

Flaherty & Crumrine PREFERRED INCOME OPPORTUNITY FUND INC

Form N-30B-2

October 23, 2006

FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND

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

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

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

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

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

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

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

While changes in short-term interest rates affect the valuation of some of

the Fund's securities (and therefore its NAV), short-term rates more directly affect the Fund's income and the amount of its dividend by influencing both the cost of its Money Market PreferredTM Stock (MMP(R)) leverage and its hedging strategy. The Fund's leverage generally produces additional distributable income for its Common Stock shareholders. The amount of this additional income is influenced by the "spread" between the income generated by the portfolio and the cost of leverage.

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

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

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

Sincerely,

/S/ DONALD F. CRUMRINE
 Donald F. Crumrine
 Chairman of the Board

/S/ ROBERT M. ETTINGER
 Robert M. Ettinger
 President

October 19, 2006

 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OVERVIEW
 AUGUST 31, 2006 (UNAUDITED)

FUND STATISTICS ON 08/31/06

| | | |
|-----------------------|----|-------|
| Net Asset Value | \$ | 12.16 |
| Market Price | \$ | 11.94 |
| Discount | | 1.81% |
| Yield on Market Price | | 6.53% |

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Common Stock Shares Outstanding 11,695,372

INDUSTRY CATEGORIES % OF PORTFOLIO

[GRAPHIC OMITTED]

EDGAR REPRESENTATION OF DATA POINTS

| | |
|--------------------|-----|
| Utilities | 35% |
| Banks | 24% |
| Insurance | 16% |
| Financial Services | 12% |
| Oil and Gas | 7% |
| REITs | 3% |
| Other | 3% |

MOODY'S RATINGS % OF PORTFOLIO

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

* BELOW INVESTMENT GRADE BY BOTH MOODY'S AND S&P.

TOP 10 HOLDINGS BY ISSUER % OF PORTFOLIO

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

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

** 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.

 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS
 AUGUST 31, 2006 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- 93.4%
 BANKING -- 23.6%

| | |
|--------------|---|
| \$ 3,000,000 | Astoria Capital Trust I, 9.75% 11/01/29 Capital Security, Series B..... |
| | Auction Pass-Through Trust, Cl. B: |
| 9 | Series 2006-5, Variable Rate Pfd., 144A****..... |
| 9 | Series 2006-6, Variable Rate Pfd., 144A****..... |
| \$ 1,000,000 | Barclays Bank PLC, Adj. Rate Pfd..... |
| \$ 2,000,000 | Capital One Capital III, 7.686% Pfd..... |
| | 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... |
| 4,500 | FBOP Corporation, Adj. Rate Pfd., 144A****..... |
| \$ 2,250,000 | First Hawaiian Capital I, 8.343% 07/01/27 Capital Security, Series B..... |
| | First Republic Bank: |
| 200,000 | 6.25% Pfd..... |
| 5,000 | 6.70% Pfd..... |
| 22,500 | First Republic Preferred Capital Corporation II, 8.75% Pfd., Series B, 144A****.. |
| 7,400 | Fleet Capital Trust VII, 7.20% Pfd. 12/15/31..... |
| 5,000 | Fleet Capital Trust VIII, 7.20% Pfd. 03/15/32..... |
| \$ 4,349,000 | GreenPoint Capital Trust I, 9.10% 06/01/27 Capital Security..... |
| \$ 3,500,000 | HBOS Capital Funding LP, 6.85% Pfd..... |
| 5,000 | HSBC Series II, Variable Inverse Pfd., Pvt..... |
| | HSBC USA, Inc.: |
| 9,500 | 6.50% Pfd., Series H..... |
| 3,250 | \$2.8575 Pfd..... |
| 12,000 | Keycorp Capital VIII, 7.00% Pfd. 06/15/66..... |
| \$ 1,350,000 | Keycorp Institutional Capital B, 8.25% 12/15/26 Capital Security..... |

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| | | |
|----|-----------|--|
| \$ | 1,500,000 | North Fork Capital Trust I, 8.70% 12/15/26 Capital Security..... |
| | 16,000 | PFGI Capital Corporation, 7.75% Pfd..... |
| \$ | 650,000 | RBS Capital Trust B, 6.80% Pfd..... |
| | 10 | Roslyn Real Estate, 8.95% Pfd., Series C, 144A****..... |
| | 70,500 | Sovereign Bancorp, 7.30% Pfd., Series C..... |
| | 20,375 | Sovereign Capital Trust V, 7.75% Pfd. 05/22/36..... |
| | 6,000 | USB Capital X, 6.50% Pfd. 04/12/66..... |
| \$ | 1,100,000 | Washington Mutual Preferred Funding, Variable Rate Pfd., 144A****..... |

