and other supplemental data. This information has been derived from information provided in the financial statements and market price data for the Fund's shares.

YEAR ENDED N

	2006	2005	2004
PER SHARE OPERATING PERFORMANCE:			
Net asset value, beginning of year............................	$ 15.26	$ 15.49	$ 15.8
INVESTMENT OPERATIONS:			
Net investment income..	1.29	1.22	1.2
Net realized and unrealized gain/(loss) on investments..........	0.62	(0.07)	(0.3
DISTRIBUTIONS TO MMP(R)* SHAREHOLDERS:			
From net investment income....................................	(0.32)	(0.21)	(0.1
Total from investment operations..............................	1.59	0.94	0.8
Cost of Issuance of Additional MMP(R)* (Note 6)................	--	--	-
DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:			
From net investment income....................................	(1.05)	(1.17)	(1.1
Total distributions to Common Stock Shareholders...............	(1.05)	(1.17)	(1.1
Net asset value, end of year..................................	$ 15.80	$ 15.26	$ 15.4
Market value, end of year.....................................	$ 16.98	$ 16.44	$ 17.4
Total investment return based on net asset value**.............	10.74%	5.78%	4.73
Total investment return based on market value **...............	10.47%	1.33%	5.76
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:			
Total net assets, end of year (in 000's)..................	$165,475	$158,277	$159,10
Operating expenses.......................................	1.49%	1.48%	1.4
Net Investment Income +...................................	6.39%	6.38%	7.1
SUPPLEMENTAL DATA:++			
Portfolio turnover rate..................................	71%	54%	2
Total net assets available to Common and Preferred Stock, end of year (in 000's)................................	$245,475	$238,277	$239,10
Ratio of operating expenses to total average net assets available to Common and Preferred Stock.................	0.99%	0.99%	0.9

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated
FINANCIAL HIGHLIGHTS (CONTINUED)
PER SHARE OF COMMON STOCK

TOTAL DIVIDENDS	NET ASSET	NYSE	D REI

	PAID	VALUE	CLOSING PRICE	PR
December 31, 2005	$0.0905	$15.38	$16.09	
January 31, 2006	0.0905	15.43	16.89	
February 28, 2006	0.0905	15.57	16.65	
March 31, 2006	0.0860	15.40	16.08	
April 30, 2006	0.0860	15.23	15.55	
May 31, 2006	0.0860	15.10	15.55	
June 30, 2006	0.0860	14.94	15.19	
July 31, 2006	0.0860	14.89	15.73	
August 31, 2006	0.0860	15.29	16.51	
September 30, 2006	0.0860	15.43	16.51	
October 31, 2006	0.0860	15.59	16.55	
November 30, 2006	0.0860	15.80	16.98	

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
FINANCIAL HIGHLIGHTS (CONTINUED)

The table below sets out information with respect to Money Market Cumulative Preferred(TM) Stock currently outstanding.

DATE	TOTAL SHARES OUTSTANDING (1)	ASSET COVERAGE PER SHARE (2)	INVOLUNTARY LIQUIDATING PREFERENCE PER SHARE (3)
11/30/06	800	$307,433	$100,000
11/30/05	800	298,367	100,000
11/30/04	800	299,078	100,000
11/30/03	800	301,240	100,000
11/30/02	800	271,218	100,000

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
NOTES TO FINANCIAL STATEMENTS

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1. ORGANIZATION

Flaherty & Crumrine Preferred Income Fund Incorporated (the "Fund") was incorporated as a Maryland corporation on September 28, 1990, and commenced operations on January 31, 1991 as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund's investment objective is to provide its common shareholders with high current income consistent with the preservation of capital.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of the financial statements is in conformity with U.S. generally accepted accounting principles ("US GAAP") and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

PORTFOLIO VALUATION: The net asset value of the Fund's Common Stock is determined by the Fund's Administrator no less frequently than on the last business day of each week and month. It is determined by dividing the value of the Fund's net assets attributable to Common Stock by the number of shares of Common Stock outstanding. The value of the Fund's net assets available to Common Stock is deemed to equal the value of the Fund's total assets less (i) the Fund's liabilities and (ii) the aggregate liquidation value of the outstanding Money Market Cumulative Preferred(TM) Stock ("MMP(R)").

The Fund's preferred and debt securities are valued on the basis of current market quotations provided by independent pricing services or dealers approved by the Board of Directors of the Fund. Each quotation is based on the mean of the bid and asked prices of a security. In determining the value of a particular preferred or debt security, a pricing service or dealer may use information with respect to transactions in such investments, quotations, market transactions in comparable investments, various relationships observed in the market between investments, and/or calculated yield measures based on valuation technology commonly employed in the market for such investments. Common stocks that are traded on stock exchanges are valued at the last sale price or official close price on the exchange, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available mean price. Futures contracts and option contracts on futures contracts are valued on the basis of the settlement price for such contracts on the primary exchange on which they trade. Investments in over-the-counter derivative instruments, such as interest rate swaps and options thereon ("swaptions"), are valued using prices supplied by a pricing service, or if such prices are unavailable, prices provided by a single broker or dealer that is not the counterparty or, if no such prices are available, at a price at which the counterparty to the contract would repurchase the instrument or terminate the contract. Investments for which market quotations are not readily available or for which management determines that the prices are not reflective of current market conditions are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund, including reference to valuations of other securities which are comparable in quality, maturity and type. Investments in money market instruments and all debt and preferred securities which mature in 60 days or less are valued at amortized cost. Investments in money market funds are valued at the net asset value of such funds.

SECURITIES TRANSACTIONS AND INVESTMENT INCOME: Securities transactions are recorded as of the trade date. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded on ex-dividend dates. Interest income is recorded on the accrual basis. The Fund also amortizes premiums and accretes discounts on fixed income securities.

OPTIONS: Purchases of options are recorded as an investment, the value of which is marked-to-market at each valuation date. When the Fund enters into a closing sale transaction, the Fund will record a gain or loss depending on the difference between the purchase and sale price. The risks associated with purchasing options and the maximum loss the Fund would incur are limited to the purchase price originally paid.

When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability, the value of which is marked-to-market at each valuation date. When a written option expires, the Fund realizes a gain equal to the amount of the premium originally received. When the Fund enters into a closing purchase transaction, the Fund realizes a gain (or loss if the cost of the closing purchase transaction exceeds the premium received when the option was written) without regard to any unrealized gain or loss on the underlying security, and the liability related to such option is eliminated. When a call option is exercised, the Fund realizes a gain or loss from the sale of the underlying security and the proceeds from such sale are increased by the amount of the premium originally received. When a put option is exercised, the amount of the premium originally received will reduce the cost of the security which the Fund purchased upon exercise.

The risk in writing a call option is that the Fund may forego the opportunity for profit if the market price of the underlying security increases and the option is exercised. The risk in writing a put option is that the Fund may incur a loss if the market price of the underlying security decreases and the option is exercised.

REPURCHASE AGREEMENTS: The Fund may engage in repurchase agreement transactions. The Fund's investment adviser reviews and approves the eligibility of the banks and dealers with which the Fund may enter into repurchase agreement transactions. The value of the collateral underlying such transactions is at least equal at all times to the total amount of the repurchase obligations, including interest. The Fund maintains possession of the collateral through its custodian and, in the event of counterparty default, the Fund has the right to use the collateral to offset losses incurred. There is the possibility of loss to the Fund in the event the Fund is delayed or prevented from exercising its rights to dispose of the collateral securities.

FEDERAL INCOME TAXES: The Fund intends to continue to qualify as a regulated investment company by complying with the requirements under subchapter M of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies and intends to distribute substantially all of its taxable net investment income to its shareholders. Therefore, no federal income tax provision is required.

DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS: The Fund expects to declare dividends on a monthly basis to shareholders of Common Stock ("Shareholders"). Distributions to Shareholders are recorded on the ex-dividend date. Any net realized short-term capital gains will be distributed to Shareholders at

least annually. Any net realized long-term capital gains may be distributed to Shareholders at least annually or may be retained by the Fund as determined by the Fund's Board of Directors. Capital gains retained by the Fund are subject to tax at the capital gains corporate tax rate. Subject to the Fund qualifying as a regulated investment company, any taxes paid by the Fund on such net realized long-term capital gains may be used by the Fund's Shareholders as a credit against their own tax liabilities.

Income and capital gain distributions are determined and characterized in accordance with income tax regulations which may differ from the standards of the US GAAP. These differences are primarily due to (1) differing treatments of income and gains on various investment securities held by the Fund, including timing differences, (2) the attribution of expenses against certain components of taxable investment income, and (3) federal regulations requiring proportionate allocation of income and gains to all classes of shareholders.

Distributions from net realized gains for book purposes may include short-term capital gains, which are included as ordinary income for tax purposes, and may exclude amortization of premium on certain fixed income securities, which are not reflected in ordinary income for tax purposes. The tax character of distributions paid, including changes in accumulated undeclared distributions to MMP(R) Shareholders, during 2006 and 2005 was as follows:

	DISTRIBUTIONS PAID IN FISCAL YEAR 2006		DISTRIBUTIONS PAID IN FISCA	
	ORDINARY INCOME	LONG-TERM CAPITAL GAINS	ORDINARY INCOME	LONG-TERM C
Common	$10,898,373	$0	$12,068,968	$
Preferred	$3,280,255	$0	$2,230,179	$

As of November 30, 2006, the components of distributable earnings (i.e., ordinary income and capital gain/loss) available to Common and Preferred Stock Shareholders, on a tax basis, were as follows:

CAPITAL (LOSS) CARRYFORWARD	UNDISTRIBUTED ORDINARY INCOME	UNDISTRIBUTED LONG-TERM GAIN	NET APPRECIATI
($778,250)	$251,601	$0	$15

At November 30, 2006, the Fund had accumulated realized capital losses of $778,250 in 2004. These losses may be carried forward and offset against any future capital gains through 2012.

RECLASSIFICATION OF ACCOUNTS: During the year ended November 30, 2006, reclassifications were made in the Fund's capital accounts to report these balances on a tax basis, excluding temporary differences, as of November 30, 2006. Additional adjustments may be required in subsequent reporting periods. These reclassifications have no impact on the net asset value of the Fund. The calculation of net investment income per share in the financial highlights excludes these adjustments. Below are the reclassifications:

PAID-IN CAPITAL	UNDISTRIBUTED NET INVESTMENT INCOME	ACCUMULATED NET REALIZED GAIN ON INVESTMENTS
($9,933)	$231,110	($221,177)

EXCISE TAX: The Internal Revenue Code of 1986, as amended, imposes a 4% nondeductible excise tax on the Fund to the extent the Fund does not distribute by the end of any calendar year at least (1) 98% of the sum of its net investment income for that year and its capital gains (both long-term and short-term) for its fiscal year and (2) certain undistributed amounts from previous years. The Fund is subject to a payment of an estimated $3,200 of Federal excise taxes attributable to calendar year 2006. The Fund paid $15,385 of Federal excise taxes attributable to calendar year 2005 in March 2006.

