

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Form N-CSR

December 06, 2007

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)

125 Broad Street, New York, NY
(Address of principal executive offices)

10004
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

300 First Stamford Place, 4th Floor

Stamford, CT 06902
(Name and address of agent for service)

Registrant's telephone number, including area code: (800) 451-2010

Date of fiscal year September 30,
end:

Date of reporting period: September 30, 2007

ITEM 1. REPORT TO STOCKHOLDERS.

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

**Western Asset High Income
Opportunity Fund Inc.
(HIO)**

ANNUAL REPORT

SEPTEMBER 30, 2007

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

**Western Asset High Income
Opportunity Fund Inc.**

Annual Report September 30, 2007

What's Inside	Letter from the Chairman	I
	Fund Overview	1
	Fund at a Glance	4
	Schedule of Investments	5
	Statement of Assets and Liabilities	20
	Statement of Operations	21
	Statements of Changes in Net Assets	22
	Financial Highlights	23
	Notes to Financial Statements	24
Fund Objective The Fund's primary investment objective is to seek high current income. Capital appreciation is a secondary objective.	Report of Independent Registered Public Accounting Firm	29
	Financial Data	30
	Additional Information	31
	Annual Chief Executive Officer and Chief Financial Officer Certifications	35
	Dividend Reinvestment Plan	36

Letter from the Chairman

Dear Shareholder,

The U.S. economy produced mixed results during the 12-month reporting period ended September 30, 2007. After expanding 2.1% in the fourth quarter of 2006, U.S. gross domestic product (GDP) growth was a tepid 0.6% in the first quarter of 2007, according to the U.S. Commerce Department. This was the lowest growth rate since the fourth quarter of 2002. The economy then rebounded, as second quarter 2007 GDP growth was a solid 3.8%. Given the modest increase earlier in the year, this higher growth rate was not unexpected. The advance estimate for third quarter GDP growth was 3.9%.

R. JAY GERKEN, CFA

Chairman, President and
Chief Executive Officer

Ongoing issues related to the housing and subprime mortgage markets and an abrupt tightening in the credit markets prompted the Federal Reserve Board (Fed) to take several actions during the reporting period. The Fed initially responded by lowering the discount rate – the rate the Fed uses for loans it makes directly to banks from 6.25% to 5.75% in mid-August 2007. Then, at its meeting on September 18, the Fed reduced the federal funds rateⁱⁱⁱ from 5.25% to 4.75% and the discount rate to 5.25%. This marked the first reduction in the federal funds rate since June 2003. In its statement accompanying the September meeting, the Fed stated: Economic growth was moderate during the first half of the year, but the tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth more generally. Today's action is intended to help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and to promote moderate growth over time.

At the end of October 2007, after the reporting period concluded, the Fed again cut rates, reducing the federal funds rate from 4.75% to 4.50%.

Western Asset High Income Opportunity Fund Inc.

I

During the 12-month reporting period, both short- and long-term Treasury yields experienced periods of significant volatility. Yields fluctuated early in the period, given mixed economic data and shifting expectations regarding the Fed's future monetary policy. After falling during the first three months of 2007, yields then moved steadily higher during much of the second quarter. This was due, in part, to inflationary fears, a solid job market and expectations that the Fed would not be cutting short-term rates in the foreseeable future. During the remainder of the reporting period, the U.S. fixed-income markets were extremely volatile, which negatively impacted market liquidity conditions. Initially, the concern on the part of market participants was limited to the subprime segment of the mortgage-backed market. These concerns broadened, however, to include a wide range of financial institutions and markets. As a result, other fixed-income instruments also experienced increased price volatility. This turmoil triggered a significant flight to quality, causing Treasury yields to move sharply lower (and their prices higher), while riskier segments of the market saw their yields move higher (and their prices lower). Overall, during the 12 months ended September 30, 2007, two-year Treasury yields fell from 4.71% to 3.97%. Over the same period, 10-year Treasury yields moved from 4.64% to 4.59%. Looking at the 12-month period as a whole, the overall bond market, as measured by the Lehman Brothers U.S. Aggregate Index^{iv}, returned 5.14%.

Despite weakness late in the fiscal year, the high-yield bond market generated positive results over the 12-month period ended September 30, 2007. During that time, the Lehman Brothers U.S. Corporate High Yield 2% Issuer Cap Index^v returned 7.62% and the Citigroup High Yield Market Index^{vi} returned 7.66%. With interest rates relatively low, demand for higher-yielding bonds, overall, remained solid. The high-yield market was further aided by strong corporate profits and low default rates.

Despite periods of weakness, emerging markets debt generated positive results, as the JPMorgan Emerging Markets Bond Index Global (EMBI Globalⁱⁱ) gained 7.51% during

the reporting period. Overall solid demand, an expanding global economy, strong domestic spending and the Fed's rate cut supported many emerging market countries.

