

# FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND

Dear Shareholder:

The Flaherty & Crumrine Preferred Income Opportunity Fund ("PFO") wrapped up a very successful fiscal year on November 30, 2003. The Fund produced +3.0%<sup>(1)</sup> total return on net asset value ("NAV") during the fourth fiscal quarter, and +26.9%<sup>(1)</sup> for the full year. The market price of Fund shares also produced very strong returns. For the full fiscal year, the combination of income and share price appreciation totaled +24.9%. By any practical measure, those returns were very, very good.

There is also good news on the dividend. Beginning in December, the regular monthly dividend has increased to \$0.0755 per share from \$0.073, an increase of 3.4%. In addition, the Fund made a one-time extra distribution of \$0.03 per share, payable December 31 to holders of record on December 24, 2003. We have more to say about this in the Question and Answer section.

The table below compares the return on your Fund with a broad composite of fixed-income, closed-end funds. Although the investment strategies used by the Fund differ significantly from those of the typical bond fund, we believe that the Flaherty & Crumrine Preferred Income Opportunity Fund provides a better way of accomplishing a similar objective.

## AVERAGE TOTAL RETURN PER YEAR ON NET ASSET VALUE<sup>(1)</sup> FOR PERIODS ENDING NOVEMBER 30, 2003

	<u>ONE YEAR</u>	<u>FIVE YEARS</u>	<u>TEN YEARS</u>	<u>LIFE OF FUND<sup>(2)</sup></u>
Flaherty & Crumrine Preferred Income Opportunity Fund	26.9%	8.7%	9.6%	10.7%
Lipper Composite of Investment Grade Bond Funds <sup>(3)</sup>	9.5%	6.6%	6.8%	7.4%

(1) Based on monthly data provided by Lipper Inc. Distributions are assumed to be reinvested at NAV in accordance with Lipper's practice, which differs from the procedures used elsewhere in this report.

(2) Since inception on February 13, 1992.

(3) Includes all U.S. Government bond, mortgage bond and term trust and investment grade bond funds in Lipper's closed-end fund database at each point in time.

A number of factors contributed to the outstanding performance of the Fund over the past fiscal year, but three in particular stand out:

- A very favorable market for preferred securities;
- Successful execution of the Fund's hedging strategy; and
- Attractive financing rates on the Fund's Money Market Preferred ("MMP™") shares.

The demand for preferred securities increased steadily over the past year. This was especially true for preferred securities that pay dividends subject to new, lower tax rates. As we have discussed in the past, preferred securities can be divided into two broad categories—“hybrid preferreds” which pay *interest* and “traditional preferreds” which pay *dividends*. Prior to 2003, the distinction was most critical for corporations because they received favorable tax treatment on dividends. Starting in 2003, however, individuals will also be taxed at lower rates on dividends, and, as a result, have increasingly become buyers of traditional preferreds.

For several years the Fund has been steadily increasing its holdings of dividend-paying preferreds and thus has been well positioned to capitalize on the greater demand. These portfolio moves have been an important key to the Fund’s superior performance. 84.4% of the distributions made by PFO in 2003 to Common Shareholders is considered qualified dividend income for individual taxpayers. A more detailed discussion is included in the Q&A section.

The Fund’s hedging strategy played a very important role in fiscal 2003. Long-term U.S. Treasury interest rates ended the year at about the same level as where they began, slightly above 5%. Over the course of the year, however, interest rates were anything but stable. The Fund’s hedges performed according to design, and actually benefited from the volatility. The hedging strategy enabled the Fund to make a lot of money when interest rates declined during the spring, while protecting much of those gains as rates spiked back up during the summer.

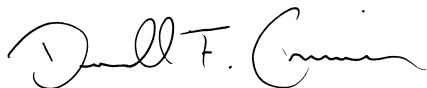
The Fund also benefited from low short-term interest rates, which kept the average rate the Fund paid on its shares of MMP™ below 1<sup>1</sup>/<sub>4</sub>%. Keep in mind that low short-term rates can be a double-edged sword—while reducing the cost of leverage, low rates typically make the Fund’s hedging strategy more expensive. In the case of PFO, the cost of the leverage and the cost of the hedge should move as if they are on opposite ends of a teeter-totter—when one is going up, the other should be falling (although not necessarily by the same amount). Over the past year, however, we managed to “bend the board”—leverage cost was low *and* active management of the hedge positions kept the hedge costs down.

During the past few months it seems as if each passing day has brought new revelations of misdeeds by open-end mutual funds. The abuses have been almost entirely the result of certain fund complexes permitting two different types of trading strategies in funds they manage—after-hour trades and rapid or excessive trading. **Not one of these alleged abuses has involved a closed-end fund.** Shares of closed-end funds, such as PFO, trade at prices determined in the market place rather than at the net asset value computed at the market’s close. As a result, these abusive trading techniques simply can’t work in closed-end funds. We address this topic in greater detail in the Q&A section, but we want our shareholders to know that in addition to the structural protection offered by the Fund, we are committed to following both the letter and spirit of the law, and to making certain that every investor is treated exactly the same.

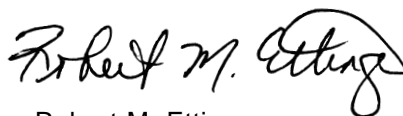
Our approach to managing your Fund is straightforward. We intensively study and monitor the fundamental credit quality of each potential investment, and carefully evaluate the specific terms of each individual issue. If all this research produces a suitable level of comfort, we then begin the process of assessing the appropriate price for the security. Since our investment philosophy is to own the issues that offer the best *overall* value within the universe of eligible securities, it often means that we pass up the temptation of issues offering higher absolute yields. If we make intelligent investments and continue to successfully implement the hedging strategy, then the Fund will have more money to invest and thus be able to generate more income over time. The process is arduous and ongoing, but rarely do good things come without substantial effort.

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

Sincerely,



Donald F. Crumrine  
Chairman of the Board



Robert M. Ettinger  
President

January 21, 2004

## QUESTIONS & ANSWERS

### WHY WAS THE FUND ABLE TO RAISE ITS DIVIDEND RATE?

A number of things contributed to the dividend increase, but the key factors were the management of the investment portfolio, the success of the hedging strategy and continued low short-term interest rates.

One proven strategy to increase income from an investment portfolio is to have a larger portfolio. Over the years, consistent, active management of the portfolio has been the surest way to make it grow. Sometimes our focus may be on specific securities and other times on broader sectors of the market, but the simple goal is to “buy ’em cheap and sell ’em dear”.

