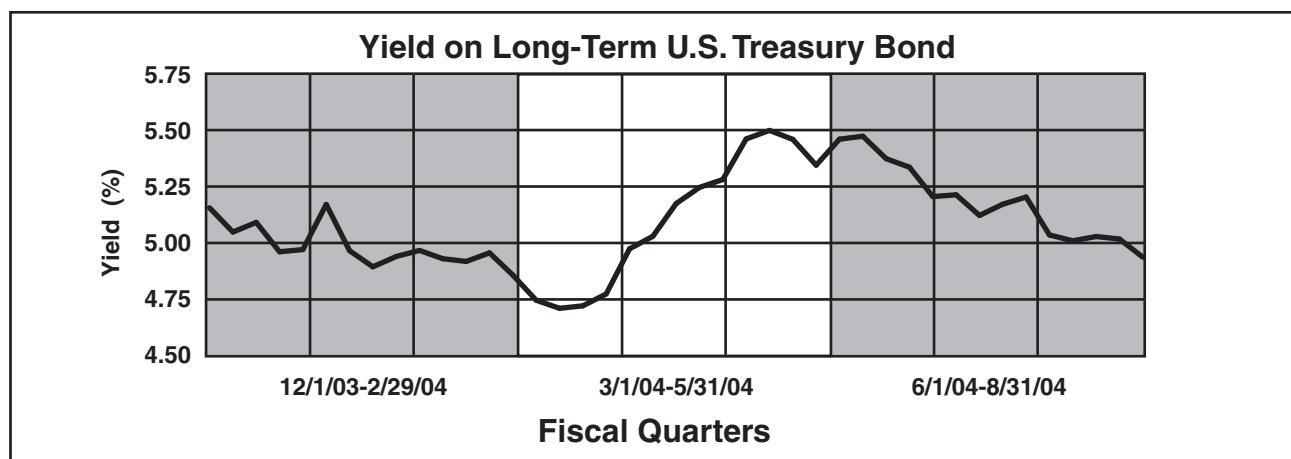


FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND

Dear Shareholder:

The Flaherty & Crumrine Preferred Income Opportunity Fund (“PFO”) produced a total return on Net Asset Value (“NAV”) of **2.4%**⁽¹⁾ during the three month period ending August 31, 2004. Since the beginning of the fiscal year on December 1, 2003, the total return on NAV has been **3.6%**.

The NAV returns are consistent with our expectations for how the Fund should perform during periods of volatile long-term interest rates. As can be seen from the chart below, the yield on the 30 year U.S. Treasury bond has changed direction in each of the first three fiscal quarters of 2004 (changes in the value of the Fund’s assets and hedge positions are closely correlated to the performance of this bond). The decline in rates during the first fiscal quarter contributed to strong returns for the period. The subsequent jump in rates during the second fiscal quarter resulted in negative returns for the period, as the Fund’s hedges only partially offset the drop in value of the Fund’s investment portfolio.



As we began the most recent fiscal quarter, the Fund’s hedge positions had appreciated significantly and were offsetting changes in value of the preferred portfolio almost dollar-for-dollar. Following the weakness in March and April we were unwilling to risk further declines in NAV, so we maintained the existing hedge position. If interest rates had continued to rise, the NAV of the Fund should have remained reasonably stable. That is exactly how the Fund’s safety net hedging strategy is intended to work!

Shortly after the start of the third quarter, long-term interest rates reversed course and began a steady *decline*, despite the fact that the Federal Reserve began *increasing* short-term rates in June (for a more detailed discussion of the economic conditions driving interest rates, see the “3rd Quarter Economic Update” on the Fund’s website: www.preferredincome.com). As expected, the Fund’s preferred securities appreciated throughout the period, while the hedge fell in value, dragging down overall performance. Initially this drag was substantial, but it lessened as rates continued to fall.

The Fund also benefited from a modest, favorable move in the relationship between the Fund’s preferred securities and U.S. Treasuries. Simply stated, the price of our preferreds rose by more than the price of corresponding Treasury bonds during the quarter. This was the opposite of conditions in the previous quarter.

(1) Based on monthly data provided by Lipper Inc. Distributions are assumed to be reinvested at NAV in accordance with Lipper’s practice.

NAV investment performance is comprised of principal change and income. The discussion to this point has focused on factors that impact the principal change. Let's turn to the other component of performance — income. The Fund's investment portfolio continues to produce sufficient amounts of dividend and interest income to support the current monthly dividend. There are, however, some warning flags on the horizon.

