FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC
Form N-CSRS
August 08, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM N-CSR
CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES
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: May 31, 2011

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR 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 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. REPORTS TO STOCKHOLDERS.

Flaherty & Crumrine Preferred Income Fund Incorporated

Correction to Semi-Annual Report for the Six Months Ended May 31, 2011

Please note that the semi-annual report mailed by the Fund in late July 2011 contained a chart on page 7 with incorrect data. The corrected chart is shown below.

The Report to Shareholders is attached herewith.

FLAHERTY & CRUMRINE PREFERRED INCOME FUND

To the Shareholders of Flaherty & Crumrine Preferred Income Fund:

During the three month period ending May 31, 2011, the Fund s total return on net asset value was +5.6%. Over the first half of fiscal 2011 the return on NAV was +11.0%. The table below presents these and other performance measures of interest to investors.

TOTAL RETURN ON NET ASSET VALUE
FOR PERIODS ENDED MAY 31, 2011

	ACTUAL RETURNS			AVERAGE ANNUALIZED RETURNS			
	THREE MONTHS	SIX MONTHS	ONE YEAR	THREE YEARS	FIVE YEARS	TEN YEARS	LIFE OF FUND(1)
Flaherty & Crumrine Preferred Income Fund	5.6%	11.0%	31.3%	15.0%	5.3%	7.4%	9.9%
Barclays Capital U.S. Aggregate Index (2)	2.6%	1.9%	5.8%	6.5%	6.6%	5.8%	6.9%
S&P 500 Index (3)	1.8%	15.0%	26.0%	0.9%	3.3%	2.6%	9.1%

(1) Since inception on January 31, 1991.

(2) The Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. It is generally considered to be representative of the domestic, investment-grade, fixed-rate, taxable bond market. Unless otherwise noted, index returns reflect the reinvestment of dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. This index was formerly known as the Lehman Brothers U.S. Aggregate Index.

(3) The S&P 500 is a capitalization-weighted index of 500 common stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

CURRENT PERFORMANCE MAY BE LOWER OR HIGHER THAN THE QUOTED PAST PERFORMANCE, WHICH CANNOT GUARANTEE FUTURE RESULTS. IN ADDITION, NAV PERFORMANCE WILL VARY FROM MARKET PRICE PERFORMANCE, AND YOU MAY HAVE A TAXABLE GAIN OR LOSS WHEN YOU SELL YOUR SHARES.

At the risk of sounding like a broken record, we reprise our caution of the past few letters: returns of this magnitude are unlikely to be repeated. The market for preferred securities has had a nice run recovering from the depths of the financial crisis in early 2009. Prices on many securities are now at or above levels of three years ago, and we view the overall preferred market as fairly priced relative to other broad asset classes.

Of course, this does not mean all individual securities are perfectly valued. Pricing inefficiencies are an endearing part of the preferred market, and it is unlikely this will change. Part of our job is to identify and take advantage of opportunities as they present themselves. Our credit analysis and security selection, as well as effective management of leverage, have been at the heart of the Fund s excellent performance.

Financial markets are still facing some major uncertainties. First and foremost, the economic outlook is as cloudy as ever. European leaders are dealing with the Greek debt crisis, and other sovereign credit problems are lurking in the background. Private sector debt shrunk during the financial crisis; now it s the public sector s turn, and it is far from clear how that will play out. Effects of the Japanese earthquake and tsunami are still being felt and likely will take years to resolve fully. The housing market remains an albatross around the neck of the U.S. economy (among others). And worldwide, financial regulators have yet to fully articulate a new set of rules for bank capital and regulation.

We see both risk and opportunity in these uncertainties. As always, we will do our best to minimize the risk and capitalize on the opportunities.

In the discussion topics that follow, we present a more detailed review of the Fund s performance, as well as further discussion on several topics mentioned above. As always, we encourage you to visit www.preferredincome.com to read our Quarterly Economic Update, as well as more detailed discussion of the wonderful world of preferred securities.

Sincerely,

/s/ Donald F. Crumrine	/s/ Robert M. Ettinger
Donald F. Crumrine Chairman	Robert M. Ettinger President

July 8, 2011

DISCUSSION TOPICS

THE FUND S PORTFOLIO RESULTS AND COMPONENTS OF TOTAL RETURN ON NET ASSET VALUE (NAV)

The table below reflects performance of each investment technique available for use by the Fund to achieve its objective, namely: (a) investing in a portfolio of securities; (b) possibly hedging that portfolio of securities against significant increases in long-term interest rates (see the following discussion on the status of the Fund s interest-rate hedging strategy); and (c) utilizing leverage to enhance returns to shareholders. Next, we compute the impact of the Fund s operating expenses. All of the parts are summed to determine total return on the Fund s NAV.

COMPONENTS OF PFD S TOTAL RETURN ON NAV
FOR THE SIX MONTHS ENDED MAY 31, 2011

	SIX MONTHS*
Total Return on Unleveraged Securities Portfolio (including principal and income)	+8.0%
Return from Interest Rate Hedging Strategy	N/A
Impact of Leverage (including leverage expense)	+3.7%
Expenses (excluding leverage expense)	-0.7%
TOTAL RETURN ON NAV	+11.0%

* Actual, not annualized.

Over the first half of fiscal 2011, the Fund s investment portfolio has continued to perform well, both absolutely and relative to various sectors of the preferred market as measured by the various Bank of America Merrill Lynch preferred market indices shown in the table below. During this recent six month period, only the Bank of America Merrill Lynch adjustable-rate preferred index, reflecting just 2% of the total preferred market, earned a comparable return to that of the Fund s portfolio (the first row of the above table).

