

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC

Form N-Q

October 28, 2009

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, 2009

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

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To the Shareholders of Flaherty & Crumrine Preferred Income Fund:

The Fund delivered a second consecutive quarter of double-digit returns as financial markets continued to recover from lows hit earlier this year. During the three-month period ended August 31st, total return on net asset value was +24.4%, and total return on market value of Fund shares was +18.4%.

As the worst of the financial crisis appears to be behind us, prices on most securities in the Fund's portfolio rose during the quarter. Although the credit outlook for some issuers remains speculative and the prices of their securities remain depressed, many securities that suffered the biggest declines earlier in the year staged the most dramatic recoveries. That being said, while prices in general are much higher than just three months ago, they remain well below the highs reached in recent years. There should be further recovery if the markets continue to normalize as we expect.

The strong performance over the past two quarters occurred despite the negative impact of our investments in a few troubled companies. During the past quarter, Colonial Bank was shut down by regulators. At this point, we are assuming there will be no additional income earned and minimal principal recovery on our investment in its parent, Colonial BancGroup, Inc. Two additional credits, FBOP Bancorp and CIT Group, suspended distributions on the securities owned by the Fund. Both companies are currently exploring strategies to improve their financial condition.

One year ago, the world's financial system was on the brink of collapse. In the blink of an eye, we went from a world in which anyone with a pulse could get a loan to a virtual shutdown of the capital markets. Investors, large and small, appeared ready to stuff money in a mattress rather than hand it over to a bank or money market fund. Access to short-term liquidity, the life blood of business, largely disappeared, and long-term financing was virtually unobtainable. Banks simply stopped lending (not only to long-time customers, but even more troublesome, to other banks), and capital market investors were in no mood to provide new financing.

When compared to broader credit markets, the preferred market has a much greater concentration in financial companies. In addition, the majority of preferred issues are long-term and consequently tend to have more volatile prices than other fixed-income instruments. As a result, the performance of the preferred market (and the Fund) was dismal throughout the early part of the financial crisis.

After one year, and massive amounts of government intervention, we see signs of recovery and perhaps a greater sense of rationality in the markets. On more than one occasion we've expressed our opinion that market volatility was exacerbated by excessive amounts of leverage. We underestimated the extent to which price declines could trigger selling by over-leveraged investors, producing an accelerating downward price spiral. We learned some valuable lessons during this financial chaos. We improved our analytic tools (and hopefully developed a more refined sense of smell) to help us discern changes in fundamental value from a leverage-fed frenzy. We further refined our credit criteria to help us identify riskier issuers earlier in the credit cycle. And, as leveraged investors ourselves, we have a keener appreciation for liquidity in the Fund's portfolio.

We believe these lessons will improve ongoing management of the Fund. Don't expect wholesale changes, but we would not be doing our job if we did not adapt to this new, more turbulent environment. For instance, the Fund suspended its hedging strategy last year, not because we no longer believe in hedging but because we did not think it would work in a crisis environment. At some point in the future, we anticipate reinstating the Fund's hedging strategy. Similarly, we

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have increased the portfolio's emphasis on liquid issues and issuers. By doing so, the Fund may give up some current income, but we believe this provides greater flexibility in managing the portfolio and its leverage for the benefit of shareholders.

In our last letter we indicated that the Fund was in the process of replacing all remaining shares of Auction Preferred Stock with bank debt. The switch is complete and the Fund's leverage is now comprised entirely of debt. While the breakdown in the auction preferred stock market made the change necessary, the Fund already is realizing some benefits from the new leverage. Foremost among these benefits are lower borrowing expense and greater flexibility in managing the portfolio.

All markets have endured tremendous upheaval over the past year. More change is on the horizon, as the financial system moves from crisis to recovery. The Fund will continue to assess and adapt to this new market environment. We take that responsibility seriously, and we appreciate the support that shareholders have given us.

More information is always available on the Fund's website, including discussion of many of the topics in this letter. In addition, our thoughts on the economic outlook are published quarterly and posted to the site. We encourage you to visit the website at www.preferredincome.com.

