

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC

Form N-30B-2

April 29, 2010

FLAHERTY & CRUMRINE PREFERRED INCOME FUND

To the Shareholders of Flaherty & Crumrine Preferred Income Fund:

The new fiscal year began much like the previous year ended. For the three month period ended February 28, 2010, total return (principal change and income) on net asset value of the Fund was +10.9%. Over the same period, total return on market price of Fund shares was +27.2%.

The strong performance came as credit markets continued to recover from the depths of the financial crisis last year. Economists and investors have expressed confidence that our financial system is back on track, and, although problems persist, seeds of recovery are in place. We share this view and encourage you to visit [www.preferredincome.com](http://www.preferredincome.com) to read our Quarterly Economic Update.

Over the past several quarters, the focus of these letters has been the financial crisis and its impact on the Fund's investment portfolio. We experienced gut-wrenching market weakness starting in the second half of 2008 and continuing into early 2009, only to watch prices rebound dramatically in the months since. Never before have we seen such extreme volatility over a relatively short time frame. We expect smoother waters ahead, but, as always, the future will be filled with challenges and opportunities.

We will take advantage of this relative calm to review the market for preferred securities a bit more broadly than our typical quarterly letter. After turbulence, the time seems right to take a step back and regain some perspective on the market. Readers can compare these broad market comments to the Fund's investments summarized on the following pages.

As of February 28, 2010, the market for preferred securities has grown to \$378 billion(1) from \$231 billion in 2005. The issues that comprise the market are far from homogeneous. An issuer is now able to tailor a preferred security to its specific financing needs by choosing from a wide range of features. Because of the variety of terms preferreds have, it has become easier to define a preferred by what it is not--a preferred security is not senior debt and it is not common stock.

Fifteen percent of the market is "traditional" preferred, i.e. the distributions to investors are DIVIDENDS, and paid from after-tax income of the issuer. These distributions may have after-tax benefits to investors. 85% is "taxable" preferred that pay INTEREST(2); these payments are treated as interest expense for issuers and ordinary income for investors.

Many features of preferred securities are especially beneficial to companies in highly-regulated industries. Preferred issues from utilities, banks and insurance companies comprise over 80% of the preferred market. Of course, as the experience of the past couple of years serves to remind us, regulators can contribute to problems at the companies they regulate. Nonetheless, regulators recognize the critical role of the preferred market, and have helped facilitate growth in the asset class.

Despite a rash of downgrades during the financial crisis, the market is still comprised of mostly investment-grade issues. 64% of preferred issues are rated Baa or higher. A substantially larger portion of the preferred universe is comprised of issuers with SENIOR DEBT rated investment grade. For this reason, preferred securities are widely considered to be the highest yielding asset class of investment grade companies.

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- (1) Market statistics used in this report, along with a wide range of additional information can be viewed by visiting the Flaherty & Crumrine website, [www.preferredstockguide.com](http://www.preferredstockguide.com).
  - (2) We include preferred securities issued in the United States by foreign domiciled entities in the "taxable" category; many of these issues make distributions considered to be dividends for some types of investors

A word about credit analysis is in order. We have always based investment decisions on our internal credit research, and try to own credits that we believe are investment grade quality. Of course, credit analysis is more art than science, and no one does it perfectly, but we think our team does an outstanding job.

Our focus is first and foremost on preferred securities. The objective of our credit analysis is to develop an in-depth opinion about the quality of each security in the Fund. This approach differs from the rating agencies, where the focus is primarily on the quality of an issuer's most senior debt. Once the senior debt rating is determined, a mechanical "notching" methodology is applied to rate subordinated classes of securities, such as the issuer's preferreds (rating agency methodology brings to mind the Bismarck quote, "laws are like sausages, it is better not to see them being made").

