Flaherty & Crumrine PREFERRED INCOME OPPORTUNITY FUND INC
Form N-CSR
January 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT

INVESTMENT COMPANIES

Investment Company Act file number 811-06495

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720

Pasadena, CA91101

(Address of principal executive offices) (Zip code)

Donald F. Crumrine

Flaherty & Crumrine Incorporated

301 E. Colorado Boulevard, Suite 720

Pasadena, CA91101

(Name and address of agent for service)

Registrant s telephone number, including area code: 626-795-7300

Date of fiscal year end: November 30

Date of reporting period: November 30, 2014

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Reports to Stockholders.

The Report to Shareholders is attached herewith.

FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND

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

Your Fund wrapped up fiscal 2014 in solid fashion, earning 1.8% total return on net asset value (NAV) during the fourth fiscal quarter[1]. For the full fiscal year, total return on NAV was +17.3%. Total returns computed on market price of Fund shares were even better at 8.1% for the fourth fiscal quarter and 26.2% for the fiscal year.

As seen in the following table, Fund returns over various measurement periods have been very good. The table includes performance of two indices, Barclays Capital U.S. Aggregate and S&P 500, as proxies for bond and stock markets, respectively. While neither is a benchmark for Fund performance, they provide context for broad asset categories.

TOTAL RETURN ON NET ASSET VALUE

FOR PERIODS ENDED NOVEMBER 30, 2014

(Unaudited)

	Actual Returns			Average Annualized Returns			
	Three Months	**Six Months**	**One Year**	**Three Years**	**Five Years**	**Ten Years**	**Life of Fund(1)**
Flaherty & Crumrine Preferred Income Opportunity Fund	1.8%	5.0%	17.3%	17.0%	17.6%	8.4%	9.5%
Barclays Capital U.S. Aggregate Index(2)	1.0%	1.9%	5.3%	3.0%	4.1%	4.8%	6.1%
S&P 500 Index(3)	3.7%	8.6%	16.8%	20.9%	16.0%	8.1%	9.5%

(1) Since inception on February 13, 1992.
(2) The Barclays Capital U.S. Aggregate Index is an unmanaged index considered representative of the U.S. investment grade, fixed-rate bond market.
(3) The S&P 500 Index is a capitalization-weighted index of 500 common stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. In addition, NAV performance will vary from market price performance, and you may have a taxable gain or loss when you sell your shares.

Preferred securities continue to benefit from gradually improving U.S. economic growth, low inflation and low global interest rates. Inflation-adjusted U.S. gross domestic product (real GDP) expanded by 2.7% over twelve months ending in September 2014, and we anticipate similar growth this year. Employment gains are pushing up personal income, enabling households to reduce debt while still increasing consumption moderately. Corporations are expanding investments while maintaining strong balance sheets. Housing is recovering gradually. As a result, credit performance across most lending categories continues to improve. At the same time, inflation remains low and a recent plunge in oil prices should push inflation even lower over coming months. Low inflation and ongoing labor market slack should keep monetary policy accommodative for some time, although the Federal Reserve is likely to nudge short-term interest rates higher in the second half of 2015.

[2] Following the methodology required by the Securities and Exchange Commission, total return assumes dividend reinvestment and includes income and principal change, plus the impact of the Fund s leverage and expenses.
[1] September 1 November 30, 2014

In contrast, economic growth has slowed in Europe, Japan, China and many developing countries, which has pushed down inflation and kept interest rates at extraordinarily low levels globally. U.S. fixed-income investments have benefitted as global investors remain on in fact, have intensified a global hunt for yield. Although we expect U.S. interest rates to rise eventually in response to stronger domestic growth, any rise will be tempered by these global developments. Falling energy prices and continued geopolitical risks only reinforce that view.

Market conditions for preferred securities remain healthy. Low yields on competing securities have attracted more investors to the space, resulting in consistent demand and reasonable levels of liquidity. Supply of new issues from U.S. and foreign companies significantly surpassed 2013 levels. We expect issuance will remain elevated in 2015, as issuers work toward future regulatory benchmarks and take advantage of low interest rates to reduce overall capital expense. We continue to be constructive on the market, as demand shows little sign of abating.

The Fund s monthly dividend rate remains unchanged as we begin a new fiscal year. For some time, conditions have been very favorable for leveraged funds like PFO. Leverage expense is low, while income generated by the preferred portfolio is relatively high. Issuer redemptions of older high-coupon securities have put pressure on income, but thus far proactive portfolio moves have lessened the impact. Our strategy has been effective, but we may reach a point when the dividend rate cannot be maintained prudently, especially after the Federal Reserve raises short-term interest rates.

In our last letter we anticipated further reducing the Fund s allocation to foreign securities. We expect that economic conditions in Europe will remain weak; in addition, new contingent capital securities issued by European banks to replace older capital structures have yet to tempt us. We believe better opportunities exist in domestic markets. From the beginning of fiscal 2014 to its end, foreign exposure dropped from 25.5% of assets to 17.1%.

The other important shift in the portfolio involved reducing exposure to rising interest rates. 52.3% of portfolio assets are fixed-to-floating rate securities with coupons that are *fixed* for an initial period, typically five or ten years, and then *float* with interest rates (typically short-term rates) according to terms set at issuance. This floating rate feature dampens price changes of the securities due to changes in interest rates, as compared to securities with coupons that are fixed-for-life. Yields on these issues tend to be lower than securities with fixed-for-life coupons, but we believe the tradeoff is prudent.

