

Flaherty & Crumrine PREFERRED INCOME OPPORTUNITY FUND INC

Form N-30B-2

April 24, 2007

FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND

To the Shareholders of the Flaherty & Crumrine Preferred Income Opportunity Fund ("PFO"):

During the Fund's first fiscal quarter ended February 28, 2007, the Fund performed well in choppy, but ultimately little-changed, fixed-income markets by earning a total return of 1.6% on its net asset value (NAV). These three months saw the Fund continue its recent strong performance.

Interest rates were unchanged to slightly higher over the quarter, as the Federal Reserve left the federal funds rate unchanged and long-term Treasury rates rose only slightly. Corporate credit spreads also ended the quarter little changed, while the Fund's interest-rate hedge had only a minimal impact. Both the recent quarter and trailing twelve-month periods delivered what the Fund is intended to produce - current income and stability of principal.

As you can see on the following pages detailing actual holdings in the Fund's portfolio, the Fund invests in a relatively small number of industries, including utilities and insurers, banks and other finance companies. In terms of the industries the Fund's assets are in, its portfolio is no different than the overall preferred securities market. Because of the preferred securities market's overall emphasis in financial services, a portfolio of preferred securities, including the Fund's, can be at risk if the U.S. economy goes into recession.

One important area of recent concern for the U.S. economy in general, and U.S. credit markets in particular, is subprime mortgage lending, which has experienced increasing default and delinquency rates in recent months. The numbers here are large in an absolute sense, but they are small relative to a \$13 trillion U.S. economy and to the mortgage market as a whole. Because of this, while we cannot entirely rule it out, we currently do not believe that problems in subprime mortgages will push the economy into recession.

The Fund holds no positions in securities issued by mortgage brokers or subprime specialty lenders. Nonetheless, many of the banks and insurance companies in which we have invested do have some exposure to subprime mortgages in their lending or investment portfolios. While we are examining these companies very closely, the lack of detailed disclosure about subprime mortgages makes it impossible for us to make definitive statements about the Fund's potential exposure to the problem. However, given what we now know and can infer about the companies in which we invest, we expect that EARNINGS (which flow to the companies' common shareholders) will be reduced at some of the companies we hold as a result of the problems in subprime lending. However, we currently do not expect that they will suffer losses large enough to cut meaningfully into CAPITAL (which support the debt and preferred securities owned by the Fund). Although we cannot rule out the possibility - despite our best judgment to the contrary - that some of the Fund's investments could be seriously affected, we do not currently see any serious subprime credit problems in the holdings of the Fund.

The Fund's website at WWW.PREFERREDINCOME.COM has more information about Fund performance and a more complete discussion of the state of the economy (in our First Quarter Economic Update) and of subprime mortgages and their potential impact on the economy and the Fund's portfolio (in the "Frequently Asked Questions" section). We encourage you to explore the website for a wide range of

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BB	11.9%
Not Rated	8.6%

Below Investment Grade*	15.1%

* BELOW INVESTMENT GRADE BY BOTH MOODY'S AND S&P.

TOP 10 HOLDINGS BY ISSUER	% OF PORTFOLIO

Interstate Power & Light	5.0%
Liberty Mutual Group	4.5%
Xcel Energy	3.7%
Goldman Sachs	3.6%
RenaissanceRe Holdings	3.3%
First Republic Bank	3.0%
EOG Resources	3.0%
Cobank	2.9%
Public Storage	2.9%
Capital One Financial	2.8%

Holdings Generating Qualified Dividend Income (QDI) for Individuals
Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD)

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
PORTFOLIO OF INVESTMENTS
FEBRUARY 28, 2007 (UNAUDITED)

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PREFERRED SECURITIES -- 94.0%
 BANKING -- 24.7%

