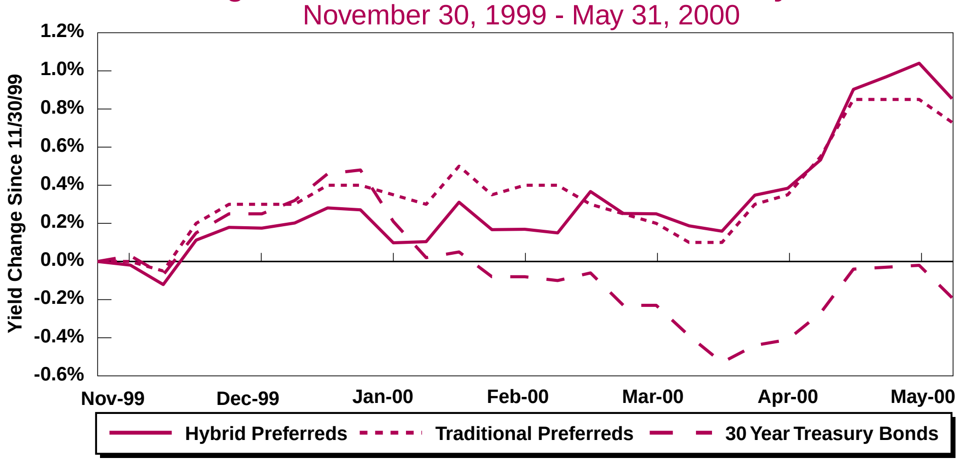
PREFERRED INCOME OPPORTUNITY FUND INCORPORATED

Dear Shareholder:

The Preferred Income Opportunity Fund had to contend with extraordinary market trends in the first half of fiscal 2000 as both preferreds and Treasury bonds (on which our hedges are based) moved against us. The total return on the Fund's net asset value for the six months ended May 31, 2000, when market stresses were close to the worst seen either before or since, was -4.2%.

The following chart shows the changes since the start of the fiscal year in the yields of traditional preferreds, hybrid preferreds and long-term Treasury bonds. The divergence between rising preferred yields and falling rates on Treasuries has widened the spread between preferred's and Treasuries' yields by roughly a full percentage point. Preferred yields are more representative of what has happened to interest rates in the real world. The lower yields (and higher prices) of Treasuries reflect the developing perception of a scarcity of those issues as federal budget surpluses are used to retire them.

Changes in Yields of Preferreds and Treasury Bonds
November 30, 1999 - May 31, 2000



These market trends impacted the Fund in three principal areas:

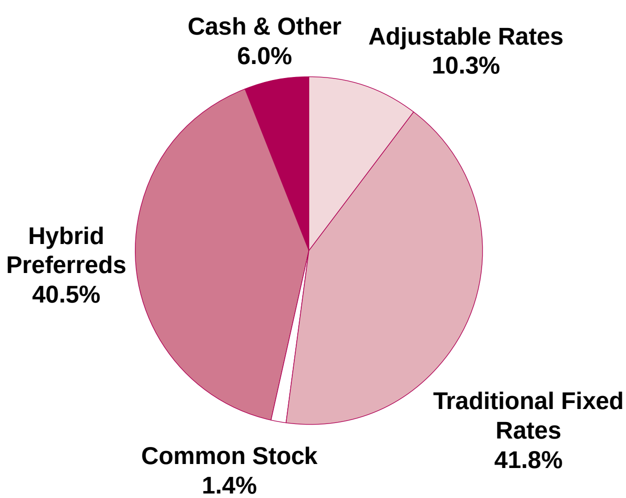
- **The preferred portfolio** produced a small negative total return as interest rates surged. Strange as it may sound, however, we were actually pleased that the portfolio performed as well as it did in a terrible market.
- **Hedging** was a big disappointment. Our hedges are, in effect, a "bet" against Treasury bonds. Normally, we expect the hedges to help us when yields rise, but Treasuries turned out to be immune to the latest general increase in interest rates. As a result, we incurred the cost of hedging without getting any payoff.
- **The Fund's leverage** magnified the impact of the negative returns from preferreds and hedging. This is exactly what we should expect.

"One swallow does not make a spring," but we should note that the coming of June brought a fairly dramatic improvement in market conditions. Interest rates have declined a bit. More importantly, though, the preferred market has come to life and has outperformed Treasuries for the first time in months. In the month of June, the returns for the Fund's fiscal year-to-date have improved by roughly 4 percentage points compared to the numbers shown in the opening paragraph.

Looking forward, we see some positives, but there are also some questions. Preferreds seem quite attractive now in relation to the fixed income markets generally. Treasuries, however, are still groping for their proper place in the uncharted ground of shrinking national debt. We sense that the strength in Treasuries over the last several months may have created some excesses, but only time will tell for sure when Treasuries will settle into a stable relationship versus other fixed income securities.

We strongly recommend that shareholders read carefully the Questions and Answers section that follows. It focuses on hedging and related issues that are of key importance to the Fund now. The discussion covers the recent performance of the hedge, the outlook for the Treasury market, the impact of hedging on the Fund's income and possible changes that may be in the works including the use of alternative hedging vehicles along with Treasuries. We have done our best to make it educational and understandable.

The pie chart below shows the breakdown of the Fund's portfolio on May 31, 2000. Most of the recent activity has involved opportunities uncovered in specific securities rather than shifts among the major sectors of the portfolio. Messy markets often produce neat opportunities for those who are ready. That has been particularly true lately.



As a clarification of the pie chart, the distinction between traditional preferreds and hybrid preferreds is based upon their treatment for tax purposes. The dividends from traditional preferreds are 70% tax free to qualifying corporate investors due to the Dividends Received Deduction (the "DRD"). In contrast, hybrid preferreds do not offer the DRD, are taxed the same as bonds, and typically yield somewhat more than traditional preferreds. The DRD benefits the Fund indirectly by holding down the effective cost of its leverage.

The Fund's shares have continued to sell in the market at a moderate discount from their net asset value. In recent months, the discount has stayed fairly consistently in the middle to high single digits.

Many of you are using our web site, **www.preferredincome.com**, to get up-to-date information on the Fund. It includes current market prices, net asset values, discounts, yields, dividends, performance, and portfolio holdings. We also post there all shareholder communications, including this report. It could be especially helpful to those of you that tell us that your receipt of these reports is often delayed when they are forwarded to you through brokerage firms that hold your shares. Please come visit us.

