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HIGH INCOME OPPORTUNITY FUND INC

Form N-CSRS

June 09, 2006

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**

High Income Opportunity Fund Inc.

(Exact name of registrant as specified in charter)

125 Broad Street, New York, NY 10004

(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

300 First Stamford Place, 4th Fl.

Stamford, CT 06902

(Name and address of agent for service)

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

Date of fiscal year end: **September 30**

Date of reporting period: **March 31, 2006**

ITEM 1. REPORT TO STOCKHOLDERS.

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

Fund Inc.

SEMI ANNUAL REPORT

MARCH 31, 2006

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

High Income Opportunity
Fund Inc.

Semi-Annual Report March 31, 2006

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Smith Barney and Salomon Brothers are service marks of Citigroup, licensed for use by Legg Mason as the names of funds and investment managers. Legg Mason and its affiliates, as well as the Fund's investment manager, are not affiliated with Citigroup.

Letter from the Chairman

R. JAY GERKEN, CFA
Chairman, President and
Chief Executive Officer

Dear Shareholder,

The U.S. economy was mixed during the six-month reporting period. After a 4.1% advance in the third quarter of 2005, fourth quarter gross domestic product (GDP) growth slipped to 1.7%. This marked the first quarter in which GDP growth did not surpass 3.0% since the first three months of 2003. However, as expected, the economy rebounded sharply in the first quarter of 2006, with a preliminary estimate of 4.8% GDP growth. The economic turnaround was prompted by both strong consumer and business spending. In addition, the U.S. Labor Department reported that unemployment hit a five-year low in March.

As expected, the Federal Reserve Board (Fed) continued to raise interest rates during the reporting period. Despite the changing of the guard from Fed Chairman Alan Greenspan to Ben Bernanke in early 2006, it was business as usual for the Fed, as it raised short-term interest rates four times during the reporting period. Since it began its tightening campaign in June 2004, the Fed has raised rates 15 consecutive times, bringing the federal funds rateⁱⁱⁱ from 1.00% to 4.75%, its highest level since April 2001. After the end of the Fund's reporting period, at its May meeting, the Fed once again raised the federal funds rate by an additional 0.25% to 5.00%.

As expected, both short- and long-term yields rose over the reporting period. During the six months ended March 31, 2006, two-year Treasury yields increased from 4.21% to 4.82%. Over the same period, 10-year Treasury yields moved from 4.39% to 4.86%. During much of the reporting period the yield curve was inverted, with the yield on two-year Treasuries surpassing that of 10-year Treasuries. This anomaly has historically foreshadowed an economic slowdown or recession. However, some experts, including

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new Chairman Bernanke, believe the inverted yield curve is largely a function of strong foreign demand for longer-term bonds. Looking at the six-month period as a whole, the overall bond market, as measured by the Lehman Brothers U.S. Aggregate Index,^{iv} returned -0.06%.

The high yield market generated a positive return during the reporting period. The high yield market was supported by generally strong corporate profits and low default rates. In addition, there was overall solid demand and limited supply as new issuance waned. These factors tended to overshadow several company specific issues, mostly surrounding the automobile industry. For example, automobile parts supplier Dana Corp. recently filed for bankruptcy and there are ongoing concerns about the future prospects for General Motors Corp. During the six month period ended March 31, 2006, the Citigroup High Yield Market Index^v returned 3.22%.

Emerging markets debt continued to produce solid results over the reporting period, as the JPMorgan Emerging Markets Bond Index Global (EMBI Global^{vi} returned 3.39% during the six-month reporting period. A strengthening global economy, solid domestic spending and high energy and commodity prices continued to support many emerging market countries. In addition, a number of these countries have strengthened their balance sheets in recent years. These positives more than offset the potential negatives associated with rising U.S. interest rates.

