

FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND

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

Total return on net asset value (“NAV”)¹ was -4.7% during the third fiscal quarter², reducing total return on NAV fiscal year-to-date to +2.3%. In addition, during the quarter the Fund, like many other closed-end income-oriented funds, saw the relationship between its market price and NAV swing from a premium to a discount, resulting in total return on market value of -10.6%. Clearly, this represented a setback in what had been a sustained period of positive returns in both the Fund’s NAV and market valuation. During the quarter, prices of all fixed-income securities, including preferred securities, declined and yields increased as markets reacted swiftly to expectations that the Federal Reserve might taper its quantitative easing earlier than anticipated.

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

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

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

¹ Following the methodology required by the SEC, total return assumes dividend reinvestment and includes income and principal change, plus the impact of the Fund’s leverage and expenses.

² June 1st—August 31st.

Creditworthiness of most preferred-securities issuers continues to improve. Corporate earnings are growing at a moderate pace and corporate leverage remains low. Banks' problem loans are declining, capital levels are healthy (especially in the U.S.) and new lending is slowly picking up. Rising home prices are bolstering consumer balance sheets and trimming foreclosure losses. These favorable credit developments should continue to benefit preferred securities.

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

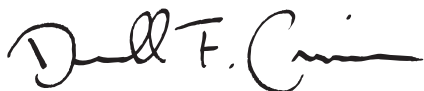
After a long wait, we now have largely final rules on the regulatory treatment of preferred securities issued by banks, foreign and domestic. Crafted in response to the financial crisis, new legislation and regulations shift loss burdens towards investors and away from taxpayers (government support).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

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

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

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

Sincerely,



Donald F. Crumrine
Chairman



Robert M. Ettinger
President

September 30, 2013

PORTFOLIO OVERVIEW

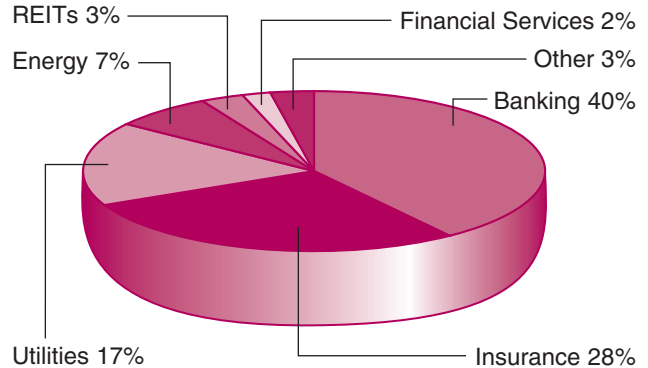
August 31, 2013 (Unaudited)

Fund Statistics

Net Asset Value	\$	10.69
Market Price	\$	10.09
Discount		5.61%
Yield on Market Price		8.68%
Common Stock Shares Outstanding		12,298,870

Industry Categories

% of Net Assets†



Moody's Ratings

% of Net Assets†

A	0.9%
BBB	58.8%
BB	31.2%
Below "BB"	3.4%
Not Rated*	4.1%

Below Investment Grade** 23.9%

* Does not include net other assets and liabilities of 1.6%.

** Below investment grade by all of Moody's, S&P, and Fitch.

Top 10 Holdings by Issuer

% of Net Assets†

HSBC PLC	4.7%
Liberty Mutual Group	4.4%
MetLife	4.2%
Goldman Sachs Group	3.9%
Banco Santander, S.A.	3.7%
Wells Fargo & Company	3.5%
Barclays Bank PLC	3.1%
XL Group PLC	2.8%
Unum Group	2.6%
Enbridge Energy Partners	2.5%

