

FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND INC

Form N-30B-2

April 19, 2005

FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND

Dear Shareholder:

The Flaherty & Crumrine Preferred Income Opportunity Fund ("PFO") delivered very respectable results during the most recently concluded fiscal quarter. For the three month period ending February 28, 2005, the Fund produced a total return on net asset value ("NAV") of 6.1%(1). All segments of the investment portfolio performed well during the period; however, the Adjustable Rate Preferred securities in the Fund (approximately 8% of the portfolio at the beginning of the quarter) were exceptionally strong. The Fund's hedges were a modest drag on investment results, as long-term interest rates declined during the period.

In recent letters, we have indicated that the Fund is susceptible to the same factors that have forced many other income-oriented funds to reduce their dividend distributions. In April, the Fund's monthly dividend was set at \$0.0705 per share, a 6.6% reduction from the prior month.

As is the case with other leveraged funds, rising short-term interest rates have increased the amount the Fund must pay on its Money Market Cumulative Preferred(TM) Stock ("MMP(R)"). Typically, rising short-term interest rates are accompanied by rising long-term rates, which should increase the value of the Fund's hedges. The gains on the hedges can then be invested in additional securities, which in turn increase the Fund's income, and, on balance, help keep the Fund's dividend relatively stable.

U.S. TREASURY YIELD CURVES

[GRAPHIC OMITTED]

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

| Maturity | 4/30/04 | 2/28/05 |
|----------|---------|---------|
| 0.25 | 0.97 | 2.74 |
| 0.50 | 1.14 | 2.97 |
| 2.00 | 2.31 | 3.58 |
| 3.00 | 2.75 | 3.75 |
| 5.00 | 3.61 | 3.99 |
| 10.00 | 4.50 | 4.36 |
| 30.00 | 5.28 | 4.71 |

As the above chart shows, current market conditions are anything but typical--since the Federal Reserve signaled its intent to raise short-term interest rates last April, short-term interest rates have increased by approximately 175 basis points, while long-term interest rates have FALLEN by over 50 basis points! As a result, the Fund's MMP(R) expense is significantly higher, but the hedges have not enabled us to produce more income. While we do not expect these conditions to persist for long periods, at this time it is necessary to adjust the monthly distribution to a more sustainable amount.

Over the longer term, a "flatter" yield curve (as measured by the difference in short- and long-term interest rates) is not a bad thing for the Fund. Obviously, the cost of the Fund's leverage will go up, but at

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

the same time, the cost of the Fund's hedging strategy should go down. This effect can be significant since the leverage comprises roughly 32.5% of the Fund's assets, while the ENTIRE portfolio is hedged. The impact of the higher leverage cost occurs almost immediately, while the benefits of lower hedging costs take a bit longer to impact the Fund's income. The mathematics of all this can be a bit daunting, but over the long run, these two effects have tended to offset each other.

As a rule, we don't comment on the market price of the Fund's common shares; however, recent market activity certainly does warrant some observations. Over the long run, the market price SHOULD track the net asset value. From time to time we expect to see some deviation due to factors or circumstances unique to the Fund. For example, most investors cannot replicate PFO's investment portfolio, hedging strategy, or leverage, and therefore may be willing to pay a premium to the NAV.

The chart below plots the recent market price and net asset value of PFO. For most of this period, the market price traded at a premium to the NAV. We attributed this in part to the Fund's long history and successful track record, plus an attractive dividend rate which may be taxed at favorable rates for certain investors. During late February of this year, shares were trading around \$13 3/4; as of this writing, they are trading around \$12 1/2. During the same period, the net asset value declined less than \$0.10!

FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND
 MARKET PRICE VS. NET ASSET VALUE
 [GRAPHIC OMITTED]
 EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND

| | | |
|---------|-------|-------|
| 2/6/04 | 14.75 | 12.91 |
| 2/13/04 | 14.78 | 12.96 |
| 2/20/04 | 14.95 | 12.89 |
| 2/27/04 | 14.57 | 13.01 |
| 3/5/04 | 14.67 | 13.04 |
| 3/12/04 | 14.89 | 13.11 |
| 3/19/04 | 15.1 | 13.11 |
| 3/26/04 | 15.05 | 12.94 |
| 4/2/04 | 14.3 | 12.85 |
| 4/9/04 | 13.59 | 12.85 |
| 4/16/04 | 13.84 | 12.8 |
| 4/23/04 | 12.89 | 12.67 |
| 4/30/04 | 12.97 | 12.68 |
| 5/7/04 | 12.55 | 12.48 |
| 5/14/04 | 12.99 | 12.33 |
| 5/21/04 | 13.2 | 12.22 |
| 5/28/04 | 13.25 | 12.26 |
| 6/4/04 | 13.05 | 12.24 |
| 6/11/04 | 12.85 | 12.19 |
| 6/18/04 | 12.8 | 12.23 |
| 6/25/04 | 12.74 | 12.13 |
| 7/2/04 | 12.77 | 12.16 |
| 7/9/04 | 12.79 | 12.14 |
| 7/16/04 | 12.93 | 12.23 |
| 7/23/04 | 12.82 | 12.09 |
| 7/30/04 | 12.68 | 12.11 |
| 8/6/04 | 13.3 | 12.22 |
| 8/13/04 | 13.26 | 12.28 |
| 8/20/04 | 13.38 | 12.21 |
| 8/27/04 | 13.7 | 12.23 |

