Flaherty & Crumrine PREFERRED INCOME OPPORTUNITY FUND INC
Form N-Q
April 27, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED

MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-06495

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Address of principal executive offices) (Zip code)

Donald F. Crumrine

Flaherty & Crumrine Incorporated

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Name and address of agent for service)

Registrant s telephone number, including area code: 626-795-7300

Date of fiscal year end: **November 30**

Date of reporting period: **February 29, 2012**

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Schedule of Investments.

The Schedule(s) of Investments is attached herewith.

FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND

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

The Fund is off to a strong start in the new fiscal year. During the three month period ending February 29th, total return[1] on net asset value of the Fund was +11.2%. Total return based on market price of Fund shares for the period was +16.3%. A portion of the Fund s NAV return in the quarter was recovery from the prior two quarters when total return was -4.6%. To provide context for return during the period, the comparable measure on the S&P 500 was +10.1%, and +2.0% for the Barclays Capital U.S. Aggregate Index.

A number of factors contributed to the strong performance. U.S. investor confidence turned positive after several months of decline. The labor picture is improving, corporate earnings have been rising, and the housing market is finally picking up. Europe appears to have stepped back from the precipice of economic disaster, as policy makers have flooded the continent with liquidity. Interest rates around the globe hover near historically low levels and are not expected to rise substantially anytime soon. All of this has stimulated demand for high-yielding assets, especially preferred securities.

Returns of this magnitude are rare, even in periods of above-average market volatility such as we ve experienced over the past several years. And while we enjoy double digit quarterly returns as much as the next shareholder, we know it is unlikely to be replicated.

With spring training in full swing it is hard to resist dusting off some baseball analogies. Your Fund is like a part of the lineup built to get singles and doubles and lead the league in on-base percentage. Other investments are intended to hit home runs, and we trust shareholders will determine if these also belong on their team. We ve tortured you with this to make a point investors shouldn t expect this type of quarterly Fund performance to be repeated.

Again, for several quarters we have seen signs of improvement in the U.S. economy, though the pace of growth has been well short of robust. The sovereign debt crisis in Europe appears to be moderating, although economic risks remain elevated in that region. Neither area is out of the woods and recovery could be easily derailed, but we believe the worst is behind us. Our Quarterly Economic Outlook can be viewed on the Fund s website.

We expect new bank capital guidelines to be issued by the Federal Reserve very soon. Patient readers will recall we have said this before, and eventually we will be right! With the new rules set to go into effect in January 2013, time is running out for the regulators. The new guidelines, when issued, will provide the final pieces of the regulatory capital overhaul which grew out of the financial crisis. We ve known for some time that most forms of trust preferred and hybrid preferred securities will eventually no longer count towards regulatory capital requirements. We re waiting to learn what can be used instead.

Even without clear guidelines from regulators, a handful of banks recently have issued new preferred stock with terms *expected* to conform to the new rules. These securities are all *perpetual, non-cumulative preferred stock.* This is the basic form of capital we believe will ultimately replace much of the bank preferred capital currently outstanding.

We don t think the transition will be immediate; nor is it likely that all of the older non-qualifying capital will be replaced with newer good Tier 1 capital. We have tried to anticipate the shift and stay ahead of the pack by selling some securities which may be called in the near term and reinvesting in suitable replacements. This type of proactive management has always been part of our investment approach.

[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.

Another fundamental part of our investment process is the hard work of credit analysis. The experience of the past few years has reinforced our commitment to rely on our own independent and objective research focused on the preferred level of the capital structure. The national rating agencies (Moody s, S&P, and Fitch) often seem to shoot where the rabbit was, especially when it comes to preferred securities.

Although we sometimes disagree with the agencies on their overall ratings of specific credits, we often disagree with their ratings on preferred securities. This divergence typically results from agencies mechanical notching of preferred securities down from a company s senior debt rating. In simplified terms, notching is the formulaic lowering of a security s rating by a predetermined number of rating categories simply based on where it fits in a company s capital structure. In our view, this methodology is arbitrary.

