

WESTERN ASSET HIGH INCOME FUND II INC.  
Form N-CSRS  
December 23, 2014

**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 811-08709**

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

**620 Eighth Avenue, 49<sup>th</sup> 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: April 30**

**Date of reporting period: October 31, 2014**

ITEM 1. REPORT TO STOCKHOLDERS.

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

Semi-Annual Report

October 31, 2014

WESTERN ASSET

HIGH INCOME FUND II INC.

(HIX)

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

<b>What's inside</b>	
<a href="#">Letter from the chairman</a>	II
<a href="#">Investment commentary</a>	III
<a href="#">Fund at a glance</a>	1
<a href="#">Spread duration</a>	2
<a href="#">Effective duration</a>	3
<a href="#">Schedule of investments</a>	4
<a href="#">Statement of assets and liabilities</a>	23
<a href="#">Statement of operations</a>	24
<a href="#">Statements of changes in net assets</a>	25
<a href="#">Statement of cash flows</a>	26
<a href="#">Financial highlights</a>	27
<a href="#">Notes to financial statements</a>	28
<a href="#">Additional shareholder information</a>	44
<a href="#">Dividend reinvestment plan</a>	45
<b>Fund objectives</b>	

The Fund seeks to maximize current income by investing at least 80% of its net assets, plus any borrowings for investment purposes, in high-yield debt securities. As a secondary objective, the Fund seeks capital appreciation to the extent consistent with its objective of seeking to maximize current income.

## Letter from the chairman

**Dear Shareholder,**

We are pleased to provide the semi-annual report of Western Asset High Income Fund II Inc. for the six-month reporting period ended October 31, 2014. Please read on for Fund performance information and a detailed look at prevailing economic and market conditions during the Fund's reporting period.

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](http://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,

Kenneth D. Fuller

Edgar Filing: WESTERN ASSET HIGH INCOME FUND II INC. - Form N-CSRS

Chairman, President and Chief Executive Officer

November 28, 2014

II Western Asset High Income Fund II Inc.

## Investment commentary

### Economic review

Since the end of the Great Recession, the U.S. economy has expanded at a slower than usual pace, compared to recent history. U.S. gross domestic product (GDP) growth, as reported by the U.S. Department of Commerce's revised figures, was 4.5% during the third quarter of 2013, its best reading since the fourth quarter of 2011. Towards the beginning of the six months ended October 31, 2014 (the reporting period), the severe winter weather played a key role in a sharp reversal in the economy, a 2.1% contraction during the first quarter of 2014. This was the first negative GDP report in three years. Negative contributions were widespread: private inventory investment, exports, state and local government spending and nonresidential and residential fixed investment. Thankfully, this setback was very brief, as second quarter GDP growth was 4.6%, suggesting the recovery has some resilience and the economy continues to recover from the severe consequences of the Great Recession. The second quarter rebound in GDP growth was driven by several factors, including an acceleration in personal consumption expenditures (PCE), increased private inventory investment and exports, as well as an upturn in state and local government spending. After the reporting period ended, the Department of Commerce's second estimate for third quarter GDP growth was 3.9%, driven by contributions from PCE, exports, nonresidential fixed investment and government spending.

The U.S. manufacturing sector continued to support the economy during the reporting period. Based on figures for the Institute for Supply Management's Purchasing Managers' Index (PMI), U.S. manufacturing expanded during all six months of the reporting period (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). After a reading of 55.4 in May 2014, the PMI generally rose over the next several months, reaching a high of 59.0 in August, its best reading since March 2011. While PMI dipped to 56.6 in September, it rose back to 59.0 in October.

The U.S. job market improved during the reporting period. When the period began, unemployment, as reported by the U.S. Department of Labor, was 6.3%. Unemployment generally declined throughout the reporting period and reached a low of 5.8% in October 2014, the lowest level since July 2008.

## Investment commentary (cont d)

### Market review

#### Q. How did the Federal Reserve Board ( Fed<sup>ii</sup> ) respond to the economic environment?

A. The Fed took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As it has since December 2008, the Fed kept the federal funds rate<sup>iv</sup> at a historically low range between zero and 0.25%. The Fed also took steps to end its asset purchase program that was announced in December 2012. At that time, the Fed said it would continue purchasing \$40 billion per month of agency mortgage-backed securities ( MBS ), as well as \$45 billion per month of longer-term Treasuries. Following the meeting that concluded on December 18, 2013, prior to the beginning of the reporting period, the Fed announced that it would begin reducing its monthly asset purchases, saying Beginning in January 2014, the Committee will add to its holdings of agency MBS at a pace of \$35 billion per month rather than \$40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of \$40 billion per month rather than \$45 billion per month.

At each of the Fed s next six meetings (January, March, April, June, July and September 2014), it announced further \$10 billion tapering of its asset purchases. At its meeting that ended on October 29, 2014, the Fed announced that its asset purchase program had concluded. The Fed also said that it currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

#### Q. Did Treasury yields trend higher or lower during the six months ended October 31, 2014?

A. Short-term Treasury yields moved higher, whereas long-term Treasury yields declined during the reporting period. When the reporting period began, the yield on the two-year Treasury was 0.42%. It fell as low as 0.34% on October 15, 2014, and was as high as 0.59% in mid-September 2014, before ending the period at 0.50%. The yield on the ten-year Treasury began the period at 2.67%, its peak for the six-months ended October 31, 2014. It fell as low as 2.15% on October 15, 2014 and ended the period at 2.35%.

#### Q. What factors impacted the spread sectors (non-Treasuries) during the reporting period?

A. While there were several periods of weakness, the spread sectors generated positive results during the reporting period. Spread sectors generated positive results in May and June 2014 as intermediate- and long-term interest rates declined and investor demand was solid. Performance fluctuated with investor sentiment over the last four months of the reporting period given uncertainties regarding future Fed monetary policy, concerns over global growth and a host of escalating geopolitical issues. The overall bond market, as measured by the Barclays U.S. Aggregate Index<sup>v</sup>, gained 2.35% during the six months ended October 31, 2014.

#### Q. How did the high-yield bond market perform over the six months ended October 31, 2014?

A. The U.S. high-yield bond market returned 1.05% for the six months ended October 31, 2014. The asset class, as measured by the



Barclays U.S. Corporate High Yield 2% Issuer Cap Index<sup>x</sup>, posted positive returns during the first two months covered by the reporting period. Supporting the high yield market were generally solid investor demand and low defaults. However, weakening demand and geopolitical issues led to a setback in the asset class in July 2014. After rallying sharply in August, the high yield market fell sharply in September, given increased investor risk aversion. It then rallied again in October.

**Q. How did the emerging market debt asset class perform over the reporting period?**

**A.** Despite periods of weakness, emerging markets debt was among the best performing spread sectors during the six months ended October 31, 2014. The asset class posted positive returns during each of the first four months covered by the reporting period. Demand was strong overall as investors looked to generate incremental yield in the low interest rate environment. However, the asset class experienced a sharp selloff in September, triggered by a number of factors, including rising U.S. interest rates, expectations for future Fed rate hikes, concerns over global growth and weak investor demand. The asset class ended the reporting period by rallying in October as Treasury yields generally declined and demand was solid. Overall, the JPMorgan Emerging Markets Bond Index Global (EMBI Global<sup>ii</sup>) gained 3.78% during the six months ended October 31, 2014.

**Performance review**

For the six months ended October 31, 2014, Western Asset High Income Fund II Inc. returned -1.20% based on its net asset value (NAV<sup>iii</sup>) and -1.78% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmarks, the Barclays U.S. Corporate High Yield 2% Issuer Cap Index and the EMBI Global, returned 1.05% and 3.78%, respectively for the same period. The Lipper High Yield (Leveraged) Closed-End Funds Category Average<sup>ix</sup> returned 0.83% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During this six-month period, the Fund made distributions to shareholders totaling \$0.42 per share. As of October 31, 2014, the Fund estimates that all of the distributions were sourced from investment income.\* The performance table shows the Fund's six-month total return based on its NAV and market price as of October 31, 2014. **Past performance is no guarantee of future results.**

\*These estimates are not for tax purposes. The Fund will issue a Form 1099 with final composition of the distributions for tax purposes after year-end. A return of capital is not taxable and results in a reduction in the tax basis of a shareholder's investment. For more information about a distribution's composition, please refer to the Fund's distribution press release or, if applicable, the section 19 notice located in the press release section of our website, [www.lmcef.com](http://www.lmcef.com).

## Investment commentary (cont d)

Performance Snapshot as of October 31, 2014  
(unaudited)

Price Per Share	6-Month Total Return**
\$8.95 (NAV)	-1.20%
\$8.82 (Market Price)	-1.78%

**All figures represent past performance and are not a guarantee of future results. Performance figures for periods shorter than one year represent cumulative figures and are not annualized.**

**\*\* Total returns are based on changes in NAV or market price, respectively. Returns**

**reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.**

**Total return assumes the reinvestment of all distributions, including returns of capital, if any, at NAV.**

**Total return assumes the reinvestment of all distributions, including returns of capital, if any, in additional shares in accordance with the Fund's Dividend Reinvestment Plan.**

### Looking for additional information?

The Fund is traded under the symbol **HIX** and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol **XHGIX** 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](http://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 Fund II 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,

Kenneth D. Fuller

Chairman, President and Chief Executive Officer

November 28, 2014

***RISKS:** The Fund's investments are subject to credit risk, inflation risk and interest rate risk. As interest rates rise, bond prices fall generally, 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. High-yield bonds involve greater credit and liquidity risks than investment grade bonds. Foreign securities are subject to certain risks not associated with domestic investing, such as currency fluctuations and changes in political and economic conditions which could result in significant fluctuations. These risks are magnified in emerging markets. Leverage may result in greater volatility of NAV and the market price of common shares and increases a shareholder's risk of loss.*

VI Western Asset High Income Fund II Inc.

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.

- <sup>i</sup> Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.
- <sup>ii</sup> 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 U.S. manufacturing sector.
- <sup>iii</sup> 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.
- <sup>iv</sup> 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.
- <sup>v</sup> 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.
- <sup>vi</sup> 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.
- <sup>vii</sup> The JPMorgan Emerging Markets Bond Index Global ( EMBI Global ) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds and local market instruments.
- <sup>viii</sup> Net asset value ( NAV ) is calculated by subtracting total liabilities, including liabilities associated with financial leverage (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.
- <sup>ix</sup> Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the six-month period ended October 31, 2014, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 32 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 October 31, 2014 and April 30, 2014 and does not include derivatives, such as futures contracts, 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 October 31, 2014

### Total Spread Duration

HIX 3.40 years

Benchmark 4.80 years

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.