\$	3,000,000	Astoria Capital Trust I, 9.75% 11/01/29 Capital Security, Series B.....
		Auction Pass-Through Trust, Cl. B:
	9	Series 2006-5, Variable Rate Pfd., 144A****.....
	9	Series 2006-6, Variable Rate Pfd., 144A****.....
		Banco Santander:
	160,000	6.50% Pfd., 144A****.....
	62,400	6.80% Pfd., 144A****.....
\$	1,000,000	Barclays Bank PLC, 6.278% Pfd.....
	19,648	Citizens Funding Trust I, 7.50% Pfd. 09/15/66.....
		Cobank, ACB:
	45,000	7.00% Pfd., 144A****.....
	75,000	7.814% Pfd., 144A****.....
\$	500,000	Comerica (Imperial) Capital Trust I, 9.98% 12/31/26 Capital Security, Series B...
	4,500	FBOP Corporation, Adj. Rate Pfd., 144A****.....
\$	2,250,000	First Hawaiian Capital I, 8.343% 07/01/27 Capital Security, Series B.....
		First Republic Bank:
	200,000	6.25% Pfd.....
	5,000	6.70% Pfd.....
	640	First Republic Preferred Capital Corporation, 10.50% Pfd., 144A****.....
	22,500	First Republic Preferred Capital Corporation II, 8.75% Pfd., Series B, 144A****..
	5,000	Fleet Capital Trust VIII, 7.20% Pfd. 03/15/32.....
\$	4,349,000	GreenPoint Capital Trust I, 9.10% 06/01/27 Capital Security.....
		HBOS Capital Funding LP:
\$	3,500,000	6.85% Pfd.....
\$	250,000	6.413% Pfd., 144A****.....
	5,000	HSBC Series II, Variable Inverse Pfd., Pvt.....
	2,500	HSBC USA, Inc., \$2.8575 Pfd.....
	12,000	Keycorp Capital VIII, 7.00% Pfd. 06/15/66.....
	25,000	Keycorp Capital IX, 6.75% Pfd. 12/15/66.....
	5,000	National City Capital Trust II, 6.625% Pfd. 11/15/36.....
\$	1,500,000	North Fork Capital Trust I, 8.70% 12/15/26 Capital Security.....
	16,000	PFGI Capital Corporation, 7.75% Pfd.....
\$	650,000	RBS Capital Trust B, 6.80% Pfd.....
	10	Roslyn Real Estate, 8.95% Pfd., Series C, 144A****.....
	70,500	Sovereign Bancorp, 7.30% Pfd., Series C.....
	20,375	Sovereign Capital Trust V, 7.75% Pfd. 05/22/36.....
	6,000	USB Capital XI, 6.60% Pfd. 09/15/66.....

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2007 (UNAUDITED)

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PREFERRED SECURITIES -- (CONTINUED)
 FINANCIAL SERVICES -- 8.6%

	36,500	Cabco Trust For Goldman Sachs Capital I, Adj. Rate Pfd. 02/15/34, Series GS.....
\$	1,000,000	CIT Group Inc, 6.10% Pfd.....
		Goldman Sachs Group, Inc.:
	25	Pass-Through Certificates, Class B, 144A****.....
	3,500	STRIPES Custodial Receipts, Pvt.....
	3,000	Merrill Lynch Series II STRIPES Custodial Receipts, Pvt.....
	47,000	Morgan Stanley Capital Trust VI, 6.60% Pfd.....
	94,150	SLM Corporation, 6.97% Pfd., Series A.....

INSURANCE -- 16.5%

	20,000	ACE Ltd., 7.80% Pfd., Series C.....
\$	500,000	AMBAC Financial Group, Inc., 6.15% Pfd., 02/15/37.....
\$	3,500,000	AON Capital Trust A, 8.205% 01/01/27 Capital Security.....
		Arch Capital Group Ltd.:
	10,000	7.875% Pfd., Series B.....
	4,400	8.00% Pfd.....
\$	2,500,000	AXA SA 6.463% Pfd. Series 144A****.....
		Axis Capital Holdings:
	73,950	7.25% Pfd., Series A.....
	12,750	7.50% Pfd., Series B.....
	22,300	Berkley W.R. Capital Trust II, 6.75% Pfd. 07/26/45.....
	37,100	Endurance Specialty Holdings, 7.75% Pfd.....
	13,750	Everest Re Capital Trust II, 6.20% Pfd., Series B.....
\$	1,250,000	Glen Meadow Pass Through, 6.505% Pfd., Capital Security 144A****.....
\$	5,000,000	Liberty Mutual Group, 7.80%, 03/15/37, 144A****.....
	175,000	Principal Financial Group, 6.518% Pfd.....
\$	511,000	Provident Financing Trust I, 7.405% 03/15/38 Capital Security.....
\$	4,000,000	Renaissancere Capital Trust, 8.54% 03/01/27 Capital Security, Series B.....
	25,000	Renaissancere Holdings Ltd., 6.08% Pfd., Series C.....
	100,000	Renaissancere Holdings Ltd., 6.60% Pfd., Series D.....
	115,500	Scottish Re Group Ltd., 7.25% Pfd.....
\$	560,000	USF&G Capital, 8.312% 07/01/46 Capital Security, 144A****.....
	22,850	XL Capital Ltd., 8.00% Pfd., Series A.....