Sincerely,

Robert T. Flaherty
Chairman of the Board

June 30, 2000

QUESTIONS & ANSWERS

ONCE AGAIN, HOW DOES THE FUND HEDGE?

Generally speaking, we try to smooth out major market swings by making potentially offsetting "bets" (speaking figuratively, of course). The Fund's portfolio of preferred stocks represents a bet in favor of preferred stocks. Our hedges are a bet against Treasury bonds. If the preferred market and the Treasury market move in the same direction, either up or down, we can reasonably expect one of our bets to be a winner and the other to be a loser. If it works, it will smooth out the market bumps.

Naturally, we don't want to lose a whole lot of money when the hedge goes against us, and we have a way of dealing with that. Our typical hedge involves purchasing slightly out-of-the-money put options on Treasury bond futures contracts, which creates something like a "safety net" below the market. To use an insurance analogy, it is like paying a premium for an insurance policy with a fairly large deductible. The key is that the Fund cannot lose on the hedges any more than the price paid for them.

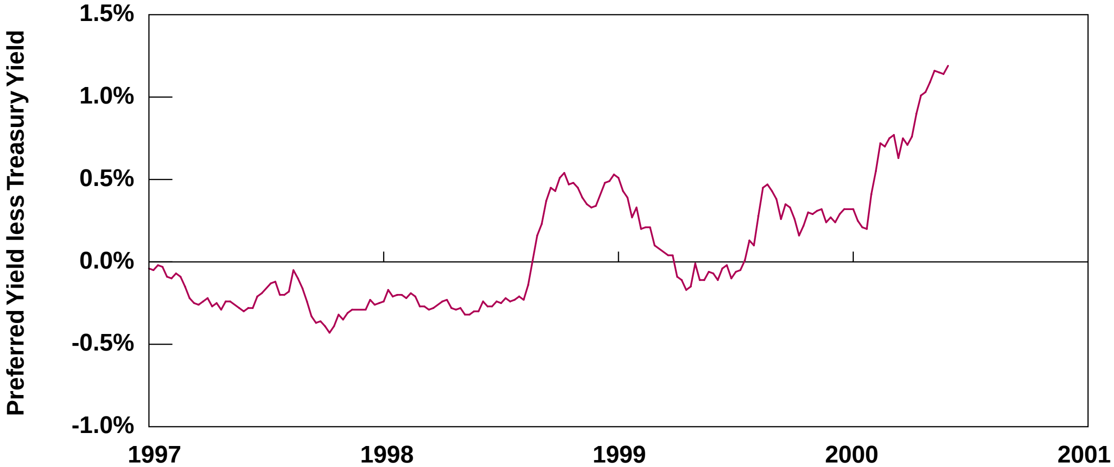
WHY HASN'T THE HEDGE MADE MONEY THIS YEAR?

Our hedging strategy assumes that preferreds and Treasury bonds will march to the same drumbeat in at least a general sort of way, but that hasn't happened in fiscal 2000 so far. Preferred yields have increased, reflecting the general rise in long-term interest rates, which has caused their prices to decline. At the same time, the yields of Treasury bonds have fallen slightly, causing a small rise in their prices and eliminating any profit on our "bet" against Treasuries. Going back to our insurance analogy, we absorbed the cost of the insurance, but it didn't pay off when we needed it.

We can put all this in perspective by looking at what has happened to the yields on preferreds compared to those on Treasury bonds. It is a matter of arithmetic that declining prices make yields go up. Similarly, when preferreds underperform Treasuries in terms of market price, the yields of preferreds will rise compared to those of Treasuries. The following graph shows what has happened to the margin of additional yield (called the "spread") that preferred stocks provide compared to Treasury bonds.

Additional Yield of "A" Preferreds Versus U.S. Treasury Bonds

January 1, 1997 - May 31, 2000



In the above chart, we have used A-rated traditional preferred stocks to represent the preferred market. Historically, these preferreds have typically yielded somewhat less than Treasury bonds (due to the tax advantages that they provide to certain corporate investors). However, the yields of these preferreds were roughly $1\,^1/_4$% above those of Treasury bonds on May 31st of this year. Almost all of that yield spread (approximately 1% of the $1\,^1/_4$%) has come about since January of this year. This was the most adverse shift in the market relationship between preferreds and Treasuries since the mid-1980s. It translated into substantially better market value performance for Treasuries compared to preferreds.

WHY HAVEN'T TREASURY BOND YIELDS GONE UP ALONG WITH OTHER INTEREST RATES?

Since January of this year, the Treasury bond market has been dominated by the expectation that the growing federal budget surplus will be used to repurchase Treasury bonds in the market and shrink the outstanding supply of such bonds. This has propped up the market for Treasuries and spared them from the price declines that have hit just about every other sector of the fixed income markets as long-term interest rates have surged.

A close look at the preceding chart reveals that this is actually the third time in the last couple of years that an "event" has caused a rush to Treasuries and disrupted their normal relationship to preferreds. The first was the hedge fund/international financial crisis in the fall of 1998, which caused a "flight to quality". This had faded in investors' minds by the middle of 1999, only to be replaced by another flight to quality inspired by concerns about the "Y2K Bug". (Remember that one?) By January of this year, the bug had been exterminated, and our hedge was starting to look pretty good. Before the market had fully recovered, however, it was hit rather suddenly by the prospect of a shrinking supply of Treasury bonds.

IS THE NATIONAL DEBT REALLY GOING TO BE PAID OFF?

The numbers are pretty powerful if you choose to believe them. About $2 trillion of the total U.S. Treasury debt of slightly over $3 trillion is held by private investors (excluding the Social Security Trust Fund and various central banks around the world). If federal budget surpluses continue at the levels currently projected, all those privately held Treasury securities could be retired by the latter part of the current decade.

We expect that the Treasury bond market will shrink in size for the foreseeable future. Nonetheless, we should keep in mind that Treasury bonds have always been the 800-pound gorilla in the fixed income markets, and that is not going to change overnight. The idea that the folks in Washington can keep their fingers out of this fiscal cookie jar strains credibility. Furthermore, the projections assume away the possibility of recessions that could sharply reduce the expected surpluses. Before Treasury bonds dry up and blow away, new forces could easily come into play.

WHAT MIGHT CHANGE THAT WOULD MAKE THE FUND'S HEDGES MORE EFFECTIVE?

It really would not take that much. All we need is for Treasury bonds to settle into some stable relationship to the rest of the fixed income market that would result in them tracking more closely swings in interest rates generally from this point forward. It is not necessary for Treasuries to return to the relationship to preferreds that we used to consider normal in the "good old days", which would produce an unexpected windfall for the Fund.