Benchmark 80% of Barclays U.S. Corporate High Yield 2% Issuer Cap Index and 20% of JPMorgan Emerging Markets Bond Index Global  
 EM Emerging Markets  
 HIX Western Asset High Income Fund II Inc.  
 HY High Yield  
 IG Credit Investment Grade Credit

## Effective duration (unaudited)

Interest rate exposure October 31, 2014

### Total Effective Duration

HIX 3.15 years

Benchmark 4.83 years

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.

Benchmark	80% of Barclays U.S. Corporate High Yield	2% Issuer Cap Index and 20% of JPMorgan Emerging Markets Bond Index Global
EM	Emerging Markets	
HIX	Western Asset High Income Fund II Inc.	
HY	High Yield	
IG Credit	Investment Grade Credit	

## Schedule of investments (unaudited)

October 31, 2014

### Western Asset High Income Fund II Inc.

Security	Rate	Maturity Date	Face Amount	Value
<b>Corporate Bonds &amp; Notes</b> 119.3%				
<b>Consumer Discretionary</b> 25.0%				
<i>Auto Components</i> 0.4%				
Europcar Groupe SA, Senior Notes	11.500%	5/15/17	380,000 EUR	\$ 536,912 (a)
Europcar Groupe SA, Senior Notes	9.375%	4/15/18	2,010,000 EUR	2,629,660 (a)
<i>Total Auto Components</i>				3,166,572
<i>Automobiles</i> 0.4%				
Chrysler Group LLC/CG Co.-Issuer Inc., Secured Notes	8.250%	6/15/21	2,482,000	2,786,045 (b)
<i>Diversified Consumer Services</i> 1.0%				
Ceridian LLC/Comdata Inc., Senior Notes	8.125%	11/15/17	2,330,000	2,335,825 (a)
Co-operative Group Holdings 2011 Ltd., Senior Notes	6.875%	7/8/20	337,000 GBP	562,685 (c)
Co-operative Group Holdings 2011 Ltd., Senior Notes	7.500%	7/8/26	500,000 GBP	853,840
Service Corp. International, Senior Notes	7.500%	4/1/27	2,090,000	2,309,450 (b)
StoneMor Partners LP/Cornerstone Family Services of WV, Senior Notes	7.875%	6/1/21	1,810,000	1,895,975 (a)(b)
<i>Total Diversified Consumer Services</i>				7,957,775
<i>Hotels, Restaurants &amp; Leisure</i> 6.7%				
24 Hour Holdings III LLC, Senior Notes	8.000%	6/1/22	1,940,000	1,843,000 (a)
Bossier Casino Venture Holdco Inc.	11.000%	2/9/18	411,751	417,680 (a)(d)(e)
Bossier Casino Venture Holdco Inc., Senior Secured Bonds	14.000%	2/9/18	3,134,988	2,753,773 (a)(d)(e)(f)
Boyd Gaming Corp., Senior Notes	9.125%	12/1/18	1,470,000	1,547,175 (b)
Burger King Capital Holdings LLC/Burger King Capital Finance Inc., Senior Notes, Step Bond	0.000%	4/15/19	840,000	783,300 (a)
Caesars Entertainment Operating Co. Inc., Senior Secured Notes	11.250%	6/1/17	1,735,000	1,309,925 (b)
Caesars Entertainment Operating Co. Inc., Senior Secured Notes	9.000%	2/15/20	4,680,000	3,556,800
Caesars Entertainment Resort Properties LLC, Secured Notes	11.000%	10/1/21	1,430,000	1,335,263 (a)
Carlson Travel Holdings Inc., Senior Notes	7.500%	8/15/19	1,010,000	1,015,050 (a)(f)
Carrols Restaurant Group Inc., Senior Secured Notes	11.250%	5/15/18	2,720,000	2,958,000 (b)
CCM Merger Inc., Senior Notes	9.125%	5/1/19	3,360,000	3,628,800 (a)(b)
CEC Entertainment Inc., Senior Notes	8.000%	2/15/22	3,760,000	3,628,400 (a)
Downstream Development Quapaw, Senior Secured Notes	10.500%	7/1/19	2,580,000	2,760,600 (a)(b)
Fontainebleau Las Vegas Holdings LLC/Fontainebleau Las Vegas Capital Corp., Senior Secured Notes	10.250%	6/15/15	975,000	9,750 (a)(g)
Gala Electric Casinos Ltd., Secured Notes	11.500%	6/1/19	1,724,000 GBP	2,881,988 (c)
Greektown Holdings LLC/Greektown Mothership Corp., Senior Secured Notes	8.875%	3/15/19	1,980,000	1,999,800 (a)
Landry's Holdings II Inc., Senior Notes	10.250%	1/1/18	1,530,000	1,598,850 (a)(b)
Landry's Inc., Senior Notes	9.375%	5/1/20	6,978,000	7,492,628 (a)(b)

See Notes to Financial Statements.



## Western Asset High Income Fund II Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Hotels, Restaurants &amp; Leisure continued</i>				
MGM Resorts International, Senior Notes	6.625%	12/15/21	310,000	\$ 341,000
Paris Las Vegas Holding LLC/Harras Las Vegas LLC/Flamingo Las Vegas Holding LLC, Senior Secured Notes	8.000%	10/1/20	5,450,000	5,313,750 (a)(b)
Rivers Pittsburgh Borrower LP/Rivers Pittsburgh Finance Corp., Senior Secured Notes	9.500%	6/15/19	514,000	551,265 (a)(b)
Seven Seas Cruises S de RL LLC, Senior Secured Notes	9.125%	5/15/19	3,770,000	4,024,475 (b)
<i>Total Hotels, Restaurants &amp; Leisure</i>				<i>51,751,272</i>
<i>Household Durables 2.1%</i>				
Century Intermediate Holding Co. 2, Senior Notes	9.750%	2/15/19	3,860,000	4,115,725 (a)(f)
Standard Pacific Corp., Senior Notes	6.250%	12/15/21	2,590,000	2,732,450
William Lyon Homes Inc., Senior Notes	8.500%	11/15/20	2,980,000	3,270,550 (b)
William Lyon Homes PNW Finance Corp., Senior Notes	7.000%	8/15/22	2,320,000	2,407,000 (a)
Woodside Homes Co. LLC/Woodside Homes Finance Inc., Senior Notes	6.750%	12/15/21	3,520,000	3,555,200 (a)(b)
<i>Total Household Durables</i>				<i>16,080,925</i>
<i>Media 11.1%</i>				
Altice SA, Senior Secured Notes	7.750%	5/15/22	2,990,000	3,146,975 (a)
Carmike Cinemas Inc., Secured Notes	7.375%	5/15/19	1,040,000	1,112,800 (b)
CCO Holdings LLC/CCO Holdings Capital Corp., Senior Notes	8.125%	4/30/20	5,050,000	5,365,625 (b)
Cerved Group SpA, Senior Secured Notes	6.375%	1/15/20	200,000 EUR	265,553 (a)
Cerved Group SpA, Senior Subordinated Notes	8.000%	1/15/21	300,000 EUR	409,780 (a)
Clear Channel Worldwide Holdings Inc., Senior Notes	6.500%	11/15/22	900,000	931,500 (b)
Clear Channel Worldwide Holdings Inc., Senior Subordinated Notes	7.625%	3/15/20	260,000	275,600
CSC Holdings Inc., Senior Debentures	7.875%	2/15/18	1,500,000	1,700,625 (b)
CSC Holdings LLC, Senior Notes	6.750%	11/15/21	230,000	256,738
CSC Holdings LLC, Senior Notes	5.250%	6/1/24	3,150,000	3,165,750 (a)
DISH DBS Corp., Senior Notes	7.875%	9/1/19	1,815,000	2,112,206 (b)
DISH DBS Corp., Senior Notes	6.750%	6/1/21	2,270,000	2,525,375 (b)
Gibson Brands Inc., Senior Secured Notes	8.875%	8/1/18	2,710,000	2,615,150 (a)(b)
iHeartCommunications Inc., Senior Notes	10.000%	1/15/18	2,170,000	1,821,444
MDC Partners Inc., Senior Notes	6.750%	4/1/20	800,000	833,000 (a)
Nara Cable Funding Ltd., Senior Secured Notes	8.875%	12/1/18	5,000,000 EUR	6,580,291 (b)(c)
New Cotai LLC/New Cotai Capital Corp., Senior Secured Notes	10.625%	5/1/19	2,599,507	2,976,436 (a)(b)(f)
Numericable Group SA, Senior Secured Bonds	6.000%	5/15/22	6,290,000	6,439,387 (a)
Ono Finance II PLC, Senior Bonds	10.875%	7/15/19	4,061,000	4,360,702 (a)(b)
Polish Television Holding BV, Senior Secured Bonds	11.000%	1/15/21	420,000 EUR	614,745 (a)(f)
Time Warner Cable Inc., Senior Notes	8.750%	2/14/19	2,500,000	3,143,098 (b)

See Notes to Financial Statements.

