

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC
Form N-Q
October 30, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number **811-06179**

Flaherty & Crumrine Preferred Income Fund Incorporated

(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Address of principal executive offices) (Zip code)

Donald F. Crumrine

Flaherty & Crumrine Incorporated

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Name and address of agent for service)

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

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Date of fiscal year end: November 30

Date of reporting period: August 31, 2012

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

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

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 quarter¹, total return on net asset value² 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 31st) 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

¹ June 1, 2012 - August 31, 2012

² 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 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 & 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

	% of Net Assets
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&P, and Fitch.

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

	% of Net Assets
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%

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	% of Net Assets***
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 & Crumrine Preferred Income Fund Incorporated

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

Shares/\$ Par		Value
Preferred Securities 87.5%		
Banking 35.9%		
	Astoria Financial:	
\$ 2,750,000	Astoria Financial: Astoria Capital Trust I, 9.75% 11/01/29, Series B	\$ 2,853,345 ⁽¹⁾
	Banco Bilbao Vizcaya Argentaria, S.A.:	
\$ 1,500,000	BBVA International Preferred, 5.919%	995,528** ⁽¹⁾⁽³⁾
	Banco Santander, S.A.:	
355,000	Banco Santander, 10.50% Pfd., Series 10	9,718,125** ⁽¹⁾⁽³⁾
	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** ⁽¹⁾⁽²⁾⁽³⁾
3,700	Barclays Bank PLC, 7.75% Pfd., Series 4	93,499** ⁽³⁾
72,500	Barclays Bank PLC, 8.125% Pfd., Series 5	1,853,825** ⁽¹⁾⁽³⁾
	BB&T Corp:	
104,165	BB&T Corporation, 5.625% Pfd., Series E	2,668,707* ⁽¹⁾⁽²⁾
	BNP Paribas:	
\$ 1,750,000	BNP Paribas, 7.195%, 144A****	1,605,625** ⁽¹⁾⁽²⁾⁽³⁾
	Capital One Financial:	
\$ 4,750,000	Capital One Capital III, 7.686% 08/15/36	4,815,312 ⁽¹⁾⁽²⁾
\$ 500,000	Capital One Capital V, 10.25% 08/15/39	517,500 ⁽¹⁾
\$ 2,500,000	Capital One Capital VI, 8.875% 05/15/40	2,570,643 ⁽¹⁾
	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 ⁽¹⁾⁽²⁾
	Colonial BancGroup:	
\$ 5,210,000	Colonial BancGroup, 7.114%, 144A****	10,420 ⁽⁴⁾⁽⁵⁾
	FBOP Corp:	
9,000	FBOP Corporation, Adj. Rate Pfd., 144A****	4,500* ⁽⁴⁾⁽⁵⁾
	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% ⁽⁶⁾ , 144A****	2,584,055* ⁽¹⁾
\$ 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 & Crumrine Preferred Income Fund Incorporated

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

Shares/\$ Par		Value
Preferred Securities (Continued)		
Banking (Continued)		
	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 ⁽¹⁾⁽²⁾
	HSBC PLC:	
\$ 1,000,000	HSBC Capital Funding LP, 10.176%, 144A****	1,350,000 ⁽³⁾
132,900	HSBC Holdings PLC, 8.00% Pfd., Series 2	3,692,161** ⁽¹⁾⁽³⁾
\$ 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 ⁽¹⁾
110,350	HSBC USA, Inc., 6.50% Pfd., Series H	2,840,685* ⁽¹⁾
	ING Groep NV:	
8,900	ING Groep NV, 7.20% Pfd.	221,267** ⁽³⁾
23,000	ING Groep NV, 7.375% Pfd.	574,770** ⁽³⁾
	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** ⁽³⁾
	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* ⁽¹⁾
200,000	PNC Financial Services, 9.875% Pfd., Series L	5,330,500* ⁽¹⁾
\$ 1,750,000	PNC Preferred Funding Trust III, 8.70%, 144A****	1,785,210 ⁽¹⁾⁽²⁾
	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 ⁽¹⁾⁽²⁾
1,750	Wells Fargo & Company, 7.50% Pfd., Series L	2,091,687* ⁽¹⁾
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

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PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2012 (Unaudited)

Shares/\$ Par		Value
Preferred Securities (Continued)		
Financial Services 0.8%		
	Credit Suisse Group:	
\$ 1,000,000	Claudius, Ltd. - Credit Suisse AG, 7.875%, Series B, 144A****	\$ 1,051,250 ⁽³⁾
	HSBC PLC:	
30,000	HSBC Finance Corporation, 6.36% Pfd., Series B	753,075 ^{*(1)}
		1,804,325
Insurance 22.1%		
	Ace Ltd.:	
\$ 975,000	Ace Capital Trust II, 9.70% 04/01/30	1,394,250 ⁽¹⁾⁽²⁾⁽³⁾
	Aon Corporation:	
\$ 300,000	AON Corp, 8.205% 01/01/27	365,043