

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.

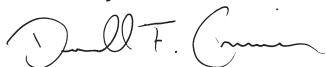
As you can see on the following pages detailing actual holdings in the Fund’s portfolio, the Fund invests in a relatively small number of industries, including utilities and insurers, banks and other finance companies. In terms of the industries the Fund’s assets are in, its portfolio is no different 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.

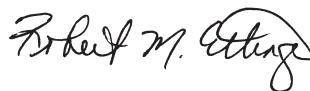
The Fund holds no positions in securities issued by mortgage brokers or subprime specialty lenders. Nonetheless, many of the banks and insurance companies in which we have invested do have some exposure to subprime mortgages in their lending or investment portfolios. While we are examining these companies 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 additional information about your Fund.

Sincerely,



Donald F. Crumrine
Chairman of the Board



Robert M. Ettinger
President

April 20, 2007

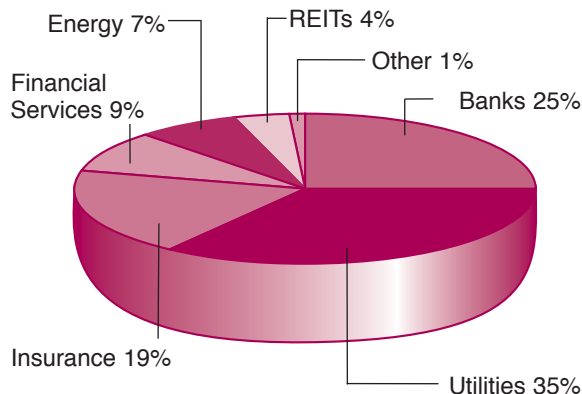
PORTFOLIO OVERVIEW

February 28, 2007 (Unaudited)

Fund Statistics on 02/28/07

Net Asset Value	\$	12.60
Market Price	\$	12.61
Premium		0.08%
Yield on Market Price		6.19%
Common Stock Shares Outstanding		11,700,433

Industry Categories **% of Portfolio**



Moody's Ratings **% of Portfolio**

AAA	0.0%
AA	1.1%
A	17.6%
BBB	59.8%
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%

	% of Portfolio**
Holdings Generating Qualified Dividend Income (QDI) for Individuals	64%
Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD)	55%

** 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.

PORTFOLIO OF INVESTMENTS

February 28, 2007 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Preferred Securities — 94.0%	
Banking — 24.7%	
\$ 3,000,000	Astoria Capital Trust I, 9.75% 11/01/29 Capital Security, Series B \$ 3,451,992
	Auction Pass-Through Trust, Cl. B:
9	Series 2006-5, Variable Rate Pfd., 144A**** 295,200*
9	Series 2006-6, Variable Rate Pfd., 144A**** 295,200*
	Banco Santander:
160,000	6.50% Pfd., 144A**** 4,080,000**(1)
62,400	6.80% Pfd., 144A**** 1,601,808**(1)
\$ 1,000,000	Barclays Bank PLC, 6.278% Pfd. 1,006,200**(1)
19,648	Citizens Funding Trust I, 7.50% Pfd. 09/15/66 512,076
	Cobank, ACB:
45,000	7.00% Pfd., 144A**** 2,379,690*
75,000	7.814% Pfd., 144A**** 4,020,075*
\$ 500,000	Comerica (Imperial) Capital Trust I, 9.98% 12/31/26 Capital Security, Series B 531,130
4,500	FBOP Corporation, Adj. Rate Pfd., 144A**** 4,668,750*
\$ 2,250,000	First Hawaiian Capital I, 8.343% 07/01/27 Capital Security, Series B 2,356,879(1)
	First Republic Bank:
200,000	6.25% Pfd. 5,181,260*
5,000	6.70% Pfd. 130,469*
640	First Republic Preferred Capital Corporation, 10.50% Pfd., 144A**** 709,082
22,500	First Republic Preferred Capital Corporation II, 8.75% Pfd., Series B, 144A**** 607,050
5,000	Fleet Capital Trust VIII, 7.20% Pfd. 03/15/32 127,188
\$ 4,349,000	GreenPoint Capital Trust I, 9.10% 06/01/27 Capital Security 4,569,899
	HBOS Capital Funding LP:
\$ 3,500,000	6.85% Pfd. 3,545,150(1)
\$ 250,000	6.413% Pfd., 144A**** 259,954**(1)
5,000	HSBC Series II, Variable Inverse Pfd., Pvt. 5,695,000*
2,500	HSBC USA, Inc., \$2.8575 Pfd. 125,825*
12,000	Keycorp Capital VIII, 7.00% Pfd. 06/15/66 316,500
25,000	Keycorp Capital IX, 6.75% Pfd. 12/15/66 647,658
5,000	National City Capital Trust II, 6.625% Pfd. 11/15/36 126,719
\$ 1,500,000	North Fork Capital Trust I, 8.70% 12/15/26 Capital Security 1,564,066
16,000	PFGI Capital Corporation, 7.75% Pfd. 416,320
\$ 650,000	RBS Capital Trust B, 6.80% Pfd. 669,500**(1)
10	Roslyn Real Estate, 8.95% Pfd., Series C, 144A**** 1,104,156
70,500	Sovereign Bancorp, 7.30% Pfd., Series C 1,962,988*
20,375	Sovereign Capital Trust V, 7.75% Pfd. 05/22/36 543,758
6,000	USB Capital XI, 6.60% Pfd. 09/15/66 153,660
	53,655,202