## Schedule of investments (unaudited) (cont d)

October 31, 2014

### Western Asset High Income Fund II Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Media continued</i>				
Time Warner Cable Inc., Senior Notes	8.250%	4/1/19	1,336,000	\$ 1,660,620 <sup>(b)</sup>
TVN Finance Corp. III AB, Senior Bonds	7.375%	12/15/20	1,258,000 <sup>EUR</sup>	1,734,109 <sup>(a)</sup>
Univision Communications Inc., Senior Notes	8.500%	5/15/21	4,450,000	4,839,375 <sup>(a)(b)</sup>
Univision Communications Inc., Senior Secured Notes	6.875%	5/15/19	1,780,000	1,875,675 <sup>(a)(b)</sup>
Univision Communications Inc., Senior Secured Notes	7.875%	11/1/20	400,000	434,500 <sup>(a)(b)</sup>
UPC Holding BV, Junior Secured Subordinated Notes	6.375%	9/15/22	5,060,000 <sup>EUR</sup>	6,875,354 <sup>(a)</sup>
UPCB Finance II Ltd., Senior Notes	6.375%	7/1/20	3,500,000 <sup>EUR</sup>	4,621,774 <sup>(b)(c)</sup>
Virgin Media Finance PLC, Senior Notes	6.375%	4/15/23	5,420,000	5,758,750 <sup>(a)(b)</sup>
Virgin Media Finance PLC, Senior Notes	6.000%	10/15/24	3,990,000	4,164,562 <sup>(a)</sup>
WMG Acquisition Corp., Senior Notes	6.750%	4/15/22	3,150,000	3,118,500 <sup>(a)</sup>
<i>Total Media</i>				85,735,999
<i>Multiline Retail 0.5%</i>				
Neiman Marcus Group LLC, Senior Secured Notes	7.125%	6/1/28	660,000	669,900 <sup>(b)</sup>
Neiman Marcus Group Ltd. LLC, Senior Notes	8.750%	10/15/21	2,940,000	3,160,500 <sup>(a)(b)(f)</sup>
<i>Total Multiline Retail</i>				3,830,400
<i>Specialty Retail 2.4%</i>				
American Greetings Corp., Senior Notes	7.375%	12/1/21	2,480,000	2,625,700 <sup>(b)</sup>
Edcon Holdings Pty Ltd., Senior Secured Subordinated Bonds	13.375%	6/30/19	360,000 <sup>EUR</sup>	222,445 <sup>(a)</sup>
Edcon Pty Ltd., Senior Secured Notes	9.500%	3/1/18	3,550,000 <sup>EUR</sup>	3,703,529 <sup>(a)</sup>
Edcon Pty Ltd., Senior Secured Notes	9.500%	3/1/18	1,000,000 <sup>EUR</sup>	1,043,247 <sup>(c)</sup>
Edcon Pty Ltd., Senior Secured Notes	9.500%	3/1/18	760,000	623,200 <sup>(a)</sup>
Guitar Center Inc., Senior Bonds	9.625%	4/15/20	6,850,000	5,043,313 <sup>(a)</sup>
Hot Topic Inc., Senior Secured Notes	9.250%	6/15/21	1,570,000	1,695,600 <sup>(a)(b)</sup>
Spencer Spirit Holdings Inc., Senior Notes	9.000%	5/1/18	3,408,000	3,450,600 <sup>(a)(f)</sup>
<i>Total Specialty Retail</i>				18,407,634
<i>Textiles, Apparel &amp; Luxury Goods 0.4%</i>				
Chinos Intermediate Holdings A Inc., Senior Notes	7.750%	5/1/19	2,130,000	2,050,125 <sup>(a)(b)(f)</sup>
Empire Today LLC/Empire Today Finance Corp., Senior Secured Notes	11.375%	2/1/17	1,300,000	1,306,500 <sup>(a)(b)</sup>
<i>Total Textiles, Apparel &amp; Luxury Goods</i>				3,356,625
<b>Total Consumer Discretionary</b>				<b>193,073,247</b>
<i>Consumer Staples 3.4%</i>				
<i>Beverages 0.6%</i>				
Carolina Beverage Group LLC/Carolina Beverage Group Finance Inc., Secured Notes	10.625%	8/1/18	2,200,000	2,282,500 <sup>(a)(b)</sup>
Crestview DS Merger Subordinated II Inc., Secured Notes	10.000%	9/1/21	2,390,000	2,652,900 <sup>(b)</sup>
<i>Total Beverages</i>				4,935,400

See Notes to Financial Statements.

## Western Asset High Income Fund II Inc.

	Rate	Maturity Date	Face Amount	Value
<i>Security</i>				
<i>Food &amp; Staples Retailing 0.4%</i>				
Beverages & More Inc., Senior Secured Notes	10.000%	11/15/18	3,220,000	\$ 3,071,075 (a)(b)
<i>Food Products 1.9%</i>				
Chiquita Brands International Inc./Chiquita Brands LLC, Senior Secured Notes	7.875%	2/1/21	1,749,000	1,926,086 (b)
Dole Food Co. Inc., Senior Secured Notes	7.250%	5/1/19	3,070,000	3,096,863 (a)(b)
Hearthside Group Holdings LLC/Hearthside Finance Co., Senior Notes	6.500%	5/1/22	2,970,000	2,940,300 (a)
Simmons Foods Inc., Secured Notes	7.875%	10/1/21	3,700,000	3,755,500 (a)
Virgolino de Oliveira Finance SA, Senior Secured Notes	10.875%	1/13/20	2,700,000	1,659,690 (a)
Wells Enterprises Inc., Senior Secured Notes	6.750%	2/1/20	1,593,000	1,656,720 (a)(b)
<i>Total Food Products</i>				<i>15,035,159</i>
<i>Media 0.1%</i>				
SiTV LLC/SiTV Finance Inc., Senior Secured Notes	10.375%	7/1/19	650,000	630,500 (a)
<i>Tobacco 0.4%</i>				
Alliance One International Inc., Secured Notes	9.875%	7/15/21	2,940,000	2,822,400
<b>Total Consumer Staples</b>				<b>26,494,534</b>
<i>Energy 17.0%</i>				
<i>Energy Equipment &amp; Services 2.4%</i>				
Atwood Oceanics Inc., Senior Notes	6.500%	2/1/20	1,470,000	1,484,700 (b)
CGG, Senior Notes	7.750%	5/15/17	378,000	367,605 (b)
Gulfmark Offshore Inc., Senior Notes	6.375%	3/15/22	1,600,000	1,464,000 (b)
Hercules Offshore Inc., Senior Notes	10.250%	4/1/19	1,760,000	1,280,400 (a)(b)
Hercules Offshore Inc., Senior Notes	8.750%	7/15/21	1,940,000	1,261,000 (a)(b)
Hercules Offshore Inc., Senior Notes	7.500%	10/1/21	270,000	169,425 (a)(b)
Hercules Offshore Inc., Senior Notes	6.750%	4/1/22	2,110,000	1,247,537 (a)
KCA Deutag UK Finance PLC, Senior Secured Notes	7.250%	5/15/21	1,280,000	1,145,600 (a)
Parker Drilling Co., Senior Notes	6.750%	7/15/22	2,540,000	2,330,450 (a)
Petroleum Geo-Services ASA, Senior Notes	7.375%	12/15/18	1,720,000	1,677,000 (a)(b)
SESI LLC, Senior Notes	7.125%	12/15/21	2,780,000	3,016,300 (b)
Sierra Hamilton LLC/Sierra Hamilton Finance Inc., Senior Secured Notes	12.250%	12/15/18	2,730,000	2,784,600 (a)
TMK OAO Via TMK Capital SA, Senior Notes	6.750%	4/3/20	210,000	191,363 (a)
<i>Total Energy Equipment &amp; Services</i>				<i>18,419,980</i>
<i>Oil, Gas &amp; Consumable Fuels 14.6%</i>				
Arch Coal Inc., Senior Notes	7.250%	6/15/21	3,700,000	1,387,500
California Resources Corp., Senior Notes	6.000%	11/15/24	3,660,000	3,742,350 (a)
Calumet Specialty Products Partners LP/Calumet Finance Corp., Senior Notes	9.625%	8/1/20	1,570,000	1,730,925 (b)

See Notes to Financial Statements.

## Schedule of investments (unaudited) (cont d)

October 31, 2014

### Western Asset High Income Fund II Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Oil, Gas &amp; Consumable Fuels continued</i>				
Calumet Specialty Products Partners LP/Calumet Finance Corp., Senior Notes	6.500%	4/15/21	520,000	\$ 507,000 (a)
Calumet Specialty Products Partners LP/Calumet Finance Corp., Senior Notes	7.625%	1/15/22	2,130,000	2,183,250
Carrizo Oil & Gas Inc., Senior Notes	7.500%	9/15/20	1,140,000	1,157,100 (b)
Carrizo Oil & Gas Inc., Senior Notes	7.500%	9/15/20	610,000	619,150 (a)
Chesapeake Energy Corp., Senior Notes	6.875%	11/15/20	2,100,000	2,409,750 (b)
Comstock Resources Inc., Senior Notes	9.500%	6/15/20	2,130,000	2,257,800 (b)
CONSOL Energy Inc., Senior Notes	8.250%	4/1/20	2,870,000	3,038,612 (b)
Corral Petroleum Holdings AB, Senior Notes	15.000%	12/31/17	4,847,575	4,338,580 (a)(f)
Dynagas LNG Partners LP/Dynagas Finance Inc., Senior Notes	6.250%	10/30/19	950,000	907,250
EDC Finance Ltd., Senior Notes	4.875%	4/17/20	1,100,000	1,001,000 (a)
El Paso Corp., Medium-Term Notes	7.800%	8/1/31	1,952,000	2,410,720 (b)
Enterprise Products Operating LLC, Junior Subordinated Notes	8.375%	8/1/66	285,000	311,490 (b)(h)
EP Energy LLC/EP Energy Finance Inc., Senior Notes	9.375%	5/1/20	910,000	998,725 (b)
EXCO Resources Inc., Senior Notes	8.500%	4/15/22	1,910,000	1,666,475
Globe Luxembourg SCA, Senior Secured Notes	9.625%	5/1/18	5,270,000	5,454,450 (a)(b)
Halcon Resources Corp., Senior Notes	9.750%	7/15/20	6,180,000	5,187,337 (b)
Halcon Resources Corp., Senior Notes	8.875%	5/15/21	2,380,000	1,963,500 (b)
Kodiak Oil & Gas Corp., Senior Notes	8.125%	12/1/19	2,720,000	2,937,600 (b)
Linn Energy LLC/Linn Energy Finance Corp., Senior Notes	6.500%	9/15/21	1,570,000	1,444,400
Lonestar Resources America Inc., Senior Notes	8.750%	4/15/19	1,080,000	999,000 (a)
LUKOIL International Finance BV, Bonds	6.356%	6/7/17	1,720,000	1,810,902 (c)
Magnum Hunter Resources Corp., Senior Notes	9.750%	5/15/20	5,280,000	5,280,000 (b)
MEG Energy Corp., Senior Notes	7.000%	3/31/24	5,020,000	5,057,650 (a)(b)
Milagro Oil & Gas Inc., Secured Notes	10.500%	5/15/16	3,290,000	2,352,350 (g)
Murray Energy Corp., Senior Secured Notes	9.500%	12/5/20	2,090,000	2,246,750 (a)(b)
Murray Energy Corp., Senior Secured Notes	8.625%	6/15/21	1,740,000	1,805,250 (a)(b)
Natural Resource Partners LP/Natural Resource Partners Finance Corp., Senior Notes	9.125%	10/1/18	2,240,000	2,251,200 (b)
New Gulf Resources LLC/NGR Finance Corp., Senior Secured Notes	11.750%	5/15/19	2,910,000	2,720,850
Novatek Finance Ltd., Notes	6.604%	2/3/21	2,300,000	2,357,500 (a)
Pacific Rubiales Energy Corp., Senior Notes	5.375%	1/26/19	2,350,000	2,361,750 (a)
Petrobras Global Finance BV, Senior Notes	6.250%	3/17/24	920,000	980,499 (b)
Petrobras International Finance Co., Senior Notes	6.875%	1/20/40	1,145,000	1,212,131 (i)
Petrobras International Finance Co., Senior Notes	6.750%	1/27/41	1,820,000	1,883,227 (b)
Puma International Financing SA, Senior Bonds	6.750%	2/1/21	5,600,000	5,782,000 (a)
Quicksilver Resources Inc., Senior Notes	11.000%	7/1/21	3,485,000	1,794,775

See Notes to Financial Statements.

