

## FLAHERTY & CRUMRINE PREFERRED INCOME FUND

To the Shareholders of Flaherty & Crumrine Preferred Income Fund:

The new fiscal year is off to a fine start—total return on *net asset value*<sup>1</sup> for the first fiscal quarter<sup>2</sup> was +4.1%. Over the same period total return based on income plus change in the Fund's *market price* was +3.6%.

With signs of economic improvement trickling in, prices on intermediate and long-term US Treasury bonds fell as much as five percent in the quarter. In contrast, prices on many preferred securities rose. Conditions in the market for preferred securities have been, and remain, positive; credit quality continues to improve, investor demand is high, and the market is shrinking.

Once again redemptions of preferred securities outpaced issuance. Since December 1, 2012, redemptions<sup>3</sup> totaled \$30.1 billion. Over the same period, \$16.8 billion of new preferred securities were brought to market. *During the past four months, the preferred securities market has shrunk by \$13.3 billion, or 3.7%.*

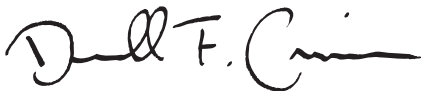
It's instructive to break these numbers down between bank and non-bank securities. Since December 1, 2012, redemptions of bank preferred securities have totaled \$17.6 billion, or 44% of total preferred redemptions. Since mid-March, however, bank calls have spiked and comprise over 70% of total redemptions. The pace quickened immediately after regulators announced results from their annual review of capital at large banks. So far, banks have been slow to replace preferred capital—new bank issues have totaled a paltry \$3.9 billion since December 1<sup>st</sup> of last year.

For non-bank companies the decision to call or issue is driven primarily by economics. In the current low interest rate environment, it is often possible for issuers to achieve substantial savings by refinancing. While banks are concerned about expense reduction as well, their decisions about redemption or issuance have been driven mainly by regulatory requirements. The Dodd-Frank Wall Street Reform and Consumer Protection Act, passed by Congress in 2010, mandated new standards for the amount and form of bank capital. Under the Act, trust preferred securities are being phased out of the calculation of Tier 1 capital. New capital will be either traditional equity or non-cumulative perpetual preferred stock.

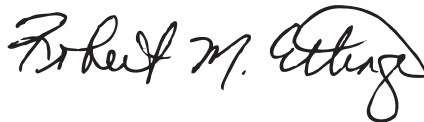
As we've discussed in the past, the wave of refinancing negatively impacts income earned from Fund investments. The current combination of high-yielding portfolio assets and low cost of Fund leverage won't last forever; we attempt to set distribution rates that reflect this situation.

As always, we encourage you to visit the Fund's website, [www.preferredincome.com](http://www.preferredincome.com), for important information.

Sincerely,



Donald F. Crumrine  
Chairman



Robert M. Ettinger  
President

March 28, 2013

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

<sup>2</sup> December 1, 2012—February 28, 2013

<sup>3</sup> Announced or implemented.

## PORTFOLIO OVERVIEW

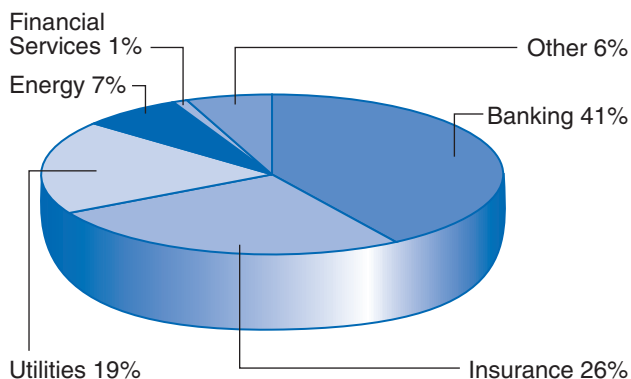
February 28, 2013 (Unaudited)

### Fund Statistics

Net Asset Value	\$	13.68
Market Price	\$	14.96
Premium		9.36%
Yield on Market Price		7.22%
Common Stock Shares Outstanding		10,950,543

### Industry Categories

% of Net Assets†



### Moody's Ratings

% of Net Assets†

A	0.7%
BBB	58.6%
BB	31.9%
Below "BB"	3.8%
Not Rated*	3.6%

Below Investment Grade\*\* 24.8%

\* Does not include net other assets and liabilities of 1.4%.