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2006 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)
 FINANCIAL SERVICES -- 11.7%

| | | |
|---------|--|--|
| | | Goldman Sachs Group, Inc.: |
| 100,000 | | Adj. Rate Pfd., Series D..... |
| 25 | | Pass-Through Certificates, Class B, 144A****..... |
| 3,500 | | STRIPES Custodial Receipts, Pvt..... |
| 109,505 | | Lehman Brothers Holdings, Inc., 5.94% Pfd., Series C..... |
| 3,000 | | Merrill Lynch Series II STRIPES Custodial Receipts, Pvt..... |
| 9,200 | | Morgan Stanley Capital Trust IV, 6.25% Pfd..... |
| 47,000 | | Morgan Stanley Capital Trust VI, 6.60% Pfd..... |
| | | SLM Corporation: |
| 94,150 | | 6.97% Pfd., Series A..... |
| 7,500 | | Adj. Rate Pfd., Series B..... |

INSURANCE -- 13.4%

| | | |
|---------|-----------|---|
| 20,000 | | ACE Ltd., 7.80% Pfd., Series C..... |
| 25,000 | | Aegon NV, 6.50% Pfd..... |
| | | Arch Capital Group Ltd.: |
| 10,000 | | 7.875% Pfd., Series B..... |
| 4,400 | | 8.00% Pfd..... |
| | | Axis Capital Holdings: |
| 73,950 | | 7.25% Pfd., Series A..... |
| 9,300 | | Variable Rate Pfd., Series B..... |
| 16,000 | | Berkley W.R. Capital Trust II, 6.75% Pfd. 07/26/45..... |
| 64,600 | | Endurance Specialty Holdings, 7.75% Pfd..... |
| 13,750 | | Everest Re Capital Trust II, 6.20% Pfd., Series B..... |
| 10,000 | | Lincoln National Corporation, 6.75% Pfd. 04/20/66..... |
| 140,000 | | MetLife Inc., 6.50% Pfd., Series B..... |
| \$ | 1,925,000 | Oil Insurance Ltd., Variable Rate Pfd., 144A****..... |
| | 4,900 | PartnerRe Capital Trust I, 7.90% Pfd. 12/31/31..... |
| | 1,930 | PartnerRe Ltd., 6.75% Pfd., Series C..... |

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| | | |
|----|-----------|---|
| | 213,500 | Principal Financial Group, 6.518% Pfd..... |
| \$ | 511,000 | Provident Financing Trust I, 7.405% 03/15/38 Capital Security..... |
| \$ | 4,000,000 | Renaissancere Capital Trust, 8.54% 03/01/27 Capital Security, Series B..... |
| | | Renaissancere Holdings Ltd.: |
| | 25,000 | 6.08% Pfd., Series C..... |
| | 6,000 | 7.30% Pfd., Series B..... |
| | 14,000 | 8.10% Pfd., Series A..... |
| | 115,500 | Scottish Re Group Ltd., 7.25% Pfd..... |
| | 22,280 | St. Paul Capital Trust I, 7.60% Pfd. 10/15/50..... |

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 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2006 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)
 INSURANCE -- (CONTINUED)

| | | |
|----|---------|--|
| \$ | 560,000 | USF&G Capital, 8.312% 07/01/46 Capital Security, 144A****..... |
| | 22,850 | XL Capital Ltd., 8.00% Pfd., Series A..... |

