

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC
Form N-Q
October 27, 2010

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

Date of fiscal year end: November 30

Date of reporting period: August 31, 2010

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (Sections 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. Section 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:

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

The combination of falling interest rates and ongoing demand for preferred securities helped the Fund produce excellent returns during its third fiscal period ending August 31, 2010. For the three month period, total return on net asset value was +12.1%. Total return using market price of Fund shares was +18.5% during the period.

It has been quite an eventful summer in the preferred securities market. We'll hit the highlights here, and readers willing to do a little extra-credit homework will find more detailed discussions on the Fund's website.

In addition to strong performance of the Fund's investment portfolio, the monthly dividend paid to shareholders was increased to \$0.089 per share from \$0.0825, commencing with the August distribution. This 7.9% increase reflects the ongoing favorable environment of relatively high yields on Fund investments and the low cost of Fund borrowings.

We expect the level of economic growth to remain tepid over the coming quarters and then to show gradual improvement. We anticipate the Fund's cost of borrowing will follow a similar path, remaining low for a period, then increasing gradually. Of course, unless income from the Fund's investments also increases, a rise in the cost of borrowing would negatively impact the distribution to shareholders.

Although economic activity has slowed recently, we do not expect the economy to fall back into recession. In fact, we see some healthy signs, such as a substantial increase in personal savings and steady levels of business investment aimed at improving productivity. As individuals save more, some of these dollars are likely to find their way into the preferred market. As companies become more efficient, their financial condition generally improves. These trends, along with declining interest rates, have helped boost the Fund's investment performance.

In the aftermath of the financial meltdown, Congress and various bank regulators set out to establish new rules to hopefully prevent a repeat of the crisis. We are now getting a better sense of how new regulations will impact the market. With passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act in July, along with increasing clarification from international bank regulators, the fog is beginning to lift on the future role of preferred securities as a source of capital for the banking industry⁽¹⁾.

Since our last letter, rule makers have indicated which security structures they don't like, but have yet to decide what will be okay. It is now clear that trust preferred securities, which are favored by banks as a form of capital, will not meet the new standards. As a result, not only will there be no new issues of this type, issuers will want to redeem or replace outstanding trust preferreds sooner than was previously expected. In response, prices of many bank trust preferred securities have moved higher--contributing to the Fund's strong performance.

It is less clear what types of securities banks will be allowed to issue to meet future capital requirements. We are monitoring the debate closely and throwing in our two cents whenever appropriate. At this time, we believe the parties are moving toward a sensible conclusion and will ultimately induce banks to issue preferred securities suitable for the Fund's portfolio. Of course, we will stay on top of this and report important developments in these letters or on the Fund's website.

(1) The treatment of preferred securities issued by NON-BANKS has not changed in any meaningful way.

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

As of this writing, roughly 23% of the Fund's portfolio is invested in trust preferred securities issued by U.S. banks. In light of the new rules, we think it is likely that many of these issues will be redeemed, beginning in 2013. We'll have our work cut out for us trying to replace the income on these securities, but until we have a better idea how the banks will replace these issues, it is difficult to predict the impact on the Fund.

As always, we encourage you to visit www.pfdincome.com to read our Quarterly Economic Update as well as a more detailed discussion of factors affecting the wonderful world of preferred securities.

Sincerely,

/s/ Donald F. Crumrine

/s/ Robert M. Ettinger

Donald F. Crumrine
Chairman

Robert M. Ettinger
President

October 15, 2010

2

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OVERVIEW
AUGUST 31, 2010 (UNAUDITED)

FUND STATISTICS

Net Asset Value	\$	11.49
Market Price	\$	12.37
Premium		7.66%
Yield on Market Price		8.63%
Common Stock Shares Outstanding		10,734,121

MOODY'S RATINGS

% OF NET ASSETS+

A	6.5%
BBB	71.4%
BB	19.4%
Below "BB"	0.6%
Not Rated*	0.3%
Below Investment Grade**	15.2%

* Does not include net other assets and liabilities of 1.8%.