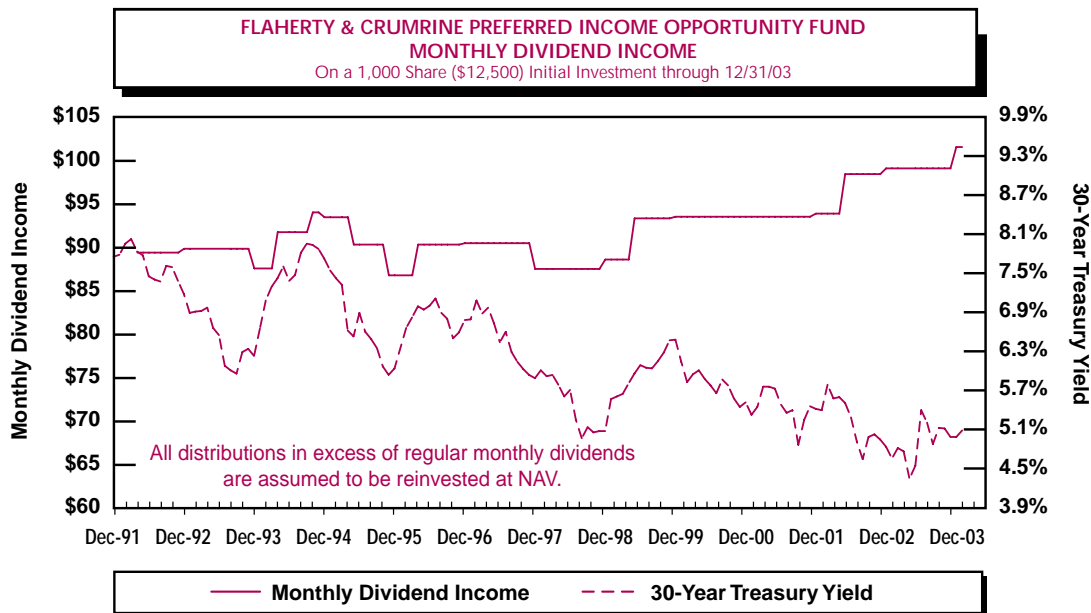
During the past year, almost anyone who purchased a preferred security probably made money. Producing returns like PFO, however, required owning the “right” preferreds. For example, the decision to increase the portfolio’s allocation to traditional preferreds was a major factor in this year’s performance.

We also actively manage the Fund’s hedge. This past spring, when yields on intermediate and long-term U.S. Treasury bonds were falling to historical lows, the Fund’s put option hedges quickly became worthless, but the prices on the Fund’s preferred securities kept going up! When yields reversed course and rose rapidly in mid-summer, gains on the hedge offset much of the decline in the value of the securities, and a portion of the hedge gains were used to purchase additional income producing securities.

Finally, Federal Reserve monetary policy has kept short-term yields very low. Since the rates paid by the Fund on its shares of Money Market Cumulative Preferred™ Stock (MMP™) are closely correlated to these yields, the Fund has more income available for shareholders.

### WHAT HAS HAPPENED TO THE FUND’S INCOME OVER TIME?

The following chart provides the clearest answer. The chart may look familiar—it has appeared several times in the past (it is one of our favorites because it clearly demonstrates the success of the Fund’s investment strategy). The solid line (measured on the left-hand scale) represents the monthly dollar income received from an original investment in 1,000 shares of the Fund. It is based on the assumption that the shareholder spent his or her regular monthly dividend income from the Fund and reinvested at net asset value only the portion of each special year-end distribution that was “above and beyond” the monthly dividends.



The chart's message is that the *monthly dividend income has increased since the inception of the Fund for shareholders that reinvested the "extra" distributions*. That increase is rather remarkable in view of the substantial decline in the interest rate on long-term U.S. Treasury bonds (the dashed line measured on the right-hand scale) over the life of the Fund from roughly 8% to slightly more than 5%.

**ARE DIVIDENDS PAID BY THE FUND ELIGIBLE FOR THIS YEAR'S LOWER TAX RATES?**

For individual investors in PFO, 84.39% of the distributions made by the Fund in *calendar year 2003* was *qualified dividend income*. For corporate investors, 83.98% was eligible for the inter-corporate dividend received deduction.

**WHAT PORTION OF 2004 DISTRIBUTIONS WILL BE QUALIFIED DIVIDEND INCOME?**

The short answer is "we don't know". The breakdown between dividends, interest and capital gains can only be determined once we close the books on the Fund's fiscal year-end, so the 2004 numbers can't be computed until a year from now.

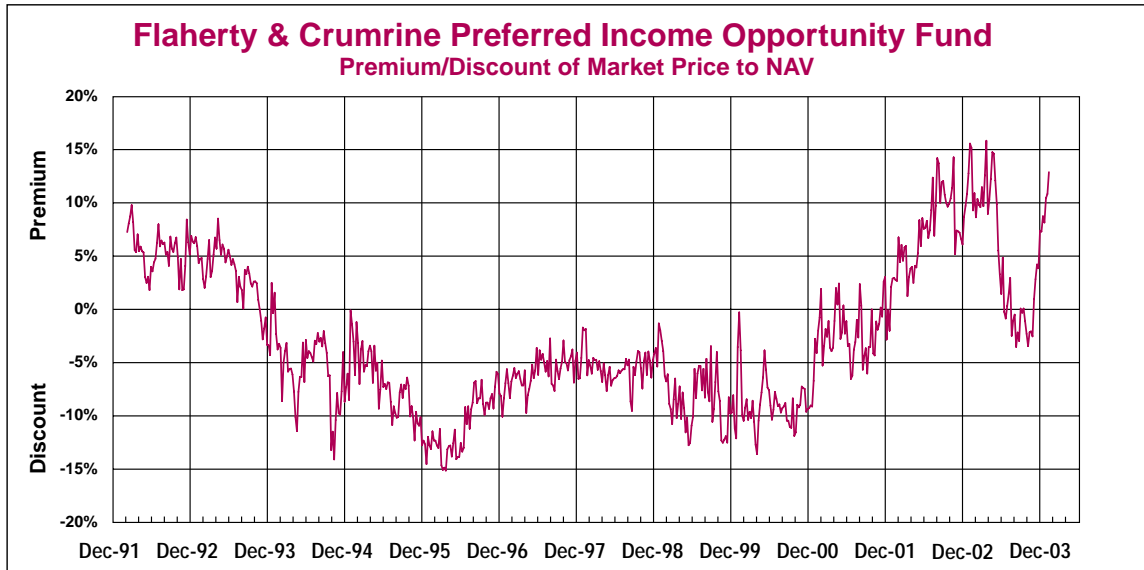
As can be seen in the attached portfolio listing, more than two thirds of the portfolio was invested in traditional preferred stocks at our fiscal year end. This percentage has increased since then simply because we believed these securities were undervalued. If the "pendulum of value" swings too far the other way and taxable (or "hybrid") preferreds look relatively more attractive, the portfolio composition may move more toward hybrids. In that scenario, the Fund's qualified dividend percentage would likely decline, but the dividend rate could possibly increase.

## HOW WILL THE FUND NOTIFY SHAREHOLDERS ABOUT HOW MUCH INCOME IS ELIGIBLE FOR THE LOWER TAX RATE?

If you are an individual investor and have possession of your Fund share certificate, you will receive Form 1099 from PFPC. If your shares are registered in the name of your brokerage firm, it will issue Form 1099 directly to you. In either case, Box 1b of Form 1099 includes “Qualified dividends” eligible for the lower tax rate.

## WHY HAS THE MARKET PRICE INCREASED RELATIVE TO THE NAV?

The following chart plots the relationship of market price to net asset value over the life of the Fund.



We can only speculate on what factors are driving the market price, but increased interest in qualified dividend income appears to be the primary reason.

## IS THE FUND SUSCEPTIBLE TO TRADING ABUSES LIKE THE ONES IN THE NEWS RECENTLY?

In a word, the answer is NO!

A critical difference between closed-end funds such as PFO and open-end mutual funds, which have been grabbing all the headlines, is the way in which they are purchased and sold.

Orders to buy or sell shares of PFO on the NYSE can be placed throughout the trading day, and limit prices can be specified. The investor has control over the transaction price, and the trade takes place only if there is a willing seller and buyer. This degree of control is not possible in an open-end mutual fund because orders placed throughout the day are completed *after* the close of business, based upon the closing net asset value.

Transactions in open-end mutual funds take place between the investor and the mutual fund company. At the close of business (typically 4:00 PM Eastern Time), the fund company computes the mutual fund's net asset value. This price is used to redeem shares from sellers or issue new shares to buyers who placed orders earlier that day. The rules prohibit fund companies from accepting orders after the close of business, but some fund companies have permitted favored clients to place orders *after* the close, but at that day's NAV. All gains from "late trading" are at the expense of the other investors in the fund.