Performance Review

For the six months ended March 31, 2006, the High Income Opportunity Fund Inc. returned 4.14%, based on its net asset value (NAV^{vii}) and 2.65% based on its New York Stock Exchange (NYSE) market price per share. In comparison, the Fund 's unmanaged benchmark, the Citigroup High Yield Market Index, returned 3.22% for the same time frame. The Lipper High Current Yield Closed- End Funds Category Average^{viii} increased 4.14%. Please note that Lipper performance returns are based on each fund 's NAV per share.

During this six-month period, the Fund made distributions to shareholders totaling \$0.252 per share, (which may have included a return of capital). The performance table on the next page shows the Fund 's six-month total return based on its NAV and market price as of March 31, 2006.

Past performance is no guarantee of future results.

Price Per Share

\$7.15 (NAV)

\$6.20 (Market Price)

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

Six-Month

Total Return

4.14%

2.65%

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

Special Shareholder Notice

On December 1, 2005, Citigroup Inc. (Citigroup) completed the sale of substantially all of its asset management business to Legg Mason, Inc. (Legg Mason). As a result, the Fund s investment adviser (the Manager), previously an indirect wholly-owned subsidiary of Citigroup, has become a wholly-owned subsidiary of Legg Mason. Completion of the sale caused the Fund s investment management contract to terminate. The Fund s shareholders previously approved a new investment management contract between the Fund and the Manager, which became effective on December 1, 2005.

As previously described in proxy statements that were mailed to shareholders of the Fund in connection with the transaction, Legg Mason intends to combine the fixed-income operations of the Manager with those of Legg Mason s wholly-owned subsidiary, Western Asset Management Company, and its affiliates, (Western Asset). This combination will involve Western Asset and the Manager sharing common systems and procedures, employees (including portfolio managers), investment trading platforms, and other resources. At a future date Legg Mason expects to recommend to the Boards of Directors of the Funds that Western Asset be appointed as the advisor or sub-advisor to the Funds, subject to applicable regulatory requirements.

The portfolio management team of S. Kenneth Leech, Stephen A. Walsh, Michael C. Buchanan, Timothy J. Settel and Mark Lindbloom assumed portfolio management responsibilities for the Fund on February 10, 2006. Mr. Leech, Mr. Walsh and Mr. Settel have been employed by

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Western Asset for more than five years. Mr. Lindbloom joined Western Asset in 2006.

Prior to joining Western Asset as a portfolio manager and head of the U.S. High Yield team in 2005, Mr. Buchanan was a Managing Director and head of U.S. Credit Products at Credit Suisse Asset Management from 2003 to 2005. Mr. Buchanan served as Executive Vice President and portfolio manager for Janus Capital Management in 2003. Prior to joining Janus Capital Management, Mr. Buchanan was a Managing Director and head of High Yield Trading at Blackrock Financial Management from 1998 to 2003.

Information About Your Fund

As you may be aware, several issues in the mutual fund industry have recently come under the scrutiny of federal and state regulators. The Fund's Manager and some of its affiliates have received requests for information from various government regulators regarding market timing, late trading, fees, and other mutual fund issues in connection with various investigations. The regulators appear to be examining, among other things, the Fund's response to market timing and shareholder exchange activity, including compliance with prospectus disclosure related to these subjects. The Fund has been informed that the Manager and its affiliates are responding to those information requests, but are not in a position to predict the outcome of these requests and investigations.

Important information concerning the Fund and its Manager with regard to recent regulatory developments is contained in the Notes to Financial Statements included in this report.

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 symbol XHIOX. *Barron's* and *The Wall Street Journal's* Monday editions carry closed-end fund tables that will provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well www.leggmason.com/InvestorServices.

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-735-6507, Monday

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through Friday from 8:00 a.m. to 6:00 p.m. Eastern Time, for the Fund's current net asset value, market price, and other information.

