

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC

Form N-30B-2

October 30, 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:

Your Fund continues to benefit from strong markets, active management, and efficient use of leverage. During the third fiscal quarter<sup>1</sup>, total return on net asset value<sup>2</sup> was +7.6%. Since the fiscal year began on December 1, 2011, total return on NAV was an eye-popping +21.9%. Total return based on market price of Fund shares for the comparable periods was +11.8% and +18.9% respectively.

Conditions in the preferred market have been, and remain, positive. Redemptions of securities have significantly outpaced new issues, leaving many investors scrambling to find replacements. In addition, it appears that fixed-income investors are increasingly turning to preferred securities, attracted to relatively high yields.

Since June 1, redemptions of preferred securities totaled roughly \$44 billion. Redemptions of trust preferred securities issued by U.S. banks accounted for almost \$34 billion. As discussed in the past, over the coming years certain important regulatory benefits of trust preferreds available to banks will be phased out as a result of Dodd-Frank reform legislation. Changes in regulatory treatment of preferred securities and historically low current interest rates made many older issues ripe for redemption.

New issue activity has been robust, but the amount of new issuance, almost \$29 billion since June 1, has fallen well short of redemptions. Of this amount, only \$6.5 billion was issued by U.S. banks in the new form of qualifying Tier 1 capital. This is largely as expected most banks have chosen to build up capital by retaining earnings and issuing common stock. The balance of new issues came from a variety of industries, including insurance (\$3.6b), other finance (\$5.5b), REIT (\$5.7b), foreign banks (\$2.0b) and miscellaneous industrials and energy (\$5.7b).

Fundamental credit quality has improved steadily since the financial crisis, despite sluggish economic growth. As preferred investors, we focus primarily on an issuer's balance sheet to ensure the company's ability to meet its obligations. From our perspective, corporate balance sheets are healthier now than at any time in recent memory. Of course, not all companies are thriving. The ongoing European crisis has strained issuers in that region. However, our approach of owning preferred securities issued by strong, diversified European companies paid off recently this segment of the portfolio (13% as of August 31<sup>st</sup>) was the Fund's top performer during the quarter.

Leverage is an essential component of Fund strategy. We expect the cost of leverage to be below the yield on the Fund's investment portfolio, providing a boost to income available to shareholders. In addition, leverage magnifies the principal change of securities in the portfolio. With leverage, if total return (the sum of income plus principal change) on portfolio holdings is positive (negative), total return on net asset value of the Fund will be even higher (lower) than an unleveraged portfolio. The Fund's leverage has worked exactly as expected and helped produce this year's excellent returns.

While we welcome strong performance for the Fund, shareholders should understand that the decline in preferred securities' yields in the years since the financial crisis, if they persist, will put downward pressure on Fund income over time. The Fund continues to have holdings in bank trust preferred securities that will

<sup>1</sup> June 1, 2012 - August 31, 2012

<sup>2</sup> Following the methodology required by the SEC, total return includes income and principal change, plus the impact of the Fund's leverage and expenses.

likely be redeemed (approximately 7.7% of its total net assets as of August 31, 2012) and which have a weighted average current yield of approximately 8.10% as of August 31, 2012. New issue preferred securities have been coming at yields in the range of 5.20-6.25%. We are working hard to reinvest proceeds from called issues into attractive securities, but in most cases, yields on those securities are lower than the called securities.

On the flip side, the Fund's cost of leverage has remained low, as the Federal Reserve has increased its monetary accommodation. In addition, the Fund increased its *dollar* amount of leverage as preferred securities' values increased while its *percentage* amount of leverage remained at around 33% as of August 31, 2012. Both have helped support the Fund's distributable income per common share. However, leverage costs cannot drop much further. At some point, the lower yield on preferred securities' again, if they persist will reduce Fund income. While the distribution rate probably will be lower at some point in the future, we believe preferred securities offer attractive total return potential and the Fund will continue to offer a competitive distribution rate.

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

October 5, 2012

Robert M. Ettinger

President

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OVERVIEW**

August 31, 2012 (Unaudited)

**Fund Statistics**

|                                 |    |            |
|---------------------------------|----|------------|
| Net Asset Value                 | \$ | 13.10      |
| Market Price                    | \$ | 15.21      |
| Premium                         |    | 16.11%     |
| Yield on Market Price           |    | 7.34%      |
| Common Stock Shares Outstanding |    | 10,902,214 |

**Moody's Ratings**

|                          | <b>% of Net Assets</b> |
|--------------------------|------------------------|
| A                        | 0.4%                   |
| BBB                      | 63.1%                  |
| BB                       | 29.4%                  |
| Below BB                 | 3.4%                   |
| Not Rated*               | 2.1%                   |
| Below Investment Grade** | 20.0%                  |

\* Does not include net other assets and liabilities of 1.6%.