 UTILITIES -- 34.7%

| | | |
|----|-----------|---|
| | | Alabama Power Company: |
| | 4,980 | 4.60% Pfd..... |
| | 6,485 | 4.72% Pfd..... |
| | 868 | 4.92% Pfd..... |
| | 6,000 | Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993..... |
| | 10,000 | Calenergy Capital Trust III, 6.50% Pfd. 09/01/27..... |
| | 1,628 | Central Hudson Gas & Electric Corporation, 4.35% Pfd., Series D, Pvt..... |
| | 3,798 | Central Maine Power Company, 4.75% Pfd..... |
| | 11,119 | Central Vermont Public Service Corporation, 8.30% Sinking Fund Pfd., Pvt..... |
| | | Connecticut Light & Power Company: |
| | 2,050 | 4.50% Pfd., Series 1956..... |
| | 10,000 | 4.50% Pfd., Series 1963, Pvt..... |
| | 25,000 | 5.28% Pfd., Series 1967..... |
| | 883 | \$2.04 Pfd., Series 1949..... |
| | 2,900 | \$2.20 Pfd., Series 1949..... |
| | 9,652 | \$3.24 Pfd..... |
| | 2,000 | Consolidated Edison Company of New York, 4.65% Pfd., Series C..... |
| | 7,500 | Dayton Power and Light Company, 3.90% Pfd., Series C..... |
| \$ | 1,500,000 | Dominion Resources Capital Trust III, 8.40% 01/15/31 Capital Security..... |
| | | Duquesne Light Company: |
| | 15,030 | 3.75% Pfd..... |
| | 25,775 | 6.50% Pfd..... |
| | | Entergy Arkansas, Inc.: |
| | 2,840 | 4.56% Pfd..... |
| | 3,050 | 4.56% Pfd., Series 1965..... |
| | 1,435 | 6.08% Pfd..... |
| | 90,000 | 6.45% Pfd..... |
| | 2,441 | Entergy Gulf States, Inc., 7.56% Pfd..... |

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| | |
|--------|---|
| 36,000 | Entergy Louisiana, Inc., 6.95% Pfd., 144A**** |
| | Entergy Mississippi, Inc.: |
| 4,616 | 4.36% Pfd. |
| 5,000 | 4.92% Pfd. |
| 4,400 | Florida Power Company, 4.75% Pfd. |
| 18,500 | FPC Capital I, 7.10% Pfd., Series A. |

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 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2006 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)
 UTILITIES -- (CONTINUED)

| | |
|--------------|---|
| 8,900 | Georgia Power Capital Trust, 6.125% Pfd. |
| | Great Plains Energy, Inc.: |
| 1,625 | 4.20% Pfd. |
| 2,000 | 4.35% Pfd. |
| 24,000 | Gulf Power Company, 6.00% Pfd., Series 1. |
| | Hawaiian Electric Company, Inc.: |
| 2,471 | 5.00% Pfd., Series D. |
| 7,438 | 5.00% Pfd., Series E. |
| 1,383 | 5.00% Pfd., Series I. |
| \$ 3,750,000 | Houston Light & Power Capital Trust II, 8.257% 02/01/37 Capital Security. |
| 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. |
| | Ohio Power Company: |
| 3,018 | 4.20% Pfd. |
| 1,251 | 4.40% Pfd. |
| | Pacific Enterprises: |
| 13,680 | \$4.36 Pfd. |
| 24,985 | \$4.50 Pfd. |
| 15,730 | \$4.75 Pfd., Series 53. |
| | Pacific Gas & Electric Co.: |
| 7,600 | 4.50% Pfd., Series H. |
| 41,500 | 5.00% Pfd., Series D. |
| 83,000 | 5.00% Pfd., Series E. |
| | PacifiCorp: |
| 5,672 | \$4.56 Pfd. |
| 6,708 | \$4.72 Pfd. |
| 8,750 | \$7.48 Sinking Fund Pfd. |
| 1,250 | PECO Energy Company, \$4.30 Pfd., Series B. |
| \$ 1,500,000 | PECO Energy Capital Trust III, 7.38% 04/06/28 Capital Security, Series D. |
| 12,748 | Portland General Electric, 7.75% Sinking Fund Pfd. |
| 30,000 | PPL Electric Utilities Corporation, 6.25% Pfd. |
| 14,020 | Public Service Electric & Gas Company, 5.28% Pfd., Series E. |
| 70,210 | San Diego Gas & Electric Company, \$1.70 Pfd. |
| | South Carolina Electric & Gas Company: |
| 13,974 | 5.125% Purchase Fund Pfd., Pvt. |
| 7,774 | 6.00% Purchase Fund Pfd., Pvt. |

