

Flaherty & Crumrine PREFERRED INCOME OPPORTUNITY FUND INC
Form N-30B-2
April 27, 2018
FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND

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

Despite general weakness in most fixed-income markets (e.g., investment-grade corporate bonds), attributable mostly to higher benchmark interest rates, preferred securities performed reasonably well on a relative basis. Total return¹ on net asset value (“NAV”) for the first fiscal quarter was -0.5%, while total return on market price was -5.9%.

The U.S. economy remains on solid footing, with most economists forecasting faster growth in 2018. Inflation has remained in check thus far, and modest wage growth and strong business investment suggest that faster economic growth can be accommodated without the economy overheating. Faster economic growth combined with optimism around tax reform has caused interest rates to move modestly higher. Tax reform should be supportive of growth and investment, but much of it will be deficit-financed and could result in higher Treasury rates as government borrowing increases.

Investors often associate higher long-term interest rates with lower prices for preferred securities, and to some extent this is true. However, sensitivity of the Fund’s preferred portfolio to benchmark interest rates is much lower today than it was ten years ago. That is primarily attributable to larger holdings of fixed-to-floating rate securities relative to traditional fixed-for-life preferreds. Including these securities in a portfolio (~72% as of 2/28/2018) reduces sensitivity to benchmark interest rates. Moderate interest-rate sensitivity, along with a tightening of preferred credit spreads during the quarter, offset much of the weakness experienced by other fixed-income asset classes.

Most of the portfolio experienced credit-spread tightening as noted above, but one area of mixed performance was the energy sector, notably master limited partnerships (MLPs). The MLP industry appears to be in transition. The traditional MLP structure has struggled to meet investor expectations, leading some to collapse partnership structures into simpler organizations. Lower corporate tax rates from recent tax reform may accelerate that trend. While a simpler structure should benefit preferred investors over time, many MLPs issued preferreds in the last few months, causing yields to increase as concessions were offered to entice demand. Importantly, individual MLPs are in various stages of transition, and we remain comfortable with the level of MLP exposure in the Fund’s portfolio (~7.1% as of 2/28/2018). Many of the MLPs held by the Fund are among the strongest credits in the sector and a step ahead of peers in navigating these rough waters.

The Fund’s dividend rate was reduced during the quarter to reflect changes in interest rates and credit spreads that have cumulated over time. Tightening by the Federal Reserve has raised short-term interest rates and, therefore, leverage cost, while lower preferred yields have gradually reduced portfolio income. The investment objective of the Fund is to provide high current income consistent with the preservation of capital, and we believe the Fund will continue to meet that objective – although distributable income may be reduced as we proceed through this economic cycle. Fund shareholders have benefited from years of record-low interest rates and low leverage costs, but rates have moved up as the economy has improved. We believe the Fund’s strategy of investing in preferred securities and using leverage to increase income will continue to produce a competitive distribution rate for shareholders. We encourage shareholders to read the Fund’s 2017 annual report for a more-thorough discussion of this important topic.

¹ Following the methodology required by the Securities and Exchange Commission, total return assumes dividend reinvestment.

² December 1, 2017 — February 28, 2018

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Market volatility is likely to increase from record-low levels as we move into later stages of this economic cycle, but we believe preferreds will continue to offer competitive performance. Their combination of credit quality and yield (much of which is tax-advantaged) will be difficult to replicate in other fixed-income asset classes.

As always, we encourage you to visit the Fund's website, www.preferredincome.com, for timely and important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

March 31, 2018

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OVERVIEW**February 28, 2018 (Unaudited)****Fund Statistics**

Net Asset Value	\$ 11.67	
Market Price	\$ 11.11	
Discount	4.80	%
Yield on Market Price	7.13	%
Common Stock Shares Outstanding	12,518,382	

Security Ratings**	% of Net Assets†
A	1.2 %
BBB	53.3 %
BB	33.3 %
Below "BB"	0.9 %
Not Rated***	9.3 %

Portfolio Rating Guidelines	% of Net Assets†
Security Rated Below Investment Grade By All*****	30.8 %
Issuer or Senior Debt Rated Below Investment Grade by All*****	1.6 %

**Ratings are from Moody's Investors Service, Inc. "Not Rated" securities are those with no ratings available from Moody's.

***Excludes common stock and money market fund investments and net other assets and liabilities of 2.0%.

****Security rating below investment grade by all of Moody's, Standard & Poor's, and Fitch Ratings.

*****Security rating and issuer's senior unsecured debt or issuer rating are below investment grade by all of Moody's, S&P, and Fitch. The Fund's investment policy currently limits such securities to 15% of Net Assets.