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

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

|                          | <b>% of Net Assets</b> |
|--------------------------|------------------------|
| Banco Santander, S.A.    | 4.6%                   |
| HSBC PLC                 | 4.2%                   |
| MetLife                  | 4.0%                   |
| Liberty Mutual Group     | 3.9%                   |
| Capital One Financial    | 3.7%                   |
| Goldman Sachs Group      | 3.6%                   |
| PNC Financial Services   | 3.6%                   |
| XL Group PLC             | 2.8%                   |
| Enbridge Energy Partners | 2.6%                   |
| Axis Capital             | 2.6%                   |

|  | <b>% of Net Assets***</b> |
|--|---------------------------|
| Holdings Generating Qualified Dividend Income (QDI) for Individuals                      | 44%                       |
| Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD) | 28%                       |

\*\*\* 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****August 31, 2012 (Unaudited)**

| Shares/\$<br>Par                  |   | Value                           |
|-----------------------------------|---|---------------------------------|
| <b>Preferred Securities 87.5%</b> |   |                                 |
| <b>Banking 35.9%</b>              |   |                                 |
|                                   | Astoria Financial:  |                                 |
| \$ 2,750,000                      | Astoria Financial: Astoria Capital Trust I, 9.75% 11/01/29, Series B  | \$ 2,853,345 <sup>(1)</sup>     |
|                                   | Banco Bilbao Vizcaya Argentaria, S.A.:                                |                                 |
| \$ 1,500,000                      | BBVA International Preferred, 5.919%                                  | 995,528 <sup>*(1)(3)</sup>      |
|                                   | Banco Santander, S.A.:  |                                 |
| 355,000                           | Banco Santander, 10.50% Pfd., Series 10                               | 9,718,125 <sup>*(1)(3)</sup>    |
|                                   | Bank of America:  |                                 |
| 132,472                           | Bank of America Corporation, 8.625% Pfd.                              | 3,415,300*                      |
| 2,500                             | Countrywide Capital IV, 6.75% Pfd. 04/01/33                           | 62,629                          |
| 30,000                            | Countrywide Capital V, 7.00% Pfd. 11/01/36                            | 752,175                         |
| \$ 580,000                        | NB Capital Trust II, 7.83% 12/15/26                                   | 583,625                         |
|                                   | Barclays Bank PLC:  |                                 |
| \$ 3,250,000                      | Barclays Bank PLC, 6.278%   | 2,752,344 <sup>*(1)(2)(3)</sup> |
| 3,700                             | Barclays Bank PLC, 7.75% Pfd., Series 4                               | 93,499 <sup>*(3)</sup>          |
| 72,500                            | Barclays Bank PLC, 8.125% Pfd., Series 5                              | 1,853,825 <sup>*(1)(3)</sup>    |
|                                   | BB&T Corp:  |                                 |
| 104,165                           | BB&T Corporation, 5.625% Pfd., Series E                               | 2,668,707 <sup>*(1)(2)</sup>    |
|                                   | BNP Paribas:  |                                 |
| \$ 1,750,000                      | BNP Paribas, 7.195%, 144A****   | 1,605,625 <sup>*(1)(2)(3)</sup> |
|                                   | Capital One Financial:  |                                 |
| \$ 4,750,000                      | Capital One Capital III, 7.686% 08/15/36                              | 4,815,312 <sup>(1)(2)</sup>     |
| \$ 500,000                        | Capital One Capital V, 10.25% 08/15/39                                | 517,500 <sup>(1)</sup>          |
| \$ 2,500,000                      | Capital One Capital VI, 8.875% 05/15/40                               | 2,570,643 <sup>(1)</sup>        |
|                                   | Citigroup:  |                                 |
| 15,000                            | Citigroup Capital VII, 7.125% Pfd. 07/31/31                           | 378,750                         |
| 62,300                            | Citigroup Capital XIII, 7.875% Pfd. 10/30/40                          | 1,719,094 <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                          | 752,813                         |
|                                   | First Horizon:  |                                 |
| 3,575                             | First Tennessee Bank, Adj. Rate Pfd., 3.75% <sup>(6)</sup> , 144A**** | 2,584,055 <sup>*(1)</sup>       |
| \$ 500,000                        | First Tennessee Capital II, 6.30% 04/15/34, Series B                  | 477,500                         |
| 1                                 | FT Real Estate Securities Company, 9.50% Pfd., 144A****               | 955,000                         |
|                                   | First Niagara Financial Group:  |                                 |
| 112,500                           | First Niagara Financial Group, Inc., 8.625% Pfd.                      | 3,359,419*                      |

