

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC

Form N-30B-2

April 27, 2012

**Item 1. Schedule of Investments.**

The Schedule(s) of Investments is attached herewith.

FLAHERTY & CRUMRINE PREFERRED INCOME FUND

To the Shareholders of Flaherty & Crumrine Preferred Income Fund:

The Fund is off to a strong start in the new fiscal year. During the three month period ending February 29<sup>th</sup>, total return<sup>1</sup> on net asset value of the Fund was +11.0%. Total return based on market price of Fund shares for the period was +17.1%. A portion of the Fund's NAV return in the quarter was recovery from the prior two quarters when total return was -4.8%. To provide context for return during the period, the comparable measure on the S&P 500 was +10.1%, and +2.0% for the Barclays Capital U.S. Aggregate Index.

A number of factors contributed to the strong performance. U.S. investor confidence turned positive after several months of decline. The labor picture is improving, corporate earnings have been rising, and the housing market is finally picking up. Europe appears to have stepped back from the precipice of economic disaster, as policy makers have flooded the continent with liquidity. Interest rates around the globe hover near historically low levels and are not expected to rise substantially anytime soon. All of this has stimulated demand for high-yielding assets, especially preferred securities.

Returns of this magnitude are rare, even in periods of above-average market volatility such as we've experienced over the past several years. And while we enjoy double digit quarterly returns as much as the next shareholder, we know it is unlikely to be replicated.

With spring training in full swing it is hard to resist dusting off some baseball analogies. Your Fund is like a part of the lineup built to get singles and doubles and lead the league in on-base percentage. Other investments are intended to hit home runs, and we trust shareholders will determine if these also belong on their team. We've tortured you with this to make a point investors shouldn't expect this type of quarterly Fund performance to be repeated.

Again, for several quarters we have seen signs of improvement in the U.S. economy, though the pace of growth has been well short of robust. The sovereign debt crisis in Europe appears to be moderating, although economic risks remain elevated in that region. Neither area is out of the woods and recovery could be easily derailed, but we believe the worst is behind us. Our Quarterly Economic Outlook can be viewed on the Fund's website.

We expect new bank capital guidelines to be issued by the Federal Reserve very soon. Patient readers will recall we have said this before, and eventually we will be right! With the new rules set to go into effect in January 2013, time is running out for the regulators. The new guidelines, when issued, will provide the final pieces of the regulatory capital overhaul which grew out of the financial crisis. We've known for some time that most forms of trust preferred and hybrid preferred securities will eventually no longer count towards regulatory capital requirements. We're waiting to learn what can be used instead.

Even without clear guidelines from regulators, a handful of banks recently have issued new preferred stock with terms *expected* to conform to the new rules. These securities are all *perpetual, non-cumulative preferred stock*. This is the basic form of capital we believe will ultimately replace much of the bank preferred capital currently outstanding.

We don't think the transition will be immediate; nor is it likely that all of the older non-qualifying capital will be replaced with newer good Tier 1 capital. We have tried to anticipate the shift and stay ahead of the pack by selling some securities which may be called in the near term and reinvesting in suitable replacements. This type of proactive management has always been part of our investment approach.

<sup>1</sup> Following the methodology required by the SEC, total return assumes dividend reinvestment and includes income and principal change, plus the impact of the Fund's leverage and expenses.

Another fundamental part of our investment process is the hard work of credit analysis. The experience of the past few years has reinforced our commitment to rely on our own independent and objective research focused on the preferred level of the capital structure. The national rating agencies (Moody's, S&P, and Fitch) often seem to shoot where the rabbit was, especially when it comes to preferred securities.

Although we sometimes disagree with the agencies on their overall ratings of specific credits, we often disagree with their ratings on preferred securities. This divergence typically results from agencies' mechanical notching of preferred securities down from a company's senior debt rating. In simplified terms, notching is the formulaic lowering of a security's rating by a predetermined number of rating categories simply based on where it fits in a company's capital structure. In our view, this methodology is arbitrary.

Our approach is to study every *issuer* to understand its business and financial condition, and every *issue* to understand its terms and conditions. Because we are investing in subordinated securities, it is essential that we understand the precise terms, many of which can be buried deep in the legal terms of the issue. With this knowledge we are better equipped to understand the full scope of risk associated with a specific security, and only then can we start to address questions of valuation.

As always, we encourage you to visit the Fund's website [www.preferredincome.com](http://www.preferredincome.com) for a more in-depth discussion of conditions in both preferred markets and the broader economy.

Sincerely,

Donald F. Crumrine  
Chairman

Robert M. Ettinger  
President

April 16, 2012

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OVERVIEW****February 29, 2012 (Unaudited)****Fund Statistics**

|                                 |            |
|---------------------------------|------------|
| Net Asset Value                 | \$ 12.42   |
| Market Price                    | \$ 15.60   |
| Premium                         | 25.60%     |
| Yield on Market Price           | 7.15%      |
| Common Stock Shares Outstanding | 10,864,451 |

**Moody's Ratings**

|                          | % of Net Assets |
|--------------------------|-----------------|
| A                        | 6.1%            |
| BBB                      | 71.4%           |
| BB                       | 18.6%           |
| Below BB                 | 0.9%            |
| Not Rated*               | 0.1%            |
| Below Investment Grade** | 10.2%           |

\* Does not include net other assets and liabilities of 2.9%.

