WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.
Form N-CSR
December 02, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-7920

Western Asset High Income Opportunity Fund Inc.
(Exact name of registrant as specified in charter)

55 Water Street, New York, NY	10041
(Address of principal executive offices)	(Zip code)

Robert I. Frenkel, Esq.
Legg Mason & Co., LLC
100 First Stamford Place
Stamford, CT 06902
(Name and address of agent for service)

Registrant s telephone number, including area code: (888)777-0102

Date of fiscal year end: September 30

Date of reporting period: September 30, 2009

ITEM 1. REPORT TO STOCKHOLDERS.

The **Annual** Report to Stockholders is filed herewith.

ANNUAL REPORT / SEPTEMBER 30, 2009

Western Asset High Income Opportunity Fund Inc.

(HIO)

Managed by **WESTERN ASSET**

Fund objective

The Fund s primary investment objective is to seek high current income. Capital appreciation is a secondary objective.

What s inside

Legg Mason Partners Fund Advisor, LLC (LMPFA) is the Fund s investment manager. Western Asset Management Company (Western Asset) and Western Asset Management Company Limited (Western Asset Limited) are the Fund s subadvisers. LMPFA, Western Asset and Western Asset Company Limited are wholly-owned subsidiaries of Legg Mason, Inc.

Letter from the chairman

Dear Shareholder,

While the U.S. economy remained weak during much of the twelve-month reporting period ended September 30, 2009, the lengthiest recession since the Great Depression finally appeared to have ended during the third quarter of 2009.

Looking back, the U.S. Department of Commerce reported that fourth quarter 2008 U.S. gross domestic product (GDP)[i] contracted 5.4%. Economic weakness accelerated during the first quarter of 2009, as GDP fell 6.4%. However, the economic environment started to get relatively better during the second quarter, as GDP fell 0.7%. The economy s more modest contraction was due, in part, to smaller declines in both exports and business spending. After contracting four consecutive quarters, the Commerce Department s advance estimate for third quarter 2009 GDP growth was 3.5%. A variety of factors helped the economy to expand, including the government s $787 billion stimulus program and its Cash for Clunkers car rebate program, which helped spur an increase in car sales.

Even before GDP advanced in the third quarter, there were signs that the economy was starting to regain its footing. As an example, the manufacturing sector, as measured by the Institute for Supply Management s PMI[ii], rose to 52.9 in August 2009, the first time it surpassed 50 since January 2008 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). While the PMI dipped to 52.6 in September, thirteen of the eighteen manufacturing industries the PMI tracks expanded during the month. In contrast, only eleven industries expanded in August.

The long-ailing housing market also saw some improvement during the reporting period. According to its most recent data, the S&P/Case-Shiller Home Price Index[iii] indicated that home prices rose 1.6% in July 2009 versus the prior month. This marked the third straight monthly gain. In addition, the National Association of Realtors Pending Home Sales Index[iv] rose 6.4% in August, the seventh consecutive monthly increase.

Letter from the chairman *continued*

One area that remained weak and could hamper the pace of economic recovery was the labor market. While monthly job losses have moderated compared to earlier in the year, the unemployment rate rose to 9.8% in September 2009, its highest level in twenty-six years. Since December 2007, more than seven million jobs have been shed and there have been twenty-one consecutive months of job losses.

The Federal Reserve Board (Fed)[v] continued to pursue an accommodative monetary policy during the reporting period. After reducing the federal funds rate[vi] from 5.25% in August 2007 to a range of 0 to 1/4 percent in December 2008 a historic low the Fed has maintained this stance thus far in 2009. In conjunction with its September 2009 meeting, the Fed said that it will continue to employ a wide range of tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period.

During the twelve-month reporting period ended September 30, 2009, both short- and long-term Treasury yields experienced periods of extreme volatility. When the period began, two- and ten-year Treasury yields were 2.00% and 3.85%, respectively. While earlier in 2008 investors were focused on the subprime segment of the mortgage-backed market, these concerns broadened to include a wide range of financial institutions and markets. As a result, other fixed-income instruments also experienced increased price volatility. This unrest triggered several flights to quality, causing Treasury yields to move lower (and their prices higher), while riskier segments of the market saw their yields move higher (and their prices lower). This was particularly true toward the end of 2008, as the turmoil in the financial markets and sharply falling stock prices caused investors to flee securities that were perceived to be risky, even high-quality corporate bonds and high-grade municipal bonds. When the first half of the reporting period ended on March 31, 2009, two- and ten-year Treasury yields were 0.81% and 2.71%, respectively.