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

Sincerely,

R. Jay Gerken, CFA
Chairman, President and Chief Executive Officer

May 10, 2006

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 Gross domestic product is a market value of goods and services produced by labor and property in a given country.
- ii The Federal Reserve Board is responsible for the formulation of a policy 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 interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans.
- 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 Citigroup High Yield Market Index is a broad-based unmanaged index of high yield securities.
- vi 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.
- vii 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.
- viii Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the 6-month period ended March 31, 2006, including the reinvestment of distributions, including returns of capital, if any, calculated among the 7 funds in the Fund's Lipper category, and excluding sales charges.

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Take Advantage of the Fund's Dividend Reinvestment Plan!

As an investor in the Fund, you can participate in its Dividend Reinvestment Plan (Plan), a convenient, simple and efficient way to reinvest your distributions, if any, in additional shares of the Fund. Below is a short summary of how the Plan works.

Plan Summary

If you are a Plan participant who has not elected to receive your distributions in the form of a cash payment, then your distributions will be reinvested automatically in additional shares of the Fund.

The number of common stock shares in the Fund you will receive in lieu of a cash dividend is determined in the following manner. If the market price of the common stock is equal to or exceeds the net asset value (NAV) per share on the determination date, you will be issued shares by the Fund at a price reflecting the NAV, or 95% of the market price, whichever is greater.

If the market price is less than the NAV at the time of valuation (the close of business on the determination date), American Stock Transfer & Trust Company (AST or Plan Agent) will buy common stock for your account in the open market.

If the Plan Agent begins to purchase additional shares in the open market and the market price of the shares subsequently rises above the NAV previously determined before the purchases are completed, the Plan Agent will attempt to terminate purchases and have the Fund issue the remaining distribution in shares at the greater of the previously determined NAV or 95% of the market price. In that case, the number of Fund shares you receive 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.

A more complete description of the current Plan appears in the section of this report beginning on page 33. To find out more detailed information about the Plan and about how you can participate, please call the Plan Agent at 1-877-366-6441.

Fund at a Glance (unaudited)

Investment Breakdown

Media

Oil, Gas & Consumable Fuels

Hotels, Restaurants & Leisure

Diversified Financial Services

Wireless Telecommunication Services

Diversified Telecommunication Services

Health Care Providers & Services

Independent Power Producers & Energy Traders

Containers & Packaging

Paper & Forest Products

Food

Household Durables

Chemicals

Automobiles

Commercial Services & Supplies

Electric Utilities

Building Products

Energy Equipment & Services

Communications Equipment

Multiline Retail

Specialty Retail

Other

As a Percent of Total Investments

13.8%

7.3%

6.0%

5.5%

5.2%

4.4%

4.3%

3.8%

3.5%

3.4%

2.9%

2.7%

2.6%

2.5%

2.3%

2.3%

1.8%

1.8%

1.8%

1.8%

1.6%

18.7%

0.0%

5.0%

10.0%

15.0%

20.0%

March 31, 2006

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Schedule of Investments (March 31, 2006) (unaudited)

HIGH INCOME OPPORTUNITY FUND INC.