\*\* Below investment grade by all of Moody's, S&P, and Fitch.

**Industry Categories****% of Net Assets****Top 10 Holdings by Issuer**

|                            | % of Net Assets |
|----------------------------|-----------------|
| Banco Santander, S.A.      | 5.0%            |
| Metlife                    | 4.1%            |
| Capital One Financial      | 3.9%            |
| Liberty Mutual Group       | 3.8%            |
| HSBC PLC                   | 3.7%            |
| Goldman Sachs Group        | 3.7%            |
| PNC Financial Services     | 3.6%            |
| Southern California Edison | 3.5%            |
| Wells Fargo                | 2.9%            |
| Bank of America            | 2.9%            |

|  | % of Net Assets*** |
|--|--------------------|
| Holdings Generating Qualified Dividend Income (QDI) for Individuals                      | 41%                |
| Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD) | 29%                |

\*\*\* This does not reflect year-end results or actual tax categorization of Fund distributions. These percentages can, and do, change, perhaps significantly, depending on market conditions. Investors should consult their tax advisor regarding their personal situation. Net Assets includes assets attributable to the use of leverage.

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS****February 29, 2012 (Unaudited)**

| Shares/\$ Par                          |   | Value                           |
|--|---|---------------------------------|
| <b>Preferred Securities 90.8%</b>      |   |                                 |
| <b>Banking 38.6%</b>                   |   |                                 |
| Astoria Financial:                     |   |                                 |
| \$ 2,750,000                           | Astoria Capital Trust I, 9.75% 11/01/29, Series B             | \$ 2,862,813 <sup>(1)</sup>     |
| Banco Bilbao Vizcaya Argentaria, S.A.: |   |                                 |
| \$ 1,500,000                           | BBVA International Preferred, 5.919%                          | 1,169,515 <sup>*(1)(2)(3)</sup> |
| Banco Santander, S.A.:                 |   |                                 |
| 355,000                                | Banco Santander, 10.50% Pfd., Series 10                       | 10,089,988 <sup>*(1)(3)</sup>   |
| Bank of America:                       |   |                                 |
| 2,837                                  | Bank of America Corporation, 6.70% Pfd.                       | 68,088 <sup>*(1)</sup>          |
| 73,670                                 | Bank of America Corporation, 8.625% Pfd.                      | 1,877,112 <sup>*</sup>          |
| \$ 550,000                             | BankAmerica Capital II, 8.00% 12/15/26                        | 554,812                         |
| \$ 500,000                             | BankAmerica Institutional, Series A, 8.07% 12/31/26, 144A**** | 504,375                         |
| 2,500                                  | Countrywide Capital IV, 6.75% Pfd. 04/01/33                   | 60,529                          |
| 15,000                                 | Countrywide Capital V, 7.00% Pfd. 11/01/36                    | 361,388                         |
| \$ 500,000                             | Fleet Capital Trust II, 7.92% 12/11/26                        | 498,125                         |
| \$ 550,000                             | MBNA Capital, 8.278% 12/01/26, Series A                       | 558,992                         |
| \$ 1,303,000                           | NB Capital Trust IV, 8.25% 04/15/27                           | 1,327,431 <sup>(1)</sup>        |
| Barclays Bank PLC:                     |   |                                 |
| \$ 3,250,000                           | Barclays Bank PLC, 6.278%                                     | 2,629,455 <sup>*(1)(3)</sup>    |
| 3,700                                  | Barclays Bank PLC, 7.75% Pfd., Series 4                       | 93,055 <sup>*(3)</sup>          |
| 72,500                                 | Barclays Bank PLC, 8.125% Pfd., Series 5                      | 1,852,375 <sup>*(1)(3)</sup>    |
| BNP Paribas:                           |   |                                 |
| \$ 1,750,000                           | BNP Paribas, 7.195%, 144A****                                 | 1,548,750 <sup>*(1)(2)(3)</sup> |
| Capital One Financial:                 |   |                                 |
| \$ 4,750,000                           | Capital One Capital III, 7.686% 08/15/36                      | 4,850,937 <sup>(1)(2)</sup>     |
| \$ 500,000                             | Capital One Capital V, 10.25% 08/15/39                        | 523,750 <sup>(1)</sup>          |
| \$ 2,500,000                           | Capital One Capital VI, 8.875% 05/15/40                       | 2,596,100 <sup>(1)(2)</sup>     |
| Citigroup:                             |   |                                 |
| 23,250                                 | Citigroup Capital XII, 8.50% Pfd. 03/30/40                    | 605,953                         |
| 62,300                                 | Citigroup Capital XIII, 7.875% Pfd. 10/30/40                  | 1,689,046 <sup>(1)(2)</sup>     |
| Colonial BancGroup:                    |   |                                 |
| \$ 5,210,000                           | Colonial BancGroup, 7.114%, 144A****                          | 10,420 <sup>(4)(5)</sup>        |
| FBOP Corp.:                            |   |                                 |
| 9,000                                  | FBOP Corporation, Adj. Rate Pfd., 144A****                    | 4,500 <sup>*(4)(5)</sup>        |
| Fifth Third Bancorp.:                  |   |                                 |
| \$ 750,000                             | Fifth Third Capital Trust IV, 6.50% 04/15/37                  | 748,125                         |
| 30,000                                 | Fifth Third Capital Trust V, 7.25% Pfd. 08/15/67              | 760,800                         |
| 130,000                                | Fifth Third Capital Trust VI, 7.25% Pfd. 11/15/67             | 3,319,069 <sup>(1)(2)</sup>     |