ADDITIONAL ACCOUNTING STANDARDS: In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." This standard defines the threshold for recognizing the benefits of tax-return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority and requires measurement of a tax position meeting the more-likely-than-not criterion, based on the largest benefit that is more than 50 percent likely to be realized. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006, with early application permitted if no interim financial statements have been issued. At adoption, companies must adjust their financial statements to reflect only those tax positions that are more-likely-than-not to be sustained as of the adoption date.

In addition, in September 2006, Statement of Financial Accounting Standards No. 157 FAIR VALUE MEASUREMENTS ("SFAS 157") was issued and is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Management is currently evaluating the impact the adoption of FIN48 and SFAS 157 will have on the Fund's financial statements.

3. INVESTMENT ADVISORY FEE, ADMINISTRATION FEE, TRANSFER AGENT FEE, CUSTODIAN FEE, DIRECTORS' FEES AND CHIEF COMPLIANCE OFFICER FEE

Flaherty & Crumrine Incorporated (the "Adviser") serves as the Fund's investment adviser. The Fund pays the Adviser a monthly fee at an annual rate of 0.625% of the value of the Fund's average monthly total net assets available to Common and Preferred Stock up to $100 million and 0.50% of the value of the Fund's average monthly total net assets available to Common and Preferred Stock in excess of $100 million.

For purposes of calculating the fees payable to the Adviser, Administrator and Custodian, the Fund's average weekly total managed assets means the total assets of the Fund minus the sum of accrued liabilities. For purposes of determining total managed assets, the liquidation preference of any preferred shares issued by the Fund is not treated as a liability.

PFPC Inc., a member of the PNC Financial Services Group, Inc. ("PNC Financial Services"), serves as the Fund's Administrator. As Administrator, PFPC Inc. calculates the net asset value of the Fund's

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shares attributable to Common Stock and generally assists in all aspects of the Fund's administration and operation. As compensation for PFPC Inc.'s services as Administrator, the Fund pays PFPC Inc. a monthly fee at an annual rate of 0.10% of the first $200 million of the Fund's average weekly total managed assets, 0.04% of the next $300 million of the Fund's average weekly total managed assets, 0.03% of the next $500 million of the Fund's average weekly total managed assets and 0.02% of the Fund's average weekly total managed assets above $1 billion.

PFPC Inc. also serves as the Fund's Common Stock dividend-paying agent and registrar (Transfer Agent). As compensation for PFPC Inc.'s services, the Fund pays PFPC Inc. a fee at an annual rate of 0.02% of the first $150 million of the Fund's average weekly net assets attributable to Common Stock, 0.0075% of the next $350 million of the Fund's average weekly net assets attributable to Common Stock, and 0.0025% of the Fund's average weekly net assets attributable to Common Stock above $500 million, plus certain out of pocket expenses. For the purpose of calculating such fee, the Fund's average weekly net assets attributable to Common Stock are deemed to be the average weekly value of the Fund's total assets minus the sum of the Fund's liabilities. For this calculation, the Fund's liabilities are deemed to include the aggregate liquidation preference of any outstanding Fund preferred shares.

PFPC Trust Company ("PFPC Trust") serves as the Fund's custodian. PFPC Trust is an indirect subsidiary of PNC Financial Services. As compensation for PFPC Trust's services as custodian, the Fund pays PFPC Trust a monthly fee at the annual rate of 0.010% of the first $200 million of the Fund's average weekly total managed assets, 0.008% of the next $300 million of the Fund's average weekly total managed assets, 0.006% of the next $500 million of the Fund's average weekly total managed assets and 0.005% of the Fund's average weekly total managed assets above $1 billion.

The Fund currently pays each Director who is not a director, officer or employee of the Adviser a fee of $9,000 per annum, plus $500 for each in-person meeting of the Board of Directors or any committee and $150 for each telephone meeting. The Audit Committee Chairman receives an additional annual fee of $2,500. The Fund also reimburses all Directors for travel and out-of-pocket expenses incurred in connection with such meetings.

The Fund currently pays the Adviser a fee of $37,500 per annum for Chief Compliance Officer services and reimburses out-of-pocket expenses incurred in connection with providing services in this role.

4. PURCHASES AND SALES OF SECURITIES

For the year ended November 30, 2006, the cost of purchases and proceeds from sales of securities excluding short-term investments, aggregated $173,067,778 and $167,811,684, respectively.

At November 30, 2006, the aggregate cost of securities for federal income tax purposes was $230,482,246, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was $19,368,250 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was $3,706,822.

5. COMMON STOCK

At November 30, 2006, 240,000,000 shares of $0.01 par value Common Stock were authorized.

Common Stock Transactions were as follows:

	YEAR ENDED 11/30/06		
	SHARES	AMOUNT	SHA
Shares issued under the Dividend Reinvestment and Cash Purchase Plan....................................	101,308	$1,571,205	103,

6. MONEY MARKET CUMULATIVE PREFERRED(TM) STOCK (MMP(R))

The Fund's Articles of Incorporation authorize the issuance of up to 10,000,000 shares of $0.01 par value preferred stock. The MMP(R) is senior to the Common Stock and results in the financial leveraging of the Common Stock. Such leveraging tends to magnify both the risks and opportunities to Common Stock Shareholders. Dividends on shares of MMP(R) are cumulative.

The Fund is required to meet certain asset coverage tests with respect to the MMP(R). If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, MMP(R) at a redemption price of $100,000 per share plus an amount equal to the accumulated and unpaid dividends on such shares in order to meet these requirements. Additionally, failure to meet the foregoing asset requirements could restrict the Fund's ability to pay dividends to Common Stock Shareholders and could lead to sales of portfolio securities at inopportune times.

If the Fund allocates any net gains or income ineligible for the Dividends Received Deduction to shares of the MMP(R), the Fund is required to make additional distributions to MMP(R) Shareholders or to pay a higher dividenD rate in amounts needed to provide a return, net of tax, equal to the return had such originally paid distributions been eligible for the Dividends Received Deduction.

An auction of the MMP(R) is generally held every 49 days. Existing MMP(R)

Shareholders may submit an order tO hold, bid or sell such shares at par value on each auction date. MMP(R) Shareholders may also trade shares in the secondary market, if any, between auction dates.

At November 30, 2006, 800 shares of MMP(R) were outstanding at the annualized rate of 3.98%. The dividend rate, as set by the auction process, is generally expected to vary with short-term interest rates. These rates may vary in a manner unrelated to the income received on the Fund's assets, which could have either a beneficial or detrimental impact on net investment income and gains available to Common Stock Shareholders. While the Fund expects to structure its portfolio holdings and hedging transactions to lessen such risks to Common Stock Shareholders, there can be no assurance that such results will be attained.

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7. PORTFOLIO INVESTMENTS, CONCENTRATION AND INVESTMENT QUALITY

The Fund invests primarily in a diversified portfolio of preferred securities. This includes traditional preferred stocks eligible for the inter-corporate dividends received deduction ("DRD") and fully taxable (hybrid) preferred securities. Under normal market conditions, at least 80% of the value of the Fund's net assets will be invested in preferred securities. Also, under normal market conditions, the Fund invests at least 25% of its assets in securities issued by companies in the utility industry and at least 25% of its assets in securities issued by companies in the banking industry. The Fund's portfolio may therefore be subject to greater risk and market fluctuation than a portfolio of securities representing a broader range of investment alternatives.

The Fund may invest up to 25% of its assets at the time of purchase in securities rated below investment grade. These securities must be rated at least either "Ba3" by Moody's Investors Service, Inc. or "BB-" by Standard & Poor's or, if unrated, judged to be comparable in quality by the Adviser, in any case, at the time of purchase. However, these securities must be issued by an issuer having a class of senior debt rated investment grade outstanding.

The Fund may invest up to 15% of its assets in common stocks and, under normal market conditions, up to 20% of its assets in debt securities. Certain of its investments in hybrid, i.e., fully taxable, preferred securities will be subject to the foregoing 20% limitation to the extent that, in the opinion of the Adviser, such investments are deemed to be debt-like in key characteristics. Typically, a security will not be considered debt-like (a) if an issuer can defer payment of income for eighteen months or more without triggering an event of default and (b) if such issue is a junior and fully subordinated liability of an issuer or its ultimate guarantor.

In addition to foreign money market securities, the Fund may invest up to 30% of its total assets in the securities of companies organized or having their principal place of business outside the United States. All foreign securities held by the Fund will be denominated in U.S. dollars.

8. SPECIAL INVESTMENT TECHNIQUES

The Fund may employ certain investment techniques in accordance with its fundamental investment policies. These may include the use of when-issued and delayed delivery transactions. Securities purchased or sold on a when-issued or delayed delivery basis may be settled within 45 days after the date of the transaction. Such transactions may expose the Fund to credit and market valuation risk greater than that associated with regular trade settlement procedures. The Fund may also enter into transactions, in accordance with its investment policies, involving any or all of the following: short sales of securities, futures contracts, interest rate swaps, swap futures, options on futures contracts, options on securities, swaptions and certain credit derivative transactions, including, but not limited to, the purchase and sale of credit protection. As in the case of when-issued securities, the use of over-the-counter derivatives, such as interest rate swaps, swaptions, and credit default swaps may expose the Fund to greater credit, operations, liquidity, and valuation risk than is the case with regulated, exchange traded futures and options. These transactions are used for hedging or other appropriate risk-

management purposes, or, under certain other circumstances, to increase return. No assurance can be given that such transactions will achieve their desired purposes or will result in an overall reduction of risk to the Fund.

9. SECURITIES LENDING

The Fund may lend up to 15% of its total assets (including the value of the loan collateral) to certain qualified brokers in order to earn additional income. The Fund receives compensation in the form of fees or interest earned on the investment of any cash collateral received. The Fund also continues to receive interest and dividends on the securities loaned. The Fund receives collateral in the form of cash or securities with a market value at least equal to the market value of the securities on loan, including accrued interest. In the event of default or bankruptcy by the borrower, the Fund could experience delays and costs in recovering the loaned securities or in gaining access to the collateral. The Fund has the right under the lending agreement to recover the securities from the borrower on demand. As of November 30, 2006, the market value of securities loaned by the Fund was $373,513. The loans were secured with collateral of $385,560. Income from securities lending for fiscal year 2006 was $407.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Flaherty & Crumrine Preferred Income Fund Incorporated

We have onsibilities of each of the Audit Committee, Compensation Committee, Conflicts Comm

Audit Committee

The Company's Audit Committee is comprised of Joseph M. Cianciolo (Chairman), Douglas P. Haensel, and David B. Hiley, each of whom qualify as independent under the listing requirements of the Nasdaq Global Market and applicable rules of the Securities and Exchange Commission, or the SEC. The Board of Directors has determined that Joseph M. Cianciolo is an audit committee "financial expert" as such term is defined in applicable SEC rules, and that he has the requisite financial management expertise within the meaning of Nasdaq rules and regulations. As directed by its written charter, which was adopted on June 3, 2005, and amended in November 2006, the Audit Committee is responsible for appointing and overseeing the work of the independent auditors, including reviewing and approving their engagement letter and reviewing their annual audit plan; reviewing the adequacy and effectiveness of the Company's accounting and internal control procedures; reading and discussing with management and the independent auditors the annual audited financial statements and quarterly financial statements, and preparing annually a report to be included in the Company's proxy statement. The Audit Committee held seven meetings during fiscal year 2010. See the report of the Audit Committee in this Proxy Statement for additional information regarding the Audit Committee's actions in fiscal year 2010.

