

Flaherty & Crumrine PREFERRED INCOME OPPORTUNITY FUND INC

Form N-30B-2

October 30, 2012

**Item 1. Schedule of Investments.**

The Schedule(s) of Investments is attached herewith.

*FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND*

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

Your Fund continues to benefit from strong markets, active management, and efficient use of leverage. During the third fiscal quarter<sup>1</sup>, total return on net asset value<sup>2</sup> was +7.6%. Since the fiscal year began on December 1, 2011, total return on NAV was an eye-popping +22.8%. Total return based on market price of Fund shares for the comparable periods was +8.9% and +21.2% respectively.

Conditions in the preferred market have been, and remain, positive. Redemptions of securities have significantly outpaced new issues, leaving many investors scrambling to find replacements. In addition, it appears that fixed-income investors are increasingly turning to preferred securities, attracted to relatively high yields.

Since June 1, redemptions of preferred securities totaled roughly \$44 billion. Redemptions of trust preferred securities issued by U.S. banks accounted for almost \$34 billion. As discussed in the past, over the coming years certain important regulatory benefits of trust preferreds available to banks will be phased out as a result of Dodd-Frank reform legislation. Changes in regulatory treatment of preferred securities and historically low current interest rates made many older issues ripe for redemption.

New issue activity has been robust, but the amount of new issuance, almost \$29 billion since June 1, has fallen well short of redemptions. Of this amount, only \$6.5 billion was issued by U.S. banks in the new form of qualifying Tier 1 capital. This is largely as expected most banks have chosen to build up capital by retaining earnings and issuing common stock. The balance of new issues came from a variety of industries, including insurance (\$3.6b), other finance (\$5.5b), REIT (\$5.7b), foreign banks, (\$2.0b) and miscellaneous industrials and energy (\$5.7b).

Fundamental credit quality has improved steadily since the financial crisis, despite sluggish economic growth. As preferred investors, we focus primarily on an issuer's balance sheet to ensure the company's ability to meet its obligations. From our perspective, corporate balance sheets are healthier now than at any time in recent memory. Of course, not all companies are thriving. The ongoing European crisis has strained issuers in that region. However, our approach of owning preferred securities issued by strong, diversified European companies paid off recently this segment of the portfolio (13% as of August 31<sup>st</sup>) was the Fund's top performer during the quarter.

Leverage is an essential component of Fund strategy. We expect the cost of leverage to be below the yield on the Fund's investment portfolio, providing a boost to income available to shareholders. In addition, leverage magnifies the principal change of securities in the portfolio. With leverage, if total return (the sum of income plus principal change) on portfolio holdings is positive (negative), total return on net asset value of the Fund will be even higher (lower) than an unleveraged portfolio. The Fund's leverage has worked exactly as expected and helped produce this year's excellent returns.

While we welcome strong performance for the Fund, shareholders should understand that the decline in preferred securities' yields in the years since the financial crisis, if they persist, will put downward pressure on Fund income over time. The Fund continues to have holdings in bank trust preferred securities that will

<sup>1</sup> June 1, 2012 - August 31, 2012

<sup>2</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.

likely be redeemed (approximately 7.4% of its total net assets as of August 31, 2012) and which have a weighted average current yield of approximately 8.04% as of August 31, 2012. New issue preferred securities have been coming at yields in the range of 5.20-6.25%. We are working hard to reinvest proceeds from called issues into attractive securities, but in most cases, yields on those securities are lower than the called securities.

On the flip side, the Fund's cost of leverage has remained low, as the Federal Reserve has increased its monetary accommodation. In addition, the Fund increased its *dollar* amount of leverage as preferred securities' values increased while its *percentage* amount of leverage remained at around 33% as of August 31, 2012. Both have helped support the Fund's distributable income per common share. However, leverage costs cannot drop much further. At some point, the lower yield on preferred securities again, if they persist will reduce Fund income. While the distribution rate probably will be lower at some point in the future, we believe preferred securities offer attractive total return potential and the Fund will continue to offer a competitive distribution rate.

As always, we encourage you to visit the Fund's website [www.preferredincome.com](http://www.preferredincome.com) for a more in-depth discussion of conditions in both preferred markets and the broader economy.