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

Special Shareholder Notices

During the fiscal year, the Board of Directors of Western Asset High Income Opportunity Fund Inc. approved certain changes to the Fund's non-fundamental investment policies recommended by Fund management. These changes, which are further described below, are intended to provide the portfolio managers with additional flexibility to meet the Fund's investment objectives and address developments in the market, although the Fund's portfolio managers do not currently anticipate that any dramatic changes in the Fund's portfolio composition or investment approach will result.

On May 17, 2007, the Board of Directors approved, to be effective June 1, 2007, changes to the non-fundamental investment policies relating to the Fund's ability to invest in derivative instruments. The Fund may use a variety of derivative instruments for investment purposes as well as for hedging or risk management purposes. Previously, the Fund had been limited to the use of derivative instruments for hedging and risk management purposes only. The use of derivative instruments is intended to provide Legg Mason Partners Fund Advisor, LLC, the Fund's investment manager, and Western Asset Management Company (Western Asset), the Fund's subadviser, greater flexibility in making investment decisions and opportunity to seek to achieve the Fund's investment objectives. Derivatives are financial instruments the value of which depends upon, or is derived from, the value of something else, such as one or more underlying investments, indexes or currencies. Derivatives may be traded on organized exchanges or in individually negotiated transactions with other parties (these are known as over the counter derivatives). Investors should note that

derivatives can be illiquid, may disproportionately increase losses and could have a potentially large impact on Fund performance.

Also effective June 1, 2007, the Fund changed its benchmark from the Citigroup High Yield Market Index to the Lehman Brothers U.S. Corporate High Yield 2% Issuer Cap Index. In the opinion of Western Asset, this change provides for a broader, more effective benchmark index for the Fund and a more accurate reflection of the portfolio strategies with which the Fund is managed.

Additionally, on August 15, 2007, the Board of Directors approved, to be effective September 17, 2007, changes to the Fund's non-fundamental investment policies relating to the credit ratings of the securities, as well as the types of securities in which the Fund may invest, under ordinary market conditions and during periods of adverse market conditions.

As a result of these changes, the Fund is no longer subject to the non-fundamental investment policy that prohibited the Fund from investing more than 10% of its assets in fixed-income securities rated lower than B by more than one rating agency. Securities rated below B are well below investment grade, have considerable uncertainty as to timely payment of principal and interest and may be in default. Issuers of lower quality securities may be highly leveraged and have difficulty servicing their debt, especially during prolonged economic recessions or periods of rising interest rates. The prices of lower quality securities are volatile and may go down due to market perceptions of deteriorating issuer creditworthiness or economic conditions. Lower quality securities may become illiquid and hard to value in down markets. Securities rated below B are considered speculative and, compared to higher-rated securities, tend to have more volatile prices and increased price sensitivity to changing interest rates and to adverse economic and business developments, greater risk of loss due to default or declining credit quality, greater likelihood that adverse economic or company specific events will make the issuer unable to make interest and/or principal payments and greater susceptibility

to negative market sentiments leading to depressed prices and decrease in liquidity.

In addition, the Fund, subject to any non-fundamental investment policies in effect, is now able to invest in dollar rolls. Under a dollar roll transaction, the Fund sells securities for delivery in the current month, or sells securities it has purchased on a to-be-announced basis, and simultaneously contracts to repurchase substantially similar (same type and coupon) securities on a specified future date. During the roll period, the Fund forgoes principal and interest paid on the purchased securities. Dollar rolls are speculative techniques involving leverage and are considered borrowing by the Fund if the Fund does not establish and maintain a segregated account. In addition, dollar rolls involve the risk that the market value of the securities the Fund is obligated to repurchase may decline below the repurchase price. In the event the buyer of securities under a dollar roll files for bankruptcy or becomes insolvent, the Fund's use of proceeds may be restricted pending a determination by the other party, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities. Successful use of dollar rolls may depend upon the ability of the Fund's investment manager to correctly predict interest rates and prepayments. There is no assurance that dollar rolls can be successfully employed.

The Board of Directors also approved amended non-fundamental investment policies providing that, during times when, in the judgment of Western Asset, conditions in the securities markets would make pursuing the Fund's basic investment strategy inconsistent with the best interest of the Fund's stockholders, as a temporary defensive strategy, the subadviser may employ alternative strategies, including investment of all of the Fund's assets in securities rated investment grade by any nationally recognized statistical rating organization, or in unrated securities of comparable quality.

Western Asset High Income Opportunity Fund Inc.

