

Flaherty & Crumrine PREFERRED INCOME OPPORTUNITY FUND INC  
 Form 40-17G  
 June 29, 2007

CHUBB GROUP OF INSURANCE COMPANIES  
 15 Mountain View Road, Warren, New Jersey 07059

DECLARATIONS  
 FINANCIAL INSTITUTION INVESTMENT  
 COMPANY ASSET PROTECTION BOND

NAME OF ASSURED (including its SUBSIDIARIES):

Bond Number: 82052988

FLAHERTY & CRUMRINE / PREFERRED INCOME OPPORTUNITY  
 FUND

FEDERAL INSURANCE COMPANY

301 E. COLORADO BLVD., STE 720  
 PASADENA, CAL 91101

Incorporated under the laws of Indiana  
 a stock insurance company herein called  
 Capital Center, 251 North Illinois, Sui  
 Indianapolis, IN 46204-1927

ITEM 1. BOND PERIOD: from 12:01 a.m. on May 15, 2007  
 to 12:01 a.m. on May 15, 2008

ITEM 2. LIMITS OF LIABILITY--DEDUCTIBLE AMOUNTS:

If "Not Covered" is inserted below opposite any specified INSURING CLAUSE, such  
 INSURING CLAUSE and any other reference shall be deemed to be deleted. THERE  
 SHALL BE NO DEDUCTIBLE APPLICABLE TO ANY LOSS UNDER INSURING CLAUSE 1. SUSTAINED  
 BY ANY INVESTMENT COMPANY.

INSURING CLAUSE	LIMIT OF LIABILITY
1. Employee	\$ 600,000
2. On Premises	\$ 600,000
3. In Transit	\$ 600,000
4. Forgery or Alteration	\$ n/a
5. Extended Forgery	\$ n/a
6. Counterfeit Money	\$ n/a
7. Threats to Person	\$ n/a
8. Computer System	\$ n/a
9. Voice Initiated Funds Transfer Instruction	\$ n/a
10. Uncollectible Items of Deposit	\$ n/a
11. Audit Expense	\$ 25,000

ITEM 3. THE LIABILITY OF THE COMPANY IS ALSO SUBJECT TO THE TERMS OF THE  
 FOLLOWING ENDORSEMENTS EXECUTED SIMULTANEOUSLY HEREWITH:  
 1 - 3

IN WITNESS WHEREOF, THE COMPANY has caused this Bond to be signed by its  
 authorized officers, but it shall not be valid unless also signed by an  
 authorized representative of the Company.

/S/ W. ANDREW MACAN            /S/ THOMAS F. MOTAMED  
 Secretary                                  President

/S/ ROBERT HAMBURGER

Authorized Representative

ICAP Bond (5-98) - Federal  
Form 17-02-1421 (Ed. 5-98)

Page 1 of 1

The COMPANY, in consideration of payment of the required premium and the ASSURED'S reliance on the APPLICATION and all other statements furnished to the COMPANY by the ASSURED, and subject to the terms and conditions of this part of this Bond and to all other terms and conditions of the Bond, the COMPANY shall pay the ASSURED for:

INSURING CLAUSES

EMPLOYEE

- 1. Loss resulting directly from LARCENY or EMBEZZLEMENT by the ASSURED or any EMPLOYEE, alone or in collusion with others.

ON PREMISES

- 2. Loss of PROPERTY resulting directly from robbery, burglary, theft, common law or statutory larceny, misplacement, mysterious disappearance, damage, destruction or removal, from the control of the ASSURED, while such PROPERTY is located at any place where the PROPERTY is located anywhere.

IN TRANSIT

- 3. Loss of PROPERTY resulting directly from common law theft, misplacement, mysterious unexplainable disappearance while the PROPERTY is in transit anywhere:
  - a. in an armored motor vehicle, including loading and unloading
  - b. in the custody of a natural person acting as a bailee, or
  - c. in the custody of a TRANSPORTATION COMPANY and conveyance other than an armored motor vehicle, provided that the covered PROPERTY transported in such manner is
    - (1) recorded in written records,
    - (2) securities issued in registered form, or restrictively endorsed, or
    - (3) negotiable instruments not payable to order or are restrictively endorsed.

Coverage under this INSURING CLAUSE begins immediately upon the delivery of such PROPERTY by the natural person or TRANSPORTATION COMPANY to the ASSURED immediately on delivery to the premises of the address specified in the APPLICATION.

of the addressee located anywhere.

ICAP Bond (5-98)  
Form 17-02-1421 (Ed. 5-98) Page 1 of 19

INSURING CLAUSES  
(CONTINUED)

FORGERY OR ALTERATION

4. Loss resulting directly from:

- a. FORGERY on, or fraudulent material alteration of checks, drafts, acceptances, certificates of bills, money orders, orders upon public treasury written promises, orders or directions to pay receipts for the withdrawal of PROPERTY, or
- b. transferring, paying or delivering any funds or any credit or giving any value in reliance on or applications directed to the ASSURED authorizing transfer, payment, delivery or receipt of funds on instructions, advices or applications fraudulent or bearing a handwritten signature of any customer of the institution or EMPLOYEE but which instruction bear a FORGERY or have been fraudulently made without the knowledge and consent of such customer, share institution or EMPLOYEE;

excluding, however, under this INSURING CLAUSE any loss covered by INSURING CLAUSE 5. of this Bond, whether or not covered by INSURING CLAUSE 5. is provided for in the DECLARATIONS of this Bond.

For the purpose of this INSURING CLAUSE, a mechanical signature is treated the same as a handwritten signature.

