FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC
Form N-30B-2
October 28, 2013

FLAHERTY & CRUMRINE PREFERRED INCOME FUND

To the Shareholders of Flaherty & Crumrine Preferred Income Fund:

Total return on net asset value (NAV[1]) was -4.6% during the third fiscal quarter[2], reducing total return on NAV fiscal year-to-date to +2.2%. In addition, during the quarter the Fund, like many other closed-end income-oriented funds, saw the relationship between its market price and NAV swing from a premium to a discount, resulting in total return on market value of -11.1%. Clearly, this represented a setback in what had been a sustained period of positive returns in both the Fund s NAV and market valuation. During the quarter, prices of all fixed-income securities, including preferred securities, declined and yields increased as markets reacted swiftly to expectations that the Federal Reserve might taper its quantitative easing earlier than anticipated.

Virtually all sectors of the fixed-income market turned in negative results during the quarter. U.S. Treasury 10-year notes and 30-year bonds experienced the largest declines with total returns of -4.6% and -6.5%, as their yields increased by 0.7% and 0.4%, respectively. Long-term corporate bonds performed moderately better than long-term U.S. Treasuries, with a total return of -4.7% for the Barclays Long U.S. Corporate Bond Index. Even including the impact of expenses and leverage, the Fund s NAV performed as well as *unlevered* total returns on those other long-term segments of fixed-income markets.

The quarter began with the Federal Open Market Committee (FOMC) having just indicated that it might begin tapering the pace of its program of securities purchases sooner than the market was expecting. Longer-term interest rates moved higher with a fair amount of consistency throughout the quarter, as markets digested the news and adjusted expectations for future monetary policy actions. Markets are driven by *expectations* more than actual results, and while we believe the market priced in more risk than was justified based on the outlook for growth in the U.S. economy, uncertainty surrounding a potential change in policy outlook led investors to reduce portfolio duration substantially. At its September meeting, the FOMC surprised the market yet again by continuing its program of securities purchases without tapering its pace. Since then, we have seen some recovery in fixed-income markets. Although we do not expect long-term Treasury rates to decline significantly, interest-rate risk premiums still appear high, providing investors with some protection against eventual removal of highly accommodative monetary policy.

The preferred securities market was not immune to the change in outlook for interest rates and a desire by many investors to reduce duration in their portfolios. In many cases, spreads on preferred securities widened relative to Treasuries, adding to price declines already associated with higher rates. Retail preferred securities were particularly weak as we witnessed meaningful reductions in the sizes of preferred-securities exchange-traded funds which had grown in size to represent about 9% of the retail market at the beginning of this quarter. Preferred securities issued in the early part of the year, most with very low coupons, were among the worst performers. Fortunately, we weren t tempted by many of those new issues much preferring the higher coupons available in the secondary market. Institutional preferred securities fared much better, and as they have a larger allocation in the portfolio they were partially responsible for limiting negative returns during the quarter.

Creditworthiness of most preferred-securities issuers continues to improve. Corporate earnings are growing at a moderate pace and corporate leverage remains low. Banks problem loans are declining,

[1] 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.

[2] June 1st August 31st.

capital levels are healthy (especially in the U.S.) and new lending is slowly picking up. Rising home prices are bolstering consumer balance sheets and trimming foreclosure losses. These favorable credit developments should continue to benefit preferred securities.

While prices have fallen, market conditions for preferred securities remain healthy. Higher interest rates and wider spreads have resulted in a material slowdown in issuer redemptions. For the year, redemptions are still running ahead of new supply, with the preferred-securities market shrinking more than $10 billion, but the pace of redemptions slowed significantly this past quarter with the Fund seeing approximately 90% of its redemptions this fiscal year occurring during the first half. This recent slowdown in issuer redemptions has been welcome news on the income side of the equation, as the Fund is able to keep more of the higher-coupon preferred securities longer than we expected earlier in the year.

After a long wait, we now have largely final rules on the regulatory treatment of preferred securities issued by banks, foreign and domestic. Crafted in response to the financial crisis, new legislation and regulations shift loss burdens towards investors and away from taxpayers (government support). Under the new rules, banks will have an incentive to replace debt-like preferred securities with ones that have more characteristics of equity (deeper subordination, non-cumulative dividends, and no maturity date). The new rules include various implementation schedules, depending on the jurisdiction, with most being fully implemented within the next 3-8 years.

To conform to the new rules, we estimate U.S. banks will need to issue an additional $60 billion or more of new preferred stock. That is certainly a big number compared to $73 billion of currently outstanding bank preferred stock. While we think issuance will be manageable and spread out over several years, it will influence preferred securities prices when it happens. We are also likely to see more contingent capital issued in the coming years, as issuers look to fill different buckets of loss-absorbing capital required under the new rules. This market has so far been limited in size and breadth, but it is likely to grow and is part of the ongoing evolution of the broader subordinated capital market.

