

FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND

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

During the Fund’s 3rd fiscal quarter, the economy slowed from its rapid growth earlier in the year and, for the first time in two years, the Federal Reserve paused in its ratcheting up of short-term interest rates. In this environment, the Fund performed very well, earning a total return of +3.0% on its net asset value (NAV) in the three months ended August 31st and +5.2% over its fiscal year-to-date.

In a reversal of the weak markets for Treasury securities earlier in the year, when the Fund’s hedging strategies contributed significantly to results, long-term interest rates declined during the recent fiscal quarter and the interest-rate hedge proved unnecessary. However, as always, we follow the Fund’s investment strategy of maintaining the hedge in place, while attempting to control its cost. Doing so helps protect the value of the Fund’s holdings against significant increases in long-term interest rates and potentially results in an increase in the Fund’s distributable income. During the recent fiscal quarter, the Fund’s NAV performed very well, even after absorbing the cost of the hedge.

Conditions in the market for preferred securities continue to be positive. This market is somewhat amorphous, so we find it useful to break it down into smaller groups of similarly-structured issues. The market for traditional preferred *stock* (issues that pay dividends and may have tax advantages to certain investors which the Fund can pass through to its shareholders) has been delivering strong relative returns for some time. As of August 31st, this type of security comprised 63% of the Fund’s portfolio.

Since the beginning of 2006, fourteen new traditional preferred stock issues totaling \$5.7 billion have been brought to market (increasing the sector total by roughly 10%); the additional supply has helped focus interest on traditional preferred stock and appears to have attracted new investors. Several of these recent issues have dividend rates that adjust every quarter to reflect changes in short-term interest rates. This floating-rate feature fits the Fund nicely because it tends to offset changes in the cost of the Fund’s leverage and requires only a minimal interest-rate hedge. However, unless the level of income we can earn on this type of security goes up, we don’t anticipate increasing the Fund’s holdings much beyond present levels.

The other major category of the preferred market is the fully taxable or “hybrid” preferred. Income from these issues is taxed as ordinary income to investors and is a deductible expense to the issuer. Taxable preferred securities comprise the lion’s share of the preferred market, and the segment continues to grow rapidly. Over \$24 billion of new taxable preferred securities have come to market in 2006. As of August 31st, 31% of the Fund’s portfolio was invested in fully-taxable preferred securities.

Much of the recent growth in taxable preferred securities has come from issuance of “enhanced” preferreds. These issues have certain terms and conditions which may result in better credit ratings for the issuer (which in turn helps keep their borrowing costs down). Since most of these features favor the issuer, investors should require a higher return. In our view, too often this is not the case. As a result, the portfolio’s allocation to enhanced preferreds has increased at a much slower pace than that of the overall market.

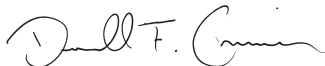
While changes in short-term interest rates affect the valuation of some of the Fund’s securities (and therefore its NAV), short-term rates more directly affect the Fund’s income and the amount of its dividend by influencing both the cost of its Money Market Preferred™ Stock (MMP®) leverage and its hedging strategy. The Fund’s leverage generally produces additional distributable income for its Common Stock shareholders. The amount of this additional income is influenced by the “spread” between the income generated by the portfolio and the cost of leverage.

As the Fed increased short-term interest rates through June 2006, these spreads narrowed significantly and the Fund generated less additional distributable income. If the Fed maintains its pause on short-term rates, and long-term rates do not decrease materially, the Fund's leverage should continue to produce the same additional distributable income as it does now. Of course, if the Fed lowers short-term interest rates, the Fund should see a greater benefit from its use of leverage and consequently have more additional distributable income for its Common Stock shareholders.

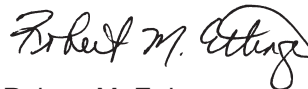
The cost of the Fund's hedging strategy is also directly affected by the slope of the yield curve (in other words, the difference between short- and long-term interest rates). When the yield curve is steep – as it was for most of the period from mid-2001 through 2004 – hedging tends to be expensive, because the market charges the difference between long- and short-term yields to those hedging. However, if the slope of the yield curve is as flat as it has been this year, the market will not charge as much to hedge and the Fund should not need to spend as much on its hedging strategy as it has over the past few years.