Industry Categories* % of Net Assets†

Top 10 Holdings by Issuer	% of Net Assets†
JPMorgan Chase & Co	4.6 %
MetLife Inc	4.3 %
Wells Fargo & Company	4.2 %
PNC Financial Services Group Inc	4.0 %
Morgan Stanley	3.9 %
BNP Paribas	3.1 %
Fifth Third Bancorp	3.0 %
Enbridge Energy Partners	3.0 %
Liberty Mutual Group	2.9 %
XL Group Limited	2.7 %

	% of Net Assets*****†
Holdings Generating Qualified Dividend Income (QDI) for Individuals	60%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	45%

*****This does not reflect year-end results or actual tax categorization of Fund distributions. These percentages can, and do, change, perhaps significantly, depending on market conditions. Investors should consult their tax advisor regarding their personal situation.

†Net Assets includes assets attributable to the use of leverage.

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS

February 28, 2018 (Unaudited)

Shares/\$ Par	Value	
Preferred Securities^s — 93.8%		
Banking — 54.8%		
	Australia & New Zealand Banking Group Ltd.,	
\$ 1,817,000	6,991,886	** (1)(2)
	to 06/15/26 then ISDA5 + 5.168%, 144A****	
	Banco Bilbao Vizcaya Argentaria SA:	
	6.125% to 11/16/27	
\$ 2,200,000	then 2,244,000	** (2)
	SW5 + 3.87% 9.00% to 05/09/18	
\$ 400,000	then 404,776	** (2)
	SW5 + 8.262%, 144A****	
\$ 490,000	534,810	** (2)

Banco
 Mercantil
 del
 Norte
 SA,
 7.625%
 to
 01/06/28
 then
 T10Y
 +
 5.353%,
 144A****

Bank of America Corporation:

6.30%
 to
 03/10/26
 then

\$ 300,000 3ML330,000 *

+
 4.553%,
 Series
 DD
 3ML

\$ 2,540,000 3.63%
 3,562,225 *(1)
 5.3969%^(S),

Series
 K
 8.125%
 to
 05/15/18
 then

\$ 1,520,000 3ML1,544,700 *(1)

+
 3.64%,
 Series
 M

Barclays
 Bank
 PLC,
 7.875%

\$ 2,848,000 03/15/27 3,028,702 **(2)

then
 SW5
 +
 6.772%,
 144A****

	BNP Paribas:		
	7.375%		
	to		
	08/19/25		
\$ 4,661,000	then	5,191,189	** (1)(2)
	SW5		
	+		
	5.15%,		
	144A****		
	7.625%		
	to		
	03/30/21		
\$ 1,500,000	then	1,635,000	** (2)
	SW5		
	+		
	6.314%,		
	144A****		
	Capital One Financial Corporation:		
	6.00%,		
2,020	Series	1,409	*
	B		
	6.00%,		
12,400	Series	327,608	*
	H		
	6.20%,		
7,000	Series	185,990	*
	F		
	6.70%,		
24,333	Series	649,691	*
	D		
	Citigroup, Inc.:		
	6.875%		
	to		
	11/15/23		
	then		
115,370	3ML	3,252,280	*(1)
	+		
	4.13%,		
	Series		
	K		
74,694	7.125%	2,145,212	*(1)
	to		
	09/30/23		
	then		
	3ML		
	+		
	4.04%,		

	Series J		
	8.40%		
	to		
	04/30/18		
	then		
	3ML		
\$ 299,000	+ 300,121	*	
	4.0285%,		
	min		
	7.7575%,		
	Series		
	E		
	CoBank ACB:		
	6.125%,		
15,600	Series 1,583,400	*	
	G,		
	144A****		
	6.20%		
	to		
	01/01/25		
	then		
	3ML		
9,000	+ 964,575	*	
	3.744%,		
	Series		
	H,		
	144A****		
	6.25%		
	to		
	10/01/22		
	then		
	3ML		
10,000	+ 1,075,000	*(1)	
	4.557%,		
	Series		
	F,		
	144A****		
	6.25%		
	to		
	10/01/26		
	then		
	3ML		
\$ 415,000	+ 452,711	*	
	4.66%,		
	Series		
	I,		
	144A****		
\$ 4,500,000	450	(3)(4)††	

	Colonial BancGroup, 7.114%, 144A****	
	Credit Agricole SA, 7.875%	
\$ 270,000	to 302,063 01/23/24	** (2)
	then SW5 + 4.898%, 144A****	
	Fifth Third Bancorp, 6.625%	
232,807	to 6,693,201 12/31/23	* (1)
	then 3ML + 3.71%, Series I	
	First Horizon National Corporation:	
	First Tennessee Bank, 3ML	
750	+ 598,125 0.85%	* (1)
	min 3.75%, 3.75% ⁽⁵⁾ , 144A****	
	FT Real Estate Securities Company, 9.50%	
1	1,296,250 03/31/31, 144A****	
	Goldman Sachs Group:	
\$ 2,000,000	5.00%, 950,240	* (1)
	to	