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
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PREFERRED SECURITIES -- (CONTINUED)
 UTILITIES -- 33.8%

	Alabama Power Company:	
4,980	4.60% Pfd.....
6,485	4.72% Pfd.....	.....
868	4.92% Pfd.....	.....
6,579	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993.....	.....
10,000	Calenergy Capital Trust III, 6.50% Pfd. 09/01/27.....	.....
1,628	Central Hudson Gas & Electric Corporation, 4.35% Pfd., Series D, Pvt.....	.....
3,798	Central Maine Power Company, 4.75% Pfd.....	.....
8,339	Central Vermont Public Service Corporation, 8.30% Sinking Fund Pfd., Pvt.....	.....
	Connecticut Light & Power Company:	
2,050	4.50% Pfd., Series 1956.....	.....
10,000	4.50% Pfd., Series 1963, Pvt.....	.....
25,000	5.28% Pfd., Series 1967.....	.....
883	\$2.04 Pfd., Series 1949.....	.....
2,900	\$2.20 Pfd., Series 1949.....	.....
9,652	\$3.24 Pfd.....	.....
2,000	Consolidated Edison Company of New York, 4.65% Pfd., Series C.....	.....
7,500	Dayton Power and Light Company, 3.90% Pfd., Series C.....	.....
23,000	Dominion CNG Capital Trust I, 7.80% 10/31/41 Capital Security.....	.....
\$ 1,500,000	Dominion Resources Capital Trust III, 8.40% 01/15/31 Capital Security.....	.....
15,030	Duquesne Light Company, 3.75% Pfd.....	.....
	Entergy Arkansas, Inc.:	
2,840	4.56% Pfd.....	.....
3,050	4.56% Pfd., Series 1965.....	.....
1,435	6.08% Pfd.....	.....
90,000	6.45% Pfd.....	.....
2,441	Entergy Gulf States, Inc., 7.56% Pfd.....	.....
36,000	Entergy Louisiana, Inc., 6.95% Pfd.....	.....
	Entergy Mississippi, Inc.:	
4,616	4.36% Pfd.....	.....
5,000	4.92% Pfd.....	.....
4,400	Florida Power Company, 4.75% Pfd.....	.....
128,500	FPC Capital I, 7.10% Pfd., Series A.....	.....
101,000	FPL Group Capital, Inc., 6.60% Pfd. 10/01/66, Series A.....	.....
8,900	Georgia Power, 6.125% Pfd.....	.....
	Great Plains Energy, Inc.:	
1,625	4.20% Pfd.....	.....
2,000	4.35% Pfd.....	.....

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2007 (UNAUDITED)

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PREFERRED SECURITIES -- (CONTINUED)
 UTILITIES -- (CONTINUED)

		Hawaiian Electric Company, Inc.:
	2,471	5.00% Pfd., Series D.....
	7,438	5.00% Pfd., Series E.....
	1,383	5.00% Pfd., Series I.....
	30,500	Indianapolis Power & Light Company, 5.65% Pfd.....
	340,000	Interstate Power & Light Company, 8.375% Pfd., Series B.....
	2,588	New York State Electric & Gas, \$4.50 Pfd., Series 1949.....
		Ohio Power Company:
	3,018	4.20% Pfd.....
	1,251	4.40% Pfd.....
		Pacific Enterprises:
	13,680	\$4.36 Pfd.....
	24,985	\$4.50 Pfd.....
	15,730	\$4.75 Pfd., Series 53.....
		Pacific Gas & Electric Co.:
	7,600	4.50% Pfd., Series H.....
	41,500	5.00% Pfd., Series D.....
	83,000	5.00% Pfd., Series E.....
		PacifiCorp:
	5,672	\$4.56 Pfd.....
	6,708	\$4.72 Pfd.....
	8,750	\$7.48 Sinking Fund Pfd.....
	1,250	PECO Energy Company, \$4.30 Pfd., Series B.....
\$	1,500,000	PECO Energy Capital Trust III, 7.38% 04/06/28 Capital Security, Series D.....
	12,748	Portland General Electric, 7.75% Sinking Fund Pfd.....
	14,020	Public Service Electric & Gas Company, 5.28% Pfd., Series E.....
	70,210	San Diego Gas & Electric Company, \$1.70 Pfd.....
		South Carolina Electric & Gas Company:
	13,974	5.125% Purchase Fund Pfd., Pvt.....
	7,774	6.00% Purchase Fund Pfd., Pvt.....
		Southern California Edison:
	5,000	4.24% Pfd.....
	11,300	6.00% Pfd.....
		Southern Union Company:
\$	700,000	7.20% 11/01/66, Capital Security.....
	51,750	7.55% Pfd.....
\$	750,000	TXU Electric Capital V, 8.175% 01/30/37 Capital Security.....

