

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Form N-Q

February 27, 2009

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-7920

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

55 Water Street, New York, NY  
(Address of principal executive offices)

10041  
(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: 1-800-451-2010

Date of fiscal year end: September 30

Date of reporting period: December 31, 2008

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ITEM 1. SCHEDULE OF INVESTMENTS

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**WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.**

**FORM N-Q**

**DECEMBER 31, 2008**

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## Western Asset High Income Opportunity Fund Inc.

Schedule of Investments (unaudited)

December 31, 2008

| Face<br>Amount                                | Security  | Value      |
|---|---|------------|
| <b>CORPORATE BONDS &amp; NOTES</b> 91.0%      |   |            |
| <b>CONSUMER DISCRETIONARY</b> 15.0%           |   |            |
| <b>Auto Components</b> 0.9%                   |   |            |
| \$ 2,020,000                                  | Allison Transmission Inc., Senior Notes, 11.250% due 11/1/15 (a)(b)                                 | \$ 808,000 |
| 960,000                                       | Keystone Automotive Operations Inc., Senior Subordinated Notes, 9.750% due 11/1/13                  | 369,600    |
| 1,722,000                                     | Visteon Corp., Senior Notes: 8.250% due 8/1/10  | 542,430    |
| 3,766,000                                     | 12.250% due 12/31/16 (a)  | 922,670    |
|   | <b>Total Auto Components</b>  | 2,642,700  |
| <b>Automobiles</b> 0.6%                       |   |            |
| 505,000                                       | Ford Motor Co., Debentures, 8.900% due 1/15/32  | 123,724    |
| 3,060,000                                     | General Motors Corp.: Notes, 7.200% due 1/15/11   | 650,250    |
| 4,550,000                                     | Senior Debentures, 8.375% due 7/15/33   | 819,000    |
| 2,125,000                                     | Senior Notes, 7.125% due 7/15/13  | 398,437    |
|   | <b>Total Automobiles</b>  | 1,991,411  |
| <b>Diversified Consumer Services</b> 0.6%     |   |            |
| 430,000                                       | Education Management LLC/Education Management Finance Corp.:  |            |
| 2,055,000                                     | Senior Notes, 8.750% due 6/1/14   | 328,950    |
|   | Senior Subordinated Notes, 10.250% due 6/1/16   | 1,500,150  |
|   | <b>Total Diversified Consumer Services</b>  | 1,829,100  |
| <b>Hotels, Restaurants &amp; Leisure</b> 3.8% |   |            |
| 675,000                                       | Boyd Gaming Corp., Senior Subordinated Notes, 7.125% due 2/1/16                                     | 401,625    |
| 2,345,000                                     | Buffets Inc., Senior Notes, 12.500% due 11/1/14 (c)(d)  | 16,122     |
| 1,570,000                                     | Caesars Entertainment Inc., Senior Subordinated Notes, 8.125% due 5/15/11                           | 777,150    |
| 1,450,000                                     | Carrols Corp., Senior Subordinated Notes, 9.000% due 1/15/13  | 986,000    |
| 618,000                                       | Denny's Holdings Inc., Senior Notes, 10.000% due 10/1/12  | 431,055    |
| 1,400,000                                     | Downstream Development Quapaw, Senior Notes, 12.000% due 10/15/15 (a)                               | 777,000    |
| 1,095,000                                     | El Pollo Loco Inc., Senior Notes, 11.750% due 11/15/13  | 815,775    |
| 445,000                                       | Fontainebleau Las Vegas Holdings LLC/Fontainebleau Las Vegas Capital Corp., 10.250% due 6/15/15 (a) | 45,612     |
| 843,000                                       | Harrah's Operating Co. Inc.:  |            |
| 193,900                                       | Senior Notes, 10.750% due 2/1/16 (a)  | 244,470    |
| 1,640,000                                     | Senior Secured Notes, 10.000% due 12/15/18 (a)  | 71,743     |
| 2,545,000                                     | Indianapolis Downs LLC & Capital Corp., Senior Secured Notes, 11.000% due 11/1/12 (a)               | 902,000    |
|   |   | 852,575    |

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|                                |  |                   |
|--------------------------------|--|-------------------|
|                                | Inn of the Mountain Gods Resort & Casino, Senior Notes, 12.000% due 11/15/10       |                   |
| 1,830,000                      | MGM MIRAGE Inc., Senior Notes, 13.000% due 11/15/13 (a)                            | 1,752,225         |
| 225,000                        | Mohegan Tribal Gaming Authority, Senior Subordinated Notes, 6.875% due 2/15/15     | 114,750           |
| 2,135,000                      | Pokagon Gaming Authority, Senior Notes, 10.375% due 6/15/14 (a)                    | 1,846,775         |
| 1,065,000                      | Sbarro Inc., Senior Notes, 10.375% due 2/1/15                                      | 564,450           |
| 790,000                        | Snoqualmie Entertainment Authority, Senior Secured Notes, 6.875% due 2/1/14 (a)(e) | 462,150           |
|                                | Station Casinos Inc.:  |                   |
|                                | Senior Notes:  |                   |
| 1,245,000                      | 6.000% due 4/1/12  | 255,225           |
| 2,265,000                      | 7.750% due 8/15/16   | 441,675           |
| 85,000                         | Senior Subordinated Notes, 6.625% due 3/15/18                                      | 5,313             |
|                                | <b>Total Hotels, Restaurants &amp; Leisure</b>                                     | <b>11,763,690</b> |
| <b>Household Durables 1.5%</b> |  |                   |
|                                | American Greetings Corp., Senior Notes, 7.375% due 6/1/16                          | 135,000           |
| 200,000                        | K Hovnanian Enterprises Inc., Senior Notes, 11.500% due 5/1/13                     | 1,503,225         |
| 1,965,000                      |  |                   |

*See Notes to Schedule of Investments.*

## Western Asset High Income Opportunity Fund Inc.

## Schedule of Investments (unaudited) (continued)

December 31, 2008

| Face<br>Amount                             | Security  | Value            |
|--|---|------------------|
| <b>Household Durables 1.5% (continued)</b> |   |                  |
| \$ 1,790,000                               | Norcraft Cos. LP/Norcraft Finance Corp., Senior Subordinated Notes, 9.000% due 11/1/11  | \$ 1,530,450     |
| 2,210,000                                  | Norcraft Holdings LP/Norcraft Capital Corp., Senior Discount Notes, 9.750% due 9/1/12   | 1,657,500        |
|  | <b>Total Household Durables</b>   | <b>4,826,175</b> |
| <b>Internet &amp; Catalog Retail 0.2%</b>  |   |                  |
| 155,000                                    | Expedia Inc., Senior Notes, 8.500% due 7/1/16 (a)   | 116,250          |
| 1,030,000                                  | Ticketmaster, Senior Notes, 10.750% due 8/1/16 (a)  | 561,350          |
|  | <b>Total Internet &amp; Catalog Retail</b>  | <b>677,600</b>   |
| <b>Media 5.2%</b>                          |   |                  |
| 380,000                                    | Affinion Group Inc.:  |                  |
| 4,200,000                                  | Senior Notes, 10.125% due 10/15/13  | 279,300          |
|  | Senior Subordinated Notes, 11.500% due 10/15/15   | 2,546,250        |
| 930,000                                    | CCH I LLC/CCH I Capital Corp.:  |                  |
| 6,965,000                                  | Senior Notes, 11.000% due 10/1/15   | 148,800          |
| 765,000                                    | Senior Secured Notes, 11.000% due 10/1/15   | 1,253,700        |
|  | CCH II LLC/CCH II Capital Corp., Senior Notes, 10.250% due 10/1/13  | 279,225          |
| 1,080,000                                  | Cengage Learning Acquisitions Inc.:   |                  |
| 1,790,000                                  | Senior Notes, 10.500% due 1/15/15 (a)   | 448,200          |
|  | Senior Subordinated Notes, step bond to yield 13.249% due 7/15/15 (a)   | 528,050          |
| 540,000                                    | Charter Communications Holdings LLC, Senior Discount Notes, 12.125% due 1/15/12 (f)   | 54,000           |
| 850,000                                    | Charter Communications Holdings LLC/Charter Communications Holdings Capital Corp., Senior Discount Notes, 11.750% due 5/15/11 | 106,250          |
| 2,930,000                                  | Charter Communications Inc., Senior Secured Notes, 10.875% due 9/15/14 (a)  | 2,358,650        |
|  | CSC Holdings Inc., Senior Notes:  |                  |
| 1,320,000                                  | 8.125% due 7/15/09  | 1,316,700        |
| 760,000                                    | 6.750% due 4/15/12  | 699,200          |
| 2,396,000                                  | Dex Media West LLC/Dex Media Finance Co., Senior Subordinated Notes, 9.875% due 8/15/13                                       | 575,040          |
| 660,000                                    | DIRECTV Holdings LLC/DIRECTV Financing Co. Inc., Senior Notes, 8.375% due 3/15/13   | 660,000          |
|  | EchoStar DBS Corp., Senior Notes:   |                  |
| 980,000                                    | 6.625% due 10/1/14  | 820,750          |
| 770,000                                    | 7.750% due 5/31/15  | 658,350          |
| 2,325,000                                  | Historic TW Inc., Senior Notes, 6.625% due 5/15/29  | 2,067,216        |
| 2,550,000                                  | Idearc Inc., Senior Notes, 8.000% due 11/15/16  | 204,000          |
|  | R.H. Donnelley Corp.:   |                  |
| 290,000                                    | 11.750% due 5/15/15 (a)   | 72,500           |