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2007 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Preferred Securities — (continued)	
Financial Services — 8.6%	
36,500 Cabco Trust For Goldman Sachs Capital I, Adj. Rate Pfd. 02/15/34, Series GS . . .	\$ 872,580
\$ 1,000,000 CIT Group Inc, 6.10% Pfd.	1,000,100
Goldman Sachs Group, Inc.:	
25 Pass-Through Certificates, Class B, 144A****	2,905,000*
3,500 STRIPES Custodial Receipts, Pvt.	4,039,000*
3,000 Merrill Lynch Series II STRIPES Custodial Receipts, Pvt.	3,369,000*
47,000 Morgan Stanley Capital Trust VI, 6.60% Pfd.	1,199,088
94,150 SLM Corporation, 6.97% Pfd., Series A	5,213,086*
	<u>18,597,854</u>
Insurance — 16.5%	
20,000 ACE Ltd., 7.80% Pfd., Series C	515,250**(1)
\$ 500,000 AMBAC Financial Group, Inc., 6.15% Pfd., 02/15/37	496,300
\$ 3,500,000 AON Capital Trust A, 8.205% 01/01/27 Capital Security	4,121,698
Arch Capital Group Ltd.:	
10,000 7.875% Pfd., Series B	261,875**(1)
4,400 8.00% Pfd.	116,875**(1)
\$ 2,500,000 AXA SA 6.463% Pfd. Series 144A****	2,488,767**(1)
Axis Capital Holdings:	
73,950 7.25% Pfd., Series A	1,929,636**(1)
12,750 7.50% Pfd., Series B	1,356,345(1)
22,300 Berkley W.R. Capital Trust II, 6.75% Pfd. 07/26/45	567,256
37,100 Endurance Specialty Holdings, 7.75% Pfd.	980,831**(1)
13,750 Everest Re Capital Trust II, 6.20% Pfd., Series B	331,719(1)
\$ 1,250,000 Glen Meadow Pass Through, 6.505% Pfd., Capital Security 144A****	1,286,500
\$ 5,000,000 Liberty Mutual Group, 7.80%, 03/15/37, 144A****	4,990,050
175,000 Principal Financial Group, 6.518% Pfd.	4,998,438*
\$ 511,000 Provident Financing Trust I, 7.405% 03/15/38 Capital Security	539,338(2)
\$ 4,000,000 Renaissancere Capital Trust, 8.54% 03/01/27 Capital Security, Series B	4,170,540(1)
25,000 Renaissancere Holdings Ltd., 6.08% Pfd., Series C	603,500**(1)
100,000 Renaissancere Holdings Ltd., 6.60% Pfd., Series D	2,473,000**(1)
115,500 Scottish Re Group Ltd., 7.25% Pfd.	2,370,060**(1)
\$ 560,000 USF&G Capital, 8.312% 07/01/46 Capital Security, 144A****	708,792
22,850 XL Capital Ltd., 8.00% Pfd., Series A	586,959**(1)
	<u>35,893,729</u>