Looking ahead, moderate economic growth should provide a constructive environment for preferred-securities investors. We anticipate that economic growth will be fast enough to facilitate continued improvement in corporate and household balance sheets and better loan performance, while being slow enough to restrain inflation and keep monetary policy accommodative for some time. Spreads on preferred securities should recover as fears of further rapid increases in long-term interest rates recede and investors refocus on steadily improving credit conditions. Volatility is likely to remain elevated over the coming months, but we believe the preferred-securities market has priced in a good amount of risk related to the end of quantitative easing.

As always, we encourage you to visit the Fund s website www.preferredincome.com.

Sincerely,

Donald F. Crumrine	Robert M. Ettinger
Chairman	President

September 30, 2013

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Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OVERVIEW

August 31, 2013 (Unaudited)

Fund Statistics

Net Asset Value	$ 12.90
Market Price	$ 12.35
Discount	4.26%
Yield on Market Price	8.74%
Common Stock Shares Outstanding	10,985,567

Moody s Ratings	**% of Net Assets**
A	0.7%
BBB	58.1%
BB	32.3%
Below BB	3.5%
Not Rated*	4.0%
Below Investment Grade**	24.1%

* 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**
HSBC PLC	4.5%
Banco Santander, S.A.	4.4%
MetLife	4.3%
Liberty Mutual Group	4.0%
Goldman Sachs Group	3.9%
Wells Fargo & Company	3.6%
Barclays Bank PLC	3.1%
XL Group PLC	2.9%
Enbridge Energy Partners	2.6%
Unum Group	2.5%

% of Net Assets***

Holdings Generating Qualified Dividend Income (QDI) for Individuals	47%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	28%

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

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS

August 31, 2013 (Unaudited)

Shares/$ Par		Value
Preferred Securities 89.9%		
	Banking 36.6%	
17,500	Astoria Financial Corp., 6.50% Pfd., Series C	$ 409,019*
	Banco Bilbao Vizcaya Argentaria, S.A.:	
$ 1,500,000	BBVA International Preferred, 5.919%	1,342,500**(1)(3)
	Banco Santander, S.A.:	
355,000	Banco Santander, 10.50% Pfd., Series 10	9,557,487**(1)(3)
	Bank of America:	
$ 1,500,000	Bank of America Corporation, 8.125%	1,664,989*(1)
2,500	Countrywide Capital IV, 6.75% Pfd. 04/01/33	62,656
25,000	Countrywide Capital V, 7.00% Pfd. 11/01/36	627,562
	Barclays Bank PLC:	
$ 3,250,000	Barclays Bank PLC, 6.278%	2,949,937**(1)(2)(3)
58,000	Barclays Bank PLC, 7.10% Pfd.	1,443,040**(3)
3,700	Barclays Bank PLC, 7.75% Pfd., Series 4	92,870**(3)
90,000	Barclays Bank PLC, 8.125% Pfd., Series 5	2,272,500**(1)(3)
$ 1,925,000	BNP Paribas, 7.195%, 144A****	1,910,562**(1)(2)(3)
	Citigroup:	
$ 2,750,000	Citigroup, Inc., 8.40%, Series E	3,027,931*(1)
19,600	Citigroup Capital XIII, 7.875% Pfd.	538,388
	CoBank ACB:	
12,500	CoBank ACB, 6.125% Pfd., Series G, 144A****	1,178,516*
10,000	CoBank ACB, 6.25% Pfd., 144A****	1,022,188*
$ 5,210,000	Colonial BancGroup, 7.114%, 144A****	7,815(4)(5)
15,200	Cullen/Frost Bankers, Inc., 5.375% Pfd., Series A	333,663*
	Fifth Third Bancorp:	
$ 750,000	Fifth Third Capital Trust IV, 6.50% 04/15/37	747,188
	First Horizon:	
795	First Tennessee Bank, Adj. Rate Pfd., 3.75%(6), 144A****	585,567*(1)
$ 500,000	First Tennessee Capital II, 6.30% 04/15/34, Series B	488,750
1	FT Real Estate Securities Company, 9.50% Pfd., 144A****	1,100,625
112,500	First Niagara Financial Group, Inc., 8.625% Pfd.	3,132,427*(1)
32,050	First Republic Bank, 6.70% Pfd.	782,741*
	Goldman Sachs Group:	
17,500	Goldman Sachs, 5.95% Pfd., Series I	399,766*
15,000	Goldman Sachs, 6.20% Pfd., Series B	366,095*
$ 2,000,000	Goldman Sachs, Capital I, 6.345% 02/15/34	1,919,332(1)(2)

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2013 (Unaudited)