Sincerely,

Donald F. Crumrine

Chairman

October 5, 2012

Robert M. Ettinger

President

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

**PORTFOLIO OVERVIEW**

**August 31, 2012 (Unaudited)**

**Fund Statistics**

Net Asset Value	\$	10.80
Market Price	\$	11.98
Premium		10.93%
Yield on Market Price		7.56%
Common Stock Shares Outstanding		12,172,241

**Moody's Ratings**

**% of Net Assets**

A	0.7%
BBB	64.0%
BB	28.6%
Below BB	3.1%
Not Rated*	2.1%
Below Investment Grade**	20.2%

\* Does not include net other assets and liabilities of 1.5%.

\*\* 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	4.5%
HSBC PLC	4.2%
MetLife	4.0%
Banco Santander, S.A.	3.9%
Capital One Financial	3.8%
Goldman Sachs Group	3.5%
XL Group PLC	2.8%
Enbridge Energy Partners	2.6%

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Axis Capital	2.5%
Wells Fargo	2.4%
	<b>% of Net Assets***</b>
Holdings Generating Qualified Dividend Income (QDI) for Individuals	44%
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 &amp; Crumrine Preferred Income Opportunity Fund Incorporated

**PORTFOLIO OF INVESTMENTS****August 31, 2012 (Unaudited)**

Shares/\$ Par		Value
<b>Preferred Securities 88.1%</b>		
<b>Banking 34.4%</b>		
	Astoria Financial:	
\$ 2,750,000	Astoria Capital Trust I, 9.75% 11/01/29, Series B	\$ 2,853,345 <sup>(1)</sup>
	Banco Bilbao Vizcaya Argentaria, S.A.:	
\$ 1,375,000	BBVA International Preferred, 5.919%	912,567 <sup>** (1)(3)</sup>
	Banco Santander, S.A.:	
280,123	Banco Santander, 10.50% Pfd., Series 10	7,668,367 <sup>** (1)(3)</sup>
	Bank of America:	
100,515	Bank of America Corporation, 8.625% Pfd.	2,591,407*
2,500	Countrywide Capital IV, 6.75% Pfd. 04/01/33	62,629
30,000	Countrywide Capital V, 7.00% Pfd. 11/01/36	752,175
\$ 530,000	NB Capital Trust II, 7.83% 12/15/26	533,313
	Barclays Bank PLC:	
\$ 2,750,000	Barclays Bank PLC, 6.278%	2,328,906 <sup>** (1)(3)</sup>
4,700	Barclays Bank PLC, 7.75% Pfd., Series 4	118,769 <sup>** (3)</sup>
73,500	Barclays Bank PLC, 8.125% Pfd., Series 5	1,879,395 <sup>** (1)(3)</sup>
	BB&T Corp:	
87,625	BB&T Corporation, 5.625% Pfd., Series E	2,244,952 <sup>* (1)</sup>
	BNP Paribas:	
\$ 1,750,000	BNP Paribas, 7.195%, 144A****	1,605,625 <sup>** (1)(2)(3)</sup>
	Capital One Financial:	
\$ 5,250,000	Capital One Capital III, 7.686% 08/15/36	5,322,188 <sup>(1)(2)</sup>
\$ 250,000	Capital One Capital V, 10.25% 08/15/39	258,750
\$ 1,750,000	Capital One Capital VI, 8.875% 05/15/40	1,799,450 <sup>(1)(2)</sup>
	Citigroup:	
13,000	Citigroup Capital VII, 7.125% Pfd. 07/31/31	328,250
56,700	Citigroup Capital XIII, 7.875% Pfd. 10/30/40	1,564,568 <sup>(1)(2)</sup>
	Colonial BancGroup:	
\$ 4,500,000	Colonial BancGroup, 7.114%, 144A****	9,000 <sup>(4)(5)</sup>
	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	702,625 <sup>(1)</sup>
	First Horizon:	
3,300	First Tennessee Bank, Adj. Rate Pfd., 3.75% <sup>(6)</sup> , 144A****	2,385,281 <sup>* (1)</sup>
\$ 500,000	First Tennessee Capital II, 6.30% 04/15/34, Series B	477,500
1	FT Real Estate Securities Company, 9.50% Pfd., 144A****	955,000

