

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC  
Form DEF 14A  
February 25, 2010

SCHEDULE 14A  
PROXY STATEMENT

PURSUANT TO SECTION 14(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by Registrant   
Filed by Party other than the Registrant   
Check the appropriate box:

- Preliminary Proxy Statement
- Confidential for Use of the Commission Only as permitted by Rule 14a-6(e)(2)
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-11c or Rule 14a-12  
Flaherty & Crumrine Preferred Income Fund Incorporated  
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

- No fee required
  - Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11
    - (1) Title of each class of securities to which transaction applies:
    - (2) Aggregate number of securities to which transaction applies:
    - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11. (Set forth the amount on which the filing fee is calculated and state how it was determined):
    - (4) Proposed maximum aggregate value of transaction:
    - (5) Total fee paid:
      - Fee paid previously with preliminary materials.
      - Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
        - (1) Amount previously paid:
        - (2) Form, Schedule or Registration Statement No.:
        - (3) Filing Party:
        - (4) Date Filed:
-

**FLAHERTY & CRUMRINE PREFERRED INCOME FUND INCORPORATED (NYSE: PFD)  
FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND INCORPORATED (NYSE:  
PFO)  
FLAHERTY & CRUMRINE/CLAYMORE PREFERRED SECURITIES INCOME FUND INCORPORATED  
(NYSE: FFC)  
FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND INCORPORATED (NYSE: FLC)**

301 E. Colorado Boulevard, Suite 720  
Pasadena, California 91101

**NOTICE OF ANNUAL MEETINGS OF SHAREHOLDERS**

To Be Held on April 22, 2010

To the Shareholders:

Notice is hereby given that the Annual Meetings of Shareholders of Flaherty & Crumrine Preferred Income Fund Incorporated, Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated, Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated and Flaherty & Crumrine/Claymore Total Return Fund Incorporated (each, a Fund and collectively, the Funds ), each a Maryland corporation, will be held at the offices of Flaherty & Crumrine Incorporated, 301 E. Colorado Boulevard, Suite 720, Pasadena, California 91101 at 8:30 a.m. PT, on April 22, 2010, for the following purposes:

Each Fund:

1. To elect Directors of each Fund (Proposal 1).
2. To transact such other business as may properly come before the Annual Meetings or any adjournments thereof.

**Your vote is important!**

The Board of Directors of each Fund has fixed the close of business on January 22, 2010 as the record date for the determination of shareholders of each Fund entitled to notice of and to vote at the Annual Meetings and any adjournments or postponements thereof.

By Order of the Boards of Directors,

February 25, 2010

CHAD C. CONWELL  
Secretary

**Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on April 22, 2010.**

The notice of Annual Meetings of Shareholders, joint proxy statement and proxy cards for the Funds are available to you on each Fund s website [www.preferredincome.com](http://www.preferredincome.com) for PFD and PFO and [www.fcclaymore.com](http://www.fcclaymore.com) for FFC and FLC. You are encouraged to review all of the information contained in the proxy materials before voting.

For directions to the Annual Meetings, please call 1-626-795-7300 or 1-866-751-6315.

**SEPARATE PROXY CARDS ARE ENCLOSED FOR EACH FUND IN WHICH YOU OWN SHARES. SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE ANNUAL MEETINGS ARE REQUESTED TO COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD(S). The proxy card(s) should be returned in the enclosed envelope, which needs no postage if mailed in the continental United States. Instructions for the proper execution of proxies are set forth on the inside cover.**

**INSTRUCTIONS FOR SIGNING PROXY CARDS**

The following general rules for signing proxy cards may be of assistance to you and may minimize the time and expense to the Fund(s) involved in validating your vote if you fail to sign your proxy card(s) properly.

1. Individual Accounts: Sign your name exactly as it appears in the registration on the proxy card(s).
2. Joint Accounts: Either party may sign, but the name of the party signing should conform exactly to a name shown in the registration.
3. All Other Accounts: The capacity of the individual signing the proxy card should be indicated unless it is reflected in the form registration. For example:

Registration

Valid Signature

Corporate Accounts

- |                                       |                     |
|---------------------------------------|---------------------|
| (1) ABC Corp.                         | ABC Corp.           |
| (2) ABC Corp.                         | John Doe, Treasurer |
| (3) ABC Corp. c/o John Doe, Treasurer | John Doe            |
| (4) ABC Corp. Profit Sharing Plan     | John Doe, Trustee   |

Trust Accounts

- |  |                      |
|--|----------------------|
| (1) ABC Trust                              | Jane B. Doe, Trustee |
| (2) Jane B. Doe, Trustee<br>u/t/d 12/28/78 | Jane B. Doe          |

Custodian or Estate Accounts

- |  |                              |
|--|------------------------------|
| (1) John B. Smith, Cust.,<br>f/b/o John B. Smith, Jr. UGMA | John B. Smith                |
| (2) John B. Smith, Executor,<br>Estate of Jane Smith       | John B. Smith, Jr., Executor |
-

**FLAHERTY & CRUMRINE PREFERRED INCOME FUND INCORPORATED (NYSE: PFD)  
FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND INCORPORATED (NYSE:  
PFO)  
FLAHERTY & CRUMRINE/CLAYMORE PREFERRED SECURITIES INCOME FUND INCORPORATED  
(NYSE:FFC)  
FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND INCORPORATED (NYSE: FLC)**

301 E. Colorado Boulevard, Suite 720  
Pasadena, California 91101

**ANNUAL MEETINGS OF SHAREHOLDERS**

April 22, 2010

**JOINT PROXY STATEMENT**

This document is a joint proxy statement ( Joint Proxy Statement ) for Flaherty & Crumrine Preferred Income Fund Incorporated ( Preferred Income Fund or PFD ), Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated ( Preferred Income Opportunity Fund or PFO ), Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated ( Preferred Securities Income Fund or FFC ) and Flaherty & Crumrine/Claymore Total Return Fund Incorporated ( Total Return Fund or FLC ) (each a Fund and collectively, the Funds ). This Joint Proxy Statement is furnished in connection with the solicitation of proxies by each Fund s Board of Directors (each, a Board and collectively, the Boards ) for use at the Annual Meeting of Shareholders of each Fund to be held on April 22, 2010, at 8:30 a.m. PT, at the offices of Flaherty & Crumrine Incorporated, 301 E. Colorado Boulevard, Suite 720, Pasadena, California 91101 and at any adjournments or postponements thereof (each a Meeting and collectively, the Meetings ).