We hope investors will take advantage of the Fund's website, www.preferredincome.com. On it, there is a more extensive discussion of enhanced hybrid preferred securities, the impact of changing short-term interest rates on the additional distributable income provided by the Fund's leverage and how the slope of the yield curve affects the cost of the Fund's hedging strategy. It also contains a wide range of additional information about the Fund.

Sincerely,



Donald F. Crumrine
Chairman of the Board



Robert M. Ettinger
President

October 19, 2006

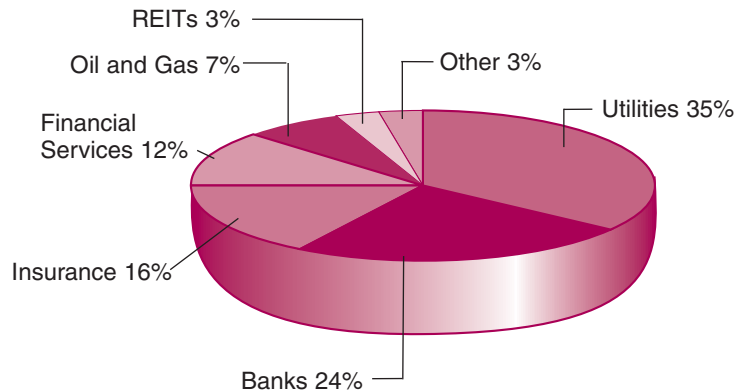
PORTFOLIO OVERVIEW
August 31, 2006 (Unaudited)

Fund Statistics on 08/31/06

Net Asset Value	\$	12.16
Market Price	\$	11.94
Discount		1.81%
Yield on Market Price		6.53%
Common Stock Shares Outstanding		11,695,372

Industry Categories

% of Portfolio



Moody's Ratings

% of Portfolio

AAA	0.3%
AA	1.1%
A	20.2%
BBB	53.3%
BB	12.2%
Not Rated	11.1%
Below Investment Grade*	15.0%

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

Top 10 Holdings by Issuer

% of Portfolio

Interstate Power & Light	4.9%
Goldman Sachs	4.6%
Xcel Energy	3.7%
Cobank	3.0%
EOG Resources	3.0%
North Fork Bancorporation	2.9%
HSBC	2.8%
Principal Financial Group	2.8%
SLM Corporation	2.7%
First Republic Bank	2.7%

% of Portfolio**

Holdings Generating Qualified Dividend Income (QDI) for Individuals	68%
Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD)	63%