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**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2012 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Banking (Continued)</b>		
	First Niagara Financial Group:	
100,000	First Niagara Financial Group, Inc., 8.625% Pfd.	\$ 2,986,150*
	First Republic Bank:	
10,050	First Republic Bank, 6.70% Pfd.	274,983*
	Goldman Sachs Group:	
\$ 1,185,000	Goldman Sachs, Capital I, 6.345% 02/15/34	1,181,227 <sup>(1)(2)</sup>
	HSBC PLC:	
\$ 1,000,000	HSBC Capital Funding LP, 10.176%, 144A****	1,350,000 <sup>(3)</sup>
127,500	HSBC Holdings PLC, 8.00% Pfd., Series 2	3,542,141 <sup>** (1)(3)</sup>
\$ 120,000	HSBC USA Capital Trust I, 7.808% 12/15/26, 144A****	121,800
99,850	HSBC USA, Inc., 6.50% Pfd., Series H	2,570,389 <sup>*(1)</sup>
	ING Groep NV:	
8,200	ING Groep NV, 7.20% Pfd.	203,864 <sup>** (3)</sup>
21,000	ING Groep NV, 7.375% Pfd.	524,790 <sup>** (3)</sup>
	JPMorgan Chase:	
\$ 1,550,000	JPMorgan Chase & Company, 7.90%, Series 1	1,740,033*
	KeyCorp:	
1,000	KeyCorp, 7.75% Pfd., Series A	117,750*
	Lloyds Banking Group PLC:	
\$ 450,000	Lloyds Banking Group PLC, 6.657%, 144A****	338,625 <sup>** (3)</sup>
	Morgan Stanley:	
10,000	Morgan Stanley Capital Trust VI, 6.60% Pfd. 02/01/46	250,825
	PNC Financial Services:	
19,910	PNC Financial Services, 6.125% Pfd., Series P	552,353 <sup>*(1)</sup>
99,000	PNC Financial Services, 9.875% Pfd., Series L	2,638,597 <sup>*(1)</sup>
\$ 1,105,000	PNC Preferred Funding Trust III, 8.70%, 144A****	1,127,233 <sup>(1)(2)</sup>
	Sovereign Bancorp:	
2,600	Sovereign REIT, 12.00% Pfd., Series A, 144A****	2,908,402
	Wells Fargo:	
3,085	Wells Fargo & Company, 7.50% Pfd., Series L	3,687,346 <sup>*(1)</sup>
35,000	Wells Fargo & Company, 8.00% Pfd., Series J	1,049,737 <sup>*(1)</sup>
	Zions Bancorporation:	
85,200	Zions Bancorporation, 7.90% Pfd., Series F	2,337,036*
25,000	Zions Bancorporation, 9.50% Pfd., Series C	658,250*
		67,517,843
<b>Financial Services 1.1%</b>		
	Ameriprise Financial:	
\$ 250,000	Ameriprise Financial, Inc., 7.518% 06/01/66	277,500 <sup>(1)(2)</sup>
	Credit Suisse Group:	
\$ 1,000,000	Claudius, Ltd. - Credit Suisse AG, 7.875%, Series B, 144A****	1,051,250 <sup>(3)</sup>





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**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2012 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Financial Services (Continued)</b>		
	HSBC PLC:	
30,000	HSBC Finance Corporation, 6.36% Pfd., Series B	\$ 753,075*(1)
		2,081,825
<b>Insurance 23.5%</b>		
	Ace Ltd.:	
\$ 1,200,000	Ace Capital Trust II, 9.70% 04/01/30	1,716,000(1)(2)(3)
	Aon Corporation:	
\$ 275,000	AON Corp, 8.205% 01/01/27	334,623
	Arch Capital Group:	
81,925	Arch Capital Group, Ltd., 6.75% Pfd., Series C	2,253,142**(1)(2)(3)
	AXA SA:	
\$ 3,500,000	AXA SA, 6.379%, 144A****	3,014,375**(1)(2)(3)
	Axis Capital:	
175,000	Axis Capital Holdings, 6.875% Pfd., Series C	4,817,977**(1)(2)(3)
	Delphi Financial:	
90,000	Delphi Financial Group, 7.376% Pfd. 05/15/37	2,238,750(1)(2)
	Everest Re Group:	
\$ 4,000,000	Everest Re Holdings, 6.60% 05/15/37	4,020,000(1)(2)
	Liberty Mutual Group:	
\$ 4,600,000	Liberty Mutual Group, 10.75% 06/15/58, 144A****	6,497,500(1)
	Lincoln National Corp:	
\$ 175,000	Lincoln National Corporation, 7.00% 05/17/66	175,875
	MetLife:	
\$ 2,154,000	MetLife, Inc., 10.75% 08/01/39	3,160,995(1)(2)
\$ 448,000	MetLife Capital Trust IV, 7.875% 12/15/37, 144A****	526,400(1)(2)
\$ 3,325,000	MetLife Capital Trust X, 9.25% 04/08/38, 144A****	4,256,000(1)(2)
	PartnerRe Ltd.:	
35,535	PartnerRe Ltd., 7.250% Pfd., Series E	990,716**(1)(3)
	Principal Financial:	
22,000	Principal Financial Group, 5.563% Pfd., Series A	2,142,939*(1)
70,005	Principal Financial Group, 6.518% Pfd., Series B	1,912,012*(1)
	StanCorp Financial Group:	
\$ 1,400,000	StanCorp Financial Group, 6.90% 06/01/67	1,358,000(1)(2)
	The Travelers Companies:	
\$ 1,060,000	USF&G Capital, 8.312% 07/01/46, 144A****	1,322,756(1)(2)

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**PORTFOLIO OF INVESTMENTS (Continued)****August 31, 2012 (Unaudited)**

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Insurance (Continued)</b>		
	XL Group PLC:	
\$ 5,900,000	XL Capital Ltd., 6.50%, Series E	\$ 5,405,875 <sup>(1)(2)(3)</sup>
		46,143,935
<b>Utilities 19.5%</b>		
	Alabama Power:	
7,460	Alabama Power Company, 6.45% Pfd.	217,272 <sup>(1)</sup>
	Baltimore Gas & Electric:	
6,579	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993	670,647 <sup>(1)</sup>
2,500	Baltimore Gas & Electric Company, 7.125% Pfd., Series 1993	255,859*
	Commonwealth Edison:	
\$ 2,350,000	COMED Financing III, 6.35% 03/15/33	2,373,500 <sup>(1)(2)</sup>
	Constellation Energy:	
8,000	Constellation Energy Group, 8.625% Pfd. 06/15/63, Series A	213,520
	Dominion Resources:	
\$ 750,000	Dominion Resources Capital Trust I, 7.83% 12/01/27	761,174 <sup>(1)</sup>
\$ 3,000,000	Dominion Resources, Inc., 7.50% 06/30/66	3,246,447 <sup>(1)(2)</sup>
	Energy Future Competitive Holdings Corp:	
\$ 686,000	TXU Electric Capital V, 8.175% 01/30/37	171,500 <sup>(4)</sup>
	Entergy Arkansas:	
40,000	Entergy Arkansas, Inc., 6.45% Pfd.	1,026,252*
	Entergy Louisiana:	
16,500	Entergy Louisiana, Inc., 6.95% Pfd.	1,652,062*
	Entergy Mississippi:	
80,000	Entergy Mississippi, Inc., 6.25% Pfd.	2,027,504*
	Georgia Power:	
16,937	Georgia Power Company, 6.50% Pfd., Series 2007A	1,913,881 <sup>(1)</sup>
	Gulf Power:	
15,035	Gulf Power Company, 6.00% Pfd., Series 1	1,525,755 <sup>(1)</sup>
	Indianapolis Power & Light:	
25,000	Indianapolis Power & Light Company, 5.65% Pfd.	2,546,095 <sup>(1)</sup>
	Interstate Power & Light:	
137,756	Interstate Power & Light Company, 8.375% Pfd., Series B	3,796,900 <sup>(1)</sup>
	Nextera Energy:	
\$ 3,000,000	FPL Group Capital, Inc., 6.65% 06/15/67	3,187,005 <sup>(1)(2)</sup>
\$ 1,000,000	FPL Group Capital, Inc., 7.30% 09/01/67, Series D	1,082,382 <sup>(1)(2)</sup>