	11/10/22	
	then	
	3ML	
	+	
	2.874%,	
	Series	
	P	
	5.70%	
	to	
	05/10/19	
	then	
\$ 195,000	3ML200,392	*
	+	
	3.884%,	
	Series	
	L	
	6.375%	
	to	
	05/10/24	
	then	
50,000	3ML1,399,000	*(1)
	+	
	3.55%,	
	Series	
	K	
	HSBC Holdings PLC:	
	6.00%	
	to	
	05/22/27	
\$ 325,000	then 332,800	** (2)
	ISDA5	
	+	
	3.746%	
	6.875%	
	to	
	06/01/21	
\$ 937,000	then 1,004,933	** (2)
	ISDA5	
	+	
	5.514%	
	8.00%,	
14,190	Series 377,951	** (1) (2)
	2	
\$ 800,000	HSBC 281,504	(1) (2)
	Capital	
	Funding	
	LP,	
	10.176%	
	to	

06/30/30
then
3ML
+
4.98%,
144A****

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2018 (Unaudited)

Shares/\$ Par	Value
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**Preferred Securities
— (Continued)**

**Banking —
(Continued)**

	Huntington Bancshares, Inc.:	
	5.700%	
	to	
	04/15/23	
	then	
\$ 950,000	3MB158,906	*
	+	
	2.88%,	
	Series	
	E	
99,000	6.25%,	
	Series	
	2,679,930	*(1)
	D	
	JPMorgan Chase & Company:	
	6.00%	
	to	
	08/01/23	
	then	
\$ 300,000	3MB14,400	*
	+	
	3.30%,	
	Series	
	R	
54,650	6.70%,	
	Series	
	428,004	*(1)
	T	
\$ 4,167,000	4,609,744	*(1)

6.75%
 to
 02/01/24
 then
 3ML
 +
 3.78%,
 Series
 S
 7.90%
 to
 04/30/18
 then
 \$ 3,750,000 3MB,787,500 *(1)
 +
 3.47%,
 Series
 I
 KeyCorp,
 6.125%
 to
 12/15/26
 then
 84,000 2,340,257 *(1)
 3ML
 +
 3.892%,
 Series
 E
 Lloyds
 TSB
 Bank
 PLC,
 12.00%
 to
 \$ 1,550,000 2,022,937 (2)
 12/16/24
 then
 3ML
 +
 11.756%,
 144A****
 \$ 2,240,000 M&T,489,379 *(1)
 Bank
 Corporation,
 6.45%
 to
 02/15/24
 then
 3ML
 +
 3.61%,

	Series	
	E	
	Macquarie	
	Bank	
	Ltd.,	
	6.125%	
	to	
\$ 500,000	03/08/2000	** (2)
	then	
	SW5	
	+	
	3.703%,	
	144A****	
	MB	
	Financial,	
40,220	Inc. 999,467	*
	6.00%,	
	Series	
	C	
	Morgan Stanley:	
	5.85%	
	to	
	04/15/27	
	then	
82,600	3M 2,215,332	*(1)
	+	
	3.491%,	
	Series	
	K	
	6.875%	
	to	
	01/15/24	
	then	
148,000	3M 2,207,640	*(1)
	+	
	3.94%,	
	Series	
	F	
	7.125%	
	to	
	10/15/23	
	then	
77,200	3M 2,234,168	*(1)
	+	
	4.32%,	
	Series	
	E	
162,500	New 4,574,375	*(1)
	York	

	Community Bancorp, Inc., 6.375% to 03/17/27 then 3ML + 3.821%, Series A	
297,806	PNC Financial Services Group, Inc.: 6.125% to 05/01/22 then 3M	B,319,032 *(1)
	+ 4.067%, Series P 6.75% to 08/01/21 then 3M	427,418 *(1)
\$ 395,000	+ 3.678%, Series O	
	Rabobank Nederland, 11.00% to 06/30/19 then 3ML	1,945,844 (1)(2)
\$ 1,775,000	+ 10.868%, 144A****	
35,000	Regions Financial Corporation, 6.375% to 09/15/24 then	965,531 *

	3ML	
	+	
	3.536%,	
	Series	
	B	
	Societe	
	Generale	
	SA,	
	7.375%	
	to	
\$ 3,800,000	09/14/2014,000	** (1)(2)
	then	
	SW5	
	+	
	6.238%,	
	144A****	
	Sovereign	
	Bancorp:	
	Sovereign	
2,600	REIT	3,237,000
	12.00%,	
	Series	
	A,	
	144A****	
	Standard Chartered	
	PLC:	
	7.50%	
	to	
	04/02/22	
\$ 1,370,000	then	1,485,833
	SW5	** (1)(2)
	+	
	6.301%,	
	144A****	
	7.75%	
	to	
	04/02/23	
\$ 2,500,000	then	2,721,875
	SW5	** (1)(2)
	+	
	5.723%,	
	144A****	
83,700	Stat	2,280,825
	Street	* (1)
	Corporation,	
	5.90%	
	to	
	03/15/24	
	then	