** 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, 2006 (Unaudited)**

<u>Shares/\$ Par</u>	<u>Value</u>
Preferred Securities — 93.4%	
Banking — 23.6%	
\$ 3,000,000	Astoria Capital Trust I, 9.75% 11/01/29 Capital Security, Series B \$ 3,405,360
	Auction Pass-Through Trust, Cl. B:
9	Series 2006-5, Variable Rate Pfd., 144A**** 268,875*
9	Series 2006-6, Variable Rate Pfd., 144A**** 268,875*
\$ 1,000,000	Barclays Bank PLC, Adj. Rate Pfd. 937,305**(1)
\$ 2,000,000	Capital One Capital III, 7.686% Pfd. 2,089,970
	Cobank, ACB:
45,000	7.00% Pfd., 144A**** 2,330,775*
75,000	Adj. Rate Pfd., 144A**** 4,087,125*
\$ 500,000	Comerica (Imperial) Capital Trust I, 9.98% 12/31/26 Capital Security, Series B . . . 539,657
4,500	FBOP Corporation, Adj. Rate Pfd., 144A**** 4,590,000*
\$ 2,250,000	First Hawaiian Capital I, 8.343% 07/01/27 Capital Security, Series B 2,371,241 ⁽¹⁾
	First Republic Bank:
200,000	6.25% Pfd. 4,914,000*
5,000	6.70% Pfd. 126,925*
22,500	First Republic Preferred Capital Corporation II, 8.75% Pfd., Series B, 144A**** . . . 605,812
7,400	Fleet Capital Trust VII, 7.20% Pfd. 12/15/31 188,737
5,000	Fleet Capital Trust VIII, 7.20% Pfd. 03/15/32 128,450
\$ 4,349,000	GreenPoint Capital Trust I, 9.10% 06/01/27 Capital Security 4,621,008
\$ 3,500,000	HBOS Capital Funding LP, 6.85% Pfd. 3,547,425 ⁽¹⁾
5,000	HSBC Series II, Variable Inverse Pfd., Pvt. 5,510,000*
	HSBC USA, Inc.:
9,500	6.50% Pfd., Series H 251,133*
3,250	\$2.8575 Pfd. 163,296*
12,000	Keycorp Capital VIII, 7.00% Pfd. 06/15/66 310,380
\$ 1,350,000	Keycorp Institutional Capital B, 8.25% 12/15/26 Capital Security 1,413,504
\$ 1,500,000	North Fork Capital Trust I, 8.70% 12/15/26 Capital Security 1,569,690
16,000	PFGI Capital Corporation, 7.75% Pfd. 412,960
\$ 650,000	RBS Capital Trust B, 6.80% Pfd. 655,629**(1)
10	Roslyn Real Estate, 8.95% Pfd., Series C, 144A**** 1,093,816
70,500	Sovereign Bancorp, 7.30% Pfd., Series C 1,879,530*
20,375	Sovereign Capital Trust V, 7.75% Pfd. 05/22/36 537,493
6,000	USB Capital X, 6.50% Pfd. 04/12/66 149,790
\$ 1,100,000	Washington Mutual Preferred Funding, Variable Rate Pfd., 144A**** 1,079,667
	<u>50,048,428</u>

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2006 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Preferred Securities — (continued)	
Financial Services — 11.7%	
Goldman Sachs Group, Inc.:	
100,000 Adj. Rate Pfd., Series D	\$ 2,557,500*
25 Pass-Through Certificates, Class B, 144A****	2,667,500*
3,500 STRIPES Custodial Receipts, Pvt.	3,724,000*
109,505 Lehman Brothers Holdings, Inc., 5.94% Pfd., Series C	5,548,071*
3,000 Merrill Lynch Series II STRIPES Custodial Receipts, Pvt.	3,072,000*
9,200 Morgan Stanley Capital Trust IV, 6.25% Pfd.	226,550
47,000 Morgan Stanley Capital Trust VI, 6.60% Pfd.	1,181,815
SLM Corporation:	
94,150 6.97% Pfd., Series A	5,064,799*
7,500 Adj. Rate Pfd., Series B	766,313*
	<u>24,808,548</u>
Insurance — 13.4%	
20,000 ACE Ltd., 7.80% Pfd., Series C	516,600**(1)
25,000 Aegon NV, 6.50% Pfd.	626,000**(1)
Arch Capital Group Ltd.:	
10,000 7.875% Pfd., Series B	255,550**(1)
4,400 8.00% Pfd.	113,652**(1)
Axis Capital Holdings:	
73,950 7.25% Pfd., Series A	1,888,313**(1)
9,300 Variable Rate Pfd., Series B	942,601 ⁽¹⁾
16,000 Berkley W.R. Capital Trust II, 6.75% Pfd. 07/26/45	393,920
64,600 Endurance Specialty Holdings, 7.75% Pfd.	1,606,279**(1)
13,750 Everest Re Capital Trust II, 6.20% Pfd., Series B	315,700 ⁽¹⁾
10,000 Lincoln National Corporation, 6.75% Pfd. 04/20/66	251,150
140,000 MetLife Inc., 6.50% Pfd., Series B	3,602,200*
\$ 1,925,000 Oil Insurance Ltd., Variable Rate Pfd., 144A****	1,963,615 ⁽¹⁾
4,900 PartnerRe Capital Trust I, 7.90% Pfd. 12/31/31	124,631**(1)
1,930 PartnerRe Ltd., 6.75% Pfd., Series C	48,182**(1)
213,500 Principal Financial Group, 6.518% Pfd.	5,895,803*
\$ 511,000 Provident Financing Trust I, 7.405% 03/15/38 Capital Security	485,591
\$ 4,000,000 Renaissancere Capital Trust, 8.54% 03/01/27 Capital Security, Series B	4,212,420 ⁽¹⁾
Renaissancere Holdings Ltd.:	
25,000 6.08% Pfd., Series C	556,500**(1)
6,000 7.30% Pfd., Series B	150,450**(1)
14,000 8.10% Pfd., Series A	352,100**(1)
115,500 Scottish Re Group Ltd., 7.25% Pfd.	2,285,168**(1)
22,280 St. Paul Capital Trust I, 7.60% Pfd. 10/15/50	565,912

