

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC
Form N-Q
April 28, 2015

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)

R. Eric Chadwick

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: February 28, 2015

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 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. § 3507.

Item 1. Schedule of Investments.

The Schedule(s) of Investments is attached herewith.

FLAHERTY & CRUMRINE PREFERRED INCOME FUND

To the Shareholders of Flaherty & Crumrine Preferred Income Fund (PFD):

Your Fund is off to a fine start in fiscal 2015 during the first fiscal quarter; total return on net asset value² was +2.3%, while total return on market price came in at +6.8%. The value of the investment portfolio increased modestly during the quarter, so much of the NAV return was comprised of interest and dividends earned on portfolio holdings.

Economic conditions in the U.S. remain the envy of most developed economies (faint praise indeed!). We expect gross domestic product (adjusted for inflation) to grow between 2.5% and 3.0% in 2015, up a bit from last year's 2.4%. Inflationary expectations are low, reflecting falling energy and commodity prices, along with recent appreciation in the U.S. dollar. The outlook for interest rates in the U.S. has not changed we expect the Federal Reserve to boost short-term interest rates by 0.25% sometime between June and September; subsequent increases, however, should be gradual. Intermediate and long-term interest rates, while likely to edge up over time, should remain substantially lower than what we would normally associate with 2.5-3.0% real GDP growth.

In contrast, many Euro-zone economies are struggling, and growth has slowed in Japan, as well as in China and many other developing countries. Around the globe, elevated geopolitical tensions are hampering economic activity. As evidence, interest rates are actually negative in a number of safe economies. In increasing numbers, foreign investors seeking better returns are making investments in U.S. markets. These moves help explain strength in the U.S. dollar and domestic fixed-income and equity markets.

By most measures, conditions in the preferred securities market remain healthy. Fundamental credit conditions are stable or improving, with loan delinquencies and defaults trending down across almost all loan categories. Income-oriented investors have increasingly turned to the preferred-securities space seeking alternatives to lower-yielding securities. New issue volumes, though less robust than last year, are well above historical norms. We expect preferred securities issuance to remain elevated throughout 2015, as issuers work toward future regulatory capital requirements and take advantage of low interest rates to reduce overall capital expense. We continue to be constructive on the preferred market, as demand shows little sign of abating.

The Fund's investment portfolio did not change materially over the quarter. During 2014, we had reduced the portfolio's exposure to foreign issuers as we saw better opportunities in the U.S. We also had increased holdings in fixed-to-floating preferred securities (coupons are *fixed* for an initial period, typically five or ten years, and then *float* with interest rates). We believe this increase provides some principal protection should intermediate- and long-term interest rates rise, while offering some price upside should credit spreads narrow. Putting it all together, the portfolio's current construction is in-line with our views on the market.

¹ December 1, 2014 – February 28, 2015

² Following the methodology required by the SEC, total return assumes dividend reinvestment and includes income and principal change, plus the impact of the Fund's leverage and expenses.

We encourage you to visit the Fund's website www.preferredincome.com for timely and important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team:

R. Eric Chadwick

Donald F. Crumrine

Robert M. Ettinger

Bradford S. Stone

March 31, 2015

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OVERVIEW

February 28, 2015 (Unaudited)

Fund Statistics

| | | |
|---------------------------------|----|------------|
| Net Asset Value | \$ | 14.01 |
| Market Price | \$ | 15.47 |
| Premium | | 10.42% |
| Yield on Market Price | | 6.98% |
| Common Stock Shares Outstanding | | 11,032,213 |

Moody's Ratings***% of Net Assets**

| | |
|---------------------------|-------|
| A | 1.0% |
| BBB | 57.6% |
| BB | 30.7% |
| Below BB | 3.3% |
| Not Rated** | 6.0% |
| Below Investment Grade*** | 25.9% |

* Ratings are from Moody's Investors Service, Inc. Not Rated securities are those with no ratings available from Moody's.