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2012 (Unaudited)

| Shares/\$ Par                           |  | Value                         |
|---|--|-------------------------------|
| <b>Preferred Securities (Continued)</b> |  |                               |
| <b>Banking (Continued)</b>              |  |                               |
|   | First Republic Bank:                                 |                               |
| 10,050                                  | First Republic Bank, 6.70% Pfd.                      | \$ 274,983*                   |
|   | Goldman Sachs Group:                                 |                               |
| \$ 1,420,000                            | Goldman Sachs, Capital I, 6.345% 02/15/34            | 1,415,479 <sup>(1)(2)</sup>   |
|   | HSBC PLC:  |                               |
| \$ 1,000,000                            | HSBC Capital Funding LP, 10.176%, 144A****           | 1,350,000 <sup>(3)</sup>      |
| 132,900                                 | HSBC Holdings PLC, 8.00% Pfd., Series 2              | 3,692,161** <sup>(1)(3)</sup> |
| \$ 130,000                              | HSBC USA Capital Trust I, 7.808% 12/15/26, 144A****  | 131,950                       |
| \$ 145,000                              | HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****  | 146,535 <sup>(1)</sup>        |
| 110,350                                 | HSBC USA, Inc., 6.50% Pfd., Series H                 | 2,840,685* <sup>(1)</sup>     |
|   | ING Groep NV:  |                               |
| 8,900                                   | ING Groep NV, 7.20% Pfd.                             | 221,267** <sup>(3)</sup>      |
| 23,000                                  | ING Groep NV, 7.375% Pfd.                            | 574,770** <sup>(3)</sup>      |
|   | JPMorgan Chase:                                      |                               |
| \$ 1,684,000                            | JPMorgan Chase & Company, 7.90%, Series 1            | 1,890,462*                    |
|   | KeyCorp:   |                               |
| 1,000                                   | KeyCorp, 7.75% Pfd., Series A                        | 117,750*                      |
|   | Lloyds Banking Group PLC:                            |                               |
| \$ 550,000                              | Lloyds Banking Group PLC, 6.657%, 144A****           | 413,875** <sup>(3)</sup>      |
|   | M&T Bank Corp:                                       |                               |
| 150                                     | M&T Bank Corporation, 5.00% Pfd., Series C           | 151,875*                      |
|   | Morgan Stanley:                                      |                               |
| 25,000                                  | Morgan Stanley Capital Trust VI, 6.60% Pfd. 02/01/46 | 627,062                       |
|   | PNC Financial Services:                              |                               |
| 19,995                                  | PNC Financial Services, 6.125% Pfd., Series P        | 554,711* <sup>(1)</sup>       |
| 200,000                                 | PNC Financial Services, 9.875% Pfd., Series L        | 5,330,500* <sup>(1)</sup>     |
| \$ 1,750,000                            | PNC Preferred Funding Trust III, 8.70%, 144A****     | 1,785,210 <sup>(1)(2)</sup>   |
|   | Sovereign Bancorp:                                   |                               |
| 1,750                                   | Sovereign REIT, 12.00% Pfd., Series A, 144A****      | 1,957,578                     |
|   | Wells Fargo:   |                               |
| \$ 1,500,000                            | First Union Capital II, 7.95% 11/15/29               | 1,690,807 <sup>(1)(2)</sup>   |
| 1,750                                   | Wells Fargo & Company, 7.50% Pfd., Series L          | 2,091,687* <sup>(1)</sup>     |
| 15,000                                  | Wells Fargo & Company, 8.00% Pfd., Series J          | 449,888*                      |
|   | Zions Bancorporation:                                |                               |
| 93,000                                  | Zions Bancorporation, 7.90% Pfd., Series F           | 2,550,990*                    |
| 30,000                                  | Zions Bancorporation, 9.50% Pfd., Series C           | 789,900*                      |
|   |  | 76,549,858                    |

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2012 (Unaudited)