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|                              |  |            |
|------------------------------|--|------------|
| 1,915,000                    | Senior Notes, 8.875% due 1/15/16   | 296,825    |
| 1,060,000                    | Sun Media Corp., 7.625% due 2/15/13  | 858,600    |
|                              | <b>Total Media</b>   | 16,231,606 |
| <b>Multiline Retail 1.3%</b> |  |            |
| 2,520,000                    | Dollar General Corp., Senior Subordinated Notes,<br>11.875% due<br>7/15/17 (b) | 2,167,200  |
| 4,140,000                    | Neiman Marcus Group Inc.:<br>Senior Notes, 9.000% due 10/15/15 (b)             | 1,842,300  |
| 150,000                      | Senior Secured Notes, 7.125% due 6/1/28  | 71,250     |
|                              | <b>Total Multiline Retail</b>  | 4,080,750  |
| <b>Specialty Retail 0.7%</b> |  |            |
| 310,000                      | Ace Hardware Corp., Senior Secured Notes, 9.125%<br>due 6/1/16 (a)             | 206,150    |
| 225,000                      | AutoNation Inc., Senior Notes:<br>6.753% due 4/15/13 (e)                       | 155,250    |
| 345,000                      | 7.000% due 4/15/14   | 253,575    |
| 1,805,000                    | Blockbuster Inc., Senior Subordinated Notes, 9.000%<br>due 9/1/12              | 884,450    |

*See Notes to Schedule of Investments.*

## Western Asset High Income Opportunity Fund Inc.

Schedule of Investments (unaudited) (continued)

December 31, 2008

| Face Amount                                      | Security  | Value             |
|--|---|-------------------|
| <b>Specialty Retail 0.7% (continued)</b>         |   |                   |
| \$ 365,000                                       | Eye Care Centers of America, Senior Subordinated Notes, 10.750% due 2/15/15 | \$ 348,575        |
| 1,000,000  | Michaels Stores Inc., Senior Notes, 10.000% due 11/1/14                     | 460,000           |
|  | <b>Total Specialty Retail</b>   | <b>2,308,000</b>  |
| <b>Textiles, Apparel &amp; Luxury Goods 0.2%</b> |   |                   |
| 960,000  | Oxford Industries Inc., Senior Notes, 8.875% due 6/1/11                     | 729,600           |
|  | <b>TOTAL CONSUMER DISCRETIONARY</b>   | <b>47,080,632</b> |
| <b>CONSUMER STAPLES 1.9%</b>                     |   |                   |
| <b>Food &amp; Staples Retailing 0.1%</b>         |   |                   |
| 276,000  | Delhaize America Inc., Debentures, 9.000% due 4/15/31                       | 279,797           |
| <b>Food Products 0.7%</b>                        |   |                   |
| 185,000  | Dole Food Co. Inc., Senior Notes:   |                   |
| 2,185,000  | 8.625% due 5/1/09   | 168,350           |
| 575,000  | 7.250% due 6/15/10  | 1,534,963         |
| 340,000  | 8.875% due 3/15/11  | 362,250           |
|  | Stater Brothers Holdings Inc., Senior Notes, 7.750% due 4/15/15             | 287,300           |
|  | <b>Total Food Products</b>  | <b>2,352,863</b>  |
| <b>Household Products 0.3%</b>                   |   |                   |
| 1,235,000  | Visant Holding Corp., Senior Notes, 8.750% due 12/1/13                      | 920,075           |
| <b>Tobacco 0.8%</b>                              |   |                   |
| 385,000  | Alliance One International Inc., Senior Notes:                              |                   |
| 1,270,000  | 8.500% due 5/15/12  | 284,900           |
| 1,060,000  | 11.000% due 5/15/12   | 1,060,450         |
|  | Altria Group Inc., Senior Notes, 9.700% due 11/10/18                        | 1,147,522         |
|  | <b>Total Tobacco</b>  | <b>2,492,872</b>  |
|  | <b>TOTAL CONSUMER STAPLES</b>   | <b>6,045,607</b>  |
| <b>ENERGY 12.1%</b>                              |   |                   |
| <b>Energy Equipment &amp; Services 2.4%</b>      |   |                   |
| 2,305,000  | ANR Pipeline Co., Debentures, 9.625% due 11/1/21                            | 2,530,240         |
| 1,150,000  | Complete Production Services Inc., Senior Notes, 8.000% due 12/15/16        | 730,250           |
| 1,350,000  | Key Energy Services Inc., Senior Notes, 8.375% due 12/1/14                  | 897,750           |
| 625,000  | Pride International Inc., Senior Notes, 7.375% due 7/15/14                  | 584,375           |
| 60,000   | Southern Natural Gas Co., Senior Notes, 8.000% due 3/1/32                   | 50,296            |
| 3,270,000  | Tennessee Gas Pipeline Co., Bonds, 8.375% due 6/15/32                       | 2,838,004         |
|  | <b>Total Energy Equipment &amp; Services</b>                                | <b>7,630,915</b>  |
| <b>Oil, Gas &amp; Consumable Fuels 9.7%</b>      |   |                   |
| 1,740,000  | Atlas Pipeline Partners LP, 8.750% due 6/15/18 (a)                          | 1,148,400         |
| 3,572,000  | Belden & Blake Corp., Secured Notes, 8.750% due 7/15/12                     | 2,464,680         |



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|           |  |           |
|-----------|--|-----------|
|           | Chesapeake Energy Corp., Senior Notes:   |           |
| 2,845,000 | 6.625% due 1/15/16   | 2,261,775 |
| 140,000   | 6.500% due 8/15/17   | 107,800   |
| 1,180,000 | 6.250% due 1/15/18   | 879,100   |
| 365,000   | 7.250% due 12/15/18  | 286,525   |
| 360,000   | Compagnie Generale de Geophysique SA, Senior Notes,<br>7.500% due 5/15/15                        | 225,000   |
| 3,069,226 | Corral Petroleum Holdings AB, Senior Secured<br>Subordinated Bonds, 9.753% due 4/15/10 (a)(b)(e) | 1,672,728 |
| 540,000   | El Paso Corp., Medium-Term Notes, 7.800% due 8/1/31  | 354,512   |
|           | Enterprise Products Operating LP:  |           |
| 1,310,000 | Junior Subordinated Notes, 8.375% due 8/1/66   | 721,323   |
| 620,000   | Subordinated Notes, 7.034% due 1/15/68   | 291,774   |
| 2,500,000 | EXCO Resources Inc., Senior Notes, 7.250% due 1/15/11  | 1,962,500 |
| 465,000   | Inergy LP/Inergy Finance Corp., Senior Notes, 8.250%<br>due 3/1/16                               | 365,025   |