It is worth noting that the holders of Treasury bonds are giving up an unusually large amount of income compared to other kinds of bonds in which they might invest. That gap would increase even further if Treasuries continued their strong performance, which suggests that this trend cannot continue indefinitely. Eventually, Treasuries will probably settle into a stable relationship with the fixed income market generally, even if the publicly held supply of Treasury debt continues to shrink. It is difficult to predict when and where that market equilibrium might occur.

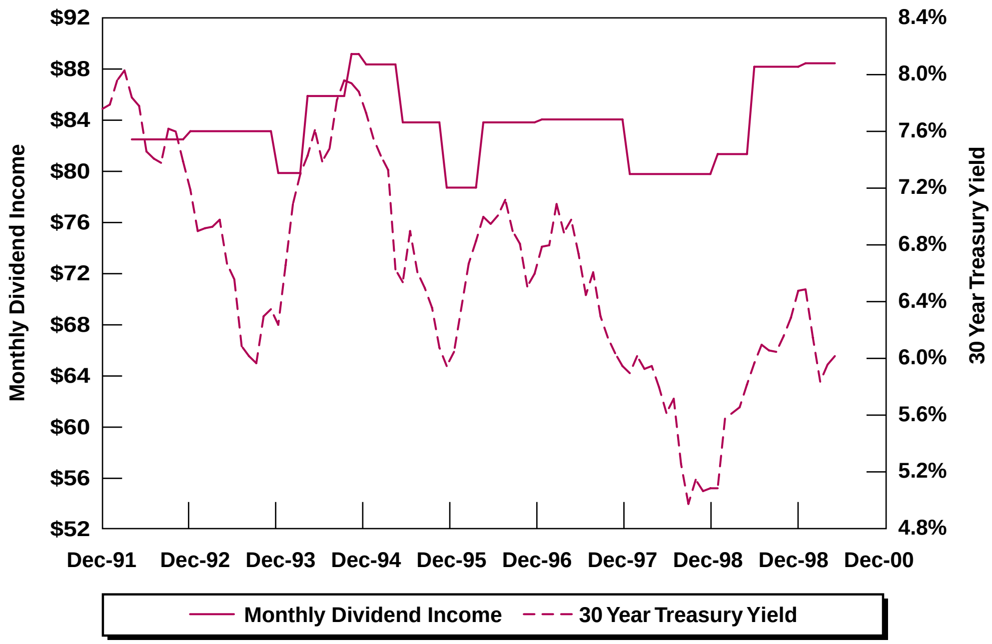
HAVE HEDGING RESULTS AFFECTED THE FUND'S INCOME?

As shown by the graph on page 6, the general effect of hedging is to cause the Fund's income to follow significant moves in the yields of long-term Treasury bonds. The chart shows the monthly dollar income received from an original investment in 1,000 shares of the Fund (the solid red line measured on the left-hand scale) to the yields on long-term Treasury bonds (the dashed red line and the right-hand scale). The graph is based on the assumption that the shareholder spent his or her regular monthly income from the Fund and reinvested at net asset value just the portion of each special year-end distribution that was "above and beyond" the monthly distribution.

On the surface, the first half of fiscal 2000 was pretty much a "non-event" regarding income, but there is more going on behind the scenes.

Preferred Income Opportunity Fund Monthly Dividend Income

On a 1,000 Share ($12,500) Initial Investment



Hedging impacts the Fund's income by increasing or decreasing the Fund's income producing assets. Normally, we expect hedging gains to have a positive impact on income at a time like this when interest rates rise significantly. Instead, the cost of hedging has been a small drain on the Fund's income producing assets in fiscal 2000 to date. The swing from an expected positive to even a small negative is a big disappointment for us. We would like to see the Fund's income go up in markets like this, but that is not in the cards at the moment.

One of the things we expect hedging to do for us when interest rates rise is to help offset the higher rates paid on the Money Market Preferred™ stock ("MMP") issued by the Fund to create leverage. If short-term interest rates continue to increase, the rising cost of the MMP will have to come out of net income available to the common shareholders unless we can find a way to offset it. Achieving some gains on the Fund's hedges would be the solution of choice.

ARE THERE OTHER WAYS THE FUND COULD HEDGE THAT ARE NOT BASED ON TREASURY BONDS?

There are some alternative hedging instruments, each of which has its own pluses and minuses. Interest rate swaps, which are not quite as esoteric as they may sound, are a practical alternative now, as are options on such swaps (cutely dubbed "swaptions"). Exchange-traded futures contracts on federal government agency bonds have recently been created, and it would not be surprising to see liquid markets develop in agency futures and options.

If the Treasury market actually does shrink in size as projected, various additional hedging instruments will undoubtedly be introduced. The demand for effective hedges is enormous, and Wall Street is very inventive when it comes to filling a need, especially when there is money to be made. It would not be surprising to see a period of competition among various alternative hedges, with efficient, liquid markets eventually developing for a few that prove to be most effective.

The Fund’s hedging strategies will evolve as necessary to deal with changing market conditions. For all the talk, Treasuries are still the most widely accepted vehicle for hedging. Looking forward, however, it seems quite possible that our hedging strategies may include a package of some Treasury-based hedges along with one or more alternative hedging instruments.

Stay tuned! The notion that the Treasury bond market might gradually disappear only dates back to last January, but times may indeed be changing. Our hedges may look somewhat different in the future as we see a need to adapt.

WHAT ARE INTEREST RATE SWAPS AND SWAPTIONS?

Although their name sounds rather strange, interest rate swaps are one of the most widely used forms of derivative contracts. A swaption is simply an option to enter into an interest rate swap on pre-determined terms if that turns out to be attractive to do before the option expires. Similar to the put options on Treasury bond futures contracts that the Fund purchases as hedges, the entire price paid for the swaption is at risk. However, that is the most that a purchaser of a swaption can lose on the contract. For this reason, swaptions are probably more interesting to the Fund than swaps.

At the risk of oversimplification, this is the essence of an interest rate swap between two parties. Party A makes a “loan” to Party B at an interest rate that is <u>fixed</u> for the life of the swap. Party B makes a “loan” to Party A for the identical amount and life at an interest rate that will be <u>variable</u> based on a market indicator of short-term interest rates, which is often LIBOR (the London Interbank Offer Rate). Since the amounts of the “loans” offset each other, the only cash that actually changes hands is the difference between the fixed and variable interest rates, which will fluctuate over the life of the swap as the variable interest rate changes.

