WELLS FARGO ADVANTAGE INCOME OPPORTUNITIES FUND
Form N-CSRS
December 29, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSRS

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-21269

Wells Fargo Advantage Income Opportunities Fund

(Exact name of registrant as specified in charter)

525 Market St., San Francisco, CA 94105

(Address of principal executive offices) (Zip code)

C. David Messman

Wells Fargo Funds Management, LLC

525 Market St., San Francisco, CA 94105

(Name and address of agent for service)

Registrant s telephone number, including area code: 800-643-9691

Date of fiscal year end: April 30, 2011

Date of reporting period: October 31, 2011

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Wells Fargo Advantage

Income Opportunities Fund

Semi-Annual Report

October 31, 2011

This closed-end fund is no longer offered as an initial public offering and is only offered through broker/dealers on the secondary market. A closed-end fund is not required to buy its shares back from investors upon request.

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Karla M. Rabusch,

President

Wells Fargo Advantage Funds

Dear Valued Shareholder:

We are pleased to provide you with this semi-annual report for the *Wells Fargo Advantage Income Opportunities Fund* for the six-month period that ended October 31, 2011. After establishing solid momentum entering 2011, the financial markets began to meet some resistance during the second quarter, which kept many markets from advancing steadily during the reporting period. Headwinds emerged in the form of continued political unrest in the Middle East and North Africa; effects from the devastating earthquake and tsunami in Japan; and renewed sovereign debt concerns affecting several eurozone countries, most notably Greece. These challenges, coupled with mixed economic data, debt-ceiling debates, and the credit downgrade of U.S. government long-term debt, further added to investor anxiety. Despite these headwinds, many areas of the financial markets, including the U.S. high-yield market, showed a degree of resilience at certain points in the period, underscoring what we believe is a need for a sound, well-diversified[1] investment strategy, executed by expert portfolio management utilizing rigorous fundamental credit analysis. We believe that such a strategy may enable investors to balance risk and opportunity as they pursue long-term financial goals in a dynamic financial environment.

The U.S. economic recovery met resistance but remains poised for expansion.

The U.S. economic recovery that gained further momentum throughout 2010, particularly during the fourth quarter, failed to maintain that level of growth reported during the reporting period. For example, U.S. gross domestic product (GDP), the broadest measure of economic activity within America, grew at an annualized rate of 3.1% in the fourth quarter of 2010, only to slow dramatically during the first and second quarters of 2011 to an annualized rate of 0.4% and 1.3%, respectively. While still positive, these readings were a much slower pace of growth than experienced in the second half of 2010 and were lower than consensus forecasts had predicted at the onset of 2011. Nevertheless, the advance estimate of third-quarter 2011 GDP growth (released on October 27, 2011) was 2.5%, suggesting that the U.S. economy continues toward expansion, though at a slow and uneven pace relative to past economic recoveries.

Persistent weakness in jobs and housing slowed economic growth.

The U.S. unemployment rate began the reporting period at a level of 9.0%, inched higher to 9.2% in June 2011, and then moved back to 9.0% in October 2011. While the rate of job creation has remained positive throughout 2011, it remains far below the historical average of 1.4 million jobs created each year during the past eight decades, suggesting that the improving economy has yet to translate into widespread hiring. Meanwhile, the beleaguered housing market was an ongoing source of concern, despite an extraordinarily low interest-rate environment. Since many observers consider labor and housing activities to be key to long-term economic growth, the persistent weakness in both markets bears close watching in the months ahead.

Other economic data in the U.S. was more encouraging, reflecting greater confidence in the sustainability of the expansion on the part of both consumers

1. Diversification does not assure or guarantee better performance and cannot eliminate the risk of investment losses.

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and businesses. Industrial production and durable goods orders have also picked

up in 2011, and the level of corporate profits continues to grow. Although still reluctant to hire, businesses have gradually increased spending in other areas, such as equipment and information technology. Core inflation, which excludes volatile food and energy prices, remained benign.

The Federal Reserve announced that it will target current low rates until 2013.

With inflation subdued, the Federal Open Market Committee (FOMC) held its target range for the federal funds rate a proxy for short-term interest rates steady at 0.00% to 0.25%. At its meeting on August 9, 2011, responding in part to the volatility and uncertainty facing the financial markets and global economies, the Federal Reserve (Fed) established a timetable for its commitment to lower rates. In that meeting s statement, the FOMC explained that economic conditions including low rates of resource utilization and a subdued outlook for inflation over the medium run are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013. At its September 21, 2011, meeting, the Fed introduced Operation Twist, where it outlined its focus on buying long-term Treasury securities, specifically those with maturities of six years or longer, while selling an equivalent amount of Treasury notes within six years of maturity. The objective is to help ensure that intermediate- and long-term U.S. Treasury yields remain low, which, in turn, should provide ongoing support for further economic growth.

The financial markets became a rollercoaster during the second half of period.