EXTENDED FORGERY

5. Loss resulting directly from the ASSURED having, in the ordinary course of business, for its own account or in its capacity:

- a. acquired, accepted or received, accepted or received, or given value, extended credit or assumed liability for any SECURITIES, DOCUMENTS OR OTHER WRITTEN INSTRUMENTS

- (1) bear a FORGERY or a fraudulent
- (2) have been lost or stolen, or
- (3) be COUNTERFEIT, or

- b. guaranteed in writing or witnessed any signature assignment, bill of sale, power of attorney, obligation upon or in connection with any SEC WRITTEN INSTRUMENTS.

Actual physical possession, and continued actual physical possession, of such SECURITIES, DOCUMENTS OR OTHER WRITTEN INSTRUMENTS, by an EMPLOYEE, CUSTODIAN, or a Federal or State chartered institution, shall be ASSURED is a condition precedent to the ASSURED having Release or return of such collateral is an acknowledged receipt. The ASSURED no longer relies on such collateral.

ICAP Bond (5-98)  
Form 17-02-1421 (Ed. 5-98) Page 2 of 19

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INSURING CLAUSES

EXTENDED FORGERY

For the purpose of this INSURING CLAUSE, a mechanically reproduced facsimile (CONTINUED) signature is treated as a handwritten signature.

COUNTERFEIT MONEY

- 6. Loss resulting directly from the receipt by the ASSURED of COUNTERFEIT money.

THREATS TO PERSON

- 7. Loss resulting directly from surrender of PROPERTY of the ASSURED as a result of a threat communicated to the ASSURED or harm to an EMPLOYEE as defined in Section 1.e. (1), invitee of such EMPLOYEE, or a resident of the household of the ASSURED, is, or allegedly is, being held captive provided, however, that:
  - a. the EMPLOYEE who receives the threat has made a reasonable effort to notify an officer of the ASSURED who is not a resident of the household of the ASSURED;
  - b. the ASSURED has made a reasonable effort to conduct a thorough investigation and local law enforcement authorities have been notified.
 It is agreed that for purposes of this INSURING CLAUSE, the ASSURED, as set forth in the preceding paragraph, shall not be liable to the ASSURED hereunder, but only with respect to the surrender of such PROPERTY and other tangible personal property in which such EMPLOYEE has an equitable interest.

COMPUTER SYSTEM

- 8. Loss resulting directly from fraudulent:
  - a. entries of data into, or
  - b. changes of data elements or programs within, a COMPUTER SYSTEM, provided the fraudulent entry or change:
    - (1) results in the loss of funds or other property to be transferred to the ASSURED;
    - (2) results in the loss of an account of the ASSURED or of any other financial asset of the ASSURED.

debited or credited, or

(3)

an unauthorized account or a fi credited.

ICAP Bond (5-98)  
Form 17-02-1421 (Ed. 5-98) Page 3 of 19

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INSURING CLAUSES  
(CONTINUED)

VOICE INITIATED FUNDS  
TRANSFER INSTRUCTION

9. Loss resulting directly from VOICE INITIATED FUNDS T to the ASSURED authorizing the transfer of dividends INVESTMENT COMPANY shares from a CUSTOMER'S account, INITIATED FUNDS TRANSFER INSTRUCTION was:

- a. received at the ASSURED'S offices by those EMP specifically authorized to receive the VOICE I INSTRUCTION,
- b. made by a person purporting to be a CUSTOMER,
- c. made by said person for the purpose of causing to sustain a loss or making an improper person person or any other person.

In order for coverage to apply under this INSURING C FUNDS TRANSFER INSTRUCTIONS must be received and pro the Designated Procedures outlined in the APPLICATIO COMPANY.

UNCOLLECTIBLE ITEMS OF  
DEPOSIT

10. Loss resulting directly from the ASSURED having cred customer, shareholder or subscriber on the faith of prove to be uncollectible, provided that the crediti

- a. redemptions or withdrawals to be permitted,
  - b. shares to be issued, or
  - c. dividends to be paid,
- from an account of an INVESTMENT COMPANY.

In order for coverage to apply under this INSURING C ITEMS OF DEPOSIT for the minimum number of days stat permitting any redemptions or withdrawals, issu dividends with respect to such ITEMS OF DEPOSIT.

ITEMS OF DEPOSIT shall not be deemed uncollectible u standard collection procedures have failed.

AUDIT EXPENSE

11. Expense incurred by the ASSURED for that part of the examinations required by any governmental regulatory organization to be conducted by such authority, orga

reason of the discovery of loss sustained by the ASSURED  
Bond.

ICAP Bond (5-98)  
Form 17-02-1421 (Ed. 5-98) Page 4 of 19

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GENERAL AGREEMENTS

ADDITIONAL COMPANIES  
INCLUDED AS ASSURED

- A. If more than one corporation, or INVESTMENT COMPANY, is included as the ASSURED herein:
  - (1) The total liability of the COMPANY under this Bond sustained by any one or more or all of them shall be the liability which the COMPANY would be liable under this Bond sustained by any one of them.
  - (2) Only the first named ASSURED shall be deemed to be the ASSURED for all purposes under this Bond, including the giving or receiving of any notice or proof required for the effecting or accepting any amendments to or the execution of this COMPANY shall furnish each INVESTMENT COMPANY with a copy of this Bond and with any amendment thereto, together with a copy of the filing of claim by any other named ASSURED and shall settle the settlement of each such claim prior to the settlement of any other such claim.
  - (3) The COMPANY shall not be responsible for the payment made hereunder to the first named ASSURED.
  - (4) Knowledge possessed or discovery made by any officer or supervisory employee of any ASSURED shall be deemed to be knowledge possessed or discovery by all the ASSURED for the purposes of this Bond.
  - (5) If the first named ASSURED ceases for any reason to be named on this Bond, then the ASSURED next named on the APPLICATION shall be considered as the first named ASSURED for all purposes under this Bond.