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)****February 29, 2012 (Unaudited)**

| Shares/\$ Par                           |   | Value                          |
|---|---|--------------------------------|
| <b>Preferred Securities (Continued)</b> |   |                                |
| <b>Banking (Continued)</b>              |   |                                |
| First Horizon:                          |   |                                |
| 3,750                                   | First Tennessee Bank, Adj. Rate Pfd., 3.75% <sup>(6)</sup> , 144A**** | \$ 2,558,203 <sup>*(1)</sup>   |
| \$ 500,000                              | First Tennessee Capital II, 6.30% 04/15/34, Series B                  | 455,000                        |
| 1                                       | FT Real Estate Securities Company, 9.50% Pfd., 144A****               | 955,000                        |
| First Niagara Financial Group:          |   |                                |
| 90,000                                  | First Niagara Financial Group, Inc., 8.625% Pfd.                      | 2,494,035*                     |
| First Republic Bank:                    |   |                                |
| 10,050                                  | First Republic Bank, 6.70% Pfd.                                       | 259,014*                       |
| Goldman Sachs Group:                    |   |                                |
| \$ 1,750,000                            | Goldman Sachs, Capital I, 6.345% 02/15/34                             | 1,643,376 <sup>(1)(2)</sup>    |
| \$ 1,058,000                            | Goldman Sachs, Capital II, 5.793%                                     | 737,955 <sup>(1)(2)</sup>      |
| 2,800                                   | STRIPES Custodial Receipts, Adj. Rate, 10.70% <sup>(6)</sup> , Pvt.   | 1,358,000 <sup>*(4)(5)</sup>   |
| HSBC PLC:                               |   |                                |
| 132,900                                 | HSBC Holdings PLC, 8.00% Pfd., Series 2                               | 3,608,567 <sup>***(1)(3)</sup> |
| \$ 500,000                              | HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****                   | 508,875 <sup>(1)(2)</sup>      |
| 111,000                                 | HSBC USA, Inc., 6.50% Pfd., Series H                                  | 2,815,127 <sup>*(1)</sup>      |
| JPMorgan Chase:                         |   |                                |
| \$ 850,000                              | JPMorgan Chase Capital XVIII, 6.95% 08/17/36, Series R                | 868,785 <sup>(1)</sup>         |
| KeyCorp:                                |   |                                |
| 30,100                                  | Keycorp Capital X, 8.00% Pfd. 03/15/68                                | 788,620 <sup>(1)</sup>         |
| Lloyds Banking Group PLC:               |   |                                |
| \$ 550,000                              | Lloyds Banking Group PLC, 6.657%, 144A****                            | 382,250 <sup>***(3)</sup>      |
| Morgan Stanley:                         |   |                                |
| 25,000                                  | Morgan Stanley Capital Trust VI, 6.60% Pfd. 02/01/46                  | 612,500                        |
| PNC Financial Services:                 |   |                                |
| 200,000                                 | PNC Financial Services, 9.875% Pfd., Series L                         | 5,524,300 <sup>*(1)</sup>      |
| \$ 1,750,000                            | PNC Preferred Funding Trust III, 8.70%, 144A****                      | 1,811,791 <sup>(1)(2)</sup>    |
| Sovereign Bancorp:                      |   |                                |
| 1,750                                   | Sovereign REIT, 12.00% Pfd., Series A, 144A****                       | 2,012,348                      |
| SunTrust Banks:                         |   |                                |
| 6,025                                   | SunTrust Capital IX, 7.875% Pfd. 03/15/68                             | 154,391                        |
| US Bancorp:                             |   |                                |
| 9,000                                   | US Bancorp, 6.50% Pfd.  | 243,284*                       |
| Washington Mutual:                      |   |                                |
| \$ 1,000,000                            | Washington Mutual, 9.75%, 144A****                                    | 10,000                         |
| Webster Financial:                      |   |                                |
| \$ 1,600,000                            | Webster Capital Trust IV, 7.65% 06/15/37                              | 1,605,530 <sup>(1)</sup>       |

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 29, 2012 (Unaudited)