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2006 (Unaudited)

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Insurance — (continued)		
\$ 560,000	USF&G Capital, 8.312% 07/01/46 Capital Security, 144A****	\$ 672,790
22,850	XL Capital Ltd., 8.00% Pfd., Series A	589,302**(1)
		<u>28,414,429</u>
Utilities — 34.7%		
Alabama Power Company:		
4,980	4.60% Pfd.	434,480*
6,485	4.72% Pfd.	580,537*
868	4.92% Pfd.	80,997*
6,000	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993	624,900*
10,000	Calenergy Capital Trust III, 6.50% Pfd. 09/01/27	472,400
1,628	Central Hudson Gas & Electric Corporation, 4.35% Pfd., Series D, Pvt.	136,060*
3,798	Central Maine Power Company, 4.75% Pfd.	324,596*
11,119	Central Vermont Public Service Corporation, 8.30% Sinking Fund Pfd., Pvt.	1,155,209*
Connecticut Light & Power Company:		
2,050	4.50% Pfd., Series 1956	80,473*
10,000	4.50% Pfd., Series 1963, Pvt.	387,200*
25,000	5.28% Pfd., Series 1967	1,156,625*
883	\$2.04 Pfd., Series 1949	31,422*
2,900	\$2.20 Pfd., Series 1949	111,302*
9,652	\$3.24 Pfd.	509,046*
2,000	Consolidated Edison Company of New York, 4.65% Pfd., Series C	175,720*
7,500	Dayton Power and Light Company, 3.90% Pfd., Series C	503,100*
\$ 1,500,000	Dominion Resources Capital Trust III, 8.40% 01/15/31 Capital Security	1,732,327
Duquesne Light Company:		
15,030	3.75% Pfd.	498,169*
25,775	6.50% Pfd.	1,308,726*
Entergy Arkansas, Inc.:		
2,840	4.56% Pfd.	224,814*
3,050	4.56% Pfd., Series 1965	241,438*
1,435	6.08% Pfd.	144,131*
90,000	6.45% Pfd.	2,313,900*
2,441	Entergy Gulf States, Inc., 7.56% Pfd.	235,593*
36,000	Entergy Louisiana, Inc., 6.95% Pfd., 144A****	3,729,780*
Entergy Mississippi, Inc.:		
4,616	4.36% Pfd.	328,521*
5,000	4.92% Pfd.	401,575*
4,400	Florida Power Company, 4.75% Pfd.	393,822*
18,500	FPC Capital I, 7.10% Pfd., Series A	467,310