| | | |
|----------|--------|-------|
| 9/3/04 | 13.706 | 12.2 |
| 9/10/04 | 13.89 | 12.33 |
| 9/17/04 | 13.97 | 12.46 |
| 9/24/04 | 13.63 | 12.57 |
| 10/1/04 | 13.62 | 12.42 |
| 10/8/04 | 13.54 | 12.47 |
| 10/15/04 | 13.74 | 12.54 |
| 10/22/04 | 13.68 | 12.5 |
| 10/29/04 | 13.56 | 12.48 |
| 11/5/04 | 13.82 | 12.41 |
| 11/12/04 | 13.79 | 12.41 |
| 11/19/04 | 13.79 | 12.39 |
| 11/26/04 | 13.72 | 12.4 |
| 12/3/04 | 13.16 | 12.45 |
| 12/10/04 | 13.15 | 12.59 |
| 12/17/04 | 13.4 | 12.59 |
| 12/24/04 | 13.65 | 12.46 |
| 12/31/04 | 13.5 | 12.58 |
| 1/7/05 | 13.59 | 12.54 |
| 1/14/05 | 13.62 | 12.72 |
| 1/21/05 | 13.66 | 12.76 |
| 1/28/05 | 13.62 | 12.75 |
| 2/4/05 | 13.73 | 12.91 |
| 2/11/05 | 13.8 | 12.91 |
| 2/18/05 | 13.9 | 12.78 |
| 2/25/05 | 13.75 | 12.79 |
| 3/4/05 | 13.44 | 12.84 |
| 3/11/05 | 12.69 | 12.69 |
| 3/18/05 | 12.36 | 12.68 |
| 3/25/05 | 11.95 | 12.53 |
| 4/1/05 | 12.36 | 12.7 |

Unlike open-end mutual funds, investors in closed-end funds should have a longer investment horizon in order to weather swings in the relationship between market price and NAV. In that same vein, investors with a long-term investment horizon should stay focused on the NAV performance and dividend history of the Fund. We plan to stay the course and hopefully will continue to meet and exceed the objectives of the Fund.

As was evident in its recent Proxy Statement, 2005 represents a year of transition in the individuals representing the Fund's shareholders. Martin Brody, who has served as a Director since the inception of the Fund, will retire at the upcoming Shareholder's Meeting. Martin brought a wealth of wisdom and experience to the board, and will be missed. In addition, to comply with recent SEC rule amendments requiring that independent directors constitute 75% of the Board, Robert Ettinger did not stand for reelection as a Director. However, Bob will continue to be very involved with the management of the Fund, continuing to serve as President of the Fund and President of Flaherty & Crumrine Incorporated, the Fund's Investment Adviser. Karen Hogan has been nominated by the Board to replace Bob. Karen brings an extensive financial and investment banking background to the Board; her knowledge will certainly benefit Shareholders.

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. We have also addressed in greater detail many of the topics discussed in this letter.

Sincerely,

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

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

April 5, 2005

 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OVERVIEW
 FEBRUARY 28, 2005 (UNAUDITED)

FUND STATISTICS ON 2/28/05

| | | |
|------------------------------|----|------------|
| Net Asset Value | \$ | 12.74 |
| Market Price | \$ | 13.85 |
| Premium | | 8.71% |
| Yield on Market Price | | 6.54% |
| Common Shares Outstanding | | 11,621,839 |

INDUSTRY CATEGORIES % OF PORTFOLIO

[GRAPHIC OMITTED]
 EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

| | |
|--------------------|-----|
| Utilities | 43% |
| Banks | 21% |
| Financial Services | 16% |
| Insurance | 9% |
| Oil and Gas | 6% |
| Other | 4% |
| REITs | 1% |