| Shares/\$ Par                           |  | Value                            |
|---|--|----------------------------------|
| <b>Preferred Securities (Continued)</b> |  |                                  |
| <b>Banking (Continued)</b>              |  |                                  |
| Wells Fargo:                            |  |                                  |
| \$ 1,500,000                            | First Union Capital II, 7.95% 11/15/29                         | \$ 1,556,749 <sup>(1)(2)</sup>   |
| \$ 2,400,000                            | Wachovia Capital Trust III, Adj. Rate, 5.56975% <sup>(6)</sup> | 2,208,000* <sup>(1)</sup>        |
| 7,372                                   | Wachovia Preferred Funding, 7.25% Pfd., Series A               | 194,271 <sup>(1)</sup>           |
| 1,305                                   | Wells Fargo & Company, 7.50% Pfd., Series L                    | 1,429,301* <sup>(1)</sup>        |
| 15,000                                  | Wells Fargo & Company, 8.00% Pfd., Series J                    | 438,750*                         |
|   |  | 78,399,525                       |
| <b>Financial Services 1.0%</b>          |  |                                  |
| Charles Schwab:                         |  |                                  |
| \$ 300,000                              | Charles Schwab Corporation, 7.00%                              | 313,557*                         |
| Credit Suisse Group:                    |  |                                  |
| \$ 1,000,000                            | Claudius, Ltd. - Credit Suisse AG, 7.875%, Series B            | 1,025,000 <sup>(3)</sup>         |
| HSBC PLC:                               |  |                                  |
| 23,704                                  | HSBC Finance Corporation, 6.36% Pfd., Series B                 | 591,687* <sup>(1)</sup>          |
| Lehman Brothers:                        |  |                                  |
| 15,000                                  | Lehman Brothers Holdings, Inc., 5.67% Pfd., Series D           | 4,200*                           |
| 19,500                                  | Lehman Brothers Holdings, Inc., 5.94% Pfd., Series C           | 195* <sup>(5)</sup>              |
| 25,000                                  | Lehman Brothers Holdings, Inc., 6.50% Pfd., Series F           | 250* <sup>(5)</sup>              |
| 27,500                                  | Lehman Brothers Holdings, Inc., 7.95% Pfd.                     | 138*                             |
|   |  | 1,935,027                        |
| <b>Insurance 18.6%</b>                  |  |                                  |
| Ace Ltd.:                               |  |                                  |
| \$ 975,000                              | Ace Capital Trust II, 9.70% 04/01/30                           | 1,313,432 <sup>(1)(3)</sup>      |
| Aon Corporation:                        |  |                                  |
| \$ 250,000                              | AON Corp, 8.205% 01/01/27                                      | 293,557                          |
| Arch Capital Group:                     |  |                                  |
| 14,300                                  | Arch Capital Group Ltd., 8.00% Pfd., Series A                  | 367,331** <sup>(1)(3)</sup>      |
| AXA SA:                                 |  |                                  |
| \$ 3,500,000                            | AXA SA, 6.379%, 144A****                                       | 2,835,000** <sup>(1)(2)(3)</sup> |
| Axis Capital:                           |  |                                  |
| 41,100                                  | Axis Capital Holdings, 7.50% Pfd., Series B                    | 3,885,236 <sup>(1)(2)(3)</sup>   |
| Delphi Financial:                       |  |                                  |
| 90,600                                  | Delphi Financial Group, 7.376% Pfd. 05/15/37                   | 2,301,811 <sup>(1)(2)</sup>      |
| Everest Re Group:                       |  |                                  |
| \$ 4,000,000                            | Everest Re Holdings, 6.60% 05/15/37                            | 3,785,000 <sup>(1)(2)</sup>      |

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)****February 29, 2012 (Unaudited)**

| Shares/\$ Par                           |  | Value                       |
|---|--|-----------------------------|
| <b>Preferred Securities (Continued)</b> |  |                             |
| <b>Insurance (Continued)</b>            |  |                             |
|   | Liberty Mutual Group:                                      |                             |
| \$ 4,100,000                            | Liberty Mutual Group, 10.75% 06/15/58, 144A****            | \$ 5,391,500 <sup>(1)</sup> |
|   | MetLife:   |                             |
| \$ 2,400,000                            | MetLife, Inc., 10.75% 08/01/39                             | 3,428,914 <sup>(1)(2)</sup> |
| \$ 900,000                              | MetLife Capital Trust IV, 7.875% 12/15/37, 144A****        | 994,500 <sup>(1)(2)</sup>   |
| \$ 3,150,000                            | MetLife Capital Trust X, 9.25% 04/08/38, 144A****          | 3,890,250 <sup>(1)(2)</sup> |
|   | PartnerRe Ltd.:  |                             |
| 30,000                                  | PartnerRe Ltd., 7.250% Pfd., Series E                      | 789,300** <sup>(1)(3)</sup> |
|   | Principal Financial:                                       |                             |
| 14,000                                  | Principal Financial Group, 5.563% Pfd., Series A           | 1,322,125* <sup>(1)</sup>   |
| 87,098                                  | Principal Financial Group, 6.518% Pfd., Series B           | 2,248,217* <sup>(1)</sup>   |
|   | StanCorp Financial Group:                                  |                             |
| \$ 1,300,000                            | Stancorp Financial Group, 6.90% 06/01/67                   | 1,215,500 <sup>(1)</sup>    |
|   | The Travelers Companies:                                   |                             |
| \$ 750,000                              | USF&G Capital, 8.312% 07/01/46, 144A****                   | 904,841 <sup>(1)(2)</sup>   |
|   | XL Group PLC:  |                             |
| \$ 3,375,000                            | XL Capital Ltd., 6.50%, Series E                           | 2,894,063 <sup>(1)(3)</sup> |
|   |  | 37,860,577                  |
|   | <b>Utilities 23.2%</b>                                     |                             |
|   | Alabama Power:   |                             |
| 10,350                                  | Alabama Power Company, 6.45% Pfd.                          | 286,890* <sup>(1)</sup>     |
|   | Baltimore Gas & Electric:                                  |                             |
| 10,000                                  | Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993  | 1,018,125* <sup>(1)</sup>   |
| 2,400                                   | Baltimore Gas & Electric Company, 7.125% Pfd., Series 1993 | 244,575*                    |
|   | Commonwealth Edison:                                       |                             |
| \$ 2,953,000                            | COMED Financing III, 6.35% 03/15/33                        | 2,953,942 <sup>(1)(2)</sup> |
|   | Constellation Energy:                                      |                             |
| 15,000                                  | Constellation Energy Group, 8.625% Pfd. 06/15/63, Series A | 409,650                     |
|   | Dominion Resources:  |                             |
| \$ 250,000                              | Dominion Resources Capital Trust I, 7.83% 12/01/27         | 252,529                     |
| \$ 3,500,000                            | Dominion Resources, Inc., 7.50% 06/30/66                   | 3,704,656 <sup>(1)(2)</sup> |
|   | Energy Future Competitive Holdings Corp.:                  |                             |
| \$ 750,000                              | TXU Electric Capital V, 8.175% 01/30/37                    | 161,250 <sup>(4)</sup>      |
|   | Entergy Arkansas:  |                             |
| 40,000                                  | Entergy Arkansas, Inc., 6.45% Pfd.                         | 1,007,500* <sup>(1)</sup>   |
|   | Entergy Louisiana:   |                             |
| 27,500                                  | Entergy Louisiana, Inc., 6.95% Pfd.                        | 2,740,548* <sup>(1)</sup>   |