** Below investment grade by both Moody's and S&P.

(PIE CHART)

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

INDUSTRY CATEGORIES	% OF NET ASSETS+
-----	-----
Banking	40%
Utilities	25%
Insurance	22%
Energy	6%
Financial Services	2%
Other	5%

TOP 10 HOLDINGS BY ISSUER	% OF NET ASSETS+
-----	-----
Banco Santander	5.6%
Capital One Financial	4.2%
PNC Financial Services	4.1%
Liberty Mutual Group	4.0%
Comerica	3.7%
Dominion Resources	3.3%
Wells Fargo	3.2%
HSBC Plc	3.1%
Interstate Power & Light	3.0%
Metlife	3.0%

	% OF NET ASSETS***+

Holdings Generating Qualified Dividend Income (QDI) for Individuals	41%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	26%

*** 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, 2010 (UNAUDITED)

SHARES/\$ PAR

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

PREFERRED SECURITIES -- 95.2%	
BANKING -- 39.8%	
\$2,750,000	Astoria Capital Trust I, 9.75% 11/01/29, Series B
355,000	Banco Santander, 10.50% Pfd., Series 10
48,700	Bank of America Corporation, 6.70% Pfd.
\$ 500,000	BankAmerica Institutional, Series A, 8.07% 12/31/26, 144A****
Barclays Bank PLC:	
\$3,000,000	6.278%
40,000	6.625% Pfd., Series 2
6,200	7.75% Pfd., Series 4
35,000	8.125% Pfd., Series 5
87,500	BB&T Capital Trust VI, 9.60% Pfd.
\$4,500,000	Capital One Capital III, 7.686% 08/15/36
\$ 500,000	Capital One Capital V, 10.25% 08/15/39
\$2,500,000	Capital One Capital VI, 8.875% 05/15/40
\$5,210,000	Colonial BancGroup, 7.114%, 144A****
\$7,250,000	Comerica Capital Trust II, 6.576% 02/20/37
9,000	FBOP Corporation, Adj. Rate Pfd., 144A****
\$ 750,000	Fifth Third Capital Trust IV, 6.50% 04/15/37
15,000	Fifth Third Capital Trust V, 7.25% Pfd. 08/15/67
14,500	Fifth Third Capital Trust VII, 8.875% Pfd. 05/15/68
1,250	First Republic Preferred Capital Corporation, 10.50% Pfd., 144A****
22,500	First Republic Preferred Capital Corporation II, 8.75% Pfd., Series B, 144A****
3,750	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
\$1,000,000	First Union Institutional Capital I, 8.04% 12/01/26
\$ 500,000	Fleet Capital Trust II, 7.92% 12/11/26
Goldman Sachs:	
\$ 500,000	Capital I, 6.345% 02/15/34
\$3,713,000	Capital II, 5.793%
2,500	STRIPES Custodial Receipts, Pvt.
135,000	HSBC Holdings PLC, 8.00% Pfd., Series 2
\$ 500,000	HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****
HSBC USA, Inc.:	
48,000	6.50% Pfd., Series H
4,400	\$2.8575 Pfd.
\$ 300,000	JPMorgan Chase Capital XVIII, 6.95% 08/17/36, Series R
15,000	Keycorp Capital VIII, 7.00% Pfd. 06/15/66

Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2010 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)	
BANKING -- (CONTINUED)	
27,600	Keycorp Capital X, 8.00% Pfd.
\$ 550,000	Lloyds Banking Group PLC, 6.657%, 144A****
\$ 600,000	NB Capital Trust IV, 8.25% 04/15/27
200,000	PNC Financial Services, 9.875% Pfd., Series F
\$1,750,000	PNC Preferred Funding Trust III, 8.70%, 144A****