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2007 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Preferred Securities — (continued)	
Utilities — 33.8%	
Alabama Power Company:	
4,980 4.60% Pfd.	\$ 439,933*
6,485 4.72% Pfd.	587,865*
868 4.92% Pfd.	82,009*
6,579 Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993	689,767*
10,000 Calenergy Capital Trust III, 6.50% Pfd. 09/01/27	483,750
1,628 Central Hudson Gas & Electric Corporation, 4.35% Pfd., Series D, Pvt.	133,008*
3,798 Central Maine Power Company, 4.75% Pfd.	322,640*
8,339 Central Vermont Public Service Corporation, 8.30% Sinking Fund Pfd., Pvt.	866,005*
Connecticut Light & Power Company:	
2,050 4.50% Pfd., Series 1956	82,799*
10,000 4.50% Pfd., Series 1963, Pvt.	398,500*
25,000 5.28% Pfd., Series 1967	1,190,500*
883 \$2.04 Pfd., Series 1949	32,335*
2,900 \$2.20 Pfd., Series 1949	114,521*
9,652 \$3.24 Pfd.	505,379*
2,000 Consolidated Edison Company of New York, 4.65% Pfd., Series C	169,960*
7,500 Dayton Power and Light Company, 3.90% Pfd., Series C	475,800*
23,000 Dominion CNG Capital Trust I, 7.80% 10/31/41 Capital Security	580,750
\$ 1,500,000 Dominion Resources Capital Trust III, 8.40% 01/15/31 Capital Security	1,878,136
15,030 Duquesne Light Company, 3.75% Pfd.	486,972*
Entergy Arkansas, Inc.:	
2,840 4.56% Pfd.	235,663*
3,050 4.56% Pfd., Series 1965	253,089*
1,435 6.08% Pfd.	148,236*
90,000 6.45% Pfd.	2,343,600*
2,441 Entergy Gulf States, Inc., 7.56% Pfd.	244,564*
36,000 Entergy Louisiana, Inc., 6.95% Pfd.	3,707,640*
Entergy Mississippi, Inc.:	
4,616 4.36% Pfd.	336,922*
5,000 4.92% Pfd.	411,850*
4,400 Florida Power Company, 4.75% Pfd.	391,248*
128,500 FPC Capital I, 7.10% Pfd., Series A	3,216,522
101,000 FPL Group Capital, Inc., 6.60% Pfd. 10/01/66, Series A	2,613,375
8,900 Georgia Power, 6.125% Pfd.	233,069*
Great Plains Energy, Inc.:	
1,625 4.20% Pfd.	128,863*
2,000 4.35% Pfd.	164,260*

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2007 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Preferred Securities — (continued)	
Utilities — (continued)	
Hawaiian Electric Company, Inc.:	
2,471 5.00% Pfd., Series D	\$ 43,984*
7,438 5.00% Pfd., Series E	132,396*
1,383 5.00% Pfd., Series I	24,617*
30,500 Indianapolis Power & Light Company, 5.65% Pfd.	2,924,950*
340,000 Interstate Power & Light Company, 8.375% Pfd., Series B	10,773,750*
2,588 New York State Electric & Gas, \$4.50 Pfd., Series 1949	221,170*
Ohio Power Company:	
3,018 4.20% Pfd.	243,885*
1,251 4.40% Pfd.	105,897*
Pacific Enterprises:	
13,680 \$4.36 Pfd.	1,144,469*
24,985 \$4.50 Pfd.	2,157,205*
15,730 \$4.75 Pfd., Series 53	1,433,632*
Pacific Gas & Electric Co.:	
7,600 4.50% Pfd., Series H	158,612*
41,500 5.00% Pfd., Series D	919,640*
83,000 5.00% Pfd., Series E	1,889,080*
PacifiCorp:	
5,672 \$4.56 Pfd.	467,600*
6,708 \$4.72 Pfd.	572,461*
8,750 \$7.48 Sinking Fund Pfd.	890,313*
1,250 PECO Energy Company, \$4.30 Pfd., Series B	102,050*
\$ 1,500,000 PECO Energy Capital Trust III, 7.38% 04/06/28 Capital Security, Series D	1,638,600
12,748 Portland General Electric, 7.75% Sinking Fund Pfd.	1,292,010*
14,020 Public Service Electric & Gas Company, 5.28% Pfd., Series E	1,423,030*
70,210 San Diego Gas & Electric Company, \$1.70 Pfd.	1,834,236*
South Carolina Electric & Gas Company:	
13,974 5.125% Purchase Fund Pfd., Pvt.	717,984*
7,774 6.00% Purchase Fund Pfd., Pvt.	395,697*
Southern California Edison:	
5,000 4.24% Pfd.	103,000*
11,300 6.00% Pfd.	1,164,606*
Southern Union Company:	
\$ 700,000 7.20% 11/01/66, Capital Security	705,482
51,750 7.55% Pfd.	1,347,570*
\$ 750,000 TXU Electric Capital V, 8.175% 01/30/37 Capital Security	766,017

