WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.
Form N-CSR
November 26, 2012

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)

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: September 30

Date of reporting period: September 30, 2012

ITEM 1. REPORT TO STOCKHOLDERS.

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

September 30, 2012

Annual Report

Western Asset High Income Opportunity Fund Inc.
(HIO)

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

Fund objectives

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

What s inside

Letter from the chairman

Dear Shareholder,

We are pleased to provide the annual report of Western Asset High Income Opportunity Fund Inc. for the twelve-month reporting period ended September 30, 2012. Please read on for a detailed look at prevailing economic and market conditions during the Fund s reporting period and to learn how those conditions have affected Fund performance.

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,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

October 26, 2012

Investment commentary

Economic review

The U.S. economy continued to grow over the twelve months ended September 30, 2012, albeit at an uneven pace. U.S. gross domestic product (GDP)i growth, as reported by the U.S. Department of Commerce, was 1.3% and 4.1% in the third and fourth quarters of 2011, respectively. Economic growth in the U.S. then decelerated, as the Commerce Department reported that first quarter 2012 GDP growth was 2.0%. This was primarily due to less robust private inventory and non-residential fixed investments. The economy slowed further in the second quarter, as GDP growth was a tepid 1.3%. Moderating growth was partially due to weaker consumer spending, which rose only 1.5% in the second quarter, versus 2.4% during the first three months of the year. According to the Commerce Department s initial estimate, GDP growth then moved to 2.0% in the third quarter. The uptick was partially due to an increase in consumer spending, which rose 2.0% in the third quarter.

The job market remained weak. While there was some improvement during the reporting period, unemployment remained elevated. When the reporting period began, unemployment, as reported by the U.S. Department of Labor, was 9.0%. Unemployment then generally declined and was 8.1% in April 2012, the lowest rate since January 2009. The unemployment rate then moved higher, reaching 8.3% in July, before falling to 7.8% in September. However, the recent moderation in unemployment was partially due to people leaving the workforce and an increase in part-time workers.

Meanwhile, the housing market brightened, as sales have started to improve of late and home prices appear to be firming. According to the National Association of Realtors (NAR), existing-home sales fluctuated throughout the period. While existing-home sales declined 1.7% on a seasonally adjusted basis in September 2012 versus the previous month, they were 11% higher than in September 2011. In addition, the NAR reported that the median existing-home price for all housing types was $183,900 in September 2012, up 11.3% from September 2011. This marked the seventh consecutive month that home prices rose compared to the same period a year earlier. Furthermore, the inventory of homes available for sale fell 3.3% in September, which represents a 5.9-month supply at the current sales pace. The inventory has declined 20% compared to September 2011.

While the manufacturing sector overcame a soft patch that occurred in the summer of 2011, it again weakened toward the end of the reporting period. Looking back, based on the Institute for Supply Management s PMI (PMI)ii, in August 2011 the manufacturing sector expanded at its weakest pace in two years, with a reading of 50.6 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). The PMI was then somewhat choppy over the next eight months, but rose as high as 54.8 in April 2012. The PMI then fell to 49.7 in June, which represented the first contraction in the manufacturing sector since July 2009. Manufacturing continued to contract in July and August before ticking up to 51.5 in September.

The Federal Reserve Board (Fed)iii took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As has been the case since December 2008, the Fed kept the federal funds rateiv at a historically low range

Investment commentary (cont d)

between zero and 0.25%. In September 2011, the Fed announced its intention to purchase $400 billion of longer-term Treasury securities and to sell an equal amount of shorter-term Treasury securities by June 2012 (often referred to as Operation Twist). In January 2012, the Fed extended the period it expects to keep rates on hold, saying 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 late 2014. In June, the Fed announced that it would extend Operation Twist until the end of 2012. Finally, in September the Fed announced a third round of quantitative easing, which involves purchasing $40 billion each month of agency mortgage-backed securities on an open-end basis.

In addition, the Fed said that Operation Twist would continue and that it will keep the federal funds rate on hold until at least mid-2015.

As always, thank you for your confidence in our stewardship of your assets.

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

October 26, 2012

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results.

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 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.

iv 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.

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 investment professionals 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 management personnel, 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. The individuals responsible for development of investment strategy, day-to-day portfolio management, oversight and coordination of the Fund are Stephen A. Walsh, Michael C. Buchanan and Christopher F. Kilpatrick.

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

A. The spread sectors (non-Treasuries) experienced periods of volatility during the reporting period, but ultimately generated positive results. After falling sharply in August and September 2011 (prior to the beginning of the reporting period) most spread sectors then rallied in October, given hopes of progress in the European sovereign debt crisis and some better-than-expected economic data. While risk aversion returned in November, demand for the spread sectors resumed in December and generally remained robust during the next three months. This shift in investor sentiment was triggered by indications that the U.S. economy was gathering momentum and signs of progress in the European sovereign debt crisis. However, fears that the economy may be experiencing a soft patch and contagion fears from Europe led to periods of heightened risk aversion during portions of March, April and May. The spread sectors then rallied from June through September as investor sentiment improved.