## Western Asset High Income Fund II Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Oil, Gas &amp; Consumable Fuels continued</i>				
Rose Rock Midstream LP/Rose Rock Finance Corp., Senior Notes	5.625%	7/15/22	1,080,000	\$ 1,082,700
Rosneft Finance SA, Senior Notes	7.500%	7/18/16	270,000	281,813 (a)
Rosneft Finance SA, Senior Notes	6.625%	3/20/17	230,000	237,648 (c)
Rosneft Finance SA, Senior Notes	7.875%	3/13/18	1,390,000	1,492,513 (a)(b)
RSP Permian Inc., Senior Notes	6.625%	10/1/22	1,650,000	1,647,607 (a)
Samson Investment Co., Senior Notes	9.750%	2/15/20	5,040,000	3,754,800
Sanchez Energy Corp., Senior Notes	7.750%	6/15/21	3,960,000	4,059,000 (b)
Sanchez Energy Corp., Senior Notes	6.125%	1/15/23	2,420,000	2,311,100 (a)
SandRidge Energy Inc., Senior Notes	7.500%	2/15/23	920,000	823,400 (b)
Shelf Drilling Holdings Ltd., Senior Secured Notes	8.625%	11/1/18	1,810,000	1,796,425 (a)
Sidewinder Drilling Inc., Senior Notes	9.750%	11/15/19	1,670,000	1,569,800 (a)(b)
Summit Midstream Holdings LLC/Summit Midstream Finance Corp., Senior Notes	7.500%	7/1/21	1,370,000	1,493,300 (b)
Teine Energy Ltd., Senior Notes	6.875%	9/30/22	1,130,000	1,076,325 (a)
Triangle USA Petroleum Corp., Senior Notes	6.750%	7/15/22	1,130,000	994,400 (a)
Westmoreland Coal Co./Westmoreland Partners, Senior Secured Notes	10.750%	2/1/18	1,670,000	1,753,500
<i>Total Oil, Gas &amp; Consumable Fuels</i>				<i>112,925,129</i>
<b>Total Energy</b>				<b>131,345,109</b>
<b>Financials 11.4%</b>				
<i>Banks 6.4%</i>				
Banco Espirito Santo SA, Senior Notes	5.875%	11/9/15	1,500,000 EUR	1,831,792 (c)
Bank of America Corp., Junior Subordinated Notes	6.500%	10/23/24	1,190,000	1,225,700 (h)(j)
Barclays Bank PLC, Subordinated Notes	10.179%	6/12/21	3,710,000	4,994,061 (a)(b)
Barclays Bank PLC, Subordinated Notes	7.625%	11/21/22	5,000,000	5,456,250 (b)
Barclays PLC, Junior Subordinated Bonds	8.250%	12/15/18	800,000	827,600 (h)(j)
Citigroup Inc., Junior Subordinated Bonds	6.300%	5/15/24	950,000	946,437 (h)(j)
Credit Agricole SA, Junior Subordinated Notes	7.875%	1/23/24	1,350,000	1,397,689 (a)(h)(j)
Credit Agricole SA, Subordinated Notes	8.375%	10/13/19	3,180,000	3,700,725 (a)(b)(h)(j)
HSBC Holdings PLC, Junior Subordinated Bonds	6.375%	9/17/24	1,560,000	1,593,150 (h)(j)
Intesa Sanpaolo SpA, Senior Notes	3.625%	8/12/15	3,920,000	3,990,823 (a)(b)
JPMorgan Chase & Co., Junior Subordinated Bonds	6.000%	8/1/23	1,270,000	1,265,237 (b)(h)(j)
JPMorgan Chase & Co., Junior Subordinated Notes	6.100%	10/1/24	2,410,000	2,422,050 (b)(h)(j)
M&T Bank Corp., Junior Subordinated Bonds	6.875%	6/15/16	4,400,000	4,499,845 (b)(j)
Royal Bank of Scotland Group PLC, Junior Subordinated Bonds	7.648%	9/30/31	3,530,000	4,169,812 (b)(h)(j)
Royal Bank of Scotland Group PLC, Subordinated Notes	6.100%	6/10/23	1,470,000	1,591,947 (b)
Royal Bank of Scotland NV, Subordinated Notes	7.750%	5/15/23	650,000	749,200 (b)

See Notes to Financial Statements.

## Schedule of investments (unaudited) (cont d)

October 31, 2014

### Western Asset High Income Fund II Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Banks continued</i>				
Royal Bank of Scotland PLC, Subordinated Notes	13.125%	3/19/22	4,860,000 <sup>AUD</sup>	\$ 5,024,255 <sup>(c)(h)</sup>
Wells Fargo & Co., Junior Subordinated Bonds	5.900%	6/15/24	3,570,000	3,683,704 <sup>(b)(h)(j)</sup>
<i>Total Banks</i>				<i>49,370,277</i>
<i>Capital Markets 0.5%</i>				
Credit Suisse Group AG, Junior Subordinated Notes	6.250%	12/18/24	1,350,000	1,316,925 <sup>(a)(h)(j)</sup>
Goldman Sachs Group Inc., Subordinated Notes	6.750%	10/1/37	2,320,000	2,849,684 <sup>(b)</sup>
<i>Total Capital Markets</i>				<i>4,166,609</i>
<i>Consumer Finance 1.4%</i>				
Ally Financial Inc., Senior Notes	6.750%	12/1/14	6,140,000	6,166,095 <sup>(b)</sup>
SLM Corp., Medium-Term Notes, Senior Notes	8.450%	6/15/18	2,230,000	2,553,350 <sup>(b)</sup>
Stearns Holdings Inc., Senior Secured Notes	9.375%	8/15/20	1,250,000	1,293,750 <sup>(a)</sup>
TMX Finance LLC/TitleMax Finance Corp., Senior Secured Notes	8.500%	9/15/18	1,110,000	1,087,800 <sup>(a)(b)</sup>
<i>Total Consumer Finance</i>				<i>11,100,995</i>
<i>Diversified Financial Services 1.8%</i>				
International Lease Finance Corp., Senior Notes	5.750%	5/15/16	800,000	835,500
International Lease Finance Corp., Senior Notes	8.750%	3/15/17	3,385,000	3,816,587 <sup>(b)</sup>
International Lease Finance Corp., Senior Notes	8.875%	9/1/17	5,180,000	5,969,950 <sup>(b)</sup>
International Lease Finance Corp., Senior Notes	8.250%	12/15/20	2,160,000	2,597,400 <sup>(b)</sup>
ZFS Finance USA Trust II, Bonds	6.450%	12/15/65	500,000	535,000 <sup>(a)(b)(h)</sup>
<i>Total Diversified Financial Services</i>				<i>13,754,437</i>
<i>Insurance 0.7%</i>				
Fidelity & Guaranty Life Holdings Inc., Senior Notes	6.375%	4/1/21	1,450,000	1,544,250 <sup>(a)(b)</sup>
Liberty Mutual Group Inc., Junior Subordinated Bonds	7.800%	3/15/37	1,750,000	2,056,250 <sup>(a)(b)</sup>
MetLife Capital Trust IV, Junior Subordinated Notes	7.875%	12/15/37	1,100,000	1,410,750 <sup>(a)(b)</sup>
<i>Total Insurance</i>				<i>5,011,250</i>
<i>Real Estate Management &amp; Development 0.6%</i>				
Howard Hughes Corp., Senior Notes	6.875%	10/1/21	4,140,000	4,398,750 <sup>(a)(b)</sup>
<b>Total Financials</b>				<b>87,802,318</b>
<i>Health Care 6.2%</i>				
<i>Health Care Equipment &amp; Supplies 0.8%</i>				
ConvaTec Finance International SA, Senior Notes	8.250%	1/15/19	1,610,000	1,645,420 <sup>(a)(b)(f)</sup>
Lantheus Medical Imaging Inc., Senior Notes	9.750%	5/15/17	5,070,000	4,797,487 <sup>(b)</sup>
<i>Total Health Care Equipment &amp; Supplies</i>				<i>6,442,907</i>
<i>Health Care Providers &amp; Services 4.3%</i>				
Acadia Healthcare Co. Inc., Senior Notes	12.875%	11/1/18	1,248,000	1,441,440 <sup>(b)</sup>
Acadia Healthcare Co. Inc., Senior Notes	6.125%	3/15/21	1,540,000	1,603,333
CHS/Community Health Systems Inc., Senior Notes	8.000%	11/15/19	4,590,000	4,968,675 <sup>(b)</sup>

See Notes to Financial Statements.