During the second half of the period, Treasury yields generally moved higher (and their prices lower) until early June. Two- and ten-year yields peaked at 1.42% and 3.98%, respectively, before falling and ending the reporting period at 0.95% and 3.31%, respectively. In a reversal from 2008, investor risk aversion faded as the twelve-month reporting period progressed, driving spread sector (non-Treasury) prices higher. For the twelve-month period ended September 30, 2009, the Barclays Capital U.S. Aggregate Index[vii] returned 10.56%.

The high-yield bond market produced very strong results for the twelve months ended September 30, 2009. After generating extremely poor results in October and November 2008, the asset class posted positive returns during nine of the last ten months of the reporting period. This strong rally was due to a variety of factors, including the unfreezing of the credit markets, improving economic data and strong investor demand. All told, over the twelve months ended September 30, 2009, the Citigroup High Yield Market Indexviii returned 21.08%.

After falling sharply in October 2008, emerging market debt prices rallied sharply posting positive returns during ten of the last eleven months of the reporting period. This was triggered by rising commodity prices, optimism that the worst of the global recession was over and increased investor risk appetite. Over the twelve months ended September 30, 2009, the JPMorgan Emerging Markets Bond Index Global (EMBI Global)ix returned 18.67%.

A special note regarding increased market volatility

Dramatically higher volatility in the financial markets has been very challenging for many investors. Market movements have been rapid sometimes in reaction to economic news, and sometimes creating the news. In the midst of this evolving market environment, we at Legg Mason want to do everything we can to help you reach your financial goals. Now, as always, we remain committed to providing you with excellent service and a full spectrum of investment choices. Rest assured, we will continue to work hard to ensure that our investment managers make every effort to deliver strong long-term results.

We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our enhanced website, www.leggmason.com/cef. Here you can gain immediate access to many special features to help guide you through difficult times, including:

- Fund prices and performance,

- Market insights and commentaries from our portfolio managers, and

- A host of educational resources.

During periods of market unrest, it is especially important to work closely with your financial advisor and remember that reaching one s investment goals unfolds over time and through multiple market cycles. Time and again, history has shown that, over the long run, the markets have eventually recovered and grown.

Letter from the chairman *continued*

Information about your fund

Please read on for a more detailed look at prevailing economic and market conditions during the Fund s reporting period and to learn how those conditions have affected Fund performance.

Important information with regard to recent regulatory developments that may affect the Fund is contained in the Notes to Financial Statements included in this report.

As always, thank you for your confidence in our stewardship of your assets. We look forward to helping you meet your financial goals.

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

October 30, 2009

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index

i Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.
ii The Institute for Supply Management s PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.
iii The S&P/Case-Shiller Home Price Index measures the residential housing market, tracking changes in the value of the residential real estate market in twenty metropolitan regions across the United States.
iv

The Pending Home Sales Index is an index created by the National Association of Realtors that tracks homes sales in which a contract is signed but the sale has not yet closed. The Index is a leading indicator of future existing home sales as it typically takes four to six weeks to close a sale after a contract has been signed.

v The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

vi The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

vii The Barclays Capital U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.

viii The Citigroup High Yield Market Index is a broad-based unmanaged index of high-yield securities.

ix The JPMorgan Emerging Markets Bond Index Global (EMBI Global) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds and local market instruments.

Fund overview

Q. What is the Fund s investment strategy?

A. The Fund s primary investment objective is to seek high current income. Capital appreciation is a secondary objective. In seeking to fulfill its investment objectives, the Fund invests, under normal market conditions, at least 80% of its net assets in high-yield securities and up to 20% in common stock equivalents, including options, warrants and rights.

We employ an actively managed approach that is risk-aware and incorporates top-down macroeconomic views with industry sector insights and bottom-up credit research to derive the general framework for the Fund s predominantly non-investment grade credit mandate. This framework provides the foundation for how the portfolio is positioned with respect to risk (aggressive, neutral, conservative), as well as sector overweights and underweights.

Risk and weightings are reviewed on a regular basis. Our bottom-up process provides the basis for populating the targeted industry weightings through individual credit selection. Analysts work closely with portfolio managers to determine which securities provide the best risk/reward relationship within their respective sectors. The research team focuses on key fundamental measures such as leverage, cash flow adequacy, liquidity, amortization schedule, underlying asset value and management integrity/track record.

