

WESTERN ASSET HIGH INCOME FUND II INC.
Form N-CSRS
December 23, 2015

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 811-08709

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

620 Eighth Avenue, 49th Floor, New York, NY 10018
(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: April 30

Date of reporting period: October 31, 2015

ITEM 1. REPORT TO STOCKHOLDERS.

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

Semi-Annual Report

October 31, 2015

WESTERN ASSET

HIGH INCOME FUND II INC.

(HIX)

INVESTMENT PRODUCTS: NOT FDIC INSURED NO BANK GUARANTEE MAY LOSE VALUE

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Fund objectives	

The Fund seeks to maximize current income by investing at least 80% of its net assets, plus any borrowings for investment purposes, in high-yield debt securities. As a secondary objective, the Fund seeks capital appreciation to the extent consistent with its objective of seeking to maximize current income.

Under normal market conditions, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in high-yield debt securities.

Letter from the chairman

Dear Shareholder,

We are pleased to provide the semi-annual report of Western Asset High Income Fund II Inc. for the six-month reporting period ended October 31, 2015. Please read on for Fund performance information and a detailed look at prevailing economic and market conditions during the Fund's reporting period.

I am pleased to introduce myself as the new Chairman, President and Chief Executive Officer of the Fund, succeeding Kenneth D. Fuller. I am honored to have been appointed to my new role. During my 27 year career with Legg Mason, I have seen the investment management industry evolve and expand. Throughout these changes, maintaining an unwavering focus on our shareholders and their needs has remained paramount.

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, www.lmcef.com. Here you can gain immediate access to market and investment information, including:

Fund prices and performance,

Market insights and commentaries from our portfolio managers, and

A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

November 27, 2015

II Western Asset High Income Fund II Inc.

Investment commentary

Economic review

The pace of U.S. economic activity was mixed during the six months ended October 31, 2015 (the reporting period). Looking back, the U.S. Department of Commerce reported that second quarter 2015 U.S. gross domestic product (GDP) growth was 3.9%. Relatively solid growth was driven by increasing exports, accelerating personal consumption expenditures (PCE), declining imports, expanding state and local government spending, and rising nonresidential fixed investment. The U.S. Department of Commerce's second reading for third quarter 2015 GDP growth released after the reporting period ended was 2.1%. Decelerating growth was primarily due to a downturn in private inventory investment and decelerations in exports, PCE, nonresidential fixed investment, state and local government spending, and residential fixed investment.

The labor market was a tailwind for the economy during the reporting period. When the period began, unemployment was 5.5%, as reported by the U.S. Department of Labor. By October 2015, unemployment was 5.0%, its lowest level since April 2008.

Investment commentary (cont d)

Market review

Q. How did the Federal Reserve Board (Fed) respond to the economic environment?

A. The Fed took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As it has since December 2008, the Fed maintained the federal funds rateⁱⁱⁱ at a historically low range between zero and 0.25% during the reporting period. At its meeting that concluded on July 29, 2015, the Fed said, "The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run." At its meeting that ended on September 17, 2015, the Fed decided to maintain the target between zero and 0.25%. At its meeting that concluded on October 28, 2015, the Fed said, "In determining whether it will be appropriate to raise the target range at its next meeting, the Committee will assess progress both realized and expected toward its objectives of maximum employment and 2 percent inflation."

Q. Did Treasury yields trend higher or lower during the six months ended October 31, 2015?

A. Both short- and long-term Treasury yields moved higher during the reporting period. When the period began, the yield on the two-year Treasury note was 0.58%. Its low for the period was 0.55% on both May 15, 2015 and July 8, 2015, and it peaked at 0.82% in mid-September 2015. When the reporting period ended the yield on the two-year Treasury note was 0.75%. The yield on the ten-year Treasury note began the period at 2.05%. Its low for the period of 2.01% occurred on August 24, 2015. Its peak of 2.50% was on June 10, 2015 and the ten-year Treasury note concluded the reporting period at 2.16%.

Q. What factors impacted the spread sectors (non-Treasuries) during the reporting period?

A. The spread sectors posted mixed results during the reporting period. Due to weakness on several occasions during the reporting period, high-yield corporate bonds and emerging market debt were among the weakest performers over the six months ended October 31, 2015. In contrast, sectors that are generally less sensitive to rising interest rates, such as asset-backed securities, posted positive results. Performance fluctuated with investor sentiment given the uncertainties regarding future Fed monetary policy, along with concerns over global growth and geopolitical issues. The broad U.S. bond market, as measured by the Barclays U.S. Aggregate Index^{iv}, returned -0.10% during the six months ended October 31, 2015.