REPRESENTATION MADE BY  
ASSURED

- B. The ASSURED represents that all information it has furnished in its APPLICATION for this Bond or otherwise is complete, true and correct and that the APPLICATION and other information constitute part of the information upon which the COMPANY is relying in issuing this Bond.

The ASSURED must promptly notify the COMPANY of any circumstance which materially affects the risk assumed by the COMPANY under this Bond.

Any intentional misrepresentation, omission, concealment of a material fact, in the APPLICATION or otherwise, shall constitute a breach of this Bond.

ICAP Bond (5-98)  
Form 17-02-1421 (Ed. 5-98) Page 5 of 19

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GENERAL AGREEMENTS  
(CONTINUED)

ADDITIONAL OFFICES OR  
EMPLOYEES - CONSOLIDATION,  
MERGER OR PURCHASE OR  
ACQUISITION OF ASSETS  
OR LIABILITIES - NOTICE TO  
COMPANY

C. If the ASSURED, other than an INVESTMENT COMPANY, which merges or consolidates with, or purchases or acquires another institution, the ASSURED shall not have the Bond for loss which has:

- (1) occurred or will occur on premises, or
- (2) been caused or will be caused by an employee,
- (3) arisen or will arise out of the assets or liabilities of such institution, unless the ASSURED:
  - a. gives the COMPANY written notice of the proposed purchase or acquisition of assets or liabilities, the date of such action, and
  - b. obtains the written consent of the COMPANY to the coverage provided by this Bond to such additional risks, and
  - c. on obtaining such consent, pays to the COMPANY the cost of such additional coverage.

CHANGE OF CONTROL -  
NOTICE TO COMPANY

D. When the ASSURED learns of a change in control (other than a change in control of the COMPANY), as set forth in Section 2(a) (9) of the Insurance Code, 1940, the ASSURED shall within sixty (60) days of the change in control of the COMPANY setting forth:

- (1) the names of the transferors and transferees and the beneficial owners if the voting securities are registered securities;
- (2) the total number of voting securities owned by the transferors and transferees (or the beneficial owners), both before and after the transfer, and
- (3) the total number of outstanding voting securities of the COMPANY.

Failure to give the required notice shall result in the Bond being void and of no effect, and no loss involving a transferee, to be effective on the date of the change in control.

COURT COSTS AND  
ATTORNEYS' FEES

E. The COMPANY will indemnify the ASSURED for court costs and attorneys' fees incurred and paid by the ASSURED in connection with the defense of any claim, suit or legal proceeding with respect to which the ASSURED is entitled to recovery under this Bond. However, with respect to any claim, suit or legal proceeding with respect to which the ASSURED is not entitled to recovery under this Bond, this Section shall only apply in the event:

- (1) an EMPLOYEE admits to being guilty of LARCENY;
- (2) an EMPLOYEE is adjudicated to be guilty of LARCENY.

COURT COSTS AND  
ATTORNEYS' FEES  
(CONTINUED)

(3) in the absence of 1 or 2 above, an arbitration panel  
an agreed statement of facts between the COMPANY and  
that an EMPLOYEE would be found guilty of LARCENY OR  
such EMPLOYEE were prosecuted.

The ASSURED shall promptly give notice to the COMPA  
proceeding and at the request of the COMPANY sh  
pleadings and pertinent papers to the COMPANY.  
option, elect to conduct the defense of all or par  
The defense by the COMPANY shall be in the name of t  
selected by the COMPANY. The ASSURED shall provide  
and assistance as required by the COMPANY for such d

If the COMPANY declines to defend the ASSURED, no s  
written consent of the COMPANY nor judgment against  
the existence, extent or amount of coverage under th

If the amount demanded in any such suit or legal  
DEDUCTIBLE AMOUNT, if any, the COMPANY shall have  
and attorney's fees incurred in defending all o  
proceeding.

If the amount demanded in any such suit or legal pr  
LIMIT OF LIABILITY stated in ITEM 2. of the DECLA  
INSURING CLAUSE, the COMPANY'S liability for cour  
incurred in defending all or part of such suit or le  
to the proportion of such court costs and attorne  
LIMIT OF LIABILITY stated in ITEM 2. of the DECLA  
INSURING CLAUSE bears to the total of the amount de  
proceeding.

If the amount demanded is any such suit or legal pr  
DEDUCTIBLE AMOUNT, if any, but within the LIMIT OF  
of the DECLARATIONS for the applicable INSURING CLA  
for court costs and attorney's fees incurred in d  
suit or legal proceedings shall be limited to the pr  
or attorney's fees that the amount demanded that  
Bond after application of the DEDUCTIBLE AMOUNT,  
demanded.

Amounts paid by the COMPANY for court costs and  
addition to the LIMIT OF LIABILITY stated in ITEM 2.