The other frequently mentioned abuse in open-end mutual funds is fund companies permitting "frequent trading" practices by favored clients. Although not illegal, this practice may harm investors because these favored clients' gains are again at the expense of the other investors in the fund and usually force the fund to maintain larger cash positions than would otherwise be appropriate. Managers of closed-end funds don't face this problem either. If a holder of a closed-end fund wishes to sell shares, the market must facilitate the trade, not the fund. Therefore a closed-end fund can remain fully invested without regard to possible redemptions.

## FINANCIAL DATA

### Per Share of Common Stock

	Total Dividends Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price (1)
December 31, 2002 Extra . . . . .	\$0.1070	\$10.72	\$12.21	\$11.60
December 31, 2002 . . . . .	0.0730	10.72	12.21	11.60
January 31, 2003 . . . . .	0.0730	11.46	12.65	12.02
February 28, 2003 . . . . .	0.0730	11.46	12.57	11.94
March 31, 2003 . . . . .	0.0730	11.58	13.00	12.35
April 30, 2003 . . . . .	0.0730	11.76	12.59	11.96
May 31, 2003 . . . . .	0.0730	12.34	12.94	12.34
June 30, 2003 . . . . .	0.0730	12.60	12.60	12.60
July 31, 2003 . . . . .	0.0730	12.43	12.02	12.13
August 31, 2003 . . . . .	0.0730	12.44	12.40	12.41
September 30, 2003 . . . . .	0.0730	12.74	12.34	12.31
October 31, 2003 . . . . .	0.0730	12.68	13.04	12.68
November 30, 2003 . . . . .	0.0730	12.59	13.51	12.83
December 31, 2003 Extra . . . . .	0.0300	12.63	14.36	13.64
December 31, 2003 . . . . .	0.0755	12.63	14.36	13.64

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

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



**PORTFOLIO OF INVESTMENTS****November 30, 2003**

<u>Shares/\$ Par</u>	<u>Value (Note 2)</u>	<u>Shares/\$ Par</u>	<u>Value (Note 2)</u>
<b>PREFERRED SECURITIES — 92.4%</b>			
<b>ADJUSTABLE RATE PREFERRED SECURITIES — 9.9%</b>			
<b>BANKING — 9.4%</b>			
75,000	Cobank, Adj. Rate Pfd., 144A****	\$ 660,000	Deutsche Bank: BT Preferred Capital Trust II, 7.875% 02/25/27 Capital Security . . .
	J.P. Morgan Chase & Co.:	\$ 150,000	BT Capital Trust B, 7.90% 01/15/2027 Series B1, Capital Security . . . . .
108,625	Series A, Adj. Rate Pfd. . . . .	10,455,157*	168,317
18,000	Series L, Adj. Rate Pfd. . . . .	1,800,000*	GreenPoint Financial Corporation: GreenPoint Capital Trust I, 9.10% 06/01/27 Capital Security . . . .
146,700	Series N, Adj. Rate Pfd. . . . .	3,695,006*	7,962,031
	<b>TOTAL BANKING ADJUSTABLE RATE</b>	24,900	HSBC USA, Inc., \$2.8575 Pfd. . . . .
	<b>PREFERRED SECURITIES</b> . . . . .	20,138,163	1,273,511*
	<b>FINANCIAL SERVICES — 0.2%</b>	\$1,350,000	Keycorp Institutional Capital B, 8.25% 12/15/26 Capital Security . . . .
10,500	Bear Stearns Companies, Inc., Series A, Adj. Rate Pfd. . . . .	530,250*	1,543,286
	<b>UTILITIES — 0.3%</b>		Wachovia Corporation: First Union Capital II, 7.95% 11/15/29 Capital Security . . . .
12,265	Northern Indiana Public Service Company, Series A, Adj. Rate Pfd. . . . .	621,682*	605,468
	<b>TOTAL ADJUSTABLE RATE PREFERRED</b>		First Union Institutional Capital I, 8.04% 12/01/26 Capital Security . . . .
	<b>SECURITIES</b> . . . . .	21,290,095	1,978,311
	<b>FIXED RATE PREFERRED SECURITIES — 81.6%</b>		First Union Institutional Capital II, 7.85% 01/01/27 Capital Security . . . .
	<b>BANKING — 15.0%</b>		2,140,097
	ABN AMRO North America, Inc.:		<b>TOTAL BANKING FIXED RATE PREFERRED</b>
1,165	6.46% Pfd., 144A**** . . . . .	1,218,712*	<b>SECURITIES</b> . . . . .
3,500	6.59% Pfd., 144A**** . . . . .	3,660,142*	32,130,677
	BancWest Corporation:		<b>FINANCIAL SERVICES — 12.7%</b>
\$2,250,000	First Hawaiian Capital I, 8.343% 07/01/27 Capital Security, Series B . . . . .	2,570,490	Bear Stearns Companies, Inc.:
	Citigroup, Inc.:		5.49% Pfd., Series G . . . . .
98,435	5.864% Pfd., Series M . . . . .	5,142,244*	50,323
10,500	6.213% Pfd., Series G . . . . .	558,547*	57,323
5,500	6.231% Pfd., Series H . . . . .	294,938*	83,150
6,900	6.365% Pfd., Series F . . . . .	366,666*	159,505
25,000	Cobank, ABC, 7.00% Pfd., 144A**** . . . . .	1,286,375*	20,000
	Comerica, Inc.:		113,400
\$ 500,000	Comerica (Imperial) Capital Trust I, Series B, 9.98% 12/31/26 Pfd. Capital Security	622,728	Lehman Brothers Holdings, Inc.:
			5.67% Pfd., Series D . . . . .
			5.94% Pfd., Series C . . . . .
			6.50% Pfd., Series F . . . . .
			SLM Corporation, 6.97% Pfd., Series A . . . . .
			6,466,068*
			<b>TOTAL FINANCIAL SERVICES FIXED RATE</b>
			<b>PREFERRED SECURITIES</b> . . . . .
			27,355,270
			<b>INSURANCE — 9.6%</b>
			ACE, Ltd., 7.80% Pfd., Series C . . . . .
			1,253,255**
			AON Corporation: AON Capital Trust A, 8.205% 01/01/27 Capital Security . . .
			1,722,034