 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2006 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)
 UTILITIES -- (CONTINUED)

| | | |
|----|---------|---|
| | | Southern California Edison: |
| | 5,000 | 4.24% Pfd..... |
| | 11,300 | 6.00% Pfd..... |
| | 60,000 | Southern Union Company, 7.55% Pfd..... |
| \$ | 750,000 | TXU Electric Capital V, 8.175% 01/30/37 Capital Security..... |
| | | Union Electric Company: |
| | 5,700 | 4.56% Pfd..... |
| | 4,800 | \$7.64 Pfd..... |
| | | Virginia Electric & Power Company: |
| | 1,665 | \$4.04 Pfd..... |
| | 2,470 | \$4.20 Pfd..... |
| | 1,673 | \$4.80 Pfd..... |
| | 2,878 | \$6.98 Pfd..... |
| | 12,500 | \$7.05 Pfd..... |
| | 11,200 | Virginia Power Capital Trust, 7.375% Pfd. 07/30/42..... |
| | 2,262 | Washington Gas & Light Company, \$4.25 Pfd..... |
| | 12,863 | Wisconsin Power & Light Company, 6.20% Pfd..... |
| | | 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%

| | | |
|----|-----------|--|
| | 8,000 | Devon Energy Corporation, 6.49% Pfd., Series A..... |
| \$ | 372,000 | Enterprise Products Partners, Variable Rate Pfd..... |
| | 6,125 | EOG Resources, Inc., 7.195% Pfd., Series B..... |
| \$ | 1,650,000 | KN Capital Trust III, 7.63% 04/15/28 Capital Security..... |
| | 10,000 | Lasmo America Limited, 8.15% Pfd., 144A****..... |

 REAL ESTATE INVESTMENT TRUST (REIT) -- 3.3%

| | | |
|--|--------|---------------------------|
| | | BRE Properties, Inc.: |
| | 12,600 | 6.75% Pfd., Series D..... |
| | 18,900 | 8.08% Pfd., Series B..... |

 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2006 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)

REAL ESTATE INVESTMENT TRUST (REIT) -- (CONTINUED)

| | |
|---------|--|
| 20,000 | Duke Realty Corporation, 6.625% Pfd., Series J..... |
| 10,000 | Equity Office Property Trust, 7.75% Pfd., Series G..... |
| 1,000 | Equity Residential Properties, 8.29% Pfd., Series K..... |
| 10,000 | PS Business Parks, Inc., 7.00% Pfd., Series H..... |
| | Public Storage, Inc.: |
| 13,600 | 6.18% Pfd., Series D..... |
| 114,075 | 6.45% Pfd., Series F..... |
| 6,300 | 6.60% Pfd., Series C..... |
| 2,900 | 6.75% Pfd., Series E..... |
| 70,000 | 7.25% Pfd., Series K..... |
| 3,700 | 7.625% Pfd., Series U..... |

MISCELLANEOUS INDUSTRIES -- 1.9%

| | |
|--------|---|
| 13,600 | E.I. Du Pont de Nemours and Company, \$4.50 Pfd., Series B..... |
| 35,000 | Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****..... |
| 26,000 | Touch America Holdings, \$6.875 Pfd..... |

TOTAL PREFERRED SECURITIES

(Cost \$188,311,094)

CORPORATE DEBT SECURITIES -- 5.5%

FINANCIAL SERVICES -- 0.4%

| | |
|--------|---|
| 36,300 | Saturns-GS, 6.00% 02/15/33, Series Goldman Sachs..... |
|--------|---|

INSURANCE -- 2.5%

| | |
|--------------|---|
| \$ 900,000 | Farmers Exchange Capital, 7.20% 07/15/48, 144A****..... |
| | Liberty Mutual Insurance: |
| \$ 533,000 | 7.50% 08/15/36, 144A****..... |
| \$ 3,869,000 | 7.697% 10/15/97, 144A****..... |

UTILITIES -- 0.6%

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\$ 1,000,000 Duquesne Light Holdings, 6.25% 08/15/35.....
 10,000 Entergy Louisiana LLC, 7.60% 04/01/32.....

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 AUGUST 31, 2006 (UNAUDITED)

SHARES/\$ PAR

CORPORATE DEBT SECURITIES -- (CONTINUED)
 OIL AND GAS -- 2.0%

\$ 2,000,000 KN Energy, Inc., 7.45% 03/01/98.....
 97,900 Nexen, Inc., 7.35% Subordinated Notes.....

TOTAL CORPORATE DEBT SECURITIES
 (Cost \$11,486,108).....

OPTION CONTRACTS -- 0.0%

1,150 December Put Options on December U.S. Treasury Bond Futures, Expiring 11/21/06...
 265 October Put Options on December U.S. Treasury Bond Futures, Expiring 09/22/06....

TOTAL OPTION CONTRACTS
 (Cost \$742,210).....