Sincerely,

/s/ Donald F. Crumrine

/s/ Robert M. Ettinger

Donald F. Crumrine
Chairman of the Board

Robert M. Ettinger
President

October 15, 2009

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Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OVERVIEW
AUGUST 31, 2009 (UNAUDITED)

FUND STATISTICS ON 8/31/09

| | | |
|------------------------------------|----|------------|
| Net Asset Value | \$ | 8.73 |
| Market Price | \$ | 8.50 |
| Discount | | 2.63% |
| Yield on Market Price | | 8.89% |
| Common Stock Shares Outstanding | | 10,664,392 |

| MOODY'S RATINGS | % OF NET ASSETS+ |
|-----------------|------------------|
|-----------------|------------------|

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| | |
|-------------------------|-------|
| AA | 0.3% |
| A | 19.4% |
| BBB | 55.9% |
| BB | 18.9% |
| Below "BB" | 1.6% |
| Not Rated | 3.1% |
| | ----- |
| Below Investment Grade* | 17.3% |

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

(PIE CHART)

| INDUSTRY CATEGORIES | % OF NET ASSETS+ |
|---------------------|------------------|
| ----- | ----- |
| Financial Services | 1% |
| Other | 2% |
| Banking | 43% |
| Utilities | 26% |
| Insurance | 21% |
| Energy | 7% |

| TOP 10 HOLDINGS BY ISSUER | % OF NET ASSETS+ |
|---------------------------|------------------|
| ----- | ----- |
| PNC Financial Services | 6.9% |
| Banco Santander | 6.5% |
| Sovereign Bancorp | 4.5% |
| Metlife | 4.3% |
| Liberty Mutual Group | 4.1% |
| Comerica | 3.6% |
| Dominion Resources | 3.5% |
| Interstate Power & Light | 3.5% |
| Goldman Sachs | 3.2% |
| Capital One Financial | 3.2% |

| | % OF NET ASSETS**+ |
|--|--------------------|
| | ----- |
| Holdings Generating Qualified Dividend Income (QDI) for Individuals | 49% |
| Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD) | 36% |

** 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.

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Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS
 AUGUST 31, 2009 (UNAUDITED)

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PREFERRED SECURITIES -- 97.2%

BANKING -- 42.7%

| | |
|--------------|--|
| \$ 3,000,000 | Astoria Capital Trust I, 9.75% 11/01/29, Series B |
| | Banco Santander: |
| 47,248 | Adj. Rate Pfd |
| 273,950 | 6.50% Pfd |
| 79,400 | 6.80% Pfd |
| 48,700 | Bank of America Corporation, 6.70% Pfd. |
| \$ 2,400,000 | Barclays Bank PLC, 6.278% |
| 45,000 | BB&T Capital Trust VI, 9.60% Pfd. |
| \$ 5,500,000 | Capital One Capital III, 7.686% 08/15/36 |
| | CIT Group, Inc.: |
| 32,500 | 5.189% Pfd., Series B |
| \$ 905,000 | 6.10% 03/15/67 |
| 154,500 | 6.35% Pfd., Series A |
| 50,000 | Cobank, ACB, 7.00% Pfd., 144A**** |
| \$ 5,210,000 | Colonial BancGroup, 7.114%, 144A**** |
| \$ 7,100,000 | Comerica Capital Trust II, 6.576% 02/20/37 |
| 9,000 | FBOP Corporation, Adj. Rate Pfd., 144A**** |
| 1,250 | First Republic Preferred Capital Corporation, 10.50% Pfd., 144A**** |
| 22,500 | First Republic Preferred Capital Corporation II, 8.75% Pfd., Series B, 144A**** .. |
| 2,500 | First Tennessee Bank, Adj. Rate Pfd., 144A**** |
| \$ 500,000 | First Tennessee Capital II, 6.30% 04/15/34, Series B |
| \$ 1,500,000 | First Union Capital II, 7.95% 11/15/29 |
| | Goldman Sachs: |
| \$ 5,001,000 | Capital II, 5.793% |
| 11 | Pass-Through Certificates, Class B, 144A**** |
| 2,500 | STRIPES Custodial Receipts, Pvt. |
| | HSBC USA, Inc.: |
| 43,900 | Adj. Rate Pfd., Series D |
| 176,000 | Adj. Rate Pfd., Series G |
| 2,500 | \$2.8575 Pfd. |
| 11,300 | Keycorp Capital VIII, 7.00% Pfd. 06/15/66 |
| 10,000 | Keycorp Capital X, 8.00% Pfd. |
| \$ 550,000 | Lloyds Banking Group PLC, 6.657%, 144A**** |
| 31,500 | PFGI Capital Corporation, 7.75% Pfd. |
| 274,200 | PNC Financial Services, 9.875% Pfd., Series F |
| \$ 1,600,000 | PNC Preferred Funding Trust III, 8.70%, 144A**** |
| 171,480 | Sovereign Bancorp, 7.30% Pfd., Series C |