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

**PORTFOLIO OF INVESTMENTS (Continued)**

**November 30, 2003**

<u>Shares/\$ Par</u>	<u>Value (Note 2)</u>	<u>Shares/\$ Par</u>	<u>Value (Note 2)</u>
<b>PREFERRED SECURITIES — (Continued)</b>		55,982	REI Trust I,
<b>FIXED RATE PREFERRED SECURITIES — (Continued)</b>			7.20% TOPrS, Series C . . . . . \$ 1,311,098
<b>INSURANCE — (Continued)</b>		1,628	Central Hudson Gas & Electric Corporation,
1,250	Fortis Funding Trust,		4.35% Pfd., Series D, Pvt. . . . . 123,573*
	7.68% Pfd., 144A**** . . . . . \$ 1,423,838*		Central Illinois Light Company:
	SAFECO Corporation:	10,000	4.64% Pfd. . . . . 853,850*
\$ 500,000	SAFECO Capital Trust I,	7,000	5.85% Sinking Fund Pfd. . . . . 708,400*
	8.072% 07/15/37 Capital Security . . . . . 561,475	3,798	Central Maine Power Company,
	The St. Paul Companies, Inc.:		4.75% Pfd. . . . . 314,740*
\$4,895,000	MMI Capital Trust I,	27,798	Central Vermont Public Service Corporation,
	7.625% 12/15/27 Capital Security,		8.30% Pvt. Sinking Fund Pfd. . . . . 2,895,301*
	Series B . . . . . 5,224,458	5,300	Connecticut Light & Power Company,
	UnumProvident Corporation:		\$3.24 Pfd. . . . . 278,038*
\$5,889,000	Provident Financing Trust I,	2,000	Consolidated Edison Company of New York,
	7.405% 03/15/38 Capital Security . . . . . 5,085,593		4.65% Pfd., Series C . . . . . 174,220*
	Zurich RegCaPS Fund Trust I:		Dayton Power & Light Company:
4,000	6.01% Pfd., 144A**** . . . . . 4,023,120*	2,000	3.75% Pfd. . . . . 124,710*
1,200	6.58% Pfd., 144A**** . . . . . 1,211,874*	4,500	3.90% Pfd., Series C . . . . . 291,847*
	<b>TOTAL INSURANCE FIXED RATE</b>		Duke Energy Corporation:
	<b>PREFERRED SECURITIES . . . . . 20,505,647</b>	8,004	4.50% Pfd., Series C, Pvt. . . . . 649,965*
	<b>UTILITIES — 37.9%</b>	13,400	6.75% Pfd., Series X, Sinking Fund Pfd. 1,395,208*
	Alabama Power Company:	30,700	7.85% Pfd., Series S . . . . . 3,188,809*
4,980	4.60% Pfd. . . . . 438,813*	15,030	Duquesne Light Company,
6,485	4.72% Pfd. . . . . 586,309*		3.75% Pfd. . . . . 441,206*
668	4.92% Pfd. . . . . 62,952*	5,000	Energy East Capital Trust I,
5	4.95% Pfd. . . . . 519,218*		8.25% TOPrS . . . . . 134,175
93,400	5.20% Pfd. . . . . 2,293,437*	2,840	Entergy Arkansas, Inc.:
2,049	Appalachian Power Company,	3,050	4.56% Pfd. . . . . 205,872*
	5.92% Sinking Fund Pfd. . . . . 206,191*	13,500	4.56% Pfd., Series 1965 . . . . . 221,094*
23,750	Avista Corporation,	150	7.40% Pfd. . . . . 1,407,645*
	\$6.95 Sinking Fund Pfd., Series K . . . . . 2,303,750*	23,814	7.80% Pfd. . . . . 15,722*
10,000	Boston Edison Company,	1,050	\$1.96 Pfd. . . . . 605,114*
	4.78% Pfd. . . . . 874,950*	2,441	6.08% Pfd. . . . . 98,443*
13,395	Carolina Power & Light Company,		Entergy Gulf States, Inc.,
	\$5.44 Pfd. . . . . 1,303,400*		7.56% Pfd. . . . . 248,689*
	CenterPoint Energy, Inc.:	299	Entergy Louisiana, Inc.:
45,000	Houston Light & Power, Capital Trust I,	705	5.16% Pfd. . . . . 22,479*
	8.125% QUIPS . . . . . 1,128,375	3,771	6.44% Pfd. . . . . 65,216*
\$3,750,000	Houston Light & Power, Capital Trust II,	175,000	7.36% Pfd. . . . . 392,957*
	8.257%, 02/01/37 Capital Security,		8.00% Pfd., Series 92 . . . . . 4,420,500*
	Series B . . . . . 3,760,781		

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

**PORTFOLIO OF INVESTMENTS (Continued)****November 30, 2003**

<u>Shares/\$ Par</u>	<u>Value (Note 2)</u>	<u>Shares/\$ Par</u>	<u>Value (Note 2)</u>
<b>PREFERRED SECURITIES — (Continued)</b>		13,510	\$ 1,162,400*
<b>FIXED RATE PREFERRED SECURITIES — (Continued)</b>		12,722	Portland General Electric, 7.75%, Sinking Fund Pfd. . . . .
<b>UTILITIES — (Continued)</b>			1,322,325*
	Entergy Mississippi, Inc.:		Potomac Electric Power Company:
3,791	4.36% Pfd. . . . . \$ 255,438*	2,493	\$2.44 Pfd., Series 1957 . . . . .
8,500	7.44% Pfd. . . . . 881,917*	19,209	\$3.40 Sinking Fund Pfd. . . . .
	Hawaiian Electric Company, Inc.:		Public Service Enterprise Group, Inc.:
1,411	5.00% Pfd., Series D . . . . . 24,636*	10,900	Enterprise Capital Trust I, 7.44% TOPRS, Series A . . . . .
6,688	5.00% Pfd., Series E . . . . . 116,772*		275,825
23,600	HECO Capital Trust I, 8.05% QUIPS . . . . .	14,020	Public Service Electric & Gas Company, 5.28% Pfd., Series E . . . . .
5,291	Idaho Power Co., 7.68% Pfd., Series 1 . . . . .		1,265,726*
8,000	Indiana Michigan Power Company, 6.875% Sinking Fund Pfd. . . . .	5,060	Rochester Gas & Electric Corporation: 4.10% Pfd., Series J . . . . .
	811,400*	10,000	4.55% Pfd., Series M, Pvt. . . . .
30,500	Indianapolis Power & Light Company, 5.65% Pfd. . . . .	4,030	4.75% Pfd., Series I . . . . .
	2,557,272*	3,404	4.95% Pfd., Series K . . . . .
340,000	Interstate Power & Light Company, 8.375% Pfd., Series B . . . . .	20,000	6.60% Sinking Fund Pfd., Series V . . . . .
	10,825,600*	20,000	2,015,100*
4,500	Kentucky Utilities Company, 6.53% Pfd. . . . .	40,000	San Diego Gas & Electric Company: \$1.70 Pfd . . . . .
	465,773*	38,000	1,045,200*
	Mississippi Power Company:		\$1.7625 Sinking Fund Pfd. . . . .
15,000	6.32% Pfd. . . . . 386,850*	14,226	979,070*
5,087	7.00% Pfd. . . . . 531,998*	7,774	South Carolina Electric & Gas Company: 5.125% Purchase Fund Pfd., Pvt. . . . .
2,588	New York State Electric & Gas, \$4.50 Pfd., Series 1949 . . . . .	60,000	6.00% Purchase Fund Pfd., Pvt. . . . .
	204,051*		397,562*
	Ohio Power Company:		Southern Union Company, 7.55% Pfd. . . . .
3,018	4.20% Pfd. . . . . 224,026*		1,560,900*
1,251	4.40% Pfd. . . . . 97,278*	\$ 750,000	TXU US Holdings Company: TXU Electric Capital V, 8.175% 01/30/37 Capital Security . . . . .
2,500	5.90% Sinking Fund Pfd. . . . . 250,238*		813,476
	PECO Energy Company:		Virginia Electric & Power Company: \$4.04 Pfd. . . . .
1,100	\$4.30 Pfd., Series B . . . . . 87,137*	1,665	126,249*
5,000	\$4.40 Pfd., Series C . . . . . 405,275*	2,270	\$4.20 Pfd. . . . .
570	PSI Energy, Inc., 4.32% Pfd. . . . .	2,878	\$6.98 Pfd. . . . .
	10,782*	12,500	\$7.05 Pfd. . . . .
	PacifiCorp:	1,673	\$4.80 Pfd. . . . .
5,672	\$4.56 Pfd. . . . . 442,841*	2,262	150,712*
6,458	\$4.72 Pfd. . . . . 521,903*		Washington Gas & Light Company, \$4.25 Pfd. . . . .
14,000	\$7.48 Sinking Fund Pfd. . . . . 1,454,180*	15,000	180,044*
	Pacific Enterprises:		Xcel Energy, Inc.:
13,680	\$4.36 Pfd. . . . . 1,080,446*	20,040	\$4.08 Pfd., Series B . . . . .
11,910	\$4.50 Pfd. . . . . 970,844*	35,510	\$4.10 Pfd., Series C . . . . .
			\$4.11 Pfd., Series D . . . . .
			2,453,919*