The Federal Reserve's present policy of raising short-term interest rates directly affects the Fund by increasing the cost of its leverage. The Fed's policy has been in place for some time now, and we have factored it into our management strategy. However, changes in long-term interest rates and the resulting impact on income are more difficult to plan for. If long-term interest rates rise, the Fund's hedges should appreciate and enable the Fund to purchase additional income-producing securities; this additional income should tend to offset the higher leverage expense.

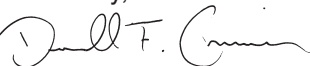
Things get more challenging if long-term rates decline. This so-called "bull flattening" scenario (short-term rates rise while long-term rates decline), initially puts a strain on distributable income. Once again, the cost of *leverage* goes up along with higher short-term rates, but now the income generated by the investment portfolio may at some point actually fall if issuers retire older preferred securities with relatively high coupons and replace them with new issues that pay a lower rate (the issuer is analogous to a homeowner refinancing a mortgage when interest rates drop).


Fortunately, there is a bright side to this scenario — as the yield curve flattens, the cost of the Fund's *hedging* strategy falls. The mathematics behind this are fairly complicated, but the concept is quite simple. Hedging a long-term security creates a package that closely resembles a short-term security. The market imposes a "charge" for this transformation, the amount of which is closely tied to the difference between long-term and short-term interest rates. The larger the difference, the more expensive it is to hedge. Therefore, the cost of hedging declines when the yield curve flattens and the interest rate differential shrinks. The benefits to the Fund don't materialize immediately, but they can be significant over time.

Changes in investment income, leverage expense and the cost of hedging (as well as other factors like realized gains or losses) mean that setting the dividend rate entails both science and art. We carefully monitor all of these moving parts, and do our best to set a rate that is sustainable under current market conditions.

Readers will notice some changes to the appearance of the information that follows. These changes are in accordance with recent changes to the SEC rules on shareholder reporting. The biggest change is the inclusion of a complete listing of the investment portfolio (previous reports for the Fund's first and third fiscal quarters did not include a portfolio listing). In addition, we've included a page entitled "Portfolio Overview" that contains a number of schedules summarizing important measures of the Fund's investments.

We hope you will also continue to visit the Fund's web site at www.preferredincome.com where a broad range of information about the Fund is updated regularly. We also encourage you to visit www.preferredstockguide.com. It contains useful information about most of the issues that make up the preferred securities universe.

Sincerely,

Donald F. Crumrine
Chairman of the Board


Robert M. Ettinger
President

October 11, 2004

PORTFOLIO OVERVIEW

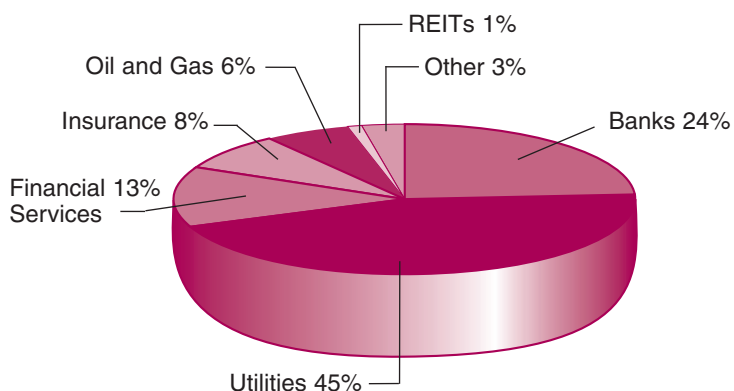
August 31, 2004

Fund Statistics on 8/31/04

Net Asset Value	\$	12.32
Market Price	\$	13.79
Premium/Discount		11.93%
Yield on Market Price		6.57%
Common Shares Outstanding		11,556,706

Industry Categories

% of Portfolio



Moody's Ratings

% of Portfolio

AAA	0.5%
AA	4.8%
A	27.0%
BBB	41.6%
BB	18.2%
Not Rated	6.5%

Below Investment Grade* 17.2%

* Below investment grade by both Moody's and S&P

Top 10 Holdings by Issuer

% of Portfolio

J.P. Morgan Chase	6.7%
Lehman Brothers	5.9%
Interstate Power	5.1%
Citigroup	4.1%
The Bear Stearns Cos.	3.8%
Duke Energy	3.6%
Alabama Power	3.6%
Xcel Energy	3.4%
EOG Resources	3.2%
Cobank	3.1%

% of Portfolio**

Holdings Generating Qualified Dividend Income (QDI) for Individuals	79%
Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD)	79%