Much has been made recently about potential conflicts at the public rating agencies. Whether the conflicts are real or perceived, the business model of the agencies is likely to change. Regardless of how one views the public rating agencies, we don't face those conflicts and care only about choosing the right investments for the Fund. We pay close attention to the public ratings, but our investment decisions are only made after we do our own homework.

One additional question that should be on the minds of shareholders: can the Fund continue to produce double-digit quarterly returns? The answer shouldn't be surprising--it's not likely. By a variety of measures, in our view, the preferred market remains attractive relative to other asset classes. But the disparity is not as glaring as it was last spring and, in fact, is now approaching a range we consider normal.

Of course, preferred security prices never experienced anything like the volatility they experienced during the recent financial crisis. Historically, investors have (quite properly) owned these securities for the income they produce; only recently have they attracted the attention of those more inclined toward casinos. Now that the economy is beginning to stabilize, the wrath of recent markets seems to have instilled a new sense of discipline and propriety on companies that lost their way. Nonetheless, we will continue to keep a close eye on how those companies adapt to this new environment.

More information is always available on the Fund's website at [www.preferredincome.com](http://www.preferredincome.com).

Sincerely,

/s/ Donald F. Crumrine

/s/ Robert M. Ettinger

Donald F. Crumrine  
Chairman of the Board  
April 21, 2010

Robert M. Ettinger  
President

Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OVERVIEW  
 FEBRUARY 28, 2010 (UNAUDITED)

FUND STATISTICS

|                                    |    |            |
|------------------------------------|----|------------|
| Net Asset Value                    | \$ | 10.67      |
| Market Price                       | \$ | 11.37      |
| Premium                            |    | 6.56%      |
| Yield on Market Price              |    | 7.60%      |
| Common Stock Shares<br>Outstanding |    | 10,685,849 |

| MOODY'S RATINGS         | % OF NET ASSETS+ |
|-------------------------|------------------|
| -----                   | -----            |
| AA                      | 0.3%             |
| A                       | 8.6%             |
| BBB                     | 67.5%            |
| BB                      | 19.6%            |
| Below "BB"              | 0.6%             |
| Not Rated               | 1.2%             |
|                         | ----             |
| Below Investment Grade* | 15.2%            |

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

(PIE CHART)

| INDUSTRY CATEGORIES | % OF NET ASSETS+ |
|---------------------|------------------|
| -----               | -----            |
| Other               | 4%               |
| Banking             | 41%              |
| Utilities           | 26%              |
| Insurance           | 22%              |
| Energy              | 6%               |
| Financial Services  | 1%               |

| TOP 10 HOLDINGS BY ISSUER | % OF NET ASSETS+ |
|---------------------------|------------------|
| -----                     | -----            |
| Banco Santander           | 6.8%             |
| PNC Financial Services    | 5.7%             |
| Capital One Financial     | 4.4%             |
| Liberty Mutual Group      | 4.1%             |
| Metlife                   | 3.8%             |
| Dominion Resources        | 3.7%             |

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|                          |      |
|--------------------------|------|
| Comerica                 | 3.5% |
| Goldman Sachs            | 3.3% |
| Interstate Power & Light | 2.9% |
| HSBC Plc                 | 2.8% |

% OF NET ASSETS\*\*+

|  |     |
|--|-----|
| Holdings Generating Qualified Dividend<br>Income (QDI) for Individuals                         | 43% |
| Holdings Generating Income Eligible for<br>the Corporate Dividends Received<br>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 & Crumrine Preferred Income Fund Incorporated  
PORTFOLIO OF INVESTMENTS  
FEBRUARY 28, 2010 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- 95.0%