TOTAL RETURNS OF BANK OF AMERICA MERRILL LYNCH PREFERRED SECURITIES INDICES*
FOR THE SIX MONTHS ENDED MAY 31, 2011

	SIX MONTHS
BofA Merrill Lynch 8% Capped DRD Preferred Stock Index(SM)	+6.0%
BofA Merrill Lynch 8% Capped Hybrid Preferred Securities Index(SM)	+5.1%
BofA Merrill Lynch 8% Capped Corporate U.S. Capital Securities Index(SM)	+6.2%
BofA Merrill Lynch Adjustable Preferred Stock, 7% Constrained Index(SM)	+8.1%

* The Bank of America Merrill Lynch 8% Capped DRD Preferred Stock Index(SM) includes investment grade preferred securities issued by both corporations and government agencies that qualify for the corporate dividend received deduction with issuer concentration capped at a maximum of 8%. The Bank of America Merrill Lynch 8% Capped Hybrid Preferred Securities Index(SM) includes taxable, fixed-rate, U.S. dollar-denominated investment-grade, preferred securities listed on a U.S. exchange with issuer concentration capped at 8%. The Bank of America Merrill Lynch 8% Capped Corporate U.S. Capital Securities Index(SM) includes investment grade fixed rate or fixed-to-floating rate $1,000 par securities that receive some degree of equity credit from the rating agencies or their regulators with issuer concentration capped at a maximum of 8%. The Bank of America Merrill Lynch Adjustable Preferred Stock, 7% Constrained Index(SM) includes adjustable rate preferred securities issued by U.S. corporations and government agencies with issuer concentration capped at a maximum of 7%. All index returns include interest and dividend income, and, unlike the Fund s returns, are unmanaged and do not reflect any expenses.

The Fund s six-month NAV performance (positive 11.0%) demonstrates continued success of the strategy of using leverage to enhance return on the Fund s portfolio sufficiently to absorb its expenses and permit the NAV of the Fund to still outperform all of the unleveraged preferred market indices.

TOTAL RETURN ON MARKET PRICE OF FUND SHARES

While our focus continues to be on managing the Fund s investment portfolio, an investor s actual return is comprised of monthly dividend payments plus changes in the MARKET PRICE of Fund shares. Even following the strong results over recent years, the market price of Fund shares continued to perform well during the current fiscal year-to-date, producing a total return of +16.2% through May 31st.

In a perfect world, the market price of Fund shares would track the Fund s NAV. As can be seen from the graph below, this often is not the case. While for most of the past ten years the Fund s market price has generally been above its NAV (in market parlance, trading at a premium), the market price dropped well below the underlying value of each Fund share during the depths of the recent financial crisis. However, more recently the market price has traded more in line with the underlying value of the Fund s shares, and currently is trading at a premium to NAV. Because the Fund s premium to NAV expanded slightly over the current fiscal year-to-date, the total return earned on its market price exceeded the total return on NAV.

Based on a closing price of $13.45 on June 30th and the Fund s current monthly dividend of $0.09, the current distribution rate on market price of the Fund s shares is 8.0%. Because of the leverage employed by the Fund and other factors, this distribution rate compares very favorably with those available on other strategies investing in preferred securities, including ETFs and open-end funds.

PREFERRED MARKET CONDITIONS

Conditions in the market remain positive, although an uncertain economic environment and unresolved regulatory issues are impacting activity. The best barometers for market conditions are trading volume, bidoffer spreads, and new issue activity. At present, all three measures are off from last quarter, but still indicate healthy conditions.

Market activity often slows during the summer, so we don t read anything meaningful in the decline. We are more focused on the impact of new regulations (discussed below) and how financial institutions transition to the new rules. Of particular interest are securities which under certain circumstances may be called by the issuer to the detriment of investors. In May, Fifth Third Bancorp exercised such a call and the market was certainly caught by surprise. As a result, other issues with similar features declined in price to reflect the risk of early redemption. Having been aware of this risk for some time, the Fund s portfolio had limited exposure to these issues.

There were 26 new issues during the quarter, totaling just under $10 billion. The bulk of the issuance was from REITs and insurance companies. And, reflecting ongoing demand from retail investors, most of these new issues came in a format favored by individual investors $25 par, exchange listed and five years of call protection.

During the quarter, issuers redeemed 28 issues with a market value of just under $8.8 billion. The fact that the number and amount approximate those of new issues is mostly coincidental; however, some companies did take advantage of market conditions to refinance high-cost preferred securities with new, less-expensive securities. Of course, as issuers reduce interest expense, investor income falls as well. We try to minimize the impact of these transactions, but over time, if interest rates remain low, income earned by the Fund is likely to decline.

Finally, we observe with a sense of irony the likely shift back to days of old when traditional preferred stock was the only security (other than common stock) that banks could treat as capital (discussed more fully in the discussion of bank regulation below). The market appears well positioned to handle a transition in which hybrid and trust preferred issues get replaced with non-cumulative, perpetual preferred stock. This change is likely to have a significant impact on the Fund s portfolio, although it is too early to know the overall effect of the change. We believe bank credit quality will improve; however, income earned on the Fund s portfolio may fall if new issues come to market at lower yields.

UPDATE ON REGULATORY AND CAPITAL REFORM FOR BANKS

June saw further clarification on new Basel III international banking regulations being developed by the Basel Committee on Banking Supervision. The Committee announced that it had determined that globally-systemically important financial institutions should hold up to an additional 2.5% of COMMON equity above and beyond that required of smaller banks. The idea is to reduce the likelihood of a failure of a large global bank, which could put the entire financial system at risk because of the bank s size, interconnectedness, lack of substitutability, global activity and complexity.

As we ve discussed previously, international and national banking regulators have responded to the 2008-2009 financial crisis with new regulation and stiffer capital requirements. As a refresher, we ll briefly summarize the key features of bank regulatory reform from the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), and bank capital requirements of the Basel III framework both from the perspective of preferred investors.

Of primary importance to investors in preferred securities are the regulations surrounding bank capital requirements: in other words, (1) HOW MUCH AND WHAT TYPES OF CAPITAL WILL BANKS BE REQUIRED TO HOLD, and (2) WHAT FEATURES WILL SECURITIES NEED IN ORDER TO QUALIFY AS A PARTICULAR FORM OF CAPITAL? We expect national regulators to offer preliminary rules on capital later this summer or early fall, followed by a comment period of several months. That should put the market on track for final U.S. bank capital rules late this year or early next year.

HOW MUCH CAPITAL? Under Basel III, banks will be required to maintain much higher levels of capital than in the past, particularly at the common equity level. Minimum common equity capital will rise from the current 2.5% of risk-weighted assets (RWA) to 7%, including a capital conservation buffer when fully implemented in 2019.

Basel III still leaves a role for preferred securities in a bank s capital structure, as it requires total Tier 1 capital of 8.5%, with the additional 1.5% comprised of common and/or preferred equity. Further, total capital must be 10.5%, with the additional 2.0% above Tier 1 consisting of both Tier 1 and other capital.

