

FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND

Dear Shareholder:

In retrospect, Fiscal 2004 was a pretty uneventful year for the Flaherty & Crumrine Preferred Income Opportunity Fund (“PFO”). The preferred securities in the portfolio produced respectable returns as long-term interest rates fell modestly and credit spreads generally narrowed. However, since interest rates moved within a relatively narrow range throughout the year, the Fund’s hedges were a drag on performance. During the fourth fiscal quarter ended November 30, 2004, the Fund produced **+1.4%**⁽¹⁾ total return on net asset value (“NAV”). For the full fiscal year, the total return on NAV was **+5.0%**⁽¹⁾. As the table below demonstrates, the longer-term record of the Fund continues to be excellent.

TOTAL RETURN PER YEAR ON NET ASSET VALUE⁽¹⁾ FOR PERIODS ENDING NOVEMBER 30, 2004

	<u>One Year</u>	<u>Five Years</u>	<u>Ten Years</u>	<u>Life of Fund⁽²⁾</u>
Flaherty & Crumrine Preferred Income Opportunity Fund	5.0%	10.5%	10.8%	10.2%
Lipper Domestic Investment Grade Bond Funds ⁽³⁾	6.2%	7.9%	8.2%	7.3%

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- (1) Based on monthly data provided by Lipper Inc. Distributions are assumed to be reinvested at NAV in accordance with Lipper’s practice, which differs from the procedures used elsewhere in this report.
 - (2) Since inception on February 13, 1992.
 - (3) Includes all U.S. Government bond, mortgage bond and term trust and investment grade bond funds in Lipper’s closed-end fund database at each point in time.

There was also some good news on the dividend in 2004. In addition to the regular monthly dividend in December, the Fund made a one-time extra distribution of \$0.045 per share, paid December 31st to holders of record on December 24, 2004. We have more to say about the dividend in the Question and Answer section.

For investors in fixed income securities, the past year has turned out to be one of the more perplexing periods in recent memory. Signs of a pick-up in domestic economic activity were tempered by high oil (and other commodity) prices, the declining value of the U.S. dollar, and the U.S. “twin deficits” (of the government budget and the trade balance). After 3½ years of lowering short-term interest rates, the Federal Reserve reversed course in June and began raising them. By the end of 2004, the Federal Funds rate (the rate controlled by the Federal Reserve to set the level of short-term interest rates) stood at 2.25%, up from the low of 1.00%. Despite the rise in short-term rates, long-term rates actually fell by about 25 basis points in 2004, finishing the year at 4.82%. This marks the first time in more than 30 years that long-term interest rates fell in the early stages of Fed tightening.

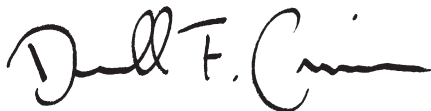
By increasing the Fed Funds rate, the Fed hopes to prevent the economy from expanding too quickly, which in turn could result in an undesirable increase in the rate of inflation. At the same time, the Fed does not want to raise rates too quickly and derail the economy, which in turn would have negative consequences for corporate credit quality. Because credit quality and inflation represent the biggest risks to the prices of the long-term fixed income securities held in the Fund's portfolio, its performance is strongly impacted by Fed policy.

Although the interest rate environment proved challenging for our hedging strategy, the markets for preferred securities and corporate bonds continue to have a favorable tone. We have observed steady improvement in the financial condition of most U.S. corporations for some time now. As an issuer's quality improves, the prices for its debt and preferred securities typically outperform the prices of other benchmark securities, such as U.S. Treasury Bonds. We expect credit quality will continue to improve in 2005, although we are cautious on the outlook for corporate yields, which already reflect much of the balance sheet improvement that companies have achieved.

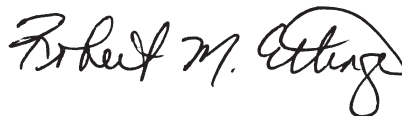
The composition of the investment portfolio has not changed much during the past year. The list of top ten holdings (by issuer) looks pretty similar to last November. The Fund does have a meaningful exposure to the insurance industry (9.1% as of November 30th). These positions are well diversified, but the entire industry has been under careful scrutiny since late October when the New York State Attorney General's office announced it was investigating the practices of certain companies. The prices of most debt and preferred securities issued by insurance companies took a beating when the announcement was made, although they have since recovered a portion of the decline.

We encourage you to read the following Question and Answer section. We go into greater detail on several topics mentioned above. In addition, please take advantage of the Fund's website, www.preferredincome.com. It contains a wide range of useful and up-to-date information about the Fund.

Sincerely,



Donald F. Crumrine
Chairman of the Board



Robert M. Ettinger
President

January 21, 2005

QUESTIONS & ANSWERS

Where did the Fund get the money to pay an extra dividend in December?

We try to set a monthly dividend rate that results in all of the Fund's net investment income getting fully distributed. To quote our former Chairman Bob Flaherty, "We simply ran out of *year* before we ran out of *income*." The low cost of the Fund's leverage during the first half of the year enabled the Fund to accumulate some extra income. We didn't increase the dividend at the time because it seemed unlikely that short-term rates would remain so low. That extra income comprised most of the special distribution in December.

What is the outlook for the Fund's dividend in 2005?

PFO is not immune to the factors which have led many income oriented funds to reduce their monthly dividends. If short-term interest rates continue to rise, the cost of the Fund's leverage will certainly go up, eating into the Fund's income available for dividends. If long-term interest rates go up, the Fund's hedges should make money that can be used to buy more income producing securities. And finally, changes in the difference between long and short-term rates will affect the cost of the Fund's hedging strategy. It is hard enough to predict just one of the factors, let alone all three!

Why doesn't the Fund lock-in the cost of its leverage if short-term interest rates are heading up?

There are a variety of techniques the Fund could employ to lock-in a rate, but it is not possible to do so at rates as low as the Fund is currently paying. Each of these alternative strategies is ultimately a bet that the rate the Fund could lock-in for an extended period would end up being less than the average rate paid over successive shorter periods.

For example, say the Fund's leverage currently costs 2% (at an annual rate) but is subject to change every seven weeks. Alternatively, the Fund could lock in its leverage cost at 3% for one year. Assuming that the cost of the leverage goes up steadily over the year, the rate would have to double to more than 4% for the Fund to be better off locking-in the 3% rate at the beginning of the year. Thus, any attempt to lock-in is simply saying that we think short-term rates are going to rise faster and higher than the consensus of the market.

When it comes to predicting interest rates, we don't think we have any competitive advantage over the market. Moreover because we hedge 100% of the assets in the portfolio, the Fund already has a substantial degree of protection against higher rates. Finally, there are additional costs entailed in locking-in. In short, we monitor these opportunities, but to date we don't believe it has made sense.

How did the preferred securities in the Fund's portfolio perform?

The Fund's holdings of preferred securities have continued to produce very respectable returns. One technique for measuring the performance is to look at the total return on the investment portfolio before the impact of expenses, leverage and hedging. In fiscal 2004, this number was just above 8.5% for PFO. For comparison, an investor in the 30 year U.S. Treasury Bond would have earned roughly 6.8% for the same period. Recall that total return is comprised of income and principal change. In 2004, each of these components contributed about the same amount to the performance differential. PFO is all about income, so anytime principal change goes our way, it's icing on the cake!

As we mentioned earlier, the costs of the Fund's hedges offset some of this return, but it's important to remember a basic principle of the Fund: *it is better to have the hedge "insurance" and not need it than to need the hedge "insurance" and not have it.*

For long-time followers of the Fund's portfolio, this report is a bit of a watershed. After the market closed this past November 30th, JP Morgan Chase announced its intent to retire three series of adjustable rate preferred stock ("ARPS"). As some may remember, the Fund got its start investing primarily in ARPS. In fact, the unusual features of these securities helped us shape the Fund's income objective. The ARPS universe has shrunk dramatically over the years as new and different types of preferreds have been developed.

When JP Morgan announced the call of ARPS, it was a mixed blessing for the Fund. One of the issues called was the largest holding in the Fund (5.8%). The call price was roughly a 10% premium to the closing market price, so there was an immediate boost to the Fund's NAV. However, finding suitable replacements will take some time. We typically try to avoid exposing the Fund to this type of re-investment risk by owning securities that offer call protection—either because the issuer can't call them for some period of time, or because the security is trading well below the call price. In the case of the JP Morgan ARPS, despite the premium of the call price over the market price, the company still found it prudent to call the issue.