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

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

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

| | |
|------------------------------|------|
| JPMorgan Chase | 4.9% |
| Liberty Mutual Group | 4.8% |
| HSBC PLC | 4.7% |
| MetLife | 4.5% |
| Wells Fargo & Company | 4.2% |
| Citigroup | 3.8% |
| Fifth Third Bancorp | 3.6% |
| M&T Bank Corporation | 3.3% |
| PNC Financial Services Group | 3.1% |
| Morgan Stanley | 2.5% |

| | % of Net Assets**** |
|--|----------------------------|
| Holdings Generating Qualified Dividend Income (QDI) for Individuals | 60% |
| Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD) | 48% |

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

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS

February 28, 2015 (Unaudited)

| Shares/\$ Par | | Value |
|-----------------------------------|---|--------------------|
| Preferred Securities 93.2% | | |
| Banking 47.8% | | |
| 17,500 | Astoria Financial Corp., 6.50%, Series C | \$ 445,944* |
| Bank of America Corporation: | | |
| \$ 2,670,000 | 8.00%, Series K | 2,863,041* |
| \$ 1,151,000 | 8.125%, Series M | 1,244,519*(1) |
| Barclays Bank PLC: | | |
| 58,000 | 7.10%, Series 3 | 1,519,600**(3) |
| 3,700 | 7.75%, Series 4 | 97,421**(3) |
| 78,300 | 8.125%, Series 5 | 2,085,129**(1)(3) |
| Citigroup, Inc.: | | |
| 103,800 | 6.875%, Series K | 2,791,441*(1) |
| 119,778 | 7.125%, Series J | 3,292,997* |
| \$ 2,299,000 | 8.40%, Series E | 2,640,976*(1) |
| 31,975 | City National Corporation, 6.75%, Series D | 917,682* |
| CoBank ACB: | | |
| 20,500 | 6.125%, Series G, 144A**** | 1,949,423* |
| 10,000 | 6.25%, Series F, 144A**** | 1,030,938*(1) |
| \$ 5,210,000 | Colonial BancGroup, 7.114%, 144A**** | 7,815(4)(5) |
| 15,200 | Cullen/Frost Bankers, Inc., 5.375%, Series A | 378,670* |
| 295,600 | Fifth Third Bancorp, 6.625%, Series I | 8,215,463*(1) |
| First Horizon: | | |
| 795 | First Tennessee Bank, Adj. Rate, 3.75%(6), 144A**** | 579,903*(1) |
| \$ 500,000 | First Tennessee Capital II, 6.30% 04/15/34, Series B | 485,000 |
| 1 | FT Real Estate Securities Company, 9.50%, 144A**** | 1,302,500 |
| 112,500 | First Niagara Financial Group, Inc., 8.625%, Series B | 3,065,906*(1) |
| 32,050 | First Republic Bank, 6.70%, Series A | 851,008*(1) |
| Goldman Sachs Group: | | |
| \$ 195,000 | 5.70%, Series L | 202,069* |
| 50,000 | 6.375%, Series K | 1,313,500* |
| HSBC PLC: | | |
| \$ 800,000 | HSBC Capital Funding LP, 10.176%, 144A**** | 1,210,000(1)(2)(3) |
| 150,000 | HSBC Holdings PLC, 8.00%, Series 2 | 3,958,875**(1)(3) |
| \$ 130,000 | HSBC USA Capital Trust I, 7.808% 12/15/26, 144A**** | 131,103 |
| \$ 145,000 | HSBC USA Capital Trust II, 8.38% 05/15/27, 144A**** | 146,943(1) |
| 170,000 | HSBC USA, Inc., 6.50%, Series H | 4,371,125*(1) |

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2015 (Unaudited)