Compensation Committee

The Company's Compensation Committee is comprised of Jon Tomasson (Chairman), Joseph M. Cianciolo and Thomas B. Winmill, each of whom qualify as independent under the listing requirements of the Nasdaq Global Market. As directed by its written charter, which was approved on June 3, 2005, and amended in November 2006, the Compensation Committee administers the Company's stock option plan and other corporate benefits programs. The Compensation Committee also reviews and approves annual incentive compensation, special cash incentive awards, stock option or other equity incentive grants, compensation goals and objectives, and any employment severance or change in control agreements, and evaluates the performance of the Company's Chief Executive Officer, Company's Chief Financial Officer, and the President of Eagle Shipping International (USA) LLC and determines executive officer compensation. The Compensation Committee also reviews and approves the Board of Directors' compensation and fees and stock option or other equity incentive grants. See the Compensation Discussion & Analysis regarding additional details of the role of the Compensation Committee and our executive officers with respect to the determination and approval of executive compensation. The Compensation Committee engaged Steven Hall & Partners, an independent executive compensation consultant (the "Compensation Consultant"), as further described in more detail below. During fiscal year 2010, the Compensation Committee consulted with the Compensation Consultant and took the recommendations of the Compensation Consultant into consideration when making its decisions. The Compensation Committee held twenty-four meetings during fiscal year 2010. See also the report of the Compensation Committee in this Proxy Statement.

Conflicts Committee

The Company has established a Conflicts Committee (the "Conflicts Committee") as of February 4, 2009, that is comprised of Joseph M. Cianciolo, Douglas P. Haensel and Jon Tomasson. The Conflicts Committee was established for the purpose of negotiating a management agreement dated August 4, 2009 between the Company and Delphin Shipping LLC, an entity affiliated with Sophocles Zoullas and Kelso & Company, L.P. Pursuant to the management agreement, which has been filed as an exhibit to the Company's annual report on Form 10-K for the year ending December 31, 2009, the Company will provide certain management services for vessels to be acquired by Delphin Shipping LLC and will have certain rights of first refusal over vessel acquisition and chartering opportunities presented to Delphin Shipping LLC. Pursuant to the Conflict Committee's charter adopted as of May 21, 2009, the Conflicts Committee is also responsible for evaluating and managing potential conflicts of interest arising between the Company and Delphin Shipping LLC arising out of transactions contemplated under the management agreement and ensuring Delphin Shipping LLC's compliance with the terms of the management agreement. The Conflicts Committee is comprised solely of independent members of the Board of Directors who do not have any direct or indirect interest in any investment, contract or other transaction to which Delphin Shipping LLC or Kelso & Company, L.P. are a party. The Conflicts Committee held two meetings during fiscal year 2010.

Nominating and Governance Committee

The Company's Nominating and Governance Committee is comprised of Douglas P. Haensel (Chairman), David B. Hiley, Jon Tomasson and Thomas B. Winmill, each of whom qualify as independent under the listing requirements of the Nasdaq Global Market. As directed by its written charter, the Nominating and Governance Committee assists the Board of Directors in identifying qualified individuals to become members of the Board of Directors, in determining the composition of the Board of Directors and its committees, in monitoring a process to assess Board of Directors effectiveness and in developing and implementing the Company's corporate governance guidelines. The Nominating and Governance Committee held nine meetings in fiscal year 2010.

Nomination of Directors

Nominees for our Board of Directors will be selected by the Board of Directors based upon the recommendation of the Nominating and Governance Committee in accordance with the policies and principles set forth in the Committee's charter and our Corporate Governance Guidelines. The Nominating and Governance Committee seeks members from diverse professional and personal backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. This assessment will include an individual's independence, as well as consideration of diversity, age, skills, necessary experience, soundness of judgment, ability to contribute to a diversity of viewpoints among board members, commitment, time and diligence to effectively discharge board responsibilities, qualifications, intelligence, education and experience to make a meaningful contribution to board deliberations. Directors should be persons of good character and thus should generally have the personal characteristics of integrity, accountability, judgment, responsibility, high performance standards, commitment and enthusiasm, and courage to express his or her views. The Nominating and Governance Committee examines a candidate's specific experiences and skills, time availability in light of other commitments, potential conflicts of interest and independence from management and the Company.

The Nominating and Governance Committee identifies potential candidates by asking current Directors and executive officers to notify the Committee if they become aware of persons, meeting the criteria described above, who might have an interest in serving as a Director.

Shareholders may recommend qualified persons for consideration by the Nominating and Governance Committee. The Nominating and Governance Committee's evaluation process does not vary based on whether or not a candidate is recommended by a shareholder. Shareholders making a recommendation must submit the same information as that required to be included by the Company in its proxy statement with respect to nominees of the Board of Directors. The shareholder recommendation should be submitted in writing, addressed to: Alan S. Ginsberg, Secretary of Eagle Bulk Shipping Inc., 477 Madison Avenue, Suite 1405, New York, New York 10022.

Code of Ethics

The Company's Code of Ethics, which applies to our Directors, executive officers (our Chief Executive Officer, our Chief Financial Officer, and our President Eagle Shipping International (USA) LLC) and employees, is available on our website at www.eagleships.com, and copies are available in print upon request to Eagle Bulk Shipping Inc., 477 Madison Avenue, Suite 1405, New York, New York 10022. The Company intends to satisfy any disclosure requirements regarding any amendment to, or waiver from, a provision of this Code of Ethics by posting such information on the Company's website.

Communications with the Board of Directors

Shareholders and other interested parties may communicate with members of the Board of Directors, including reporting any concerns related to governance, corporate conduct, business ethics, financial practices, legal issues and accounting or audit matters in writing addressed to the Board of Directors, or any such individual Directors or group or committee of Directors by either name or title in care of: Secretary of Eagle Bulk Shipping Inc., 477 Madison Avenue, Suite 1405, New York, New York 10022.

All communications received as set forth above will be opened by the office of our Secretary for the sole purpose of determining whether the contents represent a message to our Directors. Materials that are unrelated to the duties and responsibilities of the Board of Directors, such as solicitations, resumes and other forms of job inquiries, surveys and individual customer complaints, or materials that are unduly hostile, threatening, illegal or similarly unsuitable will not be distributed, but will be made available upon request to the Board of Directors, a committee of the Board of Directors or individual Directors as appropriate, depending on the facts and circumstances outlined in the communication.

The Board's Leadership Structure

Sophocles Zoullas currently serves as both Chairman and Chief Executive Officer of Eagle Bulk Shipping. The Company believes that this leadership structure is in the best interests of shareholders because it promotes unified leadership, effective decision-making, and facilitates efficient execution of the Company's strategic initiatives and business plan. Additionally, because of the CEO's responsibilities for the day-to-day execution of corporate strategy and the importance of company performance in Board deliberations, we believe that our CEO is the director best qualified to serve as Chairman of the Board. The Board has also considered creating a lead independent director position on the Board of Directors, however given the size of the Company's Board of Directors, does not believe that such a position would benefit the functioning of the Board or its interaction with management. The Board also believes that there is substantial independent and effective oversight of management, including:

Annual reviews of the performance of our Chairman and Chief Executive Officer by the independent directors on the Compensation Committee.

Our independent directors regularly meet in executive session without the presence of management.

The Audit Committee meets separately with the independent auditor as needed to fulfill its responsibilities under its Charter.

We have a substantial majority of active and well-qualified independent directors, each of whom is an equal participant in Board decisions.

Each of the Board's Committees is comprised solely of independent directors.

The Board's Role in Risk Oversight

The Audit Committee has primary responsibility for risk oversight on behalf of the Board. The Committee regularly discusses, on at least a quarterly basis, risk exposures that may have a material impact on the Company's financial statements, and the steps that management has taken to monitor and control such exposures. Additionally, pursuant to its Charter, the Audit Committee is responsible for discussing with management policies with respect to risk assessment and risk management. The Compensation Committee also considers the risk implications of compensation approaches before making final determinations with respect to compensation program design. For a further discussion of the Compensation Committee's consideration of potential risks associated with our compensation program, please see the section "Risk Assessment" of this proxy.

Executive Sessions

Consistent with our Corporate Governance Guidelines, the non-employee directors of the Board of Directors regularly hold executive sessions. The Audit Committee, in accordance with its charter, meets separately with our executives at regular intervals or as otherwise deemed appropriate throughout the year to review our financial affairs, and meets separately in sessions with the independent auditors at such times as the Committee deems appropriate to fulfill its responsibilities under the charter. The independent directors met in executive sessions four times during 2010.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee was an officer or employee of the Company or any of the Company's subsidiaries, or had any relationship requiring disclosure under SEC regulations. None of the Company's Compensation Committee members or executive officers has served on the board of directors or on the compensation committee of any other entity whose executive officers served on our Board of Directors or on our Compensation Committee.

EXECUTIVE OFFICERS

Our named executive officers, are:

Sophocles N. Zoullas, Chairman and Chief Executive Officer, for whom information is set forth under the heading "Continuing Director Information" above.

Alan S. Ginsberg, Chief Financial Officer since February 2005.

Alexis P. Zoullas, President of Eagle Shipping International (USA) LLC, for whom information is set forth under the heading "Nominee Information" above.

Mr. Ginsberg, who is 52, has over 20 years of experience in the shipping industry and in particular in shipping finance. From 2002 until 2005, Mr. Ginsberg was the Director of Ship Financing for Northampton Capital Ltd., a transportation industry financial advisory firm. From 1998 to 2002, Mr. Ginsberg was a Director of High Yield Research at Scotia Capital (USA) Inc. and was responsible for analysis of the shipping industry, publishing research and maintaining relationships in the industry. From 1997 to 1998, Mr. Ginsberg was the publisher of Marine Money International, a leading maritime publication, and between 1988 and 1996 he served as the Chief Financial Officer of The Kedma Group, a privately held shipping company that owned and operated 17 vessels, including 14 Handymax dry bulk vessels and three tankers. Mr. Ginsberg holds a bachelor's degree from Georgetown University. Mr. Ginsberg is a certified public accountant and has previously worked at Coopers & Lybrand.