## Western Asset High Income Fund II Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Health Care Providers &amp; Services continued</i>				
DJO Finance LLC/DJO Finance Corp., Senior Notes	9.875%	4/15/18	2,620,000	\$ 2,770,650 (b)
ExamWorks Group Inc., Senior Notes	9.000%	7/15/19	5,000,000	5,375,000 (b)
Fresenius U.S. Finance II Inc., Senior Notes	9.000%	7/15/15	1,020,000	1,065,900 (a)(b)
HCA Inc., Debentures	7.500%	11/15/95	2,205,000	2,138,850 (b)
IASIS Healthcare LLC/IASIS Capital Corp., Senior Notes	8.375%	5/15/19	3,520,000	3,722,400 (b)
Jaguar Holding Co. II/Jaguar Merger Sub Inc., Senior Notes	9.500%	12/1/19	1,020,000	1,097,775 (a)(b)
Labco SAS, Senior Secured Notes	8.500%	1/15/18	254,000 EUR	333,817 (a)
Tenet Healthcare Corp., Senior Notes	8.125%	4/1/22	2,870,000	3,296,912 (b)
Tenet Healthcare Corp., Senior Secured Notes	6.000%	10/1/20	2,580,000	2,779,950 (b)
Universal Hospital Services Inc., Secured Notes	7.625%	8/15/20	2,860,000	2,681,536
<i>Total Health Care Providers &amp; Services</i>				33,276,238
<i>Pharmaceuticals 1.1%</i>				
ConvaTec Healthcare E SA, Senior Notes	10.875%	12/15/18	2,500,000 EUR	3,336,512 (b)(c)
JLL/Delta Dutch Newco BV, Senior Notes	7.500%	2/1/22	2,830,000	2,889,572 (a)
Salix Pharmaceuticals Ltd., Senior Notes	6.000%	1/15/21	1,940,000	2,104,900 (a)
<i>Total Pharmaceuticals</i>				8,330,984
<b>Total Health Care</b>				<b>48,050,129</b>
<i>Industrials 21.9%</i>				
<i>Aerospace &amp; Defense 2.4%</i>				
CBC Ammo LLC/CBC FinCo Inc., Senior Notes	7.250%	11/15/21	4,110,000	4,089,450 (a)(b)
Ducommun Inc., Senior Notes	9.750%	7/15/18	1,960,000	2,146,200 (b)
Erickson Inc., Secured Notes	8.250%	5/1/20	4,854,000	4,611,300 (b)
GenCorp Inc., Secured Notes	7.125%	3/15/21	1,490,000	1,590,575 (b)
LMI Aerospace Inc., Secured Notes	7.375%	7/15/19	1,400,000	1,407,000 (a)(b)
TransDigm Inc., Senior Subordinated Notes	6.000%	7/15/22	4,840,000	4,918,650
<i>Total Aerospace &amp; Defense</i>				18,763,175
<i>Air Freight &amp; Logistics 0.3%</i>				
XPO Logistics Inc., Senior Notes	7.875%	9/1/19	2,050,000	2,157,625 (a)
<i>Airlines 1.9%</i>				
Air Canada, Pass-Through Trust, Secured Notes	6.625%	5/15/18	1,100,000	1,136,410 (a)
American Airlines, Pass-Through Trust, Secured Notes	7.000%	1/31/18	1,143,621	1,215,097 (a)
Delta Air Lines Inc., Pass-Through Certificates, Secured Notes	8.021%	8/10/22	1,246,030	1,445,395 (b)
Delta Air Lines Inc., Pass-Through Certificates, Subordinated Secured Notes	9.750%	12/17/16	525,592	591,290 (b)
Heathrow Finance PLC, Senior Secured Notes	7.125%	3/1/17	2,450,000 GBP	4,198,373 (b)(c)
United Airlines Inc., Pass-Through Certificates	5.983%	4/19/22	4,127,986	4,561,425 (b)
United Airlines Inc., Pass-Through Certificates, Senior Secured Notes	6.125%	4/29/18	1,430,000	1,508,650 (b)
<i>Total Airlines</i>				14,656,640

See Notes to Financial Statements.

## Schedule of investments (unaudited) (cont d)

October 31, 2014

## Western Asset High Income Fund II Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Building Products 0.7%</i>				
Ashton Woods USA LLC/Ashton Woods Finance Co., Senior Notes	6.875%	2/15/21	2,851,000	\$ 2,801,107 (a)(b)
Rearden G Holdings EINS GmbH, Senior Notes	7.875%	3/30/20	800,000	832,000 (a)
Spie BondCo 3 SCA, Secured Notes	11.000%	8/15/19	1,139,000 <sup>EUR</sup>	1,574,354 (a)
<i>Total Building Products</i>				<i>5,207,461</i>
<i>Commercial Services &amp; Supplies 3.6%</i>				
Garda World Security Corp., Senior Notes	7.250%	11/15/21	1,530,000	1,530,000 (a)
JM Huber Corp., Senior Notes	9.875%	11/1/19	1,490,000	1,642,725 (a)(b)
Monitronics International Inc., Senior Notes	9.125%	4/1/20	6,080,000	6,292,800 (b)
RSC Equipment Rental Inc./RSC Holdings III LLC, Senior Notes	8.250%	2/1/21	1,600,000	1,752,000 (b)
Taylor Morrison Communities Inc./Monarch Communities Inc., Senior Notes	7.750%	4/15/20	4,686,000	5,049,165 (a)(b)
Taylor Morrison Communities Inc./Monarch Communities Inc., Senior Notes	7.750%	4/15/20	1,186,000	1,277,915 (a)(b)
Taylor Morrison Communities Inc./Monarch Communities Inc., Senior Notes	5.250%	4/15/21	1,241,000	1,256,054 (a)(b)
United Rentals North America Inc., Senior Notes	7.625%	4/15/22	3,018,000	3,380,160 (b)
United Rentals North America Inc., Senior Subordinated Notes	8.375%	9/15/20	1,310,000	1,424,625 (b)
West Corp., Senior Notes	5.375%	7/15/22	3,850,000	3,744,125 (a)
<i>Total Commercial Services &amp; Supplies</i>				<i>27,349,569</i>
<i>Construction &amp; Engineering 3.0%</i>				
Astaldi SpA, Senior Bonds	7.125%	12/1/20	1,070,000 <sup>EUR</sup>	1,410,097 (a)
Astaldi SpA, Senior Notes	7.125%	12/1/20	240,000 <sup>EUR</sup>	316,284 (c)
Ausdrill Finance Pty Ltd., Senior Notes	6.875%	11/1/19	2,420,000	2,087,250 (a)
Brundage-Bone Concrete Pumping Inc., Senior Secured Notes	10.375%	9/1/21	2,380,000	2,448,425 (a)
Empresas ICA SAB de CV, Senior Notes	8.875%	5/29/24	3,237,000	3,311,294 (a)
Michael Baker Holdings LLC/Michael Baker Finance Corp., Senior Notes	8.875%	4/15/19	3,110,000	3,094,450 (a)(b)(f)
Michael Baker International LLC/CDL Acquisition Co. Inc., Senior Secured Notes	8.250%	10/15/18	3,670,000	3,743,400 (a)(b)
Modular Space Corp., Secured Notes	10.250%	1/31/19	2,970,000	3,036,825 (a)
Odebrecht Finance Ltd., Senior Notes	4.375%	4/25/25	4,240,000	3,996,200 (a)(i)
<i>Total Construction &amp; Engineering</i>				<i>23,444,225</i>
<i>Electrical Equipment 0.6%</i>				
International Wire Group Holdings Inc., Senior Secured Notes	8.500%	10/15/17	1,970,000	2,105,437 (a)(b)
NES Rentals Holdings Inc., Senior Secured Notes	7.875%	5/1/18	1,800,000	1,885,500 (a)(b)
Trionista TopCo GmbH, Senior Subordinated Notes	6.875%	4/30/21	150,000 <sup>EUR</sup>	197,845 (a)
<i>Total Electrical Equipment</i>				<i>4,188,782</i>

See Notes to Financial Statements.



## Western Asset High Income Fund II Inc.

	Rate	Maturity Date	Face Amount	Value
<i>Security</i>				
<i>Industrial Conglomerates 0.3%</i>				
Leucadia National Corp., Senior Notes	8.125%	9/15/15	2,490,000	\$ 2,642,513 (b)
<i>Machinery 2.4%</i>				
CTP Transportation Products LLC/CTP Finance Inc., Senior Secured Notes	8.250%	12/15/19	1,200,000	1,302,000 (a)(b)
Dematic SA/DH Services Luxembourg Sarl, Senior Notes	7.750%	12/15/20	5,370,000	5,745,900 (a)(b)
Gardner Denver Inc., Senior Notes	6.875%	8/15/21	1,070,000	1,120,825 (a)(b)
Global Brass and Copper Inc., Senior Secured Notes	9.500%	6/1/19	2,390,000	2,634,975 (b)
KION Finance SA, Senior Secured Notes	6.750%	2/15/20	3,027,000 <sup>EUR</sup>	4,085,368 (a)
KraussMaffei Group GmbH, Senior Secured Notes	8.750%	12/15/20	700,000 <sup>EUR</sup>	955,838 (a)
KraussMaffei Group GmbH, Senior Secured Notes	8.750%	12/15/20	458,000 <sup>EUR</sup>	625,391 (c)
SPL Logistics Escrow LLC/SPL Logistics Finance Corp., Senior Secured Notes	8.875%	8/1/20	1,760,000	1,914,000 (a)(b)
<i>Total Machinery</i>				18,384,297
<i>Marine 1.4%</i>				
Horizon Lines LLC, Secured Notes	13.000%	10/15/16	3,904,191	3,330,255 (f)
Horizon Lines LLC, Senior Secured Notes	11.000%	10/15/16	1,851,000	1,855,628
Navios Maritime Acquisition Corp./Navios Acquisition Finance U.S. Inc., Senior Secured Notes	8.125%	11/15/21	2,960,000	3,026,600 (a)(b)
Ultrapetrol Bahamas Ltd., Senior Secured Notes	8.875%	6/15/21	2,150,000	2,268,250
<i>Total Marine</i>				10,480,733
<i>Road &amp; Rail 2.5%</i>				
Flexi-Van Leasing Inc., Senior Notes	7.875%	8/15/18	2,500,000	2,637,500 (a)(b)
Florida East Coast Holdings Corp., Senior Notes	9.750%	5/1/20	3,740,000	3,828,825 (a)(b)
Florida East Coast Holdings Corp., Senior Secured Notes	6.750%	5/1/19	1,860,000	1,923,947 (a)
Jack Cooper Holdings Corp., Senior Secured Notes	9.250%	6/1/20	5,530,000	5,951,662 (a)(b)
Jurassic Holdings III Inc., Secured Notes	6.875%	2/15/21	1,680,000	1,696,800 (a)
Quality Distribution LLC/QD Capital Corp., Secured Notes	9.875%	11/1/18	3,200,000	3,376,000 (b)
<i>Total Road &amp; Rail</i>				19,414,734
<i>Trading Companies &amp; Distributors 0.4%</i>				
H&E Equipment Services Inc., Senior Notes	7.000%	9/1/22	3,150,000	3,378,375 (b)
<i>Transportation 2.2%</i>				
CMA CGM, Senior Notes	8.500%	4/15/17	3,140,000	3,171,400 (a)(b)
Hapag-Lloyd AG, Senior Notes	9.750%	10/15/17	3,490,000	3,629,600 (a)(b)
Neovia Logistics Intermediate Holdings LLC/Logistics Intermediate Finance Corp., Senior Notes	10.000%	2/15/18	3,890,000	4,026,150 (a)(b)(f)
Syncreon Group BV/Syncreon Global Finance US Inc., Senior Notes	8.625%	11/1/21	3,400,000	3,340,500 (a)
Watco Cos., LLC/Watco Finance Corp., Senior Notes	6.375%	4/1/23	2,580,000	2,631,600 (a)(b)
<i>Total Transportation</i>				16,799,250

See Notes to Financial Statements.