At Western Asset Management Company (Western Asset), the Fund s subadviser, we utilize a fixed-income team approach, with decisions derived from interaction among various investment management sector specialists. The sector teams are comprised of Western Asset s senior portfolio managers, research analysts and an in-house economist. Under this team approach, management of client fixed-income portfolios will reflect a consensus of interdisciplinary views within the Western Asset organization.

Q. What were the overall market conditions during the Fund s reporting period?

A. During the fiscal year, a variety of factors impacted the fixed-income market, leading to periods of fluctuating Treasury yields and elevated volatility. As the reporting period began, we were in the midst of a flight to quality, triggered by the seizing credit markets, forced selling by highly leveraged investors and a lack of liquidity. Investor risk aversion intensified through December 2008, given the severe disruptions in the global financial markets. At the epicenter of the turmoil was the ongoing fallout from the September 2008 bankruptcy of Lehman Brothers. This caused investors to seek the relative safety of shorter-term Treasuries, driving their yields down to historically low levels. In contrast, riskier portions of the fixed-income

All returns cited represent respective position and/or sector return within the Barclays Capital U.S. Corporate High Yield 2% Issuer Cap Index.

Fund overview *continued*

market generally performed poorly, as spreads in many sectors widened to record high levels.

Overall, Treasury yields moved higher from January 2009 through the end of the fiscal year, especially on the long end of the yield curvei. This was due to less demand for these securities as risk aversion abated and, in terms of longer-term Treasuries, because of concerns regarding the massive amount of new Treasury issuance that would be needed to fund the economic stimulus package. All told, the yield on two-year Treasuries fell from 2.00% to 0.95% during the twelve-month period ended September 30, 2009. The yield on ten-year Treasuries moved from 3.85% to 3.31% over the same period.

A return to more normal market conditions, including improved liquidity and signs that the economy may be bottoming, caused a sharp rebound in the spread sectors (non-Treasuries). Following their poor performance in 2008, many of the spread sectors recouped a large portion of their earlier losses over the last nine months of the reporting period. The spread sectors were also supported by increased demand from investors seeking to generate incremental yields in a relatively low interest rate environment.

Turning to the high-yield bond market, it also experienced periods of heightened volatility during the fiscal year. In addition to an overall deterioration in credit fundamentals, extremely challenging market technicals dragged down the asset class during the first two months of the reporting period. These included the fallout from the subprime mortgage market, unrest in the financial markets, forced selling by leveraged investors, illiquidity and a rapidly weakening global economic environment. After rallying in December 2008 and January 2009, another flight to quality caused high-yield prices to weaken in the spring of 2009. During the six months ended March 31, 2009, the Barclays Capital U.S. Corporate High Yield 2% Issuer Cap Indexii (the Index) fell 12.65%. Over that time, riskier high-yield bonds underperformed their higher-rated counterparts, as CCC-rated and BB-rated securities returned -31.10% and -4.98%, respectively.

The high-yield market then staged an impressive rally during the second half of the fiscal year, with the Index gaining 40.25%. The market was supported by improving technicals, optimism regarding the government s initiatives to stabilize the financial system, some encouraging corporate earnings news and signs that the recession could be drawing to a close. Collectively, investor risk appetite steadily returned and, despite rising default rates, demand for riskier high-yield securities increased. During the six months ended September 30, 2009, CCC-rated and BB-rated securities returned 70.28% and 27.73%, respectively. All told, the Index returned 22.51% for the twelve months ended September 30, 2009.

Q. How did we respond to these changing market conditions?

A. When the reporting period began, the Fund was aggressively positioned, with a lower average quality rating than that of the Index. This was based on our expectations that there was little chance of a deep or lengthy recession. In hindsight, this proved to be the wrong decision for the first half of the reporting period, as the upheaval in the financial markets during the fall of 2008 contributed to a severe global downturn that few people could have predicted. We did, however, given the weak economy, move to a more defensive posture from a sector perspective during the first half of the fiscal year. In particular, we increased our exposure to areas that generally hold up relatively well during economic declines, such as Wireless[1] companies. However, these efforts were, at times, challenged due to illiquid conditions in the marketplace.

