LEVERAGE UPDATE
Flaherty & Crumrine Preferred Income Fund Incorporated (PFD)
Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated (PFO)

How much leverage does each Fund have?

As of April 17, PFD had $44.8 million in auction preferred stock ("APS") outstanding. As of the same date, PFO had $36.6 million.

What is the overall percent leverage of auction preferred stock to the Funds' total net assets?

As of April 17, the overall percent leverage for PFD was approximately 41.8%. As of the same date, the overall percent leverage for PFO was approximately 39.7%.

How does leverage impact the amount of the dividend?

Leverage is important for each Fund to meet its primary investment objective of high current income. In effect, each Fund "borrowed" money from APS holders at rates well below the rates that could be earned on its investment portfolio. The additional cash flow generated by investing this "borrowed" money produces additional income available for distribution to common shareholders. The benefit of leverage is greatest when the positive "spread" between the income generated by the portfolio and the cost of leverage is wide. Of course, nothing is that simple and each Fund's income can be influenced by other factors.

By how much and when did the Funds reduce their leverage balances?

The details of PFD's leverage balance reductions are as follows:

Description	*$ Amount of APS*	*Date*	*Remaining Leverage*
Mandatory Redemption	$8,100,000	November 12, 2008*	$71,900,000
Optional Redemption	$15,000,000	November 12, 2008*	$56,900,000
Mandatory Redemption	$2,100,000	November 20, 2008*	$54,800,000
Optional Redemption	$10,000,000	April 7, 2009*	$44,800,000

* PFD redeemed the shares from APS holders on the dates reflected; however, from the Fund's perspective, the November 12 and November 20 mandatory redemptions were effective as of October 24, 2008, the November 12 optional redemption was effective as of November 7, 2008, and the April 7, 2009 redemption was effective as of February 24, 2009.

The details of PFO's leverage balance reductions are as follows:

Description	*$ Amount of APS*	*Date*	*Remaining Leverage*
Optional Redemption	$10,000,000	October 14, 2008	$60,000,000
Mandatory Redemption	$2,400,000	November 20, 2008*	$57,600,000
Share Repurchase	$4,500,000	November 14, 2008	$53,100,000
Share Repurchase	$3,500,000	November 18, 2008	$49,600,000
Optional Redemption	$13,000,000	March 10, 2009*	$36,600,000

* PFO redeemed the shares from APS holders on the dates reflected; however, from the Fund's perspective, the November 20 mandatory redemption was effective as of October 24, 2008 and the March 10 optional redemption was effective as of February 23.

Why did the Funds reduce their leverage balances?

Each Fund *must* announce the redemption of its APS after it has been unable to meet any one of its asset coverage requirements (see below) for more than 10 business days. In addition, both Funds have the *option* of redeeming APS on any given auction date (which recur every 49 days) and of purchasing shares directly from APS holders in private transactions.

Despite making significant progress in meeting its asset coverage requirements in a depressed market environment, each Fund was forced to conduct some mandatory redemptions in November. In addition, the Board of Directors of each Fund determined to further de-leverage through optional redemptions and share repurchases in order to maintain and improve its asset coverage.

Have the Funds' leverage balance reductions impacted the amounts of the dividends paid to common shareholders?

As noted above, through April 17, PFD has reduced its leverage balance by $35.2 million and PFO has reduced its balance by $33.4 million. This leverage was providing additional incremental income to common shareholders, and during the third and fourth calendar quarters, PFD and PFO reduced their common stock dividends in total by 13.7% and 18.0%, respectively. Market conditions remain uncertain, though, and there can be no assurance that the Funds can continue to meet their asset coverage requirements and sustain the current dividend rates going forward.

What are the Funds' Asset Coverage Requirements?

The Funds must meet certain asset coverage requirements ("Basic Maintenance Requirement") under the terms of each Fund's outstanding APS. These terms are outlined in the Funds' Articles Supplementary Creating and Fixing the Rights and Preferences of the Auction Preferred Stock. The calculation for the Basic Maintenance Requirement is rather involved. Essentially, the Basic Maintenance Requirement looks at each Fund's asset values, discounts those values as outlined in the Articles and compares the discounted values to the Fund's liabilities. The discounted valued must meet or exceed the Fund's liabilities plus its APS outstanding in order for the Fund to be able to declare, set aside or pay its common stock dividend.

It is important to note that the Basic Maintenance Requirement is in addition to the asset coverage requirements under the Investment Company Act of 1940. Among other things, the Investment Company Act requires each Fund to have at least 200% asset coverage for its APS before it may declare a dividend to be paid to common stock shareholders. In other words, before declaring its dividend, a Fund must have $2 in assets for every $1 of APS outstanding.

How will the Funds continue to meet their asset coverage requirements?

The Funds may adjust their holdings (certain assets receive better asset coverage treatment than others) and sell assets to raise cash. Proceeds from asset sales may be invested in higher quality, lower yielding securities or held in cash, or in some cases used to reduce leverage, to restore the required level of asset coverage. If market values decline, additional sales may be needed. If asset values move higher, the asset coverage will improve and additional asset sales will not be required.