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

**PORTFOLIO OF INVESTMENTS (Continued)**

**November 30, 2003**

<u>Shares/\$ Par</u>	<u>Value (Note 2)</u>	<u>Shares/\$ Par</u>	<u>Value (Note 2)</u>
<b>PREFERRED SECURITIES — (Continued)</b>		<b>INVERSE FLOATING RATE PREFERRED — 0.9%</b>	
<b>FIXED RATE PREFERRED SECURITIES — (Continued)</b>		18	Premium Assets, Series A, Zurich Financial Reg. Capital . . . . . \$ 1,854,596*
<b>UTILITIES — (Continued)</b>		<b>TOTAL PREFERRED SECURITIES</b>	
17,750	\$4.16 Pfd., Series E . . . . . \$ 1,241,524*	(Cost \$178,073,384) . . . . . <u>198,275,077</u>	
10,000	\$4.56 Pfd., Series G . . . . . <u>766,650*</u>	<b>CORPORATE DEBT SECURITIES — 0.7%</b>	
<b>TOTAL UTILITIES FIXED RATE PREFERRED SECURITIES</b>		15,000	Northern States Power Company, 8.00% Pfd., PINES . . . . . 414,825
. . . . . <u>81,358,269</u>		\$1,000,000	Oneamerica Financial Partners, 7.00% 10/15/33, 144A**** . . . . . <u>985,705</u>
<b>OIL AND GAS — 3.8%</b>		<b>TOTAL CORPORATE DEBT SECURITIES</b>	
17,200	Anadarko Petroleum Corporation, 5.46% Pfd. . . . . 1,695,662*	(Cost \$1,364,042) . . . . . <u>1,400,530</u>	
19,300	Apache Corporation, 5.68% Pfd., Series B . . . . . 1,936,176*	<b>COMMON STOCKS AND CONVERTIBLE SECURITIES — 4.3%</b>	
3,200	EOG Resources, Inc., 7.195% Pfd., Series B . . . . . 3,481,856*	5,000	American Electric Power, 9.25% Pfd. Convertible . . . . . 210,275
10,000	ENI, S.p.A.: Lasmo America Limited, 8.15% Pfd., 144A**** . . . . . <u>1,158,450*</u>	102,500	CenterPoint Energy, Inc. . . . . 994,250*
<b>TOTAL OIL AND GAS FIXED RATE PREFERRED SECURITIES</b>		1,304	Conseco, Inc. . . . . 25,187*†
. . . . . <u>8,272,144</u>		5,216	Conseco, Inc., Warrants . . . . . 33,382*†
<b>MISCELLANEOUS INDUSTRIES — 2.6%</b>		97,500	Duke Energy Corporation . . . . . 1,761,825*
13,600	E.I. Du Pont de Nemours and Company, \$4.50 Pfd., Series B . . . . . 1,249,976*	65,000	FPL Group, Inc., 8.50% Pfd. Convertible . . . . . 3,668,600
36,200	Farmland Industries, Inc., 8.00% Pfd., 144A**** . . . . . 31,675†*	80,831	Reliant Resources, Inc. . . . . 531,464†
40,000	Health Care Property Investments, 7.10% Pfd., Series F, REIT . . . . . 984,800	40,000	TXU Corporation, 8.75% Pfd. Convertible . . . . . 1,283,600
30,500	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A**** . . . . . 2,306,715*	25,000	UnumProvident Corporation, 8.25% Pfd. Convertible . . . . . <u>803,750</u>
26,000	Touch America Holdings, \$6.875 Pfd. . . . . 39,000†*	<b>TOTAL COMMON STOCKS AND CONVERTIBLE SECURITIES</b>	
9,520	Viad Corporation, \$4.75 Sinking Fund Pfd. . . . . <u>896,213*</u>	(Cost \$10,034,807) . . . . . <u>9,312,333</u>	
<b>TOTAL MISCELLANEOUS INDUSTRIES FIXED RATE PREFERRED SECURITIES</b>		<b>OPTION CONTRACTS — 1.2% (Cost \$2,151,157)</b>	
. . . . . <u>5,508,379</u>		1,290	Put Options on U.S. Treasury, Bond, March Futures, Expiring 02/21/04 . . . . . <u>2,523,594†</u>
<b>TOTAL FIXED RATE PREFERRED SECURITIES</b>			
. . . . . <u>175,130,386</u>			

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

**PORTFOLIO OF INVESTMENTS (Continued)****November 30, 2003**

<u>Shares/\$ Par</u>		<u>Value (Note 2)</u>
<b>MONEY MARKET FUND — 0.8%</b> (Cost \$1,814,739)		
1,814,739	BlackRock Provident Institutional TempFund, 0.95%	<u>\$ 1,814,739</u>
<b>TOTAL INVESTMENTS</b>		
(Cost \$193,438,129***)	99.4%	213,326,273
<b>OTHER ASSETS AND LIABILITIES (Net)</b>	0.6%	<u>1,084,406</u>
<b>TOTAL NET ASSETS AVAILABLE TO COMMON AND PREFERRED STOCK</b>	100.0%†	<u>\$214,410,679</u>
<b>MONEY MARKET CUMULATIVE PREFERRED™ STOCK (MMP™) REDEMPTION VALUE</b>		(70,000,000)
<b>ACCUMULATED UNDECLARED DISTRIBUTIONS</b>		
<b>TO MMP™</b>		<u>(107,757)</u>
<b>TOTAL NET ASSETS AVAILABLE TO COMMON STOCK</b>		<u><u>\$144,302,922</u></u>

\* Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.

\*\* Securities distributing Qualified Dividend Income only.

\*\*\* Aggregate cost of securities held.

\*\*\*\* Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers.

† 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 7):**

<b>PINES</b>	— Public Income Notes
<b>QUIPS</b>	— Quarterly Income Preferred Securities
<b>REIT</b>	— Real Estate Investment Trust
<b>TOPrS</b>	— Trust Originated Preferred Securities
<b>Pfd.</b>	— Preferred Securities
<b>Pvt.</b>	— 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.

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

## STATEMENT OF ASSETS AND LIABILITIES

November 30, 2003

### ASSETS:

Investments, at value (Cost \$193,438,129) (See accompanying Portfolio of Investments) . . . . .	\$213,326,273
Receivable for Investments sold . . . . .	318,917
Dividends and interest receivable . . . . .	2,014,518
Prepaid expenses. . . . .	<u>109,388</u>
Total Assets. . . . .	<u>215,769,096</u>

### LIABILITIES:

Payable for securities purchased . . . . .	\$ 1,000,000
Dividends payable to Common Shareholders . . . . .	126,953
Investment advisory fee payable. . . . .	98,603
Administration, Transfer Agent and Custodian fees and expenses payable . . . . .	27,580
Professional fees payable. . . . .	59,681
Directors' fees payable . . . . .	3,271
Accrued expenses and other payables . . . . .	42,329
Accumulated undeclared distributions to Money Market Cumulative Preferred™ Stock. . . . .	<u>107,757</u>
Total Liabilities. . . . .	<u>1,466,174</u>

<b>Money Market Cumulative Preferred™ Stock (700 shares outstanding) redemption value . . . . .</b>	<u>70,000,000</u>
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**NET ASSETS AVAILABLE TO COMMON STOCK. . . . .** \$144,302,922

### NET ASSETS AVAILABLE TO COMMON STOCK consist of:

Undistributed net investment income . . . . .	\$ 356,326
Accumulated net realized loss on investments sold. . . . .	(8,384,407)
Unrealized appreciation of investments. . . . .	19,888,144
Par value of Common Stock. . . . .	114,610
Paid-in capital in excess of par value of Common Stock . . . . .	<u>132,328,249</u>
Total Net Assets Available to Common Stock . . . . .	<u><u>\$144,302,922</u></u>

### NET ASSET VALUE PER SHARE OF COMMON STOCK:

Common Stock (11,461,050 shares outstanding) . . . . .	<u><u>\$ 12.59</u></u>
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The accompanying notes are an integral part of the financial statements.