As the period began, improving fundamentals, such as strong corporate earnings, remained key drivers of returns for equities and the investment-grade and high-yield corporate bond markets. Further supporting the markets was the second round of quantitative easing (QE2) by the Fed, which, after being in place for nine-months, ended on June 30.

The debt-ceiling debate became the focus of the summer.

During most of reporting period, however, both bonds and equities experienced unusually high level of volatility, especially during August when many traders on Wall Street and politicians in Washington, D.C., focus on vacation and other activities. Instead, due to the debt-ceiling impasse, many market participants and politicians were forced to stay on the job until a solution was reached. As the estimated debt-ceiling deadline loomed, rating agencies began to voice concerns over the possibility of the U.S. government running short on funds to pay its bills. While the U.S. Congress was able to address the debt-ceiling issue in time, Standard & Poor s, one of the major credit rating agencies, lowered its rating of long-term U.S. debt from AAA to AA+[2]. While this did not seem to diminish the role U.S. Treasuries play as the primary source of liquidity and safety in the global markets, it did briefly roil the markets.

2. The ratings indicated are from Standard & Poor s. Credit quality ratings apply to underlying holdings of the Fund and not the Fund itself. Standard and Poor s rates the creditworthiness of bonds, ranging from AAA (highest) to D (lowest). Ratings from A to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories.

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Eurozone sovereign debt concerns returned to the forefront in the third quarter of 2011.

The markets were further rattled during the period by sovereign debt concerns within the eurozone. The financial solvency of Greece and its ability to service its sovereign debt were focuses of the markets in early 2010. After the European Union and the International Monetary Fund developed a plan to support Greece, many market participants thought the situation was at a manageable point. Unfortunately, Greece s financial problems returned to the forefront of investors minds one year later as the country failed to make significant progress in addressing its financial condition. As a result, fear spread and market volatility spiked during the third quarter of 2011, with investors becoming more concerned about the negative impact of a Greek default on the eurozone periphery and those developed countries with large exposures to Greece, such as France.

A steep yield curve remained the defining characteristic of the bond market.

Most sectors of the bond market continued to post positive total returns for most of the six-month period, with interest income rather than price gains accounting for the bulk of those returns. This part of the investment cycle is known as the income phase and is typically characterized by relatively stable short-term rates and relatively small movements in bond yields. The current market environment is certainly holding true to a typical income phase, especially considering that the Fed is maintaining an extraordinarily accommodative monetary policy. U.S. Treasuries continued to rally for much of the period, even after Standard & Poor s lowered its credit rating on long-term U.S. debt, pulling yields lower in nearly all corners of the fixed-income markets, including municipal bonds.

The extraordinarily steep yield curve remained the most defining, perhaps most influential, characteristic of the fixed-income markets during the majority of the reporting period. Considering the shape of the curve, the best-performing maturities across most segments of the fixed-income markets were longer-dated bonds. For example, for the six-month period that ended October 31, 2011, the 20- to 30-year range of the Treasury market posted a total return of 25.08%, while the one- to five-year maturities returned 2.27%.

In typical fashion, the high-yield fixed-income market moved in the same direction as equities throughout the reporting period. As a result, high yield was among the strongest-performing bond sectors during the early stages of the reporting period, bolstered by improving corporate fundamentals and by less risk aversion from investors. In fact, as of June 30, 2011, the Barclays Capital U.S. Corporate High Yield Bond Index[3] had produced a year-to-date total return of 4.97%, as compared with a 2.22% total return for the Barclays Capital U.S. Treasury Index[4]. However, as the debt-ceiling debate and the Greek debt crisis became the focus of the marketplace, many investors reduced their exposure to riskier assets,

3. The Barclays Capital U.S. Corporate High Yield Bond Index is an unmanaged, U.S. dollar denominated, nonconvertible, non-investment grade debt index. The index consists of domestic and corporate bonds rated Ba and below with a minimum outstanding amount of $150 million. You cannot invest directly in an index.

4. The Barclays Capital U.S. Treasury Index is an index of U.S. Treasury securities. You cannot invest directly in an index.

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including high-yield bonds. As a result, the high-yield markets significantly underperformed almost every bond sector during the third quarter. The high-yield market began the fourth quarter of 2011 with relatively strong performance in October, as it seemed that investors took advantage of the lower valuation that resulted from the third-quarter sell-off to capture the extra yield being offered by these lower-quality credits. As of October 31, 2011, the high-yield index recorded a year-to-date total return of 4.52%, despite recording a six-month total return of -0.92%. By comparison, the U.S. Treasury index returned 7.96% and 6.90% on a year-to-date and six-month basis, respectively.

A long-term perspective is key.

The market s rebound over the past two years from the severe downturn of 2008 and 2009, coupled with the bouts of volatility, underscores the importance of maintaining a disciplined and balanced long-term investment strategy through changing market cycles. By staying focused on your long-term goals, you may be better positioned to both navigate falling markets and participate in rising markets.

