

Edgar Filing: PREFERRED INCOME OPPORTUNITY FUND INC - Form N-30B-2

PREFERRED INCOME OPPORTUNITY FUND INC

Form N-30B-2

October 22, 2004

FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND

Dear Shareholder:

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

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

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[GRAPHIC OMITTED]

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC AS FOLLOWS:

YIELD ON LONG-TERM U.S. TREASURY BOND

DATE	YIELD
12/01/03	5.155%
12/05/03	5.047%
12/12/03	5.090%
12/19/03	4.959%
12/26/03	4.969%
01/02/04	5.170%
01/09/04	4.964%
01/16/04	4.892%
01/23/04	4.938%
01/30/04	4.965%
02/06/04	4.928%
02/13/04	4.916%
02/20/04	4.954%
02/27/04	4.855%
03/05/04	4.743%
03/12/04	4.707%
03/19/04	4.718%
03/26/04	4.771%
04/02/04	4.972%
04/09/04	5.028%
04/16/04	5.174%
04/23/04	5.246%
04/30/04	5.281%
05/07/04	5.462%
05/14/04	5.500%
05/21/04	5.460%
05/28/04	5.345%
06/04/04	5.461%
06/11/04	5.474%
06/18/04	5.374%
06/25/04	5.336%
07/02/04	5.205%

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07/09/04	5.213%
07/16/04	5.121%
07/23/04	5.171%
07/30/04	5.203%
08/06/04	5.034%
08/13/04	5.008%
08/20/04	5.027%
08/27/04	5.016%
08/31/04	4.935%

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

Shortly after the start of the third quarter, long-term interest rates reversed course and began a steady DECLINE, despite the fact that the Federal Reserve began INCREASING short-term rates in June (for a more detailed discussion of the economic conditions driving interest rates, see the "3rd Quarter Economic Update" on the Fund's website: [WWW.PREFERREDINCOME.COM](http://WWW.PREFERREDINCOME.COM)). As expected, the Fund's preferred securities appreciated throughout the period, while the hedge fell in value, dragging down overall performance. Initially this drag was substantial, but it lessened as rates continued to fall.

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

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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.

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

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

Things get more challenging if long-term rates decline. This so-called "bull flattening" scenario (short-term rates rise while long-term rates decline), initially puts a strain on distributable income. Once again, the cost of LEVERAGE goes up along with higher short-term rates, but now the income generated by the investment portfolio may at some point actually fall if issuers

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retire older preferred securities with relatively high coupons and replace them with new issues that pay a lower rate (the issuer is analogous to a homeowner refinancing a mortgage when interest rates drop).

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

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

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

We hope you will also continue to visit the Fund's web site at [www.preferredincome.com](http://www.preferredincome.com) where a broad range of information about the Fund is updated regularly. We also encourage you to visit [WWW.PREFERREDSTOCKGUIDE.COM](http://WWW.PREFERREDSTOCKGUIDE.COM). It contains useful information about most of the issues that make up the preferred securities universe.

Sincerely,

/S/DONALD F. CRUMRINE

Donald F. Crumrine  
Chairman of the Board

/S/ROBERT M. ETTINGER

Robert M. Ettinger  
President

October 11, 2004

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated  
PORTFOLIO OVERVIEW  
AUGUST 31, 2004  
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### FUND STATISTICS ON 8/31/04

Net Asset Value	\$	12.32
Market Price	\$	13.79
Premium/Discount		11.93%

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Yield on Market Price 6.57%

Common Shares  
Outstanding 11,556,706

MOODY'S RATINGS	% OF PORTFOLIO
-----	-----
AAA	0.5%
AA	4.8%
A	27.0%
BBB	41.6%
BB	18.2%
Not Rated	6.5%
-----	-----
Below Investment Grade*	17.2%
* BELOW INVESTMENT GRADE BY BOTH MOODY'S AND	

[GRAPHIC OMITTED]

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC AS FOLLOWS:

INDUSTRY CATEGORIES	% OF PORTFOLIO
-----	-----
Utilities	45%
Banks	24%
Financial Services	13%
Insurance	8%
Oil and Gas	6%
Other	3%
REITs	1%