COMPENSATION DISCUSSION & ANALYSIS

Introduction

This Compensation Discussion and Analysis ("CD&A") is a discussion of how we use different elements of compensation to achieve the objectives of our executive compensation program and how we determined the amounts of each component of compensation paid to our named executive officers for 2010. This information should be read in conjunction with the data and associated narrative provided in the Summary Compensation Table and other tables following this CD&A. For 2010, the following individuals were our named executive officers:

Sophocles N. Zoullas, Chairman and Chief Executive Officer
Alan S. Ginsberg, Chief Financial Officer
Alexis P. Zoullas, President, Eagle Shipping International

Compensation Objectives and Philosophy

We believe that the leadership and proven talents of our executive team are essential for our continued success and sustained financial performance. The primary objectives of our compensation program are to attract and retain highly qualified personnel for positions of substantial responsibility, and to provide incentives for such persons to perform to the best of their abilities, achieve our strategic objectives, enable the Company to compete effectively in the seaborne transportation industry and to promote the success of our business. Therefore, our compensation program is designed to attract, motivate and retain executives who possess the talent, leadership and commitment needed to operate our business, create and implement new opportunities, anticipate and effectively respond to new challenges, and make and execute difficult decisions.

The Compensation Committee believes that the Company's compensation programs should:

Align the interests of our executives with those of our shareholders;

Encourage and reward achievement of the Company's annual and longer-term performance objectives;

Promote the long-term success of the Company through an appropriate balance of current and long-term compensation opportunities;

Differentiate pay based on individual and company performance;

Reflect the market and provide competitive compensation opportunities based on performance;

Make wise use of our equity resources to ensure compatibility between senior management and shareholder interests; and

Balance incentives for constructive risk management.

2010 Performance

Our compensation program is designed to incentivize and reward strategic and operational achievements which will enhance shareholder value . Despite a challenging macro-economic environment and volatile shipping market, 2010 was a year of strong accomplishments in which we successfully expanded our fleet while maintaining high vessel utilization rates and continued to develop an infrastructure which we believe will better position our Company for future success.

During 2010, key accomplishments of our Company were that we:

Maintained a vessel utilization rate of 99.6%, while increasing the fleet operating days by 48% in 2010 over 2009, resulting in consistent and contemporaneously above market earnings in a volatile and weakened charter market;

Successfully integrated twelve newbuildings into its operating fleet during 2010, resulting in a 42% increase in total owned days to 12,958 in 2010 from 9,106 in 2009;

Successfully diversified our chartering strategy with a mix of index-based and fixed charters;

Successfully delivered twelve newbuilding vessels into long-term time charter contracts;

Further diversified revenue streams and initiated new chartering relationships with first class charterers;

Expanded our own in-house capabilities for technical management to establish a vessel management bench-mark with our external technical managers and reduce costs;

Managed on-time construction of twelve vessels with on-time milestones.

Successfully established the Company's new trading operation based in Singapore to capture value in all shipping cycles and leverage the Eagle brand;

Increased direct purchasing of spares, stores and lubricants to benefit from lower unit costs; and

Successfully completed the disposition of the Company's oldest and smallest vessel for a gain, which reduced the average age of our fleet to 4.6 years.

How Our Compensation Decisions Are Made

The Company's executive compensation is determined by the Company's Compensation Committee. Although not required under the Compensation Committee's charter, the Company's executive compensation for 2010 has been ratified by the unanimous consent of the Company's full Board of Directors.

Role of the Board and Compensation Committee

Our Board of Directors is responsible for establishing and administering our executive compensation and equity incentive programs. This Board duty has been delegated to the Compensation Committee in accordance with the Compensation Committee Charter. The Compensation Committee reviews executive performance to establish compensation and approves appropriate modifications to the named executive officers' compensation. The Compensation Committee is responsible for establishing the compensation of the Chief Executive Officer, and in the context of our overall compensation goals and objectives, reviews and approves the recommendations of the Chief Executive Officer regarding compensation and incentive plans of other named executive officers. The Committee also establishes the annual compensation of the non-employee directors and oversees the equity compensation plans.

Role of the Compensation Consultant

In accordance with its Charter, the Compensation Committee has the authority to engage, retain and terminate a compensation consultant. The Committee also has the sole authority to approve the fees of such consultant.

Since 2007, the Compensation Committee and the Board of Directors have retained Steven Hall & Partners ("Consultant"), a nationally recognized executive compensation consultant, as their compensation consultant to provide independent, third-party advice and expertise on all aspects of executive and director compensation and related corporate governance matters. In 2010, as in prior years, the Committee relied upon the Consultant to assist in the development and evaluation of compensation policies and the determination of compensation awards. Additionally, the Consultant provided the Committee with comparative market data, to the extent available, as well as modeling and evaluations of proposed executive and director compensation policies and determinations.

The Compensation Committee consulted with the Consultant in connection with the determination of the 2010 compensation for our named executive officers and our Board of Directors. The Consultant also provided advice throughout the year on new issues and developments regarding executive compensation and related disclosures. In the future, the Compensation Committee may retain other similar consultants.

The Consultant does not provide any other services to the Company.

Role of Management

The Compensation Committee has sole authority to establish annual compensation for the Company's named executive officers, and none of the named executive officers determines his own pay. At the request of the Compensation Committee, our Chief Executive Officer provides recommendations regarding compensation of our other named executive officers during the annual compensation approval process and information regarding compensation trends within the seaborne transportation industry.

Competitive Marketplace Assessment

Most of our direct business competitors are foreign companies that are not required to disclose compensation information for their executive officers on an individual basis and detailed compensation data is therefore limited or unavailable. Additionally, the management structures of comparable organizations are often non-traditional, further complicating direct comparison of positions and responsibilities. To provide context and to ensure that Eagle Bulk arrangements are reasonable, the Committee does reference compensation arrangements for executives at other similarly sized companies in the shipping industry for whom compensation data is publicly available. However, due to the limited number of direct comparators, the Committee does not believe that it has sufficient information to permit a meaningful benchmark assessment. Therefore, the Committee does not benchmark.

Elements of the Company's Executive Compensation Program

Our compensation program is comprised of two main elements:

Fixed compensation in the form of base salary.

Variable incentive compensation which is delivered in cash and equity.

Fixed Compensation

Base Salary

Base salary provides a competitive rate of fixed pay and reflects different levels of responsibility within the Company, the skills and experience required for the job, individual performance and labor market conditions.

Variable Incentive Compensation

Annual Incentive Compensation

Due to the cyclical and volatile nature of the business in which the Company competes, like most companies in the shipping industry, The Company does not set performance targets with respect to incentive compensation. Instead, the Compensation Committee considers performance across a wide range of quantitative, qualitative, operational and strategic measures and determines annual incentive compensation on a discretionary basis following a comprehensive assessment of the macro-economic environment, the Company's performance, and each executive's contribution to that performance. The Committee believes that this approach provides for greater flexibility to reward executives for quick thinking and decisive actions taken to better position the Company in scenarios which may be difficult to predict or anticipate given the extreme volatility of the dry bulk market.

Long-Term Incentive Compensation – Equity Awards

The Committee believes that the effective use of stock-based long-term incentive compensation has been integral to the Company's success in the past and is vital to its ability to achieve continued strong performance in the future and therefore delivers a portion of each executive's incentive compensation in the form of equity. These awards are intended to align the interests of executives with those of shareholders, enhance the personal stake of executive officers in the growth and success of the Company, provide an incentive for the executive officers' continued service at the Company, and provide an opportunity for executives to increase their stock ownership levels.

Full Value Shares- in 2010, the Company granted restricted stock units ("RSUs") to each of the named executive officers. The awards were made on December 22, 2010 and vest annually in three equal installments, beginning on the first anniversary of the date of grant.

Dividend Equivalent Rights- in the past, the Company has awarded Dividend Equivalent Rights ("DERs") to officers and directors. These rights entitle the recipient to receive a Dividend Equivalent payment each time the Company pays a dividend to the Company's shareholders. The amount of the Dividend Equivalent payment is equal to the number of DERs multiplied by the amount of the per share dividend paid by the Company on its stock on the date the dividend is paid. The DERs are contingent upon the recipient's continued employment or service at the dividend payment date. The Company announced the suspension of its dividend on December 19, 2008, and no payments were made to holders of DERs in 2009 or 2010.

Special Awards

From time to time, the Company also makes special cash incentive awards, as deemed appropriate by the Compensation Committee. The purpose of these payments is to recognize significant individual contributions that would not, in the view of the Compensation Committee, be fully accounted for under our annual compensation determinations. The amount of any special cash incentive award is determined and approved by the Compensation Committee. No named executive officer received a special award in 2010.

Other Elements

Perquisites

As a general matter, the Company does not provide perquisites for its executive officers. Pursuant to a contractual obligation of our Chief Executive Officer's employment agreement, the Company pays his life insurance premium. Other than this de minimus perquisite, the Company does not provide any other perquisites to its named executive officers.

401(k) Savings Plan

We provide all qualifying full-time employees with the opportunity to participate in our tax-qualified 401(k) savings plan. Our named executive officers participate in this plan on the same basis as our other full-time employees.

Employment Agreements

We have entered into an employment agreement with our Chief Executive Officer. The terms of the agreement are described in greater detail under the section entitled "Employment Agreement with Sophocles N. Zoullas". We do not have employment agreements with any of our other named executive officers.

Severance and Change in Control Benefits

Under the terms of his employment agreement, our Chief Executive Officer is entitled to certain payments and benefits if we terminate his employment without cause or he terminates employment for good reason, as these terms are defined in his contract. The Chief Executive Officer is entitled to certain additional payments and benefits if his employment is terminated without cause or for good reason within 24 months of a change in control. These benefits and payments are described in greater detail in the section below entitled "Potential Payments Upon Termination or Change-in-Control."

Pursuant to the terms of our equity plans, the other named executive officers are entitled to certain potential payments upon termination or change in control. These potential payments are described in greater detail in the section below entitled "Potential Payments Upon Termination or Change-in-Control."

The equity incentives and incentive compensation amounts awarded to our Chief Executive Officer, our Chief Financial Officer and the President of Eagle Shipping International (USA) LLC in 2010 are not necessarily indicative of the incentive compensation to be awarded to the Company's executive officers in future years.

Pay for Performance – How 2010 Executive Compensation Was Determined

The Compensation Committee believes that executive pay should reflect both Company and individual performance and makes determinations regarding variable incentive compensation following a holistic assessment of performance for the year.

Company Performance

When assessing corporate performance for 2010, the Committee considered:

Corporate earnings per the Company's financial plan;

Increases in the size of our fleet, which we believe will have a positive impact on future revenues and profits;

The impressive fleet utilization achieved by the Company in light of a substantial increase in the size of the fleet;

Enhancement of the Company's in-house capabilities with regard to fleet management and newbuilding oversight which have increased our efficiency;

Establishment of the Company's trading operation in Singapore which increased the Company's market intelligence;

Achievement of the Company's other strategic and commercial objectives;

Performance relative to similar seaborne transportation companies;

Performance relative to overall market conditions; and

The actions taken by management to position the Company for strong growth as the general economic conditions improve.

Individual Performance

To assess each executive's contribution to Company performance and achievements in his area of responsibility, the Committee considers the executive's:

Performance in light of the Company's current goals and objectives;

The nature and scope of the executive's responsibilities;

Level of communication with the Board;

Initiative, managerial ability and overall contributions to corporate performance; and

Contributions to initiatives that will deliver greater future value to shareholders.

The Committee also considers the scope and importance of the functions the executive performed or for which the executive was responsible.