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

### Top 10 Holdings by Issuer

% of Net Assets†

Banco Santander, S.A.	4.5%
MetLife	4.4%
HSBC PLC	4.0%
Goldman Sachs Group	4.0%
Liberty Mutual Group	3.8%
Wells Fargo & Company	3.7%
Barclays Bank PLC	3.1%
XL Group PLC	2.8%
Enbridge Energy Partners	2.5%
Axis Capital Holdings Ltd	2.5%

% of Net Assets\*\*\*†

Holdings Generating Qualified Dividend Income (QDI) for Individuals	49%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	31%

\*\*\* 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.

**PORTFOLIO OF INVESTMENTS****February 28, 2013 (Unaudited)**

Shares/\$ Par	Value
<b>Preferred Securities — 88.4%</b>	
<b>Banking — 36.2%</b>	
	Astoria Financial:
\$ 2,750,000	Astoria Capital Trust I, 9.75% 11/01/29, Series B ..... \$ 2,838,687 <sup>(1)(2)</sup>
	Banco Bilbao Vizcaya Argentaria, S.A.:
\$ 1,500,000	BBVA International Preferred, 5.919% ..... 1,267,500 <sup>*(1)(3)</sup>
	Banco Santander, S.A.:
355,000	Banco Santander, 10.50% Pfd., Series 10 ..... 10,001,237 <sup>*(1)(3)</sup>
	Bank of America:
10,000	Bank of America Corporation, 8.20% Pfd. .... 255,300*
154,972	Bank of America Corporation, 8.625% Pfd. .... 3,951,786 <sup>*(1)</sup>
2,500	Countrywide Capital IV, 6.75% Pfd. 04/01/33 ..... 63,750
20,000	Countrywide Capital V, 7.00% Pfd. 11/01/36 ..... 505,000
	Barclays Bank PLC:
\$ 3,250,000	Barclays Bank PLC, 6.278% ..... 3,186,836 <sup>*(1)(2)(3)</sup>
58,000	Barclays Bank PLC, 7.10% Pfd. .... 1,470,300 <sup>*(3)</sup>
3,700	Barclays Bank PLC, 7.75% Pfd., Series 4 ..... 93,869 <sup>*(3)</sup>
90,000	Barclays Bank PLC, 8.125% Pfd., Series 5 ..... 2,289,600 <sup>*(1)(3)</sup>
	BNP Paribas:
\$ 1,750,000	BNP Paribas, 7.195%, 144A**** ..... 1,824,375 <sup>*(1)(2)(3)</sup>
	Citigroup:
\$ 2,750,000	Citigroup, Inc., 8.40%, Series E ..... 3,089,925*
15,000	Citigroup Capital VII, 7.125% Pfd. 07/31/31 ..... 381,095
	CoBank ACB:
10,000	CoBank ACB, 6.25% Pfd., 144A**** ..... 1,067,500*
	Colonial BancGroup:
\$ 5,210,000	Colonial BancGroup, 7.114%, 144A**** ..... 7,815 <sup>(4)(5)††</sup>
	Cullen/Frost Bankers:
25,100	Cullen/Frost Bankers, Inc., 5.375% Pfd. .... 622,794*
	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 ..... 753,750
	First Horizon:
795	First Tennessee Bank, Adj. Rate Pfd., 3.75% <sup>(6)</sup> , 144A**** ..... 587,803 <sup>*(1)</sup>
\$ 500,000	First Tennessee Capital II, 6.30% 04/15/34, Series B ..... 491,250
1	FT Real Estate Securities Company, 9.50% Pfd., 144A**** ..... 1,100,625
	First Niagara Financial Group:
112,500	First Niagara Financial Group, Inc., 8.625% Pfd. .... 3,302,156 <sup>*(1)</sup>