In addition, all banks will be subject to a countercyclical capital buffer ranging from 0% to 2.5%, as determined by national regulators; and large global banks will be subject to the 1% to 2.5% systemically important financial institution capital buffer.

While individual countries still need to adopt these standards, we expect that the great majority will do so. In fact, Switzerland has already announced that its two systemically important banks, UBS and Credit Suisse, will be required to hold total capital of at least 19% of RWA, including a Tier 1 common equity ratio of 10% well in excess of the Basel III standard.

WHAT TYPE OF PREFERRED SECURITY QUALIFIES AS TIER 1 CAPITAL? Basel III also introduces loss absorbency rules for preferred securities. The theory is that all Tier 1 capital should be able to absorb losses on both a gone concern basis and on a going concern basis. Historically, preferred securities have provided substantial loss absorbency upon failure of a firm, since all preferred claims are subordinate to claims of depositors and senior creditors. However, preferreds are strictly by their contractual terms only moderately loss absorbing on a going concern basis, because the issuer can defer dividend payments but not eliminate the preferred liability outright in times of strain. Basel III provides that regulators must have the ability to force the conversion of preferreds to common stock, or lower or write off the preferred liability if they believe the bank is no longer viable.

Preferred securities, however, don t need to incorporate such terms explicitly. If a country s bank resolution regime incorporates a system for allocating losses to capital providers prior to the injection of state funding, then the loss provision language is not required. While we won t know for sure until final rules are written for the United States, it appears that Dodd-Frank gives U.S. bank regulators just such authority. As a result, it is likely that perpetual, noncumulative U.S. bank preferreds eligible for the dividends received deduction will remain qualifying Tier 1 capital under the new rules. Other countries are likely to adopt similar resolution regimes as well.

Dodd-Frank also makes significant changes to U.S. banks operations and capital requirements. Most importantly for preferred investors, it eliminates trust preferred securities (TruPS) from Tier 1 capital for most banks the Fund invests in. The new rules phase in starting from 2013 through 2015. This change in regulatory treatment for TruPS makes it likely that most, though not all, TruPS will be called between 2013 and 2016, as banks replace those instruments with qualifying forms of Tier 1 capital. As of May 31, approximately 19% of the Fund s portfolio was invested in TruPS issued by U.S. banks.

We continue to believe that the Dodd-Frank and Basel III regulatory changes will be positive for investors in preferred securities. Banks will need to hold significantly more common equity capital than they have in the past. In fact, they already do. This will give banks much more capacity to absorb losses before preferred investments are in danger of impairment. While all these regulatory changes create uncertainty in the market, we believe they will be beneficial for preferreds.

THE FUND S LEVERAGE

Leverage is an important part of the Fund s strategy for producing high current income. The cost of leverage typically is lower than the yield on the Fund s portfolio. The difference between what the Fund earns on its investments and pays on borrowed money increases income available to common shareholders. Over the past six months, the Fund has paid an average annualized interest rate of 1.3% on its borrowed money. Given the much higher current yields generated by the Fund s portfolio, this use of leverage has had a meaningful positive impact on the Fund s dividends to common shareholders.

There are two useful measures of how much leverage the Fund has in place. The first is simply the total dollar amount of leverage. The other measure is the ratio of the Fund s assets financed by that leverage (in other words, the amount of leverage divided by total assets). The chart below presents both measures of leverage over the past three years.

Flaherty & Crumrine Preferred Income Fund (PFD)

Premium/Discount of Market Price to NAV through 6/30/2011

As reflected by the table, the dramatic recovery in asset prices has meant the Fund has been able to comfortably increase borrowings and use the money to purchase additional securities. During the first six months of this fiscal year, the Fund has continued to increase its leverage balances, while not significantly increasing the leverage ratio.

The right percentage of leverage in a fund is never simple to determine. Type of borrowing, cost of funds and market conditions all will be factors to consider. At present, we are comfortable with the leverage percentage used by the Fund, and we will consider increasing or decreasing the amount of borrowing based on future market conditions.

STATUS OF THE FUND S HEDGING STRATEGY

The Fund suspended its interest rate hedging program as the financial crisis intensified in the autumn of 2008. There were three principal reasons why we suspended the program at the time. First, the relationship between preferred securities prices and the Fund s hedging instruments (Treasury bond futures, interest rate swaps, and options on both) was turned on its head during the financial crisis. Historically, preferred prices had tended to rise (fall) in periods of falling (rising) long-term Treasury rates, but as the financial crisis unfolded, the opposite occurred: preferred prices plunged while Treasury and swap rates fell, as investors sold risky assets and raced into Treasuries. Therefore, hedging lost its effectiveness. Second, the cost of hedging rose dramatically, as the yield curve steepened and options prices rose sharply. Finally, preferred securities became exceptionally cheap and were likely to offer high returns to shareholders even if Treasury yields increased moderately. Add them up, and we believed that hedging simply would not work under market conditions at the time.

Re-examining those three factors today, we believe that conditions have moved us closer to reinstating the Fund s hedging strategy, but we are not there yet. First, the correlation between preferred securities and our hedging instruments has improved, but it remains both weaker and significantly less stable than historical norms. Second, owing largely to the steepness of the yield curve, options continue to be very expensive. The third factor, preferred securities valuation, currently sits within the range we would consider normal, but by itself that does not persuade us to hedge the Fund s portfolio exposure just yet. We will continue to evaluate market conditions and may reinstate the Fund s hedging strategy if we judge that conditions warrant it.

INVESTMENT POLICY MODIFICATION

On February 3, 2011, the Fund announced the following changes to its investment policies. These changes were effective on April 4, 2011.

OLD POLICY: At time of purchase, at least 75% of the securities that the Fund will acquire will be rated investment grade by either Moody s Investors Services, Inc. (Moody s) or Standard & Poor s Corporation (S&P), or, if unrated, judged to be comparable in quality. In addition, the Fund may invest up to 25% of its assets at the time of purchase in securities rated below investment grade by both Moody s and S&P, if (a) such securities are rated at least Ba3 by Moody s or BB- by S&P and (b) such securities are issued by an issuer having an outstanding class of senior debt rated investment grade at the time of purchase. Thus, the Fund may not invest in securities rated below Ba3 by Moody s and below BB- by S&P.