Q. How did the high-yield bond market perform over the six months ended October 31, 2015?

A. The U.S. high-yield bond market, as measured by the Barclays U.S. Corporate High Yield 2% Issuer Cap Index, returned -3.38% for the six months ended October 31, 2015. High yield bonds were volatile during the reporting period. While the underlying fundamentals in the high-yield market remained generally solid and default rates were well below their long-term average, the asset class moved lower in June, July, August and September 2015 as investor risk aversion was elevated.

However, the asset class ended on a positive note, as it rallied sharply in October 2015.

Q. How did the emerging market debt asset class perform over the reporting period?

A. The JPMorgan Emerging Markets Bond Index Global (EMBI Globalⁱ) returned -1.19% during the six months ended October 31, 2015. The asset class declined during four of the first five months of the reporting period. These setbacks were triggered by a number of factors, including concerns over economic growth in China, falling commodity prices, expectations for future Fed rate hikes and geopolitical issues.

Performance review

For the six months ended October 31, 2015, Western Asset High Income Fund II Inc. returned -6.75% based on its net asset value (NAVⁱⁱ) and -9.04% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmarks, the Barclays U.S. Corporate High Yield + 2% Issuer Cap Index and the EMBI Global, returned -3.38% and -1.19%, respectively for the same period. The Lipper High Yield (Leveraged) Closed-End Funds Category Average^{viii} returned -5.20% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During this six-month period, the Fund made distributions to shareholders totaling \$0.41 per share. As of October 31, 2015, the Fund estimates that all of the distributions were sourced from investment income.* The performance table shows the Fund's six-month total return based on its NAV and market price as of October 31, 2015. **Past performance is no guarantee of future results.**

Performance Snapshot as of October 31, 2015
(unaudited)

	6-Month Total Return**
Price Per Share	
\$7.59 (NAV)	-6.75%
\$7.00 (Market Price)	-9.04%

All figures represent past performance and are not a guarantee of future results. Performance figures for periods shorter than one year represent cumulative figures and are not annualized.

**** Total returns are based on changes in NAV or market price, respectively. Returns reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.**

Total return assumes the reinvestment of all distributions, including returns of capital, if any, at NAV.

Total return assumes the reinvestment of all distributions, including returns of capital, if any, in additional shares in accordance with the Fund's Dividend Reinvestment Plan.

* These estimates are not for tax purposes. The Fund will issue a Form 1099 with final composition of the distributions for tax purposes after year-end. A return of capital is not taxable and results in a reduction in the tax basis of a shareholder's investment. For more information about a distribution's composition, please refer to the Fund's distribution press release or, if applicable, the section 19 notice located in the press release section of our website, www.lmcf.com.

Investment commentary (cont d)

Looking for additional information?

The Fund is traded under the symbol HIX and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XHGIX 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.lmcef.com.

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 Time, for the Fund's current NAV, market price and other information.

Thank you for your investment in Western Asset High Income Fund II 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,

Jane Trust, CFA

Chairman, President and

Chief Executive Officer

November 27, 2015

***RISKS:** The Fund's investments are subject to credit risk, inflation risk and 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. High-yield bonds (junk bonds) involve greater credit and liquidity risks than investment grade bonds. Foreign securities are subject to certain risks not associated with domestic investing, such as currency fluctuations and changes in political and economic conditions which could result in significant fluctuations. These risks are magnified in emerging markets. Leverage may result in greater volatility of NAV and the market price of common shares and increases a shareholder's risk of loss.*

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

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.

- 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 Federal Reserve Board (Fed) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- iii 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.
- iv The Barclays 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.
- v The Barclays U.S. Corporate High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.
- vi 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.
- vii Net asset value (NAV) is calculated by subtracting total liabilities, including liabilities associated with financial leverage (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.
- viii Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the six-month period ended October 31, 2015, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 34 funds in the Fund's Lipper category.

Fund at a glance (unaudited)

Investment breakdown (%) as a percent of total investments

The bar graph above represents the composition of the Fund's investments as of October 31, 2015 and April 30, 2015 and does not include derivatives, such as futures contracts and forward foreign currency contracts. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

Represents less than 0.1%.