|    |           |  |
|----|-----------|--|
|    |           | BANKING -- 41.3%   |
| \$ | 2,750,000 | Astoria Capital Trust I, 9.75% 11/01/29, Series B .....                                  |
|    | 417,300   | Banco Santander, 10.50% Pfd., Series 10 .....  |
|    | 48,700    | Bank of America Corporation, 6.70% Pfd. ....   |
|    |           | Barclays Bank PLC:   |
| \$ | 3,250,000 | 6.278% .....   |
|    | 40,000    | 6.625% Pfd., Series 2 .....  |
|    | 20,000    | 8.125% Pfd., Series 5 .....  |
|    | 87,500    | BB&T Capital Trust VI, 9.60% Pfd. ....   |
| \$ | 5,100,000 | Capital One Capital III, 7.686% 08/15/36 .....   |
| \$ | 2,500,000 | Capital One Capital VI, 8.875% 05/15/40 .....  |
| \$ | 5,210,000 | Colonial BancGroup, 7.114%, 144A**** .....   |
| \$ | 7,100,000 | Comerica Capital Trust II, 6.576% 02/20/37 .....   |
|    | 9,000     | FBOP Corporation, Adj. Rate Pfd., 144A**** .....   |
|    | 1,250     | First Republic Preferred Capital Corporation, 10.50% Pfd., 144A**** .....                |
|    | 22,500    | First Republic Preferred Capital Corporation II, 8.75% Pfd.,<br>Series B, 144A**** ..... |
|    | 3,250     | First Tennessee Bank, Adj. Rate Pfd., 144A**** .....                                     |
| \$ | 600,000   | First Tennessee Capital I, 8.07% 01/06/27, Series A .....                                |
| \$ | 500,000   | First Tennessee Capital II, 6.30% 04/15/34, Series B .....                               |
| \$ | 1,500,000 | First Union Capital II, 7.95% 11/15/29 .....   |
|    |           | Goldman Sachs:   |

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|    |           |   |
|----|-----------|---|
| \$ | 5,040,000 | Capital II, 5.793% .....                                      |
|    | 2,500     | STRIPES Custodial Receipts, Pvt. ....                         |
| \$ | 500,000   | HSBC USA Capital Trust II, 8.38% 05/15/27, 144A**** .....     |
|    |           | HSBC USA, Inc.:   |
|    | 46,200    | Adj. Rate Pfd., Series D .....                                |
|    | 109,700   | 6.50% Pfd., Series H .....                                    |
|    | 4,400     | \$2.8575 Pfd. ....  |
| \$ | 950,000   | JPMorgan Chase Capital XXVII, 7.00% 11/01/39, Series AA ..... |
|    | 15,000    | JPMorgan Chase Capital XXVIII, 7.20% Pfd. 12/22/39 .....      |
|    | 15,000    | Keycorp Capital VIII, 7.00% Pfd. 06/15/66 .....               |
|    | 23,500    | Keycorp Capital X, 8.00% Pfd. ....                            |
| \$ | 550,000   | Lloyds Banking Group PLC, 6.657%, 144A**** .....              |
|    | 25,000    | Morgan Stanley Capital Trust VIII, 6.45% Pfd. 04/15/67 .....  |
|    | 31,500    | PFGI Capital Corporation, 7.75% Pfd. ....                     |
|    | 250,300   | PNC Financial Services, 9.875% Pfd., Series F .....           |
| \$ | 1,600,000 | PNC Preferred Funding Trust III, 8.70%, 144A**** .....        |
|    | 1,750     | Sovereign REIT, 12.00% Pfd., Series A, 144A**** .....         |

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Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 FEBRUARY 28, 2010 (UNAUDITED)