A Notice of Annual Meetings of Shareholders and proxy card for each Fund of which you are a shareholder accompany this Joint Proxy Statement. Proxy solicitations will be made, beginning on or about February 25, 2010, primarily by mail, but proxy solicitations may also be made by telephone, telefax or personal interviews conducted by officers of each Fund, Flaherty & Crumrine Incorporated ( Flaherty & Crumrine ), the investment adviser of each Fund, Claymore Securities, Inc., the servicing agent of FFC and FLC, and PNC Global Investment Servicing (U.S.) Inc. ( PNC ), the transfer agent and administrator of each Fund and a member of The PNC Financial Services Group, Inc. Costs of proxy solicitation and expenses incurred in connection with the preparation of this Joint Proxy Statement and its enclosures will be shared proportionally by the Funds. Each Fund also will reimburse brokerage firms and others for their expenses in forwarding solicitation material to the beneficial owners of its shares. This Joint Proxy Statement and form of proxy are first being sent to shareholders on or about February 25, 2010.

**THE ANNUAL REPORT OF EACH FUND, INCLUDING AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2009, IS AVAILABLE UPON REQUEST, WITHOUT CHARGE, BY WRITING TO PNC GLOBAL INVESTMENT SERVICING (U.S.) INC., P.O. BOX 43027, PROVIDENCE, RHODE ISLAND 02940-3027, OR CALLING 1-800-331-1710. EACH FUND S ANNUAL REPORT IS ALSO AVAILABLE ON THE FUNDS WEBSITES - WWW.PREFERREDINCOME.COM FOR PFD AND PFO AND WWW.FCCLAYMORE.COM FOR FFC AND FLC THE SECURITIES AND EXCHANGE COMMISSION S ( SEC ) WEBSITE (WWW.SEC.GOV) OR, FOR FFC AND FLC ONLY, BY CALLING CLAYMORE SECURITIES, INC. AT 1-866-233-4001.**

**Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on April 22, 2010.**

The notice of Annual Meetings of Shareholders, joint proxy statement and proxy cards for the Funds are available to you on each Fund s website [www.preferredincome.com](http://www.preferredincome.com) for PFD and PFO and [www.fcclaymore.com](http://www.fcclaymore.com) for FFC and FLC. You are encouraged to review all of the information contained in the proxy materials before voting.

For directions to the Annual Meetings, please call 1-626-795-7300 or 1-866-751-6315.

**SEPARATE PROXY CARDS ARE ENCLOSED FOR EACH FUND IN WHICH YOU OWN SHARES. SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE ANNUAL MEETINGS ARE REQUESTED TO COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD(S). The proxy card(s) should be returned in the enclosed envelope, which needs no postage if mailed in the continental United States.**

**Instructions for the proper execution of proxies are set forth on the inside cover.**

If the enclosed proxy card is properly executed and returned in time to be voted at the relevant Meeting, the Shares (as defined below) represented thereby will be voted in accordance with the instructions marked thereon. Unless instructions to the contrary are marked thereon, a proxy will be voted FOR the election of the nominees for Director. Any shareholder who has given a proxy has the right to revoke it at any time prior to its exercise either by attending the relevant Meeting and voting his or her Shares in person or by submitting a letter of revocation or a later-dated proxy to the appropriate Fund delivered at the above address prior to the date of the Meeting.

Under the Bylaws of each Fund, the presence in person or by proxy of the holders of a majority of the outstanding Shares of the Fund entitled to vote shall be necessary and sufficient to constitute a quorum for the transaction of business (a Quorum ) at that Fund s Meeting. In the event that a Quorum is not present at a Meeting, or in the event that a Quorum is present but sufficient votes to approve any of the proposals are not received, the persons named as proxies may propose one or more adjournments of the Meeting to permit further solicitation of proxies. Any such adjournment will require the affirmative vote of a majority of those Shares represented at the Meeting in person or by proxy. If a Quorum is present, the persons named as proxies will vote those proxies which they are entitled to vote FOR a proposal in favor of such an adjournment with respect to that proposal and will vote those proxies required to be voted AGAINST a proposal against any such adjournment with respect to that proposal. A shareholder vote may be taken on a proposal in the Joint Proxy Statement prior to any such adjournment if sufficient votes have been received for approval of that proposal.

Each Fund has one class of capital stock outstanding: common stock, par value \$0.01 per share (the Common Stock or the Shares ). Each Share is entitled to one vote at the Meeting with respect to matters to be voted on, with pro rata voting rights for any fractional Shares. On the record date, January 22, 2010, the following number of Shares of each Fund were issued and outstanding:

| Name of Fund                            | Common Stock Outstanding |
|---|--------------------------|
| Preferred Income Fund (PFD)             | 10,678,130               |
| Preferred Income Opportunity Fund (PFO) | 11,906,765               |
| Preferred Securities Income Fund (FFC)  | 42,687,988               |
| Total Return Fund (FLC)                 | 9,776,333                |

To the knowledge of each Fund and its Board, the following shareholder(s), or group as that term is defined in Section 13(d) of the Securities Exchange Act of 1934, as amended (the 1934 Act ), is the beneficial owner or owner of record of more than 5% of the relevant Fund s outstanding Shares as of January 22, 2010

| Name and Address of Beneficial/Record Owner   | Title of Class | Amount and Nature of Ownership | Percent of Class |
|---|----------------|--------------------------------|------------------|
| Cede & Co.**<br>Depository Trust Company<br>55 Water Street, 25 <sup>th</sup> Floor<br>New York, NY 10041 | Common Stock   | PFD 10,234,167 (record)        | 95.90%           |
|   |                | PFO 11,429,149 (record)        | 95.99%           |
|   |                | FFC 42,611,865 (record)        | 99.86%           |
|   |                | FLC 9,765,409 (record)         | 99.89%           |
| Fifth Third Bancorp <sup>1</sup><br>Fifth Third Center<br>Cincinnati, OH 45263                            | Common Stock   | PFO 1,330,930(beneficial)      | 12.00%           |
|   | Common Stock   | FFC 2,448,032(beneficial)      | 5.70%            |