**STATEMENT OF OPERATIONS**  
**For the Year Ended November 30, 2003**

**INVESTMENT INCOME:**

Dividends .....	\$11,054,535
Interest .....	<u>2,744,519</u>
Total Investment Income .....	13,799,054

**EXPENSES:**

Investment advisory fee .....	\$1,160,562
Administrator's fee .....	208,577
Money Market Cumulative Preferred™ Stock broker commissions and auction agent fees .....	190,189
Professional fees .....	111,677
Insurance expense .....	149,369
Shareholder servicing agent fees and expenses .....	82,026
Directors' fees and expenses .....	72,993
Custodian fees and expenses .....	23,606
Other .....	<u>117,306</u>
Total Expenses .....	<u>2,116,305</u>

<b>NET INVESTMENT INCOME</b> .....	<u>11,682,749</u>
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**REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS**

Net realized gain on investments sold during the year .....	2,447,429
Change in unrealized appreciation of investments during the year . . . .	<u>18,626,279</u>

<b>NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS</b> .....	<u>21,073,708</u>
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**DISTRIBUTIONS TO MONEY MARKET CUMULATIVE PREFERRED™  
 STOCK SHAREHOLDERS:**

From net investment income (including changes in accumulated undeclared distributions) .....	<u>(920,912)</u>
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<b>NET INCREASE IN NET ASSETS TO COMMON STOCK RESULTING      FROM OPERATIONS</b> .....	<u><u>\$31,835,545</u></u>
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The accompanying notes are an integral part of the financial statements.

**STATEMENTS OF CHANGES IN NET ASSETS**

	<u>Year Ended November 30, 2003</u>	<u>Year Ended November 30, 2002</u>
<b>OPERATIONS:</b>		
Net investment income . . . . .	\$ 11,682,749	\$ 12,180,026
Net realized gain/(loss) on investments sold during the period . . . . .	2,447,429	(3,508,136)
Change in net unrealized appreciation/(depreciation) of investments sold during the period . . . . .	18,626,279	(6,414,650)
Distributions to Money Market Cumulative Preferred™ Stock Shareholders from net investment income, including changes in accumulated undeclared distributions . . . . .	<u>(920,912)</u>	<u>(1,243,631)</u>
Net increase in net assets resulting from operations . . . . .	31,835,545	1,013,609
<b>DISTRIBUTIONS:</b>		
Dividends paid from net investment income to Common Stock Shareholders . . . . .	(11,222,895)	(10,296,991)
Distributions paid from net realized capital gains to Common Stock Shareholders . . . . .	<u>—</u>	<u>—</u>
<b>FUND SHARE TRANSACTIONS:</b>		
Increase from Common Stock transactions . . . . .	<u>1,431,926</u>	<u>1,749,231</u>
<b>NET INCREASE/(DECREASE) IN NET ASSETS TO COMMON STOCK FOR THE YEAR . . . . .</b>	<b>22,044,576</b>	<b>(7,534,151)</b>
<b>NET ASSETS AVAILABLE TO COMMON STOCK:</b>		
Beginning of year . . . . .	<u>122,258,346</u>	<u>129,792,497</u>
End of year (including undistributed net investment income of \$356,326 and \$756,099, respectively) . . . . .	<u><u>\$144,302,922</u></u>	<u><u>\$122,258,346</u></u>

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



**FINANCIAL HIGHLIGHTS****For a Common Share outstanding throughout each period.**

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

	Year Ended November 30,				
	2003	2002	2001	2000	1999
<b>OPERATING PERFORMANCE:</b>					
Net asset value, beginning of period . . . . .	\$ 10.78	\$ 11.60	\$ 10.68	\$ 11.50	\$ 13.50
<b>INVESTMENT OPERATIONS:</b>					
Net investment income . . . . .	1.02	1.07	1.10	1.18	1.14
Net realized and unrealized gain/(loss) on investments . . . . .	1.85	(0.87)	0.89	(0.33)	(1.24)
<b>DISTRIBUTIONS TO MMP™* SHAREHOLDERS:</b>					
From net investment income . . . . .	(0.08)	(0.11)	(0.25)	(0.32)	(0.25)
From net realized capital gains . . . . .	—	—	—	(0.02)	(0.09)
Total from investment operations . . . . .	2.79	0.09	1.74	0.51	(0.44)
<b>DISTRIBUTIONS TO COMMON SHAREHOLDERS:</b>					
From net investment income . . . . .	(0.98)	(0.91)	(0.82)	(0.91)	(0.96)
From net realized capital gains . . . . .	—	—	—	(0.42)	(0.60)
Total distributions . . . . .	(0.98)	(0.91)	(0.82)	(1.33)	(1.56)
Net asset value, end of period . . . . .	\$ 12.59	\$ 10.78	\$ 11.60	\$ 10.68	\$ 11.50
Market value, end of period . . . . .	\$ 13.51	\$ 11.72	\$ 11.27	\$ 9.563	\$ 10.50
Total investment return based on net asset value** . . . . .	26.57%	0.63%	16.97%	5.88%	(2.99)%
Total investment return based on market value** . . . . .	24.92%	12.61%	26.95%	3.80%	(7.12)%
<b>RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:</b>					
Total net assets, end of period (in 000's) . . . . .	\$144,303	\$122,258	\$129,792	\$119,069	\$128,200
Operating expenses . . . . .	1.54%	1.56%	1.61%	1.59%	1.53%
Net investment income*** . . . . .	7.85%	8.67%	7.63%	7.93%	6.81%
<b>SUPPLEMENTAL DATA:†</b>					
Portfolio turnover rate . . . . .	28%	29%	41%	67%	64%
Total net assets available to Common and Preferred Stock, end of period (in 000's) . . . . .	\$214,411	\$192,361	\$200,228	\$189,666	\$199,060
Ratio of operating expenses to total average net assets available to Common and Preferred Stock . . . . .	1.02%	1.00%	1.03%	1.00%	1.01%

\* Money Market Cumulative Preferred™ Stock.

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

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

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

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

## **FINANCIAL HIGHLIGHTS (Continued)**

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

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

(1) See Note 6.

(2) 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.

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

## **1. Organization**

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

## **2. Significant Accounting Policies**

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

*Portfolio valuation:* The net asset value of the Fund's Common Stock is determined by the Fund's Administrator no less frequently than on the last business day of each week and month. It is determined by dividing the value of the Fund's net assets available to common stock by the number of shares of Common Stock outstanding. The value of the Fund's net assets attributable to common 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.

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

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*Securities transactions and investment income:* Securities transactions are recorded as of the trade date. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded on ex-dividend dates. Interest income is recorded on the accrual basis. The Fund also amortizes premiums and accretes discounts on those fixed income securities, including capital securities and bonds, which trade and are quoted on an “accrued income” basis.