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PREFERRED SECURITIES -- (CONTINUED)

| | | |
|--------------|--|---|
| | | BANKING -- (CONTINUED) |
| 20,100 | | Sovereign Capital Trust V, 7.75% Pfd. 05/22/36 |
| 1,750 | | Sovereign REIT, 12.00% Pfd., Series A, 144A**** |
| | | U.S. Bancorp, Auction Pass-Through Trust, Cl. B: |
| 11 | | Series 2006-5, Variable Rate Pfd., 144A**** |
| 11 | | Series 2006-6, Variable Rate Pfd., 144A**** |
| \$ 1,000,000 | | Washington Mutual, 9.75%, 144A**** |
| \$ 1,600,000 | | Webster Capital Trust IV, 7.65% 06/15/37 |
| 27,500 | | Wells Fargo & Company, 8.00% Pfd., Series J |
| | | FINANCIAL SERVICES -- 0.3% |
| \$ 500,000 | | General Electric Capital Corporation, 6.375% 11/15/67 |
| | | 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 -- 19.7% |
| \$ 1,000,000 | | Ace Capital Trust II, 9.70% 04/01/30 |
| | | Arch Capital Group Ltd.: |
| 2,600 | | 7.875% Pfd., Series B |
| 24,900 | | 8.00% Pfd., Series A |
| | | AXA SA: |
| \$ 1,500,000 | | 6.379%, 144A**** |
| \$ 4,000,000 | | 6.463%, 144A**** |
| 35,900 | | Axis Capital Holdings, 7.50% Pfd., Series B |
| 90,600 | | Delphi Financial Group, 7.376% Pfd. 05/15/37 |
| \$ 3,000,000 | | Everest Re Holdings, 6.60% 05/15/37 |
| | | Liberty Mutual Group: |
| \$ 2,000,000 | | 7.80% 03/15/37, 144A**** |
| \$ 3,900,000 | | 10.75% 06/15/58, 144A**** |
| \$ 500,000 | | MetLife Capital Trust IV, 7.875% 12/15/37, 144A**** |
| \$ 4,200,000 | | MetLife Capital Trust X, 9.25% 04/08/38, 144A**** |
| \$ 1,250,000 | | MetLife, Inc., 10.75% 08/01/39 |

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
AUGUST 31, 2009 (UNAUDITED)