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 29, 2012 (Unaudited)

| Shares/\$ Par                           |   | Value                       |
|---|---|-----------------------------|
| <b>Preferred Securities (Continued)</b> |   |                             |
| <b>Utilities (Continued)</b>            |   |                             |
| Georgia Power:                          |   |                             |
| 25,000                                  | Georgia Power Company, 6.50% Pfd., Series 2007A         | \$ 2,759,375*(1)            |
| Gulf Power:                             |   |                             |
| 7,500                                   | Gulf Power Company, 6.45% Pfd., Series 2007A            | 800,130*(1)                 |
| Indianapolis Power & Light:             |   |                             |
| 32,650                                  | Indianapolis Power & Light Company, 5.65% Pfd.          | 3,189,497*                  |
| Integrys Energy Group:                  |   |                             |
| \$ 2,725,000                            | WPS Resources Corporation, 6.11% 12/01/66               | 2,707,443 <sup>(1)(2)</sup> |
| Interstate Power & Light:               |   |                             |
| 181,208                                 | Interstate Power & Light Company, 8.375% Pfd., Series B | 5,159,445*(1)               |
| Nextera Energy:                         |   |                             |
| \$ 3,400,000                            | FPL Group Capital, Inc., 6.65% 06/15/67                 | 3,446,294 <sup>(1)(2)</sup> |
| Peco Energy:                            |   |                             |
| \$ 500,000                              | PECO Energy Capital Trust III, 7.38% 04/06/28, Series D | 495,140 <sup>(1)(2)</sup>   |
| PPL Corp.:                              |   |                             |
| \$ 2,500,000                            | PPL Capital Funding, 6.70% 03/30/67, Series A           | 2,465,105 <sup>(1)</sup>    |
| 18,890                                  | PPL Electric Utilities Corporation, 6.25% Pfd.          | 482,286*(1)                 |
| Puget Energy:                           |   |                             |
| \$ 3,800,000                            | Puget Sound Energy, Inc., 6.974% 06/01/67               | 3,805,480                   |
| South Carolina Electric & Gas:          |   |                             |
| 47,392                                  | Scana Corporation, 7.70% Pfd. 01/30/65                  | 1,398,064 <sup>(1)(2)</sup> |
| Southern California Edison:             |   |                             |
| 38,600                                  | Southern California Edison, 6.00% Pfd., Series C        | 3,835,875*(1)               |
| 9,000                                   | Southern California Edison, 6.125% Pfd., Series B       | 901,688*(1)                 |
| 22,410                                  | Southern California Edison, 6.50% Pfd., Series D        | 2,329,239*(1)               |
| Virginia Electric & Power:              |   |                             |
| 3,000                                   | Virginia Electric & Power Company, \$6.98 Pfd.          | 299,531*                    |
| Wisconsin Public Service:               |   |                             |
| 3,700                                   | Wisconsin Public Service Corporation, 6.88% Pfd.        | 376,128*                    |
|   |   | 47,230,385                  |
| <b>Energy 6.5%</b>                      |   |                             |
| Enbridge Energy Partners:               |   |                             |
| \$ 5,000,000                            | Enbridge Energy Partners LP, 8.05% 10/01/37             | 5,425,000 <sup>(1)(2)</sup> |
| Enterprise Products Partners:           |   |                             |
| \$ 4,100,000                            | Enterprise Products Partners, 8.375% 08/01/66, Series A | 4,442,387 <sup>(1)(2)</sup> |