Face Amount	Rating	Security	Value
CORPORATE BONDS & NOTES 96.2%			
Aerospace & Defense 0.9%			
\$750,000	B+	Alliant Techsystems Inc., Senior Subordinated Notes, 6.750% due 4/1/16	\$761,250
1,750,000	B	DRS Technologies Inc., Senior Subordinated Notes, 7.625% due 2/1/18	1,811,250
1,460,000	BB+	L-3 Communications Corp., Senior Subordinated Notes, 5.875% due 1/15/15	1,397,950
650,000	BB-	Sequa Corp., Senior Notes, 9.000% due 8/1/09	698,750
		Total Aerospace & Defense	4,669,200
Airlines 1.5%			
840,000	B	American Airlines Inc., Pass-Through Certificates, Series 2001-02, Class C, 7.800% due 10/1/06	843,033
430,135	B+	Continental Airlines Inc., Pass-Through Certificates: Series 2000-2, Class C, 8.312% due 4/2/11	413,575
2,000,000	B	Series 2001-2, Class D, 7.568% due 12/1/06	1,988,131
962,968	NR	United Airlines Inc., Pass-Through Certificates: Series 2000-1, Class B, 8.030% due 7/1/11 (a)	910,681
2,268,135	NR	Series 2000-2, Class B, 7.811% due 10/1/09 (a)	2,258,371
		Series 2001-1:	
460,000	NR	Class B, 6.932% due 9/1/11 (a)	463,737
1,045,000	NR	Class C, 6.831% due 9/1/08 (a)	962,053
		Total Airlines	7,839,581
Auto Components 1.0%			
695,000	B	Arvin Capital I, Capital Securities, 9.500% due 2/1/27	705,425
1,130,000	B-	Keystone Automotive Operations Inc., Senior Subordinated Notes, 9.750% due 11/1/13	994,400
625,000	B-	Rexnord Corp., Senior Subordinated Notes, 10.125% due 12/15/12	689,063
1,000,000	B-	Tenneco Automotive Inc., Senior Secured Notes, Series B, 10.250% due 7/15/13	1,115,000
276,000	BB-	TRW Automotive Inc., Senior Subordinated Notes, 11.000% due 2/15/13	309,810
1,535,000	B-	Visteon Corp., Senior Notes, 8.250% due 8/1/10	1,274,050
		Total Auto Components	5,087,748
Automobiles 2.4%			
9,590,000	BB-	Ford Motor Co.: Notes, 7.450% due 7/16/31	7,168,525
375,000	BB-	Senior Notes, 4.950% due 1/15/08	349,599

See Notes to Financial Statements.

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Schedule of Investments (March 31, 2006) (unaudited) (continued)

Face Amount	Rating	Security	Value
Automobiles 2.4% (continued)			
		General Motors Corp.:	
		Senior Debentures:	
\$1,350,000	B	8.250% due 7/15/23	\$978,750
3,720,000	B	8.375% due 7/15/33	2,743,500
2,125,000	B	Senior Notes, 7.125% due 7/15/13	1,593,750
		Total Automobiles	12,834,124
Beverages 0.2%			
875,000	B	Cott Beverages USA Inc., Senior Subordinated Notes, 8.000% due 12/15/11	899,063
Building Products 1.8%			
		Associated Materials Inc.:	
4,950,000	CCC	Senior Discount Notes, step bond to yield 10.793% due 3/1/14	2,871,000
1,010,000	CCC	Senior Subordinated Notes, 9.750% due 4/15/12	1,052,925
1,850,000	B-	Goodman Global Holding Co. Inc., Senior Subordinated Notes, Series B, 7.491% due 6/15/12 (b)	1,891,625
500,000	B	Jacuzzi Brands Inc., Secured Notes, 9.625% due 7/1/10	538,750
3,115,000	CCC+	Nortek Inc., Senior Subordinated Notes, 8.500% due 9/1/14	3,185,087
		Total Building Products	9,539,387
Capital Markets 0.6%			
1,690,000	B	BCP Crystal U.S. Holdings Corp., Senior Subordinated Notes, 9.625% due 6/15/14	1,880,125
		E*TRADE Financial Corp., Senior Notes:	
115,000	B+	7.375% due 9/15/13	117,875
1,365,000	B+	7.875% due 12/1/15	1,446,900
		Total Capital Markets	3,444,900
Chemicals 2.6%			
1,020,000	BB-	Airgas Inc., Senior Subordinated Notes, 9.125% due 10/1/11	1,085,025
2,400,000	BB-	Equistar Chemicals LP, Senior Notes, 10.625% due 5/1/11	2,610,000
870,000	B	Huntsman International LLC, Senior Notes, 9.875% due 3/1/09	913,500
1,745,000	BB-	Lyondell Chemical Co., Senior Secured Notes, 11.125% due 7/15/12	1,923,862
700,000	BBB-	Methanex Corp., Senior Notes, 8.750% due 8/15/12	768,250
2,870,000	B-	Montell Finance Co. BV, 8.100% due 3/15/27 (c)	2,798,250
655,000	B-	OM Group Inc., Senior Subordinated Notes, 9.250% due 12/15/11	681,200
2,025,000	B-	Resolution Performance Products LLC, Senior Subordinated Notes, 13.500% due 11/15/10	2,174,344
545,000	BB+	Westlake Chemical Corp., Senior Notes, 6.625% due 1/15/16	541,594
		Total Chemicals	13,496,025
Commercial Services & Supplies 2.3%			
2,250,000	CCC+	Allied Security Escrow Corp., Senior Subordinated Notes, 11.375% due 7/15/11	2,148,750
		Allied Waste North America Inc.:	
317,000	BB-	Senior Notes, Series B, 9.250% due 9/1/12	343,549
2,580,000	BB-	Senior Secured Notes, Series B, 8.500% due 12/1/08	2,725,125