ICAP Bond (5-98)  
Form 17-02-1421 (Ed. 5-98) Page 7 of 19

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CONDITIONS AND  
LIMITATIONS



DEFINITIONS

1. As used in this Bond:
  - a. COMPUTER SYSTEM means a computer and all input storage, off-line media libraries, and communication devices connected to the computer and which are under the control of the operating system(s) or application(s) software.
  - b. COUNTERFEIT means an imitation of an actual value of the ASSURED to deceive and be taken as the original.
  - c. CUSTODIAN means the institution designated by the ASSURED to maintain possession and control of its assets.
  - d. CUSTOMER means an individual, corporate, partnership, trust, shareholder or subscriber of an INVESTMENT CONTRACT in accordance with an agreement with the ASSURED for VOICE INITIATED TELEPHONE SERVICE INSTRUCTION.
  - e. EMPLOYEE means:
    - (1) an officer of the ASSURED,
    - (2) a natural person while in the regular course of business at the ASSURED'S premises and compensated through its payroll system and subject to the reporting requirements of Revenue Service Form W-2 or equivalent in any other countries, and whom the ASSURED has directly or indirectly direct both as to the result to be accomplished and the service by which such result is accomplished in the course of its service,
    - (3) a guest student pursuing studies or performing services at the ASSURED'S premises,
    - (4) an attorney retained by the ASSURED and while performing legal services as an attorney while either is performing legal services,
    - (5) a natural person provided by an employer to perform employee duties for the ASSURED under contract at any of the ASSURED'S premises,
    - (6) an employee of an institution merged or acquired by the ASSURED prior to the effective date of the bond,
    - (7) a director or trustee of the ASSURED, or a committee member, within the scope of the customary and usual duties of such director, trustee or other employee of the ASSURED or while performing such duties as a committee duly elected or appointed to have the custody of or access to PROPERTY of the ASSURED.

LIMITATIONS

DEFINITIONS  
(CONTINUED)

- (8) each natural person, partnership or corporation authorized by an agreement with the ASSURED to perform services as electronic processor of checks or other accounting records related to the ASSURED only while such person, partnership or corporation is performing such services and not:
- a. creating, preparing, modifying or maintaining computer software or programs, or
  - b. acting as transfer agent or in any other capacity with respect to checks, drafts or securities for the ASSURED.

- (9) any partner, officer or employee of an investment advisor (distributor), a transfer agent or shareholder accounting administrator, for an INVESTMENT COMPANY while performing such duties within the scope of the customary and usual duties of an INVESTMENT COMPANY or acting as a member of an advisory board elected or appointed to examine, audit or have custody of the REAL PROPERTY of AN INVESTMENT COMPANY.

The term EMPLOYEE shall not include any partner, officer, transfer agent, shareholder accounting recordkeeper or

- a. which is not an "affiliated person" (as defined in the Investment Company Act of 1940) of an investment advisor, the investment advisor or underwriter of the COMPANY, or
- b. which is a "bank" (as defined in Section 3 of the Investment Company Act of 1940).

This Bond does not afford coverage in respect of claims by persons as set forth in e. (4), (5) and (9) against the ASSURED by the COMPANY resulting from

EMBEZZLEMENT committed by any of the partners, officers or employees of such employers, whether acting alone or with others, an assignment of such of the causes of action as it may have against the ASSURED for such acts so committed shall, to the extent not provided by the ASSURED to the COMPANY, and the ASSURED shall execute all papers necessary to secure to the ASSURED the proceeds for herein.

Each employer of persons as set forth in e.(4), (5) and (9) partners, officers and other employees of such employers shall be deemed to be one person for all the purposes of this section and the fifth paragraph of Section 13.

Independent contractors not specified in e.(4), (5) and (9) intermediaries, agents, brokers or other representatives



- 1. SECURITIES, DOCUMENTS OR OTHER WRITTEN INSTRUMENT (including original counterparts) negotiable or non-negotiable, or assignments thereof, which in and of themselves represent an interest, ownership, or debt and which are in the nature of property transferable by delivery of such instruments with or without endorsements or assignments.

ICAP Bond (5-98)  
 Form 17-02-1421 (Ed. 5-98) Page 10 of 19

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CONDITIONS AND  
 LIMITATIONS

DEFINITIONS  
 (CONTINUED)

- m. SUBSIDIARY means any organization that, at the time it is named in the APPLICATION or is created during the term of which more than fifty percent (50%) of the ownership rights representing the present right to vote or controlled by the ASSURED either directly or indirectly through subsidiaries.
- n. TRANSPORTATION COMPANY means any organization that provides or its leased vehicles for transportation or warehousing or air express services.
- o. VOICE INITIATED ELECTION means any election conducted that is available to INVESTMENT COMPANY shareholders or shareholders requested by voice over the telephone.
- p. VOICE INITIATED REDEMPTION means any redemption of an INVESTMENT COMPANY which is requested by voice over the telephone.
- q. VOICE INITIATED FUNDS TRANSFER INSTRUCTION means any REDEMPTION or VOICE INITIATED ELECTION.

For the purposes of these definitions, the singular or plural includes the singular, unless otherwise indicated.

GENERAL EXCLUSIONS -  
 APPLICABLE TO ALL INSURING  
 CLAUSES

- 2. THIS BOND DOES NOT DIRECTLY OR INDIRECTLY COVER:
  - a. loss not reported to the COMPANY in writing within 90 days of the termination of this Bond as an entirety;
  - b. loss due to riot or civil commotion outside the United States or Canada, or any loss due to military, naval or air insurrection. This Section 2.b., however, shall not apply to property in transit in the circumstances recited in INSURANCE that when such transit was initiated there was no person acting for the ASSURED of such riot or insurrection, naval or usurped power, war or insurrection;

- c. loss resulting from the effects of nuclear fis
- d. loss of potential income including, but not li  
not realized by the ASSURED or by any customer
- e. damages of any type for which the ASSURED is l  
compensatory damages, but not multiples thereof  
covered under this Bond;
- f. costs, fees and expenses incurred by the ASSUR  
existence of or amount of loss under this Bond  
under INSURING CLAUSE 11.;
- g. loss resulting from indirect or consequential

ICAP Bond (5-98)  
Form 17-02-1421 (Ed. 5-98) Page 11 of 19

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CONDITIONS AND  
LIMITATIONS

GENERAL EXCLUSIONS -  
APPLICABLE TO ALL INSURING  
CLAUSES  
(CONTINUED)

- h. loss resulting from dishonest acts by any memb  
or Board of Trustees of the ASSURED who is not  
alone or in collusion with others;
- i. loss, or that part of any loss, resulting sole  
ASSURED or by any EMPLOYEE:
  - (1) of any law regulating:
    - a. the issuance, purchase or sale
    - b. securities transactions on sec  
the over the counter market,
    - c. investment companies,
    - d. investment advisors, or
  - (2) of any rule or regulation made
- j. loss of confidential information, material or
- k. loss resulting from voice requests or instruct  
telephone, provided however, this Section 2.k.  
CLAUSE 7. or 9.