## Schedule of investments (unaudited) (cont d)

October 31, 2014

## Western Asset High Income Fund II Inc.

	Rate	Maturity Date	Face Amount	Value
Security				
<i>Transportation Infrastructure 0.2%</i>				
Aguila 3 SA, Senior Secured Notes	7.875%	1/31/18	1,700,000	\$ 1,708,500 (a)(b)
<b>Total Industrials</b>				<b>168,575,879</b>
<b>Information Technology 3.5%</b>				
<i>Electronic Equipment, Instruments &amp; Components 0.5%</i>				
Interface Security Systems Holdings Inc./Interface Security Systems LLC, Senior Secured Notes	9.250%	1/15/18	2,590,000	2,648,275
Techem GmbH, Senior Secured Notes	6.125%	10/1/19	650,000 EUR	876,209 (a)
<i>Total Electronic Equipment, Instruments &amp; Components</i>				<i>3,524,484</i>
<i>Internet Software &amp; Services 0.8%</i>				
Ancestry.com Inc., Senior Notes	9.625%	10/15/18	1,390,000	1,393,475 (a)(f)
Ancestry.com Inc., Senior Notes	11.000%	12/15/20	2,100,000	2,388,750 (b)
Zayo Group LLC/Zayo Capital Inc., Senior Secured Notes	8.125%	1/1/20	1,920,000	2,056,800 (b)
<i>Total Internet Software &amp; Services</i>				<i>5,839,025</i>
<i>IT Services 1.7%</i>				
Compiler Finance Subordinated Inc., Senior Notes	7.000%	5/1/21	2,758,000	2,537,360 (a)(b)
First Data Corp., Secured Notes	8.250%	1/15/21	810,000	882,900 (a)(b)
First Data Corp., Senior Notes	12.625%	1/15/21	4,760,000	5,759,600 (b)
First Data Corp., Senior Subordinated Notes	11.750%	8/15/21	3,535,000	4,162,462 (b)
<i>Total IT Services</i>				<i>13,342,322</i>
<i>Software 0.5%</i>				
Activision Blizzard Inc., Senior Notes	5.625%	9/15/21	2,510,000	2,676,288 (a)
Audatex North America Inc., Senior Notes	6.000%	6/15/21	1,390,000	1,476,875 (a)(b)
<i>Total Software</i>				<i>4,153,163</i>
<b>Total Information Technology</b>				<b>26,858,994</b>
<b>Materials 13.5%</b>				
<i>Chemicals 0.6%</i>				
Eco Services Operations LLC/Eco Finance Corp., Senior Notes	8.500%	11/1/22	1,530,000	1,583,550 (a)
HIG BBC Intermediate Holdings LLC/HIG BBC Holdings Corp., Senior Notes	10.500%	9/15/18	1,500,000	1,503,750 (a)(f)
KP Germany Erste GmbH, Senior Secured Notes	11.625%	7/15/17	680,000 EUR	937,459 (a)
KP Germany Erste GmbH, Senior Secured Notes	11.625%	7/15/17	530,000 EUR	730,666 (c)
<i>Total Chemicals</i>				<i>4,755,425</i>
<i>Construction Materials 0.5%</i>				
Cemex SAB de CV, Senior Secured Notes	5.700%	1/11/25	810,000	795,582 (a)
Hardwoods Acquisition Inc., Senior Secured Notes	7.500%	8/1/21	2,540,000	2,578,100 (a)
<i>Total Construction Materials</i>				<i>3,373,682</i>
<i>Containers &amp; Packaging 3.5%</i>				
Ardagh Finance Holdings SA, Senior Notes	8.625%	6/15/19	2,420,000	2,486,574 (a)(f)

See Notes to Financial Statements.

## Western Asset High Income Fund II Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Containers &amp; Packaging continued</i>				
Ardagh Packaging Finance PLC, Senior Notes	9.125%	10/15/20	3,170,000	\$ 3,431,525 (a)(b)
Ardagh Packaging Finance PLC/Ardagh MP Holdings USA Inc., Senior Notes	6.250%	1/31/19	930,000	939,300 (a)
Ardagh Packaging Finance PLC/Ardagh MP Holdings USA Inc., Senior Notes	9.125%	10/15/20	1,220,000	1,314,550 (a)(b)
Ardagh Packaging Finance PLC/Ardagh MP Holdings USA Inc., Senior Notes	7.000%	11/15/20	871,765	893,559 (a)(b)
Ardagh Packaging Finance PLC/Ardagh MP Holdings USA Inc., Senior Notes	6.750%	1/31/21	2,970,000	3,044,250 (a)
BWAY Holding Co., Senior Notes	9.125%	8/15/21	3,120,000	3,252,600 (a)
Coveris Holdings SA, Senior Notes	7.875%	11/1/19	3,490,000	3,681,950 (a)(b)
Pactiv LLC, Senior Bonds	8.375%	4/15/27	3,320,000	3,535,800 (b)
Pactiv LLC, Senior Notes	7.950%	12/15/25	920,000	968,300 (b)
PaperWorks Industries Inc., Senior Secured Notes	9.500%	8/15/19	2,000,000	2,052,500 (a)
Reynolds Group Issuer Inc./Reynolds Group Issuer LLC/Reynolds Group Issuer (Luxembourg) SA, Senior Notes	8.500%	5/15/18	1,340,000	1,395,275 (b)
<i>Total Containers &amp; Packaging</i>				<i>26,996,183</i>
<i>Metals &amp; Mining 7.6%</i>				
AuRico Gold Inc., Secured Notes	7.750%	4/1/20	1,950,000	1,920,750 (a)
Barrick Gold Corp., Senior Notes	9.000%	6/1/18	2,530,000	2,188,450 (a)(b)
Coeur Mining Inc., Senior Notes	7.875%	2/1/21	2,780,000	2,425,550 (b)
CSN Resources SA, Senior Bonds	6.500%	7/21/20	990,000	1,017,225 (a)
Evrax Group SA, Notes	8.250%	11/10/15	170,000	173,094 (c)
Evrax Group SA, Notes	9.500%	4/24/18	680,000	699,550 (a)(b)
Evrax Group SA, Notes	6.750%	4/27/18	4,550,000	4,301,461 (a)(i)
Evrax Group SA, Senior Notes	9.500%	4/24/18	330,000	339,487 (c)
FMG Resources (August 2006) Pty Ltd., Senior Notes	8.250%	11/1/19	3,790,000	3,946,337 (a)(b)
FMG Resources (August 2006) Pty Ltd., Senior Notes	6.875%	4/1/22	2,000,000	2,072,500 (a)(b)
GTL Trade Finance Inc., Senior Bonds	5.893%	4/29/24	2,996,000	3,115,840 (a)(i)
Midwest Vanadium Pty Ltd., Senior Secured Notes	11.500%	2/15/18	3,070,000	460,500 (a)(d)(g)
Mirabela Nickel Ltd., Subordinated Notes	1.000%	9/10/44	32,530	0 (d)(e)(k)
Prince Mineral Holding Corp., Senior Secured Notes	12.000%	12/15/19	1,570,000	1,727,000 (a)(b)
Rain CII Carbon LLC/CII Carbon Corp., Senior Secured Notes	8.250%	1/15/21	4,490,000	4,602,250 (a)(b)
Rio Tinto Finance USA Ltd., Senior Notes	9.000%	5/1/19	1,820,000	2,351,331 (b)
Ryerson Inc./Joseph T. Ryerson & Son Inc., Senior Secured Notes	9.000%	10/15/17	3,960,000	4,177,800 (b)
Schaeffler Holding Finance BV, Senior Secured Bonds	6.875%	8/15/18	3,230,000	3,399,575 (a)(f)
Schaeffler Holding Finance BV, Senior Secured Notes	6.875%	8/15/18	2,040,000 <sup>EUR</sup>	2,690,639 (a)(f)
Schaeffler Holding Finance BV, Senior Secured Notes	6.750%	11/15/22	3,330,000	3,554,775 (a)(f)

See Notes to Financial Statements.