*See Notes to Schedule of Investments.*

## Western Asset High Income Opportunity Fund Inc.

## Schedule of Investments (unaudited) (continued)

December 31, 2008

| Face<br>Amount  | Security  | Value             |
|---|---|-------------------|
| <b>Oil, Gas &amp; Consumable Fuels 9.7% (continued)</b> |   |                   |
| \$ 2,585,000  | International Coal Group Inc., Senior Notes, 10.250% due 7/15/14                            | \$ 1,951,675      |
| 940,000   | Mariner Energy Inc., Senior Notes:<br>7.500% due 4/15/13                                    | 606,300           |
| 555,000   | 8.000% due 5/15/17  | 291,375           |
| 1,060,000   | MarkWest Energy Partners LP/MarkWest Energy Finance Corp., Senior Notes, 8.750% due 4/15/18 | 662,500           |
| 440,000   | OPTI Canada Inc., Senior Secured Notes:<br>7.875% due 12/15/14                              | 226,600           |
| 915,000   | 8.250% due 12/15/14   | 498,675           |
| 1,420,000   | Parallel Petroleum Corp., 10.250% due 8/1/14  | 908,800           |
| 1,495,000   | Petrohawk Energy Corp., Senior Notes, 9.125% due 7/15/13                                    | 1,218,425         |
| 630,000   | Petroplus Finance Ltd., Senior Notes:<br>6.750% due 5/1/14 (a)                              | 403,200           |
| 780,000   | 7.000% due 5/1/17 (a)   | 479,700           |
| 1,200,000   | Quicksilver Resources Inc., 8.250% due 8/1/15   | 768,000           |
| 4,500,000   | SandRidge Energy Inc., Senior Notes, 8.625% due 4/1/15 (b)                                  | 2,385,000         |
| 3,485,000   | SemGroup LP, Senior Notes, 8.750% due 11/15/15 (a)(c)(d)                                    | 139,400           |
| 1,020,000   | Southwestern Energy Co., Senior Notes, 7.500% due 2/1/18 (a)                                | 897,600           |
| 350,000   | Targa Resources Partners LP, Senior Notes, 8.250% due 7/1/16 (a)                            | 218,750           |
| 700,000   | Teekay Corp., Senior Notes, 8.875% due 7/15/11  | 595,000           |
| 2,235,000   | VeraSun Energy Corp., Senior Notes, 9.375% due 6/1/17 (c)                                   | 279,375           |
| 1,325,000   | W&T Offshore Inc., Senior Notes, 8.250% due 6/15/14 (a)                                     | 722,125           |
| 1,275,000   | Whiting Petroleum Corp., Senior Subordinated Notes, 7.000% due 2/1/14                       | 905,250           |
| 1,280,000   | Williams Cos. Inc.:<br>Notes:<br>7.875% due 9/1/21  | 980,952           |
| 2,320,000   | 8.750% due 3/15/32  | 1,731,910         |
| 1,125,000   | Senior Notes, 7.625% due 7/15/19  | 880,358           |
|   | <b>Total Oil, Gas &amp; Consumable Fuels</b>  | <b>30,492,112</b> |
|   | <b>TOTAL ENERGY</b>   | <b>38,123,027</b> |
| <b>FINANCIALS 11.0%</b>                                 |   |                   |
| <b>Commercial Banks 0.5%</b>                            |   |                   |
| 500,000   | ATF Capital BV, Senior Notes, 9.250% due 2/21/14 (a)  | 327,500           |
| 1,530,000   | TuranAlem Finance BV, Bonds:<br>8.250% due 1/22/37 (a)                                      | 665,550           |

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|                              |   |            |
|------------------------------|---|------------|
| 470,000                      | 8.250% due 1/22/37 (a)  | 203,275    |
| 430,000                      | Wells Fargo Capital XV, Junior Subordinated Notes,<br>9.750% due<br>9/26/13 (g) | 434,705    |
|                              | <b>Total Commercial Banks</b>   | 1,631,030  |
| <b>Consumer Finance 5.2%</b> |   |            |
| 925,000                      | Ford Motor Credit Co.:<br>Notes, 7.875% due 6/15/10                             | 740,394    |
| 1,037,000                    | Senior Notes:<br>7.246% due 6/15/11 (e)   | 685,716    |
| 1,370,000                    | 7.569% due 1/13/12 (e)  | 892,213    |
| 9,860,000                    | 12.000% due 5/15/15   | 7,370,320  |
|                              | GMAC LLC:   |            |
| 1,157,000                    | 7.500% due 12/31/13 (a)   | 861,965    |
| 234,000                      | 8.000% due 12/31/18 (a)   | 120,510    |
| 4,724,000                    | 8.000% due 11/1/31 (a)  | 2,813,048  |
|                              | SLM Corp., Senior Notes:  |            |
| 3,170,000                    | 3.695% due 7/26/10 (e)  | 2,706,546  |
| 290,000                      | 3.765% due 10/25/11 (e)   | 222,394    |
|                              | <b>Total Consumer Finance</b>   | 16,413,106 |

*See Notes to Schedule of Investments.*

## Western Asset High Income Opportunity Fund Inc.

## Schedule of Investments (unaudited) (continued)

December 31, 2008

| Face<br>Amount                                       | Security   | Value             |
|--|--|-------------------|
| <b>Diversified Financial Services 3.0%</b>           |  |                   |
| \$ 1,040,000   | Capmark Financial Group Inc., 5.875% due 5/10/12   | \$ 354,836        |
| 1,250,000  | CCM Merger Inc., Notes, 8.000% due 8/1/13 (a)  | 650,000           |
| 1,970,000  | Citigroup Inc., Junior Subordinated Notes, Preferred Securities, 8.400% due 4/30/18 (g)            | 1,303,234         |
| 2,040,000  | JPMorgan Chase & Co., Junior Subordinated Notes, 7.900% due 4/30/18 (g)                            | 1,701,413         |
| 1,220,000  | Leucadia National Corp., Senior Notes: 8.125% due 9/15/15  | 985,150           |
| 450,000  | 7.125% due 3/15/17   | 336,375           |
| 1,525,000  | TNK-BP Finance SA: 7.875% due 3/13/18 (a)  | 770,125           |
| 150,000  | Bonds, 7.500% due 7/18/16 (a)  | 78,750            |
| 744,000  | Senior Notes, 7.875% due 3/13/18 (a)   | 375,720           |
| 2,850,000  | Vanguard Health Holdings Co., I LLC, Senior Discount Notes, step bond to yield 12.732% due 10/1/15 | 2,251,500         |
| 765,000  | Vanguard Health Holdings Co., II LLC, Senior Subordinated Notes, 9.000% due 10/1/14                | 642,600           |
|  | <b>Total Diversified Financial Services</b>  | <b>9,449,703</b>  |
| <b>Insurance 0.4%</b>                                |  |                   |
| 2,830,000  | American International Group Inc., Junior Subordinated Debentures, 8.175% due 5/15/58 (a)          | 1,102,274         |
| <b>Real Estate Investment Trusts (REITs) 0.4%</b>    |  |                   |
| 75,000   | Forest City Enterprises Inc., Senior Notes, 7.625% due 6/1/15                                      | 26,625            |
| 360,000  | Ventas Realty LP/Ventas Capital Corp., Senior Notes: 6.500% due 6/1/16                             | 265,500           |
| 1,165,000  | 6.750% due 4/1/17  | 891,225           |
|  | <b>Total Real Estate Investment Trusts (REITs)</b>   | <b>1,183,350</b>  |
| <b>Real Estate Management &amp; Development 0.3%</b> |  |                   |
| 1,270,000  | Ashton Woods USA LLC/Ashton Woods Finance Co., Senior Subordinated Notes, 9.500% due 10/1/15 (c)   | 260,350           |
| 2,300,000  | Realogy Corp.: 10.500% due 4/15/14   | 408,250           |
| 193,381  | 11.000% due 4/15/14 (b)  | 23,206            |
| 2,045,000  | Senior Subordinated Notes, 12.375% due 4/15/15   | 286,300           |
|  | <b>Total Real Estate Management &amp; Development</b>  | <b>978,106</b>    |
| <b>Thriffs &amp; Mortgage Finance 1.2%</b>           |  |                   |
| 5,500,000  | Ocwen Capital Trust I, Junior Subordinated Capital Securities, 10.875% due 8/1/27 (f)              | 3,795,000         |
|  | <b>TOTAL FINANCIALS</b>  | <b>34,552,569</b> |
| <b>HEALTH CARE 7.5%</b>                              |  |                   |
| <b>Health Care Equipment &amp; Supplies 0.7%</b>     |  |                   |