SPECIFIC EXCLUSIONS -  
APPLICABLE TO ALL INSURING  
CLAUSES EXCEPT INSURING  
CLAUSE 1.

- 3. THIS BOND DOES NOT DIRECTLY OR INDIRECTLY COVER:
  - a. loss caused by an EMPLOYEE, provided, however,  
apply to loss covered under INSURING CLAUSE 2.  
directly from misplacement, mysterious unexpla  
damage or destruction of PROPERTY;
  - b. loss through the surrender of property away fr  
as a result of a threat:
    - (1) to do bodily harm to any natural perso  
transit in the custody of any person a  
ASSURED, provided that when such trans

- knowledge by the ASSURED of any such t
- that this Section 3.b. shall not apply
- (2) to do damage to the premises or PROPER
- c. loss resulting from payments made or withdrawa
- involving erroneous credits to such account;
- d. loss involving ITEMS OF DEPOSIT which are not
- provided however, that this Section 3.d. shall
- CLAUSE 10.;
- e. loss of property while in the mail;

ICAP Bond (5-98)  
Form 17-02-1421 (Ed. 5-98) Page 12 of 19

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CONDITIONS AND  
LIMITATIONS

SPECIFIC EXCLUSIONS -  
APPLICABLE TO ALL INSURING  
CLAUSES EXCEPT INSURING  
CLAUSE 1.  
(CONTINUED)

- f. loss resulting from the failure for any reason
- institution, its receiver or other liquidator
- PROPERTY to the ASSURED provided further that
- apply to loss of PROPERTY resulting directly f
- misplacement, mysterious unexplainable disappe
- destruction or removal from the possession, cu
- ASSURED.
- g. loss of PROPERTY while in the custody of a TRA
- provided however, that this Section 3.g. shall
- CLAUSE 3.;
- h. loss resulting from entries or changes made by
- authorized access to a COMPUTER SYSTEM who act
- instructions, unless such instructions are giv
- contractor or its partner, officer, or employe
- design, develop, prepare, supply, service, wri
- the ASSURED's COMPUTER SYSTEM; or
- i. loss resulting directly or indirectly from the

SYSTEM terminal, either on the premises of the  
or under the control of such a customer, by a  
had authorized access to the customer's authen

SPECIFIC EXCLUSIONS -  
APPLICABLE TO ALL INSURING  
CLAUSES EXCEPT INSURING  
CLAUSES 1., 4., AND 5.

- 4. THIS BOND DOES NOT DIRECTLY OR INDIRECTLY COVER:
  - a. loss resulting from the complete or partial no
  - loan whether such loan was procured in good fa
  - fraud or false pretenses; provided, however, t
  - to INSURING CLAUSE 8.;
  - b. loss resulting from forgery or any alteration;
  - c. loss involving a counterfeit provided, however
  - apply to INSURING CLAUSE 5. or 6.

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LIMIT OF LIABILITY/NON-  
REDUCTION AND NON-  
ACCUMULATION OF LIABILITY

- 5. At all times prior to termination of this Bond, this the limit stated in the applicable sections of ITEM notwithstanding any previous loss for which the COMP liable to pay under this Bond provided, however, tha under this Bond with respect to all loss resulting f
  - a. any one act of burglary, robbery or hold-up, o EMPLOYEE is concerned or implicated, or
  - b. any one unintentional or negligent act on the resulting in damage to or destruction or mispl
  - c. all acts, other than those specified in a. abo

ICAP Bond (5-98)  
Form 17-02-1421 (Ed. 5-98) Page 13 of 19

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CONDITIONS AND  
LIMITATIONS

LIMIT OF LIABILITY/NON-  
REDUCTION AND NON-  
ACCUMULATION OF LIABILITY  
(CONTINUED)

- d. any one casualty or event other than those spe shall be deemed to be one loss and shall be limited LIABILITY stated in ITEM 2. of the DECLARATIONS of t the total amount of such loss or losses and shall no from year to year or from period to period.

All acts, as specified in c. above, of any one perso

- i. directly or indirectly aid in any way wrongful persons, or
- ii. permit the continuation of wrongful acts of an

whether such acts are committed with or without the acts of the person so aided, and whether such acts a the intent to aid such other person, shall be deemed wrongful acts of all persons so aided.

DISCOVERY

- 6. This Bond applies only to loss first discovered by a during the BOND PERIOD. Discovery occurs at the earl ASSURED being aware of:
  - a. facts which may subsequently result in a loss or
  - b. an actual or potential claim in which it is al to a third party,

regardless of when the act or acts causing or contri even though the amount of loss does not exceed the a

AMOUNT, or the exact amount or details of loss may n

NOTICE TO COMPANY -  
PROOF - LEGAL PROCEEDINGS  
AGAINST COMPANY

- 7. a. The ASSURED shall give the COMPANY notice then practicable moment, not to exceed sixty (60) d an amount that is in excess of 50% of the appl AMOUNT, as stated in ITEM 2. of the DECLARATIO
- b. The ASSURED shall furnish to the COMPANY proof with full particulars within six (6) months af
- c. Securities listed in a proof of loss shall be numbers, if issued with them.
- d. Legal proceedings for the recovery of any loss brought prior to the expiration of sixty (60) filed with the COMPANY or after the expiration the discovery of such loss.
- e. This Bond affords coverage only in favor of th action or legal proceedings shall be brought u other than the ASSURED.