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 PREFERRED SECURITIES -- (CONTINUED)

| | |
|--------------|--|
| | INSURANCE -- (CONTINUED) |
| | Principal Financial Group: |
| 5,000 | 5.563% Pfd., Series A |
| 80,000 | 6.518% Pfd., Series B |
| | Renaissancere Holdings Ltd.: |
| 82,050 | 6.08% Pfd., Series C |
| 10,700 | 7.30% Pfd., Series B |
| 119,500 | Scottish Re Group Ltd., 7.25% Pfd. |
| \$750,000 | USF&G Capital, 8.312% 07/01/46, 144A**** |
| | UTILITIES -- 25.7% |
| 300 | Alabama Power Company, 4.52% Pfd. |
| 10,000 | Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993 |
| 2,780 | Central Vermont Public Service Corporation, 8.30% Sinking Fund Pfd., Pvt. |
| \$ 2,491,000 | COMED Financing III, 6.35% 03/15/33 |
| | Dominion Resources, Inc.: |
| \$ 3,500,000 | 7.50% |
| 76,000 | 8.375% Pfd., Series A |
| | Duquesne Light Company: |
| 9,190 | 4.15% Pfd. |
| 910 | 4.20% Pfd. |
| 25,000 | Entergy Arkansas, Inc., 6.45% Pfd. |
| | Georgia Power Company: |
| 12,600 | 6.125% Pfd. |
| 12,500 | 6.50% Pfd., Series 2007A |
| 3,000 | Gulf Power Company, 6.45% Pfd., Series 2007A |
| 32,650 | Indianapolis Power & Light Company, 5.65% Pfd. |
| 170,900 | Interstate Power & Light Company, 8.375% Pfd., Series B |
| | Pacific Enterprises: |
| 22,430 | \$4.50 Pfd. |
| 10,000 | \$4.75 Pfd., Series 53 |
| \$ 500,000 | PECO Energy Capital Trust III, 7.38% 04/06/28, Series D |
| \$ 3,475,000 | Puget Sound Energy, Inc., 6.974% 06/01/67 |
| | Southern California Edison: |
| 35,000 | 6.00% Pfd., Series C |
| 11,500 | 6.125% Pfd. |
| \$ 2,350,000 | Southern Union Company, 7.20% 11/01/66 |

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PREFERRED SECURITIES -- (CONTINUED)

| | |
|------------|---|
| | UTILITIES -- (CONTINUED) |
| \$ 750,000 | TXU Electric Capital V, 8.175% 01/30/37 |
| | Union Electric Company: |

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| | | |
|----|-----------|---|
| | 14,150 | 4.56% Pfd. |
| | 18,800 | \$7.64 Pfd. |
| \$ | 3,900,000 | Wisconsin Energy Corporation, 6.25% 05/15/67 |

| | | |
|----|-----------|--|
| | | ENERGY -- 6.9% |
| \$ | 4,500,000 | Enbridge Energy Partners LP, 8.05% 10/01/37 |
| | | Enterprise Products Partners: |
| \$ | 1,000,000 | 7.034% 01/15/68 |
| \$ | 1,500,000 | 8.375% 08/01/66, Series A |
| | 3,500 | Kinder Morgan GP, Inc., 8.33% Pfd., 144A**** |
| \$ | 500,000 | Teppco Partners LP, 7.00% 06/01/67 |

| | | |
|--|--------|---|
| | | MISCELLANEOUS INDUSTRIES -- 1.9% |
| | 40,000 | Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A**** |

TOTAL PREFERRED SECURITIES
(Cost \$156,297,857)

| | | |
|----------------|--------|--|
| CORPORATE DEBT | | SECURITIES -- 1.8% |
| | | FINANCIAL SERVICES -- 0.2% |
| | 10,000 | Ameriprise Financial, Inc., 7.75% 06/15/39 |

| | | |
|----|-----------|---|
| | | INSURANCE -- 1.6% |
| \$ | 1,200,000 | Liberty Mutual Insurance, 7.697% 10/15/97, 144A**** |
| \$ | 2,000,000 | UnumProvident Corporation, 7.25% 03/15/28, Senior Notes |

TOTAL CORPORATE DEBT SECURITIES
(Cost \$2,610,616)

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Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
AUGUST 31, 2009 (UNAUDITED)

| | | |
|--|--------|---|
| | | MONEY MARKET FUND -- 0.1% |
| | 89,679 | BlackRock Provident Institutional, T-Fund |

TOTAL MONEY MARKET FUND
(Cost \$89,679)

TOTAL INVESTMENTS (Cost \$158,998,152***)