In the discussion topics that follow, we dig deeper into subjects mentioned here as well as others of interest to shareholders. In addition, we encourage you to visit the Fund s website, www.preferredincome.com for timely and important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team:

R. Eric Chadwick

Donald F. Crumrine

Robert M. Ettinger

Bradford S. Stone

January 9, 2015

DISCUSSION TOPICS

(Unaudited)

The Fund s Portfolio Results and Components of Total Return on NAV

The table below reflects performance of each element comprising total return for the Fund over both the recent six months and the Fund s fiscal year, including: (a) investing in a portfolio of securities; (b) possibly hedging that portfolio of securities against significant increases in long-term interest rates; and (c) utilizing leverage to enhance returns to shareholders. Finally, we compute the impact of the Fund s operating expenses. All parts are summed to determine total return on NAV.

Components of PFO s Total Return on NAV

for Periods Ended November 30, 2014

		Six Months[1]	One Year
Total Return on Unleveraged Securities Portfolio (including principal change and income)		3.8%	12.4%
Return from Interest Rate Hedging Strategy		N/A	N/A
Impact of Leverage (including leverage expense)		1.9%	6.2%
Expenses (excluding leverage expense)		(0.7)%	(1.3)%
[1]Actual, not annualized	Total Return on NAV	***5.0%***	**17.3%**

For comparison, the following table displays returns over the same time period on four indices compiled by Bank of America Merrill Lynch, reflecting various segments of the preferred securities market. Because these index returns exclude all expenses and the impact of leverage, they compare most directly to the top line in the Fund s performance table above (Total Return on Unleveraged Securities Portfolio).

Total Returns of Bank of America Merrill Lynch Preferred Securities Indices[2]

for Periods Ended November 30, 2014

	Six Months[3]	One Year
BofA Merrill Lynch 8% Constrained DRD Eligible Preferred Securities Index^{SM}	4.3%	14.5%
BofA Merrill Lynch Hybrid Preferred Securities 8% Constrained Index^{SM}	4.7%	14.4%
BofA Merrill Lynch US Capital Securities US Issuers 8% Constrained Index^{SM}	2.8%	11.3%
BofA Merrill Lynch 8% Constrained Core West Preferred & Jr Subordinated Securities Index^{SM}	3.3%	12.6%

[2] The Bank of America Merrill Lynch 8% Constrained DRD Eligible Preferred Securities Index^{SM} (P8D0) includes investment-grade, fixed or fixed-to-floating rate, preferred securities of U.S. issuers that qualify for the corporate dividend received deduction with issuer concentration capped at a maximum of 8%. The Bank of America Merrill Lynch Hybrid Preferred Securities 8% Constrained Index^{SM} (P8HO) includes investment-grade, fixed or fixed-to-floating rate, U.S. dollar-denominated taxable preferred securities of both U.S. and foreign issuers structured for retail investors with issuer concentration capped at 8%. The Bank of America Merrill Lynch US Capital Securities US Issuers 8% Constrained Index^{SM} (C8CT) includes investment-grade, fixed or fixed-to-floating rate, $1,000 par securities of primarily U.S. issuers that receive some degree of equity credit from the rating agencies or their regulators with issuer concentration capped at a maximum of 8%. The Bank of America Merrill Lynch 8% Constrained Core West Preferred & Jr Subordinated Securities Index^{SM} (P8JC) includes U.S. dollar-denominated investment-grade or below investment-grade, fixed rate, floating rate or fixed-to-floating rate, retail or institutionally structured preferred securities of U.S. and foreign issuers with issuer concentration capped at 8%. All index returns include interest and dividend income, and, unlike the Fund s returns, are unmanaged and do not reflect any expenses.

[3] Actual, not annualized

The BofA Merrill Lynch 8% Constrained Core West Preferred & Jr Subordinated Securities Index[SM] is a recently created preferred securities index that most closely matches the Fund s investable universe based on its investment guidelines. It aggregates together most securities found in the other three investment-grade preferred securities indices and also includes (a) a greater percentage of U.S. dollar-denominated securities issued by foreign companies (27% as of November 30, 2014) and (b) below investment-grade preferred securities (35% rated below investment-grade by Moody s, Standard and Poor s and Fitch as of November 30, 2014. The Fund is currently permitted to invest up to 30% of its portfolio in foreign securities and up to 25%; of its portfolio in securities rated below investment grade by all three of these rating agencies.

During fiscal 2014, the Fund s total return on NAV significantly exceeded the returns on all the named BofA Merrill Lynch indices because of the Fund s use of leverage. While leverage can reduce returns during periods of adverse market conditions, during the recent fiscal year it enhanced price returns and its low cost increased the Fund s distributable income.

Total Return on Market Price of Fund Shares

While our focus is primarily on managing the Fund s investment portfolio, our shareholders actual return is comprised of the Fund s monthly dividend payments *plus* changes in the *market price* of Fund shares. During the twelve-month period ending November 30, 2014, total return on market price of Fund shares was 26.2%.