** 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

August 31, 2004 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Preferred Securities — 93.7%	
Banking — 23.6%	
ABN AMRO North America, Inc.:	
1,165 6.46% Pfd., 144A***	\$ 1,223,174*
3,500 6.59% Pfd., 144A***	3,721,602*
\$150,000 BT Capital Trust B, 7.90% 01/15/27, Capital Security	167,575 ⁽¹⁾
\$660,000 BT Preferred Capital Trust II, 7.875% 02/25/27 Capital Security	736,501 ⁽¹⁾
Citigroup, Inc.:	
82,435 5.864% Pfd., Series M	4,195,117*
7,700 6.213% Pfd., Series G	402,941*
46,000 6.231% Pfd., Series H	2,425,120*
31,850 6.365% Pfd., Series F	1,683,432*
Cobank, ACB:	
45,000 7.00% Pfd., 144A***	2,437,425*
75,000 Adj. Rate Pfd., 144A***	4,228,125*
\$500,000 Comerica (Imperial) Capital Trust I, 9.98% 12/31/26 Capital Security, Series B	610,860
\$2,250,000 First Hawaiian Capital I, 8.343% 07/01/27 Capital Security, Series B	2,577,127 ⁽¹⁾
\$719,000 First Union Institutional Capital I, 8.04% 12/01/26 Capital Security	806,420
\$1,885,000 First Union Institutional Capital II, 7.85% 01/01/27 Capital Security	2,092,661
\$4,349,000 GreenPoint Capital Trust I, 9.10% 06/01/27 Capital Security	5,019,681
9,900 HSBC USA, Inc., \$2.8575 Pfd.	512,721*
J.P. Morgan Chase & Co.:	
36,500 6.625% Pfd., Series H	1,946,545*
132,425 Series A, Adj. Rate Pfd.	12,183,100*
\$1,350,000 Keycorp Institutional Capital B, 8.25% 12/15/26 Capital Security	1,521,207
\$1,500,000 North Fork Capital Trust I, 8.70% 12/15/26 Capital Security	1,708,995
	<u>50,200,329</u>
Financial Services — 13.4%	
The Bear Stearns Companies Inc.:	
63,750 5.49% Pfd., Series G	3,049,800*
100,323 5.72% Pfd., Series F	5,056,781*
Freddie Mac:	
6,975 5.00% Pfd., Series F	310,841*
25,500 5.10% Pfd., Series H	1,159,102*
Lehman Brothers Holdings, Inc.:	
60,150 5.67% Pfd., Series D	2,909,155*
159,505 5.94% Pfd., Series C	7,947,337*
64,000 6.50% Pfd., Series F	1,668,160*
113,400 SLM Corporation, 6.97% Pfd., Series A	6,366,276*
	<u>28,467,452</u>

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
PORTFOLIO OF INVESTMENTS (Continued)
August 31, 2004 (Unaudited)

Shares/\$ Par	Value
Preferred Securities — (continued)	
Insurance — 7.8%	
15,850 Everest Re Capital Trust II, 6.20% Pfd. Series B	\$ 377,943 ⁽¹⁾
\$4,395,000 MMI Capital Trust I, 7.625% 12/15/27 Capital Security, Series B	4,765,674
18 Premium Assets, Series A, Zurich RegCaPS Variable Inverse Pfd., Pvt.	1,996,798*
\$5,734,000 Provident Financing Trust I, 7.405% 03/15/38 Capital Security	5,138,066
Zurich RegCaPS Funding Trust:	
2,600 6.01% Pfd., 144A***	2,640,300*
1,600 6.58% Pfd., 144A***	1,657,808*
	16,576,589
Utilities — 41.4%	
Alabama Power Company:	
4,980 4.60% Pfd.	447,079*
6,485 4.72% Pfd.	597,366*
868 4.92% Pfd.	83,345*
43,400 5.20% Pfd.	1,051,148*
225,000 5.30% Pfd.	5,429,250*
2,049 Appalachian Power Company, 5.92% Sinking Fund Pfd.	206,047*
23,750 Avista Corporation, \$6.95 Sinking Fund Pfd., Series K	2,380,225*
6,000 Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993	628,680*
10,000 Boston Edison Company, 4.78% Pfd.	943,300*
1,628 Central Hudson Gas & Electric Corporation, 4.35% Pfd., Series D, Pvt.	131,420*
10,000 Central Illinois Light Company, 4.64% Pfd.	898,550*
8,160 Central Illinois Public Service Company, 4.90% Pfd.	773,731*
3,798 Central Maine Power Company, 4.75% Pfd.	325,963*
22,238 Central Vermont Public Service Corporation, 8.30% Pvt. Sinking Fund Pfd.	2,314,197*
Connecticut Light & Power Company:	
900 4.50% Pfd.	34,447*
2,900 \$2.20 Pfd., Series 1949	115,275*
8,502 \$3.24 Pfd.	444,910*
2,000 Consolidated Edison Company of New York, 4.65% Pfd., Series C	184,310*
Duke Energy Corporation:	
8,004 4.50% Pfd., Series C, Pvt.	680,820*
11,256 6.75%, Sinking Fund Pfd., Series X	1,170,399*
34,943 7.85% Pfd., Series S	3,624,463*
Duquesne Light Company:	
15,030 3.75% Pfd.	477,653*
25,775 6.50% Pfd.	1,326,897*