First Trust Portfolios L.P.<sup>2</sup>  
First Trust Advisors L.P.  
The Charger Corporation  
120 East Liberty Drive, Suite 400  
Wheaton, IL 60187

| Name and Address of Beneficial/Record Owner   | Title of Class | Amount and Nature of Ownership | Percent of Class |
|---|----------------|--------------------------------|------------------|
| Spectrum Asset Management, Inc.<br><sup>3,4</sup><br>2 High Ridge Park<br>Stamford, CT 06905  | Common Stock   | FFC 2,971,500(beneficial)      | 6.97%            |
| Principal Financial Group, Inc. <sup>3,4</sup><br>711 High Street<br>Des Moines, IA 50392-0088  | Common Stock   | FLC 566,750(beneficial)        | 5.79%            |
| Sit Investments Associates, Inc. <sup>5</sup><br>3300 IDS Center<br>80 South Eighth Street<br>Minneapolis, MN 55402   | Common Stock   | FLC 583,701(beneficial)        | 5.97%            |
| Claymore Securities Defined Portfolios, Series 305, 352, 390, 434, 453, 459, 468, 494, 590, 596, 601, 614, 621 and 635 <sup>6</sup><br>2455 Corporate West Drive<br>Lisle, IL 60532 | Common Stock   | FLC 557,832(beneficial)        | 5.70%            |
| Morgan Stanley<br>1585 Broadway<br>New York, NY 10036   | Common Stock   | FLC 611,434(beneficial)        | 6.30%            |

\* As of January 22, 2010, the Directors and officers, as a group, owned less than 1% of the Shares of each Fund.

\*\* A nominee partnership of The Depository Trust Company.

<sup>1</sup> Information obtained from a Form 13F filed by Fifth Third Bancorp with the



SEC reporting  
share ownership  
as of  
September 30,  
2009.

2 Information  
obtained from a  
Schedule 13G  
filed by First  
Trust Portfolios  
L.P. ( FT  
Portfolios ), First  
Trust Advisors  
L.P. ( FT  
Advisors ) and  
The Charger  
Corporation  
( Charger ) with  
the SEC  
reporting share  
ownership as of  
December 31,  
2009. Based on  
that filing, FT  
Portfolios, FT  
Advisors and  
Charger have the  
shared power to  
vote or direct the  
vote or dispose  
or direct the  
disposition of  
2,448,032 Shares  
of Common  
Stock.

3 Information  
obtained from a  
Schedule 13G  
filed by  
Spectrum Asset  
Management,  
Inc. ( Spectrum )  
with the SEC  
reporting share  
ownership as of  
December 31,  
2009. Based on  
that filing,  
Spectrum and  
Principal  
Financial Group

Inc. ( Principal )  
have the shared  
power to vote or  
direct the vote or  
dispose or direct  
the disposition of  
2,971,500 Shares  
of Common  
Stock.

<sup>4</sup> Information  
obtained from a  
Schedule 13G  
filed by  
Spectrum with  
the SEC  
reporting share  
ownership as of  
December 31,  
2008. Based on  
that filing,  
Spectrum and  
Principal have  
the shared power  
to vote or direct  
the vote or  
dispose or direct  
the disposition of  
566,750 Shares  
of Common  
Stock.

<sup>5</sup> Information  
obtained from a  
Schedule 13G/A  
filed by Sit  
Investment  
Associates, Inc.  
( SIA ) with the  
SEC reporting  
share ownership  
as of  
December 31,  
2009. Based on  
that filing, SIA  
and its affiliated  
entities have the  
sole power to  
vote or direct the  
vote or dispose  
or direct the  
disposition of  
583,701 Shares

- of Common  
Stock.
- 6 Information  
obtained from a  
Schedule 13G/A  
filed by  
Claymore  
Securities, Inc.  
with the SEC  
reporting share  
ownership as of  
December 31,  
2009. Based on  
that filing,  
Claymore  
Securities  
Defined  
Portfolios has  
the sole power to  
vote or direct the  
vote or dispose  
or direct the  
disposition of  
557,832 Shares  
of Common  
Stock.
- 7 Information  
obtained from a  
Schedule 13G  
filed by Morgan  
Stanley and Van  
Kampen Funds,  
Inc. ( Van  
Kampen ) with  
the SEC  
reporting share  
ownership as of  
December 31,  
2009. Based on  
that filing,  
Morgan Stanley  
and Van  
Kampen have  
the sole power to  
vote or direct the  
vote or dispose  
or direct the  
disposition of  
611,434 Shares  
of Common  
Stock.

This Joint Proxy Statement is being used in order to reduce the preparation, printing, handling and postage expenses that would result from the use of a separate proxy statement for each Fund. Shareholders of each Fund will vote as a single class. Shareholders of each Fund will vote separately for each of PFD, PFO, FFC and FLC on the proposal on which shareholders of that Fund are entitled to vote. Separate proxy cards are enclosed for each Fund in which a shareholder is a record owner of Shares. Thus, if a proposal is approved by shareholders of one or more Funds and not approved by shareholders of one or more other Funds, the proposal will be implemented for the Fund or Funds that approved the proposal and will not be implemented for any Fund that did not approve the proposal. It is therefore essential that shareholders complete, date and sign each enclosed proxy card. *Shareholders of each Fund are entitled to vote on the proposal pertaining to that Fund.*

**PROPOSAL 1: ELECTION OF DIRECTORS**

At the Meetings, shareholders are being asked to consider the election of Directors of each Fund. The Board of each Fund is divided into three classes, each class having a term of three years. Each year the term of office of one class expires and the successor or successors elected to such class serve for a three-year term and until their successors are duly elected and qualified.

**Nominees for the Boards of Directors**

Each nominee named below has consented to serve as a Director if elected at the relevant Meeting. If a designated nominee declines or otherwise becomes unavailable for election, however, the proxy confers discretionary power on the persons named therein to vote in favor of a substitute nominee or nominees.

Mr. Gust, a Class III Director of PFD, has been nominated for a three-year term to expire at PFD's 2013 Annual Meeting of Shareholders and until his successor is duly elected and qualified. Mr. Crumrine and Mr. Wulf, each a Class II Director of PFO, have each been nominated for a three-year term to expire at PFO's 2013 Annual Meeting of Shareholders and until their successors are duly elected and qualified. Mr. Crumrine and Mr. Wulf, each a Class III Director of FFC and FLC, have each been nominated for a three-year term to expire at each Fund's 2013 Annual Meeting of Shareholders and until their successors are duly elected and qualified. Shareholders of each Fund's Common Stock are entitled to elect the nominees for election to the Board of Directors of the relevant Fund.

**Information About Directors and Officers**

Set forth in the table below are the existing Directors and nominees for election to the Boards of Directors of the Funds, including information relating to their respective positions held with each Fund, a brief statement of their principal occupations during the past five years and other directorships, if any.

| <b>Name, Address,<br/>and Age</b> | <b>Current<br/>Position(s)<br/>Held with Funds</b> | <b>Term of Office<br/>and Length of<br/>Time Served*</b> | <b>Principal<br/>Occupation(s)<br/>During Past<br/>Five Years</b> | <b>Number<br/>of<br/>Funds In<br/>Fund<br/>Complex<br/>Overseen<br/>by<br/>Director**</b> | <b>Other<br/>Directorships<br/>Held by<br/>Director</b> |
|-----------------------------------|--|--|---|---|---|
|-----------------------------------|--|--|---|---|---|

**NON-INTERESTED  
DIRECTORS:**

|   |  |   |   |   |   |
|---|--|---|---|---|---|
| <b>David Gale</b><br>Delta Dividend<br>Group, Inc.<br>220 Montgomery<br>Street<br>Suite 1920<br>San Francisco, CA<br>94104<br>Age: 60 | Director   | <b>Class I Director</b><br>PFD since 1997<br>PFO since 1997<br>FFC since<br>inception<br>FLC since<br>inception | President of<br>Delta<br>Dividend Group,<br>Inc.<br>(investments)                             | 4 | None  |
| <b>Morgan Gust</b><br>301 E. Colorado<br>Boulevard<br>Suite 720<br>Pasadena, CA 91101<br>Age: 62                                      | Director<br>and<br>Nominating<br>Committee<br>Chairman | <b>Class III<br/>Director</b><br>PFD since<br>inception<br>PFO since<br>inception                               | Owner and<br>operator of<br>various entities<br>engaged in<br>agriculture and<br>real estate; | 4 | CoBiz<br>Financial, Inc.<br>(financial<br>services) |

|                          |                  |
|--------------------------|------------------|
| <b>Class II Director</b> | Former President |
| FFC since                | of Giant         |
| inception                | Industries, Inc. |
| FLC since                | (petroleum       |
| inception                | refining and     |
|                          | marketing) from  |
|                          | March 2002       |
|                          | through          |
|                          | June 2007        |

| Name, Address,<br>and Age  | Current<br>Position(s)<br>Held with Funds                               | Term of Office<br>and Length of<br>Time Served*  | Principal<br>Occupation(s)<br>During Past<br>Five Years   | Number<br>of<br>Funds In<br>Fund<br>Complex<br>Overseen<br>by<br>Director** | Other<br>Directorships<br>Held by<br>Director |
|--|---|--|---|---|---|
| <b>Karen H. Hogan</b><br>301 E. Colorado<br>Boulevard<br>Suite 720<br>Pasadena, CA<br>91101<br>Age: 48 | Director  | <b>Class I Director</b><br>PFD since 2005<br><b>Class III Director</b><br>PFO since 2005<br><b>Class II Director</b><br>FFC since 2005<br>FLC since 2005 | Active Committee<br>Member and<br>Volunteer to<br>several non-profit<br>organizations;<br>from<br>September 1985<br>to January 1997,<br>Senior Vice<br>President of<br>Preferred Stock<br>Origination at<br>Lehman Brothers<br>and previously,<br>Vice President of<br>New Product<br>Development | 4   | None  |
| <b>Robert F. Wulf</b><br>P.O. Box 753<br>Neskowin, OR<br>97149<br>Age: 72                              | Director<br>and Audit<br>Committee<br>Chairman                          | <b>Class II Director</b><br>PFD since inception<br>PFO since inception<br><b>Class III Director</b><br>FFC since inception<br>FLC since inception        | Financial<br>Consultant;<br>Trustee,<br>University of<br>Oregon<br>Foundation;<br>Trustee, San<br>Francisco<br>Theological<br>Seminary  | 4   | None  |
| <b>INTERESTED DIRECTOR:</b>  |   |  |   |   |   |
| <b>Donald F. Crumrine</b> (1)<br>301 E. Colorado<br>Boulevard<br>Suite 720<br>Pasadena, CA<br>91101    | Director,<br>Chairman of<br>the Board and<br>Chief Executive<br>Officer | <b>Class II Director</b><br>PFD since inception<br>PFO since inception<br><b>Class III Director</b><br>FFC since inception<br>FLC since inception        | Chairman of the<br>Board and<br>Director of<br>Flaherty &<br>Crumrine   | 4   | None  |

Age: 62

**OFFICERS:**

|                           |           |                     |               |
|---------------------------|-----------|---------------------|---------------|
| <b>Robert M. Ettinger</b> | President | PFD since 2002      | President and |
| 301 E. Colorado Boulevard |           | PFO since 2002      | Director of   |
| Suite 720                 |           | FFC since inception | Flaherty &    |
| Pasadena, CA              |           | FLC since inception | Crumrine      |
| 91101                     |           |                     |               |
| Age: 51                   |           |                     |               |

|                           |   |                |                 |
|---------------------------|---|----------------|-----------------|
| <b>R. Eric Chadwick</b>   | Chief Financial Officer, Vice President and Treasurer | PFD since 2004 | Director of     |
| 301 E. Colorado Boulevard |   | PFO since 2004 | Flaherty &      |
| Suite 720                 |   | FFC since 2004 | Crumrine since  |
| Pasadena, CA              |   | FLC since 2004 | June 2006; Vice |
| 91101                     |   |                | President of    |
| Age: 34                   |   |                | Flaherty &      |
|                           |   |                | Crumrine        |

|                           |  |                |                  |
|---------------------------|--|----------------|------------------|
| <b>Chad C. Conwell</b>    | Chief Compliance Officer, Vice President and Secretary | PFD since 2005 | Chief Compliance |
| 301 E. Colorado Boulevard |  | PFO since 2005 | Officer of       |
| Suite 720                 |  | FFC since 2005 | Flaherty &       |
| Pasadena, CA              |  | FLC since 2005 | Crumrine since   |
| 91101                     |  |                | September 2005;  |
| Age: 37                   |  |                | Vice President   |
|                           |  |                | since July 2005; |
|                           |  |                | Attorney with    |
|                           |  |                | Paul, Hastings,  |
|                           |  |                | Janofsky &       |
|                           |  |                | Walker LLP from  |
|                           |  |                | September 1998   |
|                           |  |                | to June 2005     |

|                          |  |                     |                 |
|--------------------------|--|---------------------|-----------------|
| <b>Bradford S. Stone</b> | Vice President and Assistant Treasurer | PFD since 2003      | Director of     |
| 47 Maple Street          |  | PFO since 2003      | Flaherty &      |
| Suite 403                |  | FFC since 2003      | Crumrine since  |
| Summit NJ 07901          |  | FLC since inception | June 2006; Vice |
| Age: 50                  |  |                     | President of    |
|                          |  |                     | Flaherty &      |
|                          |  |                     | Crumrine        |



| <b>Name, Address, and Age</b>  | <b>Current Position(s) Held with Funds</b>                                      | <b>Term of Office and Length of Time Served*</b>                     | <b>Principal Occupation(s) During Past Five Years</b>                   | <b>Number of Funds In Fund Complex Overseen by Director**</b> | <b>Other Directorships Held by Director</b> |
|--|---|--|---|---|---|
| <b>Laurie C. Lodolo</b><br>301 E. Colorado Boulevard<br>Suite 720<br>Pasadena, CA 91101<br>Age: 46 | Assistant<br>Compliance<br>Officer, Assistant Treasurer and Assistant Secretary | PFD since 2004<br>PFO since 2004<br>FFC since 2004<br>FLC since 2004 | Assistant<br>Compliance<br>Officer and Secretary of Flaherty & Crumrine |   |   |

\* The Class II Directors of PFO and the Class III Directors of PFD, FFC and FLC have each been nominated for a three-year term to expire at each Fund s 2013 Annual Meeting of Shareholders and until their successors are duly elected and qualified. The Class I Director of PFO, the Class II Directors of PFD, FFC and FLC will serve until each Fund s Annual Meeting of Shareholders in 2012 and until their successors are duly elected and qualified. The Class I Directors of PFD, and the Class I Director of FFC and FLC and the Class III Directors of PFO will serve until each Fund s

Annual Meeting of Shareholders in 2011 and until their successors are duly elected and qualified.

\*\* The funds in the fund complex are: Flaherty & Crumrine Preferred Income Fund Incorporated, Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated, Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated and Flaherty & Crumrine/Claymore Total Return Fund Incorporated (collectively the Flaherty & Crumrine Fund Family ).

(1) Interested person of the Funds as defined in the Investment Company Act of 1940 (the 1940 Act ). Mr. Crumrine is considered an interested person because of his affiliation with Flaherty & Crumrine, which acts as each Fund s investment adviser.

**Beneficial Ownership of Shares in Funds and Fund Complex for each Director and Nominee for Election as Director**

Set forth in the table below is the dollar range of equity securities in each Fund and the aggregate dollar range of equity securities in the Flaherty & Crumrine Fund Family beneficially owned by each Director.

Aggregate Dollar Range of Equity

| Name of Director or Nominee      | Dollar Range of Equity Securities Held in Fund*(1) |                  |                  |                  | Securities in All Registered Investment Companies Overseen by Director in Family of Investment Companies*(2) |
|----------------------------------|--|------------------|------------------|------------------|--|
|                                  | PFD  | PFO              | FFC              | FLC              | Total  |
| <b>NON-INTERESTED DIRECTORS:</b> |  |                  |                  |                  |  |
| David Gale                       | C  | C                | D                | C                | E  |
| Morgan Gust                      | C  | C                | C                | C                | E  |
| Karen H. Hogan                   | B  | B                | B                | B                | C  |
| Robert F. Wulf                   | C  | B                | C                | C                | D  |
| <b>INTERESTED DIRECTOR:</b>      |  |                  |                  |                  |  |
| Donald F. Crumrine               | D <sup>(3)</sup>                                   | D <sup>(3)</sup> | E <sup>(3)</sup> | D <sup>(3)</sup> | E <sup>(3)</sup>   |

\* Key to Dollar Ranges  
A. None  
B. \$1 - \$10,000  
C. \$10,001 - \$50,000  
D. \$50,001 - \$100,000  
E. over \$100,000  
All shares were valued as of January 22, 2010.

(1) This information has been furnished by each Director as of January 22, 2010. Beneficial Ownership is determined in accordance with Rule 16a-1(a)(2) under the 1934 Act.

(2) The Directors, Nominees and executive officers of each Fund, as a group, less than 1% of each Fund.

(3) Includes shares of the Fund held by Flaherty & Crumrine, of which the reporting person is a shareholder and director.

Prior to January 26, 2010, each Director of each Fund who is not a director, officer or employee of Flaherty & Crumrine or any of its affiliates received from each Fund a fee of \$9,000 per annum plus \$500 for each in-person meeting attended, and \$150 for each telephone meeting attended. In addition, prior to February 1, 2010, the Audit Committee Chairman received from each Fund an annual fee of \$2,500. As of January 26, 2010, each Director of each Fund who is not a director, officer or employee of Flaherty & Crumrine or any of its affiliates receives from each Fund a fee of \$9,000 per annum plus \$750 for each in-person meeting attended, and \$250 for each telephone meeting attended. In addition, as of February 1, 2010, the Audit Committee Chairman receives from each Fund an annual fee of \$3,000. Each Director of each Fund is reimbursed for travel and out-of-pocket expenses associated with attending Board and committee meetings. During the fiscal year ended November 30, 2009, the Board of Directors held twelve meetings for PFD (eight of which were held by telephone conference call), twelve meetings for PFO (eight of which were held by telephone conference call), ten meetings for FFC (six of which were held by telephone conference call) and eleven meetings for FLC (seven of which were held by telephone conference call). Each Director of each Fund then serving in such capacity attended at least 75% of the meetings of Directors and of any Committee of which he or she is a member. The aggregate remuneration paid to the Directors of each Fund for the fiscal year ended November 30, 2009 is set forth below:

|     | Annual Director<br>Fees | Board Meeting<br>and<br>Committee<br>Meeting<br>Fees | Travel and<br>Out-of-Pocket<br>Expenses* |
|-----|-------------------------|--|--|
| PFD | \$ 36,000               | \$ 26,700  | \$ 2,128                                 |
| PFO | \$ 36,000               | \$ 27,150  | \$ 2,128                                 |
| FFC | \$ 36,000               | \$ 26,400  | \$ 2,128                                 |
| FLC | \$ 36,000               | \$27,000   | \$ 2,128                                 |

\* Includes reimbursement for travel and out-of-pocket expenses for

both interested  
and  
non-interested  
Directors  
( Independent  
Directors ).

### **Audit Committee Report**

The role of each Fund's Audit Committee is to assist the Board of Directors in its oversight of: (i) the integrity of each Fund's financial statements and the independent audit thereof; (ii) each Fund's accounting and financial reporting policies and practices, its internal controls and, as appropriate, the internal controls of certain service providers; (iii) each Fund's compliance with legal and regulatory requirements; and (iv) the independent auditor's qualifications, independence and performance. Each Fund's Audit Committee is also required to prepare an audit committee report pursuant to the rules of the SEC for inclusion in each Fund's annual proxy statement. Each Audit Committee operates pursuant to a charter (the Audit Committee Charter or Charter ) that was most recently reviewed and approved by the Board of Directors of each Fund on January 26, 2010 and which is available on PFD and PFO's website at [www.preferredincome.com](http://www.preferredincome.com) and FFC and FLC's website at [www.fcclaymore.com](http://www.fcclaymore.com). As set forth in the Charter, management is responsible for the (i) preparation, presentation and integrity of each Fund's financial statements, (ii) maintenance of appropriate accounting and financial reporting principles and policies and (iii) maintenance of internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The Funds' independent registered public accounting firm, KPMG LLP (the independent accountants or KPMG ), is responsible for planning and carrying out proper audits and reviews of each Fund's financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States of America.

In performing its oversight function, at a meeting held on January 25, 2010, the Audit Committee reviewed and discussed with management of each Fund and the independent accountants, the audited financial statements of each Fund as of and for the fiscal year ended November 30, 2009, and discussed the audit of such financial statements with the independent accountants.

In addition, the Audit Committee discussed with the independent accountants the accounting principles applied by each Fund and such other matters brought to the attention of the Audit Committee by the independent accountants required by Statement of Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1 AU Section 380), as adopted by the Public Accounting Oversight Board in Rule 3200T. The Audit Committee also received from the independent accountants the written disclosures and statements required by the SEC's independence rules, delineating relationships

between the independent accountants and each Fund and discussed the impact that any such relationships might have on the objectivity and independence of the independent accountants.

As set forth above, and as more fully set forth in each Fund's Audit Committee Charter, the Audit Committee has significant duties and powers in its oversight role with respect to the Fund's financial reporting procedures, internal control systems, and the independent audit process.

The members of the Audit Committee are not, and do not represent themselves to be, professionally engaged in the practice of auditing or accounting and are not employed by each Fund for accounting, financial management or internal control. Moreover, the Audit Committee relies on and makes no independent verification of the facts presented to it or representations made by management or the independent accountants. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles and policies, or internal controls and procedures, designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to above do not provide assurance that the audit of each Fund's financial statements has been carried out in accordance with generally accepted accounting standards or that the financial statements are presented in accordance with generally accepted accounting principles.

Based on its consideration of the audited financial statements and the discussions referred to above with management and the independent accountants, and subject to the limitations on the responsibilities and role of the Audit Committee set forth in the Charter and those discussed above, the Audit Committee of each Fund recommended to the Board of Directors of each Fund that the audited financial statements be included in each Fund's Annual Report for the fiscal year ended November 30, 2009.

**This report was submitted by the Audit Committee of each Fund's Board of Directors**

David Gale

Morgan Gust

Karen H. Hogan

Robert F. Wulf (Chairman)

January 25, 2010

Each Audit Committee was established in accordance with Section 3(a)(58)(A) of the 1934 Act. Each Audit Committee met four times in connection with its Board of Directors' regularly scheduled meetings during the fiscal year ended November 30, 2009. Each Audit Committee is composed entirely of each Fund's Independent (as such term is defined by the New York Stock Exchange ( NYSE ) listing standards applicable to closed-end funds, as may be modified or supplemented (the NYSE Listing Standards )) Directors, namely Ms. Hogan and Messrs. Gale, Gust and Wulf.

**Nominating Committee**

Each Board of Directors has a Nominating Committee composed entirely of each Fund's Independent (as such term is defined by the NYSE Listing Standards) Directors, namely Ms. Hogan and Messrs. Gale, Gust and Wulf. The Nominating Committee of each Fund met twice during the fiscal year ended November 30, 2009. The Nominating Committee is responsible for identifying individuals believed to be qualified to become Board members and for recommending to the Board of Directors such nominees to stand for election as directors at each Fund's annual meeting of shareholders, and to fill any vacancies on the Board. Each Fund's Nominating Committee has a charter which is available on its website. PFD and PFO's website address is [www.preferredincome.com](http://www.preferredincome.com) and FFC and FLC's website address is [www.fcclaymore.com](http://www.fcclaymore.com).

Each Fund's Nominating Committee believes that it is in the best interest of the Fund and its shareholders to obtain highly qualified candidates to serve as members of the Board of Directors. The Nominating Committees have not established a formal process for identifying candidates where a vacancy exists on the Board. In nominating candidates, the Nominating Committee shall take into consideration such factors as it deems appropriate. These factors may include judgment, skill, diversity, experience with investment companies and other organizations of comparable purpose, complexity, size and subject to similar legal restrictions and oversight, the interplay of the candidate's experience with the experience of other Board members, and the extent to which the candidate would be a desirable addition to the Board and any committees thereof. Each Fund's Nominating Committee will consider director

candidates recommended by shareholders and submitted in accordance with applicable law and procedures as described in this Joint Proxy Statement. (See Submission of Shareholder Proposals below.)

**Other Board-Related Matters**

Shareholders who wish to send communications to the Board should send them to the address of their Fund(s) and to the attention of the Board. All such communications will be directed to the Board's attention.

The Funds do not have a formal policy regarding Board member attendance at the Annual Meeting of Shareholders. However, all of the Directors of each Fund attended the April 21, 2009 Annual Meetings of Shareholders.

**Compensation**

The following table sets forth certain information regarding the compensation of each Fund's Directors for the fiscal year ended November 30, 2009. No executive officer or person affiliated with a Fund received compensation from a Fund during the fiscal year ended November 30, 2009 in excess of \$120,000. Directors and executive officers of the Funds do not receive pension or retirement benefits from the Funds.

**COMPENSATION TABLE**

| Name of Person and Position   | Aggregate Compensation from each Fund                        | Total Compensation from the Funds and Fund Complex Paid to Directors* |
|---|--|---|
| Donald F. Crumrine<br>Director, Chairman of the Board and Chief Executive Officer | \$ 0   | \$ 0(4)   |
| David Gale<br>Director  | \$15,200 PFD<br>\$15,350 PFO<br>\$15,050 FFC<br>\$15,200 FLC | \$ 60,800(4)  |
| Morgan Gust<br>Director; Nominating Committee Chairman                            | \$15,050 PFD<br>\$15,200 PFO<br>\$15,050 FFC<br>\$15,200 FLC | \$ 60,500(4)  |
| Karen H. Hogan<br>Director  | \$14,750 PFD<br>\$14,900 PFO<br>\$14,750 FFC<br>\$14,900 FLC | \$ 59,300(4)  |
| Robert F. Wulf<br>Director; Audit Committee Chairman                              | \$17,700 PFD<br>\$17,700 PFO<br>\$17,550 FFC<br>\$17,700 FLC | \$ 70,650(4)  |

\* Represents the total compensation paid for the fiscal year ended November 30, 2009, to such



persons by the Funds and the other funds in the Flaherty & Crumrine Fund Family, which are considered part of the same fund complex because they have a common adviser. The parenthetical number represents the total number of investment company directorships held by the Director or nominee in the fund complex as of November 30, 2009.

**Required Vote**

The election of Mr. Gust as a Director of PFD will require the affirmative vote of a plurality of the votes cast by holders of the Shares of Common Stock of PFD at the meeting in person or by proxy. The election of Mr. Crumrine and Mr. Wulf as Directors of PFO, FFC and FLC will require the affirmative vote of a plurality of the votes cast by holders of the Shares of Common Stock of each such Fund at the Meeting in person or by proxy.

### SUBMISSION OF SHAREHOLDER PROPOSALS

All proposals by shareholders of each Fund that are intended to be presented at each Fund's next Annual Meeting of Shareholders to be held in 2011 must be received by the relevant Fund for consideration for inclusion in the relevant Fund's proxy statement relating to the meeting no later than October 29, 2010, and must satisfy the requirements of federal securities laws.

Each Fund's Bylaws require shareholders wishing to nominate Directors or make proposals to be voted on at the Fund's Annual Meeting to provide timely notice of the proposal in writing. To be considered timely, any such notice must be delivered to or mailed and received at the principal executive offices of the Fund at the address set forth on the first page of this proxy statement not later than 60 days prior to the date of the meeting; provided, however, that if less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, any such notice by a shareholder to be timely must be so received not later than the close of business on the 10th day following the day on which notice of the date of the annual meeting was given or such public disclosure was made.

Any such notice by a shareholder shall set forth the information required by the Fund's Bylaws with respect to each matter the shareholder proposes to bring before the annual meeting.

### ADDITIONAL INFORMATION

#### Independent Registered Public Accounting Firm

KPMG, 99 High Street, Boston, Massachusetts 02110-2371, has been selected to serve as each Fund's independent registered public accounting firm for each Fund's fiscal year ending November 30, 2010. KPMG acted as the independent registered public accounting firm for each Fund for the fiscal year ended November 30, 2009. The Funds know of no direct financial or material indirect financial interest of KPMG in the Funds. A representative of KPMG will not be present at the Meetings, but will be available by telephone to respond to appropriate questions and will have an opportunity to make a statement, if asked.

Set forth in the table below are audit fees and non-audit related fees billed to each Fund by KPMG for professional services for the fiscal years ended November 30, 2008 and 2009, respectively.

| Fund | Fiscal Year Ended |            | Audit-Related |           | All Other Fees** |
|------|-------------------|------------|---------------|-----------|------------------|
|      | November 30       | Audit Fees | Fees          | Tax Fees* |                  |
| PFD  | 2008              | \$44,000   | \$0           | \$8,100   | \$ 17,200        |
|      | 2009              | \$44,000   | \$0           | \$8,100   | \$ 8,600         |
| PFO  | 2008              | \$44,000   | \$0           | \$8,100   | \$ 17,200        |
|      | 2009              | \$44,000   | \$0           | \$8,100   | \$ 8,600         |
| FFC  | 2008              | \$46,400   | \$0           | \$8,100   | \$ 17,200        |
|      | 2009              | \$46,400   | \$0           | \$8,100   | \$ 8,600         |
| FLC  | 2008              | \$46,400   | \$0           | \$8,100   | \$ 17,200        |
|      | 2009              | \$46,400   | \$0           | \$8,100   | \$ 8,600         |

\* Tax Fees are those fees billed to each Fund by KPMG in connection with tax consulting services, including primarily the review of each Fund's income tax returns.