	3ML		
	+		
	3.108%,		
	Series		
	D		
	Sterling		
	Bancorp,		
20,517	6.50%,	87,545	*
	Series		
	A		
	SunTrust		
	Banks,		
	Inc.,		
8,200	5.875%,	206,804	*
	Series		
	E		
	Texas		
	Capital		
	Bancshares		
10,000	Inc. 6.50%,	254,100	*
	Series		
	A		
	US		
	Bancorp,		
	6.50%		
	to		
	01/15/22		
35,000	then 4.468%,	984,764	*(1)
	Series		
	F		
	Valley		
	National		
	Bancorp,		
	5.50%		
	to		
	09/30/22		
28,000	then 3.578%,	724,080	*
	Series		
	B		

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2018 (Unaudited)

Shares/\$ Par	Value
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**Preferred Securities
— (Continued)**

**Banking —
(Continued)**

	Wells Fargo & Company:	
15,000	5.625%, Series Y	*
	5.85% to 09/15/23 then	
56,200	3ML,501,664	*(1)
	+ 3.09%, Series Q	
	5.875% to 06/15/25 then	
\$ 2,075,000	3ML,208,588	*(1)
	+ 3.99%, Series U	
34,400	6.625%, to 03/15/24 then	*(1)
	3ML + 3.69%, Series	

	R		
225	7.50%, Series 286,875	*	
	L		
	7.98%		
	to		
	03/15/18		
	then		
\$ 1,139,000	3ML,158,932	*	
	+		
	3.77%,		
	Series		
	K		
104,500	8.00%, Series 2,720,135	*(1)	
	J		
	Westpac Banking Corporation, 5.00%		
\$ 1,100,000	to 1,052,848	** (2)	
	09/21/27		
	then		
	ISDA5		
	+		
	2.888%		
	Zions Bancorporation, 7.20%		
	to		
	09/15/23		
\$ 1,000,000	then 1,105,000	*	
	3ML		
	+		
	4.44%,		
	Series		
	J		
	120,872,204		

Financial Services — 0.6%

\$ 410,000	AerCap, Global Aviation Trust, 6.50%	(2)	
	to		
	06/15/25		
	then		
	3ML		
	+		

	4.30%, 06/15/45, 144A****	
	E*TRADE Financial Corporation, 5.30%	
\$ 444,000	to 03/15/23 then 439,560	*
	3ML +	
	3.16%, Series B	
	General Motors Financial Company, 5.75%	
\$ 420,000	to 09/30/23 then 407,888	*
	3ML +	
	3.598%, Series A	
	1,313,348	
Insurance — 18.9%		
	Allstate Corporation, 6.625%	
73,000	03/01/17 1,171	*(1)
	Series E	
	Aon Corporation, 8.205%	
\$ 275,000	01/01/27 355,438	(1)
	Arch Capital Group, Ltd.:	
	5.25%, Series	
11,000	01/01/27 258,500	** (2)
	E	
	5.45%, Series	
9,900	01/01/27 239,481	** (2)
	F	
\$ 1,453,000	AXA SA, 6.92,745	** (1)(2)

	6.379%		
	to		
	12/14/36		
	then		
	3ML		
	+		
	2.256%,		
	144A*****		
	Axis		
	Capital		
	Holdings		
19,750	Ltd.480,320	**	(2)
	5.50%,		
	Series		
	E		
	Chubb		
	Ltd.:		
	Ace		
\$ 1,200,000	Capital	1,791,000	(1)(2)
	Trust		
	II,		
	9.70%		
	04/01/30		
	Delphi		
	Financial		
	Group,		
120,000	3ML	2,760,000	(1)
	+		
	3.19%,		
	5.0288% ⁽⁵⁾		
	05/15/37		
	Everest		
	Reinsurance		
	Holdings,		
\$ 1,759,000	3ML	1,729,976	(1)
	+		
	2.385%,		
	4.2238% ⁽⁵⁾		
	05/15/37		
10,000	Harbor	28,300	
	Financial		
	Services		
	Group,		
	Inc.,		
	7.875%		
	to		
	04/15/22		
	then		
	3ML		

	+		
	5.596%,		
	04/15/42		
	Liberty		
	Mutual		
\$ 3,054,000	Group,	3,802,230	(1)
	7.80%		
	03/15/37,		
	144A****		
	MetLife, Inc.:		
	9.25%		
\$ 3,350,000	04/08/38,	4,638,375	(1)
	144A****		
	10.75%		
\$ 2,704,000	4/33/39,	4,333,160	(1)
	08/01/39		
	MetLife		
	Capital		
	Trust		
\$ 350,000	IV, 449,750		(1)
	7.875%		
	12/15/37,		
	144A****		

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2018 (Unaudited)

Shares/\$ Par	Value	
Preferred Securities		
— (Continued)		
	Insurance —	
	(Continued)	
	PartnerRe Ltd.:	
	5.875%,	
23,350	\$159,461	** (1)(2)
	Series I	
	6.50%,	
5,300	\$39,443	** (2)
	Series G	
	7.25%,	
78,200	\$160,666	** (1)(2)
	Series H	
	Prudential	
	Financial,	
	Inc.,	
	5.625%	
	to	
\$ 241,000	\$21,556	
	06/15/43	
	then	
	3ML	
	+	
	3.92%,	
	06/15/43	
\$ 3,634,000	\$1,133,675	(1)(2)
	QBE	
	Insurance	
	Group	
	Ltd.,	
	7.50%	
	to	
	11/24/23	
	then	

	SW10	
	+	
	6.03%,	
	11/24/43,	
	144A****	
	Unum	
	Group:	
	Provident	
\$ 2,750,000	Financing	
	Trust	3,135,000 (1)
	I,	
	7.405%	
	03/15/38	
	W.R.	
	Berkley	
24,000	Corp	16,056,
	5.75%	
	06/01/56	
	XL Group Limited:	
	Catlin	
	Insurance	
	Company	
	Ltd.,	
\$ 1,400,000	3ML	3,379,000 (1)(2)
	+	
	2.975%,	
	4.7142% ⁽⁵⁾ ,	
	144A****	
	XL	
	Capital	
	Ltd.,	
	3ML	
\$ 4,750,000	+ 4,542,188	(1)(2)
	2.4575%,	
	4.1790% ⁽⁵⁾ ,	
	Series	
	E	
	41,778,491	
Utilities — 9.3%		
	Commonwealth	
	Edison:	
	COMED	
\$ 2,512,000	Financing	2,687,840 (1)
	III,	
	6.35%	
	03/15/33	
136,000	Dominion	614 (1)
	Energy,	

	Inc., 5.25% 07/30/76, Series A		
	DTE Energy Company: 5.375% 06/01/76, Series B	7,000	172,349
	6.00% 12/15/76, Series F	13,000	347,361
	Emera, Inc., 6.75% to 06/15/26 then 3ML	\$ 2,030,000	2,263,450 (1)(2)
	+ 5.44%, 06/15/76, Series 2016A		
	Georgia Power Company, 5.00% 10/01/77, Series 2017A	21,200	17,598
	Indianapolis Power & Light Company, 5.65%	24,000	2,479,855 *(1)
	Integrant Energy Group, Inc., 6.00% to 08/01/23 then 3ML +	77,100	2,062,425 (1)

	3.22%, 08/01/73	
	NextEra Energy: FPL Group Capital, Inc.,	
\$ 1,600,000	3ML,557,056	(1)
	+	
	2.125%, 3.7135% ⁽⁵⁾	
	06/15/67, Series C	
	PECO Energy: PECO Energy Capital	
\$ 1,500,000	Trust,717,572	(1)
	III, 7.38%	
	04/06/28, Series D	
	PPL Corp: PPL Capital Funding, Inc.,	
26,800	681,256	(1)
	5.90%	
	04/30/73, Series B	
	PPL Capital Funding, Inc., 3ML	
\$ 902,000	+ 899,745	(1)
	2.665%, 4.3584% ⁽⁵⁾	
	03/30/67, Series A	
\$ 1,298,000	Puget,288,265	(1)
	Sound Energy,	

Inc.,
 3ML
 +
 2.53%,
 4.0106%⁽⁵⁾
 06/01/67,
 Series
 A
 Southern
 California
 Edison:
 SCE
 Trust
 V,
 5.45%
 20,000 to 523,128 *
 03/15/26
 then
 3ML
 +
 3.79%,
 Series
 K
 20,509,714

Energy — 5.9%

DCP
 Midstream
 LP,
 7.375%
 to
 \$ 1,060,000 12/15/22
 then 1,071,262
 3ML
 +
 5.148%,
 Series
 A
 Enbridge,
 Inc.,
 6.00%
 to
 \$ 1,030,000 01/15/27
 then, 1,045,450 (2)
 3ML
 +
 3.89%,
 01/15/77
 \$ 6,595,000 Enbridge, 6,614,488 (1)
 Energy

Partners
LP,
3ML
+
3.7975%,
5.4917%⁽⁵⁾
10/01/37

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2018 (Unaudited)

Shares/\$ Par	Value
--------------------------	--------------

**Preferred Securities
— (Continued)**

**Energy —
(Continued)**

	Enterprise Products Operating L.P.:	
	3ML	
	+	
\$ 400,000	3.7075%,	
	5,808,500	
	08/01/66,	
	Series	
	A	
	5.25%	
	to	
	08/16/27	
	then	
\$ 500,000	3ML	483,750
	+	
	3.033%,	
	08/16/77,	
	Series	
	E	
	Kinder	
	Morgan,	
	Inc.,	
14,920	9.75%	9,820 *
	10/26/18,	
	Series	
	A	
31,500	NuStar	307,975
	Logistics	
	LP,	
	3ML	

+
 6.734%,
 8.4555%⁽⁵⁾
 01/15/43
 Transcanada Pipelines,
 Ltd.:
 5.30%
 to
 03/15/27
 then
 3ML
 \$ 1,000,000 + 1,009,375 (2)
 +
 3.208%,
 03/15/77,
 Series
 2017-A
 5.875%
 to
 08/15/26
 then
 3ML
 \$ 1,000,000 + 1,077,500 (1)(2)
 +
 4.64%,
 08/15/76,
 Series
 2016-A
 13,005,120

**Real Estate Investment Trust
 (REIT) — 0.5%**

Annaly
 Capital
 Management,
 Inc.,
 6.95%
 to
 3,110 09/30/27
 then
 3ML
 +
 4.993%,
 Series
 F
 National Retail
 Properties, Inc.:
 5.20%,
 5,500 Series 26,995
 F
 23,962 5.7087,697 (1)

Series
 E
 PS Business Parks, Inc.:
 5.20%,
 6,918 Series 66,862
 W
 5.70%,
 7,983 Series 97,899
 V
 5.75%,
 325 Series 8,057
 U
 1,164,389

Miscellaneous Industries — 3.8%

BHP
 Billiton
 Limited:

 BHP
 Billiton
 Finance
 U.S.A.,
 Ltd. 455,000 (2)
 \$ 400,000 6.75%
 to
 10/19/25
 then
 SW5
 +
 5.093%,
 10/19/75,
 144A****

 General
 Electric
 Company,
 5.00%
 to
 \$ 802,000 01/21/21 792,978 *(1)
 then
 3ML
 +
 3.33%,
 Series
 D

 Land O' Lakes, Inc.:
 \$ 240,000 7.25% 268,200 *
 Series
 B,

	144A****		
	8.00%,		
\$ 3,630,000	Series	4,110,975	*(1)
	A,		
	144A****		
	Ocean		
	Spray		
30,400	Cranberries	2,766,400	*
	Inc.,		
	6.25%,		
	144A****		
	8,393,553		
	Total		
	Preferred		
	Securities	6,819	
	(Cost		
	\$196,414,132)		

Corporate Debt Securities^s — 4.3%

Banking — 2.0%

	Regions		
	Financial		
	Corporation,		
\$ 550,000	7.375%	7,731	(1)
	12/10/37,		
	Sub		
	Notes		
	Texas		
	Capital		
	Bancshares		
123,450	Inc.	3,193,528	(1)
	6.50%		
	09/21/42,		
	Sub		
	Notes		
	Zions		
	Bancorporation,		
	6.95%		
	to		
	09/15/23		
18,000	then	526,498	
	3ML		
	+		
	3.89%,		
	09/15/28,		
	Sub		
	Notes		
	4,448,757		

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2018 (Unaudited)

Shares/\$ Par	Value
------------------	-------

**Corporate Debt
Securities —
(Continued)**

**Financial
Services
— 0.0%**

1,000	B. Riley Financial Inc., 7.50% 05/31/27 25,690	\$ 25,690
-------	--	-----------

**Insurance —
1.2%**

\$ 1,850,000	Liberty Mutual Insurance 7.697% 10/15/97, 144A**** 2,544,321	2,544,321 (1)
--------------	--	---------------

Energy — 0.5%

\$ 904,000	Energy Transfer Partners LP, 8.25% 11/15/29 1,134,692	1,134,692 (1)
------------	---	---------------

Communication — 0.5%

Qwest
Corporation:

19,728	6.50%	426,125
		09/01/56
24,920	6.75%	563,690
		06/15/57
400	7.00%	9,477
		04/01/52
		999,292

**Miscellaneous Industries —
0.1%**

10,000	eBay, Inc.	264,315
		6.00%
		02/01/56
		264,315

**Total
Corporate
Debt
Securities**
(Cost
\$8,176,187)

Common Stock — 0.6%

Energy — 0.6%

87,504	Kinder Morgan Inc.	1,417,565	*
		1,417,565	

Insurance — 0.0%

17,907	WMI Holdings Corporation, 144A****	23,100	*†
		23,100	

**Total
Common
Stock**
(Cost
\$2,409,064)

Money Market Fund — 0.8%

1,795,362	BlackRock Liquidity Funds; T-Fund, Institutional Class	1,795,362
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**Total
Money
Market
Fund** 1,795,362
(Cost
\$1,795,362)

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2018 (Unaudited)

			Value
Total Investments (Cost \$208,794,745***)	99.5	%	\$ 219,689,913
Other Assets And Liabilities (Net)	0.5	%	1,073,385
Total Managed Assets	100.0	% ‡	\$ 220,763,298
Loan Principal Balance			(74,700,000)
Total Net Assets Available To Common Stock			\$ 146,063,298

§Date shown is maturity date unless referencing the end of the fixed-rate period of a fixed-to-floating rate security.

*Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.

**Securities distributing Qualified Dividend Income only.

***Aggregate cost of securities held.

****Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. At February 28, 2018, these securities amounted to \$63,188,601 or 28.6% of total managed assets.

(1)All or a portion of this security is pledged as collateral for the Fund's loan. The total value of such securities was \$142,218,782 at February 28, 2018.

(2)Foreign Issuer.

(3)Level 3, illiquid security (designation is unaudited; see Note 2: Additional Accounting Standards).

(4)Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of February 28, 2018.

(5)Represents the rate in effect as of the reporting date.

†Non-income producing.

††The issuer has filed for bankruptcy protection. As a result, the Fund may not be able to recover the principal invested and also does not expect to receive income on this security going forward.

‡The percentage shown for each investment category is the total value of that category as a percentage of total managed assets.

ABBREVIATIONS:

3ML — 3-Month ICE LIBOR USD A/360

ISDA5 — 5-year USD ICE Swap Semiannual 30/360

SW5 — 5-year USD Swap Semiannual 30/360

SW10 — 10-year USD Swap Semiannual 30/360

T10Y — Federal Reserve H.15 10-Yr Constant Maturity Treasury Semiannual yield

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

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

For the period from December 1, 2017 through February 28, 2018 (Unaudited)

Value	
OPERATIONS:	
Net investment income	\$214,095
Net realized gain/(loss) on investments sold during the period	(62,037)
Change in net unrealized appreciation/(depreciation) of investments	(2,949,759)
Net decrease in net assets resulting from operations	(866,691)
DISTRIBUTIONS:	
Dividends paid from net investment income to	(2,153,750)

Common
Stock
Shareholders⁽²⁾

**Total
Distributions**

to **(2,553,750**)
Common
Stock
Shareholders

**FUND
SHARE
TRANSACTIONS:**

Increase
from
shares
issued
under
the
Dividend **78,219**
Reinvestment
and
Cash
Purchase
Plan

**Net
increase
in
net
assets
available
to **78,219**
Common
Stock
resulting
from
Fund
share
transactions**

NET \$ (3,342,222)
**DECREASE
IN
NET
ASSETS
AVAILABLE
TO
COMMON
STOCK
FOR**

**THE
period**

**NET
ASSETS
AVAILABLE
TO
COMMON
STOCK:**

Beginning
of \$ 149,405,520
period

Net
decrease
in
net
assets (3,342,222)
during
the
period

End
of \$ 146,063,298
period

(1)These tables summarize the three months ended February 28, 2018 and should be read in conjunction with the Fund's audited financial statements, including notes to financial statements, in its Annual Report dated November 30, 2017.

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

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

Financial Highlights⁽¹⁾

**For the period December 1, 2017 through February 28, 2018 (Unaudited)
For a Common Stock share outstanding throughout the period**

**PER
SHARE
OPERATING
PERFORMANCE:**

Net
asset
value
beginning of period \$ 11.94

**INVESTMENT
OPERATIONS:**

Net
investment income 0.17

Net
realized
and
unrealized gain/(loss) on
investments 0.24)

Total
from investment operations (0.07)

**DISTRIBUTIONS
TO
COMMON
STOCK
SHAREHOLDERS:**

From
net investment income (0.20)

Total
distributions
to
Common (0.20)
Stock
Shareholders

Net
asset
value, \$ 11.67
end

of
period

Market
value,
end \$ 11.11

of
period

Common
Stock
shares
outstanding, 518,382

end
of
period

**RATIOS TO
AVERAGE NET
ASSETS AVAILABLE
TO COMMON
STOCK
SHAREHOLDERS:**

Net
investment 1.87 %*
income†

Operating
expenses
including 2.48 %*
interest
expense

Operating
expenses
excluding 1.32 %*
interest
expense

**SUPPLEMENTAL
DATA:**

††
2 %**

Portfolio
turnover
rate
Total
managed
assets,
end
of \$ 220,763
period
(in
000's)

Ratio
of
operating
expenses
including
interest
expense 1.65 %*
to
average
total
managed
assets

Ratio
of
operating
expenses
excluding
interest
expense 0.87 %*
to
average
total
managed
assets

(1)These tables summarize the three months ended February 28, 2018 and should be read in conjunction with the Fund's audited financial statements, including notes to the financial statements, in its Annual Report dated November 30, 2017.

*Annualized.

**Not annualized.

†The net investment income ratio reflects income net of operating expenses, including interest expense.

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

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

Financial Highlights (Continued)**Per Share of Common Stock (Unaudited)**

	Total Dividends Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price⁽¹⁾
December 29, 2017	\$0.0690	\$11.93	\$11.81	\$11.78
January 31, 2018	0.0690	11.80	10.98	11.02
February 28, 2018	0.0660	11.67	11.11	11.09

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

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

Notes to Financial Statements (Unaudited)

1. Aggregate Information for Federal Income Tax Purposes

At February 28, 2018, the aggregate cost of securities for federal income tax purposes was \$214,312,030, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$16,816,652 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$11,438,769.

2. Additional Accounting Standards

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

Level 1 – quoted prices in active markets for identical securities

Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of levels are recognized at market value at the end of the period.

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

Notes to Financial Statements (Unaudited) (Continued)

A summary of the inputs used to value the Fund's investments as of February 28, 2018 is as follows:

	Total Value at February 28, 2018	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Preferred Securities				
Banking	\$120,872,204	\$104,542,845	\$16,328,909	\$450
Financial Services	1,313,348	866,448	446,900	—
Insurance	41,778,491	20,999,427	20,779,064	—
Utilities	20,509,714	10,273,757	10,235,957	—
Energy	13,005,120	6,393,632	6,611,488	—
Real Estate Investment Trust (REIT)	1,164,389	1,164,389	—	—
Miscellaneous Industries	8,393,553	1,247,978	7,145,575	—
Corporate Debt Securities				
Banking	4,448,757	3,720,026	728,731	—
Financial Services	25,690	25,690	—	—
Insurance	2,544,321	—	2,544,321	—
Energy	1,134,692	—	1,134,692	—
Communication	999,292	999,292	—	—
Miscellaneous Industries	264,315	264,315	—	—
Common Stock				
Energy	1,417,565	1,417,565	—	—
Insurance	23,100	23,100	—	—
Money Market Fund	1,795,362	1,795,362	—	—
Total Investments	\$219,689,913	\$153,733,826	\$65,955,637	\$450

During the reporting period, securities with an aggregate market value of \$2,489,379 were transferred into Level 2 from Level 1. The securities were transferred due to a decrease in the quantity and quality of information related to trading activity or broker quotes for these securities. During the period, there were no transfers into Level 1 from Level 2. During the reporting period, there were no transfers into or out of Level 3.

The fair values of the Fund's investments are generally based on market information and quotes received from brokers or independent pricing services that are approved by the Board of Directors and are unaffiliated with the Adviser. To

assess the continuing appropriateness of security valuations, management, in consultation with the Adviser, regularly compares current prices to prior prices, prices across comparable securities, actual sale prices for securities in the Fund's portfolio, and market information obtained by the Adviser as a function of being an active market participant.

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

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

Notes to Financial Statements (Unaudited) (Continued)

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

	Total Investments	Preferred Securities Banking
Balance as of 11/30/17	\$ 450	\$ 450
Accrued discounts/premiums	—	—
Realized gain/(loss)	—	—
Change in unrealized appreciation/(depreciation)	—	—
Purchases	—	—
Sales	—	—
Transfer in	—	—
Transfer out	—	—
Balance as of 02/28/18	\$ 450	\$ 450

For the three months ended February 28, 2018, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was \$0.

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

Category	Fair Value at 02/28/18	Valuation Technique	Unobservable Input	Input Range (Wgt Avg)
Preferred Securities (Banking)	\$450	Bankruptcy recovery	Credit/Structure-specific recovery	0.00% - 0.02% (0.01%)

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

Directors

R. Eric Chadwick, CFA
Chairman of the Board

Morgan Gust

David Gale

Karen H. Hogan

Officers

R. Eric Chadwick, CFA
Chief Executive Officer and
President

Chad C. Conwell
Chief Compliance Officer,
Vice President and Secretary

Bradford S. Stone
Chief Financial Officer,
Vice President and Treasurer

Roger W. Ko
Assistant Treasurer

Laurie C. Lodolo
Assistant Compliance Officer,
Assistant Treasurer and
Assistant Secretary

Linda M. Puchalski
Assistant Treasurer

Investment Adviser

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

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

- If your shares are held in a Brokerage Account, contact your Broker.
- If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent & Shareholder Servicing Agent —

BNY Mellon c/o Computershare
P.O. Box 30170
College Station, TX 77842-3170

1-866-351-7446

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.

Quarterly
Report

February 28, 2018

www.preferredincome.com