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2007 (UNAUDITED)

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PREFERRED SECURITIES -- (CONTINUED)
 UTILITIES -- (CONTINUED)

		Union Electric Company:
	5,700	4.56% Pfd.....

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10,156	\$7.64 Pfd.....	Virginia Electric & Power Company:
1,665	\$4.04 Pfd.....	
2,470	\$4.20 Pfd.....	
1,673	\$4.80 Pfd.....	
3,878	\$6.98 Pfd.....	
12,500	\$7.05 Pfd.....	
24,200	Virginia Power Capital Trust, 7.375% Pfd. 07/30/42.....	
2,262	Washington Gas & Light Company, \$4.25 Pfd.....	
13,863	Wisconsin Power & Light Company, 6.20% Pfd.....	Xcel Energy, Inc.:
15,000	\$4.08 Pfd., Series B.....	
20,040	\$4.10 Pfd., Series C.....	
35,510	\$4.11 Pfd., Series D.....	
17,750	\$4.16 Pfd., Series E.....	
10,000	\$4.56 Pfd., Series G.....	

OIL AND GAS -- 4.4%

8,000	Devon Energy Corporation, 6.49% Pfd., Series A.....
6,125	EOG Resources, Inc., 7.195% Pfd., Series B.....
\$ 1,200,000	KN Capital Trust III, 7.63% 04/15/28 Capital Security.....
10,000	Lasmo America Limited, 8.15% Pfd., 144A****.....

REAL ESTATE INVESTMENT TRUST (REIT) -- 3.7%

	BRE Properties, Inc.:
12,600	6.75% Pfd., Series D.....
18,900	8.08% Pfd., Series B.....
10,000	Equity Office Property Trust, 7.75% Pfd., Series G.....
1,000	Equity Residential Properties, 8.29% Pfd., Series K.....

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2007 (UNAUDITED)

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PREFERRED SECURITIES -- (CONTINUED)
 REAL ESTATE INVESTMENT TRUST (REIT) -- (CONTINUED)

	Public Storage, Inc.:
129,575	6.45% Pfd., Series F.....
38,600	6.625% Pfd., Series M.....
2,900	6.75% Pfd., Series E.....
79,900	7.25% Pfd., Series K.....

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20,000	Realty Income Corp., 6.75% Pfd., Series E.....

MISCELLANEOUS INDUSTRIES -- 2.0%	

13,600	E.I. Du Pont de Nemours and Company, \$4.50 Pfd., Series B.....
35,000	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****.....
26,000	Touch America Holdings, \$6.875 Pfd.....

U.S. GOVERNMENT SECURITIES -- 0.3%	

4,450	Federal National Mortgage Association, 4.75% Series M.....
10,600	Federal Home Loan Mortgage, Adj. Rate Pfd., Series B.....

TOTAL PREFERRED SECURITIES	
(Cost \$192,203,958).....	

CORPORATE DEBT SECURITIES -- 6.2%	
INSURANCE -- 2.6%	

\$ 900,000	Farmers Exchange Capital, 7.20% 07/15/48, 144A****.....
\$ 4,417,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****.....

UTILITIES -- 1.2%	

\$ 1,000,000	Duquesne Light Holdings, 6.25% 08/15/35.....
10,000	Entergy Louisiana LLC, 7.60% 04/01/32.....
	Southern Union Company:
\$ 750,000	7.60% 02/01/24, Senior Notes.....
\$ 500,000	8.25% 11/15/29, Senior Notes.....

 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2007 (UNAUDITED)

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CORPORATE DEBT SECURITIES -- (CONTINUED)
 OIL AND GAS -- 2.2%

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\$ 2,450,000 KN Energy, Inc., 7.45% 03/01/98.....
 97,900 Nexen, Inc., 7.35% Subordinated Notes.....

MISCELLANEOUS -- 0.2%

15,000 AT&T Inc., 6.375% 02/15/56

TOTAL CORPORATE DEBT SECURITIES

(Cost \$12,858,312).....

COMMON STOCK -- 0.1%

BANKING -- 0.1%

15,000 New York Community Bancorp, Inc.....