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|   |             |  |                  |
|---|-------------|--|------------------|
| 1,270,000                                   |             | Advanced Medical Optics Inc., Senior Subordinated Notes, 7.500% due 5/1/17 | 654,050          |
| 1,740,000                                   |             | Biomet Inc., Senior Notes: 10.375% due 10/15/17 (b)                        | 1,383,300        |
| 310,000                                     |             | 11.625% due 10/15/17   | 266,600          |
|   |             | <b>Total Health Care Equipment &amp; Supplies</b>                          | <b>2,303,950</b> |
| <b>Health Care Providers &amp; Services</b> | <b>6.7%</b> |  |                  |
| 3,245,000                                   |             | CRC Health Corp., 10.750% due 2/1/16                                       | 1,971,338        |
| 230,000                                     |             | DaVita Inc.: Senior Notes, 6.625% due 3/15/13                              | 219,650          |
| 1,640,000                                   |             | Senior Subordinated Notes, 7.250% due 3/15/15                              | 1,566,200        |
|   |             | HCA Inc.:  |                  |

*See Notes to Schedule of Investments.*

## Western Asset High Income Opportunity Fund Inc.

Schedule of Investments (unaudited) (continued)

December 31, 2008

| Face Amount  | Security  | Value             |
|--|---|-------------------|
| <b>Health Care Providers &amp; Services 6.7% (continued)</b> |   |                   |
| \$ 3,920,000   | Debentures, 7.500% due 11/15/95   | \$ 1,680,582      |
| 820,000  | Notes, 6.375% due 1/15/15   | 504,300           |
| 40,000   | Senior Notes, 6.250% due 2/15/13  | 25,200            |
|  | Senior Secured Notes:   |                   |
| 1,380,000  | 9.250% due 11/15/16   | 1,269,600         |
| 3,445,000  | 9.625% due 11/15/16 (b)   | 2,695,712         |
| 2,675,000  | IASIS Healthcare LLC/IASIS Capital Corp., Senior Subordinated Notes, 8.750% due 6/15/14 | 2,086,500         |
|  | Tenet Healthcare Corp., Senior Notes:   |                   |
| 2,310,000  | 6.375% due 12/1/11  | 1,796,025         |
| 90,000   | 6.500% due 6/1/12   | 68,850            |
| 4,250,000  | 7.375% due 2/1/13   | 3,049,375         |
|  | Universal Hospital Services Inc., Senior Secured Notes:                                 |                   |
| 530,000  | 5.943% due 6/1/15 (e)   | 325,950           |
| 1,990,000  | 8.500% due 6/1/15 (b)   | 1,422,850         |
| 3,774,000  | US Oncology Holdings Inc., Senior Notes, 8.334% due 3/15/12 (b)(e)                      | 2,396,490         |
|  | <b>Total Health Care Providers &amp; Services</b>                                       | <b>21,078,622</b> |
| <b>Pharmaceuticals 0.1%</b>                                  |   |                   |
| 4,870,000  | Leiner Health Products Inc., Senior Subordinated Notes, 11.000% due 6/1/12 (c)(d)       | 255,675           |
|  | <b>TOTAL HEALTH CARE</b>  | <b>23,638,247</b> |
| <b>INDUSTRIALS 13.3%</b>                                     |   |                   |
| <b>Aerospace &amp; Defense 1.8%</b>                          |   |                   |
| 1,120,000  | BE Aerospace Inc., 8.500% due 7/1/18  | 1,010,800         |
|  | DRS Technologies Inc., Senior Subordinated Notes:                                       |                   |
| 310,000  | 6.625% due 2/1/16   | 311,550           |
| 1,405,000  | 7.625% due 2/1/18   | 1,412,025         |
| 4,475,000  | Hawker Beechcraft Acquisition Co., Senior Notes, 8.875% due 4/1/15 (b)                  | 1,543,875         |
| 1,460,000  | L-3 Communications Corp., Senior Subordinated Notes, 5.875% due 1/15/15                 | 1,321,300         |
|  | <b>Total Aerospace &amp; Defense</b>  | <b>5,599,550</b>  |
| <b>Airlines 2.4%</b>   |   |                   |
|  | Continental Airlines Inc., Pass-Through Certificates:                                   |                   |
| 227,865  | 8.312% due 4/2/11(f)  | 170,899           |
| 930,000  | 7.339% due 4/19/14  | 539,400           |
| 3,950,000  | DAE Aviation Holdings Inc., Senior Notes, 11.250% due 8/1/15 (a)                        | 1,639,250         |
| 1,074,556  | Delta Air Lines Inc., 8.954% due 8/10/14(f)   | 558,769           |
|  | United Airlines Inc., Pass-Through Certificates:  |                   |
| 1,045,000  | 6.831% due 9/1/08   | 1,024,100         |
| 2,268,135  | 7.811% due 10/1/09(f)   | 2,132,047         |
| 962,968  | 8.030% due 7/1/11   | 943,708           |
| 460,000  | 6.932% due 9/1/11   | 515,200           |

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|   |             |   |           |
|---|-------------|---|-----------|
| <b>Building Products</b>                  | <b>1.6%</b> | <b>Total Airlines</b>   | 7,523,373 |
|   | 4,875,000   | Associated Materials Inc.:  |           |
|   | 945,000     | Senior Discount Notes, step bond to yield 13.594% due 3/1/14                    | 2,730,000 |
|   | 880,000     | Senior Subordinated Notes, 9.750% due 4/15/12                                   | 748,913   |
|   | 3,800,000   | Nortek Inc., Senior Secured Notes, 10.000% due 12/1/13                          | 602,800   |
|   |             | NTK Holdings Inc., Senior Discount Notes, step bond to yield 11.352% due 3/1/14 | 836,000   |
| <b>Commercial Services &amp; Supplies</b> | <b>3.1%</b> | <b>Total Building Products</b>  | 4,917,713 |
|   | 1,220,000   | DynCorp International LLC/DIV Capital Corp.:                                    |           |
|   |             | 9.500% due 2/15/13 (a)  | 1,072,075 |

*See Notes to Schedule of Investments.*

## Western Asset High Income Opportunity Fund Inc.

Schedule of Investments (unaudited) (continued)

December 31, 2008

| Face<br>Amount   | Security  | Value            |
|--|---|------------------|
| <b>Commercial Services &amp; Supplies 3.1% (continued)</b> |   |                  |
| \$ 4,100,000   | Senior Subordinated Notes, 9.500% due 2/15/13                             | \$ 3,572,125     |
| 2,150,000  | Interface Inc., Senior Notes, 10.375% due 2/1/10                          | 2,139,250        |
| 2,495,000  | Rental Services Corp., Senior Notes, 9.500% due 12/1/14                   | 1,384,725        |
|  | US Investigations Services Inc.:  |                  |
| 2,405,000  | 11.750% due 5/1/16 (a)  | 1,527,175        |
| 280,000  | Senior Subordinated Notes, 10.500% due 11/1/15 (a)                        | 205,800          |
|  | <b>Total Commercial Services &amp; Supplies</b>                           | <b>9,901,150</b> |
| <b>Construction &amp; Engineering 0.4%</b>                 |   |                  |
| 1,500,000  | CSC Holdings Inc., Senior Notes, 8.500% due 6/15/15 (a)                   | 1,327,500        |
| <b>Electrical Equipment 0.1%</b>                           |   |                  |
| 600,000  | Sensata Technologies B.V., Senior Notes, 8.000% due 5/1/14                | 273,000          |
| <b>Industrial Conglomerates 0.2%</b>                       |   |                  |
| 840,000  | Sequa Corp., Senior Notes:  |                  |
| 897,657  | 11.750% due 12/1/15 (a)   | 323,400          |
|  | 13.500% due 12/1/15 (a)(b)  | 291,738          |
|  | <b>Total Industrial Conglomerates</b>                                     | <b>615,138</b>   |
| <b>Machinery 0.1%</b>                                      |   |                  |
| 730,000  | American Railcar Industries Inc., Senior Notes, 7.500% due 3/1/14         | 485,450          |
| <b>Road &amp; Rail 2.4%</b>                                |   |                  |
| 5,895,000  | Hertz Corp., Senior Subordinated Notes, 10.500% due 1/1/16                | 2,719,069        |
|  | Kansas City Southern de Mexico, Senior Notes:                             |                  |
| 3,210,000  | 9.375% due 5/1/12   | 2,953,200        |
| 1,180,000  | 7.625% due 12/1/13  | 973,500          |
| 520,000  | 7.375% due 6/1/14   | 428,064          |
| 355,000  | Kansas City Southern Railway, Senior Notes, 13.000% due 12/15/13          | 357,662          |
|  | <b>Total Road &amp; Rail</b>  | <b>7,431,495</b> |
| <b>Trading Companies &amp; Distributors 1.1%</b>           |   |                  |
| 1,140,000  | Ashtead Capital Inc., Notes, 9.000% due 8/15/16 (a)                       | 592,800          |
| 855,000  | Ashtead Holdings PLC, Senior Secured Notes, 8.625% due 8/1/15 (a)         | 453,150          |
| 2,755,000  | H&E Equipment Services Inc., Senior Notes, 8.375% due 7/15/16             | 1,473,925        |
| 2,410,000  | Penhall International Corp., Senior Secured Notes, 12.000% due 8/1/14 (a) | 927,850          |
|  | <b>Total Trading Companies &amp; Distributors</b>                         | <b>3,447,725</b> |
| <b>Transportation Infrastructure 0.1%</b>                  |   |                  |
| 2,330,000  | Swift Transportation Co., Senior Secured Notes:                           |                  |
| 1,325,000  | 9.899% due 5/15/15 (a)(e)   | 200,963          |
|  | 12.500% due 5/15/17 (a)   | 127,531          |