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2004 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Utilities — (continued)		
5,000	Energy East Capital Trust I, 8.25% Pfd.	\$ 133,175
	Entergy Arkansas, Inc.:	
2,840	4.56% Pfd.	223,196*
3,050	4.56% Pfd., Series 1965	239,699*
1,050	6.08% Pfd.	105,598*
13,500	7.40% Pfd.	1,405,687*
5,880	7.80% Pfd.	615,489*
2,000	7.88% Pfd.	208,890*
23,914	\$1.96 Pfd.	598,448*
2,441	Entergy Gulf States, Inc., 7.56% Pfd.	248,726*
	Entergy Louisiana, Inc.:	
299	5.16% Pfd.	25,810*
705	6.44% Pfd.	71,822*
4,074	7.36% Pfd.	424,287*
175,000	8.00% Pfd., Series 92	4,417,000*
	Entergy Mississippi, Inc.:	
3,791	4.36% Pfd.	276,516*
8,500	7.44% Pfd.	881,493*
10,900	Enterprise Capital Trust I, 7.44% Pfd., Series A	274,626
	Florida Power Company:	
10,000	4.58% Pfd.	867,400*
2,000	4.75% Pfd.	179,050*
	Great Plains Energy, Inc.:	
1,625	4.20% Pfd.	118,479*
2,000	4.35% Pfd.	151,030*
	Hawaiian Electric Company, Inc.:	
1,411	5.00% Pfd., Series D	25,984*
6,688	5.00% Pfd., Series E	123,160*
\$3,750,000	Houston Light & Power, Capital Trust II, 8.257%, 02/01/37 Capital Security	3,959,850
5,291	Idaho Power Company, 7.68% Pfd., Series 1	547,248*
8,000	Indiana Michigan Power Company, 6.875% Sinking Fund Pfd.	797,320*
30,500	Indianapolis Power & Light Company, 5.65% Pfd.	2,757,963*
340,000	Interstate Power & Light Company, 8.375% Pfd., Series B	10,825,600*
2,588	New York State Electric & Gas, \$4.50 Pfd., Series 1949	213,251*
12,265	Northern Indiana Public Service Company, Series A, Adj. Rate Pfd.	631,954*
	Ohio Power Company:	
3,018	4.20% Pfd.	240,731*
1,251	4.40% Pfd.	104,540*
1,724	5.90% Sinking Fund Pfd.	172,460*

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
PORTFOLIO OF INVESTMENTS (Continued)
August 31, 2004 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Utilities — (continued)		
	Pacific Enterprises:	
13,680	\$4.36 Pfd.	\$ 1,099,804*
24,985	\$4.50 Pfd.	2,073,255*
15,730	\$4.75 Pfd., Series 53	1,377,791*
	PacifiCorp:	
5,672	\$4.56 Pfd.	483,708*
6,458	\$4.72 Pfd.	570,080*
12,250	\$7.48 Sinking Fund Pfd.	1,282,085*
	PECO Energy Company:	
1,100	\$4.30 Pfd., Series B	88,732*
5,000	\$4.40 Pfd., Series C	412,700*
17,537	Portland General Electric, 7.75% Sinking Fund Pfd.	1,822,270*
19,209	Potomac Electric Power Company, \$3.40 Sinking Fund Pfd.	962,083*
14,020	Public Service Electric & Gas Company, 5.28% Pfd., Series E	1,332,531*
25,921	REI Trust I, 7.20% Pfd., Series C	639,989
	San Diego Gas & Electric Company:	
55,210	\$1.70 Pfd.	1,443,189*
34,000	\$1.7625 Sinking Fund Pfd.	880,600*
60,000	Savannah Electric & Gas Company, 6.00% Pfd.	1,625,400*
	South Carolina Electric & Gas Company:	
14,226	5.125% Purchase Fund Pfd., Pvt.	749,212*
7,774	6.00% Purchase Fund Pfd., Pvt.	396,552*
60,000	Southern Union Company, 7.55% Pfd.	1,641,900*
\$750,000	TXU Electric Capital V, 8.175% 01/30/37 Capital Security	832,931
10,000	TXU US Holdings Company, \$4.00 Pfd., Series TES	716,400*
5,600	Union Electric Company, 4.56% Pfd.	500,892*
	Virginia Electric & Power Company:	
1,665	\$4.04 Pfd.	132,509*
2,270	\$4.20 Pfd.	187,808*
1,673	\$4.80 Pfd.	158,182*
2,878	\$6.98 Pfd.	297,197*
12,500	\$7.05 Pfd.	1,291,313*
2,262	Washington Gas & Light Company, \$4.25 Pfd.	192,541*
12,863	Wisconsin Power & Light Company, 6.20% Pfd.	1,321,159*