The AICPA Audit and Accounting Guide, Audits of Investment Companies, requires that, for book accounting purposes, the Fund amortize premiums and accrete discounts 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 was not required to amortize premiums and accrete discounts for these securities. Adopting these accounting principles has not affected the Fund’s net asset value, but changes the classification of certain amounts between interest income and realized and unrealized gain/loss in the Statement of Operations. The adoption of this principle was not material to the financial statements.

The Statements 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 (“Shareholder”). 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

**NOTES TO FINANCIAL STATEMENTS (Continued)**

Shareholders as a credit against their own tax liabilities.

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

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

Distributions from net realized gains for book purposes may include short-term capital gains, which are included as ordinary income for tax purposes, and may exclude amortization of premium on "accrued income" securities, which are not reflected in ordinary income for tax purposes. The tax character of distributions paid, including changes in accumulated undeclared distributions to MMP™ shareholders, during 2003 and 2002 was as follows:

	<u>Distributions paid in fiscal year 2003</u>		<u>Distributions paid in fiscal year 2002</u>	
	<u>Ordinary Income</u>	<u>Long-Term Capital Gains</u>	<u>Ordinary Income</u>	<u>Long-Term Capital Gains</u>
Common	\$11,222,895	—	\$10,296,991	—
Preferred	\$ 920,912	—	\$ 1,243,631	—

As of November 30, 2003, 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>
\$(7,603,945)	\$671,767	—	\$19,107,682

At November 30, 2003, the composition of the Fund's \$7,603,945 accumulated realized capital losses was \$5,163,910, \$982,343 and \$1,457,692 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. The Fund is subject to pay an estimated \$20,500 of Federal excise taxes attributable to calendar year 2003. During the fiscal year ending November 30, 2003, the Fund paid \$10,293 of Federal excise taxes attributable to calendar year 2002.

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

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### **3. Investment Advisory Fee, Directors' Fees, Administration Fee, Transfer Agent Fee and Custodian Fee**

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

The Fund currently pays each Director who is not a director, officer or employee of the Adviser a fee of \$9,000 per annum, plus \$500 for each in-person meeting of the Board of Directors or any committee and \$150 for each telephone meeting. Effective October 17, 2003, the Audit Committee Chairman will receive an annual fee of \$2,500. 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 through October 31, 2003. Effective November 1, 2003, the fee structure changed to a monthly fee at an annual rate of 0.10% on the first \$200 million of the Fund's average weekly total managed assets, 0.04% on the next \$300 million of the Fund's average weekly total managed assets, 0.03% on the next \$500 million of the Fund's average weekly total managed assets and 0.02% on the Fund's average weekly total managed assets above \$1 billion.

PFPC Inc. also serves as the Fund's Common Stock servicing agent (transfer agent), dividend-paying agent and registrar and, as compensation for PFPC Inc.'s services as such, the Fund paid 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 through October 31, 2003. Effective November 1, 2003, the fee structure changed to a fee at an annual rate of 0.02% on the first \$150 million of the Fund's average weekly net assets attributable to common shares, 0.01% on the next \$350 million of the Fund's average weekly net assets attributable to common shares, 0.005% on the next \$500 million of the Fund's average weekly net assets attributable to common shares and 0.0025% on the Fund's average weekly net assets attributable to common shares above \$1 billion, plus certain out of pocket expenses. For the purpose of calculating such fee, the Fund's average weekly net assets attributable to common shares will be deemed to be the average weekly value of the Fund's total assets minus the sum of the Fund's liabilities, and accumulated dividends, if any, on Preferred Stock. For this calculation, the Fund's liabilities are deemed to *include* the aggregate liquidation preference of any outstanding Fund preferred shares.

PFPC Trust Company ("PFPC Trust") serves as the Fund's Custodian. PFPC Trust is an indirect subsidiary of PNC Financial Services. As compensation for PFPC Trust's services as custodian, the

**NOTES TO FINANCIAL STATEMENTS (Continued)**

Fund paid 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 through October 31, 2003. Effective November 1, 2003, the fee structure changed to a monthly fee at an annual rate of 0.010% on the first \$200 million of the Fund's average weekly total managed assets, 0.008% on the next \$300 million of the Fund's average weekly total managed assets, 0.006% on the next \$500 million of the Fund's average weekly total managed assets and 0.005% on the Fund's average weekly total managed assets above \$1 billion.

**4. Purchases and Sales of Securities**

Cost of purchases and proceeds from sales of securities for the year ended November 30, 2003, excluding short-term investments, aggregated \$61,522,402 and \$56,197,595, respectively.

At November 30, 2003, aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$25,777,048 and aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$6,669,366.

**5. Common Stock**

At November 30, 2003, 240,000,000 shares of \$0.01 par value Common Stock were authorized.

Common Stock transactions were as follows:

	<u>Year Ended 11/30/03</u>		<u>Year Ended 11/30/02</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>119,617</u>	<u>\$1,431,926</u>	<u>152,365</u>	<u>\$1,749,231</u>

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

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

The Fund is required to meet certain asset coverage tests with respect to the MMP™ 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, MMP™ 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

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

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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 MMP™ Stock, which was previously classified as a component of total 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 Stock Shareholders.

If the Fund allocates any net gains or income ineligible for the Dividends Received Deduction to shares of the MMP™ Stock, the Fund is required to make additional distributions to MMP™ 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 MMP™ Stock at November 30, 2003 included an accrued additional distribution of \$38,068. The amount subsequently calculated and then paid to the MMP™ Stock Shareholders for the fiscal year ended November 30, 2003 was \$36,841 (See Note 11 - "Subsequent Events.")

Estimates of additional distributions payable to MMP™ Stock are accrued on a regular basis in advance of declaration. 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.

An auction of the MMP™ 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. MMP™ Stock Shareholders may also trade shares in the secondary market between auction dates.

At November 30, 2003, 700 shares of MMP™ Stock were outstanding at the annual rate of 1.12%. 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.

### **7. Portfolio Investments, Concentration and Investment Quality**

The Fund invests primarily in traditional DRD-eligible preferred securities (i.e., adjustable and fixed rate preferred and preference stocks) and similar hybrid, i.e., fully taxable, preferred securities. Under normal market conditions, at least 80% of the value of the Fund's net assets will be invested in preferred securities. Also, under normal market conditions, the Fund invests at least 25% of its assets in securities issued by utilities and a significant percentage, but no more than 25% of its assets, in securities issued by companies in the banking industry. Because of the Fund's concentration of investments in the utility industry and significant holdings in the banking industry, the ability of the fund to maintain its dividend and



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**NOTES TO FINANCIAL STATEMENTS (Continued)**

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the value of the Fund's investments could be adversely affected by the possible inability of companies in these industries to pay dividends and interest on their securities and the ability of holders of securities of such companies to realize any value from the assets of the issuer upon liquidation or bankruptcy.

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

## **8. Special Investment Techniques**

The Fund may employ certain investment techniques in accordance with its fundamental investment policies. These may include the use of when-issued and delayed delivery transactions. Securities purchased or sold on a when-issued or delayed delivery basis may be settled within 45 days after the 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, 2003, the Fund owned put options on U.S. Treasury bond futures contracts. No assurance can be given that such transactions will achieve their desired purposes or will result in an overall reduction of risk to the Fund.