See Notes to Financial Statements.

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	Face Amount	Rating	Security	Value
Commercial Services & Supplies		2.3% (continued)		
\$	1,600,000	CCC+	Brand Services Inc., Senior Notes, 12.000% due 10/15/12	\$ 1,720,000
	1,075,000	B-	Cenveo Corp., Senior Subordinated Notes, 7.875% due 12/1/13	1,056,188
	1,000,000	BB	IKON Office Solutions Inc., 7.750% due 9/15/15	1,037,500
	1,970,000	B-	NationsRent Inc., Senior Subordinated Notes, 9.500% due 5/1/15	2,137,450
	1,050,000	BB-	Quebecor World Capital Corp., Senior Notes, 8.750% due 3/15/16 (c)	1,029,300
			Total Commercial Services & Supplies	12,197,862
Communications Equipment		1.8%		
	6,100,000	B	Lucent Technologies Inc., Debentures, 6.450% due 3/15/29	5,535,750
	1,950,000	B-	Nortel Networks Corp., Notes, 6.875% due 9/1/23	1,794,000
	2,100,000	A	Southwestern Bell Telephone Co., Debentures, 7.000% due 11/15/27	2,077,792
			Total Communications Equipment	9,407,542
Computers & Peripherals		0.4%		
	1,130,000	B+	Activant Solutions Inc., Senior Notes, 10.500% due 6/15/11	1,257,125
	775,000	B-	SunGard Data Systems Inc., Senior Notes, 9.125% due 8/15/13 (c)	823,438
			Total Computers & Peripherals	2,080,563
Containers & Packaging		3.4%		
	1,375,000	B-	Berry Plastics Corp., Senior Subordinated Notes, 10.750% due 7/15/12	1,519,375
	965,000	CCC+	Graham Packaging Co. Inc., Senior Subordinated Notes, 9.875% due 10/15/14	981,888
	2,755,000	B-	Graphic Packaging International Corp., Senior Subordinated Notes, 9.500% due 8/15/13	2,589,700
	675,000	CCC+	Jefferson Smurfit Corp., Senior Notes, 8.250% due 10/1/12	665,719
	1,875,000	B-	JSG Funding PLC, Senior Notes, 9.625% due 10/1/12	1,992,187
	1,575,000	B	Owens-Brockway Glass Container Inc.: Senior Notes, 6.750% due 12/1/14	1,547,437
	2,820,000	BB-	Senior Secured Notes, 8.875% due 2/15/09	2,950,425
	425,000	NR	Pliant Corp.: Senior Secured Second Lien Notes, 11.125% due 9/1/09 (a)	449,438
	245,000	NR	Senior Subordinated Notes, 13.000% due 6/1/10 (a)	101,675
	725,000	CC	Radnor Holdings Corp., Senior Notes, 11.000% due 3/15/10	569,125
	1,550,000	BBB	Sealed Air Corp., Notes, 6.950% due 5/15/09 (c)	1,605,741
	3,430,000	CCC+	Stone Container Finance Co. of Canada II, Senior Notes, 7.375% due 7/15/14	3,207,050
			Total Containers & Packaging	18,179,760
Diversified Consumer Services		1.4%		
	725,000	B	Hertz Corp.: Senior Notes, 8.875% due 1/1/14 (c)	755,813
	3,510,000	B	Senior Subordinated Notes, 10.500% due 1/1/16 (c)	3,825,900
	1,225,000	BB	Service Corp. International: Debentures, 7.875% due 2/1/13	1,300,031
	1,715,000	BB	Senior Notes, 6.500% due 3/15/08	1,732,150
			Total Diversified Consumer Services	7,613,894

