

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC

Form N-30B-2

April 27, 2012

**Item 1. Schedule of Investments.**

The Schedule(s) of Investments is attached herewith.

*FLAHERTY & CRUMRINE PREFERRED INCOME FUND*

To the Shareholders of Flaherty & Crumrine Preferred Income Fund:

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

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

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

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

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

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

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

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

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

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

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

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

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

Sincerely,

Donald F. Crumrine  
Chairman

Robert M. Ettinger  
President

April 16, 2012

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

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

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

**Moody's Ratings**

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

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

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

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

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

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

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

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

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

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

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

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

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

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 29, 2012 (Unaudited)

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

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

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

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



Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 29, 2012 (Unaudited)

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

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 29, 2012 (Unaudited)

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

Flaherty & Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 29, 2012 (Unaudited)**

Shares/\$ Par		Value
<b>Corporate Debt Securities (Continued)</b>		
	<b>Utilities 1.6%</b>	
	Southern Union:	
\$ 2,700,000	Southern Union Company, 8.25% 11/15/29	\$ 3,254,153 <sup>(1)(2)</sup>
		3,254,153
	<b>Total Corporate Debt Securities</b>	
	(Cost \$11,080,598)	12,803,522
<b>Common Stock 0.4%</b>		
	<b>Banking 0.1%</b>	
	CIT Group:	
3,620	CIT Group, Inc.	147,370*