MOODY'S RATINGS % OF PORTFOLIO

| | |
|-------------------------|-------|
| Aaa | 0.6% |
| Aa | 8.5% |
| A | 20.4% |
| Baa | 40.7% |
| Ba | 16.9% |
| Not Rated | 7.6% |
| Below Investment Grade* | 16.0% |

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

TOP 10 HOLDINGS BY ISSUER % OF PORTFOLIO

| | |
|------------------|------|
| Interstate Power | 5.3% |
|------------------|------|

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| | |
|---------------------------|------|
| Alabama Power | 4.6% |
| Lehman Brothers | 4.5% |
| Citigroup | 3.8% |
| Xcel Energy | 3.5% |
| The Bear Stearns Cos. | 3.4% |
| Duke Energy | 3.2% |
| Fannie Mae | 3.1% |
| Cobank | 3.1% |
| North Fork Bancorporation | 3.0% |

% O

 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.

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 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS
 FEBRUARY 28, 2005 (UNAUDITED)

SHARES/\$ PAR

PREFERRED SECURITIES -- 92.6%
 BANKING -- 20.5%

| | |
|------------|---|
| | ABN AMRO North America, Inc.: |
| 1,165 | 6.46% Pfd., 144A**** |
| 4,200 | 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 |
| \$ 250,000 | Chase Capital I, 7.67% 12/01/26 Capital Security |
| | Citigroup, Inc.: |
| 72,435 | 5.864% Pfd., Series M |
| 7,700 | 6.213% Pfd., Series G |

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| | | |
|----|-----------|--|
| | 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 |
| \$ | 2,500,000 | HBOS Capital Funding LP, 6.85% Pfd. |
| | 6,900 | HSBC USA, Inc., \$2.8575 Pfd. |
| | 36,500 | J.P. Morgan Chase & Co., 6.625% Pfd., Series H |
| \$ | 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 |
| \$ | 1,700,000 | RBS Capital Trust B, 6.80% Pfd. |
| | 10 | Roslyn Real Estate, 8.95% Pfd., Pvt., Series C, 144A**** |
| \$ | 1,200,000 | Wachovia Capital Trust V, 7.965% 06/01/27 Capital Security, 144A**** |

FINANCIAL SERVICES -- 15.5%

| | | |
|--|---------|-----------------------------------|
| | | The Bear Stearns Companies, Inc.: |
| | 63,750 | 5.49% Pfd., Series G |
| | 78,823 | 5.72% Pfd., Series F |
| | 120,000 | Fannie Mae, Adj. Rate Pfd. |
| | | Freddie Mac: |
| | 6,975 | 5.00% Pfd., Series F |
| | 25,500 | 5.10% Pfd., Series H |
| | 42,650 | 5.30% Pfd. |

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2005 (UNAUDITED)

SHARES/\$ PAR

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

| | | |
|--|---------|---|
| | | Lehman Brothers Holdings, Inc.: |
| | 10,150 | 5.67% Pfd., Series D |
| | 159,505 | 5.94% Pfd., Series C |
| | 44,000 | 6.50% Pfd., Series F |
| | 110,900 | SLM Corporation, 6.97% Pfd., Series A |

INSURANCE -- 9.0%

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| | | |
|----|-----------|---|
| \$ | 2,000,000 | AON Capital Trust A, 8.205% 01/01/27 Capital Security |
| | 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: |
| | 1,750 | 6.01% Pfd., 144A**** |
| | 2,600 | 6.58% Pfd., 144A**** |

UTILITIES -- 39.8%

| | | |
|--|---------|---|
| | | Alabama Power Company: |
| | 4,980 | 4.60% Pfd. |
| | 6,485 | 4.72% Pfd. |
| | 868 | 4.92% Pfd. |
| | 120,900 | 5.20% Pfd. |
| | 225,000 | 5.30% Pfd. |
| | 6,000 | Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993 |
| | 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 Corporation, 4.90% Pfd. |
| | 3,798 | Central Maine Power Company, 4.75% Pfd. |
| | 16,679 | Central Vermont Public Service Corporation, 8.30% Sinking Fund Pfd. Pvt. |
| | | Connecticut Light & Power Company: |
| | 2,050 | 4.50% Pfd., Series 1956 |
| | 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 |

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2005 (UNAUDITED)

SHARES/\$ PAR

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

| | | |
|--|--------|--|
| | | Duke Energy Corporation: |
| | 8,004 | 4.50% Pfd., Series C, Pvt. |
| | 34,943 | 7.85% Pfd., Series S |
| | | Duquesne Light Company: |
| | 15,030 | 3.75% Pfd. |
| | 25,775 | 6.50% Pfd. |
| | 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 |