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**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2012 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Utilities (Continued)</b>		
	Peco Energy:	
\$ 1,500,000	PECO Energy Capital Trust III, 7.38% 04/06/28, Series D	\$ 1,554,552 <sup>(1)(2)</sup>
	PPL Corp:	
\$ 1,500,000	PPL Capital Funding, 6.70% 03/30/67, Series A	1,540,877
	Puget Energy:	
\$ 4,155,000	Puget Sound Energy, Inc., 6.974% 06/01/67	4,430,979 <sup>(1)</sup>
	Southern California Edison:	
12,050	Southern California Edison, 6.00% Pfd., Series C	1,217,050 <sup>*(1)</sup>
20,044	Southern California Edison, 6.50% Pfd., Series D	2,137,819 <sup>*(1)</sup>
	Virginia Electric & Power:	
3,000	Virginia Electric & Power Company, \$6.98 Pfd.	301,969*
	Wisconsin Public Service:	
3,000	Wisconsin Public Service Corporation, 6.88% Pfd.	305,156*
		38,156,157
<b>Energy 6.3%</b>		
	Enbridge Energy Partners:	
\$ 4,498,000	Enbridge Energy Partners LP, 8.05% 10/01/37	5,031,796 <sup>(1)(2)</sup>
	Enterprise Products Partners:	
\$ 4,150,000	Enterprise Products Partners, 8.375% 08/01/66, Series A	4,651,905 <sup>(1)(2)</sup>
	Kinder Morgan:	
3,000	Kinder Morgan GP, Inc., 8.33% Pfd., 144A****	2,718,938*
		12,402,639
<b>Real Estate Investment Trust (REIT) 0.1%</b>		
	PS Business Parks:	
2,052	PS Business Parks, Inc., 6.70% Pfd., Series P	52,518
7,500	PS Business Parks, Inc., 6.875% Pfd., Series R	204,000
		256,518
<b>Miscellaneous Industries 3.2%</b>		
	Ocean Spray Cranberries:	
32,700	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****	2,920,519*
	Stanley Black & Decker:	
68,238	Stanley Black & Decker, Inc., 5.75% Pfd. 07/25/52	1,791,247 <sup>(1)</sup>

Flaherty &amp; Crumrine Preferred Income Opportunity Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2012 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Miscellaneous Industries (Continued)</b>		
	Textron, Inc.:	
\$ 1,950,000	Textron Financial Corporation, 6.00% 02/15/67, 144A****	\$ 1,628,250
		6,340,016
	<b>Total Preferred Securities</b> (Cost \$160,246,603)	172,898,933
<b>Corporate Debt Securities 10.2%</b>		
<b>Banking 5.7%</b>		
	Goldman Sachs Group:	
\$ 5,540,000	Goldman Sachs Group, 6.75% 10/01/37, Sub Notes	5,785,849 <sup>(1)(2)</sup>
	Morgan Stanley:	
\$ 2,650,000	Morgan Stanley, 6.375% 07/24/42	2,693,622
	Regions Financial:	
\$ 2,500,000	Regions Financial Corporation, 7.375% 12/10/37, Sub Notes	2,612,500
		11,091,971
<b>Financial Services 0.3%</b>		
	Affiliated Managers Group:	
19,230	Affiliated Managers Group, Inc., 6.375% 08/15/42	491,567
	Raymond James Financial:	
5,900	Raymond James Financial, 6.90% 03/15/42	162,377
		653,944
<b>Insurance 2.3%</b>		
	Liberty Mutual Group:	
\$ 2,250,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	2,356,999 <sup>(1)(2)</sup>
	Unum Group:	
\$ 2,000,000	UnumProvident Corporation, 7.25% 03/15/28	2,241,118 <sup>(1)(2)</sup>
		4,598,117
<b>Utilities 0.9%</b>		
	Energy Transfer Equity:	
\$ 1,474,000	Southern Union Company, 8.25% 11/15/29	1,855,589 <sup>(1)(2)</sup>
		1,855,589



Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**August 31, 2012 (Unaudited)**

Shares/\$ Par	Value
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<b>Corporate Debt Securities (Continued)</b>	
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<b>Energy 1.0%</b>	
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