

PREFERRED INCOME OPPORTUNITY FUND INCORPORATED

Dear Shareholder:

The financial markets presented investors with myriad opportunities to make or lose money during the Preferred Income Opportunity Fund's recently completed fiscal year. The Fund by and large managed to avoid both and ended up producing a rather ho-hum total return of 0.6% on net asset value ("NAV"). The market thought more highly of the Fund's performance; during the same period, the total return on market price was 12.6% as the Fund went from trading at a slight discount from NAV to a significant premium.

Selecting the appropriate yardsticks to evaluate the Fund's performance on NAV is a challenging task. Investment returns on preferred securities generally do not correlate well with returns on other broad asset classes. (This is, incidentally, one very good reason to include preferred securities in any diversified investment portfolio!) As the table below demonstrates, over the course of the Fund's fiscal year, high quality investments (U.S. Treasuries) performed well, while deeply subordinated securities (common stocks) or investments of lower quality ("High Yield" or junk bonds) fared poorly.

TOTAL RETURNS ON NET ASSET VALUE, INCLUDING REINVESTMENT OF INCOME RECEIVED⁽¹⁾

	<u>Twelve Months Ended November 30, 2002</u>
Preferred Income Opportunity Fund	+0.6%
Lipper US Govt. Funds	+8.8%
Lipper Corp Debt BBB Rated Funds	+3.6%
Lipper High Yield Funds	-6.1%
S&P 500 Index	-16.5%

(1) Source – Lipper Inc.

When U.S. Government Securities substantially outperform other market segments, as they did last year, one would expect a leveraged portfolio of preferred securities employing a U.S. Treasury based hedge, such as the Fund, to be down significantly. When viewed against this backdrop, the return on the Fund looks much more respectable. Over the long term, the results continue to be excellent, as total returns on the Fund's NAV since its February 1992 inception were 9.3% compounded annually.

Both traditional preferred stocks (those eligible for the dividends received deduction – “DRD”) and hybrid, or fully-taxable, preferred securities underperformed the Treasury market in fiscal year ended November 30, 2002. This result is typical during periods of weakening corporate balance sheets and credit rating downgrades, as investors demand larger premiums to purchase securities with a credit risk component. The Fund’s performance has held up in this environment for several reasons. The first is our emphasis on intensive credit research. Although not perfect, our research has helped us avoid most of the credit problems which have impacted the preferred market, and we have also uncovered several undervalued issues. Next is the Fund’s ability to alter the portfolio allocation among the different types of preferred securities when market relationships warrant such a move (as was the case in 2002). Finally there is the hedging strategy. By purchasing put options on U.S. Treasury Bond futures, the Fund’s loss on its hedge position is limited to the amount paid for the options.

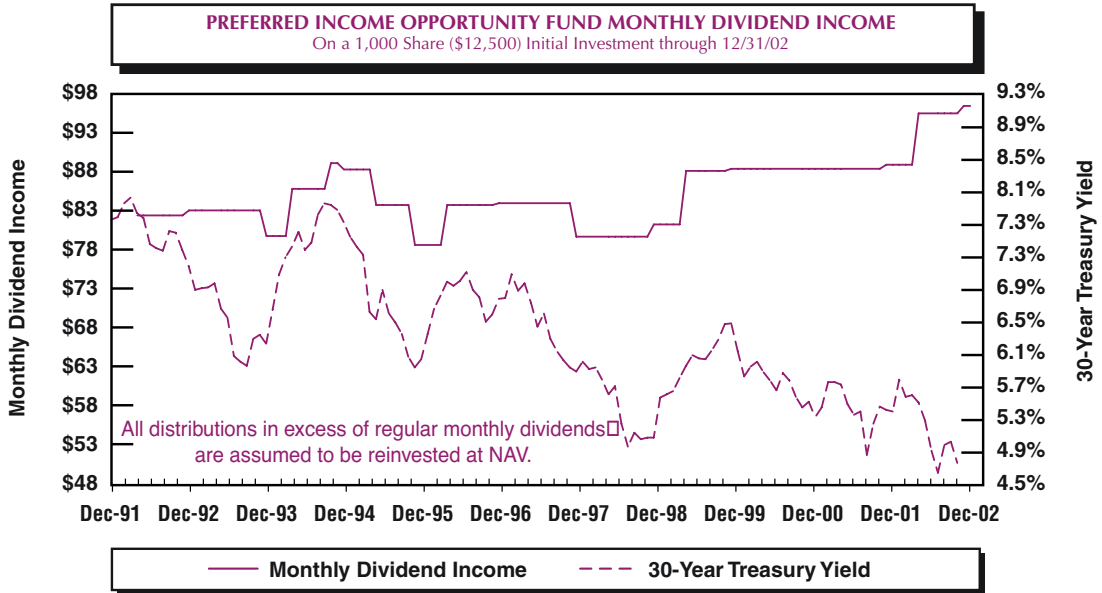
The Fund owns securities in two struggling companies which were forced to file for bankruptcy during the year. Conoco, Inc. and Farmland Industries, Inc. represented our losses due to defaults. These two investments combined to lower the total return on the Fund by about 0.8% in fiscal year ended November 30, 2002 and are now carried on the Fund’s balance sheet at very reduced values. We continue to hold both securities in the hope, especially in Farmland’s case, of meaningful recovery as the bankruptcy proceedings evolve.

Despite the 5:1 disparity between credit rating downgrades and upgrades across corporate America, the average credit quality in the Fund’s portfolio has declined only slightly since the end of the prior year. Having strategically lowered our exposure to the utility industry over the past several years, we avoided much of the downgrade pain following the collapse of Enron. We are gratified that the utility industry is now taking actions to shore-up balance sheets, streamline operations, and extricate itself from non-core investments. Thus, despite the downward trend in credit ratings, we are cautiously optimistic that we are seeing a positive turnaround in the true credit strength of this sector.

The Fund continues to reap the benefits of low short-term interest rates. The dividend rates paid by the Fund on its Money Market Preferred™ Stock were between 1.5% and 2% during 2002.

The combination of low cost MMP™ and respectable returns on our preferreds enabled the Fund to increase the monthly dividend 7.4% this past June, from \$0.068 to \$0.073 per share of common stock. More good news came in December, when the Board of Directors declared an extra cash dividend of \$0.107 per share.

The following graph updates the history of the Fund’s dividend income to reflect the December distribution. The strategies employed by the Fund continue to work very effectively. Income available to shareholders (the solid line) has not been adversely impacted by declines in long term interest rates as measured by U.S. Treasury Bonds (the dotted line).



We encourage you to read the Questions and Answers section on the next page, which contains additional important information on the Fund's strategy and operations.

This letter marks a transition for the Fund. On October 18th, Bob Flaherty retired as President and Chairman of the Board upon turning sixty-five. You shouldn't notice much change, though, since just about everything we know we learned from Bob, and we've been planning the transition for some time. And, given his investment in the Fund, you can bet he'll never let us stray from the things which have made the Fund and its sister Preferred Income Fund two of the top performing preferred funds in the market. Thanks, Bob, we're going to miss having you around all the time!