|   |             |   |            |
|---|-------------|---|------------|
|   |             | <b>Total Transportation Infrastructure</b>                            | 328,494    |
|   |             | <b>TOTAL INDUSTRIALS</b>  | 41,850,588 |
| <b>INFORMATION TECHNOLOGY</b>                             | <b>1.7%</b> |   |            |
| <b>Communications Equipment</b>                           | <b>0.4%</b> |   |            |
|   | 3,140,000   | Lucent Technologies Inc., Debentures, 6.450% due 3/15/29              | 1,271,700  |
| <b>Electronic Equipment, Instruments &amp; Components</b> | <b>0.1%</b> |   |            |
|   | 520,000     | NXP BV/NXP Funding LLC, Senior Secured Notes: 7.503% due 10/15/13 (e) | 174,850    |
|   | 390,000     | 7.875% due 10/15/14   | 154,050    |
|   |             | <b>Total Electronic Equipment, Instruments &amp; Components</b>       | 328,900    |
| <b>IT Services</b>  | <b>0.9%</b> |   |            |
|   | 1,430,000   | Ceridian Corp., Senior Notes, 12.250% due 11/15/15 (a)(b)             | 706,062    |
|   | 250,000     | First Data Corp.: 5.625% due 11/1/11                                  | 125,000    |

*See Notes to Schedule of Investments.*

## Western Asset High Income Opportunity Fund Inc.

Schedule of Investments (unaudited) (continued)

December 31, 2008

| Face<br>Amount   | Security  | Value            |
|--|---|------------------|
| <b>IT Services 0.9% (continued)</b>                      |   |                  |
| \$ 1,385,000   | Senior Notes, 9.875% due 9/24/15 (a)  | \$ 844,850       |
| 1,520,000  | SunGard Data Systems Inc., Senior Subordinated Notes,<br>10.250% due 8/15/15            | 1,010,800        |
|  | <b>Total IT Services</b>  | <b>2,686,712</b> |
| <b>Semiconductors &amp; Semiconductor Equipment 0.0%</b> |   |                  |
| 170,000  | Freescall Semiconductor Inc., Senior Notes:<br>8.875% due 12/15/14                      | 75,650           |
| 330,000  | 9.125% due 12/15/14 (b)   | 77,550           |
|  | <b>Total Semiconductors &amp; Semiconductor Equipment</b>                               | <b>153,200</b>   |
| <b>Software 0.3%</b>                                     |   |                  |
| 1,820,000  | Activant Solutions Inc., Senior Subordinated Notes,<br>9.500% due 5/1/16                | 855,400          |
|  | <b>TOTAL INFORMATION TECHNOLOGY</b>   | <b>5,295,912</b> |
| <b>MATERIALS 6.4%</b>                                    |   |                  |
| <b>Chemicals 0.9%</b>                                    |   |                  |
| 3,670,000  | Georgia Gulf Corp., Senior Notes, 10.750% due 10/15/16                                  | 899,150          |
| 440,000  | Huntsman International LLC, Senior Subordinated<br>Notes, 7.875% due 11/15/14           | 237,600          |
| 1,440,000  | Methanex Corp., Senior Notes, 8.750% due 8/15/12 (f)                                    | 1,301,453        |
| 2,900,000  | Montell Finance Co. BV, Debentures, 8.100% due<br>3/15/27 (a)                           | 72,500           |
| 494,000  | Westlake Chemical Corp., Senior Notes, 6.625% due<br>1/15/16                            | 288,990          |
|  | <b>Total Chemicals</b>  | <b>2,799,693</b> |
| <b>Containers &amp; Packaging 0.7%</b>                   |   |                  |
| 560,000  | Graphic Packaging International Corp., Senior<br>Subordinated Notes, 9.500% due 8/15/13 | 389,200          |
| 525,000  | Plastipak Holdings Inc., Senior Notes, 8.500% due<br>12/15/15 (a)                       | 354,375          |
| 725,000  | Radnor Holdings Inc., Senior Notes, 11.000% due<br>3/15/10 (c)(d)(f)                    | 0                |
| 850,000  | Rock-Tenn Co., Senior Notes, 9.250% due 3/15/16 (a)                                     | 794,750          |
| 1,210,000  | Solo Cup Co., Senior Subordinated Notes, 8.500% due<br>2/15/14                          | 780,450          |
|  | <b>Total Containers &amp; Packaging</b>   | <b>2,318,775</b> |
| <b>Metals &amp; Mining 2.6%</b>                          |   |                  |
| 2,090,000  | Freeport-McMoRan Copper & Gold Inc., Senior Notes,<br>8.375% due 4/1/17                 | 1,716,174        |
| 210,000  | Metals USA Holdings Corp., 10.883% due 7/1/12 (b)(e)                                    | 59,850           |
| 2,345,000  | Metals USA Inc., Senior Secured Notes, 11.125% due<br>12/1/15                           | 1,395,275        |
| 4,780,000  | Noranda Aluminium Holding Corp., Senior Notes,<br>8.345% due 11/15/14 (b)(e)            | 788,700          |
| 2,425,000  | Novelis Inc., Senior Notes, 7.250% due 2/15/15  | 1,418,625        |
| 4,575,000  |   | 2,847,938        |

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|                                    |             |   |           |
|------------------------------------|-------------|---|-----------|
|                                    |             | Ryerson Inc., Senior Secured Notes, 12.000% due 11/1/15 (a) |           |
|                                    |             | <b>Total Metals &amp; Mining</b>                            | 8,226,562 |
| <b>Paper &amp; Forest Products</b> | <b>2.2%</b> |   |           |
|                                    |             | Abitibi-Consolidated Co. of Canada:                         |           |
| 3,295,000                          |             | 15.500% due 7/15/10 (a)                                     | 972,025   |
| 3,625,000                          |             | Senior Secured Notes, 13.750% due 4/1/11 (a)                | 2,338,125 |
|                                    |             | Appleton Papers Inc.:                                       |           |
| 125,000                            |             | Senior Notes, 8.125% due 6/15/11                            | 86,875    |
| 2,410,000                          |             | Senior Subordinated Notes, 9.750% due 6/15/14               | 1,421,900 |
|                                    |             | NewPage Corp.:  |           |
|                                    |             | Senior Secured Notes:                                       |           |
| 2,755,000                          |             | 9.443% due 5/1/12 (e)                                       | 1,067,563 |
| 430,000                            |             | 10.000% due 5/1/12  | 191,350   |
| 290,000                            |             | Senior Subordinated Notes, 12.000% due 5/1/13               | 84,100    |
| 829,808                            |             | Newpage Holding Corp., 10.265% due 11/1/13 (b)(e)           | 311,178   |

*See Notes to Schedule of Investments.*

## Western Asset High Income Opportunity Fund Inc.

Schedule of Investments (unaudited) (continued)