% of Net Assets*†**

Holdings Generating Qualified Dividend Income (QDI) for Individuals 47%

Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD) 29%

*** 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.

PORTFOLIO OF INVESTMENTS**August 31, 2013 (Unaudited)**

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — 90.2%		
Banking — 35.4%		
15,000	Astoria Financial Corp., 6.50% Pfd., Series C	\$ 350,587*
	Banco Bilbao Vizcaya Argentaria, S.A.:	
\$ 1,375,000	BBVA International Preferred, 5.919%	1,230,625**(1)(2)(3)
	Banco Santander, S.A.:	
280,123	Banco Santander, 10.50% Pfd., Series 10	7,541,611**(1)(3)
	Bank of America:	
\$ 1,200,000	Bank of America Corporation, 8.125%	1,331,992*(1)
2,500	Countrywide Capital IV, 6.75% Pfd. 04/01/33	62,656
23,000	Countrywide Capital V, 7.00% Pfd. 11/01/36	577,358
	Barclays Bank PLC:	
\$ 2,750,000	Barclays Bank PLC, 6.278%	2,496,101**(1)(2)(3)
56,000	Barclays Bank PLC, 7.10% Pfd.	1,393,280**(3)
4,700	Barclays Bank PLC, 7.75% Pfd., Series 4	117,970**(3)
90,000	Barclays Bank PLC, 8.125% Pfd., Series 5	2,272,500**(1)(3)
\$ 1,750,000	BNP Paribas, 7.195%, 144A****	1,736,875**(1)(2)(3)
	Citigroup:	
\$ 2,750,000	Citigroup, Inc., 8.40%, Series E	3,027,932*
17,125	Citigroup Capital XIII, 7.875% Pfd.	470,403
	CoBank ACB:	
10,000	CoBank ACB, 6.125% Pfd., Series G, 144A****	942,813*
10,000	CoBank ACB, 6.25% Pfd., 144A****	1,022,188*
\$ 4,500,000	Colonial BancGroup, 7.114%, 144A****	6,750(4)(5)††
13,300	Cullen/Frost Bankers, Inc., 5.375% Pfd., Series A	291,955*
	Fifth Third Bancorp:	
\$ 700,000	Fifth Third Capital Trust IV, 6.50% 04/15/37	697,375(1)
	First Horizon:	
750	First Tennessee Bank, Adj. Rate Pfd., 3.75%(6), 144A****	552,422*(1)
\$ 500,000	First Tennessee Capital II, 6.30% 04/15/34, Series B	488,750
1	FT Real Estate Securities Company, 9.50% Pfd., 144A****	1,100,625
104,000	First Niagara Financial Group, Inc., 8.625% Pfd.	2,895,755*(1)
29,050	First Republic Bank, 6.70% Pfd.	709,474*
	Goldman Sachs Group:	
22,500	Goldman Sachs, 5.95% Pfd., Series I	513,986*
12,500	Goldman Sachs, 6.20% Pfd., Series B	305,079*
\$ 1,750,000	Goldman Sachs, Capital I, 6.345% 02/15/34	1,679,416(1)(2)
	HSBC PLC:	
\$ 1,500,000	HSBC Capital Funding LP, 10.176%, 144A****	2,124,375(1)(3)
127,500	HSBC Holdings PLC, 8.00% Pfd., Series 2	3,462,428**(1)(3)

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
PORTFOLIO OF INVESTMENTS (Continued)
August 31, 2013 (Unaudited)