Shares/$ Par		Value
Preferred Securities (Continued)		
	Banking (Continued)	
	HSBC PLC:	
$ 1,500,000	HSBC Capital Funding LP, 10.176%, 144A****	$ 2,124,375(1)(2)(3)
132,900	HSBC Holdings PLC, 8.00% Pfd., Series 2	3,609,072**(1)(3)
$ 130,000	HSBC USA Capital Trust I, 7.808% 12/15/26, 144A****	132,600
$ 145,000	HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****	147,354(1)
118,813	HSBC USA, Inc., 6.50% Pfd., Series H	2,959,192*(1)
	ING Groep NV:	
40,000	ING Groep NV, 6.375% Pfd.	916,400**(3)
35,000	ING Groep NV, 7.05% Pfd.	863,538**(3)
23,400	ING Groep NV, 7.20% Pfd.	582,719**(3)
47,500	ING Groep NV, 7.375% Pfd.	1,200,800**(3)
15,000	ING Groep NV, 8.50% Pfd.	382,800**(3)
$ 4,000,000	JPMorgan Chase & Company, 7.90%, Series I	4,414,320*(1)
$ 550,000	Lloyds Banking Group PLC, 6.657%, 144A****	503,250**(3)
$ 2,000,000	M&T Bank Corporation, 6.875%, 144A****	2,030,706*(1)
	Morgan Stanley:	
40,000	Morgan Stanley Capital Trust VI, 6.60% Pfd. 02/01/46	995,000
82,500	PNC Financial Services, 6.125% Pfd., Series P	2,102,306*(1)
$ 2,160,000	RaboBank Nederland, 11.00%, 144A****	2,812,389(1)(3)
	Royal Bank of Scotland:	
7,500	Royal Bank of Scotland Group PLC, 6.40%, Pfd., Series M	152,700**(3)
15,000	Royal Bank of Scotland Group PLC, 6.60%, Pfd., Series S	312,450**(3)
45,000	Royal Bank of Scotland Group PLC, 7.25% Pfd., Series T	1,032,300**(3)
	Sovereign Bancorp:	
1,750	Sovereign REIT, 12.00% Pfd., Series A, 144A****	2,267,195
10,000	Texas Capital Bancshares Inc., 6.50% Pfd., Series A	227,015*
12,500	US Bancorp, 6.50%, Pfd.	326,954*
	Wells Fargo:	
$ 1,500,000	First Union Capital II, 7.95% 11/15/29	1,803,642(1)(2)
1,750	Wells Fargo & Company, 7.50% Pfd., Series L	1,982,313*(1)
144,500	Wells Fargo & Company, 8.00% Pfd., Series J	4,109,797*(1)
	Zions Bancorporation:	
$ 1,000,000	Zions Bancorporation, 7.20%, Series J	997,500*(1)
93,000	Zions Bancorporation, 7.90% Pfd., Series F	2,582,145*
		79,534,946

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2013 (Unaudited)

mpacted in periods in which incremental expenses are incurred as a result of new store openings.

rs based upon the vendors' internal criterion which is beyond our control.

nventory, process financial information including credit card transactions, process payrolls or vendor payments or engage in other simila

ur prices. As a result of this competition, we may also need to spend more on advertising and promotion than we anticipate. We cannot some, and our ability to attract and retain qualified personnel in the future. As we continue to grow, we will continue to hire, appoint or

pro

leases, recruiting and training qualified management personnel and the availability of market relevant inventory.

making initial distributions and estimated that the remaining liability related to this matter is $755,000. Accordingly, we accrued $755, nents with our directors, officers and employees, under which we may agree to indemnify such persons for liabilities arising out of their

PART II

ISSUER PURCHASES OF EQUITY SECURITIES (1)

Approximate Dollar Value of Shares that may yet be Purchased Under the Programs
126,239,0
119,752,0
110,908,0
99,996,0
99,996,0
99,996,0

ent authorization effective November 2007 of $250.0 million. The current authorization expires on January 30, 2010. Considering stoc

January 29, 2005 (52 weeks)
377,534
255,250
122,284
72,923
9,939
39,422
517
42
475
39,897
14,750
25,147
0.72
0.70
34,855,682
35,690,363
106,012
202,105
-
130,039
461
4
17
482

We opened 82 Hibbett Sports

We experi

to open additional superstores in the future.

ct labor costs to support information technology upgrades and projects.