What portion of the 2004 distributions will be qualified dividend income?

For individual investors in PFO, 82.21% of the distribution made by the Fund in calendar year 2004 was qualified dividend income (QDI). For corporate investors, 81.95% was eligible for the inter-corporate dividends received deduction (DRD). It is important to remember the composition of the portfolio and the income distributions are likely to change from one year to the next. Shareholders should not assume that the QDI or DRD portions of next year's distributions will be the same (or even similar) to this year's.

Has the Fund made any changes to its investment policies?

The Fund regularly updates investment policies to reflect changes in the market. For example, the Board approved a higher limit on securities of foreign issuers in April 2004 in response to sizable issuance – at attractive yields – by those issuers. Similarly, in the Semiannual Report to Shareholders, we indicated that the Fund was considering the ability to purchase credit protection through the use of credit derivatives. In July, that investment policy change was approved by the Board, although to date the Fund has not purchased credit derivatives.

Recently, the Board expanded the Fund's investment policies to allow it to make use of a wider range of derivative instruments. The new policies give the investment adviser additional tools to manage the Fund's interest rate hedges and credit exposure. For readers interested in a more detailed discussion, we have outlined the specific changes below and summarized the benefits and risks of these strategies to the Fund.

While these investment policy changes are extensive, none of them represent a wholesale shift in the way the Fund intends to manage the portfolio. Moreover, the fact that the policies are in place does not necessarily mean we will use them right away; we simply want to be prepared to take advantage of opportunities as they present themselves now or in the future. Viewed in that light, the changes are a natural evolution of the Fund's investment policies in response to a changing marketplace.

What are the benefits of participating in the Fund's Dividend Reinvestment Plan?

We all know the fable of the tortoise and the hare. The tortoise won simply because he was persistent. For investors who are similarly inclined toward a steady, reliable approach to building wealth, the Fund offers the Dividend Reinvestment and Cash Purchase Plan, unglamorously nicknamed the "DRIP".

Why invest in the DRIP?

- Disciplined monthly investing in both good and bad markets
- When shares trade below the NAV, the Fund purchases shares in the market
- When shares trade above the NAV, shares are issued at the higher of NAV or 95% of the current market price

To obtain information on the DRIP, contact your brokerage firm and ask if they are set up to participate. For investors who hold their shares in certificate form, contact the DRIP's agent, PFPC Inc., at 1-800-331-1710.

INVESTMENT POLICY MODIFICATIONS SUMMARY OF RISKS AND BENEFITS

The Board approved the use of interest rate swaps, swap futures and Eurodollar futures contracts for interest rate hedging purposes. The new policy will allow the Fund to further diversify potential hedging instruments beyond Treasury-based contracts, potentially improving hedge performance or lowering cost.

The Board also approved the sale of credit derivatives as an alternative to buying a corporate security, up to a limit of one-third of Fund assets. This will allow the Fund to pursue various “synthetic asset” strategies, whereby it can acquire exposure to particular credits and manage its interest rate exposure more efficiently than it could dealing only in cash securities. In essence, there may be times when we can sell credit protection via credit derivatives at wider spreads (or with better call protection) than where we can purchase a portfolio security, resulting in higher returns for shareholders. We will not use credit derivatives to *leverage* credit exposure, but rather as an *alternative* to buying a security of a particular issuer. The ability to buy and sell synthetic assets offers another way for active management of the Fund to add value to shareholders.

Of course, using derivative securities entails risks. There are counterparty risks on over-the-counter derivatives and exchange-traded futures contracts. These risks are limited by proper documentation, collateralization, daily valuation, and the high credit standing of approved swap counterparties and the futures exchanges, but the Fund is exposed to valuation changes in a contract between the time the collateral or margin requirement arises and when it receives such collateral or margin payments. Second, there is basis risk between the derivative contracts and the Fund’s investments. LIBOR-based hedges may or may not correlate with underlying portfolio assets as well as our current Treasury-based hedges, possibly resulting in poorer hedge performance. Credit derivatives may not perform in the same way as cash securities. In particular, the timing of payments on a credit default swap and the events that trigger those payments may be materially different than on a cash security, possibly requiring the Fund to liquidate assets at disadvantageous prices or leaving the Fund with additional interest rate risk. We intend to monitor and evaluate those risks on an ongoing basis, but shareholders should be aware that they exist.

The Board approved rules to permit the Fund to buy or sell option spreads, which may allow the Fund to reduce the cost of hedging or add total return in periods of high implied volatility. The Fund has always had the ability to sell options, but the new policy clarifies the special situation of selling options when much or all of its risk is covered by a long position in another option. However, the sale of any option may limit the return on an asset (for example, in the case of a call spread) or reduce the protection from a hedge (for example, in the case of a put spread), possibly resulting in poorer performance.

Finally, the Board authorized the Fund to engage in securities lending on up to 15% of total assets. Certain securities held in the portfolio may be lent profitably by the Fund. Proceeds from any securities loan will be invested in a fund managed according to SEC guidelines applicable to money market funds. Essentially, we would borrow money at a rate lower than where we would reinvest the proceeds. We would not take incremental interest rate risk, as both the borrowing and reinvestment would be short-term. There are risks to securities lending, however. There is counterparty risk on the securities lending side of the transaction. Although risk is limited since the loan is collateralized by cash, the Fund could suffer losses if the counterparty fails to return securities that have risen in value. There is also investment risk on the proceeds from the securities loans: These monies are invested in short-term investments, and if those investments lose value, the Fund will still owe the amount borrowed. We intend to mitigate this risk by investing proceeds from securities lending in a short-term fund managed according to SEC guidelines applicable to money market funds.

PORTFOLIO OVERVIEW (Unaudited)

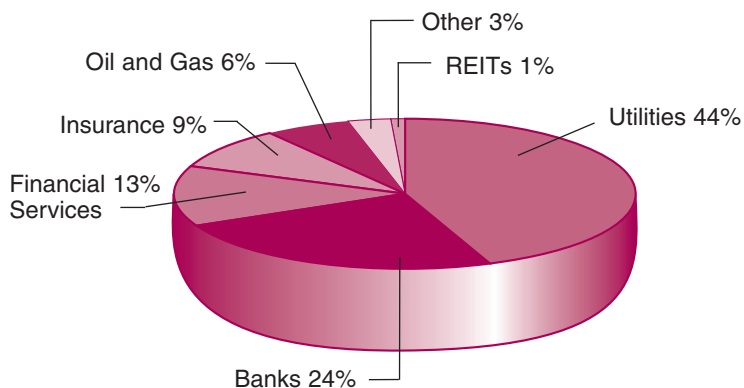
November 30, 2004

Fund Statistics on 11/30/04

Net Asset Value	\$	12.27
Market Price	\$	13.53
Premium		10.27%
Yield on Market Price		6.70%
Common Shares Outstanding		11,586,573

Industry Categories

% of Portfolio



Moody's Ratings

% of Portfolio

Aaa	0.5%
Aa	5.4%
A	28.6%
Baa	40.1%
Ba	17.1%
Not Rated	5.8%

Below Investment Grade* 16.1%

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

Top 10 Holdings by Issuer (Parent company)

% of Portfolio

J.P. Morgan Chase	6.8%
Interstate Power	5.2%
Lehman Brothers	4.5%
The Bear Stearns Cos.	3.9%
Citigroup	3.9%
Duke Energy	3.7%
Alabama Power	3.6%
Xcel Energy	3.4%
North Fork Bancorporation	3.1%
EOG Resources	3.1%

% of Portfolio**

Holdings Generating Qualified Dividend Income (QDI) for Individuals	77%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	77%

** 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 the financial statements for the tax characterization of 2004 distributions.