NEW POLICY: At time of purchase, at least 75% of the securities that the Fund will acquire will be rated investment grade by any one of Moody s, S&P or Fitch Ratings Group (Fitch). In addition, the Fund may invest up to 25% of its assets at the time of purchase in securities rated below investment grade by all of Moody s, S&P and Fitch, provided that (a) such securities are rated at least Ba3 by Moody s, BB- by S&P, or BB- by Fitch or (b) such securities are issued by an issuer having an outstanding class of senior debt rated investment grade by any one of Moody s, S&P, or Fitch at the time of purchase. Thus, the Fund may invest in securities rated below Ba3 by Moody s, BB- by S&P and BB- by Fitch if the issuer has investment grade senior debt outstanding.

IMPACT OF CHANGES:

(1) Fitch is now one of the approved ratings agencies for determining whether a security meets the definition of investment grade for purposes of the Fund s policy of investing at least 75% of its assets in securities rated investment grade at the time of purchase or in securities of equivalent quality;

(2) The Fund may now purchase securities rated below Ba3/BB-/BB- by each of Moody s, S&P and Fitch, respectively, as long as the senior debt of the same issuer is rated investment grade by any one of Moody s, S&P or Fitch at the time of purchase; and

(3) If the senior debt of an issuer is unrated or it has no outstanding senior debt, the Fund may now purchase its preferred securities if they are rated at least Ba3/BB-/BB- by any one of Moody s, S&P or Fitch, respectively.

As a result of these changes, a security would be counted as investment grade if it had an investment grade rating by any one of Moody s, S&P or Fitch, even if the other two rating agencies rated it below investment grade. The effect of this change would be to reduce the Fund s holdings deemed below investment grade purchases, as of January 31, 2011, from 15.9% to 12.4%. In addition, the Fund would be authorized to purchase below Ba or BB securities of investment grade issuers, subject to an overall 25% limit on purchasing below investment grade securities. While this change would permit the Fund to acquire securities rated B and below, the Fund s adviser has no current intention of doing so.

As before, the Fund will apply the ratings criteria at the time of purchase and the Fund will not be required to dispose of securities if, after purchase, they are downgraded, although the adviser may take this into account in determining whether to retain the security. As a result, more than 25% of the Fund s holdings at any time may be rated below investment grade or in equivalent securities. In addition, as before, the Fund may invest in unrated securities that the Fund s investment adviser deems to be comparable in quality to rated issues in which the Fund is authorized to invest.

RISKS OF INVESTING IN SECURITIES RATED BELOW BA3/BB-

The Fund can purchase below-investment grade securities with ratings of at least Ba3 by Moody s and BB- by S&P and Fitch; such ratings generally indicate an issuer that is less vulnerable to non-payment of its obligations than other speculative issuers. The issuer, however, faces major ongoing uncertainty or exposure to adverse business, financial or economic conditions that could lead to inadequate capacity to meet its financial commitments. Under the Fund s new investment policy with respect to the investment grade rating of securities, the Fund may invest in securities with ratings below Ba3/BB- so long as the issuer of such securities has an outstanding class of senior debt rated investment grade by any one of Moody s, S&P or Fitch. Although a company s senior debt rating may be investment grade, an underlying security issued by such company in which the Fund may invest may have a lower than investment grade rating. A security with a rating below Ba3/BB- generally indicates the issuer of such security has a high degree of vulnerability of not paying its financial obligations. A security rated B1 to B3 by Moody s, or B+ to B- by S&P or Fitch, for example, indicates an issuer that is more vulnerable to not paying its obligations than a Ba3 or BB- issuer; the issuer, however, currently has the capacity to meet its financial commitments, although adverse business, financial, or economic conditions will likely impair the issuer s capacity or willingness to meet its financial commitments. Securities rated Caa by Moody s or CCC by S&P or Fitch indicate an issuer that is highly speculative and likely to be in, or very near default with some prospects of recovery of principal and interest, although the issuer is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. Securities rated below Caa or CCC generally indicate an issuer that is highly vulnerable to not paying its obligations or that has defaulted on an obligation.

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OVERVIEW
MAY 31, 2011 (UNAUDITED)

FUND STATISTICS	
Net Asset Value	$ 12.56
Market Price	$ 13.34
Premium	6.21%
Yield on Market Price	8.10%
Common Stock Shares Outstanding	10,792,511

MOODY S RATINGS	% OF NET ASSETS+
A	6.4%
BBB	74.7%
BB	15.6%
Below BB	0.9%
Not Rated*	0.3%
Below Investment Grade**	9.4%

* Does not include net other assets and liabilities of 2.1%

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

TOP 10 HOLDINGS BY ISSUER	% OF NET ASSETS+
Banco Santander	5.1%
HSBC Plc	4.1%
Capital One Financial	3.9%
Liberty Mutual Group	3.9%
Metlife	3.9%
PNC Financial Services	3.8%
Wells Fargo	3.2%
Enbridge Energy Partners	2.7%
Interstate Power & Light	2.6%
Southern California Edison	2.6%

	% OF NET ASSETS***+
Holdings Generating Qualified Dividend Income (QDI) for Individuals	44%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	30%

*** 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 include assets attributable to the use of leverage.

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS
MAY 31, 2011 (UNAUDITED)