TOP 10 HOLDINGS BY ISSUER	% OF PORTFOLIO
-----	-----
J.P. Morgan Chase	6.7%
Lehman Brothers	5.9%
Interstate Power	5.1%
Citigroup	4.1%
The Bear Stearns Cos.	3.8%
Duke Energy	3.6%
Alabama Power	3.6%
Xcel Energy	3.4%
EOG Resources	3.2%
Cobank	3.1%

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% OF PO

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

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated  
PORTFOLIO OF INVESTMENTS  
AUGUST 31, 2004 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- 93.7%  
BANKING -- 23.6%

	ABN AMRO North America, Inc.:
1,165	6.46% Pfd., 144A*** .....
3,500	6.59% Pfd., 144A*** .....
\$150,000	BT Capital Trust B, 7.90% 01/15/27, Capital Security .....
\$660,000	BT Preferred Capital Trust II, 7.875% 02/25/27 Capital Security .....
	Citigroup, Inc.:
82,435	5.864% Pfd., Series M .....
7,700	6.213% Pfd., Series G .....
46,000	6.231% Pfd., Series H .....
31,850	6.365% Pfd., Series F .....
	Cobank, ACB:
45,000	7.00% Pfd., 144A*** .....
75,000	Adj. Rate Pfd., 144A*** .....
\$500,000	Comerica (Imperial) Capital Trust I, 9.98% 12/31/26 Capital Security, Series B .
\$2,250,000	First Hawaiian Capital I, 8.343% 07/01/27 Capital Security, Series B .....
\$719,000	First Union Institutional Capital I, 8.04% 12/01/26 Capital Security .....
\$1,885,000	First Union Institutional Capital II, 7.85% 01/01/27 Capital Security .....
\$4,349,000	GreenPoint Capital Trust I, 9.10% 06/01/27 Capital Security .....
9,900	HSBC USA, Inc., \$2.8575 Pfd. ....
	J.P. Morgan Chase & Co.:
36,500	6.625% Pfd., Series H .....
132,425	Series A, Adj. Rate Pfd. ....
\$1,350,000	Keycorp Institutional Capital B, 8.25% 12/15/26 Capital Security .....
\$1,500,000	North Fork Capital Trust I, 8.70% 12/15/26 Capital Security .....

FINANCIAL SERVICES -- 13.4%

	The Bear Stearns Companies Inc.:
63,750	5.49% Pfd., Series G .....
100,323	5.72% Pfd., Series F .....
	Freddie Mac:
6,975	5.00% Pfd., Series F .....

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25,500	5.10% Pfd., Series H .....
	Lehman Brothers Holdings, Inc.:
60,150	5.67% Pfd., Series D .....
159,505	5.94% Pfd., Series C .....
64,000	6.50% Pfd., Series F .....
113,400	SLM Corporation, 6.97% Pfd., Series A .....

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated  
PORTFOLIO OF INVESTMENTS (CONTINUED)  
AUGUST 31, 2004 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)  
INSURANCE -- 7.8%

15,850	Everest Re Capital Trust II, 6.20% Pfd. Series B .....
\$4,395,000	MMI Capital Trust I, 7.625% 12/15/27 Capital Security, Series B .....
18	Premium Assets, Series A, Zurich RegCaPS Variable Inverse Pfd., Pvt. ....
\$5,734,000	Provident Financing Trust I, 7.405% 03/15/38 Capital Security .....
	Zurich RegCaPS Funding Trust:
2,600	6.01% Pfd., 144A*** .....
1,600	6.58% Pfd., 144A*** .....

UTILITIES -- 41.4%

	Alabama Power Company:
4,980	4.60% Pfd. ....
6,485	4.72% Pfd. ....
868	4.92% Pfd. ....
43,400	5.20% Pfd. ....
225,000	5.30% Pfd. ....
2,049	Appalachian Power Company, 5.92% Sinking Fund Pfd. ....
23,750	Avista Corporation, \$6.95 Sinking Fund Pfd., Series K .....
6,000	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993 .....
10,000	Boston Edison Company, 4.78% Pfd. ....
1,628	Central Hudson Gas & Electric Corporation, 4.35% Pfd., Series D, Pvt. ....
10,000	Central Illinois Light Company, 4.64% Pfd. ....
8,160	Central Illinois Public Service Company, 4.90% Pfd. ....
3,798	Central Maine Power Company, 4.75% Pfd. ....
22,238	Central Vermont Public Service Corporation, 8.30% Pvt. Sinking Fund Pfd. ....
	Connecticut Light & Power Company:
900	4.50% Pfd. ....
2,900	\$2.20 Pfd., Series 1949 .....
8,502	\$3.24 Pfd. ....
2,000	Consolidated Edison Company of New York, 4.65% Pfd., Series C .....

