

PREFERRED INCOME OPPORTUNITY FUND INCORPORATED

Dear Shareholder:

The bond and preferred securities markets paused for a rest in the first quarter of fiscal 2002, and the Preferred Income Opportunity Fund reflected the lull. The Fund's total return on net asset value ("NAV") "broke even" for the three months ending February 28, 2002. For the trailing twelve months through February, the total return on NAV of 10.8% was considerably more robust.

The recent steady stream of upbeat economic reports suggests that the economic slump in this country may have hit bottom. So far, the Federal Reserve has held short-term interest rates steady at very low levels, reflecting the tentative nature of a potential business recovery. The Fed also appears to be taking comfort from the lack of visible inflationary pressures (with the possible exception of oil prices).

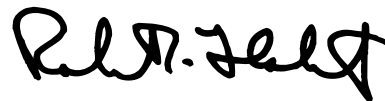
Low short-term interest rates hold down the cost of the Fund's leverage, which boosts our net income. This is the same phenomenon that recently allowed the Fund to pay a year-end extra dividend. It is entirely possible that increases in short-term rates in upcoming months could cut into this "surplus income". For the moment, however, income is starting to accumulate again.

Long-term interest rates seem to be anticipating stronger demand for capital as the economy recovers. Long-term Treasury yields edged up just over $\frac{1}{8}\%$ in the first fiscal quarter, which was not enough to make the Fund's hedges "pay off". However, a more dramatic jump in long-term rates so far in March has since put those hedges "in-the-money". The Fund's hedges are a key component of its strategy that is generally expected to result in income increasing when interest rates rise significantly, while being relatively resistant to the impact of significant declines in rates.

Despite signs of a possible economic recovery, many sectors of the securities markets are still feeling the effects of the binge that the economy enjoyed before its fall. The Enron/Arthur Andersen debacle is the most obvious example. The bottom line is that financial excess is "out", and fiscal conservatism and full disclosure are making a comeback. The adjustment is painful for some, but it is good medicine for the future.

We have a birthday to celebrate. The Fund turned ten years old in February. As a result, services such as Morningstar and Lipper now include the Fund's ten-year track record. With an annualized total return on NAV of 10.2% for the ten years through February 28, 2002, this can't hurt! Check our web site at www.preferredincome.com for more of the numbers.

Sincerely,



Robert T. Flaherty
Chairman of the Board

March 21, 2002

Preferred Income Opportunity Fund Incorporated

SUMMARY OF INVESTMENTS

February 28, 2002 (Unaudited)

	<u>Value (000's)</u>	<u>Percent of Total Net Assets</u>
Adjustable Rate Preferred Securities		
Utilities	\$ 19,929	10.1%
Banking	6,396	3.3
Financial Services	1,056	0.5
Total Adjustable Rate	<u>27,381</u>	<u>13.9</u>
Fixed Rate Preferred Securities		
Utilities	67,618	34.3
Banking	28,110	14.2
Financial Services	29,605	15.0
Insurance	16,678	8.5
Oil and Gas	11,803	6.0
Miscellaneous Industries	6,878	3.5
Total Fixed Rate	<u>160,692</u>	<u>81.4</u>
Inverse Floating Rate Preferred Securities	2,123	1.1
TOTAL PREFERRED SECURITIES	190,196	96.4
MONEY MARKET FUNDS	4,964	2.5
PURCHASED PUT OPTIONS	1,372	0.7
TOTAL INVESTMENTS	196,532	99.6
OTHER ASSETS AND LIABILITIES (Net)	840	0.4
TOTAL NET ASSETS	<u>\$197,372</u>	<u>100.0%</u>

FINANCIAL DATA

Per Share of Common Stock (Unaudited)

	<u>Dividend Paid</u>	<u>Net Asset Value</u>	<u>NYSE Closing Price</u>	<u>Dividend Reinvestment Price (1)</u>
December 31, 2001	\$0.1360	\$11.49	\$11.85	\$11.49
January 31, 2002	0.0680	11.43	12.05	11.49
February 28, 2002	0.0680	11.33	12.00	11.40

(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.

Preferred Income Opportunity Fund Incorporated
STATEMENT OF CHANGES IN NET ASSETS⁽¹⁾
Three Months Ended February 28, 2002 (Unaudited)

OPERATIONS:	
Net investment income	\$ 3,128,965
Net realized loss on investments sold	(721,431)
Net unrealized depreciation of investments during the period	<u>(2,036,504)</u>
Net increase in net assets from operations	371,030
DISTRIBUTIONS:	
Dividends paid from net investment income to MMP* Shareholders	(626,661)
Distributions paid from net realized capital gains to MMP* Shareholders	<u>—</u>
Dividends paid from net investment income to Common Stock Shareholders (2)	(3,048,348)
Distributions paid from net realized capital gains to Common Stock Shareholders	<u>—</u>
Total Distributions	<u>(3,675,009)</u>
FUND SHARE TRANSACTIONS:	
Increase from Common Stock transactions	447,992
NET DECREASE IN NET ASSETS:	(2,855,987)
NET ASSETS:	
Beginning of period	<u>200,227,991</u>
End of period	<u>\$197,372,004</u>

FINANCIAL HIGHLIGHTS⁽¹⁾
Three Months Ended February 28, 2002 (Unaudited)
For a Common share outstanding throughout the period.

OPERATING PERFORMANCE:	
Net asset value, beginning of period	\$ 11.60
Net investment income	0.28
Net realized loss and unrealized depreciation on investments	<u>(0.25)</u>
Net increase in net asset value resulting from investment operations	0.03
DISTRIBUTIONS:	
Dividends paid from net investment income to MMP* Shareholders	(0.06)
Distributions paid from net realized capital gains to MMP* Shareholders	<u>—</u>
Dividends paid from net investment income to Common Stock Shareholders (2)	(0.27)
Distributions paid from net realized capital gains to Common Stock Shareholders	<u>—</u>
Change in accumulated undeclared dividends on MMP*	0.03
Total distributions	<u>(0.30)</u>
Net asset value, end of period	<u>\$ 11.33</u>
Market value, end of period	<u>\$ 12.00</u>
Common shares outstanding, end of period	<u>11,228,061</u>
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:	
Net investment income	8.90%**
Operating expenses	1.50%**
SUPPLEMENTAL DATA:††	
Portfolio turnover rate fiscal year to date	6%
Net assets, end of period (in 000's)	\$ 197,372
Ratio of operating expenses to total average net assets including MMP*	0.97%**

(1) These tables summarize the three months ended February 28, 2002 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2001.

(2) Includes dividends earned, but not paid out, in prior fiscal year.

* Money Market Cumulative Preferred™ Stock.

** Annualized.

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

Directors

Martin Brody
Donald F. Crumrine, CFA
Robert T. Flaherty, CFA
David Gale
Morgan Gust
Robert F. Wulf, CFA

Officers

Robert T. Flaherty, CFA
Chairman of the Board
and President
Donald F. Crumrine, CFA
Vice President
and Secretary
Robert M. Ettinger, CFA
Vice President
Peter C. Stimes, CFA
Vice President
and 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 1376
Boston, MA 02104
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

Quarterly
Report

February 28, 2002

web site: www.preferredincome.com