PORTFOLIO OF INVESTMENTS

November 30, 2004

<u>Shares/\$ Par</u>	<u>Value</u>
Preferred Securities — 93.4%	
Banking — 23.9%	
ABN AMRO North America, Inc.:	
1,165 6.46% Pfd., 144A***	\$ 1,206,491*
3,500 6.59% Pfd., 144A***	3,665,340*
\$ 150,000 BT Capital Trust B, 7.90% 01/15/27, Capital Security	164,331 ⁽¹⁾
\$ 660,000 BT Preferred Capital Trust II, 7.875% 02/25/27 Capital Security	721,317 ⁽¹⁾
\$ 250,000 Chase Capital I, 7.67% 12/01/26 Capital Security	270,417
Citigroup, Inc.:	
72,435 5.864% Pfd., Series M	3,727,505*
7,700 6.213% Pfd., Series G	400,631*
46,000 6.231% Pfd., Series H	2,411,090*
31,850 6.365% Pfd., Series F	1,670,055*
Cobank, ACB:	
45,000 7.00% Pfd., 144A***	2,405,475*
75,000 Adj. Rate Pfd., 144A***	4,204,500*
\$ 500,000 Comerica (Imperial) Capital Trust I, 9.98% 12/31/26 Capital Security, Series B	596,437
\$ 2,250,000 First Hawaiian Capital I, 8.343% 07/01/27 Capital Security, Series B	2,510,122 ⁽¹⁾
\$ 719,000 First Union Institutional Capital I, 8.04% 12/01/26 Capital Security	785,982
\$ 1,885,000 First Union Institutional Capital II, 7.85% 01/01/27 Capital Security	2,065,772
\$ 4,349,000 GreenPoint Capital Trust I, 9.10% 06/01/27 Capital Security	4,974,430
6,900 HSBC USA, Inc., \$2.8575 Pfd.	356,903*
J.P. Morgan Chase & Co.:	
36,500 6.625% Pfd., Series H	1,990,163*
132,425 Adj. Rate Pfd., Series A	12,183,100*
\$ 1,350,000 Keycorp Institutional Capital B, 8.25% 12/15/26 Capital Security	1,483,043
\$ 1,500,000 North Fork Capital Trust I, 8.70% 12/15/26 Capital Security	1,670,948
\$ 1,200,000 Wachovia Capital Trust V, 7.965% 06/01/27 Capital Security, 144A***	1,321,452
	<u>50,785,504</u>
Financial Services — 12.9%	
The Bear Stearns Companies, Inc.:	
63,750 5.49% Pfd., Series G	3,154,987*
100,323 5.72% Pfd., Series F	5,069,823*
Freddie Mac:	
6,975 5.00% Pfd., Series F	297,170*
25,500 5.10% Pfd., Series H	1,108,102*
42,650 5.30% Pfd.	1,926,074*

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

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2004

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Financial Services — (continued)		
	Lehman Brothers Holdings, Inc.:	
10,150	5.67% Pfd., Series D	\$ 488,063*
159,505	5.94% Pfd., Series C	7,968,072*
44,000	6.50% Pfd., Series F	1,160,940*
110,900	SLM Corporation, 6.97% Pfd., Series A	6,286,367*
		<u>27,459,598</u>
Insurance — 8.7%		
\$ 2,000,000	AON Capital Trust A, 8.205% 01/01/27 Capital Security	2,023,270
15,850	Everest Re Capital Trust II, 6.20% Pfd. Series B	377,785 ⁽¹⁾
\$ 4,395,000	MMI Capital Trust I, 7.625% 12/15/27 Capital Security, Series B	4,819,645
18	Premium Assets, Series A, Zurich RegCaPS Variable Inverse Pfd., Pvt.	1,900,372*
\$ 5,734,000	Provident Financing Trust I, 7.405% 03/15/38 Capital Security	4,869,427
	Zurich RegCaPS Funding Trust:	
1,750	6.01% Pfd., 144A***	1,777,904*
2,600	6.58% Pfd., 144A***	2,685,137*
		<u>18,453,540</u>
Utilities — 40.2%		
	Alabama Power Company:	
4,980	4.60% Pfd.	444,091*
6,485	4.72% Pfd.	593,410*
868	4.92% Pfd.	82,794*
43,400	5.20% Pfd.	1,048,110*
225,000	5.30% Pfd.	5,492,250*
6,000	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993	626,850*
10,000	Boston Edison Company, 4.78% Pfd.	937,050*
1,628	Central Hudson Gas & Electric Corporation, 4.35% Pfd., Series D, Pvt.	130,598*
10,000	Central Illinois Light Company, 4.64% Pfd.	900,300*
8,160	Central Illinois Public Service Corporation, 4.90% Pfd.	775,282*
3,798	Central Maine Power Company, 4.75% Pfd.	326,856*
22,238	Central Vermont Public Service Corporation, 8.30% Sinking Fund Pfd., Pvt.	2,313,419*
	Connecticut Light & Power Company:	
900	4.50% Pfd., Series 1956	35,734*
2,900	\$2.20 Pfd., Series 1949	112,592*
9,652	\$3.24 Pfd.	490,852*

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

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2004

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Utilities — (continued)		
2,000	Consolidated Edison Company of New York, 4.65% Pfd., Series C	\$ 178,040*
7,500	Dayton Power and Light Company, 3.90% Pfd., Series C	513,262*
	Duke Energy Corporation:	
8,004	4.50% Pfd., Series C, Pvt.	670,295*
11,256	6.75%, Sinking Fund Pfd., Series X	1,163,645*
34,943	7.85% Pfd., Series S	3,623,065*
	Duquesne Light Company:	
15,030	3.75% Pfd.	478,856*
25,775	6.50% Pfd.	1,350,739*
5,000	Energy East Capital Trust I, 8.25% Pfd.	133,475
	Entergy Arkansas, Inc.:	
2,840	4.56% Pfd.	220,043*
3,050	4.56% Pfd., Series 1965	236,314*
1,050	6.08% Pfd.	104,170*
13,500	7.40% Pfd.	1,405,147*
5,880	7.80% Pfd.	615,254*
2,265	7.88% Pfd.	236,477*
23,914	\$1.96 Pfd.	598,448*
2,441	Entergy Gulf States, Inc., 7.56% Pfd.	248,628*
	Entergy Louisiana, Inc.:	
299	5.16% Pfd.	25,457*
705	6.44% Pfd.	70,895*
4,174	7.36% Pfd.	434,534*
175,000	8.00% Pfd., Series 92	4,415,250*
	Entergy Mississippi, Inc.:	
3,791	4.36% Pfd.	272,725*
8,500	7.44% Pfd.	881,153*
10,900	Enterprise Capital Trust I, 7.44% Pfd., Series A	276,043
	Florida Power Company:	
10,000	4.58% Pfd.	853,900*
2,000	4.75% Pfd.	176,280*
	Great Plains Energy, Inc.:	
1,625	4.20% Pfd.	116,838*
2,000	4.35% Pfd.	148,940*
	Hawaiian Electric Company, Inc.:	
1,411	5.00% Pfd., Series D	25,581*
6,688	5.00% Pfd., Series E	121,253*

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PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2004

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Utilities — (continued)		
\$ 3,750,000	Houston Light & Power, Capital Trust II, 8.257%, 02/01/37 Capital Security	\$ 4,013,100
8,000	Indiana Michigan Power Company, 6.875% Sinking Fund Pfd.	810,440*
30,500	Indianapolis Power & Light Company, 5.65% Pfd.	2,764,673*
340,000	Interstate Power & Light Company, 8.375% Pfd., Series B	11,106,100*
2,588	New York State Electric & Gas, \$4.50 Pfd., Series 1949	210,094*
12,265	Northern Indiana Public Service Company, Adj. Rate Pfd., Series A	623,062*
	Ohio Power Company:	
3,018	4.20% Pfd.	236,973*
1,251	4.40% Pfd.	102,901*
1,724	5.90% Sinking Fund Pfd.	172,391*
	Pacific Enterprises:	
13,680	\$4.36 Pfd.	1,091,938*
24,985	\$4.50 Pfd.	2,058,264*
15,730	\$4.75 Pfd., Series 53	1,367,881*
	PacifiCorp:	
5,672	\$4.56 Pfd.	476,221*
6,458	\$4.72 Pfd.	561,265*
12,250	\$7.48 Sinking Fund Pfd.	1,270,754*
	PECO Energy Company:	
1,100	\$4.30 Pfd., Series B	88,979*
5,000	\$4.40 Pfd., Series C	413,875*
17,537	Portland General Electric, 7.75% Sinking Fund Pfd.	1,800,524*
14,020	Public Service Electric & Gas Company, 5.28% Pfd., Series E	1,312,342*
25,921	REI Trust I, 7.20% Pfd., Series C	660,986
	San Diego Gas & Electric Company:	
55,210	\$1.70 Pfd	1,439,325*
34,000	\$1.7625 Sinking Fund Pfd.	867,850*
85,000	Savannah Electric & Gas Company, 6.00% Pfd.	2,229,125*
	South Carolina Electric & Gas Company:	
14,226	5.125% Purchase Fund Pfd., Pvt.	732,354*
7,774	6.00% Purchase Fund Pfd., Pvt.	396,396*
60,000	Southern Union Company, 7.55% Pfd.	1,627,200*
\$ 750,000	TXU Electric Capital V, 8.175% 01/30/37 Capital Security	824,284
10,000	TXU US Holdings Company, \$4.00 Pfd., Series TES	712,100*
5,600	Union Electric Company, 4.56% Pfd.	492,632*