The structure of interest rate swaps, although it may seem somewhat contorted, makes them very useful in a wide range of hedging situations. The market value of existing interest rate swaps will reflect swings in general interest rates in a reasonably systematic way, which will, depending on how things turn out, be good for one of the parties to a swap and bad for the other. In this respect, swaps resemble the Fund’s current hedges, but they also differ since they are not tied specifically to interest rates on Treasury bonds. At any point in time, they may or may not track preferred stocks closely given the often-observed idiosyncrasies of the preferred market.

There are various other risks of derivatives involved in interest rate swaps and swaptions. Even though major financial and broker/dealer organizations are the usual counterparties, anyone entering into such an agreement must carefully consider the other party’s credit worthiness and its ability to perform its obligations. Market liquidity may also be a risk at certain times. Furthermore, legal and operational risks may be a reason to avoid more exotic derivative contracts. As is the case with the Fund’s present hedges, interest rate swaps and swaptions involve significant economic leverage that could cause relatively small changes in interest rates to produce disproportionally large swings in the market value of the swaps or swaptions and a significant risk of loss.

FINANCIAL DATA

Per Share of Common Stock (Unaudited)

	Dividend Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price (1)
December 31, 1998	**$0.8100**	$12.75	$12.5000	$12.53
January 31, 1999	0.0655	12.67	11.9375	11.92
February 28, 1999	0.0655	12.68	11.3125	11.62
March 31, 1999	0.0655	12.61	11.6250	11.57
April 30, 1999	0.0655	12.65	11.1875	11.15
May 31, 1999	0.0655	12.56	11.1875	11.38
June 30, 1999	0.0710	12.41	11.6250	11.57
July 31, 1999	0.0710	12.13	11.1250	11.12
August 31, 1999	0.0710	12.00	10.9375	10.87
September 30, 1999	0.0710	11.86	10.8750	10.87
October 31, 1999	0.0710	11.75	10.3125	10.43
November 30, 1999	0.0710	11.50	10.5000	10.46
December 31, 1999	**0.5800**	10.82	10.4375	10.55
January 31, 2000	0.0680	10.76	9.6250	9.73
February 29, 2000	0.0680	10.61	9.5000	9.54
March 31, 2000	0.0680	10.78	9.3125	9.59
April 30, 2000	0.0680	10.35	9.6875	9.65
May 31, 2000	0.0680	10.08	9.1875	9.24

(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

May 31, 2000 (Unaudited)

Shares/Par		Value (Note 1)
	PREFERRED STOCKS AND SECURITIES — 92.6%	
	ADJUSTABLE RATE PREFERRED STOCKS — 10.3%	
	UTILITIES — 4.1%	
	Niagara Mohawk Power Corporation:	
95,275	Series A, Adj. Rate Pfd.	$ 2,024,594*
184,723	Series B, Adj. Rate Pfd.	4,525,713*
25,000	Series C, Adj. Rate Pfd.	612,500*
6,800	Northern Indiana Public Service Company, Series A, Adj. Rate Pfd.	289,000*
	TOTAL UTILITY ADJUSTABLE RATE PREFERRED STOCKS	7,451,807
	BANKING — 5.9%	
	Bank One Corporation:	
14,611	Series B, Adj. Rate Pfd.	1,234,629*
3,200	Series C, Adj. Rate Pfd.	288,000*
25,900	Chase Manhattan Corporation, Series L, Adj. Rate Pfd.	2,292,150*
85,776	Citigroup Inc., Series Q, Adj. Rate Pfd.	1,822,740*
5,100	HSBC USA, Inc., Series D, Adj. Rate Pfd.	105,825*
8,600	J.P. Morgan & Company, Inc., Series A, Adj. Rate Pfd.	617,050*
108,000	Wells Fargo & Company, Series B, Adj. Rate Pfd.	4,509,000*
	TOTAL BANKING ADJUSTABLE RATE PREFERRED STOCKS	10,869,394
	FINANCIAL SERVICES — 0.3%	
9,590	Student Loan Marketing Association, Series A, Adj. Rate Pfd.	450,730*
	TOTAL ADJUSTABLE RATE PREFERRED STOCKS	18,771,931
	FIXED RATE PREFERRED STOCKS AND SECURITIES — 82.3%	
	UTILITIES — 30.9%	
	Alabama Power Company:	
4,032	4.60% Pfd.	274,821*
1,852	4.72% Pfd.	129,520*
100	4.92% Pfd.	7,289*
22,700	5.20% Pfd.	428,009*
113,650	5.83% Pfd.	2,274,705*

Shares/Par		Value (Note 1)
27,600	Alabama Power Capital Trust II, 7.60% TOPrS	$ 607,338
64,375	Appalachian Power Company, 8.00% QUIDS, Series B	1,422,688
12,000	Baltimore Gas & Electric Company, 6.99% Pfd., Series 1995	1,193,040*
10,000	Boston Edison Company, 4.78% Pfd.	731,900*
1,428	Central Hudson Gas & Electric Corporation, 4.35% Pfd., Series D, Pvt.	92,827*
	Central Power and Light Company:	
157,200	CPL Capital I, 8.00% QUIPS, Series A	3,511,848
12,450	Columbus Southern Power Company, 7.92%, Jr. Sub. Debt., Series B	272,344
	Duke Energy Corporation:	
7,019	4.50% Pfd., Series C	473,502*
10,003	7.85% Pfd., Series S	1,029,109*
1,009	7.00% Pfd., Series W	99,936*
	Duquesne Light Company:	
53,750	Duquesne Capital, 8.375% MIPS, Series A	1,245,925
	Entergy Arkansas, Inc.:	
2,840	4.56% Pfd.	154,326*
3,050	4.56% Pfd., Series 1965	165,737*
6,000	7.40% Pfd.	529,110*
	Entergy Louisiana, Inc.:	
207	5.16% Pfd.	12,570*
3,771	7.36% Pfd.	326,625*
	Florida Power & Light Company:	
4,000	4.50% Pfd.	274,220*
4,265	4.35% Pfd., Series E, Pvt.	272,384*
18,180	6.98% Pfd., Series S	1,797,638*
	Florida Progress Corporation:	
37,250	FPC Capital I, 7.10% QUIPS, Series A	742,765
	Hawaiian Electric Company, Inc.:	
23,600	HECO Capital Trust I, 8.05% QUIPS	519,200
	Indiana Michigan Power Company:	
10,000	8.00% Pfd., Series A	218,650
60,000	7.60% Pfd., Series B	1,233,000

See Notes to Financial Statements.