Sincerely,

Donald F. Crumrine
Chairman of the Board

Robert M. Ettinger
President

QUESTIONS & ANSWERS

WHY WAS THERE AN EXTRA YEAR-END DIVIDEND?

In 2002, the income generated by the preferred securities in the portfolio held up well despite the increased allocation to DRD-eligible securities. The very low cost of leverage provided a significant benefit to the Fund. The rates paid by the Fund on its outstanding Money Market Cumulative Preferred™ stock, which are reset every 49 days through an auction process, hovered between 1.5% and 2% throughout the year. The persistently low cost of leverage helped the Fund to accumulate income in excess of the regular monthly dividend rate, and despite the dividend increase in June, the Fund still ended the year with some leftover income.

COULD YOU REMIND ME AGAIN ABOUT HOW THE HEDGE IS SUPPOSED TO WORK?

The Fund attempts to protect against the risk of a significant rise in the overall level of interest rates. It has done so historically by purchasing put options on Treasury Bond futures contracts. The Fund is also authorized, subject to limitations, to purchase over-the-counter options so as to be a “fixed rate payer” in an interest rate swap (a/k/a “pay-fixed swaption”). Both types of hedging instruments would expire worthless if rates either fall or do not change much. In many ways, this is analogous to paying a cost of insurance. In the event of a significant increase in interest rates, however, put options and/or pay-fixed swaptions would be expected to appreciate in value.

Such hedge value appreciation would cushion the drop in the Fund’s NAV. Further, any gains on hedging could be reinvested in additional shares of income producing securities. This underlies the Fund’s strategy of being able to raise the dividend in the event of a significant increase in interest rates. (Please see Note 7 to the accompanying Financial Statements for an explanation of some of the risks of these hedging strategies.)

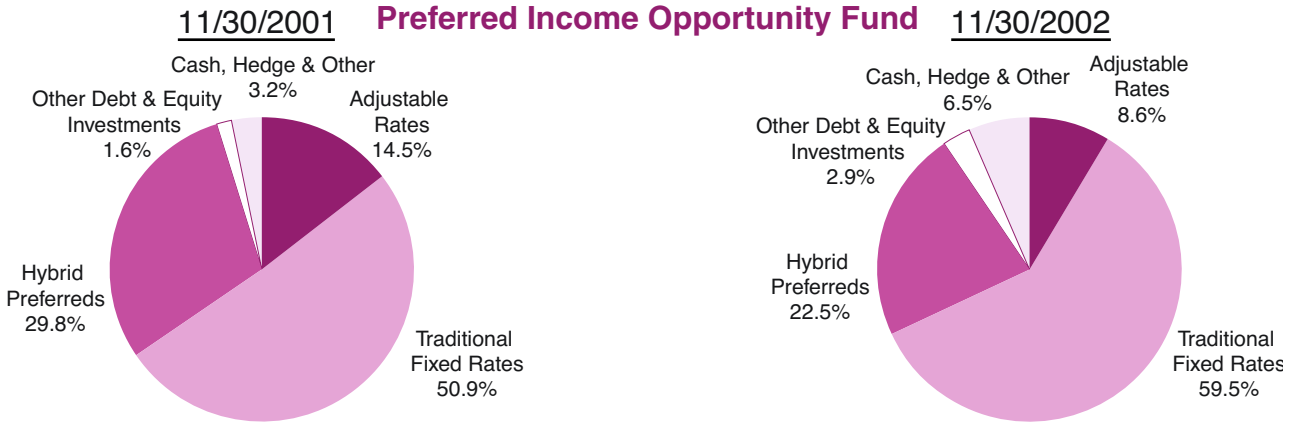
DOES THE FUND HOLD MANY “CUSHIONED” PREFERRED SECURITIES?

As a general rule, we don’t like to hold so called “cushioned” preferreds. These are issues which have a relatively high dividend rate, but not much time before the issuer may call it away, usually at a much lower price. Cushioned preferreds offer a high current yield but the actual return usually turns out to be much, much lower. In effect, this type of investment simply converts a portion of principal into income. In a fund, the difference between the current and “effective” yield ultimately appears as a decline in the net asset value. Cushioned issues may boost a fund’s yield for a short while, but it cannot last long, and there are a number of undesirable results. We try to own issues that are not as likely to get called, so that income from our investments is somewhat more predictable.

WERE THERE ANY SIGNIFICANT CHANGES TO THE PORTFOLIO’S COMPOSITION DURING THE YEAR?

As the charts below indicate, a small portion of the hybrid preferreds, and a larger portion of the ARP holdings were sold in favor of traditional, DRD-eligible fixed-rate preferreds. We sacrificed a little yield by selling the hybrids, and picked up some yield by selling the ARPs, and on balance, the portfolio’s income was pretty stable. These moves were made because we felt we were acquiring undervalued securities. If we are right, and the relationship corrects itself, we’ll be able to revert back to our beginning positions, but with more money in the Fund’s pocket, which ultimately will mean more income to the shareholders.

We also allocated a small portion of the portfolio to common stocks recently. The Fund may invest up to 15% of its assets in common stocks, although, under present conditions, we do not anticipate closely approaching that number.



HOW WOULD CERTAIN PROPOSED TAX CHANGES IMPACT THE FUND?

One idea getting a great deal of airplay recently is the elimination of double taxation of corporate dividends. The Bush Administration’s recently announced proposal recommends eliminating the taxation of dividends received by individual taxpayers. This is similar to how dividends were treated prior to the mid-1980s, although such dividends were subject to a dollar limit for individual taxpayers back then. The dividends on DRD-eligible preferreds in the Fund’s portfolio appear to qualify for the tax break under the President’s plan. However, the fully taxable, i.e., “hybrid” preferreds held by the Fund would not appear to benefit.

We will continue to monitor developments as various tax proposals move through the legislative process.

DID THE MONEY MARKET CUMULATIVE PREFERRED™ STOCK GET UPGRADED THIS YEAR?

