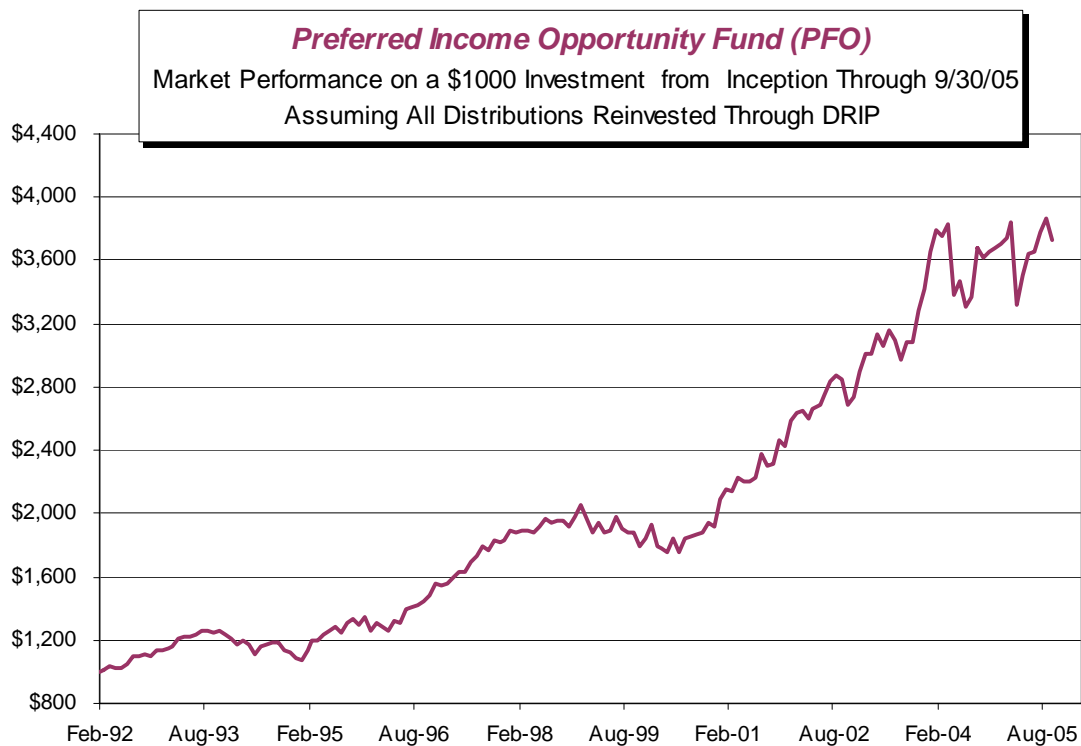


FLAHERTY & CRUMRINE
PREFERRED INCOME OPPORTUNITY FUND
INCORPORATED (PFO)

**DIVIDEND REINVESTMENT:
AN UNEXCITING WAY TO BUILD WEALTH**

We all know the fable of the tortoise and the hare. The tortoise won out simply because he was persistent. Many of our shareholders are similarly inclined toward a steady, reliable approach to building wealth. For them, the Preferred Income Opportunity Fund offers the Dividend Reinvestment and Cash Purchase Plan (which has been unglamorously nicknamed the "DRIP").

Capital grows through the compounding of reasonable rates of return over time. You don't have to win the lottery. All it takes is plenty of patience and no big mistakes. The following chart shows how this has worked out over time for our shareholders who have chosen to reinvest all distributions from the Fund through the DRIP.



The chart is based on the experience of an investor that invested \$1,000 in the Fund in its initial public offering in early 1992 and participated in the DRIP without interruption thereafter. The market value of that investor's DRIP account, including the current value of all reinvested distributions, was \$3,735 on September 30, 2005. That

represents an average annual return of 10.1%. The experience of investors entering or leaving the DRIP at different dates would, of course, have varied from these results.

The discipline of monthly purchases of shares, in both good markets and bad, is essential to the results described above. Further support comes from the favorable price at which distributions are reinvested. When the market price of the shares is below their net asset value ("NAV"), the DRIP buys stock in the marketplace. When the market price is above NAV, however, the Fund issues stock to the DRIP at NAV (subject to an IRS imposed 5% maximum discount from the market price).

More information on the DRIP is available. If your shares are held in a brokerage account, ask your broker if his firm is set up to participate. If you hold your shares in certificate form, or if you would just like more information, call the DRIP's agent, PFPC Inc., at 1-800-331-1710.

Of course, past performance is no guarantee of future results. Furthermore, participation in the DRIP does not relieve the investor of any income tax that may be payable on distributions from the Fund, which would reduce the returns shown above.

September 30, 2005