Historically, the preferred securities market has experienced price volatility consistent with those of other fixed-income securities. However, from mid-2007 through 2010, preferred-security valuations, including both the Fund s NAV and the market price of its shares, moved dramatically when there was significant volatility throughout financial markets. The chart below contrasts the relative stability of the Fund s earlier and more recent periods with recent volatility in both its NAV and market price. Virtually all fixed-income asset classes experienced increased volatility over this period.

In a more perfect world, the market price of Fund shares and its NAV, as shown in the chart on page 4, would track more closely. If so, any premium or discount, calculated as the difference between these two inputs and expressed as a percentage, would remain relatively close to zero. However, as can be seen in the chart below, this often has not been the case. The Fund began fiscal 2014 with its market price at a discount to NAV, but ended the fiscal year with its market price at a premium to NAV. As a result, the total return earned on market price was greater than the total return on NAV.

Although divergence between NAV and market price of a closed-end fund is generally driven by supply/demand imbalances affecting its market price, we can only speculate about why the relationship between the Fund s market price and NAV has not been closer.

Based on a closing price of $11.55 on December 31st, and assuming its current monthly distribution of $0.073 does not change, the annualized yield on market price of Fund shares was 7.6%. In our opinion, this distribution rate measures up favorably with most comparable fixed-income investment opportunities. Of course, there can be no guarantee that the Fund s dividend will not change based on market conditions.

Economic and Interest Rate Recap and Outlook

2014 was an eventful economic year. An unusually cold and snowy winter got the U.S. economy off to a weak start as real GDP fell by 2.1% in the first quarter. It rebounded strongly thereafter, however, posting average growth of 4.8% over the following two quarters. Job growth accelerated, and unemployment fell. Consumer spending and business investment improved. Government spending swung from a drag on growth to a mild positive. The Federal Reserve ended its securities purchase program and is moving closer to raising short-term interest rates. U.S. economic growth appears finally to have moved to a higher plane. Surprisingly, long-term Treasury bond yields *fell* by more than 100 basis points in 2014.

After rising sharply in the second half of 2013, we expected long-term rates to come down a bit in 2014, but we were surprised by the magnitude. If one ever needs evidence of global interconnectedness of capital markets, 2014 was a good example. While U.S. economic growth accelerated as the year progressed, it slowed in Europe, Japan, China and a number of developing countries. Monetary policy eased globally and appears poised to become even easier in 2015. Moreover, inflation slowed, and a recent drop in oil prices is likely to pull inflation down even more. Global yields fell to new lows.

Credit conditions in the United States generally improved, and we expect further gains in 2015. Progress in Europe (excluding the United Kingdom) was much slower, however. Although there are credits we like in Europe, we think overall credit conditions in the United States remain more favorable.

At the same time, geopolitical risks proliferated last year. Russia s annexation of Crimea and support for breakaway factions in eastern Ukraine rekindled Cold War fears. Islamic State made extensive and brutal advances in Iraq. With two deadlines already passed, Iran has yet to reach a nuclear agreement with the West. And North Korea is finding new ways to solidify its status as a rogue nation. The United States is a rock of political and economic stability by comparison.

With the U.S. dollar strengthening and yields still relatively high, foreign investors poured money into U.S. fixed income investments and many U.S. investors decided to keep money at home rather than seek alternatives abroad. Lower yields and higher prices were a result and provided a welcome tailwind to the Fund s portfolio of preferred securities.

Looking ahead, we believe sturdier U.S. economic growth in a range of 2.5-3.0% will prompt the Federal Reserve to raise short-term interest rates probably in the second half of 2015. However, sluggish global growth and stubbornly low inflation are likely to keep the Fed circumspect. We expect the Fed to raise the federal funds rate by 25 basis points only once per quarter, or perhaps even less frequently. This is in contrast to prior episodes of monetary tightening, when the Fed typically raised rates twice as fast.

Normally, such a path of tightening would result in gradual increases in long-term yields. However, unless factors that pushed interest rates down in 2014 reverse in 2015, which we do not anticipate, U.S. yields probably will remain lower than what we would normally expect for a given level of economic growth. This suggests that U.S. intermediate- and long-term yields should increase in 2015, but only modestly. With credit conditions in the U.S. still improving, preferred securities with attractive spreads and intermediate duration should fare well, and the Fund s portfolio is positioned accordingly, as we describe in more detail below.

Preferred Market Conditions

As interest rates fell and economic growth improved last year, many investors turned to the preferred market for yield, and prices appreciated significantly. Retail investors, who sold large amounts of preferred securities in the second half of 2013, returned to the market buying newly-issued $25 par preferred securities, as well as preferred-focused closed-end, mutual and exchange-traded funds in 2014. After performing poorly in 2013, retail-oriented $25-par securities were generally among the best-performing preferreds in 2014.

Lower interest rates also attracted corporate bond investors to preferred securities. The broader corporate bond market generally trades at a spread to Treasuries, and falling interest rates usually mean lower corporate bond yields. Those lower yields caused institutional bond investors to take a deeper look at the preferred market, where many investment grade companies issue higher-yielding and more-subordinated securities. As the preferred investor base expanded, prices rose.

Robust demand also spurred new issuance in 2014. Traditional corporate bond investors were attracted to fixed-to-floating rate securities with a short five-year fixed-rate period. U.S. issuers, mostly financial institutions, wasted little time bringing those preferreds to market, with coupons typically around five percent. This class of five-year fixed-to-floating rate preferreds saw enormous growth with close to $10 billion in new issuance versus just over $1 billion in 2013.