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Face Amount	Rating	Security	Value
Diversified Financial Services 5.4%			
\$3,008,000	A-	Alamosa Delaware Inc.: Senior Discount Notes, 12.000% due 7/31/09	\$3,256,160
568,000	A-	Senior Notes, 11.000% due 7/31/10	634,740
435,000	BB-	Case Credit Corp., Notes, 6.750% due 10/21/07	438,806
1,150,000	B-	CCM Merger Inc., Notes, 8.000% due 8/1/13 (c)	1,150,000
220,000	CCC+	CitiSteel USA Inc., Notes, 12.480% due 9/1/10 (b)(c)	226,600
		Ford Motor Credit Co., Notes:	
1,705,000	BB-	6.625% due 6/16/08	1,614,565
925,000	BB-	7.875% due 6/15/10	867,909
350,000	BB-	7.000% due 10/1/13	313,481
		General Motors Acceptance Corp., Notes:	
1,860,000	BB	6.875% due 8/28/12	1,718,024
13,010,000	BB	8.000% due 11/1/31	12,327,964
1,199,000	B-	Global Cash Access LLC/Global Cash Finance Corp., Senior Subordinated Notes, 8.750% due 3/15/12	1,293,421
2,155,000	B+	H&E Equipment Services LLC/H&E Finance Corp., Senior Notes, 11.125% due 6/15/12	2,397,437
670,000	B-	Hexion US Finance Corp./Hexion Nova Scotia Finance ULC, Senior Secured Notes, 9.000% due 7/15/14	693,450
500,000	CCC	Milacron Escrow Corp., Senior Secured Notes, 11.500% due 5/15/11	460,000
1,225,000	B-	Nell AF SARL, Senior Notes, 8.375% due 8/15/15 (c)	1,221,938
		Total Diversified Financial Services	28,614,495
Diversified Telecommunication Services 4.3%			
940,000	B-	Cincinnati Bell Inc., 7.000% due 2/15/15	935,300
1,555,000	D	GT Group Telecom Inc., Senior Discount Notes, 13.250% due 2/1/10 (a)(d)(e)	0
2,360,000	CCC+	Hawaiian Telcom Communications Inc., Senior Subordinated Notes, 12.500% due 5/1/15 (c)	2,348,200
650,000	B	Insight Midwest LP/Insight Capital Inc., Senior Notes, 10.500% due 11/1/10	687,375
2,425,000	B	Intelsat, Ltd., Senior Discount Notes, step bond to yield 9.064% due 2/1/15 (c)	1,691,438
895,000	B-	Northern Telecom Capital Corp., Notes, 7.875% due 6/15/26	868,150
400,000	B-	NTL Cable PLC, Senior Notes, 8.750% due 4/15/14	412,000
720,000	B+	PanAmSat Corp., Senior Notes, 9.000% due 8/15/14	761,400
		Qwest Communications International Inc., Senior Notes:	
205,000	B	7.500% due 2/15/14	212,175
590,000	B	Series B, 7.500% due 2/15/14	610,650
		Qwest Corp.:	
300,000	BB	Debentures, 7.500% due 6/15/23	306,375
4,790,000	BB	Notes, 8.875% due 3/15/12	5,376,775
4,245,000	B-	Telcordia Technologies Inc., Senior Subordinated Notes, 10.000% due 3/15/13 (c)	3,905,400
4,195,000	B-	Wind Acquisition Finance SA, 10.750% due 12/1/15 (c)	4,551,575
		Total Diversified Telecommunication Services	22,666,813