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 29, 2012 (Unaudited)

| Shares/\$ Par                                   |   | Value                       |
|---|---|-----------------------------|
| <b>Preferred Securities (Continued)</b>         |   |                             |
| <b>Energy (Continued)</b>                       |   |                             |
| Kinder Morgan:                                  |   |                             |
| 3,500   | Kinder Morgan GP, Inc., 8.33% Pfd., 144A****              | \$ 3,401,781*               |
|   |   | 13,269,168                  |
| <b>Real Estate Investment Trust (REIT) 0.4%</b> |   |                             |
| PS Business Parks:                              |   |                             |
| 3,600   | PS Business Parks, Inc., 6.70% Pfd., Series P             | 91,341                      |
| 7,500   | PS Business Parks, Inc., 6.875% Pfd., Series R            | 199,500                     |
| 23,500  | PS Business Parks, Inc., 7.00% Pfd., Series H             | 596,254                     |
|   |   | 887,095                     |
| <b>Miscellaneous Industries 2.5%</b>            |   |                             |
| Ocean Spray Cranberries:                        |   |                             |
| 37,400  | Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****       | 3,337,950*(1)               |
| Textron, Inc.:                                  |   |                             |
| \$2,125,000                                     | Textron Financial Corporation, 6.00% 02/15/67, 144A****   | 1,625,625                   |
|   |   | 4,963,575                   |
| <b>Total Preferred Securities</b>               |   |                             |
| (Cost \$181,731,806)                            |   | 184,545,352                 |
| <b>Corporate Debt Securities 6.3%</b>           |   |                             |
| <b>Banking 2.5%</b>                             |   |                             |
| Goldman Sachs Group:                            |   |                             |
| \$3,675,000                                     | Goldman Sachs Group, 6.75% 10/01/37, Sub Notes            | 3,693,948 <sup>(1)(2)</sup> |
| Regions Financial:                              |   |                             |
| \$1,460,000                                     | Regions Financial Corporation, 7.375% 12/10/37, Sub Notes | 1,346,850                   |
|   |   | 5,040,798                   |
| <b>Insurance 2.2%</b>                           |   |                             |
| Liberty Mutual Group:                           |   |                             |
| \$2,500,000                                     | Liberty Mutual Insurance, 7.697% 10/15/97, 144A****       | 2,358,833 <sup>(1)(2)</sup> |
| Unum Group:                                     |   |                             |
| \$2,000,000                                     | UnumProvident Corporation, 7.25% 03/15/28                 | 2,149,738 <sup>(1)(2)</sup> |
|   |   | 4,508,571                   |

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 29, 2012 (Unaudited)

| Shares/\$ Par                                |   | Value                          |
|--|---|--------------------------------|
| <b>Corporate Debt Securities (Continued)</b> |   |                                |
|  | <b>Utilities 1.6%</b>   |                                |
|  | Southern Union:   |                                |
| \$ 2,700,000                                 | Southern Union Company, 8.25% 11/15/29                        | \$ 3,254,153 <sup>(1)(2)</sup> |
|  |   | 3,254,153                      |
|  | <b>Total Corporate Debt Securities</b><br>(Cost \$11,080,598) | 12,803,522                     |
| <b>Common Stock 0.4%</b>                     |   |                                |
|  | <b>Banking 0.1%</b>   |                                |
|  | CIT Group:  |                                |
| 3,620  | CIT Group, Inc.   | 147,370*                       |
|  |   | 147,370                        |
|  | <b>Utilities 0.3%</b>   |                                |
|  | Exelon Corp.:   |                                |
| 9,380  | Exelon Corporation  | 366,477*                       |
|  | PPL Corp.:  |                                |
| 14,558                                       | PPL Corporation   | 415,631*                       |
|  |   | 782,108                        |
|  | <b>Total Common Stock</b><br>(Cost \$1,086,798)               | 929,478                        |
| <b>Money Market Fund 1.4%</b>                |   |                                |
|  | BlackRock Liquidity Funds:                                    |                                |
| 2,765,104                                    | T-Fund  | 2,765,104                      |
|  | <b>Total Money Market Fund</b><br>(Cost \$2,765,104)          | 2,765,104                      |
|  | <b>Total Investments</b> (Cost \$196,664,306***)              | 98.9% 201,043,456              |
|  | <b>Other Assets And Liabilities</b> (Net)                     | 1.1% 2,237,329                 |
|  | <b>Total Managed Assets</b>                                   | 100.0% \$ 203,280,785          |
|  | <b>Loan Principal Balance</b>                                 | (68,300,000)                   |
|  | <b>Total Net Assets Available To Common Stock</b>             | \$ 134,980,785                 |

Flaherty & Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 29, 2012 (Unaudited)**

- \* Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.
- \*\* Securities distributing Qualified Dividend Income only.
- \*\*\* Aggregate cost of securities held.
- \*\*\*\* Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. At February 29, 2012, these securities amounted to \$35,046,792 or 17.2% of total managed assets.
- (1) All or a portion of this security is pledged as collateral for the Fund's loan. The total value of such securities was \$137,857,038 at February 29, 2012.
- (2) All or a portion of this security has been rehypothecated. The total value of such securities was \$64,792,309 at February 29, 2012.
- (3) Foreign Issuer.
- (4) Illiquid.
- (5) Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of February 29, 2012.
- (6) Represents the rate in effect as of the reporting date.  
Non-income producing.  
The issuer has filed for bankruptcy protection. As a result, the Fund may not be able to recover the principal invested and also does not expect to receive income on this security going forward.  
The percentage shown for each investment category is the total value of that category as a percentage of total managed assets.