The contingent convertible (CoCo) market that we discussed in our last semi-annual report continued to evolve in 2014. European & U.K. banks remain primary issuers, and Asian banks emerged as new adopters. Although rapid, CoCos growth spurt was expected, as financial institutions across the globe rushed to meet higher regulatory capital requirements under Basel III. The surge of new CoCo issuance bolstered our belief that U.S. banks were better capitalized going into 2014 and continue to be more prudent investments. The Fund kept its wait and see approach on the nascent CoCo market.

While preferred prices generally rose in 2014, their ascent was not entirely smooth, and preferreds did follow the broader market for the most part. The aforementioned low-coupon, five-year fixed-to-floating rate securities noticeably underperformed when markets were weak, as corporate, especially high-yield, bond investors sought to reduce risk or meet redemptions during those periods. We tend to be cautious with vogue trends in preferreds, because these fads tend to come and go. Nevertheless, the momentum and tone of preferred securities remained positive moving into 2015.

The Fund s Preferred Portfolio

The Fund s investment portfolio reflects our view of preferred market conditions, the economic outlook here and abroad and, most importantly, fundamental credit quality. As a result, we currently favor U.S. financial companies and structures designed to be less price sensitive to changing interest rates.

Since the financial crisis, credit metrics at financial institutions in the U.S. have improved measurably, due largely to stricter regulation. In general, the sector is significantly better capitalized and financial statements are more transparent than at any time in memory. As preferred investors, we focus on the amount of *common equity* capital supporting bank assets (since common equity is the only capital junior to preferred stock). On average, this measure has more than doubled since late 2008. Foreign financial institutions, facing slower-growing economies (and a regulatory structure only Rube Goldberg could admire), lag their U.S. counterparts in building capital.

Against this backdrop, the Fund reduced exposure to foreign securities, largely European banks, and increased exposure to U.S. banks. Foreign holdings fell to 17.1% as of fiscal 2014 year-end, down from 25.5% in the prior year. Bank exposure increased by 8.7% to 48.5% over the same period. These shifts reflected our evolving views on credit conditions and relative value in the preferred market.

By fiscal year end, the Fund had increased exposure to fixed-to-floating rate preferred securities to 52.3% from 44.5% at last year end. This strategy resulted in better performance compared to benchmark preferred indices when interest rates rose in 2013, but resulted in underperformance in 2014, as rates fell. If we had known long-term interest rates would fall as much as they did during 2014, we would have held onto some of those long-duration fixed-for-life preferreds longer than we did. Nonetheless, we think fixed-to-floating rate preferreds offer more attractive risk-adjusted returns than most fixed-for-life issues, especially for a leveraged fund. As shown above, total return on Fund s net asset value for fiscal 2014 was very good.

Of course, there were numerous other, smaller changes in the portfolio. We anticipate more going forward, as we adapt to an ever-changing investment environment and an increasingly globalized one.

Finally, Fund leverage is a factor in portfolio construction. Because leverage magnifies portfolio risk, we may choose to invest in securities with lower yields, but superior risk characteristics. Use of leverage permits greater latitude to make decisions based on a security s risk/reward profile while generating income available for distribution to shareholders. This is not always the case, but when we can meet the Fund s income objective with less portfolio risk, we try to take advantage of it.

Monthly Distributions to Fund Shareholders

Regular readers may find the following quite familiar, as we wrote about it at this time last year. However, it is still relevant and bears repeating. When it comes to projecting income available to shareholders in future years, the elephant in the room is the expected cost of leverage. Use of leverage is an important part of the Fund s strategy for producing high current income, and we could not produce the Fund s current level of income without it. Leverage costs, which for the Fund are currently 3-month LIBOR +0.75%, reset quarterly, remained low throughout 2014 much as we expected. We are, however, another year into economic recovery in the United States and, therefore, closer to an eventual rise in short-term rates. Although we still expect any rise to be gradual, higher cost of leverage would have a negative impact on distributable income.

Looking into 2015 and beyond, with potentially higher leverage costs, there are two questions that shareholders might ask.

If you expect the cost of leverage to increase, why not remove leverage from the Fund?

The answer is twofold. First, so long as the cost of leverage is below income earned on the portfolio which in the case of the Fund, has almost always been the case income available to shareholders will be higher with leverage than it would be without leverage. Second, following the same logic, removing leverage today would result in a material reduction in the current dividend rate given current wide spreads between yields on preferred securities and cost of leverage. So even if leverage costs increase, benefits to distributable income over time can still be substantial as long as leverage costs do not exceed portfolio yield.

If you think short-term rates are going to increase, why don t you hedge the cost of leverage?

In general, hedging is done for two reasons: first, to reduce absolute exposure to a particular risk; and second, to reduce volatility associated with a particular risk. When considering a hedge against a rise in short-term rates, one has to weigh cost versus benefit. If we knew exactly when rates would rise and by how much, then we could evaluate the explicit costs and determine if it would be a winning trade.

Since we don t know the exact timing or magnitude of higher short-term interest rates, a hedge is really another investment decision one in which we would be betting that the cost of a hedge now (in the form of higher leverage costs today) will be lower than the actual cost of leverage (unhedged) over the hedge s timeframe. In other words, the Fund s distributable income would be lower today if we were to hedge the cost of leverage very far into the future. This is because today s upward-sloping yield curve means the market already expects rates in the future to be higher, so that expected cost is reflected in hedging cost today.