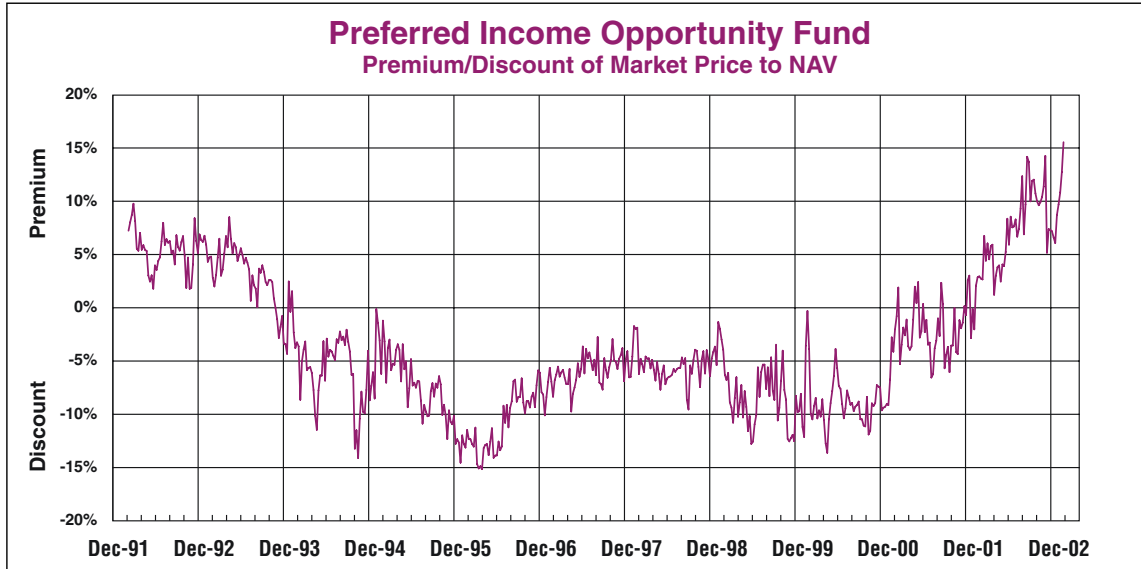
Yes! FitchRatings, one of the two rating services that rate the Fund’s MMP™, conducted a review of the Fund and raised its rating on the MMP™ from AA+ to AAA. We appreciate the vote of confidence and hope the market rewards the Fund with lower MMP™ cost as we go forward.

WHAT HAS HAPPENED TO THE CREDIT QUALITY OF THE FUND’S INVESTMENTS WITH SO MANY COMPANIES BEING DOWNGRADED RECENTLY?

Despite a “banner year” for Moody’s and S&P downgrades, the average rating on the Fund’s portfolio declined only slightly over the year. At year-end, the securities held by the Fund had an average rating of low BBB. This is because the Fund was over-weighted in the issuers that escaped downgrades and under-weighted in the names that were downgraded.

HOW DOES THE MARKET PRICE OF THE FUND'S SHARE COMPARE TO ITS NET ASSET VALUE?

The following chart shows the relationship of the Fund's market price to its Net Asset Value. Throughout almost the entire recent year, the Fund's shares traded at a premium to NAV. We think this mainly represents shareholder preference for anything that (a) pays a high level of income and (b) is not a typical common stock.



Once again, we want to put in a plug for www.preferredincome.com, the web site for the Preferred Income Group of closed-end funds. You can find current information there on market prices, net asset values, discounts, yields, dividends, performance and portfolio holdings, as well as news items and general information about the Fund. We expect to improve the site from time to time, but we need to know what would be helpful to you. Please let us hear from you.

We would like to remind our shareholders that the Fund's Dividend Reinvestment Plan (the "DRIP") provides a means of acquiring additional shares of the Fund without paying the full market premium. When the market price is above NAV, DRIP participants reinvest their dividends in new shares acquired directly from the Fund at NAV. The only limitation is the IRS rule that the purchase cannot be more than 5% below the market price. If the shares are selling at a discount from NAV, reinvestments are executed in the market to take advantage of the discount.

More information on the DRIP is available. If your shares are held in a brokerage account, ask your broker if his firm is set up to participate. If you hold your shares in certificate form, or if you would just like more information, call the DRIP's agent, PFPC Inc., at 1-800-331-1710.

FINANCIAL DATA**Per Share of Common Stock**

	Total Dividends Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price (1)
December 31, 2001	\$0.136	\$11.49	\$11.85	\$11.49
January 31, 2002	0.068	11.43	12.05	11.49
February 28, 2002	0.068	11.33	12.00	11.40
March 31, 2002	0.068	11.24	11.69	11.24
April 30, 2002	0.068	11.21	11.95	11.26
May 31, 2002	0.068	11.10	11.95	11.16
June 30, 2002	0.073	11.15	12.19	11.78
July 31, 2002	0.073	11.05	12.48	11.86
August 31, 2002	0.073	11.33	12.55	11.92
September 30, 2002	0.073	11.30	12.40	11.78
October 31, 2002	0.073	10.71	11.58	10.85
November 30, 2002	0.073	10.78	11.72	11.13
December 31, 2002	0.180	10.72	12.21	11.60

(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.

See Notes to Financial Statements.

PORTFOLIO OF INVESTMENTS

November 30, 2002

<u>Shares/\$ Par</u>	<u>Value (Note 1)</u>	<u>Shares/\$ Par</u>	<u>Value (Note 1)</u>
PREFERRED SECURITIES — 91.5%		1,000	Firststar Realty LLC, 8.875% Pfd., REIT, Pvt., 144A*** \$ 1,159,900
ADJUSTABLE RATE PREFERRED SECURITIES — 8.6%			GreenPoint Financial Corporation:
BANKING — 8.1%			GreenPoint Capital Trust I, 9.10% 6/1/27 Capital Security 3,433,646
35,000	Citigroup, Inc., Series Q, Adj. Rate Pfd. \$ 857,500*	\$3,349,000	HSBC USA, Inc., \$2.8575 Pfd. 1,155,360*
75,000	Cobank, Adj. Rate Pfd., Pvt. 144A*** 4,064,625*	24,900	Keycorp Institutional Capital B, 8.25% 12/15/26 Capital Security 2,947,244
79,825	J.P. Morgan Chase & Co.: Series A, Adj. Rate Pfd. 6,066,700*	\$2,750,000	Wachovia Corporation: First Union Capital II, 7.95% 11/15/29 Capital Security 560,778
16,000	Series L, Adj. Rate Pfd. 1,336,000*		First Union Institutional Capital I, 8.04% 12/1/26 Capital Security 2,775,219
134,200	Series N, Adj. Rate Pfd. <u>3,187,250*</u>	\$ 500,000	First Union Institutional Capital II, 7.85% 1/1/27 Capital Security <u>2,002,520</u>
TOTAL BANKING ADJUSTABLE RATE PREFERRED SECURITIES		\$2,575,000	TOTAL BANKING FIXED RATE PREFERRED SECURITIES
			<u>26,975,300</u>
FINANCIAL SERVICES — 0.2%		\$1,885,000	FINANCIAL SERVICES — 16.1%
10,500	Bear Stearns Companies, Inc., Series A, Adj. Rate Pfd. <u>464,625*</u>	164,620	Bear Stearns Companies, Inc.: 5.49% Pfd., Series G 6,776,582*
UTILITIES — 0.3%		51,573	5.72% Pfd., Series F 2,195,978*
12,265	Northern Indiana Public Service Company, Series A, Adj. Rate Pfd. <u>545,792*</u>	15,000	Household International, Inc.: \$4.30 Pfd. 1,348,350*
TOTAL ADJUSTABLE RATE PREFERRED SECURITIES		55,000	7.50% Pfd., Series 2001-A 1,303,500*
		86,000	7.60% Pfd. 2,060,130*
			Lehman Brothers Holdings, Inc.: 5.67% Pfd., Series D 3,479,412*
FIXED RATE PREFERRED SECURITIES — 82.0%		177,505	5.94% Pfd., Series C 7,724,130*
BANKING — 14.0%		113,400	SLM Corporation, 6.97% Pfd. Series A <u>5,968,809*</u>
165	ABN AMRO North America, Inc., 6.46% Pfd., Pvt., 144A*** 159,428*		TOTAL FINANCIAL SERVICES FIXED RATE PREFERRED SECURITIES
\$4,350,000	BancWest Corporation: First Hawaiian Capital I, 8.343% 7/1/27 Capital Security, Series B 4,683,493		<u>30,856,891</u>
130,314	Citigroup, Inc.: 5.864% Pfd., Series M 5,933,848*		INSURANCE — 8.6%
10,500	6.213% Pfd., Series G 503,632*		AON Corporation: AON Capital Trust A, 8.205% 1/1/27 Capital Security 1,339,184
8,650	6.231% Pfd., Series H 418,574*		
\$ 500,000	Comerica (Imperial) Capital Trust I, Series B, 9.98% 12/31/26 Capital Security 561,505	\$1,550,000	
\$ 660,000	Deutsche Bank: BT Preferred Capital Trust II, 7.875% 2/25/27 Capital Security 680,153		