| Shares/\$ Par                           |   | Value                             |
|---|---|-----------------------------------|
| <b>Preferred Securities (Continued)</b> |   |                                   |
| <b>Financial Services 0.8%</b>          |   |                                   |
| Credit Suisse Group:                    |   |                                   |
| \$ 1,000,000                            | Claudius, Ltd. - Credit Suisse AG, 7.875%, Series B, 144A**** | \$ 1,051,250 <sup>(3)</sup>       |
| HSBC PLC:                               |   |                                   |
| 30,000                                  | HSBC Finance Corporation, 6.36% Pfd., Series B                | 753,075 <sup>*(1)</sup>           |
|   |   | 1,804,325                         |
| <b>Insurance 22.1%</b>                  |   |                                   |
| Ace Ltd.:                               |   |                                   |
| \$ 975,000                              | Ace Capital Trust II, 9.70% 04/01/30                          | 1,394,250 <sup>(1)(2)(3)</sup>    |
| Aon Corporation:                        |   |                                   |
| \$ 300,000                              | AON Corp, 8.205% 01/01/27                                     | 365,043 <sup>(1)(2)</sup>         |
| Arch Capital Group:                     |   |                                   |
| 88,950                                  | Arch Capital Group, Ltd., 6.75% Pfd., Series C                | 2,446,347 <sup>** (1)(2)(3)</sup> |
| AXA SA:                                 |   |                                   |
| \$ 3,500,000                            | AXA SA, 6.379%, 144A****                                      | 3,014,375 <sup>** (1)(2)(3)</sup> |
| Axis Capital:                           |   |                                   |
| 200,000                                 | Axis Capital Holdings, 6.875% Pfd., Series C                  | 5,506,260 <sup>** (1)(2)(3)</sup> |
| Delphi Financial:                       |   |                                   |
| 90,600                                  | Delphi Financial Group, 7.376% Pfd. 05/15/37                  | 2,253,675 <sup>(1)(2)</sup>       |
| Everest Re Group:                       |   |                                   |
| \$ 4,000,000                            | Everest Re Holdings, 6.60% 05/15/37                           | 4,020,000 <sup>(1)(2)</sup>       |
| Liberty Mutual Group:                   |   |                                   |
| \$ 4,100,000                            | Liberty Mutual Group, 10.75% 06/15/58, 144A****               | 5,791,250 <sup>(1)(2)</sup>       |
| Lincoln National Corp:                  |   |                                   |
| \$ 190,000                              | Lincoln National Corporation, 7.00% 05/17/66                  | 190,950                           |
| MetLife:                                |   |                                   |
| \$ 2,496,000                            | MetLife, Inc., 10.75% 08/01/39                                | 3,662,880 <sup>(1)(2)</sup>       |
| \$ 279,000                              | MetLife Capital Trust IV, 7.875% 12/15/37, 144A****           | 327,825 <sup>(1)(2)</sup>         |
| \$ 3,635,000                            | MetLife Capital Trust X, 9.25% 04/08/38, 144A****             | 4,652,800 <sup>(1)(2)</sup>       |
| PartnerRe Ltd.:                         |   |                                   |
| 36,010                                  | PartnerRe Ltd., 7.250% Pfd., Series E                         | 1,003,959 <sup>** (1)(3)</sup>    |
| Principal Financial:                    |   |                                   |
| 14,000                                  | Principal Financial Group, 5.563% Pfd., Series A              | 1,363,688 <sup>*(1)</sup>         |
| 84,609                                  | Principal Financial Group, 6.518% Pfd., Series B              | 2,310,883 <sup>*(1)</sup>         |
| StanCorp Financial Group:               |   |                                   |
| \$ 2,025,000                            | StanCorp Financial Group, 6.90% 06/01/67                      | 1,964,250 <sup>(1)(2)</sup>       |
| The Travelers Companies:                |   |                                   |
| \$ 750,000                              | USF&G Capital, 8.312% 07/01/46, 144A****                      | 935,912 <sup>(1)(2)</sup>         |
| XL Group PLC:                           |   |                                   |
| \$ 6,440,000                            | XL Capital Ltd., 6.50%, Series E                              | 5,900,650 <sup>(1)(3)</sup>       |
|   |   | 47,104,997                        |





Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)****August 31, 2012 (Unaudited)**