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

1,750	Sovereign REIT, 12.00% Pfd., Series A, 144A****
\$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 -- 2.0%	
5,000	Deutsche Bank Contingent Capital Trust II, 6.55% Pfd
33,000	Heller Financial, Inc., 6.687% Pfd., Series C
10,300	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 -- 19.8%	
\$ 750,000	Ace Capital Trust II, 9.70% 04/01/30
\$ 250,000	AON Corporation, 8.205% 01/01/27
25,000	Arch Capital Group Ltd., 8.00% Pfd., Series A
	AXA SA:
\$1,750,000	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
\$4,000,000	Everest Re Holdings, 6.60% 05/15/37
	Liberty Mutual Group:
\$ 500,000	7.80% 03/15/37, 144A****
\$4,100,000	10.75% 06/15/58, 144A****
\$2,100,000	MetLife Capital Trust X, 9.25% 04/08/38, 144A****

Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2010 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)	
INSURANCE -- (CONTINUED)	
\$2,400,000	MetLife, Inc., 10.75% 08/01/39
	Principal Financial Group:
16,000	5.563% Pfd., Series A
70,000	6.518% Pfd., Series B
	Renaissancere Holdings Ltd.:
131,450	6.08% Pfd., Series C
6,900	7.30% Pfd., Series B
119,500	Scottish Re Group Ltd., 7.25% Pfd.
\$1,300,000	Stancorp Financial Group, 6.90% 06/01/67

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

\$ 750,000	USF&G Capital, 8.312% 07/01/46, 144A****
\$2,000,000	XL Capital Ltd., 6.50%, Series E
\$1,000,000	ZFS Finance USA Trust V, 6.50% 05/09/37, 144A****
UTILITIES -- 25.1%	
10,000	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993
\$3,458,000	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%
77,000	8.375% Pfd., Series A
40,000	Entergy Arkansas, Inc., 6.45% Pfd.
20,000	Entergy Louisiana, Inc., 6.95% Pfd.
\$2,000,000	FPL Group Capital, Inc., 6.65% 06/15/67
Georgia Power Company:	
5,000	6.125% Pfd
25,000	6.50% Pfd., Series 2007A
3,000	Gulf Power Company, 6.45% Pfd., Series 2007A
32,650	Indianapolis Power & Light Company, 5.65% Pfd.
190,000	Interstate Power & Light Company, 8.375% Pfd., Series B
7,146	MDU Resources Group, 4.50% Pfd. 07/08/10
22,430	Pacific Enterprises, \$4.50 Pfd.
\$ 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
55,500	Scana Corporation, 7.70% Pfd.

Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2010 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)

UTILITIES -- (CONTINUED)	
Southern California Edison:	
32,100	6.00% Pfd., Series C
17,500	6.125% Pfd
\$3,000,000	Southern Union Company, 7.20% 11/01/66
\$ 750,000	TXU Electric Capital V, 8.175% 01/30/37
\$3,000,000	Wisconsin Energy Corporation, 6.25% 05/15/67
6,750	Xcel Energy, Inc., \$4.08 Pfd., Series B
ENERGY -- 6.4%	
\$4,250,000	Enbridge Energy Partners LP, 8.05% 10/01/37
Enterprise Products Partners:	
\$ 750,000	7.00% 06/01/67
\$3,250,000	8.375% 08/01/66, Series A
3,500	Kinder Morgan GP, Inc., 8.33% Pfd., 144A****

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

		REAL ESTATE INVESTMENT TRUST (REIT) -- 0.2%	
12,500		PS Business Parks, Inc., 6.70% Pfd., Series P	
		MISCELLANEOUS INDUSTRIES -- 1.9%	
40,000		Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****	
		TOTAL PREFERRED SECURITIES	
		(Cost \$170,603,149)	
		CORPORATE DEBT SECURITIES -- 2.9%	
		FINANCIAL SERVICES -- 0.2%	
10,000		Ameriprise Financial, Inc., 7.75% 06/15/39	

7

Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2010 (UNAUDITED)