Thank you for choosing to invest with *Wells Fargo Advantage Funds*. We appreciate your confidence in us and remain committed to helping you meet your financial needs. For current information about your fund investments, contact your investment professional, visit our website at **www.wellsfargo.com/advantagefunds**, or call us directly at **1-800-222-8222**. We are available 24 hours a day, 7 days a week.

Sincerely,

Karla M. Rabusch

President

Wells Fargo Advantage Funds

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6 Wells Fargo Advantage Income Opportunities Fund Portfolio of Investments October 31, 2011 (Unaudited)

Security Name			Shares	Value
Common Stocks: 0.11%				
Consumer Discretionary: 0.00%				
Hotels, Restaurants & Leisure: 0.00%				
Trump Entertainment Resorts Incorporated(a)			2,149	$ 0
Telecommunication Services: 0.11%				
Diversified Telecommunication Services: 0.11%				
Fairpoint Communications Incorporated			134,375	721,595
Total Common Stocks (Cost $3,109,765)				**721,595**
	Interest Rate	**Maturity Date**	**Principal**	
Convertible Debentures: 0.45%				
Information Technology: 0.45%				
Communications Equipment: 0.45%				
Lucent Technologies Incorporated Series B	2.88%	06/15/2025	$ 3,225,000	3,047,625
Total Convertible Debentures (Cost $2,307,500)				**3,047,625**
Corporate Bonds and Notes: 113.86%				
Consumer Discretionary: 21.44%				
Auto Components: 2.23%				
Allison Transmission Incorporated 144A	7.13	05/15/2019	6,075,000	5,892,750
Cooper Tire & Rubber Company	7.63	03/15/2027	4,455,000	4,009,500
Cooper Tire & Rubber Company	8.00	12/15/2019	150,000	155,250
Goodyear Tire & Rubber Company	10.50	05/15/2016	4,440,000	4,928,400
				14,985,900
Diversified Consumer Services: 2.79%				
Carriage Services Incorporated	7.88	01/15/2015	4,055,000	4,080,344
Service Corporation International	6.75	04/01/2016	1,250,000	1,331,250
Service Corporation International	7.00	05/15/2019	1,125,000	1,181,250
Service Corporation International	7.50	04/01/2027	9,376,000	9,376,000
Service Corporation International	8.00	11/15/2021	880,000	969,100
Service Corporation International Series WI	7.00	06/15/2017	1,650,000	1,773,750
				18,711,694
Hotels, Restaurants & Leisure: 5.49%				

American Casinos Incorporated 144A	7.50	04/15/2021	2,475,000	2,536,875
Burger King Corporation	9.88	10/15/2018	1,600,000	1,716,000
Chukchansi Economic Development Authority 144A±	3.92	11/15/2012	2,525,000	1,622,313
Citycenter Holdings LLC 144A	7.63	01/15/2016	350,000	364,000
Citycenter Holdings LLC 144A¥	11.50	01/15/2017	2,111,166	2,174,501
Dineequity Incorporated	9.50	10/30/2018	5,600,000	5,936,000
Greektown Superholdings Incorporated	13.00	07/01/2015	8,287,000	8,514,893
NAI Entertainment Holdings LLC 144A	8.25	12/15/2017	2,700,000	2,841,750
Pinnacle Entertainment Incorporated	7.50	06/15/2015	2,880,000	2,829,600
Scientific Games Corporation	9.25	06/15/2019	1,130,000	1,189,325

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Security Name	Interest Rate	Maturity Date	Principal	Value
Hotels, Restaurants & Leisure (continued)				
Speedway Motorsports Incorporated	6.75%	02/01/2019	$ 450,000	$ 442,125
Speedway Motorsports Incorporated	8.75	06/01/2016	2,075,000	2,241,000
Yonkers Racing Corporation 144A	11.38	07/15/2016	4,325,000	4,443,938
				36,852,320
Media: 9.02%				
Barrington Broadcasting Group LLC	10.50	08/15/2014	450,000	414,000
Cablevision Systems Corporation	8.63	09/15/2017	2,975,000	3,227,875
CCH II Capital Corporation	13.50	11/30/2016	12,981,015	14,960,620
CCO Holdings LLC	8.13	04/30/2020	746,000	807,545
Charter Communications Incorporated Step Bond 144A	8.00	04/30/2012	590,000	603,275
Charter Communications Incorporated Step Bond 144A	10.88	09/15/2014	11,640,000	12,542,100
Cinemark USA Incorporated	7.38	06/15/2021	1,525,000	1,521,188
Cinemark USA Incorporated	8.63	06/15/2019	350,000	379,750
CSC Holdings LLC 144A	6.75	11/15/2021	500,000	500,000
CSC Holdings LLC	7.88	02/15/2018	1,400,000	1,536,500
CSC Holdings LLC	8.50	04/15/2014	200,000	219,500
DISH DBS Corporation	7.88	09/01/2019	2,260,000	2,480,350
EchoStar DBS Corporation				