| Shares/\$ Par                           |  | Value           |
|---|--|-----------------|
| <b>Preferred Securities (Continued)</b> |  |                 |
|   | <b>Utilities 18.8%</b>                                     |                 |
|   | Alabama Power:   |                 |
| 10,350                                  | Alabama Power Company, 6.45% Pfd.                          | \$ 301,444*(1)  |
|   | Baltimore Gas & Electric:                                  |                 |
| 10,000                                  | Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993  | 1,019,375*(1)   |
| 2,400                                   | Baltimore Gas & Electric Company, 7.125% Pfd., Series 1993 | 245,625*        |
|   | Commonwealth Edison:                                       |                 |
| \$ 2,953,000                            | COMED Financing III, 6.35% 03/15/33                        | 2,982,530(1)    |
|   | Constellation Energy:                                      |                 |
| 15,000                                  | Constellation Energy Group, 8.625% Pfd. 06/15/63, Series A | 400,350         |
|   | Dominion Resources:  |                 |
| \$ 250,000                              | Dominion Resources Capital Trust I, 7.83% 12/01/27         | 253,724         |
| \$ 3,500,000                            | Dominion Resources, Inc., 7.50% 06/30/66                   | 3,787,522(1)(2) |
|   | Energy Future Competitive Holdings Corp:                   |                 |
| \$ 686,000                              | TXU Electric Capital V, 8.175% 01/30/37                    | 171,500(4)      |
|   | Entergy Arkansas:  |                 |
| 40,000                                  | Entergy Arkansas, Inc., 6.45% Pfd.                         | 1,026,252*(1)   |
|   | Entergy Louisiana:   |                 |
| 30,000                                  | Entergy Louisiana, Inc., 6.95% Pfd.                        | 3,003,750*(1)   |
|   | Georgia Power:   |                 |
| 25,000                                  | Georgia Power Company, 6.50% Pfd., Series 2007A            | 2,825,000*(1)   |
|   | Indianapolis Power & Light:                                |                 |
| 26,000                                  | Indianapolis Power & Light Company, 5.65% Pfd.             | 2,647,939*      |
|   | Interstate Power & Light:                                  |                 |
| 181,208                                 | Interstate Power & Light Company, 8.375% Pfd., Series B    | 4,994,545*(1)   |
|   | Nextera Energy:  |                 |
| \$ 3,400,000                            | FPL Group Capital, Inc., 6.65% 06/15/67                    | 3,611,939(1)(2) |
|   | Peco Energy:   |                 |
| \$ 500,000                              | PECO Energy Capital Trust III, 7.38% 04/06/28, Series D    | 518,184(1)(2)   |
|   | PPL Corp:  |                 |
| \$ 2,500,000                            | PPL Capital Funding, 6.70% 03/30/67, Series A              | 2,568,128(1)    |
|   | Puget Energy:  |                 |
| \$ 3,800,000                            | Puget Sound Energy, Inc., 6.974% 06/01/67                  | 4,052,400(1)(2) |
|   | Puget Energy:  |                 |
| 47,392                                  | Scana Corporation, 7.70% Pfd. 01/30/65                     | 1,353,989(1)(2) |
|   | Southern California Edison:                                |                 |
| 13,600                                  | Southern California Edison, 6.00% Pfd., Series C           | 1,373,600*(1)   |
| 22,410                                  | Southern California Edison, 6.50% Pfd., Series D           | 2,390,168*(1)   |
|   | Virginia Electric & Power:                                 |                 |
| 3,000                                   | Virginia Electric & Power Company, \$6.98 Pfd.             | 301,969*        |

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2012 (Unaudited)

| Shares/\$ Par                                   |   | Value                       |
|---|---|-----------------------------|
| <b>Preferred Securities (Continued)</b>         |   |                             |
| <b>Utilities (Continued)</b>                    |   |                             |
|   | Wisconsin Public Service:                                 |                             |
| 3,700   | Wisconsin Public Service Corporation, 6.88% Pfd.          | \$ 376,360*                 |
|   |   | 40,206,293                  |
| <b>Energy 6.5%</b>                              |   |                             |
|   | Enbridge Energy Partners:                                 |                             |
| \$ 5,000,000                                    | Enbridge Energy Partners LP, 8.05% 10/01/37               | 5,593,370 <sup>(1)</sup>    |
|   | Enterprise Products Partners:                             |                             |
| \$ 4,500,000                                    | Enterprise Products Partners, 8.375% 08/01/66, Series A   | 5,044,235 <sup>(1)(2)</sup> |
|   | Kinder Morgan:  |                             |
| 3,500   | Kinder Morgan GP, Inc., 8.33% Pfd., 144A****              | 3,172,094*                  |
|   |   | 13,809,699                  |
| <b>Real Estate Investment Trust (REIT) 0.1%</b> |   |                             |
|   | PS Business Parks:  |                             |
| 3,600   | PS Business Parks, Inc., 6.70% Pfd., Series P             | 92,138                      |
| 7,500   | PS Business Parks, Inc., 6.875% Pfd., Series R            | 204,000                     |
|   |   | 296,138                     |
| <b>Miscellaneous Industries 3.3%</b>            |   |                             |
|   | Ocean Spray Cranberries:                                  |                             |
| 37,400  | Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****       | 3,340,287*                  |
|   | Stanley Black & Decker:                                   |                             |
| 74,354  | Stanley Black & Decker, Inc., 5.75% Pfd. 07/25/52         | 1,951,792 <sup>(1)</sup>    |
|   | Textron, Inc.:  |                             |
| \$ 2,125,000                                    | Textron Financial Corporation, 6.00% 02/15/67, 144A****   | 1,774,375                   |
|   |   | 7,066,454                   |
|   | <b>Total Preferred Securities</b><br>(Cost \$176,169,763) | 186,837,764                 |
| <b>Corporate Debt Securities 10.7%</b>          |   |                             |
| <b>Banking 5.5%</b>                             |   |                             |
|   | Goldman Sachs Group:                                      |                             |
| \$ 6,010,000                                    | Goldman Sachs Group, 6.75% 10/01/37, Sub Notes            | 6,276,706 <sup>(1)(2)</sup> |
|   | Morgan Stanley:   |                             |
| \$ 2,580,000                                    | Morgan Stanley, 6.375% 07/24/42                           | 2,622,469                   |



Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2012 (Unaudited)

| Shares/\$ Par                                |   | Value                       |
|--|---|-----------------------------|
| <b>Corporate Debt Securities (Continued)</b> |   |                             |
| <b>Banking (Continued)</b>                   |   |                             |
|  | Regions Financial:  |                             |
| \$ 2,710,000                                 | Regions Financial Corporation, 7.375% 12/10/37, Sub Notes | \$ 2,831,950                |
|  |   | 11,731,125                  |
| <b>Financial Services 0.3%</b>               |   |                             |
|  | Affiliated Managers Group:                                |                             |
| 20,825                                       | Affiliated Managers Group, Inc., 6.375% 08/15/42          | 532,339                     |
|  | Raymond James Financial:                                  |                             |
| 6,500  | Raymond James Financial, 6.90% 03/15/42                   | 178,890                     |
|  |   | 711,229                     |
| <b>Insurance 2.3%</b>                        |   |                             |
|  | Liberty Mutual Group:                                     |                             |
| \$ 2,500,000                                 | Liberty Mutual Insurance, 7.697% 10/15/97, 144A****       | 2,618,888 <sup>(1)(2)</sup> |
|  | Unum Group:   |                             |
| \$ 2,000,000                                 | UnumProvident Corporation, 7.25% 03/15/28                 | 2,241,118 <sup>(1)(2)</sup> |
|  |   | 4,860,006                   |
| <b>Utilities 1.6%</b>                        |   |                             |
|  | Energy Transfer Equity:                                   |                             |
| \$ 2,700,000                                 | Southern Union Company, 8.25% 11/15/29                    | 3,398,976 <sup>(1)(2)</sup> |
|  |   | 3,398,976                   |
| <b>Energy 1.0%</b>                           |   |                             |
|  | Nexen, Inc.:  |                             |
| 79,305                                       | Nexen, Inc., 7.35% 11/01/43                               | 2,033,499 <sup>(3)</sup>    |
|  |   | 2,033,499                   |
| <b>Total Corporate Debt Securities</b>       |   |                             |
|  | (Cost \$19,847,441)                                       | 22,734,835                  |
| <b>Common Stock 0.2%</b>                     |   |                             |
| <b>Banking 0.1%</b>                          |   |                             |
|  | CIT Group:  |                             |
| 3,620  | CIT Group, Inc.   | 136,691*                    |
|  |   | 136,691                     |



Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2012 (Unaudited)

| Shares/\$ Par                   |  | Value                 |
|---------------------------------|--|-----------------------|
| <b>Common Stock (Continued)</b> |  |                       |
| <b>Insurance 0.0%</b>           |  |                       |
|                                 | WMI Holdings Corporation:                          |                       |
| 19,801                          | WMI Holdings Corporation, 144A****                 | \$ 9,504*             |
|                                 |  | 9,504                 |
| <b>Utilities 0.1%</b>           |  |                       |
|                                 | Exelon Corp:                                       |                       |
| 9,380                           | Exelon Corporation                                 | 342,089*              |
|                                 |  | 342,089               |
|                                 | <b>Total Common Stock</b><br>(Cost \$1,728,325)    | 488,284               |
| <b>Money Market Fund 0.2%</b>   |  |                       |
|                                 | BlackRock Liquidity Funds:                         |                       |
| 529,086                         | T-Fund   | 529,086               |
|                                 | <b>Total Money Market Fund</b><br>(Cost \$529,086) | 529,086               |
|                                 | <b>Total Investments</b> (Cost \$198,274,615****)  | 98.6% 210,589,969     |
|                                 | <b>Other Assets And Liabilities</b> (Net)          | 1.4% 2,892,479        |
|                                 | <b>Total Managed Assets</b>                        | 100.0% \$ 213,482,448 |
|                                 | <b>Loan Principal Balance</b>                      | (70,700,000)          |
|                                 | <b>Total Net Assets Available To Common Stock</b>  | \$ 142,782,448        |

\* 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 August 31, 2012, these securities amounted to \$37,633,308 or 17.6% 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 \$138,085,552 at August 31, 2012.

- (2) All or a portion of this security has been rehypothecated. The total value of such securities was \$69,245,777 at August 31, 2012.
- (3) Foreign Issuer.