Salary

In 2010, we maintained base salaries for each of our named executive officers at the same level as in 2009.

For 2011, the Committee has again determined to keep the base salaries of our Chief Executive Officer and our Chief Financial Officer at the same level as in 2010 and 2009. Following his promotion, the base salary of our President of Eagle Shipping International (USA) LLC was increased by $50,000 to $700,000 for 2011.

Incentive Compensation

In 2010, the Compensation Committee determined and approved, and after consideration the independent members of the Board ratified, the compensation for the Chief Executive Officer as follows: a cash annual incentive compensation of $5,450,000 and an equity award of 400,000 RSUs. The amount of incentive compensation awarded in 2010 was based on the Committee's assessment of the Chief Executive Officer's performance in 2010, including his:

Contribution to the 2010 accomplishments outlined earlier;
Establishment of the Company's new trading operation based in Singapore;
Expanding world-class in house shipping management capabilities;
Contribution in building deep relationships with shipbuilders, bankers and charter operators;
Strategic guidance in a volatile dry bulk market; and
Effective management of chartering affairs.

With respect to the incentive compensation awarded to the other two named executive officers, the Compensation Committee considered the Chief Executive Officer's assessment of performance and compensation recommendations, the performance of the Company detailed above, and the individual contributions of each executive.

For the Chief Financial Officer, the Committee noted the executive's following contributions:

Maintaining responsibility for and oversight of the Company's accounting and financial functions;
Improving investor relations through personal visits and increasing communications with investors; and
Serving as the Company's main representative to our lenders.

In consideration of these accomplishments, the Compensation Committee determined and approved, and the independent directors of the Board ratified, a cash annual incentive compensation of $750,000 and an equity award of 30,000 RSUs.

For the President of Eagle Shipping International (USA) LLC, the Committee noted the executive's following contributions:

Built up in-house technical and operational management to supervise expanding fleet and reduce costs;
Managed on-time construction of twelve vessels with on-time milestones and improved quality;
Establishment of the Company's new trading operation based in Singapore; and
Initiated new chartering relationships with several new first class charterers.

In consideration of these accomplishments, the Compensation Committee determined and approved, and the independent directors of the Board ratified, a cash annual incentive compensation of $1,500,000 and an equity award of 85,000 RSUs.

Risk Assessment

The Compensation Committee believes that the Company's compensation objectives or policies do not create risks that are reasonably likely to have a material adverse effect on the Company. Determinations regarding incentive compensation are based on a discretionary assessment of a variety of factors related to the performance of our Company and the contributions of each executive officer to that performance. Incentive compensation awards are not tied to formulas based on short-term performance, and no one factor disproportionately affects incentive amounts, which diversifies the risk associated with any single indicator of performance. A significant portion of each executive's total compensation is delivered in the form of equity that vests over multiple years, thereby aligning the interests of our executive officers with those of our shareholders. Compensation is determined by our Compensation Committee, which is comprised solely of independent members of our Board of Directors.

Section 162(m)

Section 162(m) of the Internal Revenue Code of 1986, as amended, (the "Code"), limits the deductibility of compensation to certain employees in excess of $1 million. Because the company believes that it currently qualifies for the exemption pursuant to Section 883 of the Code, pursuant to which it is not subject to United States federal income tax on its shipping income (which comprised substantially all of its gross revenues in 2010), it has not sought to structure its compensation arrangements to qualify for exemption under Section 162(m).

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee of the Board of Directors has reviewed and discussed the Compensation Discussion & Analysis with management and, based on that review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion & Analysis be included in this proxy statement and be incorporated by reference into the Company's Annual Report for the fiscal year ending December 31, 2010 on Form 10-K.

Submitted by the Compensation Committee of the Board of Directors:

Jon Tomasson, Chairman
Joseph M. Cianciolo, and
Thomas B. Winmill

2010 SUMMARY COMPENSATION TABLE

The following Summary Compensation Table sets forth the compensation of our executive officers, or the named executive officers, for the fiscal years ending on December 31, 2010, 2009 and 2008.

Officer	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)	Non-equity incentive plan compensation ($)	Change in pension value and nonqualified deferred compensation earnings ($)	All Other Compensation (including special cash incentive award) ($)(2)	Total ($)
Sophocles N. Zoullas	2010	$ 900,000	$ 5,450,000	$ 1,968,000	—	—	—	$ 29,867	$ 8,347,867
	2009	$ 900,000	$ 3,750,000	$ 3,911,400	—	—	—	$ 20,712	$ 8,582,112
	2008	$ 875,000	$ 4,000,000	$ 24,249,990	—	—	—	$ 6,663,333	$ 35,788,323
Alan S. Ginsberg	2010	$ 450,000	$ 750,000	$ 147,600	—	—	—	$ 9,800	$ 1,357,400
	2009	$ 450,000	$ 600,000	$ 295,200	—	—	—	—	$ 1,345,200
	2008	$ 275,282	$ 900,000	—	—	—	—	$ 269,794	$ 1,445,076
Alexis P. Zoullas	2010	$ 650,000	$ 1,500,000	$ 418,200	—	—	—	$ 9,800	$ 2,578,000
	2009	$ 650,000	$ 1,375,000	$ 516,600	—	—	—	—	$ 2,541,600
	2008	$ 203,958 (3)	$ 500,000	$ 2,940,600	—	—	—	$ 188,941	$ 3,833,499

(1) The amounts shown in this column, in addition to the compensation expense of profits interest, if any, represent the aggregate fair value of the awards as of the grant date, computed in accordance with FASB ASC Topic 718, "Compensation-Stock Compensation." Estimates of forfeitures for service-based vesting are disregarded. See notes to our audited financial statements included in our 2010 Annual Report on Form 10-K for the assumptions used.

(2) Amounts shown in this column include Company matching contributions to the 401(k) Plan of $9,800 for each of the executives. Additionally, in accordance with the terms of his employment agreement, amounts shown for our Chief Executive Officer include the cost paid by the Company for his life insurance, in the amounts of $20,067, $20,712 and $20,000 for 2010, 2009 and 2008, respectively. In 2008 this amount includes the cash received with respect to "dividend equivalent rights" held. In 2008 this amount also includes the special cash incentive award of $4.0 million paid to the Company's Chief Executive Officer.

(3) Starting August 19, 2008, Alexis P. Zoullas began serving as a Vice President of Eagle Shipping International (USA) LLC. With a base salary of $550,000, the prorated salary in 2008 was $203,958. In 2010 Mr. A. Zoullas

was promoted to President of Eagle Shipping International (USA) LLC.

The material terms of our Chief Executive Officer's employment agreement are summarized below in the section entitled "Potential Payments Upon Termination or Change of Control." Other elements of the Summary Compensation Table are discussed in the Compensation Discussion & Analysis above.

2010 Grants of Plan-Based Awards

The following table summarizes grants of plan-based awards made to named executive officers during the fiscal year ended December 31, 2010:

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or of Units (#) (1)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock Awards (2)
Sophocles N. Zoullas	12/22/2010	400,000	—	—	$1,968,000
Alan S. Ginsberg	12/22/2010	30,000	—	—	$147,600
Alexis P. Zoullas	12/22/2010	85,000	—	—	$418,200

(1) On December 22, 2010, the Company granted, pursuant to the Eagle Bulk Shipping Inc. 2009 Stock Incentive Plan, an aggregate of 400,000 restricted stock units to our Chief Executive Officer, an aggregate of 30,000 to our Chief Financial Officer, and an aggregate of 85,000 restricted stock units to our President of Eagle Shipping International (USA) LLC. Each of the restricted stock units granted to our named executives vest in three equal annual installments, commencing one year from the date of grant.

(2) The amounts shown in this column represent the aggregate grant date fair value computed in accordance with ASC 718 for stock awards in 2010. For a discussion of assumptions used for purposes of the valuation see notes to our audited financial statements included in our 2010 Annual Report on Form 10-K.

See the Compensation Discussion & Analysis above regarding additional material terms of grants.

Outstanding Equity Awards at Fiscal Year End 2010

The following table summarizes the equity awards held by the named executive officers as of December 31, 2010:

		Option Awards (1)				Stock Awards (2) (3)	
Name	Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Un-exercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)
Sophocles N. Zoullas	01/12/2007	225,000(1)	—	$17.80	01/12/2017		
	06/19/2008					499,999(2)	$ 2,489,995
	12/22/2009					530,000(3)	$ 2,639,400
	12/22/2010					400,000	$ 1,992,000
Alan S. Ginsberg	01/12/2007	90,000(1)	—	$17.80	01/12/2017		
	12/22/2009					40,000 (3)	$ 199,200
	12/22/2010					30,000 (3)	$ 149,400
Alexis P. Zoullas	05/23/2007	16,667(1)	—	$21.88	05/23/2017		
	08/19/2008					35,000 (3)	$ 174,300
	12/22/2009					70,000 (3)	$ 348,600
	12/22/2010					85,000 (3)	$ 423,300

(1) On January 12, 2007, the Company granted our Chief Executive Officer options to purchase 225,000 shares of Company common stock and granted our Chief Financial Officer options to purchase 90,000 shares of Company common stock. The option exercise price of $17.80 per share was equal to the fair market value per share on the grant date. Each of the options granted to our Chief Executive Officer and Chief Financial Officer vest in three equal annual installments, commencing one year from the date of grant. On May 23, 2007, the Company granted Mr. A. Zoullas options to purchase 16,667 shares of Company common stock. The options were granted to Mr. A. Zoullas in his capacity as a director. Each of the options granted vested immediately.

(2) On June 19, 2008, the Company granted our Chief Executive Officer 833,333 restricted stock units of the Company, in consideration for the signing of a new five-year employment agreement. Each of the restricted stock units granted to our Chief Executive Officer vest in five equal annual installments, commencing one year from the date of grant.

(3) On August 19, 2008, the Company granted our President, Eagle Shipping International (USA) LLC 105,000 restricted stock units of the Company. On December 22, 2009, the Company granted our Chief Executive Officer 795,000 restricted stock units of the Company, granted our Chief Financial Officer 60,000 restricted stock units of the Company, and granted our President, Eagle Shipping International (USA) LLC 105,000 restricted stock units of the Company. On December 22, 2010, the Company granted our Chief Executive Officer 400,000 restricted stock units of the Company, granted our Chief Financial Officer 30,000 restricted stock units of the Company, and granted our President, Eagle Shipping International (USA) LLC 85,000 restricted stock units of the Company. Each of the restricted stock units granted to our Chief Executive Officer, Chief Financial Officer and our President, Eagle Shipping International (USA) LLC, vest in three equal annual installments, commencing one year from the date of grant.

Option Exercises and Stock Vested for Fiscal 2010

The following table summarizes the stock awards held by the named executive officers that vested during fiscal year ended December 31, 2010:

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value realized on vesting of shares ($)
Sophocles N. Zoullas	—	—	666,667	$ 3,281,268
Alan S. Ginsberg	—	—	36,078	$ 179,676
Alexis P. Zoullas	—	—	70,000	$ 344,050

Retirement Benefits

We provide retirement plan benefits, discussed in this section below, that we believe are customary in our industry. We provide them to remain competitive in retaining talent and attracting new talent to join us.