Shares/\$ Par	Value
Preferred Securities — (Continued)	
Banking — (Continued)	
\$ 120,000	HSBC USA Capital Trust I, 7.808% 12/15/26, 144A**** \$ 122,400
\$ 91,000	HSBC USA Capital Trust II, 8.38% 05/15/27, 144A**** 92,477
96,149	HSBC USA, Inc., 6.50% Pfd., Series H 2,394,716 ^{*(1)}
	ING Groep NV:
30,000	ING Groep NV, 7.05% Pfd. 740,175 ^{** (3)}
21,700	ING Groep NV, 7.20% Pfd. 540,384 ^{** (3)}
42,500	ING Groep NV, 7.375% Pfd. 1,074,400 ^{** (3)}
14,300	ING Groep NV, 8.50% Pfd. 364,936 ^{** (3)}
	JPMorgan Chase:
\$ 300,000	JPMorgan Chase & Company, 6.00%, Series R 286,500*
\$ 3,750,000	JPMorgan Chase & Company, 7.90%, Series 1 4,138,425 ^{*(1)}
400	KeyCorp, 7.75% Pfd., Series A 50,350*
\$ 450,000	Lloyds Banking Group PLC, 6.657%, 144A**** 411,750 ^{** (3)}
\$ 1,750,000	M&T Bank Corporation, 6.875%, 144A**** 1,776,868 ^{*(1)}
	Morgan Stanley:
30,000	Morgan Stanley Capital Trust VI, 6.60% Pfd. 02/01/46 746,250
50,000	PNC Financial Services, 6.125% Pfd., Series P 1,274,125 ^{*(1)}
\$ 1,775,000	Rabobank Nederland, 11.00%, 144A**** 2,311,107 ⁽¹⁾⁽³⁾
	Royal Bank of Scotland:
7,500	Royal Bank of Scotland Group PLC, 6.40%, Pfd., Series M 152,700 ^{** (3)}
15,000	Royal Bank of Scotland Group PLC, 6.60%, Pfd., Series S 312,450 ^{** (3)}
37,500	Royal Bank of Scotland Group PLC, 7.25% Pfd., Series T 860,250 ^{** (3)}
	Sovereign Bancorp:
2,600	Sovereign REIT, 12.00% Pfd., Series A, 144A**** 3,368,404
10,000	Texas Capital Bancshares Inc., 6.50% Pfd., Series A 227,015*
17,500	US Bancorp, 6.50%, Pfd. 457,735*
	Wells Fargo:
3,085	Wells Fargo & Company, 7.50% Pfd., Series L 3,494,534 ^{*(1)}
123,500	Wells Fargo & Company, 8.00% Pfd., Series J 3,512,525 ^{*(1)}
	Zions Bancorporation:
\$ 1,000,000	Zions Bancorporation, 7.20%, Series J 997,500 ^{*(1)}
85,200	Zions Bancorporation, 7.90% Pfd., Series F 2,365,578 ^{*(1)}
	71,476,835
	Financial Services — 1.8%
	Credit Suisse Group:
\$ 1,260,000	Claudius, Ltd. - Credit Suisse AG, 7.875%, Series B, 144A**** 1,346,624 ⁽³⁾
\$ 950,000	General Electric Capital Corp., 7.125%, Series A 1,049,073*