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2000 (Unaudited)

Shares/Par		Value (Note 1)
	PREFERRED STOCKS AND SECURITIES (Continued)	
	FIXED RATE PREFERRED STOCKS AND SECURITIES (Continued)	
	UTILITIES (Continued)	
7,711	Jersey Central Power & Light Company, 7.52% Sinking Fund Pfd., Series K	$ 793,231*
22,000	MidAmerican Energy Financing I, 7.98% QUIPS, Series A	498,190
15,000	Mississippi Power Company, 6.32% Pfd.	361,650*
20,000	Monongahela Power Company, $7.73 Pfd., Series L	2,051,000*
	Nevada Power Company:	
51,280	NVP Capital I, 8.20% QUIPS, Series A	1,113,802
32,700	NVP Capital III, 7.75% TIPS	692,586
	New Century Energies, Inc.:	
91,500	PSCO Capital Trust I, 7.60% TOPrS	1,995,615
35,000	Southwestern Public Service Capital I, 7.85%, Series A	772,975
6,250	Niagara Mohawk Power Corporation, 4.10% Pfd.	332,906*
	Northern States Power Company:	
2,480	$4.10 Pfd., Series C	152,470*
12,510	$4.11 Pfd., Series D	770,991*
2,660	$4.16 Pfd., Series E	165,917*
14,200	NSP Financing I, 7.875% TOPrS	314,246
76,200	Ohio Power Company, 7.92% QUIDS, Series B	1,654,683
	PacifiCorp:	
6,000	$4.72 Pfd.	417,090*
6,300	PacifCorp Capital II, 7.70% Pfd.	136,175
	PECO Energy Company:	
1,100	$4.30 Pfd., Series B	68,420*
5,000	$4.40 Pfd., Series C	297,250*
1,000,000	Capital Trust III, $7.38 4/6/28 Capital Security, Series D	820,120
	Potomac Electric Power Company:	
2,493	$2.44 Pfd., Series 1957	$ 91,294*
11,250	$3.40 Sinking Fund Pfd., Series 1992	559,969*
	PP&L Resources, Inc.:	
40,625	PP&L Capital Trust II, 8.10% TOPrS	918,531
570	PSI Energy, Inc., 4.32% Pfd.	8,710*
	Public Service Enterprise Group, Inc.:	
53,500	Enterprise Capital Trust I, 7.44% TOPrS, Series A	1,070,802
14,020	Public Service Electric & Gas Company, 5.28% Pfd., Series E	1,024,722*
	Puget Sound Energy, Inc.:	
125,300	7.45% Pfd., Series II	3,215,824*
21,754	7.75% Sinking Fund Pfd.	2,278,623*
	Reliant Energy, Inc.:	
45,000	HL&P Capital Trust I, 8.125% QUIPS	973,350
55,982	REI Trust I, 7.20% TOPrS, Series C	1,067,577
	Rochester Gas & Electric Corporation:	
4,030	4.75% Pfd., Series I	275,390*
4,960	4.10% Pfd., Series J	292,590*
	Sempra Energy:	
2,150	Pacific Enterprises, $4.50 Pfd.	143,319*
46,500	San Diego Gas & Electric Company, 6.80% Pfd.	1,154,362*
	South Carolina Electric & Gas Company:	
14,753	5.125% Purchase Fund Pfd.	553,311*
7,541	6.00% Purchase Fund Pfd.	329,089*
61,200	SCE&G Trust I, 7.55%, Series A	1,318,860
4,000	Southern Indiana Gas & Electric Company, 4.75% Pfd. Pvt.	275,000*
	Southern Union Company:	
64,100	Southern Union Financing I, 9.48% TOPrS	1,531,029

See Notes to Financial Statements.

Shares/Par		Value (Note 1)
	PREFERRED STOCKS AND SECURITIES (Continued)	
	FIXED RATE PREFERRED STOCKS AND SECURITIES (Continued)	
	UTILITIES (Continued)	
	Southwestern Electric Power Company:	
6,303	Swepco Capital I, 7.875%, Series A	$ 141,660
	TransCanada PipeLines Ltd.:	
11,300	8.25%	245,436
57,300	TransCanada Capital, 8.75% TOPrS	1,269,482
	Union Electric Power Company:	
3,000	$7.64 Pfd.	308,745*
3,200,000	7.69% 12/15/36 Capital Security, Series A	2,768,672
	Virginia Electric & Power Company:	
1,665	$4.04 Pfd.	99,101*
2,270	$4.20 Pfd.	140,456*
1,573	$4.80 Pfd.	111,243*
5,700	$6.98 Pfd.	561,393*
20,000	Wisconsin Energy Corporation, WEC Capital Trust I, 6.85%	402,100
	TOTAL UTILITY FIXED RATE PREFERRED STOCKS AND SECURITIES	56,580,983
	BANKING — 17.5%	
	ABN AMRO North America:	
50	LaSalle National Corporation, 6.46% Pfd. 144A***	45,268*
	BancWest Corporation:	
6,500,000	First Hawaiian Capital I, 8.343% 7/1/27 Capital Security, Series B	5,759,260
48,925	Chase Manhattan Corporation, 10.84% Pfd., Series C	1,333,206*
	Citigroup Inc.:	
71,580	6.213% Pfd., Series G	3,123,751*
88,750	5.864% Pfd., Series M	3,676,469*
	Deutsche Bank AG:	
1,400,000	BT Capital Trust B, 7.90% 1/15/27 Capital Security	1,214,255

Shares/Par		Value (Note 1)
	First Union Corporation:	
1,500,000	First Union Capital II, 7.95% 11/15/29 Capital Security	$ 1,324,530
3,075,000	First Union Institutional Capital I, 8.04% 12/1/26 Capital Security	2,689,918
1,885,000	First Union Institutional Capital II, 7.85% 1/1/27 Capital Security	1,629,912
	FleetBoston Financial Corporation:	
1,135,000	BankBoston Capital Trust I, 8.25% 12/15/26 Capital Security	1,023,696
	GreenPoint Financial Corporation:	
2,500,000	GreenPoint Capital Trust I, 9.10% 6/1/27 Capital Security	2,158,800
	HSBC USA, Inc.:	
34,400	$2.8575 Pfd.	1,416,248*
3,385,000	Republic New York Capital II, 7.53% 12/4/26 STOPS	2,778,459
	J. P. Morgan & Company, Inc.:	
2,100,000	JPM Capital Trust II, 7.95% 2/1/27 Capital Security	1,850,131
	Keycorp:	
1,500,000	Keycorp Institutional Capital B, 8.25% 12/15/26 Capital Security, Series B	1,303,725
750,000	Wells Fargo & Company, Capital I, 7.96% 12/15/26 Capital Security	669,840
	TOTAL BANKING FIXED RATE PREFERRED STOCKS AND SECURITIES	31,997,468
	FINANCIAL SERVICES — 16.7%	
	Bear Stearns Companies, Inc. The:	
26,000	6.15% Pfd., Series E	1,094,600*
44,500	5.72% Pfd., Series F	1,768,430*
128,300	5.49% Pfd., Series G	4,920,305*
6,000,000	Countrywide Credit Capital I, 8.00% 12/15/26 Capital Security	4,699,530
	Household International, Inc.:	
10,000	$4.30 Pfd.	632,750*
58,000	Household Capital Trust IV, 7.25%	1,104,610