We acknowledge this is complicated, but to simplify: hedging the cost of leverage today would result in lower income today and may or may not result in improved return (relative to no hedge) in the future. This is because hedging today costs money.

We are not opposed to hedging leverage costs in the right context, but we acknowledge that a hedge is a bet on the timing and magnitude of rate increases relative to the market s pricing of these risks. There are times when the market s expectations of future rates make this a worthwhile bet, or when risk reduction offered by hedging is particularly valuable, but we don t feel this is true today. Funds that have hedged over the past couple years have missed out on quite a bit of distributable income without yet providing protection since short-term interest rates haven t yet risen.

We would like our shareholders to understand that we are not currently hedging the cost of leverage, and are unlikely to do so unless the market s expectations (and therefore, hedging costs) change. As a result, shareholders are receiving more income today (and have received more over the last several years) in exchange for potentially lower income and returns in the future. Given the current cost of hedging, we have so far decided it is best to take short-term rates as they come.

Federal Tax Advantages of 2014 Calendar Year Distributions

In calendar year 2014, approximately 68.9% of distributions made by the Fund was eligible for treatment as qualified dividend income, or QDI. For taxpayers in the 15% marginal tax bracket, QDI is taxed by the federal government at 0% instead of an individual s ordinary income tax rate; for taxpayers in the 25%-35% marginal tax brackets, QDI is taxed at 15%; and for taxpayers in the 39.6% marginal tax bracket, QDI is taxed at 20%.

For an individual in the 28% marginal tax bracket, this means that the Fund s total distributions will only be taxed at a blended 19.0% rate versus the 28% rate which would apply to distributions by a fund investing in traditional corporate bonds. This tax advantage means that, all other things being equal, such an individual who held 100 shares of common stock of the Fund for the calendar year would have had to receive approximately $99 in distributions from a fully-taxable bond fund to net the same after-tax amount as the $87.60 in distributions paid by the Fund.

For detailed information about tax treatment of particular distributions received from the Fund, please see the Form 1099 you receive from either the Fund or your broker.

Corporate shareholders also receive a federal tax benefit from the 30.4% distributions that were eligible for the inter-corporate dividends received deduction, or DRD.

It is important to remember that composition of the portfolio and income distributions can change from one year to the next, and that the QDI or DRD portions of 2015 s distributions may not be the same (or even similar) to 2014.

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OVERVIEW

November 30, 2014 (Unaudited)

Fund Statistics

Net Asset Value	$ 11.58
Market Price	$ 11.72
Premium	1.21%
Yield on Market Price	7.47%
Common Stock Shares Outstanding	12,329,086

Moody s Ratings*	**% of Net Assets**
A	1.6%
BBB	56.7%
BB	31.0%
Below BB	3.2%
Not Rated**	5.9%
Below Investment Grade***	26.2%

* Ratings are from Moody s Investors Service, Inc. Not Rated securities are those with no ratings available from Moody s.
** Does not include net other assets and liabilities of 1.6%.
*** Below investment grade by all of Moody s, S&P, and Fitch.

Industry Categories	**% of Net Assets**

Top 10 Holdings by Issuer	**% of Net Assets**
JPMorgan Chase	4.9%
Liberty Mutual Group	4.7%
MetLife	4.5%
HSBC PLC	4.5%
Fifth Third Bancorp	3.5%
Wells Fargo & Company	3.3%
Citigroup	3.2%
M&T Bank Corporation	3.2%
PNC Financial Services Group	3.1%
Morgan Stanley	2.6%

	% of Net Assets****
Holdings Generating Qualified Dividend Income (QDI) for Individuals	58%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	46%

**** 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. See accompanying notes to financial statements for the tax characterization of 2014 distributions.
Net Assets includes assets attributable to the use of leverage.

PORTFOLIO OF INVESTMENTS

November 30, 2014

Shares/$ Par		Value
Preferred Securities 93.4%		
	Banking 45.8%	
15,000	Astoria Financial Corp., 6.50% Pfd., Series C	$ 380,437*
	Bank of America Corporation:	
$ 2,540,000	8.00%, Series K	2,730,500*
$ 920,000	8.125%, Series M	995,900*(1)
	Barclays Bank PLC:	
56,000	7.10% Pfd., Series 3	1,442,560**(3)
4,700	7.75% Pfd., Series 4	121,495**(3)
78,300	8.125% Pfd., Series 5	2,029,536**(1)(3)
	Citigroup, Inc.:	
81,200	6.875% Pfd., Series K,	2,154,439*(1)(2)
74,694	7.125% Pfd., Series J	2,063,422*
$ 2,299,000	8.40%, Series E	2,661,092*
26,716	City National Corporation, 6.75% Pfd., Series D	787,855*
	CoBank ACB:	
18,100	6.125% Pfd., Series G, 144A****	1,656,150*
10,000	6.25% Pfd., Series F, 144A****	1,036,250*(1)
$ 4,500,000	Colonial BancGroup, 7.114%, 144A****	6,750(4)(5)
13,300	Cullen/Frost Bankers, Inc., 5.375% Pfd., Series A	323,356*
274,600	Fifth Third Bancorp, 6.625% Pfd., Series I	7,535,710*(1)(2)
	First Horizon:	
750	First Tennessee Bank, Adj. Rate Pfd., 3.75%(6), 144A****	535,102*(1)
$ 500,000	First Tennessee Capital II, 6.30% 04/15/34, Series B	490,000
1	FT Real Estate Securities Company, 9.50% Pfd., 144A****	1,302,500
104,000	First Niagara Financial Group, Inc., 8.625% Pfd.	2,835,300*(1)
29,050	First Republic Bank, 6.70% Pfd., Series A	779,484*(1)
	Goldman Sachs Group:	
$ 195,000	5.70%, Series L	200,119*
6,499	5.95% Pfd., Series I	160,477*
50,000	6.375% Pfd., Series K	1,287,000*
	HSBC PLC:	
$ 800,000	HSBC Capital Funding LP, 10.176%, 144A****	1,204,000(1)(3)
150,000	HSBC Holdings PLC, 8.00% Pfd., Series 2	3,997,875**(1)(3)
$ 120,000	HSBC USA Capital Trust I, 7.808% 12/15/26, 144A****	121,035
$ 91,000	HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****	92,231
106,149	HSBC USA, Inc., 6.50% Pfd., Series H	2,745,279*(1)