TOTAL COMMON STOCK

(Cost \$246,408).....

OPTION CONTRACTS -- 0.1%

1,400 June Put Options on June U.S. Treasury Bond Futures, Expiring 05/25/07.....

TOTAL OPTION CONTRACTS

(Cost \$601,808).....

MONEY MARKET FUND -- 0.3%

685,665 BlackRock Provident Institutional, TempFund.....

TOTAL MONEY MARKET FUND

(Cost \$685,665).....

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (CONTINUED)

FEBRUARY 28, 2007 (UNAUDITED)

TOTAL INVESTMENTS (Cost \$206,596,151***)..... 100.7%

OTHER ASSETS AND LIABILITIES (Net)..... (0.7)%

TOTAL NET ASSETS AVAILABLE TO COMMON AND PREFERRED STOCK..... 100.0%+

MONEY MARKET CUMULATIVE PREFERRED (TM) STOCK (MMP (R)) REDEMPTION VALUE.....

TOTAL NET ASSETS AVAILABLE TO COMMON STOCK.....

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK(1)
FOR THE PERIOD FROM DECEMBER 1, 2006 THROUGH FEBRUARY 28, 2007 (UNAUDITED)

OPERATIONS:

Net investment income.....
Net realized gain/(loss) on investments sold during the period.....
Change in net unrealized appreciation/depreciation of investments held
during the period.....
Distributions to MMP(R)* Shareholders from net investment income,
including changes in accumulated undeclared distributions

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS.....

DISTRIBUTIONS:

Dividends paid from net investment income to Common Stock Shareholders(2).....

TOTAL DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS.....

FUND SHARE TRANSACTIONS:

Increase from shares issued under the Dividend Reinvestment
and Cash Purchase Plan.....

NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK RESULTING FROM
FUND SHARE TRANSACTIONS.....

NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK
FOR THE PERIOD

NET ASSETS AVAILABLE TO COMMON STOCK:

Beginning of period.....
Net increase in net assets during the period.....

End of period.....

 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 FINANCIAL HIGHLIGHTS(1)
 FOR THE PERIOD FROM DECEMBER 1, 2006 THROUGH FEBRUARY 28, 2007 (UNAUDITED)
 FOR A COMMON STOCK SHARE OUTSTANDING THROUGHOUT THE PERIOD.

PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of period.....

INVESTMENT OPERATIONS:

Net investment income.....

Net realized and unrealized gain/(loss) on investments.....

DISTRIBUTIONS TO MMP(R)* SHAREHOLDERS:

From net investment income.....

From net realized capital gains.....

Total from investment operations.....

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income.....

From net realized capital gains.....

Total distributions to Common Stock Shareholders.....

Net asset value, end of period.....

Market value, end of period.....

Common Stock shares outstanding, end of period.....

RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:

Net investment income+.....

Operating expenses.....

 SUPPLEMENTAL DATA:++

Portfolio turnover rate.....

Total net assets available to Common and Preferred Stock, end of period (in 000's).....

Ratio of operating expenses to total average net assets available to
 Common and Preferred Stock

 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 FINANCIAL HIGHLIGHTS (CONTINUED)
 PER SHARE OF COMMON STOCK (UNAUDITED)

TOTAL		
DIVIDENDS	NET ASSET	NYSE

	PAID -----	VALUE -----	CLOSING PRICE -----
December 31, 2006.....	\$0.0650	\$12.39	\$12.36
January 31, 2007.....	0.0650	12.42	12.39
February 28, 2007.....	0.0650	12.60	12.61

 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. AGGREGATE INFORMATION FOR FEDERAL INCOME TAX PURPOSES

At February 28, 2007, the aggregate cost of securities for federal income tax purposes was \$206,731,009, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$16,334,630 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$4,209,357.

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

INVESTMENT ADVISER

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

QUESTIONS CONCERNING YOUR SHARES OF FLAHERTY &

CRUMRINE PREFERRED INCOME OPPORTUNITY FUND?

- o If your shares are held in a Brokerage Account, contact your Broker.
- o If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent & Shareholder Servicing Agent --
PFPC Inc.
P.O. Box 43027
Providence, RI 02940-3027
1-800-331-1710

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.

[GRAPHIC OMITTED]
LIGHTHOUSE ART

FLAHERTY & CRUMRINE
=====
PREFERRED INCOME
OPPORTUNITY FUND

QUARTERLY
REPORT

FEBRUARY 28, 2007

www.preferredincome.com