PORTFOLIO OF INVESTMENTS (Continued)**August 31, 2006 (Unaudited)**

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Utilities — (continued)		
8,900	Georgia Power Capital Trust, 6.125% Pfd.	\$ 228,952*
	Great Plains Energy, Inc.:	
1,625	4.20% Pfd.	124,897*
2,000	4.35% Pfd.	159,210*
24,000	Gulf Power Company, 6.00% Pfd., Series 1	2,506,200*
	Hawaiian Electric Company, Inc.:	
2,471	5.00% Pfd., Series D	41,377*
7,438	5.00% Pfd., Series E	124,549*
1,383	5.00% Pfd., Series I	23,158*
\$ 3,750,000	Houston Light & Power Capital Trust II, 8.257% 02/01/37 Capital Security	3,939,844
30,500	Indianapolis Power & Light Company, 5.65% Pfd.	2,823,995*
340,000	Interstate Power & Light Company, 8.375% Pfd., Series B	10,460,100*
2,588	New York State Electric & Gas, \$4.50 Pfd., Series 1949	214,364*
	Ohio Power Company:	
3,018	4.20% Pfd.	240,761*
1,251	4.40% Pfd.	104,546*
	Pacific Enterprises:	
13,680	\$4.36 Pfd.	1,119,845*
24,985	\$4.50 Pfd.	2,110,983*
15,730	\$4.75 Pfd., Series 53	1,402,801*
	Pacific Gas & Electric Co.:	
7,600	4.50% Pfd., Series H	151,278*
41,500	5.00% Pfd., Series D	909,680*
83,000	5.00% Pfd., Series E	1,868,330*
	PacifiCorp:	
5,672	\$4.56 Pfd.	462,438*
6,708	\$4.72 Pfd.	566,055*
8,750	\$7.48 Sinking Fund Pfd.	890,094*
1,250	PECO Energy Company, \$4.30 Pfd., Series B	99,881*
\$ 1,500,000	PECO Energy Capital Trust III, 7.38% 04/06/28 Capital Security, Series D	1,600,620
12,748	Portland General Electric, 7.75% Sinking Fund Pfd.	1,299,340*
30,000	PPL Electric Utilities Corporation, 6.25% Pfd.	769,650*
14,020	Public Service Electric & Gas Company, 5.28% Pfd., Series E	1,355,454*
70,210	San Diego Gas & Electric Company, \$1.70 Pfd.	1,821,247*
	South Carolina Electric & Gas Company:	
13,974	5.125% Purchase Fund Pfd., Pvt.	718,124*
7,774	6.00% Purchase Fund Pfd., Pvt.	395,774*

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2006 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Preferred Securities — (continued)	
Utilities — (continued)	
Southern California Edison:	
5,000 4.24% Pfd.	\$ 97,100*
11,300 6.00% Pfd.	1,121,322*
60,000 Southern Union Company, 7.55% Pfd.	1,559,100*
\$ 750,000 TXU Electric Capital V, 8.175% 01/30/37 Capital Security	789,866
Union Electric Company:	
5,700 4.56% Pfd.	509,495*
4,800 \$7.64 Pfd.	495,624*
Virginia Electric & Power Company:	
1,665 \$4.04 Pfd.	124,967*
2,470 \$4.20 Pfd.	192,722*
1,673 \$4.80 Pfd.	150,595*
2,878 \$6.98 Pfd.	295,455*
12,500 \$7.05 Pfd.	1,279,188*
11,200 Virginia Power Capital Trust, 7.375% Pfd. 07/30/42	286,776
2,262 Washington Gas & Light Company, \$4.25 Pfd.	183,448*
12,863 Wisconsin Power & Light Company, 6.20% Pfd.	1,318,393*
Xcel Energy, Inc.:	
15,000 \$4.08 Pfd., Series B	1,175,025*
20,040 \$4.10 Pfd., Series C	1,577,549*
35,510 \$4.11 Pfd., Series D	2,802,272*
17,750 \$4.16 Pfd., Series E	1,417,693*
10,000 \$4.56 Pfd., Series G	875,500*
	<u>73,569,810</u>
Oil and Gas — 4.8%	
8,000 Devon Energy Corporation, 6.49% Pfd., Series A	816,000*
\$ 372,000 Enterprise Products Partners, Variable Rate Pfd.	387,107
6,125 EOG Resources, Inc., 7.195% Pfd., Series B	6,414,161*
\$ 1,650,000 KN Capital Trust III, 7.63% 04/15/28 Capital Security	1,489,043
10,000 Lasmo America Limited, 8.15% Pfd., 144A****	1,068,800*(1)
	<u>10,175,111</u>
Real Estate Investment Trust (REIT) — 3.3%	
BRE Properties, Inc.:	
12,600 6.75% Pfd., Series D	305,424
18,900 8.08% Pfd., Series B	484,879