ICAP Bond (5-98)  
Form 17-02-1421 (Ed. 5-98) Page 14 of 19

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CONDITIONS AND  
LIMITATIONS

NOTICE TO COMPANY -  
PROOF - LEGAL PROCEEDINGS  
AGAINST COMPANY  
(CONTINUED)

- f. Proof of loss involving VOICE INITIATED FUNDS include electronic recordings of such instruct

DEDUCTIBLE AMOUNT

- 8. The COMPANY shall not be liable under any INSURING C on account of loss unless the amount of such loss, a of all reimbursement and/or recovery obtained or mad than from any Bond or policy of insurance issued by covering such loss, or by the COMPANY on account the the COMPANY of such loss, shall exceed the DEDUCTIBL ITEM 3. of the DECLARATIONS, and then for such exces for more than the applicable LIMITS OF LIABILITY sta DECLARATIONS.

There shall be no deductible applicable to any loss sustained by any INVESTMENT COMPANY.

VALUATION

- 9. BOOKS OF ACCOUNT OR OTHER RECORDS  
The value of any loss of PROPERTY consisting of book



records used by the ASSURED in the conduct of its business, the amount paid by the ASSURED for blank books, blank papers, or other records which replace the lost books of account or other records, and the labor paid by the ASSURED for the actual transcription of such records or to reproduce such books of account or other records.

The value of any loss of PROPERTY other than books of account or other records used by the ASSURED in the conduct of its business shall be determined by the average market value of such PROPERTY on the business day immediately preceding discovery of such loss; however, that the value of any PROPERTY replaced by the ASSURED with the consent of the COMPANY and prior to the settlement of such loss of PROPERTY shall be the actual market value at the time of such loss.

In the case of a loss of interim certificates, warrants, or other securities, the production of which is necessary to the exercise of such subscription, conversion, redemption or deposit privilege shall be the market value of such privileges immediately preceding such expiration if said loss is not discovered until after such expiration; market price is quoted for such PROPERTY or for such securities shall be fixed by agreement between the parties.

OTHER PROPERTY

The value of any loss of PROPERTY, other than as stated above, shall be the actual cash value or the cost of repairing or replacing such PROPERTY of like quality and value, whichever is less.

ICAP Bond (5-98)  
Form 17-02-1421 (Ed. 5-98) Page 15 of 19

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CONDITIONS AND  
LIMITATIONS  
(CONTINUED)

SECURITIES SETTLEMENT

10. In the event of a loss of securities covered under this agreement, the COMPANY, at its sole discretion, purchase replacement securities, or issue its indemnity to effect such replacement.

The indemnity required from the ASSURED under the terms of this agreement against all loss, cost or expense arising from the replacement of securities by the COMPANY'S indemnity shall be:

- a. for securities having a value less than or equal to the DEDUCTIBLE AMOUNT - one hundred (100%) percent of the value of the securities.
- b. for securities having a value in excess of the DEDUCTIBLE AMOUNT within the applicable LIMIT OF LIABILITY - the DEDUCTIBLE AMOUNT bears to the value of the securities the same ratio as the DEDUCTIBLE AMOUNT bears to the applicable LIMIT OF LIABILITY.
- c. for securities having a value greater than the applicable LIMIT OF LIABILITY - the percentage that the DEDUCTIBLE AMOUNT bears to the applicable LIMIT OF LIABILITY bears to the value of the securities.

The value referred to in Section 10.a., b., and c. i with Section 9, VALUATION, regardless of the value o time the loss under the COMPANY'S indemnity is susta

The COMPANY is not required to issue its indemnity f of securities which is not covered by this Bond; how so as a courtesy to the ASSURED and at its sole disc

The ASSURED shall pay the proportion of the Company' Company's indemnity as set forth in Section 10.a., b the LIMIT OF LIABILITY shall be used as payment of p purchased by the ASSURED to obtain replacement secur

SUBROGATION - ASSIGNMENT - 11.  
RECOVERY

In the event of a payment under this Bond, the COMPA all of the ASSURED'S rights of recovery against any of such payment. On request, the ASSURED shall deliv assignment of the ASSURED'S rights, title and intere against any person or entity to the extent of such p

Recoveries, whether effected by the COMPANY or by th applied net of the expense of such recovery in the f

a. first, to the satisfaction of the ASSURED'S lo been paid but for the fact that it is in exces LIABILITY,

b. second, to the COMPANY in satisfaction of amou the ASSURED'S claim,

c. third, to the ASSURED in satisfaction of the a AMOUNT, and

ICAP Bond (5-98)  
Form 17-02-1421 (Ed. 5-98) Page 16 of 19

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CONDITIONS AND  
LIMITATIONS

SUBROGATION - ASSIGNMENT -  
RECOVERY  
(CONTINUED)

d. fourth, to the ASSURED in satisfaction of any ASSURED which was not covered under this Bond. Recovery from reinsurance or indemnity of the COMPAN recovery under this section.

COOPERATION OF ASSURED

12. At the COMPANY'S request and at reasonable times and the COMPANY, the ASSURED shall:

a. submit to examination by the COMPANY and subsc oath,

- b. produce for the COMPANY'S examination all pert
- c. cooperate with the COMPANY in all matters pert

The ASSURED shall execute all papers and render assi  
COMPANY the rights and causes of action provided for  
ASSURED shall do nothing after loss to prejudice suc  
action.