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2014

Shares/$ Par		Value
Preferred Securities (Continued)		
	Banking (Continued)	
	ING Groep NV:	
30,000	7.05% Pfd.	$ 767,775**(3)
21,700	7.20% Pfd.	556,876**(3)
42,500	7.375% Pfd.	1,098,625**(3)
	JPMorgan Chase & Company:	
$ 300,000	6.00%, Series R	303,750*
60,900	6.70% Pfd., Series T	1,594,362*(1)(2)
$ 4,167,000	6.75%, Series S	4,458,690*(1)(2)
$ 3,750,000	7.90%, Series I	4,089,787*(1)
$ 450,000	Lloyds Banking Group PLC, 6.657%, 144A****	484,875**(3)
	M&T Bank Corporation:	
$ 2,240,000	6.450%, Series E	2,378,600*
$ 4,393,000	6.875%, Series D, 144A****	4,489,584*(1)(2)
	Morgan Stanley:	
123,000	6.875% Pfd., Series F	3,312,390*
77,200	7.125% Pfd., Series E	2,141,721*(1)(2)
236,500	PNC Financial Services Group, Inc., 6.125% Pfd., Series P	6,518,531*(1)
$ 1,775,000	RaboBank Nederland, 11.00%, 144A****	2,299,157(1)(3)
35,000	Regions Financial Corporation, 6.375% Pfd., Series B	888,738*
	Royal Bank of Scotland Group PLC:	
7,500	6.40% Pfd., Series M	186,975**(3)
15,000	6.60% Pfd., Series S	375,300**(3)
99,500	7.25% Pfd., Series T	2,563,120**(1)(3)
	Sovereign Bancorp:	
2,600	Sovereign REIT, 12.00% Pfd., Series A, 144A****	3,471,000
83,700	State Street Corporation, 5.90% Pfd., Series D	2,194,823*(1)
10,000	Texas Capital Bancshares Inc., 6.50% Pfd., Series A	249,425*
35,000	US Bancorp, 6.50% Pfd., Series F	1,039,588*
	Wells Fargo & Company:	
56,200	5.85% Pfd., Series Q	1,454,035*
34,400	6.625% Pfd., Series R	961,514*
$ 939,000	7.98%, Series K	1,042,290*
123,500	8.00% Pfd., Series J	3,610,214*(1)
	Zions Bancorporation:	
$ 1,000,000	7.20%, Series J	1,051,534*(1)
85,200	7.90% Pfd., Series F	2,349,816*(1)
		97,608,949

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2014

Shares/$ Par		Value
Preferred Securities (Continued)		
	Financial Services 1.2%	
$ 950,000	General Electric Capital Corp., 7.125%, Series A	$ 1,112,687*(1)
	HSBC PLC:	
55,000	HSBC Finance Corporation, 6.36% Pfd., Series B	1,398,238*(1)
		2,510,925
	Insurance 24.0%	
	Ace Ltd.:	
$ 1,200,000	Ace Capital Trust II, 9.70% 04/01/30	1,785,000(1)(2)(3)
80,000	Allstate Corp., 6.625% Pfd., Series E	2,125,000*(1)
$ 375,000	Aon Corporation, 8.205% 01/01/27	488,511(1)(2)
105,000	Arch Capital Group, Ltd., 6.75% Pfd., Series C	2,880,412**(1)(3)
	AXA SA:	
$ 1,453,000	6.379%, 144A****	1,576,505**(1)(2)(3)
$ 500,000	8.60% 12/15/30	677,459(3)
187,000	Axis Capital Holdings Ltd., 6.875% Pfd., Series C	5,118,657**(1)(3)
95,000	Delphi Financial Group, 7.376% Pfd., 05/15/37	2,383,911(1)(2)
27,250	Endurance Specialty Holdings, 7.50% Pfd., Series B	719,196**(3)
$ 3,650,000	Everest Re Holdings, 6.60% 05/15/37	3,777,750(1)(2)
10,000	Hartford Financial Services Group, Inc., 7.875% Pfd.	307,125
$ 4,943,000	Liberty Mutual Group, 10.75% 06/15/58, 144A****	7,636,935(1)
	MetLife:	
$ 2,704,000	MetLife, Inc., 10.75% 08/01/39	4,414,280(1)(2)
$ 350,000	MetLife Capital Trust IV, 7.875% 12/15/37, 144A****	451,500(1)
$ 3,350,000	MetLife Capital Trust X, 9.25% 04/08/38, 144A****	4,798,875(1)(2)
24,000	PartnerRe Ltd., 7.25% Pfd., Series E	653,100**(1)(3)
65,800	Principal Financial Group, 6.518% Pfd., Series B	1,732,679*(1)
$ 241,000	Prudential Financial, Inc., 5.625% 06/15/43	250,037
	QBE Insurance:	
$ 1,020,000	QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A****	1,114,522(1)(3)
	Unum Group:	
$ 2,750,000	Provident Financing Trust I, 7.405% 03/15/38	3,268,537(1)(2)
8,300	W.R. Berkley Corporation, 5.625% Pfd.	199,553
	XL Group PLC:	
$ 5,000,000	XL Capital Ltd., 6.50%, Series E	4,837,500(1)(3)
		51,197,044