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2006 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Preferred Securities — (continued)	
Real Estate Investment Trust (REIT) — (continued)	
20,000 Duke Realty Corporation, 6.625% Pfd., Series J	\$ 490,600
10,000 Equity Office Property Trust, 7.75% Pfd., Series G	253,900
1,000 Equity Residential Properties, 8.29% Pfd., Series K	59,105
10,000 PS Business Parks, Inc., 7.00% Pfd., Series H	248,950
Public Storage, Inc.:	
13,600 6.18% Pfd., Series D	322,728
114,075 6.45% Pfd., Series F	2,767,459
6,300 6.60% Pfd., Series C	155,831
2,900 6.75% Pfd., Series E	72,834
70,000 7.25% Pfd., Series K	1,783,250
3,700 7.625% Pfd., Series U	94,424
	<u>7,039,384</u>
Miscellaneous Industries — 1.9%	
13,600 E.I. Du Pont de Nemours and Company, \$4.50 Pfd., Series B	1,120,504*
35,000 Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****	3,036,600*
26,000 Touch America Holdings, \$6.875 Pfd.	—†*
	<u>4,157,104</u>
Total Preferred Securities	
(Cost \$188,311,094)	<u>198,212,814</u>
Corporate Debt Securities — 5.5%	
Financial Services — 0.4%	
36,300 Saturns-GS, 6.00% 02/15/33, Series Goldman Sachs	864,121
	<u>864,121</u>
Insurance — 2.5%	
\$ 900,000 Farmers Exchange Capital, 7.20% 07/15/48, 144A****	895,990
Liberty Mutual Insurance:	
\$ 533,000 7.50% 08/15/36, 144A****	548,633
\$ 3,869,000 7.697% 10/15/97, 144A****	3,860,624
	<u>5,305,247</u>
Utilities — 0.6%	
\$ 1,000,000 Duquesne Light Holdings, 6.25% 08/15/35	926,850
10,000 Entergy Louisiana LLC, 7.60% 04/01/32	255,550
	<u>1,182,400</u>

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2006 (Unaudited)

<u>Shares/\$ Par</u>	<u>Value</u>
Corporate Debt Securities — (continued)	
Oil and Gas — 2.0%	
\$ 2,000,000 KN Energy, Inc., 7.45% 03/01/98	\$ 1,766,990
97,900 Nexen, Inc., 7.35% Subordinated Notes	2,491,555 ⁽¹⁾
	<u>4,258,545</u>
Total Corporate Debt Securities	
(Cost \$11,486,108)	<u>11,610,313</u>
Option Contracts — 0.0%	
1,150 December Put Options on December U.S. Treasury Bond Futures, Expiring 11/21/06	125,781†
265 October Put Options on December U.S. Treasury Bond Futures, Expiring 09/22/06	4,141†
	<u>129,922</u>
Total Option Contracts	
(Cost \$742,210)	<u>129,922</u>
Money Market Fund — 0.3%	
607,814 BlackRock Provident Institutional, TempFund	607,814
	<u>607,814</u>
Total Money Market Fund	
(Cost \$607,814)	<u>607,814</u>
Total Investments (Cost \$201,147,226 ^{***})	99.2% 210,560,863
Other Assets And Liabilities (Net)	0.8% 1,679,461
Total Net Assets Available to Common and Preferred Stock	100.0%‡ \$ 212,240,324
Money Market Cumulative Preferred™ Stock (MMP®) Redemption Value	<u>(70,000,000)</u>
Total Net Assets Available To Common Stock	<u>\$ 142,240,324</u>

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

** Securities distributing Qualified Dividend Income only.

*** Aggregate cost of securities held.

**** Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. These securities have been determined to be liquid under the guidelines established by the Board of Directors.

⁽¹⁾ Foreign Issuer.

† Non-income producing.

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

ABBREVIATIONS:

Pfd. — Preferred Securities

Pvt. — Private Placement Securities

REIT — Real Estate Investment Trust

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK⁽¹⁾
For the period from December 1, 2005 through August 31, 2006 (Unaudited)

	<u>Value</u>
OPERATIONS:	
Net investment income	\$ 8,790,307
Net realized gain/(loss) on investments sold during the period	3,268,067
Change in net unrealized appreciation/depreciation of investments held during the period	(2,621,191)
Distributions to MMP ^{®*} Shareholders from net investment income, including changes in accumulated undeclared distributions	<u>(2,113,658)</u>
Net increase in net assets resulting from operations	7,323,525
DISTRIBUTIONS:	
Dividends paid from net investment income to Common Stock Shareholders ⁽²⁾	<u>(7,031,420)</u>
Total Distributions to Common Stock Shareholders	(7,031,420)
FUND SHARE TRANSACTIONS:	
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan	<u>231,696</u>
Net increase in net assets available to Common Stock resulting from Fund share transactions	231,696
NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD	<u><u>\$ 523,801</u></u>

NET ASSETS AVAILABLE TO COMMON STOCK:

Beginning of period	\$141,716,523
Net increase in net assets during the period	<u>523,801</u>
End of period	<u><u>\$142,240,324</u></u>

* Money Market Cumulative Preferred[™] Stock.