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| | | |
|--------------|---|-------|
| 1,050 | 6.08% Pfd. | |
| 13,500 | 7.40% Pfd. | |
| 5,880 | 7.80% Pfd. | |
| 2,265 | 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. | ..... |
| 4,174 | 7.36% Pfd. | ..... |
| 175,000 | 8.00% Pfd., Series 92 | ..... |
| | Entergy Mississippi, Inc.: | |
| 3,791 | 4.36% Pfd. | ..... |
| 5,000 | 4.92% 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 | ..... |
| 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 | |

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 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2005 (UNAUDITED)

SHARES/\$ PAR

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

| | | |
|--------|---|-------|
| 12,265 | Northern Indiana Public Service Company, Adj. Rate Pfd., Series A | ..... |
| | 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 | ..... |
| | 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. |
| | 14,020 | Public Service Electric & Gas Company, 5.28% Pfd., Series E |
| | | San Diego Gas & Electric Company: |
| | 55,210 | \$1.70 Pfd |
| | 30,000 | \$1.7625 Sinking Fund Pfd. |
| | 85,000 | 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. |
| | 57,646 | Southern California Edison, 4.08% Pfd. |
| | 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, 6.20% Pfd. |

 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2005 (UNAUDITED)

SHARES/\$ PAR

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 -- 5.0%

| | | |
|--|--------|--|
| | 17,200 | Anadarko Petroleum Corporation, 5.46% Pfd. |
| | 6,650 | Apache Corporation, 5.68% Pfd., Series B |
| | 8,000 | Devon Energy Corporation, 6.49% Pfd., Series A |
| | 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 Realty Income Corporation, 7.375% Pfd., REIT, Series D
 40,000 Regency Centers Corporation, 7.25% Pfd., REIT

 MISCELLANEOUS INDUSTRIES -- 1.8%

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 \$182,871,835)

CORPORATE DEBT SECURITY -- 1.1%

OIL AND GAS -- 1.1%

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

 TOTAL CORPORATE DEBT SECURITY

(Cost \$2,245,426)

 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 FEBRUARY 28, 2005 (UNAUDITED)

SHARES/\$ PAR

COMMON STOCKS AND CONVERTIBLE SECURITIES -- 4.4%

BANKING -- 0.4%

 50,000 New York Community Bancorp, Inc.

 INSURANCE -- 0.4%

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

 UTILITIES -- 3.6%

| | |
|--------|-------------------------------|
| 97,500 | Duke Energy Corporation |
| 64,496 | FPL Group, Inc. |

TOTAL COMMON STOCKS AND CONVERTIBLE SECURITIES
(Cost \$8,373,345)

OPTION CONTRACTS -- 1.0%

| | |
|-------|--|
| 1,275 | June Put Options on June U.S. Treasury Bond Futures, Expiring 05/20/05 |
|-------|--|

TOTAL OPTION CONTRACTS
(Cost \$1,580,670)

MONEY MARKET FUND -- 0.6%

| | |
|-----------|---|
| 1,342,237 | BlackRock Provident Institutional, TempFund |
|-----------|---|

TOTAL MONEY MARKET FUND
(Cost \$1,342,237)

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
FEBRUARY 28, 2005 (UNAUDITED)

| | |
|---|----------|
| TOTAL INVESTMENTS (Cost \$196,413,513***) | 99.7% |
| OTHER ASSETS AND LIABILITIES (NET) | 0.3% |
| | ----- |
| 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 | |

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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, 2004 THROUGH FEBRUARY 28, 2005 (UNAUDITED)

OPERATIONS:

| | |
|---|------|
| Net investment income | \$ |
| Net realized gain on investments sold during the period | |
| Change in net unrealized appreciation 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 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 | \$ 14 |
| Net increase during the period | ---- |
| End of period | \$ 14 |

 Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
 FINANCIAL HIGHLIGHTS(1)
 FOR THE PERIOD FROM DECEMBER 1, 2004 THROUGH FEBRUARY 28, 2005 (UNAUDITED)
 FOR A COMMON 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 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 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 | |

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, 2004 - EXTRA | \$0.0450 | \$12.58 | \$13.50 |
| December 31, 2004 | 0.0755 | 12.58 | 13.50 |
| January 31, 2005 | 0.0755 | 12.78 | 13.59 |
| February 28, 2005 | 0.0755 | 12.74 | 13.85 |

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[GRAPHIC OMITTED]

LIGHTHOUSE LOGO

FLAHERTY & CRUMRINE

=====

PREFERRED INCOME
OPPORTUNITY FUND

QUARTERLY
REPORT

FEBRUARY 28, 2005

web site: www.preferredincome.com

DIRECTORS

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

OFFICERS

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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.
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