SHARES/\$ PAR  
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PREFERRED SECURITIES -- (CONTINUED)

|    |           |   |
|----|-----------|---|
|    |           | BANKING -- (CONTINUED)                                      |
| \$ | 2,400,000 | Wachovia Capital Trust III, 5.80% .....                     |
| \$ | 1,000,000 | Washington Mutual, 9.75%, 144A**** .....                    |
| \$ | 1,600,000 | Webster Capital Trust IV, 7.65% 06/15/37 .....              |
| \$ | 1,000,000 | Wells Fargo Capital XV, 9.75% .....                         |
|    |           | FINANCIAL SERVICES -- 0.5%                                  |
| \$ | 500,000   | General Electric Capital Corporation, 6.375% 11/15/67 ..... |
|    | 15,300    | HSBC Finance Corporation, 6.36% Pfd. ....                   |
|    |           | Lehman Brothers Holdings, Inc.:                             |
|    | 15,000    | 5.67% Pfd., Series D .....                                  |
|    | 19,500    | 5.94% Pfd., Series C .....                                  |
|    | 25,000    | 6.50% Pfd., Series F .....                                  |
|    | 27,500    | 7.95% Pfd. ....   |
|    |           | INSURANCE -- 19.5%  |
| \$ | 1,000,000 | Ace Capital Trust II, 9.70% 04/01/30 .....                  |
|    | 22,800    | Arch Capital Group Ltd., 8.00% Pfd., Series A .....         |
|    |           | AXA SA:   |
| \$ | 1,500,000 | 6.379%, 144A**** .....                                      |
| \$ | 3,000,000 | 6.463%, 144A**** .....                                      |
|    | 35,900    | Axis Capital Holdings, 7.50% Pfd., Series B .....           |
|    | 90,600    | Delphi Financial Group, 7.376% Pfd. 05/15/37 .....          |
| \$ | 3,540,000 | Everest Re Holdings, 6.60% 05/15/37 .....                   |

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|              |   |
|--------------|---|
|              | Liberty Mutual Group:                               |
| \$ 800,000   | 7.80% 03/15/37, 144A****                            |
| \$ 4,000,000 | 10.75% 06/15/58, 144A****                           |
| \$ 500,000   | MetLife Capital Trust IV, 7.875% 12/15/37, 144A**** |
| \$ 2,000,000 | MetLife Capital Trust X, 9.25% 04/08/38, 144A****   |
|              | MetLife, Inc.:                                      |
| 89,400       | 6.50% Pfd., Series B                                |
| \$ 1,250,000 | 10.75% 08/01/39                                     |
|              | Principal Financial Group:                          |
| 5,000        | 5.563% Pfd., Series A                               |
| 100,000      | 6.518% Pfd., Series B                               |
|              | Renaissancere Holdings Ltd.:                        |
| 122,250      | 6.08% Pfd., Series C                                |

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Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 FEBRUARY 28, 2010 (UNAUDITED)

SHARES/\$ PAR  
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PREFERRED SECURITIES -- (CONTINUED)

|              |   |
|--------------|---|
|              | INSURANCE -- (CONTINUED)                                  |
| 6,900        | 6.60% Pfd., Series D                                      |
| 9,200        | 7.30% Pfd., Series B                                      |
| 119,500      | Scottish Re Group Ltd., 7.25% Pfd.                        |
| \$ 750,000   | USF&G Capital, 8.312% 07/01/46, 144A****                  |
| \$ 2,000,000 | XL Capital Ltd., 6.50%, Series E                          |
|              | UTILITIES -- 25.9%  |
| 10,000       | Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993 |
| \$ 2,491,000 | COMED Financing III, 6.35% 03/15/33                       |
| \$ 250,000   | Dominion Resources Capital Trust I, 7.83% 12/01/27        |
|              | Dominion Resources, Inc.:                                 |
| \$ 3,500,000 | 7.50%   |
| 90,000       | 8.375% Pfd., Series A                                     |
| 40,000       | Entergy Arkansas, Inc., 6.45% Pfd.                        |
| \$ 2,000,000 | FPL Group Capital, Inc., 6.65% 06/15/67                   |
|              | Georgia Power Company:                                    |
| 12,600       | 6.125% Pfd.   |
| 12,500       | 6.50% Pfd., Series 2007A                                  |
| 3,000        | Gulf Power Company, 6.45% Pfd., Series 2007A              |
| 32,650       | Indianapolis Power & Light Company, 5.65% Pfd.            |
| 170,900      | Interstate Power & Light Company, 8.375% Pfd., Series B   |
|              | Pacific Enterprises:                                      |
| 22,430       | \$4.50 Pfd.   |
| 10,000       | \$4.75 Pfd., Series 53                                    |
| \$ 500,000   | PECO Energy Capital Trust III, 7.38% 04/06/28, Series D   |
| \$ 4,400,000 | Puget Sound Energy, Inc., 6.974% 06/01/67                 |
| 60,000       | Scana Corporation, 7.70% Pfd.                             |
|              | Southern California Edison:                               |
| 35,000       | 6.00% Pfd., Series C                                      |
| 11,500       | 6.125% Pfd.   |