## Schedule of investments (unaudited) (cont d)

October 31, 2014

### Western Asset High Income Fund II Inc.

	Rate	Maturity Date	Face Amount	Value
<b>Security</b>				
<i>Metals &amp; Mining continued</i>				
St. Barbara Ltd., Senior Secured Notes	8.875%	4/15/18	1,940,000	\$ 1,571,400 (a)(b)
Steel Dynamics Inc., Senior Notes	6.125%	8/15/19	1,300,000	1,404,000 (b)
SunCoke Energy Partners LP/SunCoke Energy Partners Finance Corp., Senior Notes	7.375%	2/1/20	1,200,000	1,260,000 (a)(b)
SunCoke Energy Partners LP/SunCoke Energy Partners Finance Corp., Senior Notes	7.375%	2/1/20	520,000	546,000 (a)
Thompson Creek Metals Co. Inc., Senior Secured Notes	9.750%	12/1/17	1,950,000	2,091,375 (b)
Vale Overseas Ltd., Notes	8.250%	1/17/34	1,784,000	2,271,353 (i)
Vedanta Resources PLC, Senior Notes	6.750%	6/7/16	3,630,000	3,816,945 (a)
Vedanta Resources PLC, Senior Notes	6.000%	1/31/19	760,000	779,000 (a)
<i>Total Metals &amp; Mining</i>				<i>58,904,187</i>
<i>Paper &amp; Forest Products 1.3%</i>				
Appvion Inc., Secured Notes	9.000%	6/1/20	4,800,000	3,816,000 (a)(b)
Fibria Overseas Finance Ltd., Senior Notes	5.250%	5/12/24	1,340,000	1,369,748 (b)
Resolute Forest Products Inc., Senior Notes	5.875%	5/15/23	3,060,000	2,945,250
Verso Paper Holdings LLC/Verso Paper Inc., Senior Secured Notes	11.750%	1/15/19	1,768,000	1,533,740 (b)
Verso Paper Holdings LLC/Verso Paper Inc., Senior Secured Notes	11.750%	1/15/19	260,000	266,500
<i>Total Paper &amp; Forest Products</i>				<i>9,931,238</i>
<b>Total Materials</b>				<b>103,960,715</b>
<i>Telecommunication Services 12.4%</i>				
<i>Diversified Telecommunication Services 6.9%</i>				
Axtel SAB de CV, Senior Secured Notes, Step Bond	8.000%	1/31/20	2,544,000	2,569,440 (a)
CCOH Safari LLC, Senior Bonds	5.500%	12/1/22	550,000	556,875
CCOH Safari LLC, Senior Bonds	5.750%	12/1/24	900,000	907,313
CenturyLink Inc., Senior Notes	5.800%	3/15/22	6,600,000	7,029,000 (b)
Cogent Communications Holdings Inc., Senior Secured Notes	8.375%	2/15/18	3,340,000	3,515,350 (a)(b)
Intelsat Jackson Holdings SA, Senior Bonds	5.500%	8/1/23	1,250,000	1,257,813
Intelsat Jackson Holdings SA, Senior Notes	7.250%	10/15/20	6,670,000	7,136,900 (b)
Intelsat Luxembourg SA, Senior Bonds	8.125%	6/1/23	2,070,000	2,209,725
Level 3 Financing Inc., Senior Notes	7.000%	6/1/20	750,000	804,375 (b)
Level 3 Financing Inc., Senior Notes	8.625%	7/15/20	4,090,000	4,519,450 (b)
Level 3 Financing Inc., Senior Notes	6.125%	1/15/21	1,260,000	1,326,150 (a)
TW Telecom Holdings Inc., Senior Notes	5.375%	10/1/22	940,000	1,042,225 (b)
TW Telecom Holdings Inc., Senior Notes	6.375%	9/1/23	5,510,000	6,295,175 (b)
UBS Luxembourg SA for OJSC Vimpel Communications, Loan Participation Notes	8.250%	5/23/16	2,220,000	2,336,550 (c)

See Notes to Financial Statements.

## Western Asset High Income Fund II Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Diversified Telecommunication Services continued</i>				
Unitymedia Hessen GmbH & Co. KG/Unitymedia NRW GmbH, Senior Secured Notes	7.500%	3/15/19	260,000	\$ 274,950 (a)
Verizon Communications Inc., Senior Notes	5.150%	9/15/23	3,550,000	3,978,467 (b)
Windstream Corp., Senior Notes	7.500%	4/1/23	5,780,000	6,097,900 (b)
Windstream Corp., Senior Notes	6.375%	8/1/23	1,430,000	1,446,087 (b)
<i>Total Diversified Telecommunication Services</i>				53,303,745
<i>Wireless Telecommunication Services 5.5%</i>				
Matterhorn Midco & Cy SCA, Senior Notes	7.750%	2/15/20	1,400,000 <sup>EUR</sup>	1,837,745 (a)
Sprint Capital Corp., Senior Notes	6.875%	11/15/28	3,530,000	3,450,575 (b)
Sprint Capital Corp., Senior Notes	8.750%	3/15/32	8,465,000	9,501,962 (b)
Sprint Communications Inc., Senior Notes	9.000%	11/15/18	7,200,000	8,487,000 (a)(b)
Sprint Corp., Senior Notes	7.875%	9/15/23	6,930,000	7,519,050 (a)(b)
Syniverse Holdings Inc., Senior Notes	9.125%	1/15/19	2,831,000	2,979,627 (b)
T-Mobile USA Inc., Senior Notes	6.542%	4/28/20	1,090,000	1,154,038 (b)
T-Mobile USA Inc., Senior Notes	6.633%	4/28/21	140,000	148,050
T-Mobile USA Inc., Senior Notes	6.000%	3/1/23	4,970,000	5,131,525
VimpelCom Holdings BV, Senior Notes	7.504%	3/1/22	2,230,000	2,235,575 (a)
<i>Total Wireless Telecommunication Services</i>				42,445,147
<b>Total Telecommunication Services</b>				<b>95,748,892</b>
<i>Utilities 5.0%</i>				
<i>Electric Utilities 1.6%</i>				
AES Red Oak LLC, Secured Notes	9.200%	11/30/29	4,380,000	4,883,700 (b)
GenOn REMA LLC, Pass-Through Certificates	9.237%	7/2/17	2,092,921	2,218,496 (b)
GenOn REMA LLC, Pass-Through Certificates	9.681%	7/2/26	4,320,000	4,665,600 (b)
Midwest Generation LLC, Pass-Through Certificates	8.560%	1/2/16	768,650	787,866
<i>Total Electric Utilities</i>				12,555,662
<i>Gas Utilities 0.3%</i>				
Suburban Propane Partners LP/Suburban Energy Finance Corp., Senior Notes	7.375%	3/15/20	2,230,000	2,335,925 (b)
<i>Independent Power and Renewable Electricity Producers 3.1%</i>				
Atlantic Power Corp., Senior Notes	9.000%	11/15/18	1,890,000	1,913,625 (b)
Calpine Corp., Senior Secured Notes	7.875%	1/15/23	3,349,000	3,725,763 (a)(b)
Dynegy Roseton LLC/Dynegy Danskammer LLC Pass-Through Trust, Escrow Receipt			3,100,000	0 (d)(e)(g)(k)
First Wind Holdings Inc., Senior Secured Notes	10.250%	6/1/18	5,200,000	5,531,500 (a)(b)
Foresight Energy LLC/Foresight Energy Corp., Senior Notes	7.875%	8/15/21	4,480,000	4,681,600 (a)(b)
Mirant Mid Atlantic LLC, Pass-Through Certificates	9.125%	6/30/17	280,424	300,053 (b)

See Notes to Financial Statements.

## Schedule of investments (unaudited) (cont d)

October 31, 2014

## Western Asset High Income Fund II Inc.

	Rate	Maturity Date	Face Amount	Value
Security				
<i>Independent Power and Renewable Electricity Producers continued</i>				
Mirant Mid Atlantic LLC, Pass-Through Certificates	10.060%	12/30/28	6,790,832	\$ 7,431,717 (b)
<i>Total Independent Power and Renewable Electricity Producers</i>				23,584,258
<b>Total Utilities</b>				<b>38,475,845</b>
<b>Total Corporate Bonds &amp; Notes (Cost \$903,450,793)</b>				<b>920,385,662</b>
Collateralized Mortgage Obligations 0.1%				
Countrywide Home Loan Mortgage Pass-Through Trust, 2004-HYB5 7A1 (Cost \$794,681)	2.375%	4/20/35	1,220,818	1,063,570 (b)
<b>Convertible Bonds &amp; Notes 0.4%</b>				
Materials 0.3%				
<i>Chemicals 0.1%</i>				
Hercules Inc., Junior Subordinated Bonds	6.500%	6/30/29	802,000	740,848
<i>Metals &amp; Mining 0.2%</i>				
Mirabela Nickel Ltd., Senior Secured Bonds	9.500%	6/20/19	1,890,000	1,682,100 (a)(d)(e)
<b>Total Materials</b>				<b>2,422,948</b>
Telecommunication Services 0.1%				
<i>Diversified Telecommunication Services 0.1%</i>				
Axtel SAB de CV, Senior Secured Notes, Step Bond	8.000%	1/31/20	2,900,100 <sup>MXN</sup>	344,577 (a)
<b>Total Convertible Bonds &amp; Notes (Cost \$3,033,822)</b>				<b>2,767,525</b>
Senior Loans 3.1%				
Consumer Discretionary 1.1%				
<i>Hotels, Restaurants &amp; Leisure 0.7%</i>				
Equinox Holdings Inc., Second Lien Term Loan	9.750%	7/31/20	2,510,000	2,541,375 (l)(m)
Stockbridge SBE Holdings LLC, Term Loan B	13.000%	5/2/17	2,585,000	2,597,925 (l)(m)
<i>Total Hotels, Restaurants &amp; Leisure</i>				5,139,300
<i>Household Durables 0.1%</i>				
William Lyon Homes Inc., Bridge Term Loan	7.250%	8/12/22	911,538	906,981 (e)(l)(m)
<i>Specialty Retail 0.1%</i>				
Gymboree Corp., Initial Term Loan	5.000%	2/23/18	1,220,000	769,616 (l)(m)
<i>Textiles, Apparel &amp; Luxury Goods 0.2%</i>				
TOMS Shoes LLC, Term Loan B		10/28/20	1,590,000	1,462,800 (l)(n)
<b>Total Consumer Discretionary</b>				<b>8,278,697</b>
Consumer Staples 0.1%				
<i>Food Products 0.1%</i>				
AdvancePierre Foods Inc., Second Lien Term Loan	9.500%	10/10/17	1,080,000	1,072,575 (l)(m)
Health Care 0.9%				
<i>Health Care Providers &amp; Services 0.9%</i>				
CRC Health Corp., Second Lien Term Loan	9.000%	9/28/21	2,130,000	2,185,248 (l)(m)
Physiotherapy Associates Holdings Inc., Exit Term Loan	11.000%	1/2/17	2,280,000	2,268,600 (d)(l)(m)

See Notes to Financial Statements.

Western Asset High Income Fund II Inc.