SHARES/$ PAR		VALUE
PREFERRED SECURITIES 94.2%		
	BANKING 39.4%	
$ 2,750,000	Astoria Capital Trust I, 9.75% 11/01/29, Series B	$ 2,869,410(1)
355,000	Banco Santander, 10.50% Pfd., Series 10	10,366,532**(1)(2)
	Bank of America Corporation:	
23,385	6.70% Pfd	573,868*(1)
13,300	8.20% Pfd	348,194*
28,315	8.625% Pfd	747,799*
$ 500,000	BankAmerica Institutional, Series A, 8.07% 12/31/26, 144A****	516,250
	Barclays Bank PLC:	
$ 3,250,000	6.278%	2,908,750**(1)(2)
1,200	7.75% Pfd., Series 4	30,804**(2)
75,000	8.125% Pfd., Series 5	1,971,750**(1)(2)
28,900	BB&T Capital Trust VI, 9.60% Pfd. 08/01/64	768,162
$ 1,500,000	BBVA International Preferred, 5.919%	1,308,576**(1)(2)
$ 1,750,000	BNP Paribas, 7.195%, 144A****	1,750,000**(1)(2)
$ 4,750,000	Capital One Capital III, 7.686% 08/15/36	4,904,375(1)
$ 500,000	Capital One Capital V, 10.25% 08/15/39	535,000
$ 2,500,000	Capital One Capital VI, 8.875% 05/15/40	2,609,375(1)
62,300	Citigroup Capital XIII, 7.875% Pfd. 10/30/40	1,742,456(1)
$ 5,210,000	Colonial BancGroup, 7.114%, 144A****	234,450++
9,000	FBOP Corporation, Adj. Rate Pfd., 144A****	22,500*(3)(4)+
$ 750,000	Fifth Third Capital Trust IV, 6.50% 04/15/37	750,000
15,000	Fifth Third Capital Trust V, 7.25% Pfd. 08/15/67	382,050
130,000	Fifth Third Capital Trust VI, 7.25% Pfd. 11/15/67	3,327,194(1)
1,250	First Republic Preferred Capital Corporation, 10.50% Pfd., 144A****	1,285,937(1)
3,750	First Tennessee Bank, Adj. Rate Pfd., 3.75%(5), 144A****	2,485,547*(1)
$ 500,000	First Tennessee Capital II, 6.30% 04/15/34, Series B	481,250
$ 1,500,000	First Union Capital II, 7.95% 11/15/29	1,682,944(1)
$ 500,000	Fleet Capital Trust II, 7.92% 12/11/26	516,250
1	FT Real Estate Securities Company, 9.50% Pfd., 144A****	970,000
	Goldman Sachs:	
$ 785,000	Capital I, 6.345% 02/15/34	758,389(1)
$ 1,058,000	Capital II, 5.793%	888,720(1)
2,800	STRIPES Custodial Receipts, Adj. Rate, 10.70%(5), Pvt	1,761,200*(3)(4)
132,900	HSBC Holdings PLC, 8.00% Pfd., Series 2	3,638,138**(1)(2)
$ 500,000	HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****	522,395(1)
150,000	HSBC USA, Inc., 6.50% Pfd., Series H	3,796,875*(1)
$ 1,725,000	JPMorgan Chase Capital XVIII, 6.95% 08/17/36, Series R	1,778,861(1)

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
MAY 31, 2011 (UNAUDITED)

SHARES/$ PAR		VALUE
PREFERRED SECURITIES (CONTINUED)		
	BANKING (CONTINUED)	
21,360	Keycorp Capital VIII, 7.00% Pfd. 06/15/66	$ 544,680(1)
65,640	Keycorp Capital IX, 6.75% Pfd. 12/15/66	1,676,544(1)
27,600	Keycorp Capital X, 8.00% Pfd. 03/15/68	713,184(1)
$ 550,000	Lloyds Banking Group PLC, 6.657%, 144A****	430,375**(2)+
25,000	Morgan Stanley Capital Trust VI, 6.60% Pfd. 02/01/46	625,000
3,000	National City Capital Trust II, 6.625% Pfd. 11/15/36	76,565
$ 860,000	NB Capital Trust IV, 8.25% 04/15/27	891,175(1)
200,000	PNC Financial Services, 9.875% Pfd., Series L	5,718,760*(1)
$ 1,750,000	PNC Preferred Funding Trust III, 8.70%, 144A****	1,873,639(1)
1,750	Sovereign REIT, 12.00% Pfd., Series A, 144A****	2,069,375
$ 2,400,000	Wachovia Capital Trust III, Adj. Rate, 5.56975%(5)	2,230,200*(1)
20,000	Wachovia Preferred Funding, 7.25% Pfd., Series A	528,050
$ 1,000,000	Washington Mutual, 9.75%, 144A****	25,000++
$ 1,600,000	Webster Capital Trust IV, 7.65% 06/15/37	1,602,587(1)
	Wells Fargo & Company:	
1,305	7.50% Pfd., Series L	1,415,925*
15,000	8.00% Pfd., Series J	432,600*
$ 165,000	Wells Fargo Capital XV, 9.75%	178,200
		80,265,860
	FINANCIAL SERVICES 2.8%	
$ 1,000,000	Claudius, Ltd. Credit Suisse AG, 7.875%, Series B	1,046,250(2)
	Heller Financial, Inc.:	
35,000	6.687% Pfd., Series C	3,487,971*(1)
5,760	6.95% Pfd., Series D	583,200*
19,404	HSBC Finance Corporation, 6.36% Pfd., Series B	474,185*
	Lehman Brothers Holdings, Inc.:	
15,000	5.67% Pfd., Series D	4,050*++
19,500	5.94% Pfd., Series C	5,850*++
25,000	6.50% Pfd., Series F	1,588*++
27,500	7.95% Pfd	303*++
		5,603,397
	INSURANCE 19.3%	
$ 975,000	Ace Capital Trust II, 9.70% 04/01/30	1,317,412(1)(2)
$ 250,000	AON Corporation, 8.205% 01/01/27	294,329
14,300	Arch Capital Group Ltd., 8.00% Pfd., Series A	367,779**(1)(2)

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
MAY 31, 2011 (UNAUDITED)

SHARES/$ PAR		VALUE
PREFERRED SECURITIES (CONTINUED)		
	INSURANCE (CONTINUED)	
	AXA SA:	
$ 2,400,000	6.379%, 144A****	$ 2,226,000**(1)(2)
$ 1,100,000	6.463%, 144A****	1,012,000**(1)(2)
35,900	Axis Capital Holdings, 7.50% Pfd., Series B	3,545,125(1)(2)
90,600	Delphi Financial Group, 7.376% Pfd. 05/15/37	2,225,363(1)
$ 4,000,000	Everest Re Holdings, 6.60% 05/15/37	3,900,000(1)
$ 4,100,000	Liberty Mutual Group, 10.75% 06/15/58, 144A****	5,596,500(1)
$ 900,000	MetLife Capital Trust IV, 7.875% 12/15/37, 144A****	1,009,899(1)
$ 2,775,000	MetLife Capital Trust X, 9.25% 04/08/38, 144A****	3,538,125(1)
$ 2,400,000	MetLife, Inc., 10.75% 08/01/39	3,411,199(1)
	Principal Financial Group:	
14,000	5.563% Pfd., Series A	1,380,750*(1)
105,000	6.518% Pfd., Series B	2,693,912*(1)
60,000	Renaissancere Holdings Ltd., 6.08% Pfd., Series C	1,454,400**(1)(2)
119,500	Scottish Re Group Ltd., 7.25% Pfd	1,359,313**(2)+
$ 1,300,000	Stancorp Financial Group, 6.90% 06/01/67	1,286,791(1)
$ 750,000	USF&G Capital, 8.312% 07/01/46, 144A****	885,675(1)
$ 2,000,000	XL Capital Ltd., 6.50%, Series E	1,907,500(1)(2)
		39,412,072
	UTILITIES 24.2%	
60,000	Alabama Power Company, 6.45% Pfd	1,595,628*(1)
	Baltimore Gas & Electric Company:	
10,000	6.70% Pfd., Series 1993	1,030,938*(1)
2,400	7.125% Pfd., Series 1993	243,075*
20,600	Calenergy Capital Trust III, 6.50% Pfd. 09/01/27	1,035,150(1)
$ 3,458,000	COMED Financing III, 6.35% 03/15/33	3,057,114(1)
15,000	Constellation Energy Group, 8.625% Pfd. 06/15/63, Series A	405,450
$ 250,000	Dominion Resources Capital Trust I, 7.83% 12/01/27	259,876
	Dominion Resources, Inc.:	
$ 3,500,000	7.50% 06/30/66	3,713,909(1)
22,500	8.375% Pfd. 06/15/64, Series A	649,350(1)
40,000	Entergy Arkansas, Inc., 6.45% Pfd	985,000*(1)
25,000	Entergy Louisiana, Inc., 6.95% Pfd	2,487,500*(1)
$ 2,809,000	FPL Group Capital, Inc., 6.65% 06/15/67	2,833,545(1)