Fund overview (cont d)

Both short- and long-term Treasury yields declined during the reporting period. When the period began, two-year Treasury yields were 0.25%. They moved as low as 0.21% on January 17, 2012 and as high as 0.41% on March 20, 2012. Ten-year Treasury yields were 1.92% at the beginning of the period and peaked at 2.42% on October 27, 2011. On July 25, 2012, ten-year Treasuries closed at an all-time low of 1.43%. Yields then edged higher due to some positive developments in Europe and hopes for additional Federal Reserve Board (Fed)i actions to stimulate the economy. When the reporting period ended on September 30, 2012, two-year Treasury yields were 0.23% and ten-year Treasury yields were 1.65%. All told, the Barclays U.S. Aggregate Indexii, returned 5.16% for the twelve months ended September 30, 2012. For comparison purposes, riskier fixed-income securities, including high-yield bonds, produced stronger results. High-yield spreads narrowed given generally strong demand from investors seeking to generate incremental income in the low interest rate environment. Over the fiscal year, the Barclays U.S. Corporate High Yield 2% Issuer Cap Indexiii (the Index) returned 19.35%. During this period, as measured by the Index, lower-quality CCC-rated bonds outperformed higher-quality BB-rated securities, as they returned 24.18% and 17.64%, respectively.

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

A. A number of adjustments were made to the Fund s portfolio during the reporting period. From a sector perspective, we reduced the underweight to the poorly performing Energy sector. We reduced our overweight to Consumer Cyclicals in an attempt to get more defensive as the market rallied during the period and this was one of the best performing sectors in the benchmark. We increased our exposure to financials, specifically Banking at the beginning of the period. We ran higher cash balances and used derivatives opportunistically to reduce market exposure during this extremely volatile period with heightened uncertainty. During the latter part of the period, we reduced specific exposure to several lower quality issuers to bring down risk in the portfolio. Additionally, we participated in the new issuance market by selectively purchasing securities that we felt were attractively valued.

The Fund employed U.S. Treasury futures to manage its yield curveiv positioning and durationv, which was a modest negative for performance during the reporting period. We covered our small short on five year Treasuries in mid-August 2012, after yields rose from 0.54% to over 0.80% in just three weeks. We ended the period with no Treasury futures in the Fund. Options on high-yield index swaps (CDX) and individual high-yield CDX contracts were used to opportunistically manage the Fund s exposure to the high-yield market. The options on CDX were positive but the individual CDX were negative. All told, these swaps and swaptions were slight detractors to the Fund s performance. These market hedges were intended to hedge against market pullbacks during periods of high volatility, while still maintaining the Fund s exposure to higher beta (and higher income) idiosyncratic investments. Finally, currency forwards were used to hedge the Fund s currency risk and manage our non-U.S. dollar currency exposures. The gains in our currency hedges served their purpose by offsetting the decline in the value of our euro bonds when translated back to U.S. dollars. All told, derivatives had a very small negative impact to the net performance of the Fund during the reporting period.

Performance review

For the twelve months ended September 30, 2012, Western Asset High Income Opportunity Fund Inc. returned 18.15% based on its net asset value (NAV)vi and 25.00% based on its New York Stock Exchange (NYSE) market price per share. The Fund s unmanaged benchmark, the Barclays U.S. Corporate High Yield 2% Issuer Cap Index, returned 19.35% for the same period. The Lipper High Yield Closed-End Funds Category Averagevii returned 19.63% over the same time frame. Please note that Lipper performance returns are based on each fund s NAV.

During the twelve-month period, the Fund made distributions to shareholders totaling $0.51 per share. The performance table shows the Fund s twelve-month total return based on its NAV and market price as of September 30, 2012. **Past performance is no guarantee of future results.**

Performance Snapshot as of September 30, 2012

Price Per Share	**12-Month Total Return***
$6.26 (NAV)	18.15%
$6.65 (Market Price)	25.00%

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 return assumes the reinvestment of all distributions at NAV. Prior to January 1, 2012, total return assumed the reinvestment of all distributions in additional shares in accordance with the Fund s Dividend Reinvestment Plan.

Total return assumes 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 largest contributor to the Fund s relative performance during the reporting period was our security selection. A number of individual high-yield bonds were positive for performance, including our overweights in Charter Communications (Charter Communications Inc., CCO Holdings LLC and CCH II LLC), Sprint Nextel Corp. (and Sprint Capital Corporation), CMA CGM and Hapag-Lloyd AG.