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PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2004

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Utilities — (continued)		
Virginia Electric & Power Company:		
1,665	\$4.04 Pfd.	\$ 130,345*
2,270	\$4.20 Pfd.	184,744*
1,673	\$4.80 Pfd.	155,606*
2,878	\$6.98 Pfd.	296,880*
12,500	\$7.05 Pfd.	1,289,938*
2,262	Washington Gas & Light Company, \$4.25 Pfd.	189,386*
12,863	Wisconsin Power & Light, 6.20% Pfd.	1,320,644*
Xcel Energy, Inc.:		
15,000	\$4.08 Pfd., Series B	1,086,075*
20,040	\$4.10 Pfd., Series C	1,458,110*
35,510	\$4.11 Pfd., Series D	2,589,922*
17,750	\$4.16 Pfd., Series E	1,310,394*
10,000	\$4.56 Pfd., Series G	809,200*
		<u>85,190,168</u>
Oil and Gas — 4.8%		
17,200	Anadarko Petroleum Corporation, 5.46% Pfd.	1,730,578*
6,650	Apache Corporation, 5.68% Pfd., Series B	680,594*
6,125	EOG Resources, Inc., 7.195% Pfd., Series B	6,631,599*
10,000	Lasmo America Limited, 8.15% Pfd., 144A***	1,124,750*
		<u>10,167,521</u>
Real Estate Investment Trust (REIT) — 1.2%		
14,200	Health Care Property Investments, 7.10% Pfd., REIT, Series F	362,881
40,000	Realty Income Corporation, 7.375% Pfd., REIT, Series D	1,058,200
40,000	Regency Centers Corporation, 7.25% Pfd., REIT	1,029,400
		<u>2,450,481</u>

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2004

<u>Shares/\$ Par</u>	<u>Value</u>
Preferred Securities — (continued)	
Miscellaneous Industries — 1.7%	
13,600 E.I. Du Pont de Nemours and Company, \$4.50 Pfd., Series B	\$ 1,198,704*
36,200 Farmland Industries, Inc., 8.00% Pfd., 144A***	18,100*†
30,500 Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A***	2,427,038*
26,000 Touch America Holdings, \$6.875 Pfd.	—*†
	<u>3,643,842</u>
Total Preferred Securities (Cost \$182,744,841)	<u>198,150,654</u>
Corporate Debt Security — 1.1%	
Oil and Gas — 1.1%	
85,900 Nexen, Inc., 7.35% Subordinated Notes	2,264,753 ⁽¹⁾
Total Corporate Debt Security (Cost \$2,245,426)	<u>2,264,753</u>
Common Stock and Convertible Securities — 3.7%	
Insurance — 0.4%	
25,000 UnumProvident Corporation, 8.25% Mandatory Convertible, 05/16/06	803,500
	<u>803,500</u>
Utilities — 3.3%	
97,500 Duke Energy Corporation	2,474,062*
80,000 FPL Group, Inc., 8.50% Mandatory Convertible, Series A, 02/16/05	4,638,800
	<u>7,112,862</u>
Total Common Stock and Convertible Securities (Cost \$7,465,440)	<u>7,916,362</u>
Option Contracts — 0.8%	
1,225 March Put Options on March U.S. Treasury Bond Futures, Expiring 02/19/05	1,707,422†
Total Option Contracts (Cost \$1,126,745)	<u>1,707,422</u>

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

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2004

<u>Shares/\$ Par</u>	<u>Value</u>
Money Market Fund — 0.5%	
1,009,660 BlackRock Provident Institutional, TempFund	\$ 1,009,660
Total Money Market Fund	
(Cost \$1,009,660)	<u>1,009,660</u>
Total Investments (Cost \$194,592,112**)	99.5% 211,048,851
Other Assets and Liabilities (Net)	<u>0.5% 1,096,201</u>
Total Net Assets Available to Common and Preferred Stock	<u>100.0%† \$ 212,145,052</u>
Money Market Cumulative Preferred Stock™ (MMP®) Redemption Value	<u>(70,000,000)</u>
Total Net Assets Available To Common Stock	<u>\$ 142,145,052</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.

STATEMENT OF ASSETS AND LIABILITIES**November 30, 2004****ASSETS:**

Investments, at value (Cost \$194,592,112) (See accompanying Portfolio of Investments)	\$211,048,851
Dividends and interest receivable	1,679,260
Prepaid expenses	<u>81,904</u>
Total Assets	212,810,015

LIABILITIES:

Payable for Investments purchased	\$ 271,028
Dividends payable to Common Shareholders	127,126
Investment advisory fee payable	97,882
Administration, Transfer Agent and Custodian fees and expenses payable	33,422
Professional fees payable	56,547
Directors' fees payable	1,534
Accrued expenses and other payables	26,751
Accumulated undeclared distributions to Money Market Cumulative Preferred™ Stock Shareholders	<u>50,673</u>
Total Liabilities	<u>664,963</u>

Money Market Cumulative Preferred™ Stock (700 shares outstanding) redemption value	<u>70,000,000</u>
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NET ASSETS AVAILABLE TO COMMON STOCK	<u>\$ 142,145,052</u>
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NET ASSETS AVAILABLE TO COMMON STOCK consist of:

Undistributed net investment income	\$ 952,811
Accumulated net realized loss on investments sold	(9,306,902)
Unrealized appreciation of investments	16,456,739
Par value of Common Stock	115,866
Paid-in capital in excess of par value of Common Stock	<u>133,926,538</u>
Total Net Assets Available to Common Stock	<u>\$ 142,145,052</u>

NET ASSET VALUE PER SHARE OF COMMON STOCK:

Common Stock (11,586,573 shares outstanding)	<u>\$ 12.27</u>
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STATEMENT OF OPERATIONS

For the Year Ended November 30, 2004

INVESTMENT INCOME:

Dividends††	\$ 11,152,338
Interest	<u>2,357,025</u>
Total Investment Income	13,509,363

EXPENSES:

Investment advisory fee	\$1,198,415
Administrator's fee	211,599
Money Market Cumulative Preferred™ Stock broker commissions and auction agent fees	190,416
Professional fees	126,331
Insurance expense	176,785
Shareholder servicing agent fees and expenses	75,572
Directors' fees and expenses	77,894
Custodian fees and expenses	25,531
Chief Compliance Officer fees and expenses	15,477
Other	<u>106,459</u>
Total Expenses	<u>2,204,479</u>

NET INVESTMENT INCOME 11,304,884

REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS

Net realized gain on investments sold during the year	149,942
Change in unrealized depreciation of investments during the year . .	<u>(3,431,405)</u>

NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS (3,281,463)

DISTRIBUTIONS TO MONEY MARKET CUMULATIVE PREFERRED™ STOCK SHAREHOLDERS:

From net investment income (including changes in accumulated undeclared distributions)	<u>(1,029,065)</u>
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NET INCREASE IN NET ASSETS TO COMMON STOCK RESULTING FROM OPERATIONS \$ 6,994,356

†† For Federal income tax purposes, a significant portion of this amount does 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.

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

	<u>Year Ended November 30, 2004</u>	<u>Year Ended November 30, 2003</u>
OPERATIONS:		
Net investment income	\$ 11,304,884	\$ 11,682,749
Net realized gain on investments sold during the year	149,942	2,447,429
Change in net unrealized (depreciation)/appreciation of investments held during the year	(3,431,405)	18,626,279
Distributions to Money Market Cumulative Preferred™ Stock Shareholders from net investment income, including changes in accumulated undeclared distributions	<u>(1,029,065)</u>	<u>(920,912)</u>
Net increase in net assets resulting from operations	6,994,356	31,835,545
DISTRIBUTIONS:		
Dividends paid from net investment income to Common Stock Shareholders ⁽¹⁾	<u>(10,790,181)</u>	<u>(11,222,895)</u>
Total Distributions to Common Stock Shareholders	(10,790,181)	(11,222,895)
FUND SHARE TRANSACTIONS:		
Increase from Common Stock transactions	<u>1,637,955</u>	<u>1,431,926</u>
Net increase in net assets available to Common Stock resulting from Fund share transactions	1,637,955	1,431,926
NET (DECREASE)/INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE YEAR	<u>\$ (2,157,870)</u>	<u>\$ 22,044,576</u>
NET ASSETS AVAILABLE TO COMMON STOCK:		
Beginning of year	\$144,302,922	\$122,258,346
Net (decrease)/increase during the year	<u>(2,157,870)</u>	<u>22,044,576</u>
 End of year (including undistributed net investment income of \$952,811, and \$356,326, respectively)	 <u>\$142,145,052</u>	 <u>\$144,302,922</u>

⁽¹⁾ Includes income earned, but not paid out, in prior fiscal year.