See Notes to Financial Statements.

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2002

<u>Shares/\$ Par</u>	<u>Value (Note 1)</u>	<u>Shares/\$ Par</u>	<u>Value (Note 1)</u>
PREFERRED SECURITIES (Continued)		MISCELLANEOUS INDUSTRIES — 2.8%	
FIXED RATE PREFERRED SECURITIES (Continued)		13,600	E.I. Du Pont de Nemours and Company, \$4.50 Pfd., Series B \$ 1,147,976*
INSURANCE (Continued)		36,200	Farmland Industries, Inc., 8.00% Pfd., Pvt., 144A*** 301,727*†
	Conseco, Inc.:	20,500	Ocean Spray Cranberries, Inc., 6.25% Pfd., Pvt., 144A*** 1,670,443*
24,750	Conseco Financing Trust V, 8.70% TOPrS \$ 6,187†	26,000	Touch America Holdings, \$6.875 Pfd. 1,635,010*
25,000	Conseco Financing Trust VI, 9.00% TOPrS 7,750†	9,520	Viad Corporation, \$4.75 Sinking Fund Pfd. <u>614,992*</u>
17,600	Conseco Financing Trust I, 9.16% TOPrS 5,280†		TOTAL MISCELLANEOUS INDUSTRIES FIXED RATE PREFERRED SECURITIES <u>5,370,148</u>
1,250	Fortis Funding Trust, 7.68% Pfd., Pvt. 144A*** 1,376,369*		UTILITIES — 35.9%
11,000	Hartford Cap I, 7.70% Pfd., Series A 278,905	\$ 750,000	Alabama Power Capital Trust V, 5.50% 10/1/42 Capital Security 748,841
\$ 500,000	SAFECO Corporation: SAFECO Capital Trust I, 8.072% 7/15/37 Capital Security 481,765		Alabama Power Company:
\$4,895,000	The St. Paul Companies, Inc.: MMI Capital Trust I, 7.625% 12/15/27 Capital Security, Series B 4,599,538	4,980	4.60% Pfd. 363,017*
	UnumProvident Corporation: Provident Financing Trust I, 7.405% 3/15/38 Capital Security 4,522,546	6,485	4.72% Pfd. 485,046*
\$5,889,000	Zurich Financial Reg. Capital I, 6.01% Pfd., Pvt. 144A*** <u>3,954,040*</u>	250	4.92% Pfd. 19,492*
	TOTAL INSURANCE FIXED RATE PREFERRED SECURITIES <u>16,571,564</u>	243,400	5.20% Pfd. 5,258,657*
	OIL AND GAS — 4.6%	4,000	Appalachian Power Company, 5.92% Sinking Fund Pfd. 369,620*
17,200	Anadarko Petroleum Corporation, 5.46% Pfd. 1,488,488*	23,750	Avista Corporation, \$6.95 Sinking Fund Pfd., Series K 2,086,437*
45,100	Apache Corporation, 5.68% Pfd., Series B 4,039,382*	22,675	Baltimore Gas & Electric Company, 6.99% Pfd., Series 1995 2,377,814*
3,200	EOG Resources, Inc., 7.195% Pfd., Series B <u>3,399,424*</u>	10,000	Boston Edison Company, 4.78% Pfd. 751,200*
	TOTAL OIL AND GAS FIXED RATE PREFERRED SECURITIES <u>8,927,294</u>	13,395	Carolina Power and Light Company, \$5.44 Pfd. 1,086,870*
		45,000	CenterPoint Energy, Inc.:
		\$3,750,000	Houston Light & Power, Capital Trust I, 8.125% QUIPS 802,125
			Houston Light & Power, Capital Trust II, 8.257%, 2/1/37 Capital Security, Series B 2,973,375
		55,982	REI Trust I, 7.20% TOPrS, Series C 853,725

See Notes to Financial Statements.