Charter Communications, an operator of cable television systems in the U.S., offers a full range of traditional and digital cable television services. We felt the market was not valuing Charter Communications business appropriately given our expectations for strong growth in its small and medium enterprises segment, as well as its retail data businesses. Our holdings in Charter Communications were rewarded, as the company posted solid fundamental results and improving free cash flow during the period. Wireless telecommunications company Sprint Nextel bonds performed extremely well during the reporting period as its fundamental performance continued to improve and we felt that the company would benefit from our outlook for wireless industry consolidation. Toward the end of the period, a key competitor Metro PCS (also a holding in this Fund which performed very well) was acquired by investment grade rated Deutsche Telecom and merged with

Fund overview (cont d)

their U.S. subsidiary T-Mobile USA. Sprint Nextel s bonds rallied on the attractive valuation paid and the improved outlook for more stabilized wireless competitive landscape and pricing environment. In addition, B- rated Sprint Nextel was acquired by Japan s investment grade rated Softbank after the reporting period ended, sending Sprint Nextel s bonds even higher. CMA CGM and Hapag-Lloyd AG are global shipping companies headquartered in Europe. These bonds had performed poorly in the prior reporting period due to a variety of factors, including fears of long-term decelerating global economic growth, higher oil prices and issues related to the ongoing European sovereign debt crisis. These bonds rallied significantly from distressed levels during the period, as both of the companies fundamentals stabilized and there was strong investor demand for these attractive, higher yielding opportunities.

From a ratings perspective, the portfolio benefited from its overweight to lower-rated CCC-rated securities and underweight to higher-rated BB-rated securities given the outperformance of lower-rated securities during the fiscal year as a whole.

Overall sector positioning was a marginal detractor from performance, however our positioning in several areas were additive to results. The largest contributor was our overweight to Consumer Non-cyclicals and our opportunistic addition of Financials (specifically the Banking subsector), as both sectors outperformed the Index during the reporting period. In addition our underweight to Energy was beneficial as the sector was initially seen as slightly more defensive versus the market and investors were looking for opportunities elsewhere. As the period progressed, the Energy sector performance was linked to the moderating growth outlook in Asia which received much attention and came under question several times during the reporting period.

Q. What were the leading detractors from performance?

A. The largest detractor from the Fund s relative performance during the reporting period was our sector positioning. The decision to run higher than normal cash balances during the period to help reduce risk and offset our higher beta positioning was not rewarded. Given the rally in the spread sectors and the less attractive value opportunities, we let cash build up to as high as 3% to 4% of the Fund toward the end of the reporting period. Had the portfolio been fully invested in the broader high yield market, better returns would have likely been achieved. An underweight to the strong performing Information Technology (IT) was also a negative. We see high-yield IT as a higher risk sector and we were reluctant to reduce the underweight there given our already net risk on stance which included overweighting CCC and below issues and underweight higher quality BB issuers. In addition, our overweight to Transportation, which falls under the Industrial sector, was a detractor

A number of individual holdings detracted from performance including overweight positions in Petroplus Finance, Horizon Lines and Overseas Shipholding Group. Petroplus Finance is a European oil refiner. In December 2011, a $1 billion credit line to the company was frozen by its bank lenders. Petroplus Finance was unable to avoid bankruptcy as it reduced its output and closed several refineries.

Fortunately, we reduced our exposure at the end of 2011, but we should have exited the position completely as its bonds continued to move significantly lower throughout the reporting period as asset sales were disappointing. We exited the position toward the end of the period. Horizon Lines is a U.S.-based shipping company that performed poorly, as it was expected to default after failing to make certain debt payments. Horizon Lines suffered from an overall secular decline in global shipping in 2011 and 2012 and a U.S. Department of Justice settlement against the company added to already elevated liquidity concerns. In April 2012, bondholders agreed with the company to exchange 6% yielding bonds into equity to help deleverage the company. The equity has underperformed the high-yield market post the exchange. Overseas Shipholding Group is one of the world s largest oil tanker companies. It performed poorly as the company s fundamentals weakened given the volatile pricing environment for shipping rates. In addition, Overseas Shipholding Group has been slow to fully address some near-term maturities which added to concerns and has continued to pressure bonds after the reporting period concluded.

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.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 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, 2012

RISKS: *The Fund s investments are subject to credit risk, inflation risk and interest rate risk. 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.*

Fund overview (cont d)

Portfolio holdings and breakdowns are as of September 30, 2012 and are subject to change and may not be representative of the portfolio managers current or future investments. Please refer to pages 10 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, 2012 were: Consumer Discretionary (20.3%), Industrials (16.2%), Energy (15.0%), Financials (9.5%) and Materials (8.8%). The Fund s portfolio composition is subject to change at any time.

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 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 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.

iii 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.

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

v Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.

vi 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 investments) 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.

vii 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, 2012, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 7 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 September 30, 2012 and September 30, 2011 and does not include derivatives, such as written options, swap 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 September 30, 2012

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.

B US HY 2%	Barclays U.S. Corporate High Yield 2% Issuer Cap Index
EM	Emerging Markets
HIO	Western Asset High Income Opportunity Fund Inc.
HY	High Yield
IG Credit	Investment Grade Credit
MBS	Mortgage-Backed Securities

Effective duration (unaudited)

Interest Rate Exposure September 30, 2012

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.

B US HY 2%	Barclays U.S. Corporate High Yield 2% Issuer Cap Index
EM	Emerging Markets
HIO	Western Asset High Income Opportunity Fund Inc.
HY	High Yield
IG Credit	Investment Grade Credit

Schedule of investments

September 30, 2012

Western Asset High Income Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount