

Flaherty & Crumrine PREFERRED INCOME OPPORTUNITY FUND INC

Form N-30B-2

April 29, 2013

*FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND*

To the Shareholders of Flaherty & Crumrine Preferred Income Opportunity Fund:

The new fiscal year is off to a fine start total return on *net asset value* for the first fiscal quarter<sup>2</sup> was +4.3%. Over the same period total return based on income plus change in the Fund's *market price* was +11.7%.

With signs of economic improvement trickling in, prices on intermediate and long-term US Treasury bonds fell as much as five percent in the quarter. In contrast, prices on many preferred securities rose. Conditions in the market for preferred securities have been, and remain, positive; credit quality continues to improve, investor demand is high, and the market is shrinking.

Once again redemptions of preferred securities outpaced issuance. Since December 1, 2012, redemptions<sup>3</sup> totaled \$30.1 billion. Over the same period, \$16.8 billion of new preferred securities were brought to market. *During the past four months, the preferred securities market has shrunk by \$13.3 billion, or 3.7%.*

It is instructive to break these numbers down between bank and non-bank securities. Since December 1, 2012, redemptions of bank preferred securities have totaled \$17.6 billion, or 44% of total preferred redemptions. Since mid-March, however, bank calls have spiked and comprise over 70% of total redemptions. The pace quickened immediately after regulators announced results from their annual review of capital at large banks. So far, banks have been slow to replace preferred capital new bank issues have totaled a paltry \$3.9 billion since December<sup>1</sup> of last year.

For non-bank companies the decision to call or issue is driven primarily by economics. In the current low interest rate environment, it is often possible for issuers to achieve substantial savings by refinancing. While banks are concerned about expense reduction as well, their decisions about redemption or issuance have been driven mainly by regulatory requirements. The Dodd-Frank Wall Street Reform and Consumer Protection Act, passed by Congress in 2010, mandated new standards for the amount and form of bank capital. Under the Act, trust preferred securities are being phased out of the calculation of Tier 1 capital. New capital will be either traditional equity or non-cumulative perpetual preferred stock.

As we've discussed in the past, the wave of refinancing negatively impacts income earned from Fund investments. The current combination of high-yielding portfolio assets and low cost of Fund leverage won't last forever; we attempt to set distribution rates that reflect this situation.

As always, we encourage you to visit the Fund's website [www.preferredincome.com](http://www.preferredincome.com), for important information.

Sincerely,

Donald F. Crumrine

Chairman

March 28, 2013

Robert M. Ettinger

President

<sup>1</sup> Following the methodology required by the SEC, total return includes income and principal change, plus the impact of the Fund's leverage and expenses.

<sup>2</sup> December 1, 2012 February 28, 2013

<sup>3</sup> Announced or implemented.

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

## PORTFOLIO OVERVIEW

February 28, 2013 (Unaudited)

### Fund Statistics

Net Asset Value	\$	11.33
Market Price	\$	12.56
Premium		10.86%
Yield on Market Price		6.97%
Common Stock Shares Outstanding		12,246,004

### Moody's Ratings

	% of Net Assets
A	0.9%
BBB	58.7%
BB	31.8%
Below BB	3.7%
Not Rated*	3.6%
Below Investment Grade**	24.8%

\* Does not include net other assets and liabilities of 1.3%.

\*\* 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
Liberty Mutual Group	4.4%
MetLife	4.3%
HSBC PLC	4.3%
Goldman Sachs Group	4.0%
Banco Santander, S.A.	3.8%
Wells Fargo & Company	3.6%
Barclays Bank PLC	3.1%
XL Group PLC	2.8%

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Axis Capital Holdings Ltd	2.5%
Enbridge Energy Partners	2.5%
	<b>% of Net Assets***</b>
Holdings Generating Qualified Dividend Income (QDI) for Individuals	49%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	31%

\*\*\* 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 &amp; Crumrine Preferred Income Opportunity Fund Incorporated

**PORTFOLIO OF INVESTMENTS**

February 28, 2013 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities 89.0%</b>		
<b>Banking 35.2%</b>		
	Astoria Financial:	
\$ 2,750,000	Astoria Capital Trust I, 9.75% 11/01/29, Series B	\$ 2,838,685 <sup>(1)(2)</sup>
	Banco Bilbao Vizcaya Argentaria, S.A.:	
\$ 1,375,000	BBVA International Preferred, 5.919%	1,161,875** <sup>(1)(2)(3)</sup>
	Banco Santander, S.A.:	
280,123	Banco Santander, 10.50% Pfd., Series 10	7,891,765** <sup>(1)(3)</sup>
	Bank of America:	
10,000	Bank of America Corporation, 8.20% Pfd.	255,300*
125,765	Bank of America Corporation, 8.625% Pfd.	3,207,008* <sup>(1)</sup>
2,500	Countrywide Capital IV, 6.75% Pfd. 04/01/33	63,750
20,000	Countrywide Capital V, 7.00% Pfd. 11/01/36	505,000
	Barclays Bank PLC:	
\$ 2,750,000	Barclays Bank PLC, 6.278%	2,696,554** <sup>(1)(2)(3)</sup>
56,000	Barclays Bank PLC, 7.10% Pfd.	1,419,600** <sup>(3)</sup>
4,700	Barclays Bank PLC, 7.75% Pfd., Series 4	119,239** <sup>(3)</sup>
90,000	Barclays Bank PLC, 8.125% Pfd., Series 5	2,289,600** <sup>(1)(3)</sup>
	BNP Paribas:	
\$ 1,750,000	BNP Paribas, 7.195%, 144A****	1,824,375** <sup>(1)(2)(3)</sup>
	Citigroup:	
\$ 2,750,000	Citigroup, Inc., 8.40%, Series E	3,089,925*
13,000	Citigroup Capital VII, 7.125% Pfd. 07/31/31	330,282
	CoBank ACB:	
10,000	CoBank ACB, 6.25% Pfd., 144A****	1,067,500*
	Colonial BancGroup:	
\$ 4,500,000	Colonial BancGroup, 7.114%, 144A****	6,750 <sup>(4)(5)</sup>
	Cullen/Frost Bankers:	
20,000	Cullen/Frost Bankers, Inc., 5.375% Pfd.	496,250*
	FBOP Corp:	
4,500	FBOP Corporation, Adj. Rate Pfd., 144A****	2,250* <sup>(4)(5)</sup>
	Fifth Third Bancorp:	
\$ 700,000	Fifth Third Capital Trust IV, 6.50% 04/15/37	703,500 <sup>(1)</sup>
	First Horizon:	
750	First Tennessee Bank, Adj. Rate Pfd., 3.75% <sup>(6)</sup> , 144A****	554,531* <sup>(1)</sup>
\$ 500,000	First Tennessee Capital II, 6.30% 04/15/34, Series B	491,250
1	FT Real Estate Securities Company, 9.50% Pfd., 144A****	1,100,625
	First Niagara Financial Group:	
104,000	First Niagara Financial Group, Inc., 8.625% Pfd.	3,052,660* <sup>(1)</sup>

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**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2013 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Banking (Continued)</b>		
	First Republic Bank:	
29,050	First Republic Bank, 6.70% Pfd.	\$ 796,914*
	Goldman Sachs Group:	
22,500	Goldman Sachs, 5.95% Pfd.	564,806*
\$ 2,255,000	Goldman Sachs, Capital I, 6.345% 02/15/34	2,368,248 <sup>(1)(2)</sup>
	HSBC PLC:	
\$ 1,000,000	HSBC Capital Funding LP, 10.176%, 144A****	1,402,500 <sup>(1)(3)</sup>
127,500	HSBC Holdings PLC, 8.00% Pfd., Series 2	3,544,691** <sup>(1)(3)</sup>
\$ 120,000	HSBC USA Capital Trust I, 7.808% 12/15/26, 144A****	122,400
99,850	HSBC USA, Inc., 6.50% Pfd., Series H	2,574,263* <sup>(1)</sup>
	ING Groep NV:	
30,000	ING Groep NV, 7.05% Pfd.	760,845** <sup>(3)</sup>
21,700	ING Groep NV, 7.20% Pfd.	549,932** <sup>(3)</sup>
32,500	ING Groep NV, 7.375% Pfd.	828,425** <sup>(3)</sup>
14,300	ING Groep NV, 8.50% Pfd.	370,656** <sup>(3)</sup>
	JPMorgan Chase:	
\$ 3,550,000	JPMorgan Chase & Company, 7.90%, Series 1	4,113,289* <sup>(1)</sup>
	KeyCorp:	
1,000	KeyCorp, 7.75% Pfd., Series A	127,313*
	Lloyds Banking Group PLC:	
\$ 450,000	Lloyds Banking Group PLC, 6.657%, 144A****	408,375** <sup>(3)</sup>
	M&T Bank Corp:	
\$ 1,750,000	M&T Bank Corporation, 6.875%, 144A****	1,838,632* <sup>(1)</sup>
	Morgan Stanley:	
30,000	Morgan Stanley Capital Trust VI, 6.60% Pfd. 02/01/46	761,250
4,500	Morgan Stanley Capital Trust VII, 6.60% Pfd.	113,895
	PNC Financial Services:	
85,070	PNC Financial Services, 6.6285% <sup>(6)</sup> Adj. Rate Pfd., Series L	2,209,481* <sup>(1)</sup>
\$ 200,000	PNC Preferred Funding Trust III, 8.70%, 144A****	203,516
	Sovereign Bancorp:	
2,600	Sovereign REIT, 12.00% Pfd., Series A, 144A****	3,395,272
	Wells Fargo:	
3,085	Wells Fargo & Company, 7.50% Pfd., Series L	3,912,937* <sup>(1)</sup>
123,500	Wells Fargo & Company, 8.00% Pfd., Series J	3,589,219* <sup>(1)</sup>
	Zions Bancorporation:	
85,200	Zions Bancorporation, 7.90% Pfd., Series F	2,449,500*
30,000	Zions Bancorporation, 9.50% Pfd., Series C	775,500*
		72,950,133

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**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2013 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Financial Services 1.5%</b>		
Credit Suisse Group:		
\$ 1,260,000	Claudius, Ltd. - Credit Suisse AG, 7.875%, Series B, 144A****	\$ 1,343,475 <sup>(3)</sup>
6,000	Credit Suisse Guernsey, 7.90% Pfd.	153,563** <sup>(3)</sup>
General Electric Capital Corp:		
\$ 200,000	General Electric Capital Corp., 7.125%, Series A	231,366*
HSBC PLC:		
50,000	HSBC Finance Corporation, 6.36% Pfd., Series B	1,281,575* <sup>(1)</sup>
		3,009,979
<b>Insurance 25.4%</b>		
Ace Ltd.:		
\$ 1,200,000	Ace Capital Trust II, 9.70% 04/01/30	1,749,000 <sup>(1)(2)(3)</sup>
Aon Corporation:		
\$ 375,000	AON Corp, 8.205% 01/01/27	481,842
Arch Capital Group:		
81,925	Arch Capital Group, Ltd., 6.75% Pfd., Series C	2,252,323** <sup>(1)(3)</sup>
AXA SA:		
\$ 2,800,000	AXA SA, 6.379%, 144A****	2,800,000** <sup>(1)(2)(3)</sup>
\$ 500,000	AXA SA, 8.60% 12/15/30	644,542 <sup>(3)</sup>