SHARES/\$ PAR

		INSURANCE -- 2.4%	
\$2,500,000		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 \$4,192,390)	
		COMMON STOCK -- 0.1%	
		BANKING -- 0.1%	
3,620		CIT Group, Inc.	
		TOTAL COMMON STOCK	
		(Cost \$330,325)	
		MONEY MARKET FUND -- 3.7%	
6,874,830		BlackRock Provident Institutional, T-Fund	
		TOTAL MONEY MARKET FUND	
		(Cost \$6,874,830)	

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

TOTAL INVESTMENTS (Cost \$182,000,694***)	101.9%
OTHER ASSETS AND LIABILITIES (Net)	(1.9)%

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 August 31, 2010, these securities amounted to \$32,038,931 or 17.4% of net assets before loan. These securities have been determined to be liquid under the guidelines established by the Board of Directors.

Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2010 (UNAUDITED)

- (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 \$131,217,188 at August 31, 2010.
- (2) Foreign Issuer.
- + 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 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

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK(1)
FOR THE PERIOD FROM DECEMBER 1, 2009 THROUGH AUGUST 31, 2010 (UNAUDITED)

	VALUE
OPERATIONS:	
Net investment income	\$ 8,627,740
Net realized gain/(loss) on investments sold during the period	1,558,215
Change in net unrealized appreciation/depreciation of investments	15,197,346
Distributions to APS* Shareholders from net investment income, including changes in accumulated undeclared distributions	(70,977)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	25,312,324
DISTRIBUTIONS:	
Dividends paid from net investment income to Common Stock Shareholders(2) ...	(7,454,757)
TOTAL DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS	(7,454,757)
FUND SHARE TRANSACTIONS:	
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan	683,032
NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK RESULTING FROM FUND SHARE TRANSACTIONS	683,032
NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD	\$ 18,540,599
NET ASSETS AVAILABLE TO COMMON STOCK:	
Beginning of period	\$104,764,121
Net increase in net assets during the period	18,540,599
End of period	\$123,304,720

* Auction Preferred Stock.

(1) These tables summarize the nine months ended August 31, 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) 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 AUGUST 31, 2010 (UNAUDITED)
FOR A COMMON STOCK SHARE OUTSTANDING THROUGHOUT THE PERIOD.

PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of period	\$ 9.82
--	---------

INVESTMENT OPERATIONS:

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

Net investment income	0.81
Net realized and unrealized gain/(loss) on investments	1.57
DISTRIBUTIONS TO APS* SHAREHOLDERS:	
From net investment income	(0.01)

Total from investment operations	2.37

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:	
From net investment income	(0.70)

Total distributions to Common Stock Shareholders	(0.70)

Net asset value, end of period	\$ 11.49
	=====
Market value, end of period	\$ 12.37
	=====
Common Stock shares outstanding, end of period	10,734,121
	=====
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:	
Net investment income+	9.96%**
Net investment income, including payments to APS Shareholders+	9.88%**
Operating expenses including interest expense	2.32%**
Operating expenses excluding interest expense	1.60%**
SUPPLEMENTAL DATA:++	
Portfolio turnover rate	24%**
Net assets before loan, end of period (in 000's)	\$ 183,805
Ratio of operating expenses including interest expense(2) to net assets before loan and APS	1.55%**
Ratio of operating expenses excluding interest expense(2) to net assets before loan and APS	1.07%**

(1) These tables summarize the nine months ended August 31, 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.

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

	DIVIDENDS PAID	NET ASSET VALUE	NYSE CLOSING PRICE	REINVESTMENT 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
March 31, 2010	0.0720	11.08	11.32	11.08
April 30, 2010	0.0720	11.24	11.93	11.33
May 28, 2010	0.0825	10.48	10.67	10.48
June 30, 2010	0.0825	10.65	11.30	10.74
July 30, 2010	0.0825	11.15	12.33	11.71
August 31, 2010	0.0890	11.49	12.37	11.75

 (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 August 31, 2010, the aggregate cost of securities for federal income tax purposes was \$181,998,123, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$26,736,042 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$21,433,060.