**ABBREVIATIONS:**

|                |  |
|----------------|--|
| <b>Pfd.</b>    | Preferred Securities                                       |
| <b>Pvt.</b>    | Private Placement Securities                               |
| <b>REIT</b>    | Real Estate Investment Trust                               |
| <b>STRIPES</b> | Structured Residual Interest Preferred Enhanced Securities |

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK<sup>(1)</sup>****For the period from December 1, 2011 through February 29, 2012 (Unaudited)**

|  | <b>Value</b>         |
|--|----------------------|
| <b>OPERATIONS:</b>   |                      |
| Net investment income  | \$ 3,156,550         |
| Net realized gain/(loss) on investments sold during the period                                     | (636,697)            |
| Change in net unrealized appreciation/depreciation of investments                                  | 11,579,293           |
| <b>Net increase in net assets resulting from operations</b>  | <b>14,099,146</b>    |
| <b>DISTRIBUTIONS:</b>  |                      |
| Dividends paid from net investment income to Common Stock Shareholders <sup>(2)</sup>              | (3,538,862)          |
| <b>Total Distributions to Common Stock Shareholders</b>  | <b>(3,538,862)</b>   |
| <b>FUND SHARE TRANSACTIONS:</b>  |                      |
| Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan                 | 325,334              |
| <b>Net increase in net assets available to Common Stock resulting from Fund share transactions</b> | <b>325,334</b>       |
| <b>NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD</b>                         | <b>\$ 10,885,618</b> |
| <b>NET ASSETS AVAILABLE TO COMMON STOCK:</b>   |                      |
| Beginning of period  | \$ 124,095,167       |
| Net increase in net assets during the period   | 10,885,618           |
| End of period  | \$ 134,980,785       |

<sup>(1)</sup> These tables summarize the three months ended February 29, 2012 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2011.

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

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**FINANCIAL HIGHLIGHTS<sup>(1)</sup>****For the period from December 1, 2011 through February 29, 2012 (Unaudited)****For a Common Stock share outstanding throughout the period****PER SHARE OPERATING PERFORMANCE:**

|                                      |          |
|--------------------------------------|----------|
| Net asset value, beginning of period | \$ 11.45 |
|--------------------------------------|----------|

**INVESTMENT OPERATIONS:**

|                       |      |
|-----------------------|------|
| Net investment income | 0.29 |
|-----------------------|------|

|  |      |
|--|------|
| Net realized and unrealized gain/(loss) on investments | 1.01 |
|--|------|

|                                  |      |
|----------------------------------|------|
| Total from investment operations | 1.30 |
|----------------------------------|------|

**DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:**

|                            |        |
|----------------------------|--------|
| From net investment income | (0.33) |
|----------------------------|--------|

|  |        |
|--|--------|
| Total distributions to Common Stock Shareholders | (0.33) |
|--|--------|

|                                |          |
|--------------------------------|----------|
| Net asset value, end of period | \$ 12.42 |
|--------------------------------|----------|

|                             |          |
|-----------------------------|----------|
| Market value, end of period | \$ 15.60 |
|-----------------------------|----------|

|  |            |
|--|------------|
| Common Stock shares outstanding, end of period | 10,864,451 |
|--|------------|

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

|                       |        |
|-----------------------|--------|
| Net investment income | 9.87%* |
|-----------------------|--------|

|   |        |
|---|--------|
| Operating expenses including interest expense | 2.17%* |
|---|--------|

|   |        |
|---|--------|
| Operating expenses excluding interest expense | 1.50%* |
|---|--------|

**SUPPLEMENTAL DATA:**

|                         |      |
|-------------------------|------|
| Portfolio turnover rate | 5%** |
|-------------------------|------|

|  |            |
|--|------------|
| Total managed assets, end of period (in 000 s) | \$ 203,281 |
|--|------------|

|  |        |
|--|--------|
| Ratio of operating expenses including interest expense to total managed assets | 1.42%* |
|--|--------|

|  |        |
|--|--------|
| Ratio of operating expenses excluding interest expense to total managed assets | 0.98%* |
|--|--------|

<sup>(1)</sup> These tables summarize the three months ended February 29, 2012 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2011.

\* Annualized.

\*\* Not Annualized.

The net investment income ratios reflect income net of operating expenses, including interest expense. Information presented under heading Supplemental Data includes loan principal balance.

Flaherty & Crumrine Preferred Income Fund Incorporated

**FINANCIAL HIGHLIGHTS (Continued)**

**Per Share of Common Stock (Unaudited)**

|                   | <b>Total<br/>Dividends<br/>Paid</b> | <b>Net Asset<br/>Value</b> | <b>NYSE<br/>Closing Price</b> | <b>Dividend<br/>Reinvestment<br/>Price<sup>(1)</sup></b> |
|-------------------|-------------------------------------|----------------------------|-------------------------------|--|
| December 30, 2011 | \$ 0.1400                           | \$ 11.56                   | \$ 14.14                      | \$ 13.43   |
| January 31, 2012  | 0.0930                              | 12.10                      | 14.90                         | 14.16  |
| February 29, 2012 | 0.0930                              | 12.42                      | 15.60                         | 14.82  |

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

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

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

At February 29, 2012, the aggregate cost of securities for federal income tax purposes was \$196,285,982, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$24,514,427 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$19,756,953.