MONEY MARKET FUND -- 0.3%

607,814 BlackRock Provident Institutional, TempFund.....

TOTAL MONEY MARKET FUND
 (Cost \$607,814).....

TOTAL INVESTMENTS (Cost \$201,147,226***)..... 99.2%
 OTHER ASSETS AND LIABILITIES (Net)..... 0.8%

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

MONEY MARKET CUMULATIVE PREFERRED (TM) STOCK (MMP (R)) REDEMPTION VALUE

TOTAL NET ASSETS AVAILABLE TO COMMON STOCK

* Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.
 ** Securities distributing Qualified Dividend Income only.
 *** Aggregate cost of securities held.
 **** Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. The securities have been determined to be liquid under the guidelines established by the Commission.

- Directors.
- (1) Foreign Issuer.
- + Non-income producing.
- ++ The percentage shown for each investment category is the total value of that category as a percentage of net assets available to Common and Preferred Stock.

ABBREVIATIONS:

- PFD. -- Preferred Securities
- PVT. -- Private Placement Securities
- REIT -- Real Estate Investment Trust

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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, 2005 THROUGH AUGUST 31, 2006 (UNAUDITED)

OPERATIONS:

Net investment income
 Net realized gain/(loss) on investments sold during the period
 Change in net unrealized appreciation/depreciation of investments held
 during the period
 Distributions to MMP(R)* Shareholders from net investment income,
 including changes in accumulated undeclared distributions
 NET INCREASE IN NET ASSETS RESULTING 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 shares issued under the Dividend Reinvestment
 and Cash Purchase Plan
 NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK RESULTING
 FROM FUND SHARE TRANSACTIONS

NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK
 FOR THE PERIOD

 NET ASSETS AVAILABLE TO COMMON STOCK:

Beginning of period
 Net increase in net assets during the period
 End of period

- * Money Market Cumulative PreferredTM Stock.
- (1) These tables summarize the nine months ended August 31, 2006 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 2005.
- (2) May include income earned, but not paid out, in prior fiscal year.

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 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 FINANCIAL HIGHLIGHTS (1)
 FOR THE PERIOD FROM DECEMBER 1, 2005 THROUGH AUGUST 31, 2006 (UNAUDITED)
 FOR A COMMON STOCK SHARE OUTSTANDING THROUGHOUT THE PERIOD.

PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of period

INVESTMENT OPERATIONS:

Net investment income
 Net realized and unrealized gain/(loss) on investments

DISTRIBUTIONS TO MMP (R)* SHAREHOLDERS:

From net investment income
 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 Stock Shareholders

 Net asset value, end of period

 Market value, end of period

 Common Stock 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

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

- *** Not Annualized.
- + The net investment income ratios reflect income net of operating expenses and payments to Shareholders.
- ++ Information presented under heading Supplemental Data includes MMP (R)*.

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

| | TOTAL DIVIDENDS PAID | NET ASSET VALUE | NYSE CLOSING PRICE |
|------------------------|----------------------------|--------------------|-----------------------|
| | ----- | ----- | ----- |
| December 31, 2005..... | \$0.0705 | \$12.24 | \$11.09 |
| January 31, 2006..... | 0.0705 | 12.28 | 12.63 |
| February 28, 2006..... | 0.0705 | 12.38 | 12.39 |
| March 31, 2006..... | 0.0650 | 12.25 | 11.46 |
| April 30, 2006..... | 0.0650 | 12.11 | 11.22 |
| May 31, 2006..... | 0.0650 | 12.00 | 11.05 |
| June 30, 2006..... | 0.0650 | 11.86 | 11.10 |
| July 31, 2006..... | 0.0650 | 11.83 | 11.53 |
| August 31, 2006..... | 0.0650 | 12.16 | 11.94 |

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

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 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. AGGREGATE INFORMATION FOR FEDERAL INCOME TAX PURPOSES

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

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DIRECTORS

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

OFFICERS

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

INVESTMENT ADVISER

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

QUESTIONS CONCERNING YOUR SHARES OF FLAHERTY &
CRUMRINE PREFERRED INCOME OPPORTUNITY FUND?

- 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.

[GRAPHIC OMITTED]

LIGHTHOUSE ART

FLAHERTY & CRUMRINE

PREFERRED INCOME
OPPORTUNITY FUND

QUARTERLY
REPORT

AUGUST 31, 2006

www.preferredincome.com