TERMINATION

- 13. If the Bond is for a sole ASSURED, it shall not be t  
shall have been given by the acting party to the aff  
Securities and Exchange Commission, Washington, D.C.  
days prior to the effective date of such termination

If the Bond is for a joint ASSURED, it shall not be  
notice shall have been given by the acting party to  
by the COMPANY to all ASSURED INVESTMENT COMPANIES a  
Exchange Commission, Washington, D.C., not less than  
the effective date of such termination.

This Bond will terminate as to any one ASSURED, othe  
COMPANY:

- a. immediately on the taking over of such ASSURED  
liquidator or by State or Federal officials, o
- b. immediately on the filing of a petition under

relative to bankruptcy or reorganization of th  
the benefit of creditors of the ASSURED, or

- c. immediately upon such ASSURED ceasing to exist  
into another entity, disposition of all of its

The COMPANY shall refund the unearned premium comput  
accordance with the standard short rate cancellation  
the ASSURED or pro rata if terminated for any other

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CONDITIONS AND  
LIMITATIONS

TERMINATION  
(CONTINUED)

If any partner, director, trustee, or officer or sup  
ASSURED not acting in collusion with an EMPLOYEE lea  
committed by such EMPLOYEE at any time, whether in t

ASSURED or otherwise, whether or not such act is of Bond, and whether against the ASSURED or any other p ASSURED:

- a. shall immediately remove such EMPLOYEE from a such EMPLOYEE to cause the ASSURED to suffer a Bond; and
- b. within forty-eight (48) hours of learning that any dishonest act, shall notify the COMPANY, o particulars of such dishonest act.

The COMPANY may terminate coverage as respects any E days after written notice is received by each ASSURE and the Securities and Exchange Commission, Washington terminate this Bond as to such EMPLOYEE.

OTHER INSURANCE

14. Coverage under this Bond shall apply only as excess insurance, indemnity or suretyship obtained by or on

- a. the ASSURED,
- b. a TRANSPORTATION COMPANY, or
- c. another entity on whose premises the loss occur person causing the loss or engaged the messeng involved.

CONFORMITY

15. If any limitation within this Bond is prohibited by construction, such limitation shall be deemed to be minimum period of limitation provided by such law.

CHANGE OR MODIFICATION

16. This Bond or any instrument amending or affecting th or modified orally. No change in or modification of except when made by written endorsement to this Bond representative of the COMPANY.

If this Bond is for a sole ASSURED, no change or mod adversely affect the rights of the ASSURED shall be days after written notice has been furnished to the Commission, Washington, D.C., by the acting party.

ICAP Bond (5-98)  
Form 17-02-1421 (Ed. 5-98) Page 18 of 19

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CONDITIONS AND  
LIMITATIONS

CHANGE OR MODIFICATION  
(CONTINUED)

If this Bond is for a joint ASSURED, no charge or modifica would adversely affect the rights of the ASSURED shall be prior to sixty (60) days after written notice has been fur all insured INVESTMENT COMPANIES and to the Securities an Commission, Washington, D.C., by the COMPANY.

ICAP Bond (5-98)  
Form 17-02-1421 (Ed. 5-98) Page 19 of 19

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ENDORSEMENT/RIDER

Effective date of  
this endorsement/rider: May 15, 2007

FEDERAL INSURANCE COMPANY  
Endorsement/Rider No. 1  
To be attached to and  
form a part of Bond No. 82052988

Issued to: FLAHERTY & CRUMRINE / PREFERRED INCOME OPPORTUNITY  
FUND  
DELETING VALUATION-OTHER PROPERTY AND AMENDING CHANGE OR MODIFICATION  
ENDORSEMENT

In consideration of the premium charged, it is agreed that this Bond is amended  
as follows:

1. The paragraph titled Other Property in Section 9, Valuation, is  
deleted in its entirety.
2. The third paragraph in Section 16, Change or Modification, is  
deleted in its entirety and replaced with the following:  
If this Bond is for a joint ASSURED, no change or modification  
which would adversely affect the rights of the ASSURED shall be  
effective prior to sixty (60) days after written notice has been  
furnished to all insured INVESTMENT COMPANIES and the Securities  
and Exchange Commission, Washington, D.C., by the COMPANY.

The title and any headings in this endorsement/rider are solely for convenience  
and form no part of the terms and conditions of coverage. All other terms,  
conditions and limitations of this Bond shall remain unchanged.

/S/ ROBERT HAMBURGER  
Authorized Representative

17-02-2437 (12/2006) rev. Page 1

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Effective date of  
this endorsement: May 15, 2007

FEDERAL INSURANCE COMPANY  
Endorsement No.: 2  
To be attached to and form a part of Bond  
Number: 82052988

Issued to: FLAHERTY & CRUMRINE / PREFERRED INCOME OPPORTUNITY FUND  
FUND

COMPLIANCE WITH APPLICABLE TRADE SANCTION LAWS RIDER

It is agreed that this insurance does not apply to the extent that trade or  
economic sanctions or other laws or regulations prohibit the coverage provided  
by this insurance.

ALL OTHER TERMS AND CONDITIONS OF THIS BOND REMAIN UNCHANGED.

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Date: May 14, 2007

/S/ ROBERT HAMBURGER  
Authorized Representative

Form 14-02-9228 (Ed. 4/2004)

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FEDERAL INSURANCE COMPANY  
Endorsement No: 3  
Bond Number: 82052988  
NAME OF ASSURED: FLAHERTY & CRUMRINE / PREFERRED INCOME OPPORTUNITY  
FUND

PREMIUM ENDORSEMENT

It is agreed that:

- 1. The premium for this Bond for the period May 15, 2007 to May 15, 2008 is:  
  
Premium: TWO THOUSAND TWO HUNDRED DOLLARS (\$2,200.00)
- 2. It is further agreed that this premium is subject to change during this period if amendments are made to this Bond at the request of the ASSURED.