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2002

<u>Shares/\$ Par</u>	<u>Value (Note 1)</u>	<u>Shares/\$ Par</u>	<u>Value (Note 1)</u>
PREFERRED SECURITIES (Continued)			
FIXED RATE PREFERRED SECURITIES (Continued)			
UTILITIES (Continued)			
1,628	Central Hudson Gas & Electric Corporation, 4.35% Pfd., Series D, Pvt. \$ 110,631*	4,654	Florida Power & Light Company: 4.35% Pfd., Series E, Pvt. \$ 301,347*
	Central Illinois Light Company:	4,000	4.50% Pfd. 267,940*
10,000	4.64% Pfd. 709,050*	7,500	6.75% Pfd., Series U 770,663*
10,000	5.85% Sinking Fund Pfd. 927,150*	23,600	Hawaiian Electric Company, Inc.: HECO Capital Trust I, 8.05% QUIPS 598,378
11,250	Central Vermont Public Service Corporation, 8.3% Pfd., Pvt. Sinking Fund Pfd. 1,114,706*	5,291	Idaho Power Co., 7.68% Pfd., Series 1 547,010*
	Commonwealth Edison Company:	30,500	Indianapolis Power & Light Company, 5.65% Pfd. 2,123,258*
5,000	COMED Financing I, 8.48% Pfd. 127,225	4,500	Kentucky Utilities Company, 6.53% Pfd. 461,565*
5,300	Connecticut Light and Power Company, \$3.24 Pfd. 256,599*	15,000	Mississippi Power Company: 6.32% Pfd. 374,475*
	Duke Energy Corporation:	5,087	7.00% Pfd. 516,610*
4,719	4.50% Pfd., Series C 322,850*	41,500	Monongahela Power Company, \$7.73 Pfd., Series L 3,721,305*
13,400	6.75% Pfd., Series X, Sinking Fund Pfd. 1,340,469*		Northern States Power Company: NSP Financing I, 7.875% Pfd. 453,500
18,700	7.85% Pfd., Series S 1,940,966*	20,000	Ohio Power Company, 5.90% Sinking Fund Pfd. 226,238*
5,000	Energy East Capital Trust I, 8.25% TOPrS 129,600	2,500	PECO Energy Company: \$4.30 Pfd., Series B 71,456*
	Entergy Arkansas, Inc.:	1,100	\$4.40 Pfd., Series C 332,350*
1,050	\$6.08 Pfd. 83,769*	5,000	\$7.48 Pfd. 800,625*
2,840	4.56% Pfd. 175,498*	7,500	PSI Energy, Inc., 4.32% Pfd. 9,972*
3,050	4.56% Pfd., Series 1965 188,475*	570	PacifiCorp: \$4.72 Pfd. 455,354*
13,500	7.40% Pfd. 1,310,850*	116,035	8.25% QUIPS 2,941,487
150	7.80% Pfd. 15,065*		Pacific Enterprises: \$4.50 Pfd. 799,101*
2,441	Entergy Gulf States, Inc., 7.56% Pfd. 224,511*	13,510	\$4.75 Pfd. 956,846*
	Entergy Louisiana, Inc.:		
299	5.16% Pfd. 20,760*		
3,771	7.36% Pfd. 361,488*		
175,000	8.00% Pfd., Series 92 4,258,625*		
8,500	Entergy Mississippi, Inc., 7.44% Pfd. 839,758*		

See Notes to Financial Statements.

PORTFOLIO OF INVESTMENTS (Continued)**November 30, 2002**

<u>Shares/\$ Par</u>	<u>Value (Note 1)</u>	<u>Shares/\$ Par</u>	<u>Value (Note 1)</u>
PREFERRED SECURITIES (Continued)			
FIXED RATE PREFERRED SECURITIES (Continued)			
UTILITIES (Continued)			
14,250	Portland General Electric, 7.75%, Sinking Fund Pfd.	\$ 1,357,384*	
2,493	Potomac Electric Power Company, \$2.44 Pfd., Series 1957	94,111*	
43,400	Public Service Company of Colorado, Capital Trust I, 7.60% TOPrS	955,885	
10,900	Public Service Enterprise Group, Inc.: Enterprise Capital Trust I, 7.44% TOPrS, Series A	255,987	
14,020	Public Service Electric & Gas Company, 5.28% Pfd., Series E	1,156,720*	
56,485	Puget Sound Energy, Inc.: 7.45% Pfd., Series II	1,408,453*	
34,698	7.75% Sinking Fund Pfd.	3,463,034*	
	Rochester Gas & Electric Corporation:		
5,060	4.10% Pfd., Series J	279,084*	
10,000	4.55% Pfd. Series M, Pvt.	612,050*	
4,030	4.75% Pfd., Series I	257,517*	
40,000	San Diego Gas & Electric, \$1.7625 Sinking Fund Pfd.	1,073,800*	
	South Carolina Electric & Gas Company:		
14,502	5.125% Purchase Fund Pfd., Pvt. . . .	585,953*	
6,318	6.00% Purchase Fund Pfd., Pvt. . . .	296,251*	
	Southern Union Company:		
60,800	Southern Union Financing I, 9.48% TOPrS	1,552,528	
	TXU US Holdings Company:		
\$ 750,000	TXU Electric Capital V, 8.175% 1/30/37 Capital Security	684,953	
6,050	TransCanada PipeLines Ltd., 8.25% Pfd.	157,058	
	Virginia Electric & Power Company:		
	\$4.04 Pfd.	\$ 99,742*	
	\$4.20 Pfd.	141,364*	
	\$4.80 Pfd.	111,950*	
	\$6.98 Pfd.	295,916*	
	Xcel Energy, Inc.:		
	\$4.08 Pfd., Series B	710,550*	
	\$4.10 Pfd., Series C	953,804*	
	\$4.11 Pfd., Series D	1,694,360*	
	\$4.16 Pfd., Series E	857,236*	
	\$4.56 Pfd., Series G	529,350*	
	TOTAL UTILITIES FIXED RATE PREFERRED SECURITIES	68,948,784	
	TOTAL FIXED RATE PREFERRED SECURITIES	157,649,981	
	INVERSE FLOATING RATE PREFERRED — 0.9%		
	18 Premium Assets, Series A, Zurich Financial Reg. Capital	1,742,004*	
	TOTAL PREFERRED SECURITIES (Cost \$175,138,173)	175,914,477	
	DEBT SECURITIES — 0.2%		
	15,000 Northern States Power Company, 8.00% Pfd., PINES	372,750	
	3,000 Telephone & Data Systems, Inc., 7.60% Sr. Unsecured Notes., Series A	74,190	
	TOTAL DEBT SECURITIES (Cost \$442,925)	446,940	
	COMMON STOCKS — 1.8%		
	96,700 Allegheny Energy, Inc.	655,142*†	
	102,500 CenterPoint Energy, Inc.	771,313*	
	97,500 Duke Energy Corporation	1,918,313*	
	80,831 Reliant Resources, Inc.	196,015*†	
	TOTAL COMMON STOCKS (Cost \$4,821,693)	3,540,783	

See Notes to Financial Statements.

Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2002

<u>Shares/\$ Par</u>		<u>Value (Note 1)</u>
OPTION CONTRACTS — 2.8% (Cost \$3,717,719)		
1,100	Put Option on U.S. Treasury: Bond March Futures, Expiring 02/22/2003	<u>\$ 5,475,250</u>
MONEY MARKET FUNDS — 1.2% (Cost \$2,267,360)		
2,267,360	BlackRock Provident Institutional TempFund, 1.42%	<u>2,267,360</u>
TOTAL INVESTMENTS (Cost \$186,387,870**) 97.5%		187,644,810
OTHER ASSETS AND LIABILITIES (Net) 2.5%		<u>4,716,275</u>
TOTAL NET ASSETS AVAILABLE TO COMMON AND PREFERRED STOCK 100.0%†		<u>\$192,361,085</u>
MONEY MARKET CUMULATIVE PREFERRED™ STOCK (MMP™) REDEMPTION VALUE (70,000,000)		
ACCUMULATED UNDECLARED DISTRIBUTIONS TO MMP™		<u>(102,739)</u>
TOTAL NET ASSETS AVAILABLE TO COMMON STOCK		<u><u>\$122,258,346</u></u>

* Securities eligible for the Dividends Received Deduction.

** Aggregate cost for federal tax purposes is \$188,507,027.

*** 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.

† 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 (Note 6):

PINES	— Public Income Notes
QUIPS	— Quarterly Income Preferred Securities
REIT	— Real Estate Investment Trust
TOPrS	— Trust Originated Preferred Securities
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.