401(k) Savings Plan

We provide all qualifying full-time employees with the opportunity to participate in our tax-qualified 401(k) savings plan. The plan allows employees to defer receipt of earned salary, up to tax law limits, on a tax-advantaged basis. Accounts may be invested in a wide range of mutual funds. Up to tax law limits, we provide a 100% match for the first 3% of salary and 50% for the next 2% of salary participant.

Pension Benefits

The Company does not provide pension benefits.

Nonqualified Deferred Compensation

The Company did not provide any nonqualified deferred compensation during the fiscal year ending December 31, 2010.

Potential Payments Upon Termination Or Change-In-Control

As discussed in detail below under the heading "Employment Agreement with Sophocles N. Zoullas," the Company entered into an employment agreement with our Chief Executive Officer. It provides that if we terminate our Chief Executive Officer's employment without cause or if our Chief Executive Officer terminates employment for good reason, then he is entitled to receive a lump sum payment.

The named executive officers received in 2008 Dividend Equivalent Rights, which provide that if the executive is terminated for any reason the rights are forfeited.

The Company has granted to the named executive officers, pursuant to its 2005 and 2009 Stock Incentive Plans, restricted stock units of the Company that vest in equal annual installments. The restricted stock units provide that (i) if the executive is terminated on death or disability the unvested restricted stock units will vest and be paid out, (ii) if within 24 months following a change of control the executive is terminated without cause or terminates for good reason then the unvested restricted stock units will vest and be paid out.

The restricted stock units also provide for a gross-up for any excise taxes under Section 4999 of the Code imposed on excess parachute payments which may become payable to the executive, whether such payments arise with respect to accelerated vesting of the restricted stock units or under other plans or agreements.

The following tables show the potential payments upon termination or change of control to our Chief Executive Officer, our Chief Financial Officer, and our President, Eagle Shipping International (USA) LLC, determined as if such event took place on December 31, 2010.

Sophocles N. Zoullas	Termination for Cause, or Quit Without Good Reason	Death or Disability	Change of Control	Termination Without Cause or Quit for Good Reason	Termination Without Cause or Quit for Good Reason Within 24 Months After Change of Control
Lump sum payment	X	X	X	$ 11,000,000(1)	$ 24,082,727(1)
Continuation of health/life benefits	X	X	X	$ 128,982	$ 193,472
Vesting of restricted stock units (2)	X	$ 7,121,395	X	$ 7,121,395	$ 7,121,395
4999 Gross-Up (3)	X	X	X	X	$ 7,582,727

Alan S. Ginsberg	Termination for Cause, or Quit Without Good Reason	Death or Disability	Change of Control	Termination Without Cause or Quit for Good Reason	Termination Without Cause or Quit for Good Reason Within 24 Months After Change of Control
Vesting of restricted stock units (2)	X	$ 348,600	X	X	$ 348,600
4999 Gross-Up (4)	X	X	X	X	X

Alexis P. Zoullas	Termination for Cause, or Quit Without Good Reason	Death or Disability	Change of Control	Termination Without Cause or Quit for Good Reason	Termination Without Cause or Quit for Good Reason Within 24 Months After Change of Control
Vesting of restricted stock units (2)	X	$ 946,200	X	X	$ 946,200
4999 Gross-Up (4)	X	X	X	X	X

(1) The lump sum payment due to our Chief Executive Officer is:

(i) upon a termination without cause or quit for good reason, the aggregate of (A) our Chief Executive Officer's accrued but unpaid annual base salary and any accrued but unused vacation pay, (2) the Executive's reimbursable business expenses, (3) our Chief Executive Officer's annual incentive compensation and any special cash incentive award for the calendar year immediately preceding the calendar year in which the termination occurs if such annual incentive compensation or special cash incentive award has been determined or earned but not paid, and (4) the product of our Chief Executive Officer's two year average annual incentive compensation multiplied by a fraction, the numerator of which is the number of days in the year in which the termination occurs through the date of termination and the denominator of which is 365, and (B) the amount equal to the product of (x) two and (y) the sum of (I) our Chief Executive Officer's annual base salary and (II) our Chief Executive Officer's two year average annual incentive compensation and any special cash incentive award; or (ii) upon a termination within two years following a change in control, the aggregate of (A) our Chief Executive Officer's accrued but unpaid annual base salary and any accrued but unused vacation pay, (2) the Executive's reimbursable business expenses, (3) our Chief Executive Officer's annual annual incentive compensation for the calendar year immediately preceding the calendar year in which the termination occurs if such annual incentive compensation has been determined or earned but not paid, and (4) the product of our Chief Executive Officer's two year average annual incentive compensation multiplied by a fraction, the numerator of which is the number of days in the year in which the termination occurs through the date of termination and the denominator of which is 365, and (B) the amount equal to the product of (x) three and (y) the sum of (I) our Chief Executive Officer's annual base salary and (II) our Chief Executive Officer's two year average annual incentive compensation and any special cash incentive award. The value of the lump sum payment is inclusive of the excise tax gross-up amount set forth in this table and described in Note (4) below.

(2) As of December 31, 2010, our Chief Executive Officer held 1,429,999 unvested restricted stock units of the Company, granted our Chief Financial Officer held 70,000 unvested restricted stock units of the Company, and our President, Eagle Shipping International (USA) LLC an aggregate of 190,000 unvested restricted stock units of the Company. The restricted stock units provide that (i) if the executive is terminated on death or disability the unvested restricted stock units will vest and be paid out, (ii) if within 24 months following a change of control the executive is terminated without cause or terminates for good reason then the unvested restricted stock units will vest and be paid out. The amount equals the number of unvested restricted stock units held by the executive times $4.98, which was the closing price per share of Company common stock on December 31, 2010.

(3) The 4999 gross-up amount consists of the excise tax on the excess parachute amount under Section 4999 of the Code plus federal, state and local income tax, employment tax and excise tax on the gross-up. The parachute includes the value of vesting of stock options and restricted stock units assuming a cashout on December 31, 2010, and includes the lump sum payment, see Note (1) above. The following assumptions were used to calculate payments for the 4999 gross-up amount: (i) equity is valued based on closing price of Company stock on December 31, 2010 $4.98; (ii) parachute payments for stock options and restricted stock units were valued using Treasury Regulation Section 1.280G-1, Q&A 24(c); and (iii) a federal tax rate of 35%, NYS tax rate of 8.97% and NYC tax rate of 3.88% are assumed.

(4) See Note (3) above for assumptions used to calculate parachute payments with respect to vesting of stock options and restricted stock units.

Employment Agreement with Sophocles N. Zoullas

On June 19, 2008, we entered into an amended employment agreement with an original term of five years with Sophocles N. Zoullas pursuant to which he serves as our Chief Executive Officer. Either our Chief Executive Officer or we may terminate the employment agreement for any reason on 30 days' written prior notice. We may also terminate our Chief Executive Officer's employment at any time for cause.

Pursuant to the employment agreement, our Chief Executive Officer receives a minimum base salary per year in the amount of $875,000 and received an initial equity grant of 833,333 restricted stock units. Our Chief Executive Officer is eligible to participate in a performance annual incentive compensation pool, for senior executives, as well as discretionary amounts determined by the Compensation Committee. Our Chief Executive Officer is entitled to participate in the benefit plans and fringe benefits provided generally to similarly situated senior executives. The employment agreement also provides that we will provide our Chief Executive Officer with a life insurance policy during the term of the agreement with the amount and terms determined by mutual agreement.

In the event our Chief Executive Officer terminates his employment for other than good reason, our Chief Executive Officer is entitled to receive (i) his base salary and any unused vacation pay earned but unpaid up to the date of termination, (ii) reimbursement of any expenses for which he was due reimbursement, (iii) any annual incentive compensation actually earned for a completed year but unpaid as of the date of termination, and (iv) any annual incentive compensation earned for the uncompleted year, based upon his two year average annual incentive compensation (collectively, (i), (ii), (iii) and (iv) are referred to as the "Accrued Benefits").

In the event we terminate our Chief Executive Officer's employment without cause or our Chief Executive Officer terminates his employment for good reason, then in addition to the Accrued Benefits, our Chief Executive Officer is entitled to receive a lump sum payment in an amount equal to the product of (x) two and (y) the sum of (I) his annual base salary and (II) our Chief Executive Officer's two year average annual incentive compensation and any special cash incentive award. Following a change of control, our Chief Executive Officer may be entitled to an enhanced "double trigger" severance payment. In the event that we terminate our Chief Executive Officer's employment without cause or our Chief Executive Officer terminates his employment for good reason following a change of control, the lump sum payment is in an amount equal to the product of (x) three and (y) the sum of (I) our Chief Executive Officer's annual base salary and (II) our Chief Executive Officer's two year average annual incentive compensation and any special cash incentive award. In addition, we will continue his health insurance (for our Chief Executive Officer and his dependents)

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during for two years (or three years if we terminate our Chief Executive Officer's employment without cause or our Chief Executive Officer terminates his employment for good reason following a change of control). Our Chief Executive Officer does not receive a lump sum payment in the event he is terminated for cause, which we may do at any time such cause exists. In the event that his employment is terminated for cause, we are only obligated to provide our Chief Executive Officer with the Accrued Benefits. If our Chief Executive Officer dies or becomes disabled while employed by us, all of his rights under the employment agreement terminate except that (i) we are required to pay our Chief Executive Officer his Accrued Benefits. (ii) any stock options or stock appreciation rights shall become fully exercisable and shall remain exercisable for a period of 12 months after the termination of employment due to such death or disability (or until the earlier original expiration date of such options or stock appreciation rights), and (iii) any restricted stock or restricted stock units shall become fully vested.

The employment agreement provides for a gross-up for any excise taxes under Section 4999 of the Code imposed on excess parachute payments which may become payable to the executive, whether such payments arise with respect to accelerated vesting of the restricted stock units or under other plans or agreements.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides certain information as of the end of fiscal year 2010 with respect to shares that may be issued under the Company's equity incentive plans:

Plan category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options, warrants (b)	Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,063483	12.27	2,494,036
Equity compensation plans not approved by security holders	none		

2010 DIRECTOR COMPENSATION TABLE

The following Director Compensation Table sets forth the compensation of our Directors (who are not executive officers of the Company) for the fiscal year ending on December 31, 2010.

Name	Fees earned or paid in cash ($)(1)	Stock Awards ($)	Option Awards ($)(2)	Non-equity incentive plan compensation($)	Change in pension value and nonqualified deferred compensation earnings ($)	All Other Compensation ($)	Total ($)
Joseph M. Cianciolo (3)	$ 333,500	—	$ 149,259	—	—	—	$ 482,759
David B. Hiley	$ 187,000	—	$ 149,259	—	—	—	$ 336,259
Douglas P. Haensel (4)	$ 281,000	—	$ 149,259	—	—	—	$ 430,259
Jon Tomasson (5)	$ 326,000	—	$ 149,259	—	—	—	$ 475,259
Thomas B. Winmill (6)	$ 112,000	—	$ 114,403	—	—	—	$ 226,403
Forrest E. Wylie (6)	$ 80,299	—	—	—	—	—	$ 80,299

(1) Represents, for each non-employee Director, a cash retainer of $95,000, a payment of $3,000 for attendance at each board meeting and a payment of $2,500 for attendance at each committee meeting.