Salary and benefit costs in our stores in

Stock-based compensation accounted

We opened 74 Hibbett Sport

Pro and college licensed apparel performed well, particularly in youth produ n to open additional superstores in the future.

reased repair and maintenance expenses and a decrease in vendor violations.

nd amortization expense of $12.2 million, $10.9 million and $10.1 million during Fiscal 2008, Fiscal 2007 and Fiscal 2006, respectivel

Total	
	40,332
	35,676
	28,735
	22,635
	17,519
	32,280
	177,177

See “Debt” – Consolidated Financial Statement Note 5 in Item 8.
As of Fiscal 2008, we do not have any capital lease obligations.
See “Lease Commitments” – Consolidated Financial Statements Note 9 in Item 8.

ance costs will increase slightly.

gement to make assumptions and to apply judgment regarding such factors as market conditions, the selling environment, historical res and in evaluating our tax position and changes in estimates could materially impact our results of operations and financial position.

n our uncertain tax positions.

disposition.

the fair value of stock options and stock purchase rights in accordance with the Black-Scholes options-pricing model are not necessarily initial setup of fixtures and merchandise.

stores, merchandise mix, the relative proportion of stores represented by each of our three store concepts and demand for apparel and a

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uring the fifty-two weeks ended January 28, 2006, did we incur borrowings against our credit facility. A 10% increase or decrease in m

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Report of Independent Registered Public Accounting Firm

g effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reportin

n. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting,

g principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management a

Sponsoring Organizations of the Treadway Commission.

HIBBETT SPORTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share information)

HIBBETT SPORTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share information)

2006	
ks)	
	440,269
	293,368
	146,901
	85,060
	10,119
	51,722
	1,170
	24
	1,146
	52,868
	19,244
	33,624
	1.00
	0.98
	33,605,568
	34,393,026

See accompanying notes to consolidated financial statements.

HIBBETT SPORTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except share information)

See accompanying notes to consolidated financial statements.

HIBBETT SPORTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT
(in thousands, except share information)

Retained Earnings

See accompanying notes to consolidated financial statements.

HIBBETT SPORTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

pment, athletic and fashion apparel and footwear related accessories. We complement this core assortment with a selection of localized

l impact on net income or diluted earnings per share.

ained upon examination. A tax position that meets the more-likely-than-not recognition threshold should initially and subsequently be r

se securities. As a result, there are no cumulative gross unrealized holding gains (losses) or gross realized gains (losses) from our securi italized under SOP 98-1. For the fiscal year ended February 3, 2007, we capitalized approximately $120,000 under SOP 98-1 associate

rent. We record a receivable from the landlord and a deferred rent liability when the allowances are earned. This deferred rent is amort

ales taxes.

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rs may grant equity awards to certain employees of the Company at its discretion. The Incentive Plan authorizes grants of equity award

The Amended 2005 Director Deferred Compensation Plan (Deferred Plan) allows non-employee

accordance with the provisions of SFAS No. 123R. The fair value of each stock option was estimated on the grant date using the Blac also awarded RSUs that are performance-based to our named executive officers and expect the Compensation Committee of the Board od in equal installments beginning on the first anniversary of the grant date and expire on the eighth anniversary of the date of grant wit

Quarter 1
5/5/2007
3/31/2007 3

$10.56
4.07
39.22%
4.53%
None

Aggregate Intrinsic Value ($000's)

7,559

6,153

ested stock options. This cost is expected to be recognized over a weighted-average period of 2.0 years.

age grant date fair value of ESPP options granted during the fifty-two weeks ended February 2, 2008 was $5.90.

ns, but which includes amounts deferred into stock units under the Deferred Plan, are expensed as incurred in all periods presented. A t

es of common stock were outstanding as of the end of the period, but were not included in the computations of diluted earnings per shar on in August 2007. There were 106 days during the fifty-two weeks ended February 2, 2008, where we incurred borrowings against ou

contribution equal to a discretionary percentage of up to 6% of a participant's compensation. For each of Fiscal 2008, Fiscal 2007 and F

g contribution, subject to a maximum of 4.5% of compensation. The matching contribution for Fiscal 2008 was $0.75 for each dollar c

Non-current

6,5

(3,9

5

3,2

ne extent recovery is not more likely than not, a valuation allowance is established against the deferred tax asset, increasing our income evelopments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. Our

ility for unrecognized tax benefits is generally presented as non-current. However, if we anticipate paying cash within one year to settle

be made to our consolidated statements of operations. The Fiscal 2007 adjustment is reflected in the accompanying consolidated financ

initial possession to begin amortization, which is generally when we enter the space and begin to make improvements in preparation of king initial distributions and estimated that the remaining liability related to this matter is $755,000. Accordingly, we accrued $755,000

le or estimable.

ents with our directors, officers and employees, under which we may agree to indemnify such persons for liabilities arising out of their r

Fourth (13 weeks)	
	142,847
	43,841
	11,775
	7,606
	0.26
	0.25

Fourth (14 weeks)	
	151,159
	53,233
	21,576
	12,604
	0.40
	0.39

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON SUPPLEMENTAL SCHEDULE

HIBBETT SPORTS, INC. AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Balance at End of Period

45,0

34,0

46,0

hat our internal control over financial reporting was effective as of February 2, 2008.

PART III

PART IV

SIGNATURES.