See Notes to Financial Statements.

STATEMENT OF ASSETS AND LIABILITIES

November 30, 2002

ASSETS:

Investments, at value (Cost \$186,387,870) (Note 1) (See accompanying schedule)	\$187,644,810
Cash and receivable for investments sold	3,324,651
Dividends and interest receivable	1,647,718
Prepaid expenses.	<u>88,577</u>
Total Assets.	192,705,756

LIABILITIES:

Dividends payable to Common shareholders.	\$143,526
Investment advisory fee payable (Note 2)	88,919
Professional fees payable	59,612
Accrued expenses and other payables	52,614
Accumulated undeclared distributions to Money Market Cumulative Preferred™ Stock (Note 5)	<u>102,739</u>
Total Liabilities.	<u>447,410</u>

Money Market Cumulative Preferred™ Stock (700 shares outstanding) redemption value (Note 5)	<u>70,000,000</u>
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NET ASSETS AVAILABLE TO COMMON STOCK. \$122,258,346

NET ASSETS AVAILABLE TO COMMON STOCK consist of:

Undistributed net investment income (Note 1)	\$ 756,099
Accumulated net realized loss on investments sold (Note 1)	(10,775,920)
Unrealized appreciation of investments (Note 3)	1,256,940
Par value of Common Stock	113,414
Paid-in capital in excess of par value of Common Stock	<u>130,907,813</u>
Total Net Assets Available to Common Stock	<u><u>\$122,258,346</u></u>

NET ASSET VALUE PER SHARE OF COMMON STOCK:

Common Stock (11,341,434 shares outstanding)	<u><u>\$ 10.78</u></u>
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See Notes to Financial Statements.

STATEMENT OF OPERATIONS

For the Year Ended November 30, 2002

INVESTMENT INCOME:

Dividends		\$10,953,649
Interest		<u>3,194,125</u>
Total Investment Income		14,147,774

EXPENSES:

Investment advisory fee (Note 2)	\$1,106,597	
Administration fee (Note 2)	196,319	
Money Market Cumulative Preferred™ broker commissions and auction agent fees.	189,445	
Insurance expense	159,614	
Legal and audit fees	104,860	
Directors' fees and expenses (Note 2)	82,854	
Shareholder servicing agent fees and expenses (Note 2)	62,461	
Custodian fees and expenses (Note 2)	22,257	
Other	<u>43,341</u>	
Total Expenses		<u>1,967,748</u>

NET INVESTMENT INCOME

12,180,026

REALIZED AND UNREALIZED LOSS ON INVESTMENTS

(Notes 1 and 3):

Net realized loss on investments sold during the year	(3,508,136)
Change in unrealized depreciation of investments during the year	<u>(6,414,650)</u>

NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS

(9,922,786)

**DISTRIBUTIONS TO MONEY MARKET CUMULATIVE PREFERRED™
STOCK SHAREHOLDERS** (Note 5):

From net investment income (including changes in accumulated undeclared distributions)	<u>(1,243,631)</u>
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**NET INCREASE IN NET ASSETS TO COMMON STOCK RESULTING
FROM OPERATIONS**

\$ 1,013,609

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK

	<u>Year Ended</u> <u>November 30, 2002</u>	<u>Year Ended</u> <u>November 30, 2001</u>
OPERATIONS:		
Net investment income	\$ 12,180,026	\$ 12,287,081
Net realized loss on investments sold during the year	(3,508,136)	(1,599,316)
Change in net unrealized (depreciation) appreciation of investments during the year	(6,414,650)	11,525,093
Distributions to Money Market Cumulative Preferred™ Stock Shareholders from net investment income, including changes in accumulated undeclared distributions (Note 5)	<u>(1,243,631)</u>	<u>(2,799,793)</u>
Net increase in net assets from operations.	1,013,609	19,413,065
DISTRIBUTIONS:		
Dividends paid from net investment income to Common Stock shareholders	(10,296,991)	(9,113,985)
Distributions paid from net realized capital gains to Common Stock shareholders	<u>—</u>	<u>—</u>
FUND SHARE TRANSACTIONS:		
Increase from Common Stock transactions (Note 4).	<u>1,749,231</u>	<u>424,175</u>
NET (DECREASE) INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE YEAR.	(7,534,151)	10,723,255
NET ASSETS AVAILABLE TO COMMON STOCK:		
Beginning of year.	<u>129,792,497</u>	<u>119,069,242</u>
End of year (including undistributed net investment income of \$756,099 and \$410,456, respectively)	<u><u>\$122,258,346</u></u>	<u><u>\$129,792,497</u></u>

See Notes to Financial Statements.

FINANCIAL HIGHLIGHTS

For a Common Share outstanding throughout each year.

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,				
	2002	2001	2000	1999	1998
OPERATING PERFORMANCE:					
Net asset value, beginning of year	\$ 11.60	\$ 10.68	\$ 11.50	\$ 13.50	\$ 13.53
INVESTMENT OPERATIONS:					
Net investment income	1.07	1.10	1.18	1.14	1.14
Net realized and unrealized (loss)/gain on investments	(0.87)	0.89	(0.33)	(1.24)	0.17
DISTRIBUTIONS TO MMP* SHAREHOLDERS:					
From net investment income	(0.11)†	(0.25)†	(0.32)†	(0.25)†	(0.16)
From net realized capital gains	—	—	(0.02)	(0.09)	(0.11)
Total from investment operations	0.09	1.74	0.51	(0.44)	1.04
DISTRIBUTIONS TO COMMON SHAREHOLDERS:					
From net investment income	(0.91)	(0.82)	(0.91)	(0.96)	(0.89)
From net realized capital gains	—	—	(0.42)	(0.60)	(0.18)
Total distributions	(0.91)	(0.82)	(1.33)	(1.56)	(1.07)
Net asset value, end of year	\$ 10.78	\$ 11.60 †	\$ 10.68 †	\$ 11.50 †	\$ 13.50
Market value, end of year	\$ 11.720	\$ 11.270	\$ 9.563	\$ 10.500	\$ 12.875
Total investment return based on net asset value**	0.63%	16.97%	5.88%	(2.99)%	8.29%
Total investment return based on market value**	12.61%	26.95%	3.80%	(7.12)%	8.53%
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:					
Total net assets, end of year (in 000's)	\$122,258	\$129,792	\$119,069	\$128,200	\$150,532
Operating expenses	1.56%	1.61%	1.59%	1.53%	1.45%
Net investment income***	8.67%	7.63%	7.93%	6.81%	6.37%

SUPPLEMENTAL DATA:††

Portfolio turnover rate	29%	41%	67%	64%	87%
Total net assets available to Common and Preferred Stock, end of year (in 000's)	\$192,361	\$200,228	\$189,666	\$199,060	\$220,690
Ratio of operating expenses to total average net assets available to Common and Preferred Stock	1.00%	1.03%	1.00%	1.01%	0.99%

* 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.