This Endorsement applies to loss discovered after 12:01 a.m. on May 15, 2007.  
ALL OTHER TERMS AND CONDITIONS OF THIS BOND REMAIN UNCHANGED.

Date: May 14, 2007

/S/ ROBERT HAMBURGER  
Authorized Representative

ICAP Bond

Form 17-02-0735 (Rev. 1-97)

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IMPORTANT POLICYHOLDER INFORMATION  
Inquiries concerning your policy should be directed to your insurance agent. The name, address and telephone number of your agent, if one is involved, is shown on the policy and/or in the material accompanying the policy. If you require additional information you may contact the California Insurance Department at either the following address or phone number:

California Insurance Department  
300 South Spring Street  
Los Angeles, CA 90012  
1-800-927-HELP

Form 14-02-1495 (Ed. 1/94)

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IMPORTANT NOTICE

The premium shown on this policy or premium statement may be subject to adjustment in accordance with the provisions of California law recently adopted by ballot initiative. You will be informed about any adjustment as soon as the

requirements of the law and their effect on your premium can be determined.

Form 99-10-0267 (Ed. 2/98)

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CHUBB & SON, DIV. OF FEDERAL INSURANCE COMPANY  
AS MANAGER OF THE MEMBER INSURERS OF THE  
CHUBB GROUP OF INSURANCE COMPANIES

POLICYHOLDER  
DISCLOSURE NOTICE OF  
TERRORISM INSURANCE COVERAGE  
(FOR POLICIES WITH NO TERRORISM EXCLUSION OR SUBLIMIT)

You are hereby notified that, under the Terrorism Risk Insurance Act of 2002 (the "Act") effective November 26, 2002, this policy makes available to you insurance for losses arising out of certain acts of international terrorism. Terrorism is defined as any act certified by the Secretary of the Treasury, in concurrence with the Secretary of State and the Attorney General of the United States, to be an act of terrorism; to be a violent act or an act that is dangerous to human life, property or infrastructure; to have resulted in damage within the United States, or outside the United States in the case of an air carrier or vessel or the premises of a United States Mission; and to have been committed by an individual or individuals acting on behalf of any foreign person or foreign interest, as part of an effort to coerce the civilian population of the United States or to influence the policy

or affect the conduct of the United States Government by coercion.

You should know that the insurance provided by your policy for losses caused by acts of terrorism is partially reimbursed by the United States under the formula set forth in the Act. Under this formula, the United States pays 90% of covered terrorism losses that exceed the statutorily established deductible to be paid by the insurance company providing the coverage. The portion of your policy's annual premium that is attributable to insurance for such acts of terrorism is: \$ -0-.

If you have any questions about this notice, please contact your agent or broker.

Form 10-02-1281 (Ed. 1/2003)

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IMPORTANT NOTICE:  
THE SEC REQUIRES PROOF OF YOUR FIDELITY INSURANCE POLICY

Your company is now required to file an electronic copy of your fidelity insurance coverage (Chubb's ICAP Bond policy) to the Securities and Exchange Commission (SEC), according to rules adopted by the SEC on June 12, 2006.

Chubb is in the process of providing your agent/broker with an electronic copy of your insurance policy as well as instructions on how to submit this proof of fidelity insurance coverage to the SEC. You can expect to receive this information from your agent/broker shortly.

The electronic copy of your policy is provided by Chubb solely as a convenience and does not affect the terms and conditions of coverage as set forth in the

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paper policy you receive by mail. The terms and conditions of the policy mailed to you, which are the same as those set forth in the electronic copy, constitute the entire agreement between your company and Chubb.

If you have any questions, please contact your agent or broker.

Form 14-02-12160 (ed. 7/2006)

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THE FOLLOWING RESOLUTIONS WERE ADOPTED AT THE APRIL 20, 2007 MEETING OF THE BOARD OF DIRECTORS OF FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND INCORPORATED AT WHICH A MAJORITY OF DIRECTORS WHO ARE NOT "INTERESTED PERSONS" APPROVED THE CURRENT BOND FOR THE PERIOD FROM MAY 15, 2007 TO MAY 15, 2008:

RESOLVED: That the renewal of the fidelity bond coverage for the period from May 15, 2007 to May 15, 2008, which provides coverage in the aggregate amount of \$600,000, is hereby approved; and further

RESOLVED: That it is the finding of the Directors at this Meeting that the fidelity bond (the "Bond") issued through Chubb Group of Insurance Companies in the amount of \$600,000 covering officers and employees of the Fund, in accordance with the requirements of Rule 17g-1 under the Investment Company Act of 1940, as amended (the "1940 Act"), is reasonable in form and amount, after having given due consideration to, among other things, the value of the aggregate assets of the Fund to which any person covered under the Bond may have access, the custody and safekeeping of the assets of the Fund's portfolio, and the nature of the securities in the Fund's portfolio; and further

RESOLVED: That the premium in the amount of \$2,200 paid by the Fund under the Bond is hereby authorized; and further

RESOLVED: That the appropriate officers of the Fund be, and they hereby are, authorized and directed to prepare, execute, and file such amendments and supplements to the aforesaid agreement, and to take such other action as may from time to time be necessary or appropriate in order to conform to the provisions of the 1940 Act and the rules and regulations under that Act; and further

RESOLVED: That the Secretary or Assistant Secretary of the Fund shall make such filings concerning the Bond with the Securities and Exchange Commission ("SEC") and give such notices as required under paragraph (g) of Rule 17g-1 promulgated by the SEC under the 1940 Act.