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Face Amount	Rating	Security	Value
Electric Utilities 2.2%			
\$1,750,000	B+	Edison Mission Energy, Senior Notes: 10.000% due 8/15/08	\$1,881,250
800,000	B+	7.730% due 6/15/09	824,000
3,000,000	B+	9.875% due 4/15/11	3,405,000
1,225,000	B-	Mirant Americas Generation LLC, Senior Notes, 9.125% due 5/1/31	1,310,750
2,350,000	B-	Orion Power Holdings Inc., Senior Notes, 12.000% due 5/1/10	2,661,375
1,605,000	B	Reliant Energy Inc., Senior Secured Notes, 9.250% due 7/15/10	1,615,031
Total Electric Utilities			11,697,406
Electrical Equipment 0.4%			
2,060,000	BBB-	Thomas & Betts Corp., Medium-Term Notes, 6.625% due 5/7/08	2,062,210
Electronic Equipment & Instruments 0.2%			
1,125,000	CCC-	Muzak LLC/Muzak Finance Corp., Senior Notes, 10.000% due 2/15/09	984,375
Energy Equipment & Services 1.8%			
2,655,000	B	ANR Pipeline Co., Debentures, 9.625% due 11/1/21	3,264,429
573,000	B-	Dresser-Rand Group Inc., Senior Subordinated Notes, 7.625% due 11/1/14 (c)	587,325
1,725,000	B	Hanover Compressor Co., Senior Notes, 9.000% due 6/1/14	1,863,000
3,270,000	B	Tennessee Gas Pipeline Co., Bonds, 8.375% due 6/15/32	3,747,662
Total Energy Equipment & Services			9,462,416
Food & Staples Retailing 0.4%			
1,845,000	B-	Rite Aid Corp., Notes, 7.125% due 1/15/07	1,865,756
Food Products 2.5%			
425,000	BB	Ahold Finance USA Inc., Notes, 8.250% due 7/15/10	452,625
1,276,495	BB+	Ahold Lease USA Inc., Pass-Through Certificates: Series 2001-A-1, 7.820% due 1/2/20	1,332,228
675,000	BB+	Series 2001-A-2, 8.620% due 1/2/25	726,221
995,000	BB-	Dean Foods Co., Senior Notes, 6.900% due 10/15/17	1,002,463
1,125,000	B	Del Monte Corp., Senior Subordinated Notes, 8.625% due 12/15/12	1,193,906
1,535,000	BB+	Delhaize America, Inc., 9.000% due 4/15/31	1,783,186
2,575,000	B-	Doane Pet Care Co., Senior Notes, 10.750% due 3/1/10	2,800,312
		Dole Food Co. Inc., Senior Notes: 7.250% due 6/15/10	1,918,688
2,025,000	B	8.875% due 3/15/11	572,125
575,000	B	Pinnacle Foods Holding Corp., Senior Subordinated Notes, 8.250% due 12/1/13	1,666,625
1,675,000	B-		
Total Food Products			13,448,379
Health Care Providers & Services 4.2%			
2,400,000	B-	AmeriPath Inc., Senior Subordinated Notes, 10.500% due 4/1/13	2,544,000
1,350,000	B	Community Health Systems Inc., Senior Subordinated Notes, 6.500% due 12/15/12	1,314,562