† Includes effect of additional distribution available to MMP* Shareholders (\$0.01 per Common Share at November 2002, \$0.02 per Common Share at November 2001, \$0.04 per Common Share at November 2000 and \$0.05 per Common Share at November 1999). (See Note 5 to the Financial Statements.)

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

See Notes to Financial Statements.

FINANCIAL HIGHLIGHTS (Continued)

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

<u>Year Ended November 30</u>	<u>Total Shares Outstanding (1)</u>	<u>Asset Coverage Per Share (3)</u>	<u>Involuntary Liquidating Preference Per Share (2)</u>	<u>Average Market Value Per Share (1) & (2)</u>
2002	700	\$274,802	\$100,000	\$100,000
2001	700	286,040	100,000	100,000
2000	700	270,952	100,000	100,000
1999	700	284,371	100,000	100,000
1998	700	315,271	100,000	100,000

(1) See Note 5.

(2) Excludes accumulated undeclared dividends.

(3) 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.

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

Preferred Income Opportunity Fund Incorporated (the “Fund”) is a diversified, closed-end management investment company organized as a Maryland corporation and is registered with the Securities and Exchange Commission (“SEC”) under the Investment Company Act of 1940, as amended. The policies described below are followed consistently by the Fund in the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America.

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 attributable to common shares by the number of shares of Common Stock outstanding. The value of the Fund’s net assets attributable to common shares is deemed to equal the value of the Fund’s total assets less (i) the Fund’s liabilities, (ii) the aggregate liquidation value of the outstanding Money Market Cumulative Preferred™ Stock and (iii) accumulated and unpaid dividends on the outstanding Money Market Cumulative Preferred™ Stock.

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.

As required, effective December 1, 2001, the Fund has adopted the provisions of the AICPA Audit and Accounting Guide, Audits of Investment Companies. This Guide requires that, for book accounting purposes, the Fund amortize premium and accrete discount on those fixed-income securities, such as capital securities, which trade and are quoted on an “accrued income” basis. Prior to December 1, 2001, the Fund did not amortize premium and accrete discounts for these securities. Adopting these accounting principles has not affected the Fund’s net asset value, but changes the classification of

NOTES TO FINANCIAL STATEMENTS (Continued)

certain amounts between interest income and realized and unrealized gain/loss in the Statement of Operations. The adoption of this principle is not material to the financial statements. The impact is quantified in the following table.

<u>At November 30, 2001</u>	<u>For the Year Ended November 30, 2002</u>		
<u>Change in Amortized Cost of Securities Held</u>	<u>Change in Undistributed Net Investment Income</u>	<u>Change in Accumulated Net Realized Gain</u>	<u>Change in Net Unrealized Appreciation of Investments</u>
\$(65,752)	\$(16,100)	\$(19)	\$16,119

The Statement of Changes in Net Assets and Financial Highlights for prior periods have not been restated to reflect these changes in presentation.

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. The shareholders of Money Market Cumulative Preferred™ Stock 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

Distributions from net realized gains for book purposes may include short-term capital gains, which are included as ordinary income for tax purposes. The tax character of distributions paid, including changes in accumulated undeclared distributions to MMP™ shareholders, during 2002 and 2001 was as follows:

	<u>Distributions paid in fiscal year 2002</u>		<u>Distributions paid in fiscal year 2001</u>	
	<u>Ordinary Income</u>	<u>Long-Term Capital Gains</u>	<u>Ordinary Income</u>	<u>Long-Term Capital Gains</u>
Common	\$10,296,991	—	\$9,113,985	—
Preferred	\$1,243,631	—	\$2,799,793	—

As of November 30, 2002, 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>Unrealized Appreciation/(Depreciation)</u>
\$(8,656,764)	\$1,157,762	—	\$(862,217)

At November 30, 2002, the composition of the Fund's \$8,656,764 accumulated realized capital losses was \$6,221,654, \$982,343, and \$1,452,767 in 2000, 2001 and 2002, respectively. These losses may be carried forward and offset against any future capital gains through 2008, 2009 and 2010, 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. During the fiscal year ended November 30, 2002, the Fund paid \$10,023 of Federal excise taxes attributable to calendar year 2001.

Other: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

2. Investment Advisory Fee, Directors' Fees, Administration Fee and Transfer Agent 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

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

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 \$100 for each telephone meeting. In addition, the Fund will reimburse all Directors for travel and out-of-pocket expenses incurred in connection with such meetings.

PFPC Inc., a member of the PNC Financial Services Group, Inc. ("PNC Financial Services"), serves as the Fund's Administrator and Transfer Agent. As Administrator, PFPC Inc. calculates the net asset value of the Fund's shares and generally assists in all aspects of the Fund's administration and operation. As compensation for PFPC Inc.'s services as Administrator, the Fund paid PFPC Inc. a monthly fee at an annual rate of 0.10% of the Fund's average monthly total net assets available to Common and Preferred Stock. PFPC Inc. also serves as the Fund's Common Stock servicing agent (transfer agent), dividend-paying agent and registrar and, as compensation for PFPC Inc.'s services as such, the Fund pays PFPC Inc. a fee at an annual rate of 0.02% of the Fund's average monthly total net assets available to Common and Preferred Stock plus certain out-of-pocket expenses.

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 0.01% of the Fund's average monthly total net assets available to Common and Preferred Stock.

3. Purchases and Sales of Securities

Costs of purchases and proceeds from sales of securities for the period ended November 30, 2002, excluding short-term investments, aggregated \$54,386,460 and \$62,500,229, respectively.

At November 30, 2002, aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$8,453,405 and aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$9,235,505.

4. Common Stock

At November 30, 2002, 240,000,000 shares of \$0.01 par value Common Stock were authorized.

Common Stock transactions were as follows:

	<u>Year Ended</u> <u>11/30/02</u>		<u>Year Ended</u> <u>11/30/01</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Issued as reinvestment of dividends under the Dividend Reinvestment and Cash Purchase Plan	<u>152,365</u>	<u>\$1,749,231</u>	<u>37,782</u>	<u>\$424,175</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

5. Money Market Cumulative Preferred™ Stock

The Fund's Articles of Incorporation authorize the issuance of up to 10,000,000 shares of \$0.01 par value preferred stock. The Money Market Cumulative Preferred™ Stock 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 Money Market Cumulative Preferred™ Stock are cumulative.

The Fund is required to meet certain asset coverage tests with respect to the Money Market Cumulative Preferred™ Stock. 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, Money Market Cumulative Preferred™ Stock 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 these 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.