| Shares/\$ Par | | Value |
|---|--|-------------------------------|
| Preferred Securities (Continued) | | |
| Banking (Continued) | | |
| ING Groep NV: | | |
| 40,000 | 6.375% | \$ 1,016,800** ⁽³⁾ |
| 35,000 | 7.05% | 898,538** ⁽³⁾ |
| 23,400 | 7.20% | 603,077** ⁽³⁾ |
| 47,500 | 7.375% | 1,234,050** ⁽³⁾ |
| JPMorgan Chase & Company: | | |
| 71,900 | 6.70%, Series T | 1,916,135* ⁽¹⁾ |
| \$ 4,715,000 | 6.75%, Series S | 5,114,266* ⁽¹⁾ |
| \$ 4,000,000 | 7.90%, Series I | 4,325,000* ⁽¹⁾ |
| \$ 550,000 | Lloyds Banking Group PLC, 6.657%, 144A**** | 620,125** ⁽³⁾ |
| M&T Bank Corporation: | | |
| \$ 2,790,000 | 6.450%, Series E | 3,027,150* |
| \$ 4,372,000 | 6.875%, Series D, 144A**** | 4,503,160* ⁽¹⁾ |
| Morgan Stanley: | | |
| 128,566 | 6.875%, Series F | 3,486,710* ⁽¹⁾ |
| 80,516 | 7.125%, Series E | 2,273,168* ⁽¹⁾ |
| 254,200 | PNC Financial Services Group, Inc., 6.125%, Series P | 7,222,458* ⁽¹⁾ |
| \$ 2,160,000 | RaboBank Nederland, 11.00%, 144A**** | 2,800,574 ⁽¹⁾⁽³⁾ |
| 50,000 | Regions Financial Corporation, 6.375%, Series B | 1,272,625* |
| Royal Bank of Scotland Group PLC: | | |
| 7,500 | 6.40%, Series M | 187,875** ⁽³⁾ |
| 15,000 | 6.60%, Series S | 380,250** ⁽³⁾ |
| 108,200 | 7.25%, Series T | 2,773,166** ⁽¹⁾⁽³⁾ |
| Sovereign Bancorp: | | |
| 1,750 | Sovereign REIT, 12.00%, Series A, 144A**** | 2,342,288 |
| 92,900 | State Street Corporation, 5.90%, Series D | 2,486,236* ⁽¹⁾ |
| 10,000 | Texas Capital Bancshares Inc., 6.50%, Series A | 249,625* |
| 35,000 | US Bancorp, 6.50%, Series F | 1,049,038* |
| Wells Fargo & Company: | | |
| 60,300 | 5.85%, Series Q | 1,563,127* |
| \$ 1,750,000 | 5.875%, Series U | 1,846,250* |
| 35,900 | 6.625%, Series R | 1,000,533* |
| \$ 895,000 | 7.98%, Series K | 982,262* |
| 144,500 | 8.00%, Series J | 4,185,081* ⁽¹⁾ |

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2015 (Unaudited)

| Shares/\$ Par | | Value |
|---|--|----------------------------------|
| Preferred Securities (Continued) | | |
| Banking (Continued) | | |
| Zions Bancorporation: | | |
| \$ 1,000,000 | 7.20%, Series J | \$ 1,065,000*(1) |
| 93,000 | 7.90%, Series F | 2,590,050*(1) |
| | | 110,113,608 |
| Financial Services 0.9% | | |
| \$ 1,000,000 | General Electric Capital Corp., 7.125%, Series A | 1,181,250*(1) |
| HSBC PLC: | | |
| 36,537 | HSBC Finance Corporation, 6.36%, Series B | 924,843*(1) |
| | | 2,106,093 |
| Insurance 23.9% | | |
| Ace Ltd.: | | |
| \$ 975,000 | Ace Capital Trust II, 9.70% 04/01/30 | 1,457,625 ⁽¹⁾⁽²⁾⁽³⁾ |
| 100,000 | Allstate Corp., 6.625%, Series E | 2,724,250*(1) |
| \$ 400,000 | Aon Corporation, 8.205% 01/01/27 | 523,827 ⁽¹⁾⁽²⁾ |
| 112,500 | Arch Capital Group, Ltd., 6.75%, Series C | 3,124,406** ⁽¹⁾⁽³⁾ |
| AXA SA: | | |
| \$ 1,423,000 | 6.379%, 144A**** | 1,591,625** ⁽¹⁾⁽²⁾⁽³⁾ |
| \$ 500,000 | 8.60% 12/15/30 | 695,198 ⁽³⁾ |
| 201,600 | Axis Capital Holdings Ltd., 6.875%, Series C | 5,526,360** ⁽¹⁾⁽³⁾ |
| 95,600 | Delphi Financial Group, 7.376% 05/15/37 | 2,392,992 ⁽¹⁾ |
| 37,400 | Endurance Specialty Holdings, 7.50%, Series B | 991,941** ⁽³⁾ |
| \$ 3,300,000 | Everest Re Holdings, 6.60% 05/15/37 | 3,415,500 ⁽¹⁾⁽²⁾ |
| 10,000 | Hartford Financial Services Group, Inc., 7.875% | 303,525 |
| Liberty Mutual Group: | | |
| \$ 500,000 | 7.80% 03/15/37, 144A**** | 602,500 |
| \$ 5,157,000 | 10.75% 06/15/58, 144A**** | 7,967,565 ⁽¹⁾⁽²⁾ |
| MetLife: | | |
| \$ 3,096,000 | MetLife, Inc., 10.75% 08/01/39 | 5,182,704 ⁽¹⁾⁽²⁾ |
| \$ 3,600,000 | MetLife Capital Trust X, 9.25% 04/08/38, 144A**** | 5,292,000 ⁽¹⁾⁽²⁾ |
| 36,010 | PartnerRe Ltd., 7.25%, Series E | 967,319** ⁽¹⁾⁽³⁾ |
| 78,900 | Principal Financial Group, 6.518%, Series B | 2,035,028*(1) |
| \$ 402,000 | Prudential Financial, Inc., 5.625% 06/15/43 | 427,125 |
| QBE Insurance: | | |
| \$ 1,100,000 | QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A**** | 1,217,036 ⁽¹⁾⁽³⁾ |