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated:

We have audited the accompanying statement of assets and liabilities of Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated (formerly, Preferred Income Opportunity Fund Incorporated), including the fund's portfolio of investments, as of November 30, 2003, and the related statement of operations for the year then ended, statement 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 three-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with 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, 2003 by correspondence with the custodian and brokers. As to securities purchased or sold but not yet received or delivered, we performed other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated as of November 30, 2003, the results of its operations for the year then ended, changes in its net assets for each of the years in the two-year period then ended and financial highlights for each of the years in the three-year period then ended in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

Boston, Massachusetts

January 16, 2004

**SUPPLEMENTARY TAX INFORMATION (Unaudited)**

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For Fiscal 2003, the distributions attributable both to Common Stock and MMP™ are characterized as follows for purposes of Federal income taxes: for individual investors, 84.99% consisted of Qualified Dividend Income (“QDI”) eligible for the maximum 15% personal tax rate while 15.01% consisted of ordinary income taxable at regular personal tax rates. For corporate investors, 84.59% consisted of income eligible for the inter-corporate Dividends Received Deduction (“DRD”) while 15.41% consisted of ordinary income taxable at regular corporate rates.

For Calendar 2003, the distributions to Common Stock are characterized as follows for purposes of Federal income taxes: for individual investors, 84.39% consisted of Qualified Dividend Income (“QDI”) eligible for the maximum 15% personal tax rate while 15.61% consisted of ordinary income taxable at regular personal tax rates. For corporate investors, 83.99% consisted of income eligible for the inter-corporate Dividends Received Deduction (“DRD”) while 16.01% consisted of ordinary income taxable at regular corporate rates.

## **ADDITIONAL INFORMATION (Unaudited)**

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### **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 period ended November 30, 2003, \$926 in brokerage commissions were incurred.

## **ADDITIONAL INFORMATION (Unaudited) (Continued)**

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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 by PFPC Inc. under the Plan.

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

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

### **Proxy Voting Policies**

The Fund's proxy voting policies and procedures are available (i) without charge, upon request, by calling the Fund's transfer agent at 1-800-331-1710, (ii) on the Fund's website at [www.preferredincome.com](http://www.preferredincome.com) and (iii) on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

### **Portfolio Management Team**

In managing the day-to-day operations of the Fund, the Adviser relies on the expertise of its team of money management professionals, consisting of Messrs. Crumrine, Ettinger, Stimes, Stone and Chadwick. The professional backgrounds of each member of the management team are included in the "Information about Fund Directors and Officers" section of this report beginning on page 31.

## **ADDITIONAL INFORMATION (Unaudited) (Continued)**

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### **Subsequent Events**

As a result of the income realized by the Fund that did not qualify for the inter-corporate Dividends Received Deduction ("DRD"), a portion of the distributions paid to the Fund's Money Market Cumulative Preferred™ Stock shareholders from January 1, 2003 through November 30, 2003 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 22, 2003, the Fund declared an additional distribution of \$36,841, payable December 24, 2003, to Money Market Cumulative Preferred™ Stock shareholders as required by the Fund's Articles Supplementary (See Note 6.)

**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>
<b>NON-INTERESTED DIRECTORS:</b>					
<b>Martin Brody</b> c/o HMK Associates 30 Columbia Turnpike Florham Park, NJ 07932 Age: 82	Director	Class I Director since 1992	Retired	4	Director, Jaclyn, Inc. (luggage and accessories). Director Emeritus, Smith Barney Mutual Funds (18 Funds). Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine/ Claymore Preferred Securities Income Fund and Flaherty & Crumrine/ Claymore Total Return Fund.
<b>David Gale</b> Delta Dividend Group, Inc. 220 Montgomery Street Suite 426 San Francisco, CA 94104 Age: 54	Director	Class I Director since 1997	President & CEO of Delta Dividend Group, Inc. (investments).	4	Director, Golden State Vintners, Inc. (wine pressing). Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine/ Claymore Preferred Securities Income Fund and Flaherty & Crumrine/ Claymore Total Return Fund.

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

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

**Class II Directors** – three year term expires at the Fund's 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.

**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>
<b>NON-INTERESTED DIRECTORS:</b>					
<b>Morgan Gust†</b> Giant Industries, Inc. 23733 N. Scottsdale Road Scottsdale, AZ 85255 Age: 56	Director	Class III Director since 1992	From March 2002, President of Giant Industries, Inc. (petroleum refining and marketing); and for more than five years prior thereto, Executive Vice President, and various other Vice President positions at Giant Industries, Inc.	4	Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine/Claymore Preferred Securities Income Fund and Flaherty & Crumrine/Claymore Total Return Fund.
<b>Robert F. Wulf</b> 3560 Deerfield Drive South Salem, OR 97302 Age: 66	Director	Class II Director since 1992	Financial Consultant; Trustee, University of Oregon Foundation; Trustee, San Francisco Theological Seminary.	4	Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine/Claymore Preferred Securities Income Fund and Flaherty & Crumrine/Claymore Total Return Fund.

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

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

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



**ADDITIONAL INFORMATION (Unaudited) (Continued)**

<u>Name, Address, and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served*</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Funds in Fund Complex Overseen by Director</u>	<u>Other Directorships Held by Director</u>
<b>INTERESTED DIRECTORS:</b>					
<b>Donald F. Crumrine†, ††</b> 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 56	Director, Chairman of the Board and Chief Executive Officer	Class II Director since 1992	Chairman of the Board, Director of Flaherty & Crumrine.	4	Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine/ Claymore Preferred Securities Income Fund and Flaherty & Crumrine/ Claymore Total Return Fund.
<b>Robert M. Ettinger††</b> 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 45	Director, President	Class III Director since 2002	President and Director of Flaherty & Crumrine.	2	Flaherty & Crumrine Preferred Income Fund.
<b>OFFICERS:</b>					
<b>Peter C. Stimes</b> 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 48	Chief Financial Officer, Chief Accounting Officer, Vice President, Treasurer, and Assistant Secretary	Since 1992	Vice President of Flaherty & Crumrine.	—	—

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

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

**Class II Directors** – three year term expires at the Fund's 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.

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

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

**ADDITIONAL INFORMATION (Unaudited) (Continued)**

<u>Name, Address, and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Funds in Fund Complex Overseen by Director</u>	<u>Other Directorships Held by Director</u>
<b>OFFICERS:</b>					
<b>Bradford S. Stone</b> 392 Springfield Avenue Mezzanine Suite Summit, NJ 07901 Age: 44	Vice President and Assistant Treasurer	Since July 2003	Since May 2003, Vice President of Flaherty & Crumrine; from June 2001 to April 2003, Director of US Market Strategy at Barclays Capital; from February 1987 to June 2001, Vice President of Goldman, Sachs & Company as Director of US Interest Rate Strategy and, previously, Vice President of Interest Rate Product Sales.	—	—
<b>R. Eric Chadwick</b> 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 28	Vice President, Secretary and Assistant Treasurer	Since October 2002	Since August 2001, Vice President of Flaherty & Crumrine, from January 1997 through November 1998, portfolio manager of Koch Industries, Inc.	—	—

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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  
Peter C. Stimes, CFA  
Chief Financial Officer,  
Chief Accounting Officer,  
Vice President, Treasurer,  
and Assistant Secretary  
Bradford S. Stone  
Vice President and  
Assistant Treasurer  
R. Eric Chadwick, CFA  
Vice President, Secretary and  
Assistant Treasurer

**Investment Adviser**

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

**Questions concerning your shares of Flaherty & Crumrine Preferred Income Opportunity Fund?**

- If your shares are held in a Brokerage Account, contact your Broker.
- If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent & Shareholder Servicing Agent --  
PFPC Inc.  
P.O. Box 43027  
Providence, RI 02940-3027  
1-800-331-1710

**This report is sent to shareholders of Flaherty & Crumrine Preferred Income Opportunity Fund 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.**

*Flaherty & Crumrine  
Preferred  
Income  
Opportunity*  

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**F U N D**

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**Annual  
Report**

**November 30, 2003**

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