\*\* All Other Fees are those fees billed to each Fund by KPMG in connection with the preparation of a quarterly agreed-upon-procedures report. These Agreed-Upon-Procedures ( AUP ) were required pursuant to each Fund s Articles Supplementary when the Fund had preferred stock outstanding. Specifically, Moody s Investors Service and Fitch, Inc. each required that such AUP be undertaken and a report be provided in order to maintain their ratings on the preferred stock. As of November 30, 2009, the Funds did not have any issued or outstanding preferred stock, which was redeemed during the course of each Fund s 2009 fiscal year.

Each Fund s Audit Committee Charter requires that the Audit Committee pre-approve all audit and non-audit services to be provided by the independent accountants to the Fund, and all non-audit services to be provided by the independent accountants to the Fund s investment adviser and any entity controlling, controlled by or under common control

with the Funds' investment adviser ( affiliates ) that provide on-going services to each Fund, if the engagement relates directly to the operations and financial reporting of each Fund, or to establish detailed pre-approval policies and procedures for such services in accordance with applicable laws. All of the audit and non-audit services described above for which KPMG billed each Fund fees for the fiscal years ended November 30, 2008 and November 30, 2009 were pre-approved by the Audit Committee.

For each Fund's fiscal year ended November 30, 2009, KPMG did not provide any non-audit services (or bill any fees for such services) to the Funds' investment adviser or any affiliates thereof that provide services to the Funds.

#### **Investment Adviser, Administrator and Servicing Agent**

Flaherty & Crumrine serves as the investment adviser to each Fund, and its business address is 301 E. Colorado Boulevard, Suite 720, Pasadena, California 91101. PNC acts as the administrator to each Fund and is located at 4400 Computer Drive, Westborough, Massachusetts 01581. Claymore Securities, Inc. acts as the servicing agent to FFC and FLC and is located at 2455 Corporate West Drive, Lisle, Illinois 60532.

#### **Compliance with the Securities Exchange Act of 1934**

Section 16(a) of the 1934 Act and Section 30(h) of the 1940 Act require each Fund's Directors and executive officers, certain persons affiliated with Flaherty & Crumrine and persons who beneficially own more than 10% of a registered class of each Fund's securities, to file reports of ownership and changes of ownership with the SEC, the NYSE and each Fund. Directors, officers and greater-than-10% shareholders are required by SEC regulations to furnish each Fund with copies of such forms they file. Based solely upon its review of the copies of such forms received by it and written representations from certain of such persons, each Fund believes that during 2009, all such filing requirements applicable to such persons were met.

#### **Broker Non-Vote and Abstentions**

A proxy which is properly executed and returned accompanied by instructions to withhold authority to vote represents a broker non-vote (i.e., shares held by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or the persons entitled to vote and (ii) the broker or nominee does not have discretionary voting power on a particular matter). Proxies that reflect abstentions or broker non-votes (collectively, abstentions ) will be counted as Shares that are present and entitled to vote at the meeting for purposes of determining the presence of a Quorum. With respect to Proposal 1, abstentions do not constitute a vote for or against the proposal and will be disregarded in determining the votes cast on the proposal.

#### **OTHER MATTERS TO COME BEFORE THE MEETING**

Each Fund does not intend to present any other business at the relevant Meeting, nor is any Fund aware that any shareholder intends to do so. If, however, any other matters are properly brought before the Meeting, the persons named in the accompanying form of proxy will vote thereon in accordance with their judgment.

#### **VOTING RESULTS**

Each Fund will advise its shareholders of the voting results of the matters voted upon at its Meeting in its next Semi-Annual Report to Shareholders.

#### **NOTICE TO BANKS, BROKER/DEALERS AND VOTING TRUSTEES AND THEIR NOMINEES**

Please advise the Funds whether other persons are the beneficial owners of Fund Shares for which proxies are being solicited from you, and, if so, the number of copies of the joint proxy statement and other soliciting material you wish to receive in order to supply copies to the beneficial owners of Fund Shares.

**IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETINGS ARE THEREFORE URGED TO COMPLETE, SIGN, DATE AND RETURN ALL PROXY CARDS AS SOON AS POSSIBLE IN THE ENCLOSED POSTAGE-PAID ENVELOPE.**

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**Proxy FLAHERTY & CRUMRINE PREFERRED INCOME FUND INCORPORATED**

**PROXY IN CONNECTION WITH THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 22, 2010**

**Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on April 22, 2010.**

**The notice of annual meetings of shareholders, joint proxy statement and proxy card for the Fund are available on the Fund's website at [www.preferredincome.com](http://www.preferredincome.com).**

**PROXY SOLICITED BY BOARD OF DIRECTORS**

The undersigned holder of shares of Common Stock of Flaherty & Crumrine Preferred Income Fund Incorporated, a Maryland corporation (the Fund), hereby appoints Donald F. Crumrine and Robert M. Ettinger, proxies for the undersigned, each with full powers of substitution and revocation, to represent the undersigned and to vote on behalf of the undersigned all shares of Common Stock which the undersigned is entitled to vote at the Annual Meeting of Shareholders of the Fund to be held at the offices of Flaherty & Crumrine Incorporated, 301 East Colorado Boulevard, Suite 720, Pasadena, California 91101 at 8:30 a.m. PT, on April 22, 2010, and any adjournments or postponements thereof. The undersigned hereby acknowledges receipt of the Notice of Annual Meeting and Proxy Statement and hereby instructs said proxies to vote said shares as indicated hereon. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the Meeting. A majority of the proxies present and acting at the Meeting in person or by substitute (or, if only one shall be so present, then that one) shall have and may exercise all of the power and authority of said proxies hereunder. The undersigned hereby revokes any proxy previously given.

**NOTE:** Please sign this proxy exactly as your name(s) appear(s) on the books of the Fund. Joint owners should each sign personally. Trustees and other fiduciaries should indicate the capacity in which they sign, and where more than one name appears, a majority must sign. If a corporation, the signature should be that of an authorized officer who should state his or her title.

Signature

Date

Signature (Joint Owners)

Date

PFD-CMN-PXC  
1.03