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OTHER ASSETS AND LIABILITIES (Net)
 NET ASSETS BEFORE LOAN
 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, 2009, these securities amounted to \$29,233,186 or 21.2% of net assets. These securities have been determined to be liquid under the guidelines established by the Board of Directors.
 - (1) All or a portion of this security has been pledged as collateral for the Fund's loan. The total value of such securities was \$118,303,745 at August 31, 2009.
 - (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

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OPERATIONS:

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

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS

DISTRIBUTIONS:

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

TOTAL DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS

FUND SHARE TRANSACTIONS:

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

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

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

NET ASSETS AVAILABLE TO COMMON STOCK:

Beginning of period
 Net increase in net assets during the period

End of period

* Auction Preferred Stock.

(1) These tables summarize the nine months ended August 31, 2009 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2008.

(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, 2008 THROUGH AUGUST 31, 2009 (UNAUDITED)

FOR A COMMON STOCK SHARE OUTSTANDING THROUGHOUT THE PERIOD.

PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of period

INVESTMENT OPERATIONS:

Net investment income
 Net realized and unrealized gain/(loss) on investments

DISTRIBUTIONS TO APS* SHAREHOLDERS:

From net investment income

Total from investment operations

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income

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Total distributions to Common Stock Shareholders

Net asset value, end of period

Market value, end of period

Common Stock shares outstanding, end of period

RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:

Net investment income+

Net investment income, including payments to APS Shareholders+

Operating expenses including interest expense.

Operating expenses excluding interest expense

SUPPLEMENTAL DATA:++

Portfolio turnover rate

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

Ratio of operating expenses including interest expense(2) to net assets before loan and APS ..

Ratio of operating expenses excluding interest expense(2) to net assets before loan and APS ..

- (1) These tables summarize the nine months ended August 31, 2009 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2008.
- (2) Does not include distributions to APS Shareholders.
- * Auction Preferred Stock.
- ** Annualized.
- *** Not Annualized.
- + The net investment income ratios reflect income net of operating expenses, including interest expense.
- ++ Information presented under heading Supplemental Data includes APS and loan principal balance.

Flaherty & Crumrine Preferred Income Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2009 (UNAUDITED)

| | TOTAL DIVIDENDS PAID | NET ASSET VALUE | NYSE CLOSING PRICE | DIVIDEND REINVESTMENT PRICE (1) |
|-------------------------|----------------------------|--------------------|-----------------------|---------------------------------------|
| | ----- | ----- | ----- | ----- |
| December 31, 2008 | \$0.0630 | \$6.50 | \$5.90 | \$6.56 |
| January 30, 2009 | 0.0630 | 6.08 | 7.05 | 6.70 |
| February 27, 2009 | 0.0630 | 5.11 | 5.43 | 5.16 |
| March 31, 2009 | 0.0630 | 5.30 | 5.50 | 5.30 |
| April 30, 2009 | 0.0630 | 5.81 | 6.02 | 5.81 |
| May 29, 2009 | 0.0630 | 7.18 | 7.35 | 7.18 |

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| | | | | |
|-----------------------|--------|------|------|------|
| June 30, 2009 | 0.0630 | 7.64 | 8.00 | 7.64 |
| July 31, 2009 | 0.0630 | 8.18 | 8.11 | 8.20 |
| August 31, 2009 | 0.0630 | 8.73 | 8.50 | 8.60 |

- (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.

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

1. AGGREGATE INFORMATION FOR FEDERAL INCOME TAX PURPOSES

At August 31, 2009 the aggregate cost of securities for federal income tax purposes was \$159,206,570, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$12,741,106 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$35,271,059.