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|    |           |   |
|----|-----------|---|
| \$ | 3,000,000 | Southern Union Company, 7.20% 11/01/66 .....  |
| \$ | 750,000   | TXU Electric Capital V, 8.175% 01/30/37 ..... |
|    | 18,800    | Union Electric Company, \$7.64 Pfd. ....      |

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Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 FEBRUARY 28, 2010 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)

|    |           |  |
|----|-----------|--|
|    |           | UTILITIES -- (CONTINUED)                           |
| \$ | 3,900,000 | Wisconsin Energy Corporation, 6.25% 05/15/67 ..... |
|    | 14,750    | Xcel Energy, Inc., \$4.08 Pfd., Series B .....     |

|    |           |  |
|----|-----------|--|
|    |           | ENERGY -- 6.1%                                     |
| \$ | 4,700,000 | Enbridge Energy Partners LP, 8.05% 10/01/37 .....  |
|    |           | Enterprise Products Partners:                      |
| \$ | 750,000   | 7.00% 06/01/67 .....                               |
| \$ | 1,500,000 | 8.375% 08/01/66, Series A .....                    |
|    | 3,500     | Kinder Morgan GP, Inc., 8.33% Pfd., 144A**** ..... |

|  |        |   |
|--|--------|---|
|  |        | MISCELLANEOUS INDUSTRIES -- 1.7%                          |
|  | 40,000 | Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A**** ..... |

TOTAL PREFERRED SECURITIES  
 (Cost \$161,811,457) .....

|  |        |  |
|--|--------|--|
|  |        | CORPORATE DEBT SECURITIES -- 2.7%                |
|  |        | FINANCIAL SERVICES -- 0.1%                       |
|  | 10,000 | Ameriprise Financial, Inc., 7.75% 06/15/39 ..... |

|    |           |   |
|----|-----------|---|
|    |           | INSURANCE -- 2.3%   |
| \$ | 2,200,000 | Liberty Mutual Insurance, 7.697% 10/15/97, 144A**** .....     |
| \$ | 2,000,000 | UnumProvident Corporation, 7.25% 03/15/28, Senior Notes ..... |

|  |        |  |
|--|--------|--|
|  |        | UTILITIES -- 0.3%                          |
|  | 20,000 | Entergy Texas, Inc., 7.875% 06/01/39 ..... |

TOTAL CORPORATE DEBT SECURITIES  
 (Cost \$3,944,512) .....

Flaherty & Crumrine Preferred Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 FEBRUARY 28, 2010 (UNAUDITED)

|  |   |          |
|--|---|----------|
| SHARES/\$ PAR                              |   |          |
| -----                                      |   |          |
| COMMON STOCK -- 0.1%                       |   |          |
|  | BANKING -- 0.1%                                 |          |
| 3,620                                      | CIT Group, Inc. ....                            |          |
|  | TOTAL COMMON STOCK                              |          |
|  | (Cost \$330,325) .....                          |          |
| MONEY MARKET FUND -- 1.7%                  |   |          |
| 2,855,270                                  | BlackRock Provident Institutional, T-Fund ..... |          |
|  | TOTAL MONEY MARKET FUND                         |          |
|  | (Cost \$2,855,270) .....                        |          |
| TOTAL INVESTMENTS (Cost \$168,941,564***)  |   | 99.5%    |
| OTHER ASSETS AND LIABILITIES (Net)         |   | 0.5%     |
|  |   | -----    |
| NET ASSETS BEFORE LOAN                     |   | 100.0%++ |
|  |   | -----    |
| LOAN PRINCIPAL BALANCE                     |   |          |
| TOTAL NET ASSETS AVAILABLE TO COMMON STOCK |   |          |