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	Duke Energy Corporation:	
8,004	4.50% Pfd., Series C, Pvt. ....	
11,256	6.75%, Sinking Fund Pfd., Series X .....	
34,943	7.85% Pfd., Series S .....	
	Duquesne Light Company:	
15,030	3.75% Pfd. ....	
25,775	6.50% Pfd. ....	

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 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 AUGUST 31, 2004 (UNAUDITED)  
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SHARES/\$ PAR  
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PREFERRED SECURITIES -- (CONTINUED)  
 UTILITIES -- (CONTINUED)  
 -----

5,000	Energy East Capital Trust I, 8.25% Pfd. ....	
	Entergy Arkansas, Inc.:	
2,840	4.56% Pfd. ....	
3,050	4.56% Pfd., Series 1965 .....	
1,050	6.08% Pfd. ....	
13,500	7.40% Pfd. ....	
5,880	7.80% Pfd. ....	
2,000	7.88% Pfd. ....	
23,914	\$1.96 Pfd. ....	
2,441	Entergy Gulf States, Inc., 7.56% Pfd. ....	
	Entergy Louisiana, Inc.:	
299	5.16% Pfd. ....	
705	6.44% Pfd. ....	
4,074	7.36% Pfd. ....	
175,000	8.00% Pfd., Series 92 .....	
	Entergy Mississippi, Inc.:	
3,791	4.36% Pfd. ....	
8,500	7.44% Pfd. ....	
10,900	Enterprise Capital Trust I, 7.44% Pfd., Series A .....	
	Florida Power Company:	
10,000	4.58% Pfd. ....	
2,000	4.75% Pfd. ....	
	Great Plains Energy, Inc.:	
1,625	4.20% Pfd. ....	
2,000	4.35% Pfd. ....	
	Hawaiian Electric Company, Inc.:	
1,411	5.00% Pfd., Series D .....	
6,688	5.00% Pfd., Series E .....	
\$3,750,000	Houston Light & Power, Capital Trust II, 8.257%, 02/01/37 Capital Security .....	
5,291	Idaho Power Company, 7.68% Pfd., Series 1 .....	
8,000	Indiana Michigan Power Company, 6.875% Sinking Fund Pfd. ....	
30,500	Indianapolis Power & Light Company, 5.65% Pfd. ....	
340,000	Interstate Power & Light Company, 8.375% Pfd., Series B .....	
2,588	New York State Electric & Gas, \$4.50 Pfd., Series 1949 .....	
12,265	Northern Indiana Public Service Company, Series A, Adj. Rate Pfd. ....	
	Ohio Power Company:	

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3,018	4.20% Pfd. ....
1,251	4.40% Pfd. ....
1,724	5.90% Sinking Fund Pfd. ....

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 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 AUGUST 31, 2004 (UNAUDITED)  
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SHARES/\$ PAR  
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PREFERRED SECURITIES -- (CONTINUED)  
 UTILITIES -- (CONTINUED)  
 -----

	Pacific Enterprises:
13,680	\$4.36 Pfd. ....
24,985	\$4.50 Pfd. ....
15,730	\$4.75 Pfd., Series 53 ....
	PacifiCorp:
5,672	\$4.56 Pfd. ....
6,458	\$4.72 Pfd. ....
12,250	\$7.48 Sinking Fund Pfd. ....
	PECO Energy Company:
1,100	\$4.30 Pfd., Series B ....
5,000	\$4.40 Pfd., Series C ....
17,537	Portland General Electric, 7.75% Sinking Fund Pfd. ....
19,209	Potomac Electric Power Company, \$3.40 Sinking Fund Pfd. ....
14,020	Public Service Electric & Gas Company, 5.28% Pfd., Series E ....
25,921	REI Trust I, 7.20% Pfd., Series C ....
	San Diego Gas & Electric Company:
55,210	\$1.70 Pfd. ....
34,000	\$1.7625 Sinking Fund Pfd. ....
60,000	Savannah Electric & Gas Company, 6.00% Pfd. ....
	South Carolina Electric & Gas Company:
14,226	5.125% Purchase Fund Pfd., Pvt. ....
7,774	6.00% Purchase Fund Pfd., Pvt. ....
60,000	Southern Union Company, 7.55% Pfd. ....
\$750,000	TXU Electric Capital V, 8.175% 01/30/37 Capital Security ....
10,000	TXU US Holdings Company, \$4.00 Pfd., Series TES ....
5,600	Union Electric Company, 4.56% Pfd. ....
	Virginia Electric & Power Company:
1,665	\$4.04 Pfd. ....
2,270	\$4.20 Pfd. ....
1,673	\$4.80 Pfd. ....
2,878	\$6.98 Pfd. ....
12,500	\$7.05 Pfd. ....
2,262	Washington Gas & Light Company, \$4.25 Pfd. ....
12,863	Wisconsin Power & Light Company, 6.20% Pfd. ....