(2) The amounts shown in this column represent the aggregate grant date fair value of stock options granted in 2010 computed in accordance with FASB ASC Topic 718, "Stock Compensation". The stock options consist of 50,000 options per non-employee Director to purchase the Company's common shares, which vested on the grant date. See notes to our audited financial statements included in our 2010 Annual Report on Form 10-K for the assumptions used.

(3) Includes a cash retainer of $30,000 for serving as chairman of the Audit Committee and $65,000 for serving on the Conflicts Committee.

(4) Includes a cash retainer of $20,000 for serving as chairman of the Nominating and Governance Committee and $65,000 for serving on the Conflicts Committee.

(5) Includes a cash retainer of $25,000 for serving as chairman of the Compensation Committee and $65,000 for serving on the Conflicts Committee.

(6) Mr. Winmill was elected at our Annual General Meeting on May 20, 2010 to replace Mr. Wylie, who had determined not to stand for re-election.

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed PricewaterhouseCoopers as independent registered public accounting firm of Eagle Bulk Shipping for the fiscal year 2011, subject to the ratification of the stockholders at the Annual Meeting. If the appointment is not ratified by stockholders, the selection of the Corporation's independent registered public accounting firm will be reconsidered by the Audit Committee.

Ernst & Young LLP served as the independent registered public accounting firm of the Corporation from the organization of the Corporation in 2005 through the fiscal year ended December 31, 2010. On March 24, 2010, the Audit Committee dismissed Ernst & Young LLP as the independent registered public accounting firm of the Corporation and engaged PricewaterhouseCoopers in such position for 2011. The reports of Ernst & Young LLP on the consolidated financial statements of Eagle Bulk Shipping for the years ended December 31, 2010 and 2009 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle. During the Company's fiscal years ended December 31, 2010 and 2009, there were no disagreements with Ernst & Young LLP on any matter of accounting principles or practices, financial statements disclosure or auditing scope or procedure, which disagreements, if not resolved to Ernst & Young LLP's satisfaction, would have caused Ernst & Young LLP to make reference to the subject matter of such disagreements in its reports on the Corporation's consolidated financial statements for such years or period.

Fees to former Independent Registered Public Accounting Firm

As outlined in the table below, we incurred the following fees for the fiscal years ended December 31, 2010 and December 31, 2009, respectively, for professional services rendered by Ernst & Young LLP for the audit of the Company's annual financial statements and for audit-related services, tax services and all other services, as applicable.

Type of Fees	2010	2009
Audit Fees	$557,500	$493,000
Audit-Related Fees	465,000	0
Tax Fees	15,000	44,000
All Other Fees	0	0
Total	$1,037,500	$537,000

Audit fees for fiscal year 2010 and 2009 include professional services rendered by Ernst & Young LLP for the annual audit of the Company's financial statements and internal controls, the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q, and for services related to our offering under an equity distribution agreement in 2009.

Audit-related fees for 2010 include professional services rendered for assurance and related services that are reasonably related to the performance of the audit of the Company's financial statements.

Tax fees for fiscal years 2010 and 2009 related to tax planning and tax compliance services.

REPORT OF THE AUDIT COMMITTEE

The role of the Audit Committee is to assist the Board of Directors in its oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company and the independence and performance of the Company's auditors. The Board of Directors, in its business judgment, has determined that all members of the Audit Committee are "independent", as provided under the applicable listing standards of the Nasdaq Global Market and by Rule 10A-3 under the Securities Exchange Act of 1934. The Audit Committee operates pursuant to a Charter that was adopted by the Board of Directors on June 3, 2005, as amended in November 2006. As set forth in the Charter, the Committee's job is one of oversight. Management is responsible for the preparation, presentation and integrity of the Company's financial statements. Management is also responsible for maintaining appropriate accounting and financial reporting principles and practices and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent registered public accounting firm is responsible for auditing the annual financial statements, expressing an opinion based on their audit as to the statements' conformity with generally accepted accounting principles, reviewing the Company's quarterly financial statements prior to the filing of each Quarterly Report on Form 10-Q and discussing with the Committee any issues they believe should be raised with the Committee.

The Committee met with the Company's independent registered public accounting firm to review and discuss the overall scope and plans for the audit of the Company's consolidated financial statements for the year ended December 31, 2010. The Committee has considered and discussed with management and the independent registered public accounting firm (both alone and with management present) the audited financial statements as well as the independent registered public accounting firm's evaluation of the Company's internal control over financial reporting and the overall quality of the Company's financial reporting. Management represented to the Committee that the Company's financial statements were prepared in accordance with generally accepted accounting principles, and the Committee reviewed and discussed the financial statements with management.

The Audit Committee has also discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as currently in effect. Finally, the Audit Committee has received written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, as currently in effect, and a formal written statement from the independent registered public accounting firm, confirmed by management, of the fees billed for audit services, and other non-audit services rendered by the independent registered public accounting firm for the most recent fiscal year. The Audit Committee has considered whether the provision of non-audit services by the independent registered public accounting firm to the Company is compatible with maintaining the independent registered public accounting firm's independence and has discussed with the independent registered public accounting firm their independence.

The members of the Audit Committee are not professionally engaged in the practice of auditing or accounting and, with the exception of the Chairman of the Audit Committee, are not experts in the field of auditing or accounting, including in respect of auditor independence. Members of the Audit Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent registered public accounting firm. Accordingly, the Audit Committee's activities do not provide an independent basis to determine that management has maintained appropriate internal control and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to above do not assure that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that the Company's independent registered public accounting firm is in fact "independent."

Based upon the Audit Committee's receipt and review of the various materials and assurances described above and its discussions with management and the independent registered public accounting firm, and subject to the limitations on the role and responsibilities of the Audit Committee referred to above and in the Charter, the Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission.

Submitted by the Audit Committee of the Board of Directors:

Joseph M. Cianciolo
Douglas P. Haensel
David B. Hiley

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL
OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of Eagle Bulk Shipping's voting common stock as of April 4, 2011 of:

each person, group or entity known to Eagle Bulk Shipping to beneficially own more than 5% of our stock;

each of our Directors and Director nominees;

each of our Named Executive Officers; and

all of our Directors and executive officers as a group.

As of the March 24, 2011 record date, a total of 62,560,436 shares of common stock were outstanding and entitled to vote at the Annual Meeting. Each share of common stock is entitled to one vote on matters on which common shareholders are eligible to vote.

The amounts and percentages of common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of that security, or "investment power," which includes the power to dispose of or to direct the disposition of that security. A person is also deemed to be a beneficial owner of any securities as to which that person has a right to acquire beneficial ownership presently or within 60 days. Under these rules, more than one person may be deemed a beneficial owner of the same securities, and a person may be deemed to be the beneficial owner of securities as to which that person has no economic interest.

Ownership of Common Stock

	Shares Beneficially Owned (1)		
Name	Number	Percentage	
Sophocles N. Zoullas (2)	1,182,677	1.9	%
Alan S. Ginsberg (3)	158,221	*	
Joseph M. Cianciolo (4)	172,230	*	
David B. Hiley (5)	167,896	*	
Douglas P. Haensel (6)	166,230	*	
Jon Tomasson (7)	166,230	*	
Thomas B. Winmill (8)	100,000	*	
Alexis P. Zoullas (9)	72,924	*	
Directors and Executive Officers as a group (8 persons)	2,086,408	3.34	%
Dimensional Fund Advisors, Inc. (10)	4,757,813	7.61	%
Blackrock, Inc. (10)	3,414,269	5.46	%

* Percentage less than 1% of class.

(1) Shares subject to options that are exercisable presently or within 60 days are considered outstanding for the purpose of determining the percent of the class held by the holder of such option, but not for the purpose of computing the percentage held by others.

(2) Mr. Sophocles N. Zoullas's beneficial ownership represents 957,677 shares of our common stock and options that are exercisable to purchase 225,000 shares of our common stock granted under the Eagle Bulk Shipping Inc. Stock Incentive Plan.

(3) Mr. Ginsberg's beneficial ownership represents 68,221 shares of our common stock and options that are exercisable to purchase 90,000 shares of our common stock granted under the Eagle Bulk Shipping Inc. Stock Incentive Plans.

(4) Mr. Cianciolo's beneficial ownership represents 5,000 shares granted as restricted stock awards under the Eagle Bulk Shipping Inc. Stock Incentive Plan and options to purchase 166,230 shares of our common stock granted under the Eagle Bulk Shipping Inc. Stock Incentive Plans, all 166,230 of which are currently exercisable. Mr. Cianciolo may also be deemed to be the beneficial owner of 1,000 shares of our common stock purchased in the open market.

(5) Mr. Hiley's beneficial ownership represents 5,000 shares granted as restricted stock awards under the Eagle Bulk Shipping Inc. 2005 Stock Incentive Plan and options to purchase 162,896 shares of our common stock granted under the Eagle Bulk Shipping Inc. Stock Incentive Plans, all 162,896 of which are currently exercisable.

(6) Mr. Haensel's beneficial ownership represents 5,000 shares granted as restricted stock awards under the Eagle Bulk Shipping Inc. 2005 Stock Incentive Plan and options to purchase 161,230 shares of our common stock granted under the Eagle Bulk Shipping Inc. Stock Incentive Plans, all 161,230 of which are currently exercisable.

(7) Mr. Tomasson's beneficial ownership represents 5,000 shares granted as restricted stock awards under the Eagle Bulk Shipping Inc. 2005 Stock Incentive Plan and options to purchase 161,230 shares of our common stock granted under the Eagle Bulk Shipping Inc. Stock Incentive Plans, all 161,230 of which are currently exercisable.

(8) Mr. Winmill's beneficial ownership represents options to purchase 100,000 shares of our common stock granted under the Eagle Bulk Shipping Inc. Stock Incentive Plan, all 100,000 of which are currently exercisable.

(9) Mr. Alexis P. Zoullas's beneficial ownership represents 56,257 shares granted as restricted stock awards under the Eagle Bulk Shipping Inc. Stock Incentive Plans and options to purchase 16,667 shares of our common stock granted under the Eagle Bulk Shipping Inc. 2005 Stock Incentive Plan, all 16,667 of which are currently exercisable.

(10) The beneficial ownership is based on latest available filing on Schedule 13G made or other relevant filings made with the U.S. Securities and Exchange Commission.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Related Person Transaction Approval Policy

It is the Company's policy to enter into or ratify "Related Person Transactions" only when the Board of Directors, acting through the Audit Committee or another independent committee established by the Board of Directors, determines that the Related Person Transaction in question is in, or is not inconsistent with, the best interests of the Company and its shareholders. A "Related Person Transaction" is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which the Company is, was or will be a participant and the amount involved exceeds $120,000, and in which any "Related Person" (as defined in relevant SEC rules) had, has or will have a direct or indirect material interest. A Related Person Transaction includes, but is not limited to, situations where the Company may obtain products or services of a nature, quantity or quality, or on other terms, that are not readily available from alternative sources or when the Company provides products or services to Related Persons on an arm's length basis on terms comparable to those provided to unrelated third parties or on terms comparable to those provided to employees generally.