-----

\* 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 28, 2010, these securities amounted to \$28,643,505 or 16.8% of net assets before loan. These securities have been determined to be liquid under the guidelines established by the Board of Directors.

(1) All or a portion of this security has been pledged as collateral for the Fund's loan. The total value of such securities was \$125,486,320 at February 28, 2010.

(2) Foreign Issuer.

+ Non-income producing.



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- ++ 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 net assets before the loan.

ABBREVIATIONS:

- PFD. -- Preferred Securities
- PVT. -- Private Placement Securities
- REIT -- Real Estate Investment Trust
- STRIPES -- Structured Residual Interest Preferred Enhanced Securities

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Flaherty & Crumrine Preferred Income Fund Incorporated  
 STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK(1)  
 FOR THE PERIOD FROM DECEMBER 1, 2009 THROUGH FEBRUARY 28, 2010 (UNAUDITED)

OPERATIONS:

Net investment income .....  
 Net realized gain/(loss) on investments sold during the period .....  
 Change in net unrealized appreciation/depreciation of investments .....  
 Distributions to APS\* Shareholders from net investment income,  
 including changes in accumulated undeclared distributions .....

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS .....

DISTRIBUTIONS:

Dividends paid from net investment income to Common Stock Shareholders(2) .....

TOTAL DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS .....

FUND SHARE TRANSACTIONS:

Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan .....

NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK RESULTING FROM FUND SHARE  
 TRANSACTIONS .....

NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD .....

NET ASSETS AVAILABLE TO COMMON STOCK:

Beginning of period. ....  
 Net increase in net assets during the period .....  
  
 End of period .....

-----  
 \* Auction Preferred Stock.

(1) These tables summarize the three months ended February 28, 2010 and should be read in conjunction with the Fund's audited financial statements,

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including footnotes, in its Annual Report dated November 30, 2009.

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

Flaherty & Crumrine Preferred Income Fund Incorporated  
 FINANCIAL HIGHLIGHTS(1)  
 FOR THE PERIOD FROM DECEMBER 1, 2009 THROUGH FEBRUARY 28, 2010 (UNAUDITED)  
 FOR A COMMON STOCK SHARE OUTSTANDING THROUGHOUT THE PERIOD.

PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of period .....

INVESTMENT OPERATIONS:

Net investment income .....

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

DISTRIBUTIONS TO APS\* SHAREHOLDERS:

From net investment income .....

Total from investment operations .....

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income .....

Total distributions to Common Stock Shareholders .....

Net asset value, end of period .....

Market value, end of period .....

Common Stock shares outstanding, end of period .....

RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:

Net investment income+ .....

Net investment income, including payments to APS Shareholders+ .....

Operating expenses including interest expense. ....

Operating expenses excluding interest expense .....

SUPPLEMENTAL DATA:++

Portfolio turnover rate .....

Net assets before loan, end of period (in 000's) .....

Ratio of operating expenses including interest expense(2) to net assets

before loan and APS. ....

Ratio of operating expenses excluding interest expense(2) to net assets

before loan and APS. ....

(1) These tables summarize the three months ended February 28, 2010 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2009.

(2) Does not include distributions to APS Shareholders.

\* Auction Preferred Stock.

\*\* Annualized.

\*\*\* Not Annualized.

+ The net investment income ratios reflect income net of operating expenses, including interest expense.