Toward the end of the fiscal year, we made several other adjustments to the Fund s portfolio. At the end of 2008, a number of large financial institutions securities were downgraded to below investment grade status. As a result, the Financials sector portion of the benchmark substantially increased. Given improved fundamentals at many of these banks, we significantly increased the Fund s exposure to the Financials sector in an attempt to reduce the Fund s underweight versus the benchmark. During the last three months of the period, we also sought to capture profits in a number of holdings given the extremely strong performance in the high-yield market. In particular, we emphasized selling certain senior unsecured securities that had performed very well and reallocated those assets into senior secured securities. This also served to reduce the portfolio s overall risk profile.

Finally, during the reporting period, the Fund utilized credit default swaps (CDS) to increase our exposure to the high-yield market when we believed it was beneficial to increase our exposure to particular securities. Utilization of these CDS resulted in a very modest detraction from performance.

Performance review

For the twelve months ended September 30, 2009, Western Asset High Income Opportunity Fund Inc. returned 16.86% based on its net asset value (NAV)[iii] and 53.69% based on its New York Stock Exchange (NYSE) market price per share. The Fund s unmanaged benchmark, the Barclays Capital U.S. Corporate High Yield 2% Issuer Cap Index, returned 22.51% for the same period. The Lipper High Current Yield Closed-End Funds Category Average[iv] returned 7.42% over the same time frame. Please note that Lipper performance returns are based on each fund s NAV.

1 Wireless is included in the Telecommunication Services sector.

Fund overview ***continued***

During the twelve-month period, the Fund made distributions to shareholders totaling $0.61 per share. The performance table shows the Fund s twelve-month total return based on its NAV and market price as of September 30, 2009. **Past performance is no guarantee of future results.**

PERFORMANCE SNAPSHOT as of September 30, 2009 (unaudited)

PRICE PER SHARE	12-MONTH TOTAL RETURN*
$5.70 (NAV)	16.86%
$5.82 (Market Price)	53.69%

All figures represent past performance and are not a guarantee of future results.

***Total returns are based on changes in NAV or market price, respectively. Total returns assume the reinvestment of all distributions in additional shares in accordance with the Fund s Dividend Reinvestment Plan.**

Q. What were the leading contributors to performance?

A. The Fund s quality biases were the largest contributors to performance during the period. The Fund s overweight to CCC and below-rated securities benefited from improved demand during the second half of the period, as investors looked to generate incremental yields given the low interest rate environment. The Fund also benefited from its underweight to B-rated securities, which underperformed the benchmark as high-yield managers tended to favor BB-rated securities in the first half of the period and increased their exposure to lower-quality (below B-rated) securities during the second half of the period.

Also contributing to results was the Fund s overall underweight to Communications[1] (+14%), as it lagged the benchmark. Within the Communications space, our underweight to Media Non-Cable was beneficial, as advertising-based businesses continued to struggle. We also benefited by continuing to favor Wireless issuers due to their hard assets and predictable cash flows. The Fund also benefited from an underweight to the over-leveraged high-yield Information Technology sector (+18.2%), which also lagged the benchmark during the period.

In terms of security selection, the Fund benefited from its overweight to **Wind Acquisition Finance SA**, an Italian wireless company. The company continued to generate solid results during the period. In addition, it benefited from the thawing of the credit markets, as Wind Acquisition was able to tap the market to improve its maturity profile. An overweight to aluminum products producer **Noranda Aluminium Acquisition Corp.** also contributed to performance during the fiscal year. We increased the Fund s

1 Communications consists of the following industries: Media Cable, Media Non-Cable and Telecommunications.
All returns cited represent respective position and/or sector return within the Barclays Capital U.S. Corporate High Yield 2% Issuer Cap Index.

exposure to this position during the trough of the credit cycle that occurred early in the period. Noranda s securities had been under significant pressure during the credit crisis. This was the result of the company being seen as a leveraged commodity producer that was exposed to the deteriorating construction and transportation end-markets. In addition, it had experienced a fire in one of its main plants. We believed management was navigating the situation well and the company was well positioned once aluminum market conditions improved. We correctly identified that its bonds had upside potential as management was pursuing a deleveraging strategy through debt exchanges. We also felt that the company had sufficient insurance coverage to return its main facility to operation.