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
MAY 31, 2011 (UNAUDITED)

SHARES/$ PAR		VALUE
PREFERRED SECURITIES (CONTINUED)		
	UTILITIES (CONTINUED)	
	Georgia Power Company:	
4,248	6.125% Pfd	$ 107,926*
25,000	6.50% Pfd., Series 2007A	2,600,782*(1)
7,500	Gulf Power Company, 6.45% Pfd., Series 2007A	778,315*(1)
32,650	Indianapolis Power & Light Company, 5.65% Pfd	3,071,141*
185,596	Interstate Power & Light Company, 8.375% Pfd., Series B	5,393,884*(1)
7,146	MDU Resources Group, 4.50% Pfd. 07/08/10	604,730*
$ 500,000	PECO Energy Capital Trust III, 7.38% 04/06/28, Series D	509,563(1)
$ 600,000	PPL Capital Funding, 6.70% 03/30/67, Series A	596,208(1)
46,000	PPL Electric Utilities Corporation, 6.25% Pfd	1,160,065*
$ 3,800,000	Puget Sound Energy, Inc., 6.974% 06/01/67	3,885,477(1)
55,500	Scana Corporation, 7.70% Pfd. 01/30/65	1,544,010(1)
	Southern California Edison:	
32,100	6.00% Pfd., Series C	3,050,505*(1)
17,500	6.125% Pfd	1,706,250*(1)
6,250	6.50% Pfd., Series D	623,633*
$ 750,000	TXU Electric Capital V, 8.175% 01/30/37	236,250(3)
3,000	Virginia Electric & Power Company, $6.98 Pfd	316,969*
$ 1,275,000	Wisconsin Energy Corporation, 6.25% 05/15/67	1,292,526(1)
3,700	Wisconsin Public Service Corporation, 6.88% Pfd	396,016*
$ 3,250,000	WPS Resources Corporation, 6.11% 12/01/66	3,221,202(1)
		49,391,987
	ENERGY 6.6%	
$ 5,000,000	Enbridge Energy Partners LP, 8.05% 10/01/37	5,537,175(1)
$ 4,000,000	Enterprise Products Partners, 8.375% 08/01/66, Series A	4,364,588(1)
3,500	Kinder Morgan GP, Inc., 8.33% Pfd., 144A****	3,559,281*
		13,461,044
	REAL ESTATE INVESTMENT TRUST (REIT) 0.2%	
	PS Business Parks, Inc.:	
12,500	6.70% Pfd., Series P	315,235
7,500	6.875% Pfd., Series R	188,850
		504,085

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
MAY 31, 2011 (UNAUDITED)

SHARES/$ PAR		VALUE
PREFERRED SECURITIES (CONTINUED)		
	MISCELLANEOUS INDUSTRIES 1.7%	
40,000	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****	$ 3,366,252*(1)
		3,366,252
	TOTAL PREFERRED SECURITIES (Cost $183,099,098)	192,004,697
CORPORATE DEBT SECURITIES 3.7%		
	BANKING 0.2%	
$ 415,000	Goldman Sachs Group, 6.75% 10/01/37, Sub Notes	418,269(1)
		418,269
	INSURANCE 2.2%	
$ 2,500,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	2,394,582(1)
$ 2,000,000	UnumProvident Corporation, 7.25% 03/15/28	2,157,804(1)
		4,552,386
	UTILITIES 1.3%	
$ 2,175,000	Southern Union Company, 8.25% 11/15/29, Senior Notes	2,638,867(1)
		2,638,867
	TOTAL CORPORATE DEBT SECURITIES (Cost $6,239,707)	7,609,522
COMMON STOCK 0.3%		
	BANKING 0.1%	
3,620	CIT Group, Inc.	160,475*+
		160,475
	UTILITIES 0.2%	
14,558	PPL Corporation	410,390*
		410,390
	TOTAL COMMON STOCK (Cost $688,798)	570,865

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
MAY 31, 2011 (UNAUDITED)

SHARES/$ PAR			VALUE
MONEY MARKET FUND 0.7%			
1,492,014	BlackRock Liquidity Funds, T-Fund		$ 1,492,014
	TOTAL MONEY MARKET FUND (Cost $1,492,014)		1,492,014
TOTAL INVESTMENTS (Cost $191,519,617***)		98.9%	201,677,098
OTHER ASSETS AND LIABILITIES (Net)		1.1%	2,151,305
TOTAL MANAGED ASSETS		100.0%+++	$ 203,828,403
LOAN PRINCIPAL BALANCE			(68,300,000)
TOTAL NET ASSETS AVAILABLE TO COMMON STOCK			$ 135,528,403

*	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 May 31, 2011, these securities amounted to $35,773,782 or 17.6% 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 $148,513,548 at May 31, 2011.
(2)	Foreign Issuer.
(3)	Illiquid.
(4)	Fair valued as of May 31, 2011.
(5)	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
PVT.	Private Placement Securities
REIT	Real Estate Investment Trust
STRIPES	Structured Residual Interest Preferred Enhanced Securities