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

FINANCIAL HIGHLIGHTS

For a Common share outstanding throughout each period.

Contained below is per share operating performance data, total investment returns, ratios to average net assets and other supplemental data. This information has been derived from information provided in the financial statements and market price data for the Fund's shares.

	Year Ended November 30,				
	2004	2003	2002	2001	2000
PER SHARE OPERATING PERFORMANCE:					
Net asset value, beginning of period	\$12.59	\$10.78	\$11.60	\$10.68	\$11.50
INVESTMENT OPERATIONS:					
Net investment income	0.98	1.02	1.07	1.10	1.18
Net realized and unrealized (loss)/gain on investments	(0.27)	1.85	(0.87)	0.89	(0.33)
DISTRIBUTIONS TO MMP** SHAREHOLDERS:					
From net investment income	(0.09)	(0.08)	(0.11)	(0.25)	(0.32)
From net realized capital gains	—	—	—	—	(0.02)
Total from investment operations	0.62	2.79	0.09	1.74	0.51
DISTRIBUTIONS TO COMMON SHAREHOLDERS:					
From net investment income	(0.94)	(0.98)	(0.91)	(0.82)	(0.91)
From net realized capital gains	—	—	—	—	(0.42)
Total distributions to Common Shareholders	(0.94)	(0.98)	(0.91)	(0.82)	(1.33)
Net asset value, end of period	\$12.27	\$12.59	\$10.78	\$11.60	\$10.68
Market value, end of period	\$13.53	\$13.51	\$11.72	\$11.27	\$9.56
Total investment return based on net asset value**	4.68%	26.57%	0.63%	16.97%	5.88%
Total investment return based on market value **	7.57%	24.92%	12.61%	26.95%	3.80%
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:					
Total net assets, end of period (in 000's)	\$142,145	\$144,303	\$122,258	\$129,792	\$119,069
Operating expenses	1.52%	1.54%	1.56%	1.61%	1.59%
Net investment income †	7.11%	7.85%	8.67%	7.63%	7.93%
SUPPLEMENTAL DATA:††					
Portfolio turnover rate	28%	28%	29%	41%	67%
Total net assets available to Common and Preferred Stock, end of period (in 000's)	\$212,145	\$214,411	\$192,361	\$200,228	\$189,666
Ratio of operating expenses to total average net assets available to Common and Preferred Stock	1.03%	1.02%	1.00%	1.03%	1.00%

* Money Market Cumulative Preferred™ Stock.

** Assumes reinvestment of distributions at the price obtained by the Fund's Dividend Reinvestment Plan.

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

†† Information presented under heading Supplemental Data includes MMP**.

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

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

	<u>Total Dividends Paid</u>	<u>Net Asset Value</u>	<u>NYSE Closing Price</u>	<u>Dividend Reinvestment Price (1)</u>
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
September 30, 2004	0.0755	12.46	13.47	12.79
October 31, 2004	0.0755	12.48	13.56	12.88
November 30, 2004	0.0755	12.27	13.53	12.85
December 31, 2004 - Extra	0.0450	12.58	13.50	12.83
December 31, 2004	0.0755	12.58	13.50	12.83

- (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.

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

FINANCIAL HIGHLIGHTS (Continued)

The table below sets out information with respect to Money Market Cumulative Preferred™ Stock currently outstanding.

<u>Date</u>	<u>Total Shares Outstanding (1)</u>	<u>Asset Coverage Per Share (2)</u>	<u>Involuntary Liquidating Preference Per Share (3)</u>	<u>Average Market Value Per Share (1) & (3)</u>
11/30/04	700	\$303,137	\$100,000	\$100,000
11/30/03	700	306,301	100,000	100,000
11/30/02	700	274,802	100,000	100,000
11/30/01	700	286,040	100,000	100,000
11/30/00	700	270,952	100,000	100,000
11/30/99	700	284,371	100,000	100,000
11/30/98	700	315,271	100,000	100,000

(1) See Note 6.

(2) Calculated by subtracting the Fund's total liabilities (excluding the MMP®) from the Fund's total assets and dividing that amount by the number of MMP® shares outstanding.

(3) Excludes accumulated undeclared dividends.

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

NOTES TO FINANCIAL STATEMENTS

1. Organization

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated (the “Fund”) was incorporated as a Maryland corporation on December 10, 1991, and commenced operations on February 13, 1992 as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the “1940 Act”). The Fund’s investment objective is to provide its common shareholders with high current income consistent with the preservation of capital.

2. Significant Accounting Policies

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements is in conformity with accounting principles generally accepted in the United States of America and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

Portfolio valuation: The net asset value of the Fund’s Common Stock is determined by the Fund’s Administrator no less frequently than on the last business day of each week and month. It is determined by dividing the value of the Fund’s net assets available to Common Stock by the number of shares of Common Stock outstanding. The value of the Fund’s net assets attributable to Common Stock is deemed to equal the value of the Fund’s total assets less (i) the Fund’s liabilities and, (ii) the aggregate liquidation value of the outstanding Money Market Cumulative Preferred™ Stock (MMP®).

Securities listed on a national securities exchange are valued on the basis of the last sale on such exchange on the day of valuation, except as described hereafter. In the absence of sales of listed securities and with respect to (a) securities for which the most recent sale prices are not deemed to represent fair market value and (b) unlisted securities (other than money market instruments), securities are valued at the mean between the closing bid and asked prices when quoted prices for investments are readily available. Investments in over-the-counter derivative instruments, such as interest rate swaps and options thereon (“swaptions”) are valued at the prices obtained from the broker/dealer or bank that is the counterparty to such instrument, subject to comparison of such valuation with a valuation obtained from a broker/dealer or bank that is not a counterparty to the particular derivative instrument. Investments for which market quotations are not readily available or for which management determines that the prices are not reflective of current market conditions are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund, including reference to valuations of other securities which are comparable in quality, maturity and type. Investments in money market instruments, which mature in 60 days or less, are valued at amortized cost. Investments in money market funds are valued at the net asset value of such funds.

Securities transactions and investment income: Securities transactions are recorded as of the trade date. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded on ex-dividend dates. Interest income is recorded on the accrual basis. The Fund

NOTES TO FINANCIAL STATEMENTS (Continued)

also amortizes premiums and accretes discounts on those fixed income securities, including capital securities and bonds, which trade and are quoted on an “accrued income” basis.

Options: Upon the purchase of an option by the Fund, the total purchase price paid is recorded as an investment. The market valuation is determined as set forth in the preceding portfolio valuation paragraph. When the Fund enters into a closing sale transaction, the Fund will record a gain or loss depending on the difference between the purchase and sale price. The risks associated with purchasing options and the maximum loss the Fund would incur are limited to the purchase price originally paid.

Repurchase agreements: The Fund may engage in repurchase agreement transactions. The Fund’s investment adviser reviews and approves the eligibility of the banks and dealers with which the Fund may enter into repurchase agreement transactions. The value of the collateral underlying such transactions is at least equal at all times to the total amount of the repurchase obligations, including interest. The Fund maintains possession of the collateral through its custodian and, in the event of counterparty default, the Fund has the right to use the collateral to offset losses incurred. There is the possibility of loss to the Fund in the event the Fund is delayed or prevented from exercising its rights to dispose of the collateral securities.

Dividends and distributions to shareholders: The Fund expects to declare dividends on a monthly basis to shareholders of Common Stock (“Shareholders”). The Shareholders of MMP® are entitled to receive cumulative cash dividends as declared by the Fund’s Board of Directors. Distributions to Shareholders are recorded on the ex-dividend date. Any net realized short-term capital gains will be distributed to Shareholders at least annually. Any net realized long-term capital gains may be distributed to Shareholders at least annually or may be retained by the Fund as determined by the Fund’s Board of Directors. Capital gains retained by the Fund are subject to tax at the capital gains corporate tax rate. Subject to the Fund’s qualifying as a regulated investment company, any taxes paid by the Fund on such net realized long-term gains may be used by the Fund’s Shareholders as a credit against their own tax liabilities.