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2015 (Unaudited)

| Shares/\$ Par | | Value |
|---|---|-----------------------------|
| Preferred Securities (Continued) | | |
| Insurance (Continued) | | |
| | RenaissanceRe Holdings: | |
| 11,500 | Renaissancere Holdings Ltd, 6.08%, Series C | \$ 288,650**(3) |
| | Unum Group: | |
| \$ 2,820,000 | Provident Financing Trust I, 7.405% 03/15/38 | 3,357,514 ⁽¹⁾⁽²⁾ |
| | XL Group PLC: | |
| \$ 5,500,000 | XL Capital Ltd., 6.50%, Series E | 4,853,750 ⁽¹⁾⁽³⁾ |
| | | 54,938,440 |
| Utilities 13.1% | | |
| 10,350 | Alabama Power Company, 6.45% | 286,566*(1) |
| | Baltimore Gas & Electric Company: | |
| 10,000 | 6.70%, Series 1993 | 1,014,688*(1) |
| 2,400 | 7.125%, Series 1993 | 243,825* |
| | Commonwealth Edison: | |
| \$ 2,953,000 | COMED Financing III, 6.35% 03/15/33 | 3,050,027 ⁽¹⁾⁽²⁾ |
| \$ 3,150,000 | Dominion Resources, Inc., 7.50% 06/30/66 | 3,267,495 ⁽¹⁾⁽²⁾ |
| 30,000 | Entergy Louisiana, Inc., 6.95% | 3,001,875*(1) |
| 25,000 | Georgia Power Company, 6.50%, Series 2007A | 2,683,595*(1) |
| 25,000 | Indianapolis Power & Light Company, 5.65% | 2,432,032* |
| 53,300 | Integrus Energy Group, Inc., 6.00% | 1,457,888 ⁽¹⁾⁽²⁾ |
| | Nextera Energy: | |
| \$ 1,500,000 | FPL Group Capital, Inc., 6.65% 06/15/67, Series C | 1,500,753 ⁽¹⁾⁽²⁾ |
| | PECO Energy: | |
| \$ 500,000 | PECO Energy Capital Trust III, 7.38% 04/06/28, Series D | 603,000 ⁽¹⁾⁽²⁾ |
| | PPL Corp: | |
| 59,000 | PPL Capital Funding, Inc., 5.90%, Series B | 1,501,108 |
| \$ 2,250,000 | PPL Capital Funding, Inc., 6.70% 03/30/67, Series A | 2,222,930 ⁽¹⁾⁽²⁾ |
| \$ 2,850,000 | Puget Sound Energy, Inc., 6.974% 06/01/67, Series A | 2,903,437 ⁽¹⁾⁽²⁾ |
| 34,000 | Southern California Edison, 6.50%, Series D | 3,554,064*(1) |
| 3,700 | Wisconsin Public Service Corporation, 6.88% | 376,128* |
| | | 30,099,411 |
| Energy 2.3% | | |
| \$ 5,000,000 | Enbridge Energy Partners LP, 8.05% 10/01/37 | 5,400,000 ⁽¹⁾⁽²⁾ |
| | | 5,400,000 |