Flaherty & Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**August 31, 2012 (Unaudited)**

- (4) Illiquid.
- (5) Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of August 31, 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:**

**Pfd.** Preferred Securities  
**REIT** Real Estate Investment Trust

Flaherty & Crumrine Preferred Income Fund Incorporated

**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK<sup>(1)</sup>**

**For the period from December 1, 2011 through August 31, 2012 (Unaudited)**

|  | Value                |
|--|----------------------|
| <b>OPERATIONS:</b>   |                      |
| Net investment income  | \$ 9,416,581         |
| Net realized gain/(loss) on investments sold during the period                                     | (1,476,007)          |
| Change in net unrealized appreciation/depreciation of investments                                  | 19,515,497           |
| <b>Net increase in net assets resulting from operations</b>  | <b>27,456,071</b>    |
| <b>DISTRIBUTIONS:</b>  |                      |
| Dividends paid from net investment income to Common Stock Shareholders <sup>(2)</sup>              | (9,613,389)          |
| <b>Total Distributions to Common Stock Shareholders</b>  | <b>(9,613,389)</b>   |
| <b>FUND SHARE TRANSACTIONS:</b>  |                      |
| Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan                 | 844,599              |
| <b>Net increase in net assets available to Common Stock resulting from Fund share transactions</b> | <b>844,599</b>       |
| <b>NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD</b>                         | <b>\$ 18,687,281</b> |
| <b>NET ASSETS AVAILABLE TO COMMON STOCK:</b>   |                      |
| Beginning of period  | \$ 124,095,167       |
| Net increase in net assets during the period   | 18,687,281           |
| End of period  | \$ 142,782,448       |

(1) These tables summarize the nine months ended August 31, 2012 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2011.

(2) 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 August 31, 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 | 0.87 |
|-----------------------|------|

|   |      |
|---|------|
| Net realized and unrealized gain/(loss) on investments. | 1.66 |
|---|------|

|                                  |      |
|----------------------------------|------|
| Total from investment operations | 2.53 |
|----------------------------------|------|

**DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:**

|                            |        |
|----------------------------|--------|
| From net investment income | (0.88) |
|----------------------------|--------|

|  |        |
|--|--------|
| Total distributions to Common Stock Shareholders | (0.88) |
|--|--------|

|                                |          |
|--------------------------------|----------|
| Net asset value, end of period | \$ 13.10 |
|--------------------------------|----------|

|                             |          |
|-----------------------------|----------|
| Market value, end of period | \$ 15.21 |
|-----------------------------|----------|

|  |            |
|--|------------|
| Common Stock shares outstanding, end of period | 10,902,214 |
|--|------------|

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

|                       |        |
|-----------------------|--------|
| Net investment income | 9.31%* |
|-----------------------|--------|

|  |        |
|--|--------|
| Operating expenses including interest expense. | 2.06%* |
|--|--------|

|   |        |
|---|--------|
| Operating expenses excluding interest expense | 1.42%* |
|---|--------|

**SUPPLEMENTAL DATA:**

|                         |       |
|-------------------------|-------|
| Portfolio turnover rate | 26%** |
|-------------------------|-------|

|  |            |
|--|------------|
| Total managed assets, end of period (in 000 s) | \$ 213,482 |
|--|------------|

|  |        |
|--|--------|
| Ratio of operating expenses including interest expense to total managed assets | 1.36%* |
|--|--------|

|  |        |
|--|--------|
| Ratio of operating expenses excluding interest expense to total managed assets | 0.94%* |
|--|--------|

<sup>(1)</sup> These tables summarize the nine months ended August 31, 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 &amp; 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  |
| March 30, 2012    | 0.0930                              | 12.43                      | 14.22                         | 13.51  |
| April 30, 2012    | 0.0930                              | 12.53                      | 14.43                         | 13.71  |
| May 31, 2012      | 0.0930                              | 12.42                      | 13.88                         | 13.19  |
| June 29, 2012     | 0.0930                              | 12.57                      | 14.20                         | 13.49  |
| July 31, 2012     | 0.0930                              | 12.94                      | 14.59                         | 13.86  |
| August 31, 2012   | 0.0930                              | 13.10                      | 15.21                         | 14.45  |

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

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

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

At August 31, 2012, the aggregate cost of securities for federal income tax purposes was \$197,896,291, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$28,802,423 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$16,108,745.