Under Emerging Issues Task Force (EITF) promulgation Topic D-98, *Classification and Measurement of Redeemable Securities*, which was issued on July 19, 2001, preferred securities that are redeemable for cash or other assets are to be classified outside of permanent equity to the extent that the redemption is at a fixed or determinable price and at the option of the holder or upon the occurrence of an event that is not solely within the control of the issuer. Subject to the guidance of the EITF, the Fund's Money Market Cumulative Preferred™ Stock, which was previously classified as a component of net assets, has been reclassified outside of permanent equity (net assets available to common stock) in the accompanying financial statements. Prior year amounts have also been reclassified to conform with this presentation. The impact of this reclassification creates no change to the net assets available to common shareholders.

If the Fund allocates any net gains or income ineligible for the Dividends Received Deduction to shares of the Money Market Cumulative Preferred™ Stock, the Fund is required to make additional distributions to Money Market Cumulative Preferred™ Stock 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. Net assets available to Money Market Cumulative Preferred™ Stock at November 30, 2002 included an accrued additional distribution of \$71,440. The amount subsequently calculated and then paid to the Money Market Cumulative Preferred™ shareholders for the fiscal year ended November 30, 2002 was \$79,828. (See Note 9 – “Subsequent Events.”)

Prior to November 30, 1999, additional distributions were not reported as available to Money Market Cumulative Preferred™ Stock until declared by the Board of Directors. The amount of additional distributions payable for any year may be highly uncertain and will not be known until after a fiscal year has been completed.

NOTES TO FINANCIAL STATEMENTS (Continued)

An auction of the Money Market Cumulative Preferred™ Stock 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. Money Market Cumulative Preferred™ Stock shareholders may also trade shares in the secondary market between auction dates.

At November 30, 2002, 700 shares of Money Market Cumulative Preferred™ Stock were outstanding at the annual rate of 1.60%. 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 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.

6. 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' 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 percentage limitation was raised from 15% by the Fund's Board of Directors at its regular board meeting on April 19, 2002.

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, such as TOPrS, TIPS, QUIPS, MIPS, QUIDS, QUICS, QIB's, STOPS, CorTS, REIT, Capital Securities, and other similar or related investments, will be subject to the foregoing 20% limitation to the extent that, in the opinion of the Fund's Investment 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

7. 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 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 fundamental 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 and swaptions. As in the case of when-issued securities, the use of over-the-counter derivatives, such as interest rate swaps and swaptions, may expose the Fund to greater credit, operations, and market value risk than is the case with regulated, exchange traded futures and options. With the exception of purchasing securities on a when-issued or delayed delivery basis or lending portfolio securities, these transactions are used for hedging or other appropriate risk-management purposes or, under certain other circumstances, to increase income. As of November 30, 2002, 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.

8. Significant Shareholders

At November 30, 2002, the Commerce Group, Inc. and its affiliates owned approximately 33.1% of the Fund's outstanding Common Stock, according to Schedule 13D filings dated September 19, 2002.

9. Subsequent Events

As a result of the income realized by the Fund that did not qualify for the Corporate Dividends Received Deduction ("DRD"), a portion of the distributions paid to the Fund's Money Market Cumulative Preferred™ Stock shareholders from January 1, 2002 through November 30, 2002 has been designated as being non-DRD income, as required by Internal Revenue Services Ruling 89-81, with respect to the Internal Revenue Code of 1986, as amended. On December 23, 2002, the Fund declared an additional distribution of \$79,828, payable December 26, 2002, to Money Market Cumulative Preferred™ Stock shareholders as required by the Fund's Articles Supplementary (See Note 5.)

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Preferred Income Opportunity Fund Incorporated:

We have audited the accompanying statement of assets and liabilities of Preferred Income Opportunity Fund Incorporated, including the portfolio of investments, as of November 30, 2002, and the related statement of operations for the year then ended, statements of changes in net assets for each of the years in the two-year period then ended and financial highlights for each of the years in the two-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 audit. The financial highlights for each of the years in the three-year period ended November 30, 2000 were audited by other auditors whose report dated January 12, 2001, expressed an unqualified opinion on that financial statement and those financial highlights.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our 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, 2002 by correspondence with the custodian and brokers. 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 Preferred Income Opportunity Fund Incorporated as of November 30, 2002, the results of its operations for the year then ended, and changes in its net assets and financial highlights for each of the years in the two-year period then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Boston, Massachusetts
January 6, 2003

SUPPLEMENTARY TAX INFORMATION (Unaudited)

Of the total distributions attributable to the fiscal year ended November 30, 2002, including the additional Distribution to Money Market Cumulative Preferred™ Stock shareholders, 78.97% qualified for the Dividends Received Deduction for eligible corporate investors.

For the calendar year ended December 31, 2002, 79.19% of all distributions paid to Common Stock shareholders qualified for the Dividends Received Deduction for eligible corporate investors.

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, 2002, \$258 in brokerage commissions were incurred.

ADDITIONAL INFORMATION (Unaudited) (Continued)

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 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.

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.

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: 81	Director	Class I Director since 1992	Retired	2	Director, Jaclyn, Inc. (luggage and accessories).
David Gale Delta Dividend Group, Inc. 301 Pine Street San Francisco, CA 94104 Age: 53	Director	Class I Director since 1997	President & CEO of Delta Dividend Group, Inc. (investments).	2	Director, Stone Container Corporation (packaging), until December 31, 2000; Director, Free Real Time.com, until February 1, 2001.
Morgan Gust† Giant Industries, Inc. 23733 N. Scottsdale Road Scottsdale, AZ 85255 Age: 55	Director	Class III Director since 1992	From March 2002, President, 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.	2	—
Robert F. Wulf 3560 Deerfield Drive South Salem, OR 97302 Age: 65	Director	Class II Director since 1992	Since March 1984, Financial Consultant; Trustee, University of Oregon Foundation; Trustee, San Francisco Theological Seminary	2	—

* 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 2003 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 2004 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.

† 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: 55	Director, Chairman of the Board and Chief Executive Officer	Class II Director since 1992	Chairman of the Board, since December 1996, and previously held other officerships of Flaherty & Crumrine; Director of Flaherty & Crumrine.	2	—
Robert M. Ettinger†† 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 44	Director, President and Secretary	Class III Director since 2002	President of Flaherty & Crumrine since October 2002, and previously held other officerships of Flaherty & Crumrine; Director of Flaherty & Crumrine.	2	—
OFFICERS:					
Peter C. Stimes 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 47	Vice President, Treasurer, Chief Financial and Accounting Officer	Since 1992	Vice President of Flaherty & Crumrine.	—	—
Robert E. Chadwick 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 27	Assistant Treasurer	Since October 2002	Vice President of Flaherty & Crumrine since August 2001, and previously worked as portfolio manager for Koch Industries, Inc.	—	—

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† 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 which acts as the Fund's investment adviser.

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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 and Secretary
Peter C. Stimes, CFA
Vice President, Treasurer,
Chief Financial and
Accounting Officer
Robert E. Chadwick, CFA
Assistant Treasurer

Investment Adviser

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

Questions concerning your shares of 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 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.

Preferred Income Opportunity

F U N D

Annual Report

November 30, 2002

web site: www.preferredincome.com