**PORTFOLIO OF INVESTMENTS (Continued)****February 28, 2013 (Unaudited)**

Shares/\$ Par	Value
<b>Preferred Securities — (Continued)</b>	
<b>Banking — (Continued)</b>	
First Republic Bank:	
32,050	First Republic Bank, 6.70% Pfd. . . . . \$ 879,212*
Goldman Sachs Group:	
17,500	Goldman Sachs, 5.95% Pfd. . . . . 439,294*
\$ 2,605,300	Goldman Sachs, Capital I, 6.345% 02/15/34 . . . . . 2,736,141 <sup>(1)(2)</sup>
HSBC PLC:	
\$ 1,000,000	HSBC Capital Funding LP, 10.176%, 144A**** . . . . . 1,402,500 <sup>(1)(3)</sup>
132,900	HSBC Holdings PLC, 8.00% Pfd., Series 2 . . . . . 3,694,819 <sup>** (1)(3)</sup>
\$ 130,000	HSBC USA Capital Trust I, 7.808% 12/15/26, 144A**** . . . . . 132,600
\$ 145,000	HSBC USA Capital Trust II, 8.38% 05/15/27, 144A**** . . . . . 148,083 <sup>(1)</sup>
110,350	HSBC USA, Inc., 6.50% Pfd., Series H . . . . . 2,844,966 <sup>* (1)</sup>
ING Groep NV:	
35,000	ING Groep NV, 7.05% Pfd. . . . . 887,653 <sup>** (3)</sup>
23,400	ING Groep NV, 7.20% Pfd. . . . . 593,014 <sup>** (3)</sup>
35,000	ING Groep NV, 7.375% Pfd. . . . . 892,150 <sup>** (3)</sup>
15,000	ING Groep NV, 8.50% Pfd. . . . . 388,800 <sup>** (3)</sup>
JPMorgan Chase:	
\$ 3,334,000	JPMorgan Chase & Company, 7.90%, Series 1 . . . . . 3,863,016 <sup>* (1)</sup>
KeyCorp:	
1,000	KeyCorp, 7.75% Pfd., Series A . . . . . 127,313*
Lloyds Banking Group PLC:	
\$ 550,000	Lloyds Banking Group PLC, 6.657%, 144A**** . . . . . 499,125 <sup>** (3)</sup>
M&T Bank Corp:	
\$ 2,000,000	M&T Bank Corporation, 6.875%, 144A**** . . . . . 2,101,294 <sup>* (1)</sup>
Morgan Stanley:	
40,000	Morgan Stanley Capital Trust VI, 6.60% Pfd. 02/01/46 . . . . . 1,015,000
5,000	Morgan Stanley Capital Trust VII, 6.60% Pfd. . . . . 126,550
PNC Financial Services:	
174,962	PNC Financial Services, 6.6285% <sup>(6)</sup> Adj. Rate Pfd., Series L . . . . . 4,544,201 <sup>* (1)</sup>
\$ 500,000	PNC Preferred Funding Trust III, 8.70%, 144A**** . . . . . 508,791
Sovereign Bancorp:	
1,750	Sovereign REIT, 12.00% Pfd., Series A, 144A**** . . . . . 2,285,280
Wells Fargo:	
\$ 1,500,000	First Union Capital II, 7.95% 11/15/29 . . . . . 1,858,426 <sup>(1)(2)</sup>
1,750	Wells Fargo & Company, 7.50% Pfd., Series L . . . . . 2,219,656 <sup>* (1)</sup>
144,500	Wells Fargo & Company, 8.00% Pfd., Series J . . . . . 4,199,531 <sup>* (1)</sup>

Flaherty & Crumrine Preferred Income Fund Incorporated  
**PORTFOLIO OF INVESTMENTS (Continued)**  
**February 28, 2013 (Unaudited)**