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2007 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Preferred Securities — (continued)	
Utilities — (continued)	
Union Electric Company:	
5,700 4.56% Pfd.	\$ 482,961*
10,156 \$7.64 Pfd.	1,051,349*
Virginia Electric & Power Company:	
1,665 \$4.04 Pfd.	126,707*
2,470 \$4.20 Pfd.	195,426*
1,673 \$4.80 Pfd.	151,273*
3,878 \$6.98 Pfd.	400,525*
12,500 \$7.05 Pfd.	1,295,313*
24,200 Virginia Power Capital Trust, 7.375% Pfd. 07/30/42	615,951
2,262 Washington Gas & Light Company, \$4.25 Pfd.	190,257*
13,863 Wisconsin Power & Light Company, 6.20% Pfd.	1,423,124*
Xcel Energy, Inc.:	
15,000 \$4.08 Pfd., Series B	1,201,500*
20,040 \$4.10 Pfd., Series C	1,613,220*
35,510 \$4.11 Pfd., Series D	2,865,302*
17,750 \$4.16 Pfd., Series E	1,449,643*
10,000 \$4.56 Pfd., Series G	886,700*
	<u>73,492,724</u>
Oil and Gas — 4.4%	
8,000 Devon Energy Corporation, 6.49% Pfd., Series A	815,500*
6,125 EOG Resources, Inc., 7.195% Pfd., Series B	6,566,796*
\$ 1,200,000 KN Capital Trust III, 7.63% 04/15/28 Capital Security	1,171,200
10,000 Lasmo America Limited, 8.15% Pfd., 144A****	1,055,400*(1)
	<u>9,608,896</u>
Real Estate Investment Trust (REIT) — 3.7%	
BRE Properties, Inc.:	
12,600 6.75% Pfd., Series D	316,969
18,900 8.08% Pfd., Series B	483,723
10,000 Equity Office Property Trust, 7.75% Pfd., Series G	250,938
1,000 Equity Residential Properties, 8.29% Pfd., Series K	60,440

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2007 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Preferred Securities — (continued)	
Real Estate Investment Trust (REIT) — (continued)	
Public Storage, Inc.:	
129,575 6.45% Pfd., Series F	\$ 3,223,178
38,600 6.625% Pfd., Series M	960,175
2,900 6.75% Pfd., Series E	73,588
79,900 7.25% Pfd., Series K	2,089,888
20,000 Realty Income Corp., 6.75% Pfd., Series E	503,126
	<u>7,962,025</u>
Miscellaneous Industries — 2.0%	
13,600 E.I. Du Pont de Nemours and Company, \$4.50 Pfd., Series B	1,166,626*
35,000 Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****	3,150,000*
26,000 Touch America Holdings, \$6.875 Pfd.	—*†
	<u>4,316,626</u>
U.S. Government Securities — 0.3%	
4,450 Federal National Mortgage Association, 4.75% Series M	206,091*
10,600 Federal Home Loan Mortgage, Adj. Rate Pfd., Series B	478,272*
	<u>684,363</u>
Total Preferred Securities	
(Cost \$192,203,958)	<u>204,211,419</u>
Corporate Debt Securities — 6.2%	
Insurance — 2.6%	
\$ 900,000 Farmers Exchange Capital, 7.20% 07/15/48, 144A****	954,071
\$ 4,417,000 Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	4,757,135
	<u>5,711,206</u>
Utilities — 1.2%	
\$ 1,000,000 Duquesne Light Holdings, 6.25% 08/15/35	917,571
10,000 Entergy Louisiana LLC, 7.60% 04/01/32	254,375
Southern Union Company:	
\$ 750,000 7.60% 02/01/24, Senior Notes	808,413
\$ 500,000 8.25% 11/15/29, Senior Notes	578,924
	<u>2,559,283</u>

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2007 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Corporate Debt Securities — (continued)	
Oil and Gas — 2.2%	
\$ 2,450,000 KN Energy, Inc., 7.45% 03/01/98	\$ 2,402,926
97,900 Nexen, Inc., 7.35% Subordinated Notes	2,517,871 ⁽¹⁾
	<u>4,920,797</u>
Miscellaneous — 0.2%	
15,000 AT&T Inc., 6.375% 02/15/56	374,062
	<u>374,062</u>
Total Corporate Debt Securities (Cost \$12,858,312)	<u>13,565,348</u>
Common Stock — 0.1%	
Banking — 0.1%	
15,000 New York Community Bancorp, Inc.	251,100*
	<u>251,100</u>
Total Common Stock (Cost \$246,408)	<u>251,100</u>
Option Contracts — 0.1%	
1,400 June Put Options on June U.S. Treasury Bond Futures, Expiring 05/25/07	142,750†
Total Option Contracts (Cost \$601,808)	<u>142,750</u>
Money Market Fund — 0.3%	
685,665 BlackRock Provident Institutional, TempFund	685,665
Total Money Market Fund (Cost \$685,665)	<u>685,665</u>