See Notes to Financial Statements.

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2000 (Unaudited)

Shares/Par		Value (Note 1)
	PREFERRED STOCKS AND SECURITIES (Continued)	
	FIXED RATE PREFERRED STOCKS AND SECURITIES (Continued)	
	FINANCIAL SERVICES (Continued)	
	Lehman Brothers Holdings, Inc.:	
223,355	5.00% Convertible Pfd., Series B	$ 6,259,524*
54,600	5.94% Pfd., Series C	2,193,555*
60,000	7.115% Pfd., Series E	2,960,700*
100,900	SLM Holding Corporation, 6.97% Pfd.	4,894,659*
	TOTAL FINANCIAL SERVICES FIXED RATE PREFERRED STOCKS AND SECURITIES	30,528,663
	INSURANCE — 7.9%	
	Allstate Corporation:	
2,020,000	Allstate Financing II, 7.83% 12/1/45 Capital Security	1,701,799
	Conseco, Inc.:	
42,000	Conseco Financing Trust I, 9.16% 11/30/26	506,520
15,000	Conseco Financing Trust V, 8.70% 9/30/28	180,675
25,000	Conseco Financing Trust VI, 9.00% 12/31/28	299,875
	Hartford Financial Services Group, Inc.:	
61,986	Hartford Capital II, 8.35% QUIPS, Series B	1,480,226
15	Prudential Human Resources Management Company, Inc., 6.30% Private Placement, Sinking Fund Pfd., Series A	1,481,185*
	SAFECO Corporation:	
2,300,000	SAFECO Capital Trust I, 8.072% 7/15/37 Capital Security	1,891,991
	The St. Paul Companies, Inc.:	
6,700,000	MMI Capital Trust I, 7.625% 12/15/27 Capital Security, Series B	5,579,458
	UnumProvident Corporation:	
1,810,000	Provident Financing Trust I, 7.405% 3/15/38 Capital Security	$ 1,352,079
	TOTAL INSURANCE FIXED RATE PREFERRED STOCKS AND SECURITIES	14,473,808
	OIL AND GAS — 7.8%	
44,100	Anadarko Petroleum Corporation, 5.46% Pfd.	3,363,727*
13,000	Apache Corporation, 5.68% Pfd., Series B	1,025,505*
	Coastal Corporation, The:	
3,500	Coastal Finance I, 8.375% TOPrS	77,648
3,200	EOG Resources, Inc., 7.195% Pfd. 144A***	3,220,816*
	Kinder Morgan, Inc.:	
3,750,000	KN Capital Trust III, 7.63% 4/15/28 Capital Security	3,140,025
30,000	LASMO America Ltd., 8.15% Pfd. 144A***	3,192,300*
	Ultramar Diamond Shamrock Corporation:	
8,300	UDS Capital I, 8.32% TOPrS	169,860
	TOTAL OIL AND GAS FIXED RATE PREFERRED STOCKS AND SECURITIES	14,189,881
	MISCELLANEOUS INDUSTRIES — 1.5%	
3,000	E.I. Du Pont de Nemours and Company, $4.50 Pfd., Series B	202,155*
57,600	Farmland Industries, Inc., 8.00% Pfd. 144A***	2,009,952*

See Notes to Financial Statements.

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2000 (Unaudited)

Shares/Par		Value (Note 1)
	PREFERRED STOCKS AND SECURITIES (Continued)	
	FIXED RATE PREFERRED STOCKS (Continued)	
	MISCELLANEOUS INDUSTRIES (Continued)	
9,520	Viad Corporation, $4.75 Sinking Fund Pfd.	$ 515,080*
	TOTAL MISCELLANEOUS INDUSTRIES FIXED RATE PREFERRED STOCKS AND SECURITIES	2,727,187
	TOTAL FIXED RATE PREFERRED STOCKS AND SECURITIES	150,497,990
	TOTAL PREFERRED STOCKS AND SECURITIES (Cost $182,978,687)	169,269,921
	COMMON STOCKS — 1.4%	
	UTILITIES — 1.4%	
25,000	FPL Group, Inc.	1,243,875*
37,500	GPU, Inc.	1,066,500*
15,000	Public Service Company of New Mexico	253,125*
	TOTAL UTILITY COMMON STOCKS (Cost $2,420,119)	2,563,500
	OPTIONS CONTRACTS — 1.7% (Cost $3,239,099)	
1,194	Put Options on U.S. Treasury Bond September Futures, expiring 08/19/00 †	3,091,969

Principal Amount			Value (Note 1)
	REPURCHASE AGREEMENT — 3.8% (Cost $6,915,000)		
$6,915,000	Agreement with Warburg Dillon Read, 6.350% dated 05/31/00, to be repurchased at $6,916,220 on 06/01/00, collateralized by $5,776,000 U.S. Treasury Note, 8.125% due 05/15/21 (value $7,053,940)		$ 6,915,000
	TOTAL INVESTMENTS (Cost $195,552,905**)	99.5%	181,840,390
	OTHER ASSETS AND LIABILITIES (Net)	0.5	1,022,058
	NET ASSETS	100.0%	$182,862,448

* Securities eligible for the Dividends Received Deduction.
** 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.

ABBREVIATIONS (Note 6):
MIPS — Monthly Income Preferred Securities
QUIDS — Quarterly Income Debt Securities
QUIPS — Quarterly Income Preferred Securities
STOPS — Semi-Annual Trust Originated Pass Through Securities
TIPS — Trust Issued Preferred Securities
TOPrS — Trust Originated Preferred Securities

Capital Securities are considered 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.