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
STATEMENT OF ASSETS AND LIABILITIES
MAY 31, 2011 (UNAUDITED)

ASSETS:		
Investments, at value (Cost $191,519,617)		$ 201,677,098
Dividends and interest receivable		2,382,224
Prepaid expenses		87,183
Total Assets		204,146,505
LIABILITIES:		
Loan Payable	$ 68,300,000	
Dividends payable to Common Stock Shareholders	102,365	
Investment advisory fee payable	96,834	
Administration, Transfer Agent and Custodian fees payable	29,271	
Professional fees payable	55,150	
Directors fees payable	1,920	
Accrued expenses and other payables	32,562	
Total Liabilities		68,618,102
NET ASSETS AVAILABLE TO COMMON STOCK		$ 135,528,403
NET ASSETS AVAILABLE TO COMMON STOCK consist of:		
Undistributed net investment income		$ 496,449
Accumulated net realized loss on investments sold		(28,772,276)
Unrealized appreciation of investments		10,157,481
Par value of Common Stock		107,925
Paid-in capital in excess of par value of Common Stock		153,538,824
Total Net Assets Available to Common Stock		$ 135,528,403
NET ASSET VALUE PER SHARE OF COMMON STOCK:		
Common Stock (10,792,511 shares outstanding)		$ 12.56

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED MAY 31, 2011 (UNAUDITED)

INVESTMENT INCOME:		
Dividends+		$ 3,586,482
Interest		3,830,262
Total Investment Income		7,416,744
EXPENSES:		
Investment advisory fees	$ 548,736	
Administrator s fees	99,857	
Professional fees	114,016	
Insurance expenses	48,905	
Transfer Agent fees	33,037	
Directors fees	37,492	
Custodian fees	12,440	
Compliance fees	19,694	
Interest expense	414,055	
Other	71,073	
Total Expenses		1,399,305
NET INVESTMENT INCOME		6,017,439
REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS		
Net realized gain on investments sold during the period		3,403,777
Change in net unrealized appreciation/depreciation of investments		4,284,867
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS		7,688,644
NET INCREASE IN NET ASSETS TO COMMON STOCK RESULTING FROM OPERATIONS		$ 13,706,083

\+ For Federal income tax purposes, a significant portion of this amount may not qualify for the inter-corporate dividends received deduction (DRD) or as qualified dividend income (QDI) for individuals.

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK

	SIX MONTHS ENDED MAY 31, 2011 (UNAUDITED)	YEAR ENDED NOVEMBER 30, 2010
OPERATIONS:		
Net investment income	$ 6,017,439	$ 11,505,823
Net realized gain/(loss) on investments sold during the period	3,403,777	4,930,971
Change in net unrealized appreciation/depreciation of investments	4,284,867	15,769,549
Distributions to APS* Shareholders from net investment income, including changes in accumulated undeclared distributions		(70,977)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	13,706,083	32,135,366
DISTRIBUTIONS:		
Dividends paid from net investment income to Common Stock Shareholders(1)	(6,142,089)	(10,325,246)
TOTAL DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS	(6,142,089)	(10,325,246)
FUND SHARE TRANSACTIONS:		
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan	403,286	986,882
NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK RESULTING FROM FUND SHARE TRANSACTIONS	403,286	986,882
NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD	$ 7,967,280	$ 22,797,002
NET ASSETS AVAILABLE TO COMMON STOCK:		
Beginning of period	$ 127,561,123	$ 104,764,121
Net increase in net assets during the period	7,967,280	22,797,002
End of period (including undistributed net investment income of $496,449 and $621,099, respectively)	$ 135,528,403	$ 127,561,123

* Auction Preferred Stock.

(1) May include income earned, but not paid out, in prior fiscal year.

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED MAY 31, 2011 (UNAUDITED)

INCREASE/(DECREASE) IN CASH	
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase in net assets resulting from operations	$ 13,706,083
ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Purchase of investment securities	(27,516,262)
Proceeds from disposition of investment securities	20,563,460
Purchase of short-term investment securities, net	(715,396)
Proceeds from bankruptcy settlement	3,006
Decrease in dividends and interest receivable	36,792
Decrease in receivable for investments sold	7,435
Increase in prepaid expenses	(27,945)
Net amortization/(accretion) of premium/(discount)	(172,919)
Decrease in payable for investments purchased	(265,400)
Increase in payables to related parties	9,429
Decrease in accrued expenses and other liabilities	(2,212)
Change in net unrealized appreciation/depreciation on securities	(4,284,867)
Net realized gain from investments sold	(3,403,777)
Net cash provided by operating activities	(2,062,573)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from loan	7,800,000
Dividends paid (net of reinvestment of dividends and change in dividends payable) to common stock shareholders from net investment income	(5,737,427)
Net cash used by financing activities	2,062,573
Net increase/(decrease) in cash	
CASH:	
Beginning of the period	
End of the period	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid during the period	$ 407,098
Reinvestment of dividends	403,286
Increase in dividends payable to common stock shareholders	1,376

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
FINANCIAL HIGHLIGHTS
FOR A COMMON STOCK SHARE OUTSTANDING THROUGHOUT EACH PERIOD.

Contained below is per share operating performance data, total investment returns, ratios to average net assets and other supplemental data. This information has been derived from information provided in the financial statements and market price data for the Fund s shares.

	SIX MONTHS ENDED MAY 31, 2011 (UNAUDITED)	2010	YEAR ENDED NOVEMBER 30, 2009	2008	2007	2006
PER SHARE OPERATING PERFORMANCE:						
Net asset value, beginning of period	$ 11.86	$ 9.82	$ 5.98	$ 12.85	$ 15.80	$ 15.26
INVESTMENT OPERATIONS:						
Net investment income	0.56	1.07	0.92	1.27	1.35	1.29
Net realized and unrealized gain/(loss) on investments	0.71	1.94	3.78	(6.80)	(2.90)	0.62
DISTRIBUTIONS TO APS* SHAREHOLDERS:						
From net investment income		(0.01)	(0.10)	(0.42)	(0.37)	(0.32)
Total from investment operations	1.27	3.00	4.60	(5.95)	(1.92)	1.59
DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:						
From net investment income	(0.57)	(0.96)	(0.76)	(0.87)	(1.03)	(1.05)
From return of capital				(0.05)		
Total distributions to Common Stock Shareholders	(0.57)	(0.96)	(0.76)	(0.92)	(1.03)	(1.05)
Net asset value, end of period	$ 12.56	$ 11.86	$ 9.82	$ 5.98	$ 12.85	$ 15.80
Market value, end of period	$ 13.34	$ 12.03	$ 9.12	$ 5.67	$ 12.41	$ 16.98
Total investment return based on net asset value**	10.98%****	31.52%	82.53%	(48.39%)	(12.90%)	10.74%
Total investment return based on market value**	16.21%****	43.65%	78.78%	(49.34%)	(21.73%)	10.47%
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:						
	$ 135,528	$ 127,561	$ 104,764	$ 63,277	$ 135,555	$ 165,475