Spread duration (unaudited)

Economic exposure October 31, 2015

Total Spread Duration

HIX 3.55 years

Benchmark 4.73 years

Spread duration measures the sensitivity to changes in spreads. The spread over Treasuries is the annual risk-premium demanded by investors to hold non-Treasury securities. Spread duration is quantified as the % change in price resulting from a 100 basis points change in spreads. For a security with positive spread duration, an increase in spreads would result in a price decline and a decline in spreads would result in a price increase. This chart highlights the market sector exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

Benchmark 80% of Barclays U.S. Corporate High Yield 2% Issuer Cap Index and 20% of JPMorgan Emerging Markets Bond Index Global
 EM Emerging Markets
 HIX Western Asset High Income Fund II Inc.
 HY High Yield
 IG Credit Investment Grade Credit

Effective duration (unaudited)

Interest rate exposure October 31, 2015

Total Effective Duration

HIX 3.55 years

Benchmark 4.74 years

Effective duration measures the sensitivity to changes in relevant interest rates. Effective duration is quantified as the % change in price resulting from a 100 basis points change in interest rates. For a security with positive effective duration, an increase in interest rates would result in a price decline and a decline in interest rates would result in a price increase. This chart highlights the interest rate exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

Benchmark	80% of Barclays U.S. Corporate High Yield	2% Issuer Cap Index and 20% of JPMorgan Emerging Markets Bond Index Global
EM	Emerging Markets	
HIX	Western Asset High Income Fund II Inc.	
HY	High Yield	
IG Credit	Investment Grade Credit	

Schedule of investments (unaudited)

October 31, 2015

Western Asset High Income Fund II Inc.

Security	Rate	Maturity Date	Face Amount	Value
Corporate Bonds & Notes 120.3%				
Consumer Discretionary 21.0%				
<i>Auto Components 0.1%</i>				
Europcar Groupe SA, Secured Notes	5.750%	6/15/22	860,000 EUR	\$ 988,256 (a)
<i>Automobiles 0.4%</i>				
Chrysler Group LLC/CG Co.-Issuer Inc., Secured Notes	8.250%	6/15/21	2,482,000	2,661,945 (b)
<i>Diversified Consumer Services 0.9%</i>				
Co-operative Group Holdings 2011 Ltd., Senior Notes	6.875%	7/8/20	337,000 GBP	551,687 (c)
Co-operative Group Holdings 2011 Ltd., Senior Notes	7.500%	7/8/26	500,000 GBP	829,602
Service Corp. International, Senior Notes	7.500%	4/1/27	2,090,000	2,455,750 (b)
StoneMor Partners LP/Cornerstone Family Services of WV, Senior Bonds	7.875%	6/1/21	1,810,000	1,882,400 (b)
<i>Total Diversified Consumer Services</i>				5,719,439
<i>Hotels, Restaurants & Leisure 4.4%</i>				
Bossier Casino Venture Holdco Inc., Senior Secured Bonds	14.000%	2/9/18	2,423,719	2,223,520 (a)(b)(d)(e)(f)
Carrols Restaurant Group Inc., Secured Notes	8.000%	5/1/22	1,910,000	2,038,925 (b)
CCM Merger Inc., Senior Notes	9.125%	5/1/19	3,360,000	3,578,400 (a)(b)
CEC Entertainment Inc., Senior Notes	8.000%	2/15/22	3,970,000	3,930,300 (b)
Downstream Development Authority of the Quapaw Tribe of Oklahoma, Senior Secured Notes	10.500%	7/1/19	2,580,000	2,683,200 (a)(b)
Fontainebleau Las Vegas Holdings LLC, Senior Secured Notes	10.250%	6/15/15	975,000	122 *(a)(g)
Gala Electric Casinos Ltd., Secured Notes	11.500%	6/1/19	1,724,000 GBP	2,837,445 (c)
Greektown Holdings LLC/Greektown Mothership Corp., Senior Secured Notes	8.875%	3/15/19	2,270,000	2,315,400 (a)(b)
Landry s Holdings II Inc., Senior Notes	10.250%	1/1/18	1,530,000	1,579,725 (a)(b)
Landry s Inc., Senior Notes	9.375%	5/1/20	6,978,000	7,518,795 (a)(b)
<i>Total Hotels, Restaurants & Leisure</i>				28,705,832
<i>Household Durables 2.2%</i>				
Century Intermediate Holding Co. 2, Senior Notes	9.750%	2/15/19	3,860,000	4,004,750 (a)(b)(d)
Shea Homes LP/Shea Homes Funding Corp., Senior Notes	6.125%	4/1/25	3,120,000	3,283,800 (a)(b)
William Lyon Homes Inc., Senior Notes	8.500%	11/15/20	2,980,000	3,218,400 (b)
William Lyon Homes Inc., Senior Notes	7.000%	8/15/22	610,000	635,162
Woodside Homes Co., LLC/Woodside Homes Finance Inc., Senior Notes	6.750%	12/15/21	3,940,000	3,683,900 (a)(b)
<i>Total Household Durables</i>				14,826,012
<i>Media 10.3%</i>				
AMC Entertainment Inc., Senior Subordinated Notes	5.750%	6/15/25		