Preferred Income Opportunity Fund Incorporated

STATEMENT OF ASSETS AND LIABILITIES

May 31, 2000 (Unaudited)

ASSETS:		
Investments, at value (Cost $195,552,905) (Note 1)		
See accompanying schedule		$181,840,390
Dividends and interest receivable		1,957,696
Prepaid expenses		98,801
Total Assets		183,896,887
LIABILITIES:		
Payable for securities purchased	$ 687,163	
Due to custodian	415	
Dividends payable to Common Shareholders	161,634	
Investment advisory fee payable (Note 2)	87,914	
Accrued expenses and other payables	97,313	
Total Liabilities		1,034,439
NET ASSETS		$182,862,448
NET ASSETS consist of:		
Undistributed net investment income (Note 1)		$ 62,433
Accumulated net realized loss on investments sold (Note 1)		(2,379,696)
Unrealized depreciation of investments (Note 3)		(13,712,515)
Par value of Common Stock		111,513
Paid-in capital in excess of par value of Common Stock		128,780,713
Money Market Cumulative Preferred™ Stock (Note 5)		70,000,000
Total Net Assets		$182,862,448
	Per Share	
NET ASSETS AVAILABLE TO:		
Money Market Cumulative Preferred™ Stock (700 shares outstanding) redemption value	$100,000.00	$ 70,000,000
Accumulated undeclared dividends on Money Market Cumulative Preferred™ Stock (Note 5)	719.19	503,433
	$100,719.19	70,503,433
Common Stock (11,151,287 shares outstanding)	$10.08	112,359,015
TOTAL NET ASSETS		$182,862,448

See Notes to Financial Statements.

STATEMENT OF OPERATIONS

For the Six Months Ended May 31, 2000 (Unaudited)

INVESTMENT INCOME:		
Dividends		$ 5,054,444
Interest		2,221,098
Total Investment Income		7,275,542
EXPENSES:		
Investment advisory fee (Note 2)	$ 535,270	
Administration fee (Note 2)	113,458	
Money Market Cumulative Preferred™ broker commissions and Auction Agent fees	88,715	
Insurance expense	49,668	
Professional fees	34,050	
Directors' fees and expenses (Note 2)	21,901	
Shareholder servicing agent fees and expenses (Note 2)	27,671	
Economic consulting fee (Note 2)	12,500	
Custodian fees and expenses (Note 2)	14,012	
Other	41,446	
Total Expenses		938,691
NET INVESTMENT INCOME		6,336,851
REALIZED AND UNREALIZED LOSS ON INVESTMENTS (Notes 1 and 3):		
Net realized loss on investments sold during the period		(1,414,597)
Change in net unrealized depreciation of investments during the period		(8,674,170)
NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS		(10,088,767)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS		$ (3,751,916)

See Notes to Financial Statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended May 31, 2000 (Unaudited)	Year Ended November 30, 1999
INCREASE / (DECREASE) IN NET ASSETS		
OPERATIONS:		
Net investment income	$ 6,336,851	$ 12,759,428
Net realized gain (loss) on investments sold during the period	(1,414,597)	3,462,885
Change in net unrealized depreciation of investments during the period	(8,674,170)	(17,230,783)
Net decrease in net assets resulting from operations	(3,751,916)	(1,008,470)
DISTRIBUTIONS:		
Dividends paid from net investment income to Money Market Cumulative Preferred™ Stock Shareholders (Note 5)	(1,994,535)	(2,149,987)
Distributions paid from net realized capital gains to Money Market Cumulative Preferred™ Stock Shareholders (Note 5)	(191,425)	(1,036,504)
Dividends paid from net investment income to Common Stock Shareholders	(5,546,427)	(10,745,348)
Distributions paid from net realized capital gains to Common Stock Shareholders	(4,712,758)	(6,689,804)
Total Distributions	(12,445,145)	(20,621,643)
NET DECREASE IN NET ASSETS FOR THE PERIOD	(16,197,061)	(21,630,113)
NET ASSETS:		
Beginning of period	199,059,509	220,689,622
End of period (including undistributed net investment income of $62,433 and $1,266,544, respectively)	$182,862,448	$199,059,509

See Notes to 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.

	Six Months Ended May 31, 2000 (Unaudited)	Year Ended November 30,				
		1999	1998	1997	1996	1995
PER SHARE OPERATING PERFORMANCE:						
Net asset value, beginning of period	$ 11.50	$ 13.50	$ 13.53	$ 12.91	$ 12.35	$ 10.92
INVESTMENT OPERATIONS:						
Net investment income	0.57	1.14	1.14	1.10	1.16	1.27
Net realized and unrealized gain / (loss) on investments	(0.90)	(1.24)	0.17	0.87	0.53	1.73
Total from investment operations	(0.33)	(0.10)	1.31	1.97	1.69	3.00
DISTRIBUTIONS:						
Dividends paid from net investment income to MMP* Shareholders	(0.18)	(0.19)	(0.18)	(0.21)	(0.21)	(0.31)
Distributions paid from net realized capital gains to MMP* Shareholders	(0.02)	(0.09)	(0.11)	(0.04)	(0.03)	(0.00)#
Dividends paid from net investment income to Common Stock Shareholders	(0.50)	(0.96)	(0.89)	(0.92)	(0.87)	(1.11)
Distributions paid from net realized capital gains to Common Stock Shareholders	(0.42)	(0.60)	(0.18)	(0.16)	—	(0.17)
Change in accumulated undeclared dividends on MMP*	0.03 †	(0.06)†	0.02	(0.02)	(0.02)	0.02
Total distributions	(1.09)	(1.90)	(1.34)	(1.35)	(1.13)	(1.57)
Net asset value, end of period	$ 10.08 †	$ 11.50 †	$ 13.50	$ 13.53	$ 12.91	$ 12.35
Market value, end of period	$ 9.188	$ 10.500	$ 12.875	$ 12.875	$ 12.000	$ 11.250
Total investment return based on net asset value***	(4.19)%	(2.99)%	8.29%	14.44%	13.11%	27.25%
Total investment return based on market value***	(4.33)%	(7.12)%	8.53%	17.16%	15.42%	25.02%
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:						
Operating expenses	1.58%**	1.53%	1.45%	1.48%	1.71%	1.78%
Net investment income****	7.58%**	6.81%	6.37%	6.44%	7.36%	8.47%
SUPPLEMENTAL DATA:						
Portfolio turnover rate	28%	64%	87%	74%	87%	94%
Net assets, end of period (in 000's)	$182,862	$199,060	$220,690	$221,230	$214,195	$207,720
Ratio of operating expenses to Total Average Net Assets including MMP*	0.99%**	1.01%	0.99%	1.00%	1.13%	1.13%

* Money Market Cumulative Preferred™ Stock.
** Annualized.
*** 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 ($0.02 per Common Share in 2000 and $0.05 per Common Share in 1999). (See Note 5 to the Financial Statements.)
\# Amount represents less than $0.01 per share.