Our approach is to study every *issuer* to understand its business and financial condition, and every *issue* to understand its terms and conditions. Because we are investing in subordinated securities, it is essential that we understand the precise terms, many of which can be buried deep in the legal terms of the issue. With this knowledge we are better equipped to understand the full scope of risk associated with a specific security, and only then can we start to address questions of valuation.

As always, we encourage you to visit the Fund s website www.preferredincome.com for a more in-depth discussion of conditions in both preferred markets and the broader economy.

Sincerely,

Donald F. Crumrine
Chairman

Robert M. Ettinger
President

April 16, 2012

Flaherty &Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OVERVIEW

February 29, 2012 (Unaudited)

Fund Statistics	
Net Asset Value	$ 10.20
Market Price	$ 11.98
Premium	17.45%
Yield on Market Price	7.56%
Common Stock Shares Outstanding	12,122,296

Moody s Ratings	**% of Net Assets**
A	5.9%
BBB	73.3%
BB	17.1%
Below BB	0.8%
Not Rated*	0.1%
Below Investment Grade**	9.5%

* Does not include net other assets and liabilities of 2.8%.

** 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%
Banco Santander, S.A.	4.3%
Metlife	4.1%
Capital One Financial	4.0%
HSBC PLC	3.6%
Goldman Sachs Group	3.6%
Southern California Edison	3.3%
Wells Fargo	2.7%
Enbridge Energy Partners	2.6%
Bank of America	2.4%

	% of Net Assets* **
Holdings Generating Qualified Dividend Income (QDI) for Individuals	42%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	30%

*** 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 Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS

February 29, 2012 (Unaudited)

Shares/$ Par		Value
Preferred Securities 91.6%		
	Banking 36.2%	
	Astoria Financial:	
$ 2,750,000	Astoria Capital Trust I, 9.75% 11/01/29, Series B	$ 2,862,813(1)
	Banco Bilbao Vizcaya Argentaria, S.A.:	
$ 1,375,000	BBVA International Preferred, 5.919%	1,072,056**(1)(3)
	Banco Santander, S.A.:	
280,123	Banco Santander, 10.50% Pfd., Series 10	7,961,796**(1)(3)
	Bank of America:	
26,700	Bank of America Corporation, 8.625% Pfd.	680,316*
$ 400,000	BankAmerica Capital II, 8.00% 12/15/26	403,500
$ 520,000	BankAmerica Institutional, Series A, 8.07% 12/31/26, 144A****	524,550
2,500	Countrywide Capital IV, 6.75% Pfd. 04/01/33	60,529
15,000	Countrywide Capital V, 7.00% Pfd. 11/01/36	361,388
$ 350,000	Fleet Capital Trust II, 7.92% 12/11/26	348,687
$ 525,000	MBNA Capital, 8.278% 12/01/26, Series A	533,584
$ 1,580,000	NB Capital Trust IV, 8.25% 04/15/27	1,609,625(1)
	Barclays Bank PLC:	
$ 2,750,000	Barclays Bank PLC, 6.278%	2,224,923**(1)(3)
4,700	Barclays Bank PLC, 7.75% Pfd., Series 4	118,205**(3)
73,500	Barclays Bank PLC, 8.125% Pfd., Series 5	1,877,925**(1)(3)
	BNP Paribas:	
$ 1,750,000	BNP Paribas, 7.195%, 144A****	1,548,750**(1)(2)(3)
	Capital One Financial:	
$ 5,250,000	Capital One Capital III, 7.686% 08/15/36	5,361,562(1)(2)
$ 250,000	Capital One Capital V, 10.25% 08/15/39	261,875
$ 1,750,000	Capital One Capital VI, 8.875% 05/15/40	1,817,270(1)(2)
	Citigroup:	
22,325	Citigroup Capital XII, 8.50% Pfd. 03/30/40	581,845
56,700	Citigroup Capital XIII, 7.875% Pfd. 10/30/40	1,537,222(1)(2)
	Colonial BancGroup:	
$ 4,500,000	Colonial BancGroup, 7.114%, 144A****	9,000(4)(5)
	FBOP Corp.:	
4,500	FBOP Corporation, Adj. Rate Pfd., 144A****	2,250*(4)(5)
	Fifth Third Bancorp.:	
$ 700,000	Fifth Third Capital Trust IV, 6.50% 04/15/37	698,250(1)
15,000	Fifth Third Capital Trust V, 7.25% Pfd. 08/15/67	380,400
125,000	Fifth Third Capital Trust VI, 7.25% Pfd. 11/15/67	3,191,413(1)(2)