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2007 (Unaudited)

		<u>Value</u>
Total Investments (Cost \$206,596,151 ^{***})	100.7%	\$ 218,856,282
Other Assets And Liabilities (Net)	(0.7)%	<u>(1,479,633)</u>
Total Net Assets Available to Common and Preferred Stock	<u>100.0%†</u>	<u>\$ 217,376,649</u>
Money Market Cumulative Preferred™ Stock (MMP®) Redemption Value		<u>(70,000,000)</u>
Total Net Assets Available To Common Stock		<u><u>\$ 147,376,649</u></u>

* 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. These securities have been determined to be liquid under the guidelines established by the Board of Directors.

⁽¹⁾ Foreign Issuer.

⁽²⁾ A portion of this security is on loan.

† Non-income producing.

‡ The percentage shown for each investment category is the total value of that category as a percentage of net assets available to Common and Preferred Stock.

ABBREVIATIONS:

Pfd. — Preferred Securities

Pvt. — Private Placement Securities

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK⁽¹⁾

For the period from December 1, 2006 through February 28, 2007 (Unaudited)

	<u>Value</u>
OPERATIONS:	
Net investment income	\$ 3,049,498
Net realized gain/(loss) on investments sold during the period	1,943,464
Change in net unrealized appreciation/depreciation of investments held during the period	(1,992,960)
Distributions to MMP ^{®*} Shareholders from net investment income, including changes in accumulated undeclared distributions	<u>(762,125)</u>
Net increase in net assets resulting from operations	2,237,877
DISTRIBUTIONS:	
Dividends paid from net investment income to Common Stock Shareholders ⁽²⁾	<u>(2,281,255)</u>
Total Distributions to Common Stock Shareholders	(2,281,255)
FUND SHARE TRANSACTIONS:	
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan	<u>62,701</u>
Net increase in net assets available to Common Stock resulting from Fund share transactions	62,701
NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD	<u>\$ 19,323</u>

NET ASSETS AVAILABLE TO COMMON STOCK:

Beginning of period	\$147,357,326
Net increase in net assets during the period	<u>19,323</u>
End of period	<u><u>\$147,376,649</u></u>

* Money Market Cumulative Preferred™ Stock.

⁽¹⁾ These tables summarize the three months ended February 28, 2007 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2006.

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

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 \$ 12.60

INVESTMENT OPERATIONS:

Net investment income 0.26
Net realized and unrealized gain/(loss) on investments 0.01

DISTRIBUTIONS TO MMP^{®*} SHAREHOLDERS:

From net investment income (0.07)
From net realized capital gains —
Total from investment operations 0.20

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income (0.20)
From net realized capital gains —
Total distributions to Common Stock Shareholders (0.20)

Net asset value, end of period \$ 12.60

Market value, end of period \$ 12.61

Common Stock shares outstanding, end of period 11,700,433

RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:

Net investment income † 6.28%**
Operating expenses 1.58%**

SUPPLEMENTAL DATA: ††

Portfolio turnover rate 15%***
Total net assets available to Common and Preferred Stock, end of period (in 000's) . . . \$ 217,377
Ratio of operating expenses to total average net assets available to
Common and Preferred Stock 1.07%**

⁽¹⁾ These tables summarize the three months ended February 28, 2007 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2006.

* Money Market Cumulative PreferredTM Stock.

** Annualized.

*** Not Annualized.

† The net investment income ratios reflect income net of operating expenses and payments to MMP^{®*} Shareholders.

†† Information presented under heading Supplemental Data includes MMP^{®*}.

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, 2006	\$0.0650	\$12.39	\$12.36	\$12.39
January 31, 2007	0.0650	12.42	12.39	12.42
February 28, 2007	0.0650	12.60	12.61	12.60

⁽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 payment 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 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?

- 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 —
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.



Flaherty & Crumrine
PREFERRED INCOME
OPPORTUNITY FUND

Quarterly Report

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www.preferredincome.com