2. ADDITIONAL ACCOUNTING STANDARDS

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 157 "FAIR VALUE MEASUREMENTS" ("SFAS 157")

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("SFAS 157") effective for fiscal years beginning after November 15, 2007. This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. The Fund has adopted SFAS 157 as of December 1, 2007. The three levels of the fair value hierarchy under SFAS 157 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)

In April 2009, FASB issued FASB Staff Position No. 157-4, "Determining Fair Value when the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly", ("FSP 157-4"). FSP 157-4 is effective for fiscal years and interim periods ending after June 15, 2009. FSP 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157, when the volume and level of activity for the asset or liability have significantly decreased. FSP 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 requires entities to describe the inputs and valuation techniques used to measure fair value and changes in those techniques and related inputs during the period. FSP 157-4 expands the three-level hierarchy

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disclosure and the level three-roll forward disclosure for each major security type as described in paragraph 19 of SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities."

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

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. A summary of the inputs used to value the Fund's net assets as of August 31, 2009 is as follows:

| | TOTAL VALUE AT AUGUST 31, 2009 | LEVEL 1 QUOTED PRICE | LEVEL 2 SIGNIFICANT OBSERVABLE INPUTS | LEVEL 3 SIGNIFICANT UNOBSERVABLE INPUTS |
|---------------------------|--------------------------------------|----------------------------|--|--|
| | ----- | ----- | ----- | ----- |
| Preferred Securities | | | | |
| Banking | \$ 58,832,868 | \$29,539,362 | \$28,908,193 | \$385,313 |
| Financial Services | 421,767 | 17,411 | 404,356 | -- |
| Insurance | 27,201,332 | 5,734,070 | 21,467,262 | -- |
| Utilities | 35,415,077 | 7,115,589 | 28,299,488 | -- |
| Energy | 9,518,768 | -- | 9,518,768 | -- |
| Miscellaneous Industries | 2,672,500 | -- | 2,672,500 | -- |
| Corporate Debt Securities | 2,524,626 | 240,025 | 2,284,601 | -- |
| Money Market Fund | 89,679 | 89,679 | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total Investments | \$136,676,617 | \$42,736,136 | \$93,555,168 | \$385,313 |
| | ===== | ===== | ===== | ===== |

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 11/30/08 | \$ -- | \$ -- |
| Accrued discounts/premiums. | -- | -- |
| Realized gain/(loss) | -- | -- |
| Change in unrealized | | |
| appreciation/(depreciation) ... | (4,339,687) | (4,339,687) |
| Net purchases/(sales) | -- | -- |
| Transfers in and/or out of | | |
| Level 3 | 4,725,000 | 4,725,000 |
| | ----- | ----- |
| BALANCE AS OF 8/31/09 | \$ 385,313 | \$ 385,313 |

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

3. SECTION 19 NOTICES

Section 19 of the Investment Company Act of 1940 requires registered investment companies to include a notice with the payment of a dividend if a portion of that dividend may come from sources other than undistributed net income (other sources could include realized gains from the sale of securities and non-taxable return of capital). Copies of the Section 19 notices for the Fund are available on the website at www.preferredincome.com.

The amounts and sources of distributions reported below are only estimates and are not being provided for tax reporting purposes. Form 1099-DIV will be sent to shareholders in January 2010 reporting the amount and tax characterization of distributions for the 2009 calendar year.

| | SOURCE OF DISTRIBUTIONS AS OF 8/31/09 | | |
|--|--|----------------------------------|-------------------------|
| | NET INVESTMENT INCOME | NET REALIZED CAPITAL GAINS | RETURN OF CAPITAL |
| Calendar 2009 Percentage of Total Distributions | 95.0% | 0.0% | 5.0% |

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(FLAHERTY & CRUMRINE LOGO)
 PREFERRED INCOME FUND

Quarterly
 Report

August 31, 2009

www.preferredincome.com

DIRECTORS

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

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Robert F. Wulf, CFA

OFFICERS

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

INVESTMENT ADVISER

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

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

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

PNC Global Investment Servicing (U.S.) Inc.
P.O. Box 43027
Providence, RI 02940-3027
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 OF ANY SECURITIES MENTIONED IN THIS REPORT.

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

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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 27, 2009

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.

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 27, 2009

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

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

Date October 27, 2009

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