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 29, 2012 (Unaudited)

Shares/$ Par		Value
Preferred Securities (Continued)		
	Banking (Continued)	
	First Horizon:	
3,750	First Tennessee Bank, Adj. Rate Pfd., 3.75%(6), 144A****	$ 2,558,203*(1)
$ 500,000	First Tennessee Capital II, 6.30% 04/15/34, Series B	455,000
1	FT Real Estate Securities Company, 9.50% Pfd., 144A****	955,000
	First Niagara Financial Group:	
82,000	First Niagara Financial Group, Inc., 8.625% Pfd.	2,272,343*
	First Republic Bank:	
10,050	First Republic Bank, 6.70% Pfd.	259,014*
	Goldman Sachs Group:	
$ 1,400,000	Goldman Sachs, Capital I, 6.345% 02/15/34	1,314,701(1)(2)
$ 523,000	Goldman Sachs, Capital II, 5.793%	364,793(1)(2)
3,500	STRIPES Custodial Receipts, Adj. Rate, 10.70%(6), Pvt.	1,697,500*(4)(5)
	HSBC PLC:	
127,500	HSBC Holdings PLC, 8.00% Pfd., Series 2	3,461,944**(1)(3)
104,800	HSBC USA, Inc., 6.50% Pfd., Series H	2,657,885*(1)
1,000	HSBC USA, Inc., $2.8575 Pfd.	47,500*
	JPMorgan Chase:	
$300,000	JPMorgan Chase Capital XVIII, 6.95% 08/17/36, Series R	306,630(1)
	KeyCorp:	
27,700	Keycorp Capital X, 8.00% Pfd. 03/15/68	725,740(1)(2)
	Lloyds Banking Group PLC:	
$450,000	Lloyds Banking Group PLC, 6.657%, 144A****	312,750**(3)
	Morgan Stanley:	
10,000	Morgan Stanley Capital Trust VI, 6.60% Pfd. 02/01/46	245,000
	PNC Financial Services:	
99,000	PNC Financial Services, 9.875% Pfd., Series L	2,734,528*(1)
$1,105,000	PNC Preferred Funding Trust III, 8.70%, 144A****	1,144,016(1)(2)
	Sovereign Bancorp:	
2,600	Sovereign REIT, 12.00% Pfd., Series A, 144A****	2,989,774
	SunTrust Banks:	
5,500	SunTrust Capital IX, 7.875% Pfd. 03/15/68	140,938
	US Bancorp:	
8,250	US Bancorp, 6.50% Pfd.	223,010*
	Washington Mutual:	
$900,000	Washington Mutual, 9.75%, 144A****	9,000
	Webster Financial:	
$1,400,000	Webster Capital Trust IV, 7.65% 06/15/37	1,404,838(1)

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PORTFOLIO OF INVESTMENTS (Continued)

February 29, 2012 (Unaudited)

Shares/$ Par		Value
Preferred Securities (Continued)		
	Banking (Continued)	
	Wells Fargo:	
$ 1,100,000	Wachovia Capital Trust III, Adj. Rate, 5.56975%(6)	$ 1,012,000*(1)
1,536	Wachovia Preferred Funding, 7.25% Pfd., Series A	40,477(1)
2,730	Wells Fargo & Company, 7.50% Pfd., Series L	2,990,033*(1)
35,000	Wells Fargo & Company, 8.00% Pfd., Series J	1,023,750*(1)
		67,376,101
	Financial Services 1.2%	
	Ameriprise Financial:	
$ 250,000	Ameriprise Financial, Inc., 7.518% 06/01/66	272,500(1)(2)
	Charles Schwab:	
$ 300,000	Charles Schwab Corporation, 7.00%	313,557*
	Credit Suisse Group:	
$ 1,000,000	Claudius, Ltd. - Credit Suisse AG, 7.875%, Series B	1,025,000(3)