**2. Additional Accounting Standards**

*Fair Value Measurement:* The inputs and valuation techniques used to measure fair value of the Fund's investments are summarized into three levels as described in the hierarchy below:

Level 1 quoted prices in active markets for identical securities

Level 2 other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of levels are recognized at market value at the end of the period. A summary of the inputs used to value the Fund's investments as of February 29, 2012 is as follows:

|                                     | <b>Total<br/>Value at<br/>February 29, 2012</b> | <b>Level 1<br/>Quoted<br/>Price</b> | <b>Level 2<br/>Significant<br/>Observable<br/>Inputs</b> | <b>Level 3<br/>Significant<br/>Unobservable<br/>Inputs</b> |
|-------------------------------------|---|-------------------------------------|--|--|
| <b>Preferred Securities</b>         |   |                                     |  |  |
| Banking                             | \$ 78,399,525                                   | \$ 56,805,591                       | \$ 21,579,014  | \$ 14,920  |
| Financial Services                  | 1,935,027                                       | 905,244                             | 1,029,338  | 445  |
| Insurance                           | 37,860,577                                      | 22,305,886                          | 15,554,691   |  |
| Utilities                           | 47,230,385                                      | 19,290,657                          | 27,939,728   |  |
| Energy                              | 13,269,168                                      | 9,867,387                           | 3,401,781  |  |
| Real Estate Investment Trust (REIT) | 887,095   | 887,095                             |  |  |
| Miscellaneous Industries            | 4,963,575                                       |                                     | 4,963,575  |  |
| Corporate Debt Securities           | 12,803,522                                      | 3,693,948                           | 9,109,574  |  |
| <b>Common Stock</b>                 |   |                                     |  |  |
| Banking                             | 147,370   | 147,370                             |  |  |
| Utilities                           | 782,108   | 782,108                             |  |  |
| Money Market Fund                   | 2,765,104                                       | 2,765,104                           |  |  |
| <b>Total Investments</b>            | <b>\$ 201,043,456</b>                           | <b>\$ 117,450,390</b>               | <b>\$ 83,577,701</b>                                     | <b>\$ 15,365</b>   |

The Fund did not have any significant transfers in and out of Level 1 and Level 2 during the period.



Flaherty & Crumrine Preferred Income Fund Incorporated

**NOTES TO FINANCIAL STATEMENTS (Unaudited)(Continued)**

The Fund's investments in Level 2 and Level 3 are based primarily on market information, where available. This includes, but is not limited to, prices provided by third-party providers, observable trading activity (including the recency, depth, and consistency of such information with quoted levels), and the depth and consistency of broker-quoted prices. In the event market information is not directly available, comparable information may be observed for securities that are similar in many respects to those being valued. The Fund may employ an income approach for certain securities that also takes into account credit risk, interest rate risk, and potential recovery prospects.

The following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value:

|  | <b>Preferred Securities</b> |                  |                           |
|--|-----------------------------|------------------|---------------------------|
|  | <b>Total Investments</b>    | <b>Banking</b>   | <b>Financial Services</b> |
| <b>Balance as of 11/30/11</b>                    | \$ 161,245                  | \$ 160,800       | \$ 445                    |
| Accrued discounts/premiums                       |                             |                  |                           |
| Realized gain/(loss)                             |                             |                  |                           |
| Change in unrealized appreciation/(depreciation) | (145,880)                   | (145,880)        |                           |
| Purchases  |                             |                  |                           |
| Sales  |                             |                  |                           |
| Transfer in                                      |                             |                  |                           |
| Transfer out                                     |                             |                  |                           |
| <b>Balance as of 2/29/12</b>                     | <b>\$ 15,365</b>            | <b>\$ 14,920</b> | <b>\$ 445</b>             |

For the period ended February 29, 2012, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was \$(145,880).

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**Directors**

Donald F. Crumrine, CFA

Chairman of the Board

David Gale

Morgan Gust

Karen H. Hogan

Robert F. Wulf, CFA

**Officers**

Donald F. Crumrine, CFA

Chief Executive Officer

Robert M. Ettinger, CFA

President

R. Eric Chadwick, CFA

Chief Financial Officer,

Vice President and Treasurer

Chad C. Conwell

Chief Compliance Officer,

Vice President and Secretary

Bradford S. Stone

Vice President and

Assistant Treasurer

Laurie C. Lodolo

Assistant Compliance Officer,

Assistant Treasurer and

Assistant Secretary

Linda M. Puchalski

Assistant Treasurer

**Investment Adviser**

Flaherty & Crumrine Incorporated

e-mail: flaherty@pfdincome.com

**Questions concerning your shares of Flaherty &**

**Crumrine Preferred Income Fund?**

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

If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent & Shareholder Servicing Agent  
BNY Mellon Investment Servicing

(US) Inc.

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**This report is sent to shareholders of Flaherty & Crumrine Preferred Income Fund Incorporated for their information. It is not a Prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.**

## Quarterly Report

February 29, 2012

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