2. ADDITIONAL ACCOUNTING STANDARDS

FAIR VALUE MEASUREMENT: The inputs and valuation techniques used to measure fair value of the Fund's investments are summarized into three levels as described in the hierarchy below:

- Level 1 - quoted prices in active markets for identical securities
- Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 - significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of levels are recognized at market value at the end of the period. A summary of the inputs used to value the Fund's investments as of August 31, 2010 is as follows:

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

	TOTAL VALUE AT AUGUST 31, 2010	LEVEL 1 QUOTED PRICE	SIGNIFICANT OBSERVABLE INPUTS	SIGNIFICANT UNOBSERVABLE INPUTS
Preferred Securities				
Banking	\$ 73,150,901	\$44,448,294	\$ 28,667,867	\$34,740,000
Financial Services	3,588,795	367,831	3,220,964	--
Insurance	36,489,347	13,790,746	22,698,601	--
Utilities	46,141,294	13,011,922	33,129,372	--
Energy	11,788,911	--	11,788,911	--
Real Estate Investment Trust (REIT)	302,156	302,156	--	--
Miscellaneous Industries	3,520,000	--	3,520,000	--
Corporate Debt Securities	5,312,089	849,625	4,462,464	--
Common Stock				
Banking	132,782	132,782	--	--
Money Market Fund	6,874,830	6,874,830	--	--
Total Investments	\$187,301,105	\$79,778,186	\$107,488,179	\$34,740,000

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

13

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

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

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

	TOTAL INVESTMENTS	PREFERRED SECURITIES BANKING
BALANCE AS OF 11/30/09	\$ 49,500	\$ 49,500
Accrued discounts/premiums	--	--
Realized gain/(loss)	--	--
Change in unrealized appreciation/(depreciation)	(14,760)	(14,760)
Net purchases/(sales)	--	--
Transfers in and/or out of Level 3	--	--
BALANCE AS OF 8/31/10	\$ 34,740	\$ 34,740

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

For the period ended August 31, 2010, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was \$(14,760).

14

[This page intentionally left blank]

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. Etinger, CFA
President
R. Eric Chadwick, CFA
Chief Financial Officer,
Vice President and Treasurer
Chad C. Conwell
Chief Compliance Officer,
Vice President and Secretary
Bradford S. Stone
Vice President and
Assistant Treasurer
Laurie C. Lodolo
Assistant Compliance Officer,
Assistant Treasurer and
Assistant Secretary
Linda M. Puchalski
Assistant Treasurer

INVESTMENT ADVISER

Flaherty & Crumrine Incorporated
e-mail: flaherty@pfdincome.com

QUESTIONS CONCERNING YOUR SHARES OF FLAHERTY & CRUMRINE PREFERRED INCOME FUND?

- If your shares are held in a Brokerage Account, contact your Broker.
- If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent & Shareholder Servicing Agent --

BNY Mellon Investment Servicing (US) Inc.
P.O. Box 43027
Providence, RI 02940-3027
1-800-331-1710

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

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

OF ANY SECURITIES MENTIONED IN THIS REPORT.

(FLAHERTY & CRUMRINE LOGO)
PREFERRED INCOME FUND

Quarterly
Report

August 31, 2010

www.preferredincome.com

ITEM 2. CONTROLS AND PROCEDURES.

- (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d)) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Flaherty & Crumrine Preferred Income Fund Incorporated

By (Signature and Title)* /s/ Donald F. Crumrine

Donald F. Crumrine, Director,
Chairman of the Board and Chief
Executive Officer
(principal executive officer)

Date October 25, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Edgar Filing: FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC - Form N-Q

By (Signature and Title)* /s/ Donald F. Crumrine

Donald F. Crumrine, Director,
Chairman of the Board and Chief
Executive Officer
(principal executive officer)

Date October 25, 2010

By (Signature and Title)* /s/ R. Eric Chadwick

R. Eric Chadwick, Chief Financial
Officer, Treasurer and Vice
President
(principal financial officer)

Date October 25, 2010

* Print the name and title of each signing officer under his or her signature.