Federal income taxes: The Fund intends to continue to qualify as a regulated investment company by complying with the requirements under subchapter M of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies and intends to distribute substantially all of its taxable net investment income to its shareholders. Therefore, no Federal income tax provision is required.

Income and capital gain distributions are determined and characterized in accordance with income tax regulations which may differ from generally accepted accounting principles. These differences are primarily due to (1) differing treatments of income and gains on various investment securities held by the Fund, including timing differences, (2) the attribution of expenses against certain components of taxable investment income, and (3) federal regulations requiring proportionate allocation of income and gains to all classes of shareholders.

NOTES TO FINANCIAL STATEMENTS (Continued)

Distributions from net realized gains for book purposes may include short-term capital gains, which are included as ordinary income for tax purposes, and may exclude amortization of premium on “accrued income” securities, which are not reflected in ordinary income for tax purposes. The tax character of distributions paid, including changes in accumulated undeclared distributions to MMP® Shareholders, during 2004 and 2003 was as follows:

	<u>Distributions paid in fiscal year 2004</u>		<u>Distributions paid in fiscal year 2003</u>	
	<u>Ordinary Income</u>	<u>Long-Term Capital Gains</u>	<u>Ordinary Income</u>	<u>Long-Term Capital Gains</u>
Common	\$10,790,181	\$—	\$11,222,895	\$—
Preferred	\$ 1,029,065	\$—	\$ 920,912	\$—

As of November 30, 2004, the components of distributable earnings (i.e., ordinary income and capital gain/(loss)) available to Common and Preferred Stock Shareholders, on a tax basis were as follows:

<u>Capital (Loss) Carryforward</u>	<u>Undistributed Ordinary Income</u>	<u>Undistributed Long-Term Gain</u>	<u>Net Unrealized Appreciation/(Depreciation)</u>
\$(8,298,231)	\$1,196,825	\$—	\$15,448,067

At November 30, 2004, the composition of the Fund’s \$8,298,231 accumulated realized capital losses was \$5,163,910, \$982,343, \$1,457,692 and \$694,286 in 2000, 2001, 2002 and 2004, respectively. These losses may be carried forward and offset against any future capital gains through 2008, 2009, 2010 and 2012, respectively.

Excise Tax: The Internal Revenue Code of 1986, as amended, imposes a 4% nondeductible excise tax on the Fund to the extent the Fund does not distribute by the end of any calendar year at least (1) 98% of the sum of its net investment income for that year and its capital gains (both long term and short term) for its fiscal year and (2) certain undistributed amounts from previous years. The Fund is subject to payment of an estimated \$44,000 of Federal excise taxes attributable to calendar year 2004. During the fiscal year ending November 30, 2004, the Fund paid \$20,449 of Federal excise taxes attributable to calendar year 2003.

3. Investment Advisory Fee, Administration Fee, Transfer Agent Fee, Custodian Fee, Directors’ Fees and Chief Compliance Officer Fee

Flaherty & Crumrine Incorporated (the “Adviser”) serves as the Fund’s investment adviser. The Fund pays the Adviser a monthly fee at an annual rate of 0.625% of the value of the Fund’s average monthly total net assets available to Common and Preferred Stock up to \$100 million and 0.50% of the value of the Fund’s average monthly total net assets available to Common and Preferred Stock in excess of \$100 million.

NOTES TO FINANCIAL STATEMENTS (Continued)

PFPC Inc., a member of the PNC Financial Services Group, Inc. (“PNC Financial Services”), serves as the Fund’s Administrator. As Administrator, PFPC Inc. calculates the net asset value of the Fund’s shares attributable to Common and Preferred Stock and generally assists in all aspects of the Fund’s administration and operation. As compensation for PFPC Inc.’s services as Administrator, the Fund pays PFPC Inc. a monthly fee at an annual rate of 0.10% of the first \$200 million of the Fund’s average weekly total managed assets, 0.04% of the next \$300 million of the Fund’s average weekly total managed assets, 0.03% of the next \$500 million of the Fund’s average weekly total managed assets and 0.02% on the Fund’s average weekly total managed assets above \$1 billion.

PFPC Inc. also serves as the Fund’s Common Stock dividend-paying agent and registrar (Transfer Agent). As compensation for PFPC Inc.’s services, the Fund pays PFPC Inc. a fee at an annual rate of 0.02% of the first \$150 million of the Fund’s average weekly net assets attributable to Common Stock, 0.01% of the next \$350 million of the Fund’s average weekly net assets attributable to Common Stock, 0.005% of the next \$500 million of the Fund’s average weekly net assets attributable to Common Stock and 0.0025% of the Fund’s average weekly net assets attributable to Common Stock above \$1 billion, plus certain out of pocket expenses. For the purpose of calculating such fee, the Fund’s average weekly net assets attributable to Common Stock will be deemed to be the average weekly value of the Fund’s total assets minus the sum of the Fund’s liabilities, and accumulated dividends, if any, on Preferred Stock. For this calculation, the Fund’s liabilities are deemed to include the aggregate liquidation preference of any outstanding Fund preferred shares.

PFPC Trust Company (“PFPC Trust”) serves as the Fund’s Custodian. PFPC Trust is an indirect subsidiary of PNC Financial Services. As compensation for PFPC Trust’s services as custodian, the Fund pays PFPC Trust a monthly fee at the annual rate of 0.010% of the first \$200 million of the Fund’s average weekly total managed assets, 0.008% of the next \$300 million of the Fund’s average weekly total managed assets, 0.006% of the next \$500 million of the Fund’s average weekly total managed assets and 0.005% of the Fund’s average weekly total managed assets above \$1 billion.

The Fund currently pays each Director who is not a director, officer or employee of the Adviser a fee of \$9,000 per annum, plus \$500 for each in-person meeting of the Board of Directors or any committee and \$150 for each telephone meeting. The Audit Committee Chairman receives an additional annual fee of \$2,500. The Fund also reimburses all Directors for travel and out-of-pocket expenses incurred in connection with such meetings.

On July 23, 2004, the Board of Directors designated Peter C. Stimes as Chief Compliance Officer (“CCO”) of the Fund. The Fund currently pays Mr. Stimes, in his capacity as CCO, \$37,500 per annum plus out-of-pocket expenses incurred in connection with his role as CCO.

4. Purchases and Sales of Securities

For the year ended November 30, 2004, the cost of purchases and proceeds from sales of securities excluding short-term investments, aggregated \$58,670,645 and \$62,919,920, respectively.

NOTES TO FINANCIAL STATEMENTS (Continued)

At November 30, 2004, the aggregate cost of securities for federal income tax purposes was \$195,600,784, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$20,739,615 and aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$5,291,548.

5. Common Stock

At November 30, 2004, 240,000,000 shares of \$0.01 par value Common Stock were authorized.

Common Stock transactions were as follows:

	Year Ended 11/30/04		Year Ended 11/30/03	
	Shares	Amount	Shares	Amount
Issued as reinvestment of dividends under the Dividend Reinvestment and Cash Purchase Plan . .	<u>125,523</u>	<u>\$1,637,955</u>	<u>119,617</u>	<u>\$1,431,926</u>

6. Money Market Cumulative Preferred™ Stock (MMP®)

The Fund's Articles of Incorporation authorize the issuance of up to 10,000,000 shares of \$0.01 par value preferred stock. The MMP® is senior to the Common Stock and results in the financial leveraging of the Common Stock. Such leveraging tends to magnify both the risks and opportunities to Common Stock Shareholders. Dividends on shares of MMP® are cumulative.

The Fund is required to meet certain asset coverage tests with respect to the MMP®. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, MMP® at a redemption price of \$100,000 per share plus an amount equal to the accumulated and unpaid dividends on such shares in order to meet the asset coverage test requirements. Additionally, failure to meet the foregoing asset requirements could restrict the Fund's ability to pay dividends to Common Stock Shareholders and could lead to sales of portfolio securities at inopportune times.

If the Fund allocates any net gains or income ineligible for the Dividends Received Deduction to shares of the MMP®, the Fund is required to make additional distributions to MMP® Shareholders or to pay a higher dividend rate in amounts needed to provide a return, net of tax, equal to the return had such originally paid distributions been eligible for the Dividends Received Deduction.

An auction of the MMP® is generally held every 49 days. Existing shareholders may submit an order to hold, bid or sell such shares at par value on each auction date. MMP® Shareholders may also trade shares in the secondary market between auction dates.