PORTFOLIO OF INVESTMENTS (Continued)**August 31, 2013 (Unaudited)**

<u>Shares/\$ Par</u>	<u>Value</u>
Preferred Securities — (Continued)	
Financial Services — (Continued)	
HSBC PLC:	
55,000 HSBC Finance Corporation, 6.36% Pfd., Series B	\$ 1,292,088 ⁽¹⁾
	<u>3,687,785</u>
Insurance — 25.5%	
Ace Ltd.:	
\$ 1,200,000 Ace Capital Trust II, 9.70% 04/01/30	1,689,000 ⁽¹⁾⁽²⁾⁽³⁾
\$ 375,000 Aon Corporation, 8.205% 01/01/27	460,591
100,175 Arch Capital Group, Ltd., 6.75% Pfd., Series C	2,426,118 ^{**1(3)}
AXA SA:	
\$ 2,800,000 AXA SA, 6.379%, 144A****	2,744,000 ^{**1(2)(3)}
\$ 500,000 AXA SA, 8.60% 12/15/30	593,750 ⁽³⁾
187,000 Axis Capital Holdings, 6.875% Pfd., Series C	4,534,750 ^{**1(3)}
90,000 Delphi Financial Group, 7.376% Pfd. 05/15/37	2,252,817 ⁽¹⁾⁽²⁾
27,250 Endurance Specialty Holdings, 7.50% Pfd.	682,108 ^{**3)}
\$ 4,350,000 Everest Re Holdings, 6.60% 05/15/37	4,339,125 ⁽¹⁾⁽²⁾
\$ 4,600,000 Liberty Mutual Group, 10.75% 06/15/58, 144A****	6,831,000 ⁽¹⁾
\$ 175,000 Lincoln National Corporation, 7.00% 05/17/66	178,500
MetLife:	
\$ 2,454,000 MetLife, Inc., 10.75% 08/01/39	3,644,190 ⁽¹⁾⁽²⁾
\$ 448,000 MetLife Capital Trust IV, 7.875% 12/15/37, 144A****	510,720 ⁽¹⁾⁽²⁾
\$ 3,325,000 MetLife Capital Trust X, 9.25% 04/08/38, 144A****	4,322,500 ⁽¹⁾⁽²⁾
35,535 PartnerRe Ltd., 7.250% Pfd., Series E	899,036 ^{**1(3)}
75,000 Principal Financial Group, 6.518% Pfd., Series B	1,880,438 ⁽¹⁾
\$ 300,000 Prudential Financial, Inc., 5.625% 06/15/43	282,000
QBE Insurance:	
\$ 1,020,000 QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A****	1,077,692 ⁽¹⁾⁽³⁾
\$ 1,910,000 StanCorp Financial Group, 6.90% 06/01/67	1,914,775 ⁽¹⁾⁽²⁾
The Travelers Companies:	
\$ 960,400 USF&G Capital, 8.312% 07/01/46, 144A****	1,199,078 ⁽¹⁾⁽²⁾
Unum Group:	
\$ 2,750,000 Provident Financing Trust I, 7.405% 03/15/38	3,050,894 ⁽¹⁾⁽²⁾
8,300 W.R. Berkley Corporation, 5.625% Pfd.	178,191
XL Group PLC:	
\$ 5,900,000 XL Capital Ltd., 6.50%, Series E	5,737,750 ⁽¹⁾⁽²⁾⁽³⁾
	<u>51,429,023</u>

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
PORTFOLIO OF INVESTMENTS (Continued)
August 31, 2013 (Unaudited)

Shares/\$ Par		Value
Preferred Securities — (Continued)		
Utilities — 16.5%		
7,460	Alabama Power Company, 6.45% Pfd.	\$ 193,960 ⁽¹⁾
	Baltimore Gas & Electric:	
6,579	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993	672,086 ⁽¹⁾
2,500	Baltimore Gas & Electric Company, 7.125% Pfd., Series 1993	253,828*
	Commonwealth Edison:	
\$ 2,350,000	COMED Financing III, 6.35% 03/15/33	2,232,500 ⁽¹⁾⁽²⁾
\$ 3,000,000	Dominion Resources, Inc., 7.50% 06/30/66	3,242,063 ⁽¹⁾⁽²⁾
	Energy Future Competitive Holdings Corp:	
\$ 636,000	TXU Electric Capital V, 8.175% 01/30/37	155,820 ⁽⁴⁾
58,000	Entergy Arkansas, Inc., 6.45% Pfd.	1,439,125*
16,500	Entergy Louisiana, Inc., 6.95% Pfd.	1,656,704*
80,000	Entergy Mississippi, Inc., 6.25% Pfd.	1,945,000*
16,937	Georgia Power Company, 6.50% Pfd., Series 2007A	1,730,750 ⁽¹⁾
15,035	Gulf Power Company, 6.00% Pfd., Series 1	1,514,691 ⁽¹⁾
25,000	Indianapolis Power & Light Company, 5.65% Pfd.	2,538,283 ⁽¹⁾
38,000	Integrus Energy Group, Inc., 6.00% Pfd.	933,375
	Nextera Energy:	
\$ 1,600,000	FPL Group Capital, Inc., 6.65% 06/15/67	1,685,403 ⁽¹⁾⁽²⁾
\$ 1,000,000	FPL Group Capital, Inc., 7.30% 09/01/67, Series D	1,100,957 ⁽¹⁾⁽²⁾
	PECO Energy:	
\$ 1,500,000	PECO Energy Capital Trust III, 7.38% 04/06/28, Series D	1,487,412 ⁽¹⁾⁽²⁾
	PPL Corp:	
65,000	PPL Capital Funding, Inc., 5.90% Pfd., Series B	1,495,000 ⁽¹⁾⁽²⁾
\$ 1,250,000	PPL Capital Funding, Inc., 6.70% 03/30/67, Series A	1,294,770 ⁽¹⁾⁽²⁾
\$ 3,350,000	Puget Sound Energy, Inc., 6.974% 06/01/67	3,540,015 ⁽¹⁾⁽²⁾
32,544	Southern California Edison, 6.50% Pfd., Series D	3,443,562 ⁽¹⁾
3,000	Virginia Electric & Power Company, \$6.98 Pfd.	305,438*
3,000	Wisconsin Public Service Corporation, 6.88% Pfd.	303,563*
		<u>33,164,305</u>
Energy — 6.0%		
\$ 4,498,000	Enbridge Energy Partners LP, 8.05% 10/01/37	5,038,750 ⁽¹⁾⁽²⁾
\$ 3,875,000	Enterprise Products Partners, 8.375% 08/01/66, Series A	4,313,742 ⁽¹⁾⁽²⁾
3,000	Kinder Morgan GP, Inc., 4.188% ⁽⁶⁾ , Pfd., 144A ^{****}	2,753,625*
		<u>12,106,117</u>