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 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 AUGUST 31, 2004 (UNAUDITED)  
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SHARES/\$ PAR  
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PREFERRED SECURITIES -- (CONTINUED)  
 UTILITIES -- (CONTINUED)

-----  
 Xcel Energy, Inc.:  
 15,000 \$4.08 Pfd., Series B .....  
 20,040 \$4.10 Pfd., Series C .....  
 35,510 \$4.11 Pfd., Series D .....  
 17,750 \$4.16 Pfd., Series E .....  
 10,000 \$4.56 Pfd., Series G .....  
 -----

OIL AND GAS -- 4.8%

-----  
 17,200 Anadarko Petroleum Corporation, 5.46% Pfd. ....  
 6,650 Apache Corporation, 5.68% Pfd., Series B .....  
 6,125 EOG Resources, Inc., 7.195% Pfd., Series B .....  
 10,000 Lasmo America Limited, 8.15% Pfd., 144A\*\*\* .....  
 -----

REAL ESTATE INVESTMENT TRUST (REIT) -- 1.0%

-----  
 40,000 Health Care Property Investments, 7.10% Pfd., REIT, Series F .....  
 40,000 Regency Centers Corporation, 7.25% Pfd., REIT .....  
 -----

MISCELLANEOUS INDUSTRIES -- 1.7%

-----  
 13,600 E.I. Du Pont de Nemours and Company, \$4.50 Pfd., Series B .....  
 36,200 Farmland Industries, Inc., 8.00% Pfd., 144A\*\*\* .....  
 30,500 Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A\*\*\* .....  
 26,000 Touch America Holdings, \$6.875 Pfd. ....  
 -----

TOTAL PREFERRED SECURITIES  
 (Cost \$182,124,539) .....

CORPORATE DEBT SECURITY -- 1.0%  
 OIL AND GAS -- 1.0%

-----  
 85,900 Nexen, Inc., 7.35% Subordinated Notes .....  
 -----

TOTAL CORPORATE DEBT SECURITY

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(Cost \$2,245,426) .....

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 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 AUGUST 31, 2004 (UNAUDITED)  
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SHARES/\$ PAR  
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COMMON STOCK AND CONVERTIBLE SECURITIES -- 4.2%  
 INSURANCE -- 0.4%

-----  
 25,000 UnumProvident Corporation, 8.25% Mandatory Convertible, 05/16/06 .....  
 -----

UTILITIES -- 3.8%

-----  
 97,500 Duke Energy Corporation .....  
 80,000 FPL Group, Inc., 8.50% Mandatory Convertible, Series A, 02/16/05 .....  
 30,000 TXU Corporation, 8.75% Mandatory Convertible, 11/16/05 .....  
 -----

TOTAL COMMON STOCK AND CONVERTIBLE SECURITIES  
 (Cost \$8,266,366) .....

OPTION CONTRACTS -- 0.1%

1,325 October Put Options on December U.S. Treasury Bond Futures, Expiring 9/25/04 ...

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 TOTAL OPTION CONTRACTS  
 (Cost \$1,054,346) .....

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 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 AUGUST 31, 2004 (UNAUDITED)  
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SHARES/\$ PAR  
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MONEY MARKET FUND -- 0.5%

960,933 BlackRock Provident Institutional, TempFund .....

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 TOTAL MONEY MARKET FUND

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(Cost \$960,933) .....