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2015 (Unaudited)

| Shares/\$ Par | | Value |
|---|---|-----------------------------|
| Preferred Securities (Continued) | | |
| Real Estate Investment Trust (REIT) 3.7% | | |
| 34,550 | Kimco Realty Corporation, 6.90%, Series H | \$ 899,682 ⁽¹⁾ |
| | National Retail Properties, Inc.: | |
| 40,000 | 5.70%, Series E | 1,016,900 |
| 19,580 | 6.625%, Series D | 516,961 |
| | PS Business Parks, Inc.: | |
| 4,000 | 5.70%, Series V | 99,730 |
| 50,000 | 6.45%, Series S | 1,328,625 ⁽¹⁾⁽²⁾ |
| 7,500 | 6.875%, Series R | 194,400 |
| 14,000 | Public Storage, 6.375%, Series Y | 378,735 |
| 119,168 | Realty Income Corporation, 6.625%, Series F | 3,187,744 ⁽¹⁾⁽²⁾ |
| 32,500 | Regency Centers Corporation, 6.625%, Series 6 | 861,656 |
| | | 8,484,433 |
| Miscellaneous Industries 1.5% | | |
| 37,400 | Ocean Spray Cranberries, Inc., 6.25%, 144A**** | 3,468,850* |
| | | 3,468,850 |
| | Total Preferred Securities (Cost \$201,309,402) | 214,610,835 |
| Corporate Debt Securities 5.3% | | |
| Banking 2.6% | | |
| \$ 2,710,000 | Regions Financial Corporation, 7.375% 12/10/37, Sub Notes | 3,624,714 ⁽¹⁾⁽²⁾ |
| 76,000 | Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes | 1,881,190 |
| 20,000 | Zions Bancorporation, 6.95% 09/15/28, Sub Notes | 542,450 |
| | | 6,048,354 |
| Financial Services 0.3% | | |
| 21,763 | Affiliated Managers Group, Inc., 6.375% 08/15/42 | 569,157 |
| 5,562 | Raymond James Financial, 6.90% 03/15/42 | 153,469 |
| | | 722,626 |
| Insurance 1.1% | | |
| \$ 2,000,000 | Liberty Mutual Insurance, 7.697% 10/15/97, 144A**** | 2,592,734 ⁽¹⁾⁽²⁾ |
| | | 2,592,734 |

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2015 (Unaudited)

| Shares/\$ Par | | Value |
|--|--|--------------------------------|
| Corporate Debt Securities (Continued) | | |
| | Energy 1.0% | |
| \$ 1,680,000 | Energy Transfer Partners LP, 8.25% 11/15/29 | \$ 2,332,665 ⁽¹⁾⁽²⁾ |
| | | 2,332,665 |
| Communication 0.3% | | |
| 20,200 | Qwest Corporation, 7.375% 06/01/51 | 535,957 |
| | | 535,957 |
| | Total Corporate Debt Securities (Cost \$9,872,794) | 12,232,336 |
| Common Stock 0.1% | | |
| | Banking 0.1% | |
| 3,620 | CIT Group, Inc. | 167,425* |
| | | 167,425 |
| | Insurance 0.0% | |
| 19,801 | WMI Holdings Corporation, 144A**** | 50,493* |
| | | 50,493 |
| | Total Common Stock (Cost \$1,330,325) | 217,918 |
| Money Market Fund 0.5% | | |
| | BlackRock Liquidity Funds: | |
| 1,053,180 | T-Fund, Institutional Class | 1,053,180 |
| | Total Money Market Fund (Cost \$1,053,180) | 1,053,180 |
| | Total Investments (Cost \$213,565,701***) | 99.1% 228,114,269 |
| | Other Assets And Liabilities (Net) | 0.9% 2,137,646 |
| | Total Managed Assets | 100.0% \$ 230,251,915 |

Loan Principal Balance (75,700,000)

Total Net Assets Available To Common Stock \$ 154,551,915

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2015 (Unaudited)

* 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, 2015, these securities amounted to \$39,407,575 or 17.1% 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 \$142,950,570 at February 28, 2015.

(2) All or a portion of this security has been rehypothecated. The total value of such securities was \$51,503,306 at February 28, 2015.

(3) Foreign Issuer.

(4) Illiquid security (designation is unaudited).

(5) Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of February 28, 2015.

(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.