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2014

Shares/$ Par			Value
Preferred Securities (Continued)			
	Utilities 14.9%		
7,460	Alabama Power Company, 6.45% Pfd.	$	200,255*(1)
	Baltimore Gas & Electric Company:		
6,579	6.70% Pfd., Series 1993		667,768*(1)
2,500	7.125% Pfd., Series 1993		253,984*
	Commonwealth Edison:		
$ 2,350,000	COMED Financing III, 6.35% 03/15/33		2,426,375(1)(2)
$ 2,700,000	Dominion Resources, Inc., 7.50% 06/30/66		2,882,250(1)(2)
22,500	Entergy Louisiana, Inc., 6.95% Pfd.		2,279,531*
80,000	Entergy Mississippi, Inc., 6.25% Pfd.		2,010,000*
16,937	Georgia Power Company, 6.50% Pfd., Series 2007A		1,799,556*(1)
15,035	Gulf Power Company, 6.00% Pfd., Series 1		1,506,960*(1)
24,000	Indianapolis Power & Light Company, 5.65% Pfd.		2,387,251*(1)
48,000	Integrys Energy Group, Inc., 6.00% Pfd.		1,292,760(1)(2)
	Nextera Energy:		
$ 1,600,000	FPL Group Capital, Inc., 6.65% 06/15/67, Series C		1,620,933(1)(2)
$ 750,000	FPL Group Capital, Inc., 7.30% 09/01/67, Series D		817,148(1)(2)
	PECO Energy:		
$ 1,500,000	PECO Energy Capital Trust III, 7.38% 04/06/28, Series D		1,854,672(1)(2)
	PPL Corp:		
55,000	PPL Capital Funding, Inc., 5.90% Pfd., Series B		1,377,888(1)(2)
$ 1,250,000	PPL Capital Funding, Inc., 6.70% 03/30/67, Series A		1,266,299(1)(2)
$ 3,350,000	Puget Sound Energy, Inc., 6.974% 06/01/67		3,522,769(1)(2)
31,000	Southern California Edison, 6.50% Pfd., Series D		3,201,720*(1)
3,000	Wisconsin Public Service Corporation, 6.88% Pfd.		305,438*
			31,673,557
	Energy 2.4%		
$ 4,498,000	Enbridge Energy Partners LP, 8.05% 10/01/37		5,015,270(1)(2)
			5,015,270
	Real Estate Investment Trust (REIT) 3.7%		
3,500	Duke Realty Corp., 6.60% Pfd., Series L		87,894
	Kimco Realty Corporation:		
2,500	5.50% Pfd., Series J		60,050
30,206	6.90% Pfd., Series H		799,553

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2014

Shares/$ Par		Value
Preferred Securities (Continued)		
	Real Estate Investment Trust (REIT) (Continued)	
	National Retail Properties, Inc.:	
40,000	5.70% Pfd., Series E	$ 957,700(1)
19,460	6.625% Pfd., Series D	506,203
	PS Business Parks, Inc.:	
8,243	5.70% Pfd., Series V	198,759
40,000	6.45% Pfd., Series S	1,042,500(1)(2)
7,500	6.875% Pfd., Series R	194,850
13,000	Public Storage, 6.375% Pfd., Series Y	346,483
110,329	Realty Income Corporation, 6.625% Pfd., Series F	2,950,197(1)(2)
32,285	Regency Centers Corporation, 6.625% Pfd., Series 6	844,011
		7,988,200
	Miscellaneous Industries 1.4%	
32,700	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****	2,984,899*
		2,984,899
	Total Preferred Securities (Cost $187,032,943)	198,978,844
Corporate Debt Securities 5.0%		
	Banking 2.7%	
$ 2,500,000	Regions Financial Corporation, 7.375% 12/10/37, Sub Notes	3,259,745(1)(2)
75,000	Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes	1,844,438(1)(2)
20,000	Zions Bancorporation, 6.95% 09/15/28, Sub Notes	537,850
		5,642,033
	Financial Services 0.3%	
20,082	Affiliated Managers Group, Inc., 6.375% 08/15/42	528,408
5,048	Raymond James Financial, 6.90% 03/15/42	137,621
		666,029
	Insurance 1.1%	
$ 1,850,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	2,282,130(1)(2)
		2,282,130