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Face Amount	Rating	Security	Value
Health Care Providers & Services 4.2% (continued)			
\$ 1,200,000	B	DaVita Inc.: Senior Notes, 6.625% due 3/15/13	\$ 1,203,000
1,150,000	B	Senior Subordinated Notes, 7.250% due 3/15/15	1,161,500
775,000	B+	Extencicare Health Services Inc., Senior Subordinated Notes: 9.500% due 7/1/10	822,469
1,000,000	B	6.875% due 5/1/14	1,035,000
1,150,000	BB+	HCA Inc., Notes: 6.375% due 1/15/15	1,125,016
1,210,000	BB+	7.690% due 6/15/25	1,202,465
2,675,000	B-	IASIS Healthcare LLC/IASIS Capital Corp., Senior Subordinated Notes, 8.750% due 6/15/14	2,688,375
475,000	CCC+	InSight Health Services Corp., Senior Subordinated Notes, Series B, 9.875% due 11/1/11	263,625
1,275,000	BB+	Omnicare Inc., Senior Subordinated Notes, 6.875% due 12/15/15	1,278,188
4,250,000	B	Tenet Healthcare Corp., Senior Notes: 7.375% due 2/1/13	3,899,375
3,520,000	B	9.875% due 7/1/14	3,581,600
Total Health Care Providers & Services			22,119,175
Hotels, Restaurants & Leisure 5.9%			
1,300,000	BB+	Caesars Entertainment Inc., Senior Subordinated Notes: 9.375% due 2/15/07	1,343,875
1,325,000	BB+	8.875% due 9/15/08	1,421,063
2,545,000	BB+	8.125% due 5/15/11	2,780,412
1,450,000	B-	Carrols Corp., Senior Subordinated Notes, 9.000% due 1/15/13	1,464,500
3,725,000	B-	Cinemark Inc., Senior Discount Notes, step bond to yield 9.393% due 3/15/14	2,868,250
2,625,000	B-	Herbst Gaming Inc., Senior Subordinated Notes, 7.000% due 11/15/14	2,631,562
275,000	BB	Hilton Hotels Corp.: Notes, 7.625% due 12/1/12	293,659
1,360,000	BB	Senior Notes, 7.950% due 4/15/07	1,396,298
2,515,000	B	Inn of the Mountain Gods Resort & Casino, Senior Notes, 12.000% due 11/15/10	2,728,775
1,040,000	B	Kerzner International Ltd., Senior Subordinated Notes, 6.750% due 10/1/15	1,099,800
2,150,000	B	Las Vegas Sands Corp., Senior Notes, 6.375% due 2/15/15	2,074,750
700,000	B+	Mandalay Resort Group, Senior Subordinated: Debentures, 7.625% due 7/15/13	726,250
1,725,000	B+	Notes, Series B, 10.250% due 8/1/07	1,824,188
2,100,000	BB	MGM MIRAGE Inc.: Senior Notes, 6.750% due 9/1/12	2,107,875
875,000	B+	Senior Subordinated Notes: 9.750% due 6/1/07	915,469
1,550,000	B+	8.375% due 2/1/11	1,643,000

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Face Amount	Rating	Security	Value
Hotels, Restaurants & Leisure 5.9% (continued)			
\$1,400,000	B+	Mohegan Tribal Gaming Authority, Senior Subordinated Notes, 6.875% due 2/15/15	\$1,398,250
225,000	B-	Riddell Bell Holdings Inc., Senior Subordinated Notes, 8.375% due 10/1/12	227,813
125,000	B+	Scientific Games Corp., Senior Subordinated Notes, 6.250% due 12/15/12	122,969
1,250,000	BB+	Starwood Hotels & Resorts Worldwide Inc., Senior Notes, 7.875% due 5/1/12	1,365,625
800,000	B+	Station Casinos Inc., Senior Subordinated Notes, 6.875% due 3/1/16	808,000
		Total Hotels, Restaurants & Leisure	31,242,383
Household Durables 2.4%			
1,140,000	BB+	D.R. Horton Inc., Senior Notes, 8.000% due 2/1/09	1,207,382
2,000,000	B-	Interface Inc., Senior Notes, 10.375% due 2/1/10	2,200,000
2,440,000	BB	K Hovnanian Enterprises, Senior Notes, 7.500% due 5/15/16	2,417,711
1,350,000	BB-	KB HOME, Senior Subordinated Notes, 9.500% due 2/15/11	1,419,188
565,000	B-	Norcraft Holdings LP/Norcraft Capital Corp., Senior Discount Notes,	