Shares/\$ Par		Value
<b>Preferred Securities — (Continued)</b>		
<b>Banking — (Continued)</b>		
	Zions Bancorporation:	
93,000	Zions Bancorporation, 7.90% Pfd., Series F .....	\$ 2,673,750*
36,500	Zions Bancorporation, 9.50% Pfd., Series C .....	943,525*
		<u>81,162,143</u>
<b>Financial Services — 1.1%</b>		
	Credit Suisse Group:	
\$ 1,280,000	Claudius, Ltd. - Credit Suisse AG, 7.875%, Series B, 144A**** .....	1,364,800 <sup>(3)</sup>
	General Electric Capital Corp:	
\$ 200,000	General Electric Capital Corp., 7.125%, Series A .....	231,366*
	HSBC PLC:	
30,000	HSBC Finance Corporation, 6.36% Pfd., Series B .....	768,945 <sup>*(1)</sup>
		<u>2,365,111</u>
<b>Insurance — 24.1%</b>		
	Ace Ltd.:	
\$ 975,000	Ace Capital Trust II, 9.70% 04/01/30 .....	1,421,062 <sup>(1)(2)(3)</sup>
	Aon Corporation:	
\$ 400,000	AON Corp, 8.205% 01/01/27 .....	513,965
	Arch Capital Group:	
88,950	Arch Capital Group, Ltd., 6.75% Pfd., Series C .....	2,445,458 <sup>** (1)(3)</sup>
	AXA SA:	
\$ 2,800,000	AXA SA, 6.379%, 144A**** .....	2,800,000 <sup>** (1)(2)(3)</sup>
\$ 500,000	AXA SA, 8.60% 12/15/30 .....	644,541 <sup>(3)</sup>
	Axis Capital:	
201,600	Axis Capital Holdings, 6.875% Pfd., Series C .....	5,600,750 <sup>** (1)(3)</sup>
	Delphi Financial:	
90,600	Delphi Financial Group, 7.376% Pfd. 05/15/37 .....	2,273,498 <sup>(1)</sup>
	Endurance Specialty Holdings:	
35,000	Endurance Specialty Holdings, 7.50% Pfd. ....	940,538 <sup>** (3)</sup>
	Everest Re Group:	
\$ 4,350,000	Everest Re Holdings, 6.60% 05/15/37 .....	4,453,312 <sup>(1)(2)</sup>
	Liberty Mutual Group:	
\$ 4,100,000	Liberty Mutual Group, 10.75% 06/15/58, 144A**** .....	6,283,250 <sup>(1)(2)</sup>
	Lincoln National Corp:	
\$ 190,000	Lincoln National Corporation, 7.00% 05/17/66 .....	194,275
	MetLife:	
\$ 2,846,000	MetLife, Inc., 10.75% 08/01/39 .....	4,389,955 <sup>(1)(2)</sup>
\$ 279,000	MetLife Capital Trust IV, 7.875% 12/15/37, 144A**** .....	347,355 <sup>(1)(2)</sup>
\$ 3,635,000	MetLife Capital Trust X, 9.25% 04/08/38, 144A**** .....	5,034,475 <sup>(1)(2)</sup>

**PORTFOLIO OF INVESTMENTS (Continued)****February 28, 2013 (Unaudited)**

<u>Shares/\$ Par</u>		<u>Value</u>
<b>Preferred Securities — (Continued)</b>		
<b>Insurance — (Continued)</b>		
	PartnerRe Ltd.:	
36,010	PartnerRe Ltd., 7.250% Pfd., Series E .....	\$ 1,002,158 <sup>** (1)(3)</sup>
	Principal Financial:	
13,000	Principal Financial Group, 5.563% Pfd., Series A .....	1,296,750 <sup>* (1)</sup>
90,000	Principal Financial Group, 6.518% Pfd., Series B .....	2,458,125 <sup>* (1)</sup>
	Prudential Financial:	
\$ 500,000	Prudential Financial Inc., 5.625% 06/15/43 .....	522,500
	QBE Capital Funding:	
\$ 1,100,000	QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A <sup>****</sup> .....	1,151,279 <sup>(1)(3)</sup>
	Renaissancere Holdings:	
25,956	Renaissancere Holdings Ltd, 6.60% Pfd. ....	659,802 <sup>** (3)</sup>
	StanCorp Financial Group:	
\$ 2,250,000	StanCorp Financial Group, 6.90% 06/01/67 .....	2,289,375 <sup>(1)(2)</sup>
	The Travelers Companies:	
\$ 679,500	USF&G Capital, 8.312% 07/01/46, 144A <sup>****</sup> .....	884,003 <sup>(1)(2)</sup>
	XL Group PLC:	
\$ 6,440,000	XL Capital Ltd., 6.50%, Series E .....	6,311,200 <sup>(1)(2)(3)</sup>
		<u>53,917,626</u>
<b>Utilities — 17.1%</b>		
	Alabama Power:	
10,350	Alabama Power Company, 6.45% Pfd. ....	296,593 <sup>* (1)</sup>
	Baltimore Gas & Electric:	
10,000	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993 .....	1,029,375 <sup>* (1)</sup>
2,400	Baltimore Gas & Electric Company, 7.125% Pfd., Series 1993 .....	245,400 <sup>*</sup>
	Commonwealth Edison:	
\$ 2,953,000	COMED Financing III, 6.35% 03/15/33 .....	3,100,650 <sup>(1)(2)</sup>
	Constellation Energy:	
15,000	Constellation Energy Group, 8.625% Pfd. 06/15/63, Series A .....	388,500
	Dominion Resources:	
\$ 3,500,000	Dominion Resources, Inc., 7.50% 06/30/66 .....	3,888,052 <sup>(1)(2)</sup>
	Energy Future Competitive Holdings Corp:	
\$ 636,000	TXU Electric Capital V, 8.175% 01/30/37 .....	159,000 <sup>(4)</sup>
	Entergy Arkansas:	
50,000	Entergy Arkansas, Inc., 6.45% Pfd. ....	1,273,440 <sup>* (1)</sup>
	Entergy Louisiana:	
30,000	Entergy Louisiana, Inc., 6.95% Pfd. ....	3,005,625 <sup>* (1)</sup>
	Georgia Power:	
25,000	Georgia Power Company, 6.50% Pfd., Series 2007A .....	2,797,658 <sup>* (1)</sup>