Flaherty & Crumrine Preferred Income Fund Incorporated

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK⁽¹⁾**For the period from December 1, 2014 through February 28, 2015 (Unaudited)**

| | Value |
|--|--------------------|
| OPERATIONS: | |
| Net investment income | \$ 2,870,619 |
| Net realized gain/(loss) on investments sold during the period | 110,434 |
| Change in net unrealized appreciation/(depreciation) of investments | 644,232 |
| Net increase in net assets resulting from operations | 3,625,285 |
| DISTRIBUTIONS: | |
| Dividends paid from net investment income to Common Stock Shareholders ⁽²⁾ | (2,977,338) |
| Total Distributions to Common Stock Shareholders | (2,977,338) |
| FUND SHARE TRANSACTIONS: | |
| Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan | 215,016 |
| Net increase in net assets available to Common Stock resulting from Fund share transactions | 215,016 |
| NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK | |
| FOR THE PERIOD | \$ 862,963 |
| NET ASSETS AVAILABLE TO COMMON STOCK: | |
| Beginning of period | \$ 153,688,952 |
| Net increase in net assets during the period | 862,963 |
| End of period | \$ 154,551,915 |

(1) These tables summarize the three months ended February 28, 2015 and should be read in conjunction with the Fund's audited financial statements, including notes to financial statements, in its Annual Report dated November 30, 2014.

(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, 2014 through February 28, 2015 (Unaudited)

For a Common Stock share outstanding throughout the period

PER SHARE OPERATING PERFORMANCE:

| | |
|--------------------------------------|----------|
| Net asset value, beginning of period | \$ 13.95 |
|--------------------------------------|----------|

INVESTMENT OPERATIONS:

| | |
|-----------------------|------|
| Net investment income | 0.26 |
|-----------------------|------|

| | |
|--|------|
| Net realized and unrealized gain/(loss) on investments | 0.07 |
|--|------|

| | |
|----------------------------------|------|
| Total from investment operations | 0.33 |
|----------------------------------|------|

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

| | |
|----------------------------|--------|
| From net investment income | (0.27) |
|----------------------------|--------|

| | |
|--|--------|
| Total distributions to Common Stock Shareholders | (0.27) |
|--|--------|

| | |
|--------------------------------|----------|
| Net asset value, end of period | \$ 14.01 |
|--------------------------------|----------|

| | |
|-----------------------------|----------|
| Market value, end of period | \$ 15.47 |
|-----------------------------|----------|

| | |
|--|------------|
| Common Stock shares outstanding, end of period | 11,032,213 |
|--|------------|

RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:

| | |
|-----------------------|--------|
| Net investment income | 7.58%* |
|-----------------------|--------|

| | |
|--|--------|
| Operating expenses including interest expense. | 1.85%* |
|--|--------|

| | |
|---|--------|
| Operating expenses excluding interest expense | 1.35%* |
|---|--------|

SUPPLEMENTAL DATA:

| | |
|-------------------------|------|
| Portfolio turnover rate | 1%** |
|-------------------------|------|

| | |
|--|------------|
| Total managed assets, end of period (in 000 s) | \$ 230,252 |
|--|------------|

| | |
|--|--------|
| Ratio of operating expenses including interest expense to total managed assets | 1.24%* |
|--|--------|

| | |
|--|--------|
| Ratio of operating expenses excluding interest expense to total managed assets | 0.91%* |
|--|--------|

(1) These tables summarize the three months ended February 28, 2015 and should be read in conjunction with the Fund's audited financial statements, including notes to financial statements, in its Annual Report dated November 30, 2014.

* 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)

| | Total Dividends Paid | Net Asset Value | NYSE Closing Price | Dividend Reinvestment Price⁽¹⁾ |
|-------------------|-------------------------------------|----------------------------|-------------------------------|--|
| December 31, 2014 | \$ 0.0900 | \$ 13.90 | \$ 14.08 | \$ 13.90 |
| January 30, 2015 | 0.0900 | 14.02 | 15.30 | 14.54 |
| February 27, 2015 | 0.0900 | 14.01 | 15.47 | 14.70 |

⁽¹⁾ Whenever the net asset value per share of the Fund's Common Stock is less than or equal to the market price per share on the reinvestment date, new shares issued will be valued at the higher of net asset value or 95% of the then current market price. Otherwise, the reinvestment shares of Common Stock will be purchased in the open market.