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2004 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Preferred Securities — (continued)	
Utilities — (continued)	
Xcel Energy, Inc.:	
15,000 \$4.08 Pfd., Series B	\$ 1,092,375*
20,040 \$4.10 Pfd., Series C	1,466,527*
35,510 \$4.11 Pfd., Series D	2,582,465*
17,750 \$4.16 Pfd., Series E	1,318,026*
10,000 \$4.56 Pfd., Series G	813,900*
	<u>87,922,063</u>
Oil and Gas — 4.8%	
17,200 Anadarko Petroleum Corporation, 5.46% Pfd.	1,726,536*
6,650 Apache Corporation, 5.68% Pfd., Series B	678,799*
6,125 EOG Resources, Inc., 7.195% Pfd., Series B	6,704,823*
10,000 Lasmo America Limited, 8.15% Pfd., 144A***	1,152,800*
	<u>10,262,958</u>
Real Estate Investment Trust (REIT) — 1.0%	
40,000 Health Care Property Investments, 7.10% Pfd., REIT, Series F	1,014,200
40,000 Regency Centers Corporation, 7.25% Pfd., REIT	1,011,400
	<u>2,025,600</u>
Miscellaneous Industries — 1.7%	
13,600 E.I. Du Pont de Nemours and Company, \$4.50 Pfd., Series B	1,176,944*
36,200 Farmland Industries, Inc., 8.00% Pfd., 144A***	—†
30,500 Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A***	2,536,075*
26,000 Touch America Holdings, \$6.875 Pfd.	—†
	<u>3,713,019</u>
Total Preferred Securities	
(Cost \$182,124,539)	<u>199,168,010</u>
Corporate Debt Security — 1.0%	
Oil and Gas — 1.0%	
85,900 Nexen, Inc., 7.35% Subordinated Notes	2,231,682 ⁽¹⁾
	<u>2,231,682</u>
Total Corporate Debt Security	
(Cost \$2,245,426)	<u>2,231,682</u>

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
PORTFOLIO OF INVESTMENTS (Continued)
August 31, 2004 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Common Stock and Convertible Securities — 4.2%	
Insurance — 0.4%	
25,000 UnumProvident Corporation, 8.25% Mandatory Convertible, 05/16/06	\$ 831,375
	831,375
Utilities — 3.8%	
97,500 Duke Energy Corporation	2,160,112*
80,000 FPL Group, Inc., 8.50% Mandatory Convertible, Series A, 02/16/05	4,606,800
30,000 TXU Corporation, 8.75% Mandatory Convertible, 11/16/05	1,371,150
	8,138,062
Total Common Stock and Convertible Securities	
(Cost \$8,266,366)	8,969,437
Option Contracts — 0.1%	
1,325 October Put Options on December U.S. Treasury Bond Futures, Expiring 9/25/04 .	135,547†
Total Option Contracts	
(Cost \$1,054,346)	135,547

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2004 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value</u>
Money Market Fund — 0.5%		
960,933	BlackRock Provident Institutional, TempFund	\$ 960,933
<hr/>		
	Total Money Market Fund	
	(Cost \$960,933)	<u>960,933</u>
<hr/>		
	Total Investments (Cost \$194,651,610**)	99.5% 211,465,609
	Other Assets And Liabilities (Net)	0.5% <u>1,002,374</u>
	Total Net Assets Available to Common and Preferred Stock	<u>100.0%†</u> \$ <u>212,467,983</u>
	Money Market Cumulative Preferred Stock™ (MMP®) Redemption Value	(70,000,000)
	Accumulated Undeclared Distributions to MMP®	<u>(62,383)</u>
	Total Net Assets Available to Common Stock	<u>\$ 142,405,600</u>

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

** 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.

⁽¹⁾ Foreign issuer.