**2. Additional Accounting Standards**

*Fair Value Measurements:* The Fund has performed an analysis of all existing investments and derivative instruments to determine the significance and character of all inputs to their fair value determination. The levels of fair value inputs used to measure the Fund's investments are characterized into a fair value hierarchy. Where inputs for an asset or liability fall into more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's valuation. The three levels of the fair value hierarchy are described below:

Level 1 quoted prices in active markets for identical securities

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

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)  
The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. 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 August 31, 2012 is as follows:

|                                     | Total<br>Value at<br>August 31, 2012 | Level 1<br>Quoted<br>Price | Level 2<br>Significant<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs |
|-------------------------------------|--------------------------------------|----------------------------|--|--|
| <b>Preferred Securities</b>         |                                      |                            |  |  |
| Banking                             | \$ 76,549,858                        | \$ 58,119,586              | \$ 18,415,352                                  | \$ 14,920  |
| Financial Services                  | 1,804,325                            | 753,075                    | 1,051,250                                      |  |
| Insurance                           | 47,104,997                           | 31,793,804                 | 15,311,193                                     |  |
| Utilities                           | 40,206,293                           | 16,716,473                 | 23,489,820                                     |  |
| Energy                              | 13,809,699                           | 10,637,605                 | 3,172,094                                      |  |
| Real Estate Investment Trust (REIT) | 296,138                              | 296,138                    |  |  |
| Miscellaneous Industries            | 7,066,454                            | 1,951,792                  | 5,114,662                                      |  |
| Corporate Debt Securities           | 22,734,835                           | 11,643,903                 | 11,090,932                                     |  |
| <b>Common Stock</b>                 |                                      |                            |  |  |
| Banking                             | 136,691                              | 136,691                    |  |  |
| Insurance                           | 9,504                                | 9,504                      |  |  |
| Utilities                           | 342,089                              | 342,089                    |  |  |
| Money Market Fund                   | 529,086                              | 529,086                    |  |  |

|                   |                |                |               |           |
|-------------------|----------------|----------------|---------------|-----------|
| Total Investments | \$ 210,589,969 | \$ 132,929,746 | \$ 77,645,303 | \$ 14,920 |
|-------------------|----------------|----------------|---------------|-----------|

Flaherty & Crumrine Preferred Income Fund Incorporated

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

During the reporting period, there were no transfers into Level 1 from Level 2. During the reporting period, securities with an aggregate market value of \$5,652,651 were transferred into Level 2 from Level 1. The securities were transferred because of a reduction in the amount of observable market data, resulting from: a decrease in market activity for the securities, reduced availability of quoted prices for the securities, or de-listing of securities from a national securities exchange that resulted in a material decrease in activity.

The fair values of the Fund's investments are generally based on market information and quotes received from brokers or independent pricing services approved by the Board and unaffiliated with the Adviser. To assess the continuing appropriateness of security valuations, management, in consultation with the Adviser, regularly compares current prices to prior prices, prices across comparable securities, actual sale prices for securities in the Fund's portfolio, and market information obtained by the Adviser as a function of being an active participant in the markets.

Securities with quotes that are based on actual trades or actionable bids and offers with a sufficient level of activity on or near the measurement date are classified as Level 1. Securities that are priced using quotes derived from implied values, indicative bids and offers, or a limited number of actual trades or the same information for securities that are similar in many respects to those being valued are classified as Level 2. If market information is not available for securities being valued, or materially-comparable securities, then those securities are classified as Level 3. In considering market information, management evaluates changes in liquidity, willingness of a broker to execute at the quoted price, the depth and consistency of prices from pricing services, and the existence of observable trades in the market.

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

|  | Preferred Securities |            | Financial Services |
|--|----------------------|------------|--------------------|
|  | Total Investments    | Banking    |                    |
| <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.   | (445)                |            | (445)              |
| Transfer in                                      |                      |            |                    |
| Transfer out                                     |                      |            |                    |
| <b>Balance as of 08/31/12</b>                    | \$ 14,920            | \$ 14,920  | \$                 |

For the nine months ended August 31, 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).

Flaherty & Crumrine Preferred Income Fund Incorporated

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

The following table summarizes the valuation techniques used and unobservable inputs developed to determine the fair value of Level 3 investments:

| Category             | Fair Value at 8/31/12 | Valuation Technique | Unobservable Input                 | Input Range (Wgt Avg) |
|----------------------|-----------------------|---------------------|------------------------------------|-----------------------|
| Preferred Securities |                       |                     |                                    |                       |
| Banking              | \$ 14,920             | Bankruptcy recovery | Credit/Structure-specific recovery | 0.00% - 0.50% (0.20%) |

The significant unobservable inputs used in the fair value measurement technique for bankruptcy recovery are based on recovery analysis that is specific to the security being valued, including the level of subordination and structural features of the security, and the current status of any bankruptcy or liquidation proceedings. Observable market trades in bankruptcy claims are utilized by management, when available, to assess the appropriateness of valuations, although the frequency of trading depends on the specific credit and seniority of the claim. Expected recoveries in bankruptcy by security type and industry do not tend to deviate much from historical recovery rates, which are very low (sometimes zero) for preferred securities and more moderate for senior debt. Significant changes in these inputs would result in a significantly higher or lower fair value measurement.



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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.

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

P.O. Box 358035

Pittsburgh, PA 15252-8035

1-866-351-7446

**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

August 31, 2012

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