See Notes to Financial Statements.

FINANCIAL HIGHLIGHTS (Continued)

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

	Total Shares Outstanding	Asset Coverage Per Share	Involuntary Liquidating Preference Per Share (1)	Average Market Value Per Share (1) & (2)
05/31/00*	700	$261,232	$100,000	$100,000
11/30/99	700	284,371	100,000	100,000
11/30/98	700	315,271	100,000	100,000
11/30/97	700	316,044	100,000	100,000
11/30/96	700	305,992	100,000	100,000
11/30/95	700	296,743	100,000	100,000

(1) Excludes accumulated undeclared dividends.
(2) See Note 5.
* Unaudited.

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

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 generally accepted accounting principles.

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. In the absence of sales of listed securities and with respect to securities for which the most recent sale prices are not deemed to represent fair market value and 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 for which market quotations are not readily available 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 considered comparable in quality, maturity and type. Investments in money market instruments, which mature in 60 days or less, are valued at amortized cost.

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.

Option accounting principles: Upon the purchase of a put option by the Fund, the total purchase price paid is recorded as an investment. The market valuation is determined as set forth in the second preceding 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 enters 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 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 corporate tax rate. Subject to the Fund 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.

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 proportional allocation of income and gains to all classes of Shareholders.

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.

Other: The preparation of financial statements in accordance with generally accepted accounting principles 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, Economic Consulting Fee, 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 net assets up to $100 million and 0.50% of the value of the Fund's average monthly net assets 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. (formerly known as First Data Investor Services Group, Inc.), a member of the PNC Financial Services Group (formerly known as PNC Bank Corp.), 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 pays PFPC Inc. a monthly fee at an annual rate of 0.12% of the Fund's average monthly net assets. Boston Safe Deposit and Trust Company ("Boston Safe"), a wholly-owned subsidiary of Mellon Bank Corporation, serves as the Fund's Custodian. As compensation for Boston Safe's services as Custodian, the Fund pays Boston Safe a monthly fee at an annual rate of 0.01% of the Fund's average monthly net assets. 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 net assets plus certain out-of-pocket expenses.

Bankers Trust Company, a wholly-owned subisidiary of Deutsche Bank, AG ("Auction Agent"), has served as the Fund's Money Market Cumulative Preferred™ Stock transfer agent, registrar, dividend disbursing agent and redemption agent since December 1, 1999. Prior to December 1, 1999, Chase Manhattan Bank served as the Auction Agent.

Primark Decision Economics Inc. ("Primark") serves as the Fund's Economic Consultant and receives an annual fee equal to $25,000 for services provided.

3. Purchases and Sales of Securities

Cost of purchases and proceeds from sales of securities for the six months ended May 31, 2000, excluding short-term investments, aggregated $50,064,541 and $54,629,983, respectively.

At May 31, 2000 aggregate gross unrealized appreciation for all securities in which there is an excess of value over cost was $2,373,300 and aggregate gross unrealized depreciation for all securities in which there is an excess of cost over value was $16,085,815.

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

4. Common Stock

At May 31, 2000 240,000,000 shares of $0.01 par value Common Stock were authorized. There were no Common Stock transactions for the six months ended May 31, 2000 and for the year ended November 30, 1999.

5. Money Market Cumulative Preferred™ Stock

The Fund's Articles of Incorporation authorize the issuance of up to10,000,000 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.

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 May 31, 2000 include an accrued additional distribution of $241,011. 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 ultimately payable, if any, is highly uncertain and will not be known until after the fiscal year has been completed.

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 May 31, 2000, 700 shares of Money Market Cumulative Preferred™ Stock were outstanding at the annual rate of 4.82%. 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 adjustable and fixed rate preferred stocks and similar hybrid, i.e., fully taxable, preferred securities. Under normal market conditions, the Fund invests at least 25% of its assets in securities issued by utilities and may invest a significant portion of its assets, but less than 25% of its assets, in companies in the banking industry. The Fund's portfolio may therefore be subject to greater risk and market fluctuation than a portfolio of securities representing a broader range of investment alternatives. 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'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 15% of its assets at the time of purchase in securities rated below investment grade, provided that no such investment may be rated below both "Ba" by Moody's Investors Service, Inc. and "BB" by Standard & Poor's or judged to be comparable in quality at the time of purchase; however, any such securities must be issued by an issuer having an outstanding class of senior debt rated investment grade. The Fund may invest up to 15% of its assets in common stock. Under normal conditions, the Fund may invest up to 35% 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, Capital Securities, and other similar or related investments, will be subject to the foregoing 35% limitation to the extent that, in the opinion of the Fund's Adviser, such investments are deemed to be debt-like in key characteristics.

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, options on futures contracts,

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

and options on securities. 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 May 31, 2000, 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 May 31, 2000, the Commerce Group, Inc. owned approximately 30.6% of the Fund's outstanding Common Stock.

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 six months ended May 31, 2000, $6,572 in brokerage commissions were incurred.

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

ADDITIONAL INFORMATION (Unaudited) (Continued)

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)

Meeting of Shareholders

On April 21, 2000, the Fund held its Annual Meeting of Shareholders (the “Meeting”) to (1) elect two Directors of the Fund (“Proposal 1”) and (2) ratify the selection of PricewaterhouseCoopers LLP as independent accountants for the Fund for the fiscal year ending November 30, 2000 (“Proposal 2”). The results of each proposal are as follows:

Proposal 1: Election of Directors

Name	For	Withheld
Common Stock		
Martin Brody	9,116,449	127,893
David Gale	9,116,662	127,681

Donald F. Crumrine, Robert T. Flaherty, Morgan Gust and Robert F. Wulf continue to serve in their capacities as Directors of the Fund.

Proposal 2: Ratify the selection of PricewaterhouseCoopers LLP as independent auditors.

	For	Withheld	Abstained
Common Stock and Preferred Stock (voting together as a single class)			
Voted	9,114,332	29,369	100,809

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

Preferred Income Opportunity FUND

Semi-Annual Report

May 31, 2000

web site: www.preferredincome.com