++ Information presented under heading Supplemental Data includes APS and loan principal balance.

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

|                         | TOTAL<br>DIVIDENDS<br>PAID | NET ASSET<br>VALUE | NYSE<br>CLOSING PRICE | DIVIDEND<br>REINVESTMENT<br>PRICE (1) |
|-------------------------|----------------------------|--------------------|-----------------------|---------------------------------------|
|                         | -----                      | -----              | -----                 | -----                                 |
| December 31, 2009 ..... | \$0.0720                   | \$10.31            | \$10.47               | \$10.31                               |
| January 29, 2010 .....  | 0.0720                     | 10.52              | 10.59                 | 10.52                                 |
| February 26, 2010 ..... | 0.0720                     | 10.67              | 11.37                 | 10.80                                 |

-----  
(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 & Crumrine Preferred Income Fund Incorporated  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. AGGREGATE INFORMATION FOR FEDERAL INCOME TAX PURPOSES

At February 28, 2010 the aggregate cost of securities for federal income tax purposes was \$168,938,993, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$23,247,156 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$22,850,996.

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

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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. A summary of the inputs used to value the Fund's net assets as of February 28, 2010 is as follows:

|                           | TOTAL<br>VALUE AT<br>FEBRUARY 28, 2010 | LEVEL 1<br>QUOTED<br>PRICE | LEVEL 2<br>SIGNIFICANT<br>OBSERVABLE<br>INPUTS | LEVEL 3<br>SIGNIFICANT<br>UNOBSERVABLE<br>INPUTS |
|---------------------------|--|----------------------------|--|--|
| Preferred Securities      |  |                            |  |  |
| Banking                   | \$ 70,243,491                          | \$46,919,881               | \$23,261,870                                   | \$61,740   |
| Financial Services        | 826,375                                | 802,894                    | 23,481   | --   |
| Insurance                 | 33,255,398                             | 14,737,823                 | 18,517,575                                     | --   |
| Utilities                 | 44,105,116                             | 12,935,553                 | 31,169,563                                     | --   |
| Energy                    | 10,350,986                             | --                         | 10,350,986                                     | --   |
| Miscellaneous Industries  | 2,903,752                              | --                         | 2,903,752                                      | --   |
| Corporate Debt Securities | 4,662,888                              | 826,225                    | 3,836,663                                      | --   |
| Common Stock              |  |                            |  |  |
| Banking                   | 131,877                                | 131,877                    | --   | --   |
| Money Market Fund         | 2,855,270                              | 2,855,270                  | --   | --   |
| Total Investments         | \$169,335,153                          | \$79,209,523               | \$90,063,890                                   | \$61,740   |

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Flaherty & Crumrine Preferred Income Fund Incorporated  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

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

|   | TOTAL INVESTMENTS | PREFERRED SECURITIES<br>BANKING |
|---|-------------------|---------------------------------|
| BALANCE AS OF 11/30/09 .....                        | \$ 49,500         | \$49,500                        |
| Accrued discounts/premiums .....                    | --                | --                              |
| Realized gain/(loss) .....                          | --                | --                              |
| Change in unrealized appreciation/(depreciation) .. | 12,240            | 12,240                          |
| Net purchases/(sales) .....                         | --                | --                              |
| Transfers in and/or out of Level 3 .....            | --                | --                              |
| BALANCE AS OF 2/28/10 .....                         | \$ 61,740         | \$ 61,740                       |

For the period ended February 28, 2010, total change in unrealized

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gain/(loss) on Level 3 securities still held at period end and included in the change in net assets was \$12,240.

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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

### 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 --  
PNC Global Investment Servicing  
(U.S.) Inc.  
P.O. Box 43027  
Providence, RI 02940-3027

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(FLAHERTY & CRUMRINE LOGO)

FLAHERTY & CRUMRINE  
PREFERRED INCOME FUND

Quarterly Report

February 28, 2010

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