At November 30, 2004, 700 shares of MMP® were outstanding at the annual rate of 2.24%. The dividend rate, as set by the auction process, is generally expected to vary with short-term interest rates. These rates may vary in a manner unrelated to the income received on the Fund's assets, which could

NOTES TO FINANCIAL STATEMENTS (Continued)

have either a beneficial or detrimental impact on net investment income and gains available to Common Stock Shareholders. While the Fund expects to structure its portfolio holdings and hedging transactions to lessen such risks to Common Stock Shareholders, there can be no assurance that such results will be attained.

7. Portfolio Investments, Concentration and Investment Quality

The Fund invests primarily in traditional DRD-eligible preferred securities (i.e., adjustable and fixed rate preferred and preference stocks) and similar hybrid (i.e., fully taxable) preferred securities. Under normal market conditions, at least 80% of the value of the Fund's net assets will be invested in preferred securities. Also, under normal market conditions, the Fund invests at least 25% of its assets in securities issued by utilities and a significant percentage, but no more than 25% of its assets, in securities issued by companies in the banking industry. Because of the Fund's concentration of investments in the utility industry and significant holdings in the banking industry, the ability of the Fund to maintain its dividend and the value of the Fund's investments could be adversely affected by the possible inability of companies in these industries to pay dividends and interest on their securities and the ability of holders of securities of such companies to realize any value from the assets of the issuer upon liquidation or bankruptcy.

The Fund may invest up to 25% of its assets at the time of purchase in securities rated below investment grade. These securities must be rated at least either "Ba3" by Moody's Investors Service, Inc. or "BB-" by Standard & Poor's or judged to be comparable in quality, in either case at the time of purchase; however, these securities must be issued by an issuer having a class of senior debt rated investment grade outstanding.

The Fund may invest up to 15% of its assets in common stocks and, under normal market conditions, up to 20% of its assets in debt securities. Certain of its investments in hybrid, i.e., fully taxable, preferred securities will be subject to the foregoing 20% limitation to the extent that, in the opinion of the Adviser, such investments are deemed to be debt-like in key characteristics. Typically, a security will not be considered debt-like (a) if an issuer can defer payment of income for eighteen months or more without triggering an event of default and (b) if such issue is a junior and fully subordinated liability of an issuer or its ultimate guarantor.

The Fund may invest up to 30% of its total assets in the securities, other than money market securities, of companies organized or having their principal place of business outside the United States. All foreign securities held by the Fund will be denominated in U.S. dollars. The percentage limitation was instituted by the Fund's Board of Directors at its regular board meeting of April 23, 2004.

8. Special Investment Techniques

The Fund may employ certain investment techniques in accordance with its fundamental investment policies. These may include the use of when-issued and delayed delivery transactions. Securities purchased or sold on a when-issued or delayed delivery basis may be settled within 45 days after the

NOTES TO FINANCIAL STATEMENTS (Continued)

date of the transaction. Such transactions may expose the Fund to credit and market valuation risk greater than that associated with regular trade settlement procedures. The Fund may also enter into transactions, in accordance with its investment policies, involving any or all of the following: lending of portfolio securities, short sales of securities, futures contracts, interest rate swaps, options on futures contracts, options on securities, swaptions, and certain credit derivative transactions, including, but not limited to, the purchase and sale of credit protection. As in the case of when-issued securities, the use of over-the-counter derivatives, such as interest rate swaps, swaptions, and credit default swaps, may expose the Fund to greater credit, operations, liquidity, and valuation risk than is the case with regulated, exchange traded futures and options. These transactions are used for hedging or other appropriate risk-management purposes, or, under certain other circumstances, to increase return. As of November 30, 2004, the Fund owned put options on U.S. Treasury bond futures contracts. No assurance can be given that such transactions will achieve their desired purposes or will result in an overall reduction of risk to the Fund.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of the Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated, as of November 30, 2004, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the four-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of November 30, 2004 by correspondence with the custodian and brokers. As to the securities purchased but not yet received, we performed other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated, as of November 30, 2004, the results of its operations, changes in its net assets and financial highlights for each of the years described above in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Boston, Massachusetts

January 21, 2005

SUPPLEMENTARY TAX INFORMATION (Unaudited)

For fiscal year 2004, the distributions attributable both to Common Stock and MMP[®] are characterized as follows for purposes of Federal income taxes: for individual investors, 82.72% consisted of Qualified Dividend Income ("QDI") eligible for the maximum 15% personal tax rate while 17.28% consisted of ordinary income taxable at regular personal tax rates. For corporate investors, 82.47% consisted of income eligible for the inter-corporate Dividends Received Deduction ("DRD") while 17.53% consisted of ordinary income taxable at regular corporate rates.

For calendar year 2004, the distributions to Common Stock are characterized as follows for purposes of Federal income taxes: for individual investors, 82.21% consisted of Qualified Dividend Income ("QDI") eligible for the maximum 15% personal tax rate while 17.79% consisted of ordinary income taxable at regular personal tax rates. For corporate investors, 81.95% consisted of income eligible for the inter-corporate Dividends Received Deduction ("DRD") while 18.05% consisted of ordinary income taxable at regular corporate rates.

ADDITIONAL INFORMATION (Unaudited)

Dividend Reinvestment and Cash Purchase Plan

Under the Fund's Dividend Reinvestment and Cash Purchase Plan (the "Plan"), a shareholder whose Common Stock is registered in his own name will have all distributions reinvested automatically by PFPC Inc. as agent under the Plan, unless the shareholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in "street name") may be reinvested by the broker or nominee in additional shares under the Plan, but only if the service is provided by the broker or nominee, unless the shareholder elects to receive distributions in cash. A shareholder who holds Common Stock registered in the name of a broker or other nominee may not be able to transfer the Common Stock to another broker or nominee and continue to participate in the Plan. Investors who own Common Stock registered in street name should consult their broker or nominee for details regarding reinvestment.

The number of shares of Common Stock distributed to participants in the Plan in lieu of a cash dividend is determined in the following manner. Whenever the market price per share of the Fund's Common Stock is equal to or exceeds the net asset value per share on the valuation date, participants in the Plan will be issued new shares valued at the higher of net asset value or 95% of the then current market value. Otherwise, PFPC Inc. will buy shares of the Fund's Common Stock in the open market, on the New York Stock Exchange or elsewhere, on or shortly after the payment date of the dividend or distribution and continuing until the ex-dividend date of the Fund's next distribution to holders of the Common Stock or until it has expended for such purchases all of the cash that would otherwise be payable to the participants. The number of purchased shares that will then be credited to the participants' accounts will be based on the average per share purchase price of the shares so purchased, including brokerage commissions. If PFPC Inc. commences purchases in the open market and the then current market price of the shares (plus any estimated brokerage commissions) subsequently exceeds their net asset value most recently determined before the completion of the purchases, PFPC Inc. will attempt to terminate purchases in the open market and cause the Fund to issue the remaining dividend or distribution in shares. In this case, the number of shares received by the participant will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares. These remaining shares will be issued by the Fund at the higher of net asset value or 95% of the then current market value.

Plan participants are not subject to any charge for reinvesting dividends or capital gains distributions. Each Plan participant will, however, bear a proportionate share of brokerage commissions incurred with respect to PFPC Inc.'s open market purchases in connection with the reinvestment of dividends or capital gains distributions. For the year ended November 30, 2004, no brokerage commissions were incurred.

The automatic reinvestment of dividends and capital gains distributions will not relieve Plan participants of any income tax that may be payable on the dividends or capital gains distributions. A participant in the Plan will be treated for Federal income tax purposes as having received, on the dividend payment date, a dividend or distribution in an amount equal to the cash that the participant

ADDITIONAL INFORMATION (Unaudited) (Continued)

could have received instead of shares.

In addition to acquiring shares of Common Stock through the reinvestment of cash dividends and distributions, a shareholder may invest any further amounts from \$100 to \$3,000 semi-annually at the then current market price in shares purchased through the Plan. Such semi-annual investments are subject to any brokerage commission charges incurred by PFPC Inc. under the Plan.