V

Information About Your Fund

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

November 2, 2007

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 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.
- 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 Lehman Brothers 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 Lehman Brothers U.S. Corporate High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Lehman Brothers U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade fixed-rate, taxable corporate bond market.
- vi The Citigroup High Yield Market Index is a broad-based unmanaged index of high-yield securities.
- vii 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. Countries covered are Algeria, Argentina, Brazil, Bulgaria, Chile, China, Colombia, Cote d Ivoire, Croatia, Ecuador, Greece, Hungary, Lebanon, Malaysia, Mexico, Morocco, Nigeria, Panama, Peru, the Philippines, Poland, Russia, South Africa, South Korea, Thailand, Turkey and Venezuela.

VI Western Asset High Income Opportunity Fund Inc.

Fund Overview

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

A. Over the preceding twelve months, we have seen some significant changes in the market. At the beginning of the period, the economy was experiencing robust growth and the market was focused on inflation and was debating whether or not the Federal Reserve Board (Fed) would need to raise short-term interest rates. Toward the end of the period, the economy seemed to be faltering and market participants were focusing on the prospects for future growth in light of the weakened housing market. During this time, investor expectations seemed to swing from one extreme to the other. As the fiscal year ended, concerns were clearly focused on the risks associated with slower growth and what the Fed's next move would be after it lowered interest rates in mid-September 2007.

These market conditions and concerns arose from the subprime mortgage market. While representing only a small fraction of the fixed-income markets, the disruptions in this sector (higher than expected default experience) reverberated throughout all sectors of the fixed-income markets.

Performance Review

For the 12 months ended September 30, 2007, Western Asset High Income Opportunity Fund Inc. returned 7.29% based on its net asset value (NAVⁱ) and 10.37% based on its New York Stock Exchange (NYSE) market price per share. In comparison, the Fund's new unmanaged benchmark, the Lehman Brothers U.S. Corporate High Yield 2% Issuer Cap Indexⁱⁱⁱ, and its former unmanaged benchmark, the Citigroup High Yield Market Index^{iv}, returned 7.62% and 7.66%, respectively, for the same period. The Fund's Lipper High Current Yields Closed-End Funds Category Average^v returned -1.33% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During the 12-month period, the Fund made distributions to shareholders totaling \$0.56 per share. The performance table shows the Fund's 12-month total return based on its NAV and market price as of September 30, 2007. **Past performance is no guarantee of future results.**

Performance Snapshot as of September 30, 2007 (unaudited)

	12-Month Total Return
Price Per Share	
\$7.03 (NAV)	7.29%
\$6.47 (Market Price)	10.37%

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

Edgar Filing: WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC. - Form N-CSR

Total returns are based on changes in NAV or market price, respectively. Total returns assume the reinvestment of all distributions in additional shares.

Q. What were the most significant factors affecting Fund performance?

What were the leading contributors to performance?

A. During the fiscal year, the Fund's overweight to CCC-rated securities and underweight to BB-rated securities enhanced results. From a sector perspective, overweights in wireless, capital goods and media/cable bonds were positive contributors to performance. In addition, an underweight to the technology sector was beneficial to the Fund's relative performance.

What were the leading detractors from performance?

A. Overall, individual issue selection detracted from results during the fiscal year. In terms of sectors, underweights in basic industry and consumer non-cyclicals were a drag on the Fund's relative results.

Q. Were there any significant changes to the Fund during the reporting period?

A. Although there were no significant changes to the Fund's positioning over the period, there were changes to the non-fundamental investment policies, as described in the Letter from the Chairman. These changes, noted under Special Shareholder Notices, are intended to provide the Investment Management team with additional flexibility to meet the Fund's investment objectives. The team requested that the Fund's benchmark be changed to an index that more closely reflects the manner in which the Fund's portfolio is managed to provide a more useful measure of the Fund's comparative performance. The team also requested additional authority to use derivatives to give the manager another tool to pursue the Fund's investment objectives in a more efficient manner. To date, the manager has not exercised this additional authority.

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/InvestorServices.

Edgar Filing: WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC. - Form N-CSR

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 6:00 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 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 16, 2007

2 Western Asset High Income Opportunity Fund Inc. 2007 Annual Report

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.

RISKS: The Fund invests in high-yield bonds, which are subject to additional risks 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 share price. 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.

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

- i 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.
- ii NAV is calculated by subtracting total liabilities 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 at the Fund's market price, as determined by supply of and demand for the Fund's shares.
- iii The Lehman Brothers U.S. Corporate High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Lehman Brothers U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade fixed-rate, taxable corporate bond market.
- iv The Citigroup High Yield Market Index is a broad-based unmanaged index of high-yield securities.
- v Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the 12-month period ended September 30, 2007, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 10 funds in the Fund's Lipper category.

Fund at a Glance (unaudited)

Investment Breakdown

As a Percent of Total Investments

Schedule of Investments (September 30, 2007)

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Face Amount	Security	Value
CORPORATE BONDS & NOTES 93.1%		