PORTFOLIO OF INVESTMENTS (Continued)**August 31, 2013 (Unaudited)**

Shares/\$ Par		Value
Preferred Securities — (Continued)		
Real Estate Investment Trust (REIT) — 2.6%		
Duke Realty Corp.:		
4,000	Duke Realty Corp, 6.50% Pfd., Series K	\$ 94,250
3,500	Duke Realty Corp, 6.60% Pfd., Series L	83,125
11,075	Kimco Realty Corporation, 6.90% Pfd., Series H	280,087
30,000	National Retail Properties, Inc., 5.70% Pfd., Series E	613,545
PS Business Parks:		
8,243	PS Business Parks, Inc., 5.70% Pfd., Series V	173,845
40,000	PS Business Parks, Inc., 6.45% Pfd., Series S	932,060 ⁽¹⁾⁽²⁾
7,500	PS Business Parks, Inc., 6.875% Pfd., Series R	185,325
115,000	Realty Income Corp, 6.625% Pfd., Series F	2,776,100 ⁽¹⁾⁽²⁾
		<u>5,138,337</u>
Miscellaneous Industries — 2.4%		
32,700	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****	2,924,606*
10,000	Stanley Black & Decker, Inc., 5.75% Pfd. 07/25/52	229,375 ⁽¹⁾⁽²⁾
\$ 1,950,000	Textron Financial Corporation, 6.00% 02/15/67, 144A****	1,740,375
		<u>4,894,356</u>
Total Preferred Securities		
	(Cost \$172,132,138)	<u>181,896,758</u>
Corporate Debt Securities — 8.2%		
Banking — 4.8%		
\$ 5,100,000	Goldman Sachs Group, Inc., 6.75% 10/01/37, Sub Notes	5,279,071 ⁽¹⁾⁽²⁾
\$ 2,500,000	Regions Financial Corporation, 7.375% 12/10/37, Sub Notes	2,706,923 ⁽¹⁾⁽²⁾
75,000	Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes	1,689,848
		<u>9,675,842</u>
Financial Services — 0.3%		
19,230	Affiliated Managers Group, Inc., 6.375% 08/15/42	452,318
5,900	Raymond James Financial, 6.90% 03/15/42	151,527
		<u>603,845</u>
Insurance — 2.1%		
\$ 1,850,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	1,954,107 ⁽¹⁾⁽²⁾
Unum Group:		
\$ 2,000,000	UnumProvident Corporation, 7.25% 03/15/28	2,276,940 ⁽¹⁾⁽²⁾
		<u>4,231,047</u>