December 31, 2008

| Face<br>Amount                                      | Security  | Value      |
|---|---|------------|
| <b>Paper &amp; Forest Products 2.2% (continued)</b> |   |            |
| \$ 830,000  | Verso Paper Holdings LLC, 11.375% due 8/1/16  | \$ 253,150 |
|   | <b>Total Paper &amp; Forest Products</b>  | 6,726,266  |
|   | <b>TOTAL MATERIALS</b>  | 20,071,296 |
| <b>TELECOMMUNICATION SERVICES 12.1%</b>             |   |            |
| <b>Diversified Telecommunication Services 8.1%</b>  |   |            |
| 385,000   | Cincinnati Bell Telephone Co., Senior Debentures,<br>6.300% due 12/1/28                               | 244,475    |
| 160,000   | Frontier Communications Corp.:<br>Debentures, 7.050% due 10/1/46                                      | 70,400     |
| 1,455,000   | Senior Notes, 7.875% due 1/15/27  | 851,175    |
| 1,555,000   | GT Group Telecom Inc., Senior Discount Notes,<br>13.250% due 2/1/10 (c)(d)(f)                         | 0          |
| 980,000   | Hawaiian Telcom Communications Inc., Senior<br>Subordinated Notes, 12.500% due 5/1/15 (c)             | 9,800      |
| 495,000   | Intelsat Bermuda Ltd., Senior Notes, 11.250% due<br>6/15/16   | 452,925    |
| 4,250,000   | Intelsat Corp., Senior Notes, 9.250% due 8/15/14 (a)<br>Intelsat Jackson Holdings Ltd., Senior Notes: | 3,973,750  |
| 170,000   | 9.500% due 6/15/16 (a)  | 157,250    |
| 3,935,000   | 11.500% due 6/15/16 (a)   | 3,443,125  |
| 1,735,000   | Level 3 Financing Inc.:<br>12.250% due 3/15/13  | 1,058,350  |
| 3,390,000   | 9.250% due 11/1/14  | 1,983,150  |
| 2,200,000   | Nordic Telephone Co. Holdings, Senior Secured<br>Bonds, 8.875% due 5/1/16 (a)                         | 1,551,000  |
| 500,000   | Qwest Communications International Inc.:<br>7.250% due 2/15/11  | 437,500    |
| 250,000   | Senior Notes:<br>5.649% due 2/15/09 (e)   | 250,000    |
| 1,440,000   | 7.500% due 2/15/14  | 1,036,800  |
| 4,245,000   | Telcordia Technologies Inc., Senior Subordinated<br>Notes, 10.000% due 3/15/13 (a)                    | 1,889,025  |
| 3,327,000   | Virgin Media Finance PLC, Senior Notes, 9.125% due<br>8/15/16   | 2,478,615  |
| 3,950,000   | Wind Acquisition Finance SA, Senior Bonds, 10.750%<br>due 12/1/15 (a)                                 | 3,416,750  |
| 2,270,000   | Windstream Corp., Senior Notes, 8.625% due 8/1/16   | 2,020,300  |
|   | <b>Total Diversified Telecommunication Services</b>   | 25,324,390 |
| <b>Wireless Telecommunication Services 4.0%</b>     |   |            |
| 1,340,000   | ALLTEL Communications Inc., Senior Notes, 10.375% due 12/1/17<br>(a)(b)                               | 1,507,500  |
| 610,000   | iPCS Inc., Senior Secured Notes, 5.318% due 5/1/13<br>(e)   | 436,150    |
| 760,000   | MetroPCS Wireless Inc., Senior Notes, 9.250% due<br>11/1/14   | 684,000    |

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|                                |  |            |
|--------------------------------|--|------------|
| 2,630,000                      | Sprint Capital Corp., Senior Notes:  |            |
| 605,000                        | 7.625% due 1/30/11   | 2,197,031  |
| 3,480,000                      | 8.375% due 3/15/12   | 484,316    |
| 5,600,000                      | 6.875% due 11/15/28  | 2,074,804  |
| 3,700,000                      | 8.750% due 3/15/32   | 3,787,117  |
|                                | True Move Co., Ltd., Notes, 10.750% due 12/16/13 (a)                                 | 1,387,500  |
|                                | <b>Total Wireless Telecommunication Services</b>                                     | 12,558,418 |
|                                | <b>TOTAL TELECOMMUNICATION SERVICES</b>  | 37,882,808 |
| <b>UTILITIES 10.0%</b>         |  |            |
| <b>Electric Utilities 0.7%</b> |  |            |
| 124,000                        | Orion Power Holdings Inc., Senior Notes, 12.000% due 5/1/10                          | 124,620    |
| 4,230,000                      | Texas Competitive Electric Holding Co. LLC, Senior Notes, 10.500% due 11/1/16 (a)(b) | 2,136,150  |
|                                | <b>Total Electric Utilities</b>  | 2,260,770  |

*See Notes to Schedule of Investments.*

## Western Asset High Income Opportunity Fund Inc.

Schedule of Investments (unaudited) (continued)

December 31, 2008

| Face<br>Amount   | Security  | Value             |
|--|---|-------------------|
| <b>Gas Utilities 0.9%</b>                                    |   |                   |
| \$ 3,300,000   |   |                   |
| <b>Independent Power Producers &amp; Energy Traders 8.4%</b> |   |                   |
| 1,540,000  | Suburban Propane Partners LP/Suburban Energy Finance Corp., Senior Notes, 6.875% due 12/15/13 | \$ 2,722,500      |
| 3,435,000  | AES Corp.:  |                   |
| 560,000  | Secured Notes, 8.750% due 5/15/13 (a)   | 1,486,100         |
| 2,090,000  | Senior Notes:   |                   |
| 1,890,000  | 8.000% due 10/15/17   | 2,833,875         |
| 320,000  | 8.000% due 6/1/20 (a)   | 436,800           |
| 1,670,000  | Dynegy Holdings Inc.:   |                   |
| 1,150,000  | Senior Debentures, 7.625% due 10/15/26  | 1,024,100         |
| 1,785,000  | Senior Notes, 7.750% due 6/1/19   | 1,313,550         |
| 17,265,000   | Dynegy Inc., Bonds, 7.670% due 11/8/16  | 227,400           |
| 1,159,410  | Edison Mission Energy, Senior Notes:  |                   |
| 1,200,000  | 7.750% due 6/15/16  | 1,494,650         |
| 4,720,000  | 7.200% due 5/15/19  | 948,750           |
| 165,000  | 7.625% due 5/15/27  | 1,392,300         |
|  | Energy Future Holdings, Senior Notes, 11.250% due 11/1/17 (a)(b)                              | 8,459,850         |
|  | Mirant Mid Atlantic LLC, Pass-Through Certificates, 10.060% due 12/30/28                      | 1,066,658         |
|  | Mirant North America LLC, Senior Notes, 7.375% due 12/31/13                                   | 1,158,000         |
|  | NRG Energy Inc., Senior Notes:  |                   |
|  | 7.250% due 2/1/14   | 4,425,000         |
|  | 7.375% due 1/15/17  | 152,212           |
|  | <b>Total Independent Power Producers &amp; Energy Traders</b>                                 | <b>26,419,245</b> |
|  | <b>TOTAL UTILITIES</b>  | <b>31,402,515</b> |
|  | <b>TOTAL CORPORATE BONDS &amp; NOTES</b>  |                   |
|  | (Cost \$454,366,586)  | 285,943,201       |
| <b>ASSET-BACKED SECURITY 0.0%</b>                            |   |                   |
| <b>FINANCIAL 0.0%</b>  |   |                   |
| <b>Diversified Financial Services 0.0%</b>                   |   |                   |
| 9,956,016  | Airplanes Pass-Through Trust, Subordinated Notes, 10.875% due 3/15/19 (c)(d)(f)               |                   |
|  | (Cost - \$10,630,831)   | 0                 |
| <b>CONVERTIBLE BONDS &amp; NOTES 0.4%</b>                    |   |                   |
| <b>CONSUMER DISCRETIONARY 0.1%</b>                           |   |                   |
| <b>Media 0.1%</b>  |   |                   |
| 1,240,000  | Virgin Media Inc., Senior Notes, 6.500% due 11/15/16 (a)                                      | 542,500           |
| <b>INDUSTRIALS 0.3%</b>                                      |   |                   |
| <b>Marine 0.3%</b>   |   |                   |
| 1,685,000  | Horizon Lines Inc., Senior Notes, 4.250% due 8/15/12  | 871,988           |
|  | <b>TOTAL CONVERTIBLE BONDS &amp; NOTES</b>  |                   |

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|  |  |           |
|--|--|-----------|
|  | (Cost \$2,233,476)   | 1,414,488 |
| <b>COLLATERALIZED MORTGAGE OBLIGATION</b> 0.2% |  |           |
| 1,612,497                                      | Countrywide Home Loan Mortgage Pass-Through Trust,<br>5.214% due 4/20/35 (e) |           |
|  | (Cost - \$986,277)   | 773,999   |
| <b>COLLATERALIZED SENIOR LOANS</b> 1.8%        |  |           |
| <b>CONSUMER DISCRETIONARY</b> 0.5%             |  |           |
| <b>Auto Components</b> 0.4%                    |  |           |
| 2,191,210                                      | Allison Transmission Inc., Term Loan B, 5.260% due<br>8/7/14 (e)             | 1,234,902 |
| <b>Media</b> 0.1%                              |  |           |
| 1,000,000                                      | Idearc Inc., Term Loan B, Senior Notes, 0.000% due<br>11/1/14 (e)            | 315,714   |
|  | <b>TOTAL CONSUMER DISCRETIONARY</b>  | 1,550,616 |