On August 4, 2009, the Company entered into a management agreement (the "Management Agreement") with Delphin Shipping LLC ("Delphin"), a Marshall Islands limited liability company affiliated with Kelso Investment Associates VII, KEP VI, LLC and the Company's Chief Executive Officer, Sophocles Zoullas. During our fiscal year ended December 31, 2010, we provided commercial and technical management services to Delphin resulting in revenues to us of $12,259.

PROPOSAL NO. 2

RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed the firm of Pricewaterhouse Coopers LLP as the Company's independent registered public accounting firm to audit the financial statements of Eagle Bulk Shipping for the fiscal year ending December 31, 2011 and recommends that shareholders vote to ratify this appointment. Representatives of Pricewaterhouse Coopers LLP are expected to be present at the Annual Meeting, will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions. The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and voting at the Annual Meeting will be required to ratify the selection of Pricewaterhouse Coopers LLP.

If the shareholders fail to ratify the selection, the Audit Committee will reconsider its selection of auditors. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of different independent registered public accounting firm at any time during the year if it determines that such change would be in the best interests of the Company and its shareholders.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" PROPOSAL NO. 2, THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSE COOPERS LLP AS EAGLE BULK SHIPPING'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2011.

PROPOSAL NO. 3

NON-BINDING VOTE TO APPROVE EXECUTIVE COMPENSATION

Background of the Proposal

The Dodd-Frank Act requires all domestic public companies, beginning with their shareholder meetings on or after January 21, 2011, to hold a separate non-binding, advisory shareholder vote to approve the compensation of executive officers as described in the Compensation Discussion and Analysis, the executive compensation tables and any related information in each such company's proxy statement (commonly known as a "Say on Pay" proposal).

Because your vote on this proposal is advisory, it will not be binding on the Board or the Company. However, the Compensation Committee and the Board of Directors values the opinions of the Company's shareholders, and will take into account the outcome of the vote when considering future executive compensation arrangements.

The compensation of the Company's Named Executive Officers is set forth in the Compensation Discussion and Analysis section, the tabular disclosure regarding such compensation and the accompanying narrative discussion. As described in greater detail in the Compensation Discussion and Analysis section, our compensation program is designed to attract, motivate and retain executives who possess the talent, leadership and commitment needed to operate our business, create and implement new opportunities, anticipate and effectively respond to new challenges, and make and executive difficult decisions.

The Compensation Committee believes that our executive compensation program is strongly aligned with performance of our Company. The majority of each executive officer's compensation is incentive-based, and varies annually based on the Compensation Committee's assessment of strategic and operational achievements which will enhance shareholder value. In making its determinations regarding incentive compensation, the Committee considers Company performance across a wide range of quantitative, qualitative, operational and strategic measures and determines annual incentive compensation on a discretionary basis following a comprehensive assessment of the macro-economic environment, the Company's performance, and each executive's contribution to that performance.

Based on our performance in 2010, we believe that the compensation paid to our Named Executive Officers was appropriate and that our compensation program is in the best interests of the Company and its shareholders.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" PROPOSAL NO. 3, THE NON-BINDING VOTE TO APPROVE EAGLE BULK SHIPPING'S EXECUTIVE COMPENSATION FOR FISCAL YEAR 2010.

PROPOSAL NO. 4

NON-BINDING VOTE TO RECOMMEND THE FREQUENCY
OF EXECUTIVE COMPENSATION VOTES

Background of the Proposal

The Dodd-Frank Act also requires all domestic public companies, beginning with their shareholder meetings on or after January 21, 2011, to permit a separate non-binding, advisory shareholder vote with respect to the frequency of the vote on the Say on Pay proposal thereafter. Companies must give shareholders the choice of whether to cast an advisory vote on the Say on Pay proposal every year, every two years or every three years (commonly known as the "Frequency Vote on Say on Pay"). Shareholders may also abstain from making a choice, pursuant to proposed rules recently issued by the SEC. After such initial votes are held, the Dodd-Frank Act requires all public companies to submit to their shareholders no less often than every six years thereafter the Frequency Vote on Say on Pay.

Frequency Vote on Say on Pay

For the reasons described below, the Board of Directors unanimously recommends that shareholders select "THREE YEARS" as your preference for this Proposal No. 4.

The Board believes that a significant portion of compensation for the Company's executive officers has historically been in the form of long-term incentive compensation. The Board believes that the effective use of stock-based long-term incentive compensation has been integral to the Company's success in the past and is vital to its ability to achieve continued strong performance in the future and therefore delivers a portion of each executive's incentive compensation in the form of equity. These awards are intended to align the interests of executives with those of shareholders, enhance the personal stake of executive officers in the growth and success of the Company, provide an incentive for the executive officers' continued service at the Company, and provide an opportunity for executives to increase their stock ownership levels.

The Board believes that giving our shareholders the right to cast an advisory vote once every three years on their approval of the compensation arrangements of our named executive officers would be most consistent with, and provide better input on, the Company's long-term compensation, which constitutes a significant portion of the compensation of our named executives. In addition, a three-year cycle will provide shareholders sufficient time to evaluate the effectiveness of our short- and long-term compensation strategies and the related business outcomes of the Company. Furthermore, a three-year vote cycle gives the Board sufficient time to thoughtfully consider the results of the advisory vote and to implement any desired changes to our executive compensation policies and procedures.

Although the Board recommends that the Say on Pay proposal be voted on once every three years, our shareholders will be able to specify one of four choices for the frequency of the vote on the Say on Pay proposal as follows: (i) three years, (ii) two years, (iii) one year or (iv) abstain. Shareholders are not voting to approve or disapprove of the Board's recommendation of an annual vote on the Say on Pay Proposal.

The option of three years, two years or one year that receives the highest number of votes cast by our shareholders will be the frequency for the advisory vote on executive compensation that has been selected by our shareholders. However, because this vote is advisory and will not be binding on the Board or the Company, the Board may decide that it is in the best interests of our shareholders and the Company to hold an advisory vote on executive compensation more or less frequently than the option approved by our shareholders.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS SELECT "THREE YEARS" AS YOUR PREFERENCE FOR PROPOSAL NO. 4, THE NON-BINDING VOTE TO APPROVE THE FREQUENCY OF ADVISORY VOTES ON EAGLE BULK SHIPPING'S EXECUTIVE COMPENSATION.

SHAREHOLDER PROPOSALS FOR THE 2012 ANNUAL MEETING OF SHAREHOLDERS

Any shareholder desiring to present a proposal for inclusion in the proxy statement for the Company's 2012 Annual Meeting of Shareholders must deliver the proposal to the Secretary of the Company not later than December 7, 2011. Only those proposals that comply with Eagle Bulk Shipping's By-Laws and the requirements of Rule 14a-8 of the Exchange Act of 1934, as amended, will be included in the Company's proxy statement for the 2012 Annual Meeting of Shareholders.

Shareholders may present proposals that are proper subjects for consideration at an annual meeting, even if the proposal is not submitted by the deadline for inclusion in the proxy statement. To do so, the shareholder must comply with the procedures specified in the Company's amended and restated by-laws which have been filed as Exhibit 3.2 to our registration statement on Form S-1 (as amended on June 22, 2005) and are available in print upon request from the Secretary. Our amended and restated by-laws require all shareholders who intend to make proposals at an annual meeting of shareholders to submit their proposals to the Secretary not fewer than 90 and not more than 120 days before the anniversary date of the previous year's annual meeting of shareholders. The by-laws also provide that nominations for Director may only be made by the Board of Directors (or an authorized Board of Directors committee) or by a shareholder of record entitled to vote who sends notice to the Secretary not fewer than 90 nor more than 120 days before the anniversary date of the previous year's annual meeting of shareholders. Any nomination by a shareholder must comply with the procedures specified in the Company's by-laws. To be eligible for consideration at the 2012 Annual Meeting, proposals that have not been submitted by the deadline for inclusion in the proxy statement and any nominations for Director must be received by the Secretary between January 17, 2012 and February 17, 2012. This advance notice period is intended to allow all shareholders an opportunity to consider all business and nominees expected to be considered at the meeting.

All submissions to, or requests from, the Secretary should be made to: Alan S. Ginsberg, Secretary of Eagle Bulk Shipping Inc., at 477 Madison Avenue, Suite 1405, New York, New York 10022.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Pursuant to Section 16(a) of the Exchange Act and the rules thereunder, the Company's executive officers and Directors and persons who own more than 10% of a registered class of Eagle Bulk Shipping's equity securities are required to file with the SEC reports of their ownership of, and transactions in, the Company's common stock. Based solely on a review of copies of such reports furnished to the Company, and written representations that no reports were required, the Company believes that during the fiscal year ended December 31, 2010 its executive officers and Directors complied with the Section 16(a) requirements.

IMPORTANT NOTICE REGARDING DELIVERY OF SHAREHOLDER DOCUMENTS

The SEC has adopted rules that permit companies and intermediaries such as brokers to satisfy proxy material delivery requirements with respect to two or more shareholders sharing the same address by delivering a single proxy statement and annual report addressed to those shareholders. This process, which is referred to as "householding," potentially provides extra convenience for shareholders and reduces printing and postage costs for companies.

The Company and some brokers utilize the householding process for proxy materials. In accordance with a notice sent to certain shareholders who share a single address, only one copy of this Proxy Statement and the Company's 2010 Annual Report is being sent to that address, unless we received contrary instructions from any shareholder at that address. Shareholders who participate in householding will continue to receive separate proxy cards. Householding will continue until you are notified otherwise or until one or more shareholders at your address revokes consent. If you revoke consent, you will be removed from the householding program within 30 days of receipt of the revocation. If you hold your Company stock in "street name," additional information regarding householding of proxy materials should be forwarded to you by your broker.

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If you wish to receive a separate copy of this proxy statement or the Company's 2010 Annual Report, or would like to receive separate proxy statements and annual reports in the future, or if you are receiving multiple copies of annual reports and proxy statements at an address shared with another shareholder and would like to participate in householding, please notify your broker if your shares are held in a brokerage account or us if you hold registered shares. You can notify us by sending a written request to Alan S. Ginsberg, Secretary of Eagle Bulk Shipping Inc., at 477 Madison Avenue, Suite 1405, New York, New York 10022.

OTHER MATTERS

At the date of this proxy statement, management was not aware that any matters not referred to in this proxy statement would be presented for action at the Annual Meeting. If any other matters should come before the Annual Meeting, the persons named in the accompanying proxy will have discretionary authority to vote all proxies in accordance with their best judgment, unless otherwise restricted by law.

BY ORDER OF THE BOARD OF DIRECTORS

Dated: April 5, 2011