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
PORTFOLIO OF INVESTMENTS (Continued)
August 31, 2013 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value</u>
Corporate Debt Securities — (Continued)		
Energy — 0.9%		
\$ 1,474,000	Energy Transfer Partners LP, 8.25%, 11/15/2029, 144A****	\$ 1,807,815 ⁽¹⁾⁽²⁾
		<u>1,807,815</u>
Real Estate Investment Trust (REIT) — 0.1%		
10,750	CommonWealth REIT, 7.50% 11/15/19	224,261
		<u>224,261</u>
	Total Corporate Debt Securities (Cost \$14,687,354)	<u>16,542,810</u>
Common Stock — 0.1%		
Insurance — 0.0%		
17,821	WMI Holdings Corporation, 144A****	18,177*†
		<u>18,177</u>
Utilities — 0.1%		
8,940	Exelon Corporation	272,581*
		<u>272,581</u>
	Total Common Stock (Cost \$1,279,370)	<u>290,758</u>
Money Market Fund — 0.3%		
560,980	BlackRock Liquidity Funds: T-Fund	560,980
	Total Money Market Fund (Cost \$560,980)	<u>560,980</u>
	Total Investments (Cost \$188,659,842****)	98.8% 199,291,306
	Other Assets And Liabilities (Net)	1.2% <u>2,384,566</u>
	Total Managed Assets	100.0%† <u>\$ 201,675,872</u>
	Loan Principal Balance	<u>(70,200,000)</u>
	Total Net Assets Available To Common Stock	<u>\$ 131,475,872</u>

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2013 (Unaudited)

- * Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.
- ** Securities distributing Qualified Dividend Income only.
- *** Aggregate cost of securities held.
- **** Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. At August 31, 2013, these securities amounted to \$44,799,373 or 22.2% of total managed assets.
- (1) All or a portion of this security is pledged as collateral for the Fund's loan. The total value of such securities was \$135,377,444 at August 31, 2013.
- (2) All or a portion of this security has been rehypothecated. The total value of such securities was \$66,078,635 at August 31, 2013.
- (3) Foreign Issuer.
- (4) Illiquid.
- (5) Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of August 31, 2013.
- (6) Represents the rate in effect as of the reporting date.
- † Non-income producing.
- †† The issuer has filed for bankruptcy protection. As a result, the Fund may not be able to recover the principal invested and also does not expect to receive income on this security going forward.
- ‡ The percentage shown for each investment category is the total value of that category as a percentage of total managed assets.

ABBREVIATIONS:

- Pfd.** — Preferred Securities
- REIT** — Real Estate Investment Trust

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK⁽¹⁾
For the period from December 1, 2012 through August 31, 2013 (Unaudited)

	<u>Value</u>
OPERATIONS:	
Net investment income	\$ 8,448,223
Net realized gain/(loss) on investments sold during the period	(1,639,913)
Change in net unrealized appreciation/depreciation of investments	(3,509,218)
Net increase in net assets resulting from operations	3,299,092
DISTRIBUTIONS:	
Dividends paid from net investment income to Common Stock Shareholders ⁽²⁾	(9,482,243)
Total Distributions to Common Stock Shareholders	(9,482,243)
FUND SHARE TRANSACTIONS:	
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan	1,068,602
Net increase in net assets available to Common Stock resulting from Fund share transactions	1,068,602
NET DECREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD	\$ (5,114,549)
<hr/>	
NET ASSETS AVAILABLE TO COMMON STOCK:	
Beginning of period	\$136,590,421
Net decrease in net assets during the period	(5,114,549)
End of period	<u>\$131,475,872</u>

⁽¹⁾ These tables summarize the nine months ended August 31, 2013 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2012.

⁽²⁾ May include income earned, but not paid out, in prior fiscal year.