† 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:

REIT — Real Estate Investment Trust

Pfd. — Preferred Securities

Pvt. — Private Placement Securities

Capital Securities are treated as debt instruments for financial statement purposes and the amounts shown in the Shares/\$ Par column are dollar amounts of par value.

FINANCIAL DATA
Per Share of Common Stock (Unaudited)

	Total Dividends Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price⁽¹⁾
December 31, 2003 - Extra	\$0.0300	\$12.63	\$14.36	\$13.64
December 31, 2003	0.0755	12.63	14.36	13.64
January 31, 2004	0.0755	12.89	14.80	14.06
February 29, 2004	0.0755	13.01	14.57	13.84
March 31, 2004	0.0755	12.99	14.80	14.06
April 30, 2004	0.0755	12.68	12.97	12.68
May 31, 2004	0.0755	12.26	13.25	12.59
June 30, 2004	0.0755	12.14	12.55	12.14
July 31, 2004	0.0755	12.11	12.68	12.11
August 31, 2004	0.0755	12.32	13.79	13.10

(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.

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

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

For the period from December 1, 2003 through August 31, 2004 (Unaudited)

	<u>Value</u> <u>(000's)</u>
OPERATIONS:	
Net investment income	\$ 8,523
Net realized gain on investments sold during the period	267
Change in net unrealized depreciation of investments held during the period	(3,074)
Distributions to Money Market Cumulative Preferred™ Stock Shareholders from net investment income, including changes in accumulated undeclared distributions . . .	<u>(697)</u>
Net increase in net assets from operations	5,019
DISTRIBUTIONS:	
Dividends paid from net investment income to Common Stock Shareholders ⁽²⁾	<u>(8,168)</u>
Total Distributions to Common Stock Shareholders	(8,168)
FUND SHARE TRANSACTIONS:	
Increase from Common Stock Transactions	<u>1,252</u>
Net increase in net assets from Fund share transactions	1,252
NET DECREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD	<u>(1,897)</u>
NET ASSETS AVAILABLE TO COMMON STOCK:	
Beginning of period	144,303
Net decrease during the period	<u>(1,897)</u>
End of period	<u>\$ 142,406</u>

(1) These tables summarize the nine months ended August 31, 2004 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2003.

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

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

FINANCIAL HIGHLIGHTS⁽¹⁾

For the period from December 1, 2003 through August 31, 2004 (Unaudited)

For a Common share outstanding throughout the period.

PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of period \$ 12.59

INVESTMENT OPERATIONS:

Net investment income 0.74
 Net realized loss and unrealized depreciation on investments (0.24)

DISTRIBUTIONS TO MMP^{®*} SHAREHOLDERS:

From net investment income (including change in accumulated undeclared dividends on MMP^{®*}) (0.06)
 From net realized capital gains —
 Total from investment operations 0.44

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income (0.71)
 From net realized capital gains —
 Total distributions to Common Shareholders (0.71)
 Net asset value, end of period \$ 12.32
 Market value, end of period \$ 13.79
 Common shares outstanding, end of period 11,556,706

RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:

Net investment income† 7.21%**
 Operating expenses 1.53%**

SUPPLEMENTAL DATA:††

Portfolio turnover rate 23%***
 Total net assets available to Common and Preferred Stock, end of period (in 000's) . . \$ 212,468
 Ratio of operating expenses to total average net assets available to Common and Preferred Stock 1.03%**

(1) These tables summarize the nine months ended August 31, 2004 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2003.

* 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^{®*}.

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Directors

Martin Brody
Donald F. Crumrine, CFA
Robert M. Ettinger, CFA
David Gale
Morgan Gust
Robert F. Wulf, CFA

Officers

Donald F. Crumrine, CFA
Chairman of the Board
and Chief Executive Officer
Robert M. Ettinger, CFA
President
R. Eric Chadwick, CFA
Chief Financial Officer,
Vice President, Treasurer
and Secretary
Peter C. Stimes, CFA
Chief Compliance
Officer and Vice President
Bradford S. Stone
Vice President
Laurie 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

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web site: www.preferredincome.com