Flaherty & Crumrine Preferred Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. Aggregate Information for Federal Income Tax Purposes

At February 28, 2015, the aggregate cost of securities for federal income tax purposes was \$222,619,841, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$20,631,099 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$15,136,671.

2. Additional Accounting Standards

Fair Value Measurements: The Fund has analyzed all existing investments 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.

Flaherty & Crumrine Preferred Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

A summary of the inputs used to value the Fund's investments as of February 28, 2015 is as follows:

| | Total Value at February 28, 2015 | Level 1 Quoted Price | Level 2 Significant Observable Inputs | Level 3 Significant Unobservable Inputs |
|-------------------------------------|--|----------------------------|--|--|
| Preferred Securities | | | | |
| Banking | \$ 110,113,608 | \$ 89,917,985 | \$ 20,187,808 | \$ 7,815 |
| Financial Services | 2,106,093 | 2,106,093 | | |
| Insurance | 54,938,440 | 40,287,123 | 14,651,317 | |
| Utilities | 30,099,411 | 9,950,174 | 20,149,237 | |
| Energy | 5,400,000 | 5,400,000 | | |
| Real Estate Investment Trust (REIT) | 8,484,433 | 8,484,433 | | |
| Miscellaneous Industries | 3,468,850 | | 3,468,850 | |
| Corporate Debt Securities | | | | |
| Banking | 6,048,354 | 2,423,640 | 3,624,714 | |
| Financial Services | 722,626 | 722,626 | | |
| Insurance | 2,592,734 | | 2,592,734 | |
| Energy | 2,332,665 | | 2,332,665 | |
| Communication | 535,957 | 535,957 | | |
| Common Stock | | | | |
| Banking | 167,425 | 167,425 | | |
| Insurance | 50,493 | 50,493 | | |
| Money Market Fund | 1,053,180 | 1,053,180 | | |
| Total Investments | \$ 228,114,269 | \$ 161,099,129 | \$ 67,007,325 | \$ 7,815 |

During the reporting period, there were no transfers into Level 1 from Level 2 or into Level 2 from Level 1.

The fair values of the Fund's investments are generally based on market information and quotes received from brokers or independent pricing services that are approved by the Board of Directors and are 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 market participant.

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.

Flaherty & Crumrine Preferred Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

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

| | Total Investments | Preferred Securities Banking |
|--|--------------------------|---|
| Balance as of 11/30/14 | \$ 7,815 | \$ 7,815 |
| Accrued discounts/premiums | | |
| Realized gain/(loss) | | |
| Change in unrealized appreciation/(depreciation) | | |
| Purchases | | |
| Sales | | |
| Transfer in | | |
| Transfer out | | |
| Balance as of 02/28/15 | \$ 7,815 | \$ 7,815 |

For the three months ended February 28, 2015, 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.

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 02/28/15 | 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%) |

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.

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

Roger Ko

Assistant Treasurer

Laurie C. Lodolo

Assistant Compliance Officer,

Assistant Treasurer and

Assistant Secretary

Linda M. Puchalski

Assistant Treasurer

Investment Adviser

Flaherty & Crumrine Incorporated

e-mail: flaherty@pfdincome.com

Questions concerning your shares of Flaherty & Crumrine Preferred Income Fund?

If your shares are held in a Brokerage Account, contact your Broker.

If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent & Shareholder Servicing Agent
BNY Mellon c/o Computershare

P.O. Box 30170

College Station, TX 77842-3170

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.

Quarterly

Report

February 28, 2015

www.preferredincome.com

Item 2. Controls and Procedures.

- (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the 1940 Act) (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).

- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

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

SIGNATURES

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

(Registrant) Flaherty & Crumrine Preferred Income Fund Incorporated

By (Signature and Title)* /s/ R. Eric Chadwick
 R. Eric Chadwick, Chief Executive Officer and President
 (principal executive officer)

Date April 22, 2015

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/ R. Eric Chadwick
 R. Eric Chadwick, Chief Executive Officer and President
 (principal executive officer)

Date April 22, 2015

By (Signature and Title)* /s/ Bradford S. Stone
 Bradford S. Stone, Chief Financial Officer, Treasurer and Vice
 President
 (principal financial officer)

Date April 22, 2015

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