FINANCIAL HIGHLIGHTS⁽¹⁾

For the period from December 1, 2012 through August 31, 2013 (Unaudited)

For a Common Stock share outstanding throughout the period

PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of period \$ 11.19

INVESTMENT OPERATIONS:

Net investment income 0.69
 Net realized and unrealized gain/(loss) on investments (0.42)
 Total from investment operations 0.27

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income (0.77)
 Total distributions to Common Stock Shareholders (0.77)
 Net asset value, end of period \$ 10.69
 Market value, end of period \$ 10.09
 Common Stock shares outstanding, end of period 12,298,870

RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:

Net investment income† 8.17%*
 Operating expenses including interest expense 1.90%*
 Operating expenses excluding interest expense 1.37%*

SUPPLEMENTAL DATA:††

Portfolio turnover rate 21%**
 Total managed assets, end of period (in 000's) \$201,676
 Ratio of operating expenses including interest expense to total managed assets 1.27%*
 Ratio of operating expenses excluding interest expense to total managed assets 0.91%*

⁽¹⁾ These tables summarize the nine months ended August 31, 2013 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2012.

* Annualized.

** Not Annualized.

† The net investment income ratios reflect income net of operating expenses, including interest expense.

†† Information presented under heading Supplemental Data includes loan principal balance.

FINANCIAL HIGHLIGHTS (Continued)

Per Share of Common Stock (Unaudited)

	<u>Total Dividends Paid</u>	<u>Net Asset Value</u>	<u>NYSE Closing Price</u>	<u>Dividend Reinvestment Price⁽¹⁾</u>
December 31, 2012	\$0.1895	\$11.13	\$11.22	\$11.13
January 31, 2013	0.0730	11.30	12.14	11.53
February 28, 2013	0.0730	11.33	12.56	11.93
March 28, 2013	0.0730	11.38	12.26	11.65
April 30, 2013	0.0730	11.54	12.61	11.98
May 31, 2013	0.0730	11.45	11.52	11.45
June 28, 2013	0.0730	10.97	10.97	10.97
July 31, 2013	0.0730	10.94	10.79	10.81
August 30, 2013	0.0730	10.69	10.09	10.12

⁽¹⁾ Whenever the net asset value per share of the Fund's Common Stock is less than or equal to the market price per share on the reinvestment date, new shares issued will be valued at the higher of net asset value or 95% of the then current market price. Otherwise, the reinvestment shares of Common Stock will be purchased in the open market.

NOTES TO FINANCIAL STATEMENTS (Unaudited)**1. Aggregate Information for Federal Income Tax Purposes**

At August 31, 2013, the aggregate cost of securities for federal income tax purposes was \$188,695,061, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$17,999,057 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$7,402,812.

2. Additional Accounting Standards

Fair Value Measurements: The Fund has performed an analysis of all existing investments and derivative instruments to determine the significance and character of all inputs to their fair value determination. The levels of fair value inputs used to measure the Fund's investments are characterized into a fair value hierarchy. Where inputs for an asset or liability fall into more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's valuation. The three levels of the fair value hierarchy are described below:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of levels are recognized at market value at the end of the period. A summary of the inputs used to value the Fund's investments as of August 31, 2013 is as follows:

	Total Value at August 31, 2013	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Preferred Securities				
Banking	\$ 71,476,835	\$ 48,078,623	\$23,391,462	\$6,750
Financial Services	3,687,785	2,341,161	1,346,624	—
Insurance	51,429,023	32,107,301	19,321,722	—
Utilities	33,164,305	9,751,568	23,412,737	—
Energy	12,106,117	9,352,492	2,753,625	—
Real Estate Investment Trust (REIT)	5,138,337	5,138,337	—	—
Miscellaneous Industries	4,894,356	229,375	4,664,981	—
Corporate Debt Securities	16,542,810	7,797,025	8,745,785	—
Common Stock				
Insurance	18,177	18,177	—	—
Utilities	272,581	272,581	—	—
Money Market Fund	560,980	560,980	—	—
Total Investments	<u>\$199,291,306</u>	<u>\$115,647,620</u>	<u>\$83,636,936</u>	<u>\$6,750</u>

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

During the reporting period, there were no transfers into Level 1 from Level 2. During the reporting period, securities with an aggregate market value of \$2,759,063 were transferred into Level 2 from Level 1. The securities were transferred because of a reduction in the amount of observable market data, resulting from: a decrease in market activity for the securities, reduced availability of quoted prices for the securities, or de-listing of securities from a national securities exchange that resulted in a material decrease in activity.