*See Notes to Schedule of Investments.*

## Western Asset High Income Opportunity Fund Inc.

Schedule of Investments (unaudited) (continued)

December 31, 2008

| Face Amount  | Security  | Value            |
|--|---|------------------|
| <b>ENERGY 0.8%</b>                                 |   |                  |
| <b>Energy Equipment &amp; Services 0.6%</b>        |   |                  |
| \$ 2,557,456                                       | Turbo Beta Ltd., Term Loan, 14.500% due 3/15/18 (b)(d)(e)       | \$ 2,033,177     |
| <b>Oil, Gas &amp; Consumable Fuels 0.2%</b>        |   |                  |
| 1,500,000  | Stallion Oilfield Services, Term Loan, 8.361% due 7/31/12 (e)   | 600,000          |
|  | <b>TOTAL ENERGY</b>   | <b>2,633,177</b> |
| <b>INDUSTRIALS 0.2%</b>                            |   |                  |
| <b>Trading Companies &amp; Distributors 0.2%</b>   |   |                  |
| 1,120,195  | Penhall International Corp., Term Loan, 9.883% due 4/1/12 (e)   | 504,088          |
| <b>MATERIALS 0.3%</b>                              |   |                  |
| <b>Containers &amp; Packaging 0.2%</b>             |   |                  |
| 2,812,908  | Berry Plastics Corp., Senior Term Loan, 11.338% due 6/15/14 (e) | 632,904          |
| <b>Paper &amp; Forest Products 0.1%</b>            |   |                  |
| 448,000  | Verso Paper Holdings LLC, 10.012% due 2/1/13 (e)                | 201,600          |
|  | <b>TOTAL MATERIALS</b>  | <b>834,504</b>   |
|  | <b>TOTAL COLLATERALIZED SENIOR LOANS</b>                        |                  |
|  | (Cost \$10,818,579)   | 5,522,385        |
| <b>SOVEREIGN BOND 0.8%</b>                         |   |                  |
| <b>Russia 0.8%</b>                                 |   |                  |
| 2,842,000  | Russian Federation, 7.500% due 3/31/30 (a) (Cost - \$3,113,692) | 2,507,099        |
| <b>Shares</b>                                      |   |                  |
| <b>COMMON STOCKS 0.0%</b>                          |   |                  |
| <b>CONSUMER DISCRETIONARY 0.0%</b>                 |   |                  |
| <b>Household Durables 0.0%</b>                     |   |                  |
| 4,660,992  | Home Interiors & Gifts Inc. (d)(f)*                             | 5                |
| <b>CONSUMER STAPLES 0.0%</b>                       |   |                  |
| <b>Food Products 0.0%</b>                          |   |                  |
| 73,499   | Aurora Foods Inc. (d)(f)*                                       | 0                |
| <b>MATERIALS 0.0%</b>                              |   |                  |
| <b>Chemicals 0.0%</b>                              |   |                  |
| 1  | Pliant Corp. (d)(f)*  | 0                |
| <b>TELECOMMUNICATION SERVICES 0.0%</b>             |   |                  |
| <b>Diversified Telecommunication Services 0.0%</b> |   |                  |
| 3,736  | McLeodUSA Inc., Class A Shares (d)(f)*                          | 0                |
| 20,125   | Pagemart Wireless (d)(f)*                                       | 201              |
|  | <b>TOTAL TELECOMMUNICATION SERVICES</b>                         | <b>201</b>       |
|  | <b>TOTAL COMMON STOCKS</b>                                      |                  |
|  | (Cost \$2,167,617)  | 206              |



**CONVERTIBLE PREFERRED STOCKS 0.9%**

**FINANCIALS 0.9%**

**Diversified Financial Services 0.9%**

3,030

25,100

Bank of America Corp., 7.250%

Citigroup Inc., 6.500%

1,969,500

702,549

**TOTAL CONVERTIBLE PREFERRED STOCKS**

(Cost \$4,263,006)

2,672,049

*See Notes to Schedule of Investments.*

## Western Asset High Income Opportunity Fund Inc.

Schedule of Investments (unaudited) (continued)

December 31, 2008

| Shares                                     | Security  | Value                 |
|--|---|-----------------------|
| <b>PREFERRED STOCKS 0.3%</b>               |   |                       |
| <b>CONSUMER DISCRETIONARY 0.1%</b>         |   |                       |
| <b>Automobiles 0.1%</b>                    |   |                       |
| 22,300                                     | Ford Motor Co., 7.400%  | \$ 108,155            |
| 17,100                                     | Ford Motor Co., 8.000%  | 90,630                |
| 1,600                                      | Ford Motor Co., Series F, 7.550%  | 6,880                 |
| 900  | General Motors Corp., 7.250%  | 2,943                 |
| 10,100                                     | General Motors Corp., Senior Notes, 7.250%                              | 32,118                |
| 2,600                                      | General Motors Corp., Senior Notes, 7.375%                              | 8,172                 |
| 31,700                                     | General Motors Corp., Senior Notes, 7.500%                              | 99,855                |
|  | <b>Total Automobiles</b>  | <b>348,753</b>        |
| <b>Media 0.0%</b>                          |   |                       |
| 4  | ION Media Networks Inc., Series B, 12.000% (d)(f)*                      | 0                     |
|  | <b>TOTAL CONSUMER DISCRETIONARY</b>                                     | <b>348,753</b>        |
| <b>FINANCIALS 0.2%</b>                     |   |                       |
| <b>Consumer Finance 0.1%</b>               |   |                       |
| 1,181                                      | Preferred Blocker Inc., 9.000% (a)*                                     | 354,300               |
| <b>Diversified Financial Services 0.1%</b> |   |                       |
| 3,400                                      | Preferred Plus, Trust, Series FRD-1, 7.400%                             | 15,708                |
| 8,400                                      | Saturns, Series F 2003-5, 8.125%  | 44,520                |
|  | <b>Total Diversified Financial Services</b>                             | <b>60,228</b>         |
| <b>Thrifts &amp; Mortgage Finance 0.0%</b> |   |                       |
| 37,200                                     | Federal National Mortgage Association (FNMA), 8.250% (h)*               | 30,876                |
|  | <b>TOTAL FINANCIALS</b>   | <b>445,404</b>        |
|  | <b>TOTAL PREFERRED STOCKS</b>   |                       |
|  | (Cost \$2,974,177)  | 794,157               |
| <b>Warrants</b>                            |   |                       |
| <b>WARRANTS 0.0%</b>                       |   |                       |
| 1,705                                      | Cybernet Internet Services International Inc., Expires 7/1/09(a)(d)(f)* | 0                     |
| 1,555                                      | GT Group Telecom Inc., Class B Shares, Expires 2/1/10(a)(d)(f)*         | 0                     |
| 1,185                                      | IWO Holdings Inc., Expires 1/15/11(a)(d)(f)*                            | 0                     |
| 1,000                                      | Jazztel PLC, Expires 7/15/10(a)(d)(f)*                                  | 0                     |
| 1,765                                      | Merrill Corp., Class B Shares, Expires 5/5/09(a)(d)(f)*                 | 0                     |
| 3,510                                      | Viasystems Group Inc., Expires 1/12/10(d)(f)*                           | 0                     |
|  | <b>TOTAL WARRANTS</b>   | <b>0</b>              |
|  | (Cost \$623,617)  | 0                     |
|  | <b>TOTAL INVESTMENTS 95.4%</b> (Cost \$492,177,858#)                    | <b>299,627,584</b>    |
|  | Other Assets in Excess of Liabilities 4.6%                              | 14,428,502            |
|  | <b>TOTAL NET ASSETS 100.0%</b>  | <b>\$ 314,056,086</b> |

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\* Non-income producing security.