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2014

Shares/$ Par			Value
Corporate Debt Securities (Continued)			
	Energy 0.6%		
$ 904,000	Energy Transfer Partners LP, 8.25% 11/15/29		$ 1,299,146(1)
			1,299,146
	Communication 0.3%		
24,200	Qwest Corporation, 7.375% 06/01/51		644,507
			644,507
	Total Corporate Debt Securities (Cost $8,614,434)		10,533,845
Common Stock 0.0%			
	Insurance 0.0%		
17,821	WMI Holdings Corporation, 144A****		35,642*
			35,642
	Total Common Stock (Cost $900,000)		35,642
Money Market Fund 0.2%			
	BlackRock Liquidity Funds:		
508,307	T-Fund, Institutional Class		508,307
	Total Money Market Fund (Cost $508,307)		508,307
Total Investments (Cost $197,055,684***)		98.6%	210,056,638
Other Assets And Liabilities (Net)		1.4%	2,880,703
Total Managed Assets		100.0%	$ 212,937,341
Loan Principal Balance			(70,200,000)
Total Net Assets Available To Common Stock			$ 142,737,341

The accompanying notes are an integral part of the financial statements.

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PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2014

* 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 November 30, 2014, these securities amounted to $37,579,642 or 17.6% 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 $136,454,719 at November 30, 2014.
(2) All or a portion of this security has been rehypothecated. The total value of such securities was $64,769,644 at November 30, 2014.
(3) Foreign Issuer.
(4) Illiquid security (designation is unaudited).
(5) Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of November 30, 2014.
(6) 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:

Pfd.	Preferred Securities
REIT	Real Estate Investment Trust

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

STATEMENT OF ASSETS AND LIABILITIES

November 30, 2014

ASSETS:		
Investments, at value (Cost $197,055,684)		$ 210,056,638
Receivable for investments sold		876,300
Dividends and interest receivable		2,257,490
Prepaid expenses		48,443
Total Assets		213,238,871
LIABILITIES:		
Loan Payable	$ 70,200,000	
Dividends payable to Common Stock Shareholders	80,427	
Investment advisory fee payable	97,629	
Administration, Transfer Agent and Custodian fees payable	27,537	
Professional fees payable	66,979	
Directors fees payable	67	
Accrued expenses and other payables	28,891	
Total Liabilities		70,501,530
NET ASSETS AVAILABLE TO COMMON STOCK		$ 142,737,341
NET ASSETS AVAILABLE TO COMMON STOCK consist of:		
Undistributed net investment income		$ 326,273
Accumulated net realized loss on investments sold		(12,966,514)
Unrealized appreciation of investments		13,000,954
Par value of Common Stock		123,291
Paid-in capital in excess of par value of Common Stock		142,253,337
Total Net Assets Available to Common Stock		$ 142,737,341
NET ASSET VALUE PER SHARE OF COMMON STOCK:		
Common Stock (12,329,086 shares outstanding)		$ 11.58

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

STATEMENT OF OPERATIONS

For the Year Ended November 30, 2014

INVESTMENT INCOME:		
Dividends		$ 7,560,128
Interest		6,269,781
Rehypothecation Income		28,359
Total Investment Income		13,858,268
EXPENSES:		
Investment advisory fees	$ 1,168,072	
Administrator s fees	208,411	
Professional fees	105,630	
Insurance expenses	105,782	
Transfer Agent fees	27,680	
Directors fees	72,375	
Custodian fees	26,179	
Compliance fees	35,000	
Interest expenses	700,209	
Other	108,547	
Total Expenses		2,557,885
NET INVESTMENT INCOME		11,300,383
REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS		
Net realized gain on investments sold during the year		5,237,154
Change in net unrealized appreciation/(depreciation) of investments		5,239,849
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS		10,477,003
NET INCREASE IN NET ASSETS TO COMMON STOCK RESULTING FROM OPERATIONS		$ 21,777,386

For Federal income tax purposes, a significant portion of this amount may not qualify for the inter-corporate dividends received deduction (DRD) or as qualified dividend income (QDI) for individuals.

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK

	Year Ended November 30, 2014	Year Ended November 30, 2013
OPERATIONS:		
Net investment income	$ 11,300,383	$ 11,445,038
Net realized gain/(loss) on investments sold during the year	5,237,154	1,754,838
Change in net unrealized appreciation/(depreciation) of investments	5,239,849	(6,379,577)
Net increase in net assets resulting from operations	**21,777,386**	**6,820,299**
DISTRIBUTIONS:		
Dividends paid from net investment income to Common Stock Shareholders[1]	(11,686,006)	(12,175,696)
Total Distributions to Common Stock Shareholders	**(11,686,006)**	**(12,175,696)**
FUND SHARE TRANSACTIONS:		
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan	342,334	1,068,603
Net increase in net assets available to Common Stock resulting from Fund share transactions	**342,334**	**1,068,603**
NET INCREASE/(DECREASE) IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE YEAR	**$ 10,433,714**	**$ (4,286,794)**
NET ASSETS AVAILABLE TO COMMON STOCK:		
Beginning of year	$ 132,303,627	$ 136,590,421
Net increase/(decrease) in net assets during the year	10,433,714	(4,286,794)
End of year (including undistributed net investment income of $326,273 and $464,637, respectively)	$ 142,737,341	$ 132,303,627