The fair values of the Fund's investments are generally based on market information and quotes received from brokers or independent pricing services—approved by the Board and unaffiliated with the Adviser. To assess the continuing appropriateness of security valuations, management, in consultation with the Adviser, regularly compares current prices to prior prices, prices across comparable securities, actual sale prices for securities in the Fund's portfolio, and market information obtained by the Adviser as a function of being an active participant in the markets.

Securities with quotes that are based on actual trades or actionable bids and offers with a sufficient level of activity on or near the measurement date are classified as Level 1. Securities that are priced using quotes derived from implied values, indicative bids and offers, or a limited number of actual trades—or the same information for securities that are similar in many respects to those being valued—are classified as Level 2. If market information is not available for securities being valued, or materially-comparable securities, then those securities are classified as Level 3. In considering market information, management evaluates changes in liquidity, willingness of a broker to execute at the quoted price, the depth and consistency of prices from pricing services, and the existence of observable trades in the market.

The following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value:

	Preferred Securities	
	Total Investments	Banking
Balance as of 11/30/12	\$ 9,000	\$ 9,000
Accrued discounts/premiums	—	—
Realized gain/(loss)	(4,462,500)	(4,462,500)
Change in unrealized appreciation/(depreciation)	4,460,250	4,460,250
Purchases	—	—
Sales	—	—
Transfer in	—	—
Transfer out	—	—
Balance as of 08/31/13	\$ 6,750	\$ 6,750

For the nine months ended August 31, 2013, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was \$0.

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

The following table summarizes the valuation techniques used and unobservable inputs developed to determine the fair value of Level 3 investments:

Category	Fair Value at 08/31/13	Valuation Technique	Unobservable Input	Input Range (Wgt Avg)
Preferred Securities				
Banking	\$6,750	Bankruptcy recovery	Credit/Structure-specific recovery	0.00% - 0.50% (0.15%)

The significant unobservable inputs used in the fair value measurement technique for bankruptcy recovery are based on recovery analysis that is specific to the security being valued, including the level of subordination and structural features of the security, and the current status of any bankruptcy or liquidation proceedings. Observable market trades in bankruptcy claims are utilized by management, when available, to assess the appropriateness of valuations, although the frequency of trading depends on the specific credit and seniority of the claim. Expected recoveries in bankruptcy by security type and industry do not tend to deviate much from historical recovery rates, which are very low (sometimes zero) for preferred securities and more moderate for senior debt. Significant changes in these inputs would result in a significantly higher or lower fair value measurement.

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Directors

Donald F. Crumrine, CFA
Chairman of the Board
David Gale
Morgan Gust
Karen H. Hogan
Robert F. Wulf, CFA

Officers

Donald F. Crumrine, CFA
Chief Executive Officer
Robert M. Ettinger, CFA
President
R. Eric Chadwick, CFA
Chief Financial Officer,
Vice President and Treasurer
Chad C. Conwell
Chief Compliance Officer,
Vice President and Secretary
Bradford S. Stone
Vice President and
Assistant Treasurer
Laurie C. Lodolo
Assistant Compliance Officer,
Assistant Treasurer and
Assistant Secretary
Linda M. Puchalski
Assistant Treasurer

Investment Adviser

Flaherty & Crumrine Incorporated
e-mail: flaherty@pfdincome.com

Questions concerning your shares of Flaherty & Crumrine Preferred Income Opportunity Fund?

- If your shares are held in a Brokerage Account, contact your Broker.
- If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent & Shareholder Servicing Agent —
BNY Mellon Investment Servicing (US) Inc.
P.O. Box 358035
Pittsburgh, PA 15252-8035
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This report is sent to shareholders of Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated for their information. It is not a Prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.



Flaherty & Crumrine
PREFERRED INCOME
OPPORTUNITY FUND

Quarterly Report

August 31, 2013

www.preferredincome.com