Total net assets, end of period (in 000 s)						
Operating expenses including interest expense(1)	2.15%***	2.29%	2.44%			
Operating expenses excluding interest expense	1.51%***	1.57%	2.04%	1.99%	1.49%	1.49%
Net investment income +	9.25%***	9.72%	12.55%			
Net investment income, including payments to APS Shareholders +		9.66%	11.21%	8.38%	6.57%	6.39%
SUPPLEMENTAL DATA: ++						
Portfolio turnover rate	11%****	37%	56%	67%	59%	71%
Total managed assets, end of period (in 000 s)	$ 203,828	$ 188,061	$ 156,564	$ 118,077	$ 215,555	$ 245,475
Ratio of operating expenses including interest expense(1)(2) to total managed assets	1.44%***	1.54%	1.50%			
Ratio of operating expenses excluding interest expense(2) to total managed assets	1.01%***	1.05%	1.25%	1.15%	0.99%	0.99%

* Auction Preferred Stock.

** Assumes reinvestment of distributions at the price obtained by the Fund s Dividend Reinvestment and Cash Purchase Plan.

*** 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.

(1) See Note 8.

(2) Does not include distributions to APS shareholders.

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
FINANCIAL HIGHLIGHTS (CONTINUED)
PER SHARE OF COMMON STOCK (UNAUDITED)

	TOTAL DIVIDENDS PAID	NET ASSET VALUE	NYSE CLOSING PRICE	DIVIDEND REINVESTMENT PRICE (1)
December 31, 2010 - Extra	$0.0300	$11.82	$ 11.62	$ 11.66
December 31, 2010	0.0900	11.82	11.62	11.66
January 31, 2011	0.0900	11.92	11.80	11.90
February 28, 2011	0.0900	12.16	12.13	12.16
March 31, 2011	0.0900	12.14	12.36	12.14
April 29, 2011	0.0900	12.38	12.71	12.38
May 31, 2011	0.0900	12.56	13.34	12.67

(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.

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated
FINANCIAL HIGHLIGHTS (CONTINUED)
SENIOR SECURITIES

DATE	TOTAL APS* SHARES OUTSTANDING (1)	ASSET COVERAGE PER APS SHARE (2)	INVOLUNTARY LIQUIDATION PREFERENCE PER APS SHARE (3)	TOTAL DEBT OUTSTANDING END OF PERIOD (000S) (4)	ASSET COVERAGE PER $1,000 OF DEBT (5)
05/31/11**		N/A	N/A	$ 68,300	$ 2,984
11/30/10		N/A	N/A	60,500	3,108
11/30/09		N/A	N/A	51,800	3,022
11/30/08	548	$216,717	$ 100,000	N/A	N/A
11/30/07	800	270,586	100,000	N/A	N/A
11/30/06	800	307,433	100,000	N/A	N/A

(1) See note 7.

(2) Calculated by subtracting the Fund s total liabilities (excluding the APS and accumulated undeclared distributions to APS) from the Fund s total assets and dividing that amount by the number of APS shares outstanding.

(3) Excludes accumulated undeclared dividends.

(4) See note 8.

(5) Calculated by subtracting the Fund s total liabilities (excluding the loan) from the Fund s total assets and dividing that amount by the loan outstanding in 000 s.

* Auction Preferred Stock.

** Unaudited.

The accompanying notes are an integral part of the financial statements.

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

1. ORGANIZATION

Flaherty & Crumrine Preferred Income Fund Incorporated (the Fund) was incorporated as a Maryland corporation on September 28, 1990, and commenced operations on January 31, 1991 as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund s investment objective is to provide its common shareholders with high current income consistent with the preservation of capital.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of the financial statements is in conformity with U.S. generally accepted accounting principles (US GAAP) and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

PORTFOLIO VALUATION: The net asset value of the Fund s Common Stock is determined by the Fund s Administrator no less frequently than on the last business day of each week and month in accordance with the policies and procedures approved by the Board of Directors of the Fund. It is determined by dividing the value of the Fund s net assets available to Common Stock by the number of shares of Common Stock outstanding. The value of the Fund s net assets available to Common Stock is deemed to equal the value of the Fund s total assets less (i) the Fund s liabilities and (ii) the aggregate liquidation value of any outstanding preferred stock.

The Fund s preferred and debt securities are valued on the basis of current market quotations provided by independent pricing services or dealers approved by the Board of Directors of the Fund. Each quotation is based on the mean of the bid and asked prices of a security. In determining the value of a particular preferred or debt security, a pricing service or dealer may use information with respect to transactions in such investments, quotations, market transactions in comparable investments, various relationships observed in the market between investments, and/or calculated yield measures based on valuation technology commonly employed in the market for such investments. Common stocks that are traded on stock exchanges are valued at the last sale price or official close price on the exchange, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available mean price. Futures contracts and option contracts on futures contracts are valued on the basis of the settlement price for such contracts on the primary exchange on which they trade. Investments in over-the-counter derivative instruments, such as interest rate swaps and options thereon (swaptions), are valued using prices supplied by a pricing service, or if such prices are unavailable, prices provided by a single broker or dealer that is not the counterparty or, if no such prices are available, at a price at which the counterparty to the contract would repurchase the instrument or terminate the contract. Investments for which market quotations are not readily available or for which management determines that the prices are not reflective of current market conditions are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund, including reference to valuations of other securities which are comparable in quality, maturity and type.

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

Investments in money market instruments and all debt and preferred securities which mature in 60 days or less are valued at amortized cost. Investments in money market funds are valued at the net asset value of such funds.

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 May 31, 2011 is as follows:

LEVEL 2