Q. What were the leading detractors from performance?

A. Sector selection, as a whole, was a detractor from relative performance over the fiscal year. During the global financial crisis, the rating agencies downgraded several financial intermediaries to below investment grade status. As a result, Financials became a larger part of the high-yield market during the fiscal year. Despite adding exposure to the Financials sector, our underweight detracted from performance as Financials rapidly recovered in the second half of the twelve-month reporting period, rising 92.8% during that time. In addition, having an overweight in the defensive Utilities sector (+9.7%) was not rewarded during the twelve months ended September 30, 2009. The sector was negatively impacted by the poor performance of both Electric Utilities and Gas Utilities issuers. The high-yield Gas Utilities sub-sector remained volatile along with commodity oil and gas prices, as investors had a cautious outlook on the global demand for energy.

Overall, security selection was also a detractor from performance. Specifically, the Fund did not benefit from its overweight to Utilities company **Energy Future Holdings Corp**. In an effort to remedy an overleveraged balance sheet, Energy Future Holdings attempted to renegotiate bank covenants that would have negatively impacted the senior unsecured bonds in its portfolio. This effort pressured senior unsecured bond prices over the reporting period. The Fund was also negatively impacted by its positions in two over-leveraged Gaming[1] securities, **Inn of the Mountain Gods Resort & Casino** and **Station Casinos Inc**. These casino/lodging operators ultimately sought bankruptcy protection as occupancy rates dwindled and consumers chose to stay home rather than visit the casino floors. Finally, an overweight to auto supplier **Visteon Corp**. negatively impacted performance. Visteon also sought bankruptcy protection as demand for its products and services plummeted with the fall in global new car sales, as original equipment manufacturers (OEMs) found themselves flush with inventory and scrambled to reduce production volumes.

1 Gaming is included in the Consumer Discretionary sector.
All returns cited represent respective position and/or sector return within the Barclays Capital U.S. Corporate High Yield 2% Issuer Cap Index.

Fund overview *continued*

Looking for additional information?

The Fund is traded under the symbol HIO and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XHIOX on most financial websites. *Barron s* and *The Wall Street Journal s* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites, as well as www.leggmason.com/cef.

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 5:30 p.m. Eastern Standard Time, for the Fund s current NAV, market price and other information.

Thank you for your investment in Western Asset High Income Opportunity Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund s investment goals.

Sincerely,

Western Asset Management Company

October 20, 2009

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

Portfolio holdings and breakdowns are as of September 30, 2009 and are subject to change and may not be representative of the portfolio managers current or future investments. Please refer to pages 9 through 26 for a list and percentage breakdown of the Fund s holdings.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. The Fund s top five sector holdings (as a percentage of net assets) as of September 30, 2009 were: Consumer Discretionary (20.2%), Financials (14.6%), Energy (14.1%), Industrials (11.4%) and Telecommunication Services (10.0%). The Fund s portfolio composition is subject to change at any time.

RISKS: The Fund invests in high-yield debt securities, which are subject to greater risks than investments in higher-rated bonds, such as the increased risk of default and greater volatility because of the lower credit quality of the issues. Fixed-income investments are subject to interest rate risk. As interest rates rise, bond prices fall, reducing the value of the Fund s holdings. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. In addition, the Fund may invest in foreign securities, which are subject to certain risks of overseas investing, including currency fluctuations and changes in political and economic conditions, which could result in significant fluctuations. These risks are magnified in emerging markets.

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

i The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.

ii The Barclays Capital U.S. Corporate High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays Capital U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.

iii Net asset value (NAV) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund s market price as determined by supply of and demand for the Fund s shares.

iv Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended September 30, 2009, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 6 funds in the Fund s Lipper category.

Fund at a glance (unaudited)

INVESTMENT BREAKDOWN (%) As a percent of total investments

The bar graphs above represent the composition of the Fund s investments as of September 30, 2009 and September 30, 2008 and do not include derivatives. The Fund is actively managed. As a result, the composition of the Fund s investments is subject to change at any time.

Schedule of investments

September 30, 2009

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

FACE AMOUNT		SECURITY		VALUE
CORPORATE BONDS & NOTES 91.6%				
CONSUMER DISCRETIONARY 18.8%				
		Auto Components 0.8%		
$	390,000	Affinia Group Inc., Senior Secured Notes, 10.750% due 8/15/16(a)	$	421,200
		Allison Transmission Inc., Senior Notes:		
	290,000	11.000% due 11/1/15(a)		285,650
	2,120,000	11.250% due 11/1/15(a)(b)		