TOTAL INVESTMENTS (Cost \$194,651,610\*\*) ..... 99.5%  
OTHER ASSETS AND LIABILITIES (Net) ..... 0.5%

TOTAL NET ASSETS AVAILABLE TO COMMON AND PREFERRED STOCK ..... 100.0%+

MONEY MARKET CUMULATIVE PREFERRED STOCK(TM) (MMP(R)) REDEMPTION VALUE .....  
ACCUMULATED UNDECLARED DISTRIBUTIONS TO MMP(R) .....

TOTAL NET ASSETS AVAILABLE TO COMMON 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.

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## Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated FINANCIAL DATA PER SHARE OF COMMON STOCK (UNAUDITED)

	TOTAL DIVIDENDS PAID	NET ASSET VALUE	NYSE CLOSING PRICE	DIVIDEN REINVESTM PRICE(1)
December 31, 2003 - Extra .....	\$0.0300	\$12.63	\$14.36	\$13.64
December 31, 2003 .....	0.0755	12.63	14.36	13.64
January 31, 2004 .....	0.0755	12.89	14.80	14.06
February 29, 2004 .....	0.0755	13.01	14.57	13.84
March 31, 2004 .....	0.0755	12.99	14.80	14.06
April 30, 2004 .....	0.0755	12.68	12.97	12.68
May 31, 2004 .....	0.0755	12.26	13.25	12.59
June 30, 2004 .....	0.0755	12.14	12.55	12.14
July 31, 2004 .....	0.0755	12.11	12.68	12.11
August 31, 2004 .....	0.0755	12.32	13.79	13.10

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated  
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK(1)  
FOR THE PERIOD FROM DECEMBER 1, 2003 THROUGH AUGUST 31, 2004 (UNAUDITED)

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OPERATIONS:

Net investment income ..... \$  
Net realized gain on investments sold during the period .....  
Change in net unrealized depreciation of investments held during the period .....  
Distributions to Money Market Cumulative Preferred(TM) Stock Shareholders from net  
investment income, including changes in accumulated undeclared distributions .....  
NET INCREASE IN NET ASSETS FROM OPERATIONS .....

DISTRIBUTIONS:

Dividends paid from net investment income to Common Stock Shareholders(2) .....  
TOTAL DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS .....

FUND SHARE TRANSACTIONS:

Increase from Common Stock Transactions .....  
NET INCREASE IN NET ASSETS FROM FUND SHARE TRANSACTIONS .....

NET DECREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE  
PERIOD .....

NET ASSETS AVAILABLE TO COMMON STOCK:

Beginning of period .....  
Net decrease during the period .....  
End of period ..... \$

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated  
FINANCIAL HIGHLIGHTS(1)  
FOR THE PERIOD FROM DECEMBER 1, 2003 THROUGH AUGUST 31, 2004 (UNAUDITED)  
FOR A COMMON SHARE OUTSTANDING THROUGHOUT THE PERIOD.

PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of period .....

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## INVESTMENT OPERATIONS:

Net investment income .....  
Net realized loss and unrealized depreciation on investments .....

## DISTRIBUTIONS TO MMP(R)\* SHAREHOLDERS:

From net investment income (including change in accumulated undeclared  
dividends on MMP(R)\*) .....  
From net realized capital gains .....  
  
Total from investment operations .....

## DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income .....  
From net realized capital gains .....  
  
Total distributions to Common Shareholders .....  
  
Net asset value, end of period .....  
  
Market value, end of period .....  
  
Common shares outstanding, end of period .....

## RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK

SHAREHOLDERS:  
Net investment income+ .....  
Operating expenses .....

## SUPPLEMENTAL DATA:++

Portfolio turnover rate .....  
Total net assets available to Common and Preferred Stock, end of period (in 000's) .....  
Ratio of operating expenses to total average net assets available to Common and  
Preferred Stock .....

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## [BEGIN SIDEBAR]

### DIRECTORS

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

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## 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?

- o If your shares are held in a brokerage Account, contact your broker.
- o 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.  
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[GRAPHIC OMITTED]  
LIGHTHOUSE

FLAHERTY & CRUMRINE  
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PREFERRED INCOME OPPORTUNITY FUND
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QUARTERLY  
REPORT

AUGUST 31, 2004

web site: [www.preferredincome.com](http://www.preferredincome.com)