A shareholder whose Common Stock is registered in his or her own name may terminate participation in the Plan at any time by notifying PFPC Inc. in writing, by completing the form on the back of the Plan account statement and forwarding it to PFPC Inc. or by calling PFPC Inc. directly. A termination will be effective immediately if notice is received by PFPC Inc. not less than 10 days before any dividend or distribution record date. Otherwise, the termination will be effective, and only with respect to any subsequent dividends or distributions, on the first day after the dividend or distribution has been credited to the participant's account in additional shares of the Fund. Upon termination and according to a participant's instructions, PFPC Inc. will either (a) issue certificates for the whole shares credited to the shareholder's Plan account and a check representing any fractional shares or (b) sell the shares in the market. Shareholders who hold Common Stock registered in the name of a broker or other nominee should consult their broker or nominee to terminate participation.

The Plan is described in more detail in the Fund's Plan brochure. Information concerning the Plan may be obtained from PFPC Inc. at 1-800-331-1710.

Proxy Voting Policies and Proxy Voting Record on Form N-PX

The Fund files Form N-PX with its complete proxy voting record for the 12 months ended June 30th, no later than August 31st of each year. The Fund filed its initial Form N-PX with the Securities and Exchange Commissions ("SEC") on August 18, 2004. This filing as well as the Fund's proxy voting policies and procedures are available (i) without charge, upon request, by calling the Fund's transfer agent at 1-800-331-1710, (ii) on the Fund's website at www.preferredincome.com and (iii) on the SEC's website at www.sec.gov.

Portfolio Schedule on Form N-Q

The Fund files a complete schedule of portfolio holdings with the SEC for the first and third fiscal quarters on Form N-Q, the first of which was recently filed for the quarter ended August 31, 2004. The Fund's Form N-Q is available on the SEC website at www.sec.gov or may be viewed and obtained from the SEC's Public Reference Room in Washington D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Portfolio Management Team

In managing the day-to-day operations of the Fund, the Adviser relies on the expertise of its team of money management professionals, consisting of Messrs. Crumrine, Ettinger, Stimes, Stone and

ADDITIONAL INFORMATION (Unaudited) (Continued)

Chadwick. The professional backgrounds of each member of the management team are included in the “Information about Fund Directors and Officers” section of this report beginning on page 33.

Certifications

Donald F. Crumrine, as the Fund’s Chief Executive Officer, has certified to the New York Stock Exchange that, as of May 20, 2004, he was not aware of any violation by the Fund of applicable NYSE corporate governance listing standards. The Fund’s reports to the SEC on Forms N-CSR and N-CSRS contain certifications by the Fund’s principal executive officer and principal financial officer that relate to the Fund’s disclosure in such reports and that are required by rule 30a-2(a) under the 1940 Act.

ADDITIONAL INFORMATION (Unaudited) (Continued)**Information about Fund Directors and Officers**

The business and affairs of the Fund are managed under the direction of the Fund's Board of Directors. Information pertaining to the Directors and officers of the Fund is set forth below.

<u>Name, Address, and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served*</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Funds in Fund Complex Overseen by Director</u>	<u>Other Directorships Held by Director</u>
NON-INTERESTED DIRECTORS:					
Martin Brody c/o HMK Associates 30 Columbia Turnpike Florham Park, NJ 07932 Age: 83	Director	Class I Director since 1992	Retired	4	Director, Jaclyn, Inc. (luggage and accessories). Director Emeritus, Smith Barney Mutual Funds (18 Funds). Director, Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine/Claymore Preferred Securities Income Fund and Flaherty & Crumrine/Claymore Total Return Fund.
David Gale Delta Dividend Group, Inc. 220 Montgomery Street Suite 426 San Francisco, CA 94104 Age: 55	Director	Class I Director since 1997	President & CEO of Delta Dividend Group, Inc. (investments).	4	Director, Golden State Vintners, Inc. (wine pressing). Director, Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine/Claymore Preferred Securities Income Fund and Flaherty & Crumrine/Claymore Total Return Fund.

* The Fund's Board of Directors is divided into three classes, each class having a term of three years. Each year the term of office of one class expires and the successor or successors elected to such class serve for a three year term. The three year term for each class expires as follows:

Class I Directors – three year term expires at the Fund's 2006 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified.

Class II Directors – three year term expires at the Fund's 2007 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified.

Class III Directors – three year term expires at the Fund's 2005 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified.

ADDITIONAL INFORMATION (Unaudited) (Continued)

<u>Name, Address, and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served*</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Funds in Fund Complex Overseen by Director</u>	<u>Other Directorships Held by Director</u>
NON-INTERESTED DIRECTORS:					
Morgan Gust† Giant Industries, Inc. 23733 N. Scottsdale Road Scottsdale, AZ 85255 Age: 57	Director	Class III Director since 1992	From March 2002, President of Giant Industries, Inc. (petroleum refining and marketing) and, for more than five years prior thereto, Executive Vice President, and various other Vice President positions at Giant Industries, Inc.	4	Director, Flaherty & Crumrine Crumrine Preferred Income Fund, Flaherty & Crumrine/ Claymore Preferred Securities Income Fund and Flaherty & Crumrine/ Claymore Total Return Fund.
Robert F. Wulf 3560 Deerfield Drive South Salem, OR 97302 Age: 67	Director	Class II Director since 1992	Financial Consultant; Trustee, University of Oregon Foundation; Trustee, San Francisco Theological Seminary.	4	Director, Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine/ Claymore Preferred Securities Income Fund and Flaherty & Crumrine/ Claymore Total Return Fund.

* The Fund's Board of Directors is divided into three classes, each class having a term of three years. Each year the term of office of one class expires and the successor or successors elected to such class serve for a three year term. The three year term for each class expires as follows:

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Class III Directors – three year term expires at the Fund's 2005 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified.

† As a Director, represents holders of shares of the Fund's Money Market Cumulative Preferred™ Stock.

ADDITIONAL INFORMATION (Unaudited) (Continued)

<u>Name, Address, and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served*</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Funds in Fund Complex Overseen by Director</u>	<u>Other Directorships Held by Director</u>
INTERESTED DIRECTORS:					
Donald F. Crumrine†, †† 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 57	Director, Chairman of the Board and Chief Executive Officer	Class II Director since 1992	Chairman of the Board, Director of Flaherty & Crumrine Incorporated.	4	Director, Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine/ Claymore Preferred Securities Income Fund and Flaherty & Crumrine/ Claymore Total Return Fund.
Robert M. Ettinger†† 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 46	Director, President	Class III Director since 2002	President and Director of Flaherty & Crumrine Incorporated.	2	Director, Flaherty & Crumrine Preferred Income Fund.
OFFICERS:					
R. Eric Chadwick 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 29	Chief Financial Officer, Vice President, Treasurer and Secretary	Since October 2002	Vice President of Flaherty & Crumrine Incorporated since August 2001, and previously (since January 1999) portfolio manager of Flaherty & Crumrine Incorporated.	—	—

* The Fund's Board of Directors is divided into three classes, each class having a term of three years. Each year the term of office of one class expires and the successor or successors elected to such class serve for a three year term. The three year term for each class expires as follows:

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† As a Director, represents holders of shares of the Fund's Money Market Cumulative Preferred™ Stock.

†† "Interested person" of the Fund as defined in the Investment Company Act of 1940. Messrs. Crumrine and Ettinger are each considered an "interested person" because of their affiliation with Flaherty & Crumrine Incorporated which acts as the Fund's investment adviser.

ADDITIONAL INFORMATION (Unaudited) (Continued)

<u>Name, Address, and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Funds in Fund Complex Overseen by Director</u>	<u>Other Directorships Held by Director</u>
OFFICERS:					
Peter C. Stimes 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 49	Chief Compliance Officer, and Vice President	Since 1992	Vice President of Flaherty & Crumrine Incorporated.	—	—
Bradford S. Stone 392 Springfield Avenue Mezzanine Suite Summit, NJ 07901 Age: 45	Vice President and Assistant Treasurer	Since July 2003	Since May 2003, Vice President of Flaherty & Crumrine Incorporated; from June 2001 to April 2003, Director of U.S. Market Strategy at Barclays Capital; from February 1987 to June 2001 Vice President of Goldman, Sachs & Company as Director of U.S. Interest Rate Strategy and, previously, Vice President of Interest Rate Product Sales.	—	—
Laurie C. Lodolo 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 41	Assistant Compliance Officer, Assistant Treasurer and Assistant Secretary	Since July 2004	Since August 2004, Assistant Compliance Officer of Flaherty & Crumrine Incorporated; since February 2004, Secretary of Flaherty & Crumrine Incorporated; Account Administrator of Flaherty & Crumrine Incorporated	—	—

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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

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.



Annual Report

November 30, 2004

web site: www.preferredincome.com