⁽¹⁾ These tables summarize the nine months ended August 31, 2006 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2005.

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

FINANCIAL HIGHLIGHTS⁽¹⁾

For the period from December 1, 2005 through August 31, 2006 (Unaudited)

For a Common Stock share outstanding throughout the period.

PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of period \$ 12.14

INVESTMENT OPERATIONS:

Net investment income 0.75

Net realized and unrealized gain/(loss) on investments 0.05

DISTRIBUTIONS TO MMP[®]* SHAREHOLDERS:

From net investment income (0.18)

From net realized capital gains —

Total from investment operations 0.62

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income (0.60)

From net realized capital gains —

Total distributions to Common Stock Shareholders (0.60)

Net asset value, end of period \$ 12.16

Market value, end of period \$ 11.94

Common Stock shares outstanding, end of period 11,695,372

RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:

Net investment income † 6.25%**

Operating expenses 1.55%**

SUPPLEMENTAL DATA:††

Portfolio turnover rate 55%***

Total net assets available to Common and Preferred Stock, end of period (in 000's) . . . \$ 212,240

Ratio of operating expenses to total average net assets available to
Common and Preferred Stock 1.04%**

⁽¹⁾ These tables summarize the nine months ended August 31, 2006 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2005.

* Money Market Cumulative Preferred[™] Stock.

** Annualized.

*** Not Annualized.

† The net investment income ratios reflect income net of operating expenses and payments to MMP[®]* Shareholders.

†† Information presented under heading Supplemental Data includes MMP[®]*.

FINANCIAL HIGHLIGHTS (Continued)
Per Share of Common Stock (Unaudited)

	Total Dividends Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price⁽¹⁾
December 31, 2005	\$0.0705	\$12.24	\$11.09	\$11.43
January 31, 2006	0.0705	12.28	12.63	12.28
February 28, 2006	0.0705	12.38	12.39	12.38
March 31, 2006	0.0650	12.25	11.46	11.54
April 30, 2006	0.0650	12.11	11.22	11.27
May 31, 2006	0.0650	12.00	11.05	11.20
June 30, 2006	0.0650	11.86	11.10	11.21
July 31, 2006	0.0650	11.83	11.53	11.79
August 31, 2006	0.0650	12.16	11.94	12.02

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

NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. Aggregate Information for Federal Income Tax Purposes

At August 31, 2006, the aggregate cost of securities for federal income tax purposes was \$200,973,070, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$14,533,803, and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$4,946,010.

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Directors

Donald F. Crumrine, CFA
Chairman of the Board
David Gale
Morgan Gust
Karen H. Hogan
Robert F. Wulf, CFA

Officers

Donald F. Crumrine, CFA
Chief Executive Officer
Robert M. Ettinger, CFA
President
R. Eric Chadwick, CFA
Chief Financial Officer,
Vice President and Treasurer
Chad C. Conwell
Chief Compliance Officer,
Vice President and Secretary
Bradford S. Stone
Vice President and
Assistant Treasurer
Christopher D. Ryan, CFA
Vice President
Laurie C. Lodolo
Assistant Compliance Officer,
Assistant Treasurer and
Assistant Secretary

Investment Adviser

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

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

- If your shares are held in a Brokerage Account, contact your Broker.
- If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent & Shareholder Servicing Agent —
PFPC Inc.
P.O. Box 43027
Providence, RI 02940-3027
1-800-331-1710

This report is sent to shareholders of Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated for their information. It is not a Prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.



Flaherty & Crumrine
PREFERRED INCOME
OPPORTUNITY FUND

Quarterly Report

August 31, 2006

www.preferredincome.com