- (a) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors, unless otherwise noted.
  - (b) Payment-in-kind security for which part of the income earned may be paid as additional principal.
  - (c) Security is currently in default.
  - (d) Illiquid security.
  - (e) Variable rate security. Interest rate disclosed is that which is in effect at December 31, 2008.
  - (f) Security is valued in good faith at fair value by or under the direction of the Board of Directors (See Note 1).
  - (g) Security has no maturity date. The date shown represents the next call date.
  - (h) On September 7, 2008, the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into Conservatorship.
- # Aggregate cost for federal income tax purposes is substantially the same.

Abbreviation used in this schedule:

GMAC - General Motors Acceptance Corp.

*See Notes to Schedule of Investments.*

**Notes to Schedule of Investments (unaudited)**

**1. Organization and Significant Accounting Policies**

Western Asset High Income Opportunity Fund Inc. (the Fund) was incorporated in Maryland and is registered as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund's primary investment objective is to seek high current income. Capital appreciation is a secondary objective.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP).

**(a) Investment Valuation.** Debt securities are valued at the mean between the last quoted bid and asked prices provided by an independent pricing service that are based on transactions in debt obligations, quotations from bond dealers, market transactions in comparable securities and various other relationships between securities. Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. When prices are not readily available, or are determined not to reflect fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund may value these securities at fair value as determined in accordance with the procedures approved by the Fund's Board of Directors. Short-term obligations with maturities of 60 days or less are valued at amortized cost, which approximates fair value.

Effective October 1, 2008, the Fund adopted Statement of Financial Accounting Standards No. 157 (FAS 157). FAS 157 establishes a single definition of fair value, creates a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the Fund's investments, and requires additional disclosure about fair value. The hierarchy of inputs is summarized below.

- Level 1 quoted prices in active markets for identical investments
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

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The following is a summary of the inputs used in valuing the Fund's assets carried at fair value:

|                                 | <b>December 31, 2008</b> | <b>Quoted Prices<br/>(Level 1)</b> | <b>Other Significant<br/>Observable Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|---------------------------------|--------------------------|------------------------------------|--|--|
| Investments in Securities       | \$ 299,627,584           | \$ 3,466,206                       | \$ 289,504,457   | 6,656,921  |
| Other Financial<br>Instruments* | (122,225)                | 0                                  | (122,225)  | 0  |
| <b>Total</b>                    | <b>\$ 299,505,359</b>    | <b>\$ 3,466,206</b>                | <b>\$ 289,382,232</b>  | <b>6,656,921</b>   |

\* Other financial instruments may include written options, futures, swaps and forward contracts.

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

**Notes to Schedule of Investments (unaudited) (continued)**

|  |    | <b>Investments<br/>in Securities</b> |
|--|----|--------------------------------------|
| Balance as of September 30, 2008                 | \$ | 1,268,368                            |
| Accrued Premiums/Discounts                       |    | 0                                    |
| Realized Gain (Loss)                             |    | 0                                    |
| Change in unrealized appreciation (depreciation) |    | (32,471)                             |
| Net purchases (sales)                            |    | (51,268)                             |
| Transfers in and/or out of Level 3               |    | 5,472,292                            |
| Balance as of December 31, 2008                  | \$ | 6,656,921                            |

**(b) Credit Default Swaps.** The Fund may enter into credit default swap ( CDS ) contracts for investment purposes, to manage its credit risk or to add leverage. CDS agreements involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a third party, typically corporate issuers or sovereign issuers of an emerging country, on a specified obligation or in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising a credit index. The Fund may use a CDS to provide a measure of protection against defaults of the issuers (i.e., to reduce risk where a Fund has exposure to the sovereign issuer) or to take an active long or short position with respect to the likelihood of a particular issuer's default. As a seller of protection, the Fund generally receives an upfront payment or a stream of payments throughout the term of the swap provided that there is no credit event. If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement the maximum potential amount of future payments (undiscounted) that the Fund could be required to make under a credit default swap agreement, would be an amount equal to the notional amount of the agreement. These amounts of potential payments will be partially offset by any recovery of values from the respective referenced obligations. As a seller of protection, the Fund effectively adds leverage to its portfolio because, in addition to its total net assets, the Fund would be subject to investment exposure on the notional amount of the swap. As a buyer of protection, the Fund generally receives an amount up to the notional value of the swap if a credit event occurs.

Implied spreads are the theoretical price a lender receives for credit default protection. When spreads rise, market perceived credit risk rises and when spreads fall, market perceived credit risk falls. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to enter into the agreement. Wider credit spreads and decreasing market values, when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. Credit spreads utilized in determining the period end market value of credit default swap agreements on corporate issues or sovereign issues of an emerging country are disclosed in the Schedule of Investments and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for credit derivatives. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values particularly in relation to the notional amount of the contract, as well as the annual payment rate serve as an indicator of the current status of the payment/performance risk.

Payments received or made at the beginning of the measurement period are reflected as a premium on deposit, respectively on the Statement of Assets and Liabilities. These upfront payments are amortized over the life of the swap and are recognized as realized gain or loss on the Statement of Operations. A liquidation payment received or made at the termination of the swap is recognized as realized gain or loss on the Statement of Operations. Net periodic payments received or paid by the Fund are recognized as realized gain and loss on the Statement of Operations.

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Entering into a CDS agreement involves, to varying degrees, elements of credit, market and documentation risk in excess of the related amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreement may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreement, and that there will be unfavorable changes in net interest rates.

**(c) Credit and Market Risk.** The Fund invests in high yield instruments that are subject to certain credit and market risks. The yields of high yield obligations reflect, among other things, perceived credit and market risks. The Fund's investment in securities rated below investment grade typically involves risks not associated with higher rated securities including, among others, greater risk related to timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading.

**(d) Security Transactions.** Security transactions are accounted for on a trade date basis.

### 2. Investments

At December 31, 2008, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

|                               |    |               |
|-------------------------------|----|---------------|
| Gross unrealized appreciation | \$ | 2,154,776     |
| Gross unrealized depreciation |    | (194,705,050) |
| Net unrealized depreciation   | \$ | (192,550,274) |

**Notes to Schedule of Investments (unaudited) (continued)**

At December 31, 2008, the Fund held the following open swap contracts:

**CREDIT DEFAULT SWAP ON CREDIT INDICES SELL PROTECTION(1)**

| SWAP COUNTERPARTY<br>(REFERENCE ENTITY)  | NOTIONAL<br>AMOUNT(2) | TERMINATION<br>DATE | PERIODIC<br>PAYMENTS<br>RECEIVED<br>BY THE<br>FUND | MARKET<br>VALUE(3) | UPFRONT<br>PREMIUMS<br>PAID/<br>(RECEIVED) | UNREALIZED<br>APPRECIATION/<br>(DEPRECIATION) |
|--|-----------------------|---------------------|--|--------------------|--|---|
| Credit Suisse First Boston<br>Inc. (CDX North America<br>High Yield Index)         | \$ 1,900,000          | 6/20/13             | 5.000%<br>quarterly                                | \$ (300,827)       | \$ (249,881)                               | \$ (50,946)                                   |
| Credit Suisse First Boston<br>Inc. (CDX North America<br>High Yield Index)         | 1,900,000             | 6/20/13             | 5.000%<br>quarterly                                | (300,827)          | (229,548)                                  | (71,279)                                      |
| Net unrealized depreciation on sales of credits<br>default swaps on credit indices |                       |                     |  |                    |  | \$ (122,225)                                  |

Percentage shown is an annual percentage rate.

(1) If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(2) The maximum potential amount the Fund could be required to make as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

(3) The quoted market prices and resulting values for credit default swap agreements on asset-backed securities and credit indices serve as an indicator of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement been closed/sold as of the period end. Decreasing market values when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

**3. Recent Accounting Pronouncement**

In March 2008, the Financial Accounting Standards Board issued the Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ( FAS 161 ). FAS 161 is effective for fiscal years and interim periods beginning after



November 15, 2008. FAS 161 requires enhanced disclosures about the Fund's derivative and hedging activities, including how such activities are accounted for and their effect on the Fund's financial position, performance and cash flows. Management is currently evaluating the impact the adoption of FAS 161 will have on the Fund's financial statements and related disclosures.

ITEM 2. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are attached hereto.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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

By */s/ R. Jay Gerken*  
R. Jay Gerken  
Chief Executive Officer

Date: February 26, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By */s/ R. Jay Gerken*  
R. Jay Gerken  
Chief Executive Officer

Date: February 26, 2009

By */s/ Kaprel Ozsolak*  
Kaprel Ozsolak  
Chief Financial Officer

Date: February 26, 2009

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