Flaherty & Crumrine Preferred Income Fund Incorporated  
**PORTFOLIO OF INVESTMENTS (Continued)**  
February 28, 2013 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities — (Continued)</b>		
<b>Utilities — (Continued)</b>		
	Indianapolis Power & Light:	
26,000	Indianapolis Power & Light Company, 5.65% Pfd. ....	\$ 2,614,625*
	Interstate Power & Light:	
178,710	Interstate Power & Light Company, 8.375% Pfd., Series B .....	4,495,682*
	Nextera Energy:	
\$ 2,100,000	FPL Group Capital, Inc., 6.65% 06/15/67 .....	2,249,094 <sup>(1)(2)</sup>
	PECO Energy:	
\$ 500,000	PECO Energy Capital Trust III, 7.38% 04/06/28, Series D .....	527,982 <sup>(1)(2)</sup>
	PPL Corp:	
\$ 2,250,000	PPL Capital Funding, 6.70% 03/30/67, Series A .....	2,392,751 <sup>(1)(2)</sup>
	Puget Energy:	
\$ 3,800,000	Puget Sound Energy, Inc., 6.974% 06/01/67 .....	4,150,805 <sup>(1)(2)</sup>
	Scana Corp:	
47,392	Scana Corporation, 7.70% Pfd. 01/30/65 .....	1,288,660 <sup>(1)(2)</sup>
	Southern California Edison:	
35,410	Southern California Edison, 6.50% Pfd., Series D .....	3,762,313 <sup>*(1)</sup>
	Virginia Electric & Power:	
3,000	Virginia Electric & Power Company, \$6.98 Pfd. ....	298,781*
	Wisconsin Public Service:	
3,700	Wisconsin Public Service Corporation, 6.88% Pfd. ....	375,203*
		<u>38,340,189</u>
	<b>Energy — 6.1%</b>	
	Enbridge Energy Partners:	
\$ 5,000,000	Enbridge Energy Partners LP, 8.05% 10/01/37 .....	5,655,465 <sup>(1)(2)</sup>
	Enterprise Products Partners:	
\$ 4,500,000	Enterprise Products Partners, 8.375% 08/01/66, Series A .....	5,145,111 <sup>(1)(2)</sup>
	Kinder Morgan:	
3,500	Kinder Morgan GP, Inc., 4.188% <sup>(6)</sup> Pfd., 144A**** .....	2,969,750*
		<u>13,770,326</u>
	<b>Real Estate Investment Trust (REIT) — 1.2%</b>	
	Duke Realty Corp:	
4,000	Duke Realty Corp, 6.50% Pfd. ....	100,970
24,900	Duke Realty Corp, 6.60% Pfd. ....	635,729
	Kimco Realty Corp:	
12,500	Kimco Realty Corporation, 6.90% Pfd. ....	336,000

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2013 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities — (Continued)</b>		
<b>Real Estate Investment Trust (REIT) — (Continued)</b>		
	PS Business Parks:	
50,000	PS Business Parks, Inc., 6.45% Pfd. ....	\$ 1,329,690
7,500	PS Business Parks, Inc., 6.875% Pfd., Series R .....	199,875
		<u>2,602,264</u>
<b>Miscellaneous Industries — 2.6%</b>		
	Ocean Spray Cranberries:	
37,400	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A**** .....	3,446,646*
	Stanley Black & Decker:	
15,204	Stanley Black & Decker, Inc., 5.75% Pfd. 07/25/52 .....	397,303 <sup>(1)(2)</sup>
	Textron, Inc.:	
\$ 2,125,000	Textron Financial Corporation, 6.00% 02/15/67, 144A**** .....	1,955,000
		<u>5,798,949</u>
	<b>Total Preferred Securities</b>	
	(Cost \$187,303,774) .....	<u>197,956,608</u>
<b>Corporate Debt Securities — 10.0%</b>		
<b>Banking — 5.1%</b>		
	Goldman Sachs Group:	
\$ 4,988,800	Goldman Sachs Group, 6.75% 10/01/37, Sub Notes .....	5,674,376 <sup>(1)(2)</sup>
	Morgan Stanley:	
\$ 1,000,000	Morgan Stanley, 6.375% 07/24/42 .....	1,226,032 <sup>(1)(2)</sup>
	Regions Financial:	
\$ 2,710,000	Regions Financial Corporation, 7.375% 12/10/37, Sub Notes .....	3,021,650 <sup>(1)(2)</sup>
	Texas Capital Bancshares:	
59,000	Texas Capital Bancshares Inc., 6.50% 09/21/42 .....	1,489,750
		<u>11,411,808</u>
<b>Financial Services — 0.3%</b>		
	Affiliated Managers Group:	
20,825	Affiliated Managers Group, Inc., 6.375% 08/15/42 .....	545,854
	Raymond James Financial:	
6,500	Raymond James Financial, 6.90% 03/15/42 .....	181,431
		<u>727,285</u>
<b>Insurance — 2.1%</b>		
	Liberty Mutual Group:	
\$ 2,000,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A**** .....	2,215,824 <sup>(1)(2)</sup>



Flaherty & Crumrine Preferred Income Fund Incorporated  
**PORTFOLIO OF INVESTMENTS (Continued)**  
**February 28, 2013 (Unaudited)**

Shares/\$ Par	Value
<b>Corporate Debt Securities — (Continued)</b>	
<b>Insurance — (Continued)</b>	
Unum Group:	
\$ 2,000,000	UnumProvident Corporation, 7.25% 03/15/28 ..... \$ 2,432,642 <sup>(1)(2)</sup>
	4,648,466
<b>Utilities — 1.5%</b>	
Energy Transfer Equity:	
\$ 2,700,000	Southern Union Company, 8.25% 11/15/29 ..... 3,457,801 <sup>(1)(2)</sup>
	3,457,801
<b>Energy — 0.9%</b>	
Nexen, Inc.:	
79,305	Nexen, Inc., 7.35% 11/01/43 ..... 2,007,408 <sup>(3)</sup>
	2,007,408
<b>Real Estate Investment Trust (REIT) — 0.1%</b>	
CommonWealth REIT:	
12,500	CommonWealth REIT, 7.50% 11/15/19 ..... 267,019
	267,019
<b>Total Corporate Debt Securities</b>	
	(Cost \$18,645,958) ..... 22,519,787
<b>Common Stock — 0.2%</b>	
<b>Banking — 0.1%</b>	
CIT Group:	
3,620	CIT Group, Inc. .... 151,533*†
	151,533
<b>Insurance — 0.0%</b>	
WMI Holdings Corporation:	
19,801	WMI Holdings Corporation, 144A**** ..... 15,445*†
	15,445
<b>Utilities — 0.1%</b>	
Exelon Corp:	
9,380	Exelon Corporation ..... 290,686*
	290,686
<b>Total Common Stock</b>	
	(Cost \$1,728,325) ..... 457,664

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 28, 2013 (Unaudited)**

<u>Shares</u>	<u>Value</u>
<b>Money Market Fund — 0.3%</b>	
BlackRock Liquidity Funds:	
581,538 T-Fund .....	\$ 581,538
<b>Total Money Market Fund</b> (Cost \$581,538) .....	<u>581,538</u>
<b>Total Investments</b> (Cost \$208,259,595 <sup>***</sup> ) .....	98.9% 221,515,597
<b>Other Assets And Liabilities</b> (Net) .....	1.1% <u>2,411,409</u>
<b>Total Managed Assets</b> .....	<u>100.0%</u> ‡ <u>\$223,927,006</u>
<b>Loan Principal Balance</b> .....	<u>(74,100,000)</u>
<b>Total Net Assets Available To Common Stock</b> .....	<u>\$149,827,006</u>

- \* 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, 2013, these securities amounted to \$40,138,118 or 17.9% of total managed assets.
- (1) All or a portion of this security is pledged as collateral for the Fund's loan. The total value of such securities was \$141,678,938 at February 28, 2013.
- (2) All or a portion of this security has been rehypothecated. The total value of such securities was \$70,908,530 at February 28, 2013.
- (3) Foreign Issuer.
- (4) Illiquid.
- (5) Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of February 28, 2013.
- (6) Represents the rate in effect as of the reporting date.
- † Non-income producing.
- †† The issuer has filed for bankruptcy protection. As a result, the Fund may not be able to recover the principal invested and also does not expect to receive income on this security going forward.
- ‡ The percentage shown for each investment category is the total value of that category as a percentage of total managed assets.

**ABBREVIATIONS:**

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

**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK<sup>(1)</sup>**  
**For the period from December 1, 2012 through February 28, 2013 (Unaudited)**

	<u>Value</u>
<b>OPERATIONS:</b>	
Net investment income . . . . .	\$ 3,062,452
Net realized gain/(loss) on investments sold during the period . . . . .	2,333,399
Change in net unrealized appreciation/depreciation of investments . . . . .	<u>784,543</u>
<b>Net increase in net assets resulting from operations</b>	<b>6,180,394</b>
<b>DISTRIBUTIONS:</b>	
Dividends paid from net investment income to Common Stock Shareholders <sup>(2)</sup> . . . . .	<u>(4,265,686)</u>
<b>Total Distributions to Common Stock Shareholders</b>	<b>(4,265,686)</b>
<b>FUND SHARE TRANSACTIONS:</b>	
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan . . . . .	<u>390,185</u>
<b>Net increase in net assets available to Common Stock resulting from Fund share transactions</b>	<b>390,185</b>
<b>NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD . . . . .</b>	<b><u>\$ 2,304,893</u></b>
<b>NET ASSETS AVAILABLE TO COMMON STOCK:</b>	
Beginning of period . . . . .	\$147,522,113
Net increase in net assets during the period . . . . .	<u>2,304,893</u>
End of period . . . . .	<u>\$149,827,006</u>

<sup>(1)</sup> These tables summarize the three months ended February 28, 2013 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2012.

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

**FINANCIAL HIGHLIGHTS<sup>(1)</sup>**

**For the period from December 1, 2012 through February 28, 2013 (Unaudited)  
For a Common Stock share outstanding throughout the period**

**PER SHARE OPERATING PERFORMANCE:**

Net asset value, beginning of period . . . . . \$ 13.51

**INVESTMENT OPERATIONS:**

Net investment income . . . . . 0.28  
 Net realized and unrealized gain/(loss) on investments . . . . . 0.28  
 Total from investment operations . . . . . 0.56

**DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:**

From net investment income . . . . . (0.39)  
 Total distributions to Common Stock Shareholders . . . . . (0.39)  
 Net asset value, end of period . . . . . \$ 13.68  
 Market value, end of period . . . . . \$ 14.96  
 Common Stock shares outstanding, end of period . . . . . 10,950,543

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

Net investment income† . . . . . 8.35%\*  
 Operating expenses including interest expense. . . . . 1.88%\*  
 Operating expenses excluding interest expense . . . . . 1.33%\*

**SUPPLEMENTAL DATA:††**

Portfolio turnover rate . . . . . 8%\*\*  
 Total managed assets, end of period (in 000's) . . . . . \$ 223,927  
 Ratio of operating expenses including interest expense to total managed assets . . . . . 1.25%\*  
 Ratio of operating expenses excluding interest expense to total managed assets . . . . . 0.89%\*

<sup>(1)</sup> These tables summarize the three months ended February 28, 2013 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2012.

\* Annualized.

\*\* Not Annualized.

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

†† Information presented under heading Supplemental Data includes loan principal balance.

Flaherty & Crumrine Preferred Income Fund Incorporated

**FINANCIAL HIGHLIGHTS (Continued)**

**Per Share of Common Stock (Unaudited)**

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	Total Dividends Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price <sup>(1)</sup>
December 31, 2012 .....	\$0.2100	\$13.44	\$13.63	\$13.44
January 31, 2013 .....	0.0900	13.64	15.09	14.34
February 28, 2013 .....	0.0900	13.68	14.96	14.21

<sup>(1)</sup> 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.

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

At February 28, 2013, the aggregate cost of securities for federal income tax purposes was \$208,395,969, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$29,503,136 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$16,383,508.

**2. Additional Accounting Standards**

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

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

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of levels are recognized at market value at the end of the period. A summary of the inputs used to value the Fund's investments as of February 28, 2013 is as follows:

	Total Value at February 28, 2013	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Preferred Securities				
Banking	\$ 81,162,143	\$ 59,082,728	\$22,067,100	\$12,315
Financial Services	2,365,111	1,000,311	1,364,800	—
Insurance	53,917,626	36,189,841	17,727,785	—
Utilities	38,340,189	14,702,739	23,637,450	—
Energy	13,770,326	10,800,576	2,969,750	—
Real Estate Investment Trust (REIT)	2,602,264	2,602,264	—	—
Miscellaneous Industries	5,798,949	397,303	5,401,646	—
Corporate Debt Securities	22,519,787	11,391,870	11,127,917	—
Common Stock				
Banking	151,533	151,533	—	—
Insurance	15,445	15,445	—	—
Utilities	290,686	290,686	—	—
Money Market Fund	581,538	581,538	—	—
Total Investments	<u>\$221,515,597</u>	<u>\$137,206,834</u>	<u>\$84,296,448</u>	<u>\$12,315</u>

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

During the reporting period, there were no transfers into Level 1 from Level 2. During the reporting period, securities with an aggregate market value of \$1,067,500 were transferred into Level 2 from Level 1. The securities were transferred because of a reduction in the amount of observable market data, resulting from: a decrease in market activity for the securities, reduced availability of quoted prices for the securities, or de-listing of securities from a national securities exchange that resulted in a material decrease in activity.

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

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

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

	<b>Preferred Securities</b>	
	<b>Total Investments</b>	<b>Banking</b>
<b>Balance as of 11/30/12</b>	\$12,315	\$12,315
Accrued discounts/premiums	—	—
Realized gain/(loss)	—	—
Change in unrealized appreciation/(depreciation)	—	—
Purchases	—	—
Sales	—	—
Transfer in	—	—
Transfer out	—	—
<b>Balance as of 02/28/13</b>	<b>\$12,315</b>	<b>\$12,315</b>

For the three months ended February 28, 2013, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was \$0.

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

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

Category	Fair Value at 2/28/13	Valuation Technique	Unobservable Input	Input Range (Wgt Avg)
Preferred Securities				
Banking	\$7,815	Bankruptcy recovery	Credit/Structure-specific recovery	0.00% - 0.50% (0.15%)
	4,500	Bankruptcy recovery	Credit/Structure-specific recovery	0.00% - 0.50% (0.05%)

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



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## Directors

Donald F. Crumrine, CFA  
Chairman of the Board  
David Gale  
Morgan Gust  
Karen H. Hogan  
Robert F. Wulf, CFA

## Officers

Donald F. Crumrine, CFA  
Chief Executive Officer  
Robert M. Ettinger, CFA  
President  
R. Eric Chadwick, CFA  
Chief Financial Officer,  
Vice President and Treasurer  
Chad C. Conwell  
Chief Compliance Officer,  
Vice President and Secretary  
Bradford S. Stone  
Vice President and  
Assistant Treasurer  
Laurie C. Lodolo  
Assistant Compliance Officer,  
Assistant Treasurer and  
Assistant Secretary  
Linda M. Puchalski  
Assistant Treasurer

## Investment Adviser

Flaherty & Crumrine Incorporated  
e-mail: [flaherty@pfdincome.com](mailto: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  
P.O. Box 358035  
Pittsburgh, PA 15252-8035  
1-866-351-7446

**This report is sent to shareholders of Flaherty & Crumrine Preferred Income Fund Incorporated for their information. It is not a Prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.**



Flaherty & Crumrine  

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**PREFERRED INCOME FUND**

# Quarterly Report

## February 28, 2013

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