	Rate	Maturity Date	Face Amount	Value
Security				
<i>Health Care Providers &amp; Services continued</i>				
Radnet Management Inc., Second Lien Term Loan	8.000%	3/25/21	2,620,000	\$ 2,606,900 <sup>(l)(m)</sup>
<b>Total Health Care</b>				<b>7,060,748</b>
<b>Materials 0.5%</b>				
<i>Chemicals 0.5%</i>				
Kerling PLC, EUR Term Loan	10.000%	6/30/16	1,200,000 <sup>EUR</sup>	1,571,450 <sup>(l)(m)</sup>
Kronos Inc., Second Lien Term Loan	9.750%	4/30/20	1,920,000	1,974,399 <sup>(l)(m)</sup>
<b>Total Materials</b>				<b>3,545,849</b>
<b>Utilities 0.5%</b>				
<i>Independent Power and Renewable Electricity Producers 0.5%</i>				
Energy Future Intermediate Holding Co. LLC, DIP Term Loan	4.250%	6/19/16	4,245,032	4,241,717 <sup>(l)(m)</sup>
<b>Total Senior Loans (Cost \$24,449,157)</b>				<b>24,199,586</b>
<b>Sovereign Bonds 2.5%</b>				
<i>Argentina 0.1%</i>				
Republic of Argentina, Senior Bonds	7.000%	10/3/15	936,000	878,940
<i>Brazil 0.8%</i>				
Federative Republic of Brazil, Notes	10.000%	1/1/17	15,782,000 <sup>BRL</sup>	6,101,065
<i>Hungary 0.3%</i>				
Republic of Hungary, Senior Notes	5.750%	11/22/23	1,658,000	1,832,090
<i>Turkey 0.6%</i>				
Republic of Turkey, Senior Bonds	11.875%	1/15/30	1,175,000	2,056,250
Republic of Turkey, Senior Notes	6.875%	3/17/36	2,064,000	2,505,180
<i>Total Turkey</i>				<i>4,561,430</i>
<i>Venezuela 0.7%</i>				
Bolivarian Republic of Venezuela, Senior Bonds	5.750%	2/26/16	3,370,000	2,872,925 <sup>(c)</sup>
Bolivarian Republic of Venezuela, Senior Bonds	9.250%	9/15/27	3,050,000	2,043,500
Bolivarian Republic of Venezuela, Senior Bonds	9.375%	1/13/34	1,164,000	750,780
<i>Total Venezuela</i>				<i>5,667,205</i>
<b>Total Sovereign Bonds (Cost \$22,199,977)</b>				<b>19,040,730</b>
			Shares	
<b>Common Stocks 3.2%</b>				
<b>Consumer Discretionary 0.3%</b>				
<i>Automobiles 0.3%</i>				
Ford Motor Co.			200,627	2,826,835
<i>Hotels, Restaurants &amp; Leisure 0.0%</i>				
Bossier Casino Venture Holdco Inc.			166,350	<sup>(j) *(d)(e)(k)</sup>
<b>Total Consumer Discretionary</b>				<b>2,826,835</b>

See Notes to Financial Statements.

## Schedule of investments (unaudited) (cont d)

October 31, 2014

### Western Asset High Income Fund II Inc.

	Shares	Value
Security		
<b>Energy 0.4%</b>		
<i>Energy Equipment &amp; Services 0.4%</i>		
KCAD Holdings I Ltd.	533,873,172	\$ 2,882,381 <sup>*(d)(e)</sup>
<b>Financials 1.5%</b>		
<i>Banks 1.4%</i>		
Citigroup Inc.	143,529	7,683,107
JPMorgan Chase & Co.	48,547	2,936,123
<i>Total Banks</i>		10,619,230
<i>Diversified Financial Services 0.0%</i>		
PB Investors II LLC	60,468	0 <sup>*(d)(e)(k)</sup>
<i>Real Estate Management &amp; Development 0.1%</i>		
Realogy Holdings Corp.	20,618	845,544 <sup>*</sup>
<b>Total Financials</b>		<b>11,464,774</b>
<b>Health Care 0.2%</b>		
<i>Health Care Providers &amp; Services 0.2%</i>		
Physiotherapy Associates Holdings Inc.	31,500	1,512,000 <sup>*(d)(e)</sup>
<b>Industrials 0.7%</b>		
<i>Marine 0.7%</i>		
DeepOcean Group Holding AS	198,468	4,920,220 <sup>*(d)(e)</sup>
Horizon Lines Inc., Class A Shares	1,490,060	588,574 <sup>*</sup>
<b>Total Industrials</b>		<b>5,508,794</b>
<b>Materials 0.1%</b>		
<i>Chemicals 0.0%</i>		
LyondellBasell Industries NV, Class A Shares	19	1,741
<i>Metals &amp; Mining 0.1%</i>		
Mirabela Nickel Ltd.	6,589,511	423,310 <sup>*(e)</sup>
<b>Total Materials</b>		<b>425,051</b>
<b>Total Common Stocks (Cost \$36,842,271)</b>		<b>24,619,835</b>
	<b>Rate</b>	
<b>Preferred Stocks 2.6%</b>		
<b>Energy 0.3%</b>		
<i>Oil, Gas &amp; Consumable Fuels 0.3%</i>		
Rex Energy Corp.	6.000%	11,300 874,394
SandRidge Energy Inc.	8.500%	17,400 1,583,400
<b>Total Energy</b>		<b>2,457,794</b>
<b>Financials 2.3%</b>		
<i>Consumer Finance 1.7%</i>		
GMAC Capital Trust I	8.125%	489,100 <sup>(h)</sup>

See Notes to Financial Statements.



Western Asset High Income Fund II Inc.

Security	Rate	Shares	Value
<i>Diversified Financial Services</i> 0.6%			
Citigroup Capital XIII	7.875%	168,125	\$ 4,475,488 <sup>(b)(h)</sup>
<b>Total Financials</b>			<b>17,549,131</b>
<b>Total Preferred Stocks (Cost \$19,094,211)</b>			<b>20,006,925</b>
		Expiration Date	
<b>Warrants</b> 0.0%		Warrants	
Bolivarian Republic of Venezuela, Oil-linked payment obligations (Cost \$0)		4/15/20	18,500 328,375 <sup>*(h)</sup>
<b>Total Investments</b> 131.2% (Cost \$1,009,864,912#)			<b>1,012,412,208</b>
Liabilities in Excess of Other Assets (31.2)%			(240,902,593)
<b>Total Net Assets</b> 100.0%			<b>\$ 771,509,615</b>

Face amount denominated in U.S. dollars, unless otherwise noted.

\* 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) All or a portion of this security is pledged as collateral pursuant to the loan agreement (See Note 5).

(c) Security is exempt from registration under Regulation S of the Securities Act of 1933. Regulation S applies to securities offerings that are made outside of the United States and do not involve direct selling efforts in the United States. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors, unless otherwise noted.

(d) Illiquid security.

(e) Security is valued in good faith in accordance with procedures approved by the Board of Directors (See Note 1).

(f) Payment-in-kind security for which the issuer has the option at each interest payment date of making interest payments in cash or additional debt securities.

(g) The coupon payment on these securities is currently in default as of October 31, 2014.

(h) Variable rate security. Interest rate disclosed is as of the most recent information available.

(i) All or a portion of this security is held by the counterparty as collateral for open reverse repurchase agreements.

(j) Security has no maturity date. The date shown represents the next call date.

## Edgar Filing: WESTERN ASSET HIGH INCOME FUND II INC. - Form N-CSRS

(k) Value is less than \$1.

(l) Senior loans may be considered restricted in that the Fund ordinarily is contractually obligated to receive approval from the agent bank and/or borrower prior to the disposition of a senior loan.

(m) Interest rates disclosed represent the effective rates on senior loans. Ranges in interest rates are attributable to multiple contracts under the same loan.

(n) All or a portion of this loan is unfunded as of October 31, 2014. The interest rate for fully unfunded term loans is to be determined.

# Aggregate cost for federal income tax purposes is substantially the same.

[See Notes to Financial Statements.](#)

## Schedule of investments (unaudited) (cont d)

October 31, 2014

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

**Abbreviations used in this schedule:**

AUD	Australian Dollar
BRL	Brazilian Real
EUR	Euro
GBP	British Pound
MXN	Mexican Peso
OJSC	Open Joint Stock Company

See Notes to Financial Statements.

## Statement of assets and liabilities (unaudited)

October 31, 2014

<b>Assets:</b>	
Investments, at value (Cost \$1,009,864,912)	\$ 1,012,412,208
Foreign currency, at value (Cost \$792,142)	748,756
Cash	1,110,481
Interest and dividends receivable	21,102,671
Receivable for securities sold	8,544,877
Unrealized appreciation on forward foreign currency contracts	4,500,105
Deposits with brokers for open futures contracts	788,999
Receivable from broker variation margin on open futures contracts	136,152
Prepaid expenses	34,823
<b>Total Assets</b>	<b>1,049,379,072</b>
<b>Liabilities:</b>	
Loan payable (Note 5)	260,000,000
Payable for securities purchased	9,038,518
Payable for open reverse repurchase agreements (Note 3)	7,564,817
Investment management fee payable	699,301
Deposits from broker for reverse repurchase agreements	250,000
Interest payable (Notes 3 and 5)	104,604
Unrealized depreciation on forward foreign currency contracts	50,618
Directors' fees payable	11,314
Accrued expenses	150,285
<b>Total Liabilities</b>	<b>277,869,457</b>
<b>Total Net Assets</b>	<b>\$ 771,509,615</b>
<b>Net Assets:</b>	
Par value (\$0.001 par value; 86,203,856 shares issued and outstanding; 100,000,000 shares authorized)	\$ 86,204
Paid-in capital in excess of par value	1,018,286,198
Overdistributed net investment income	(69,126)
Accumulated net realized loss on investments, futures contracts, swap contracts and foreign currency transactions	(253,156,249)
Net unrealized appreciation on investments, futures contracts and foreign currencies	6,362,588
<b>Total Net Assets</b>	<b>\$ 771,509,615</b>
<b>Shares Outstanding</b>	<b>86,203,856</b>
<b>Net Asset Value</b>	<b>\$8.95</b>

See Notes to Financial Statements.

## Statement of operations (unaudited)

For the Six Months Ended October 31, 2014

<b>Investment Income:</b>	
Interest	\$ 39,559,822
Dividends	824,642
Less: Foreign taxes withheld	(16,211)
<b>Total Investment Income</b>	<b>40,368,253</b>
<b>Expenses:</b>	
Investment management fee (Note 2)	4,260,954
Interest expense (Notes 3 and 5)	1,153,110
Transfer agent fees	139,038
Directors' fees	61,205
Audit and tax fees	41,231
Stock exchange listing fees	34,938
Legal fees	32,578
Shareholder reports	24,146
Custody fees	14,395
Insurance	7,998
Miscellaneous expenses	7,510
<b>Total Expenses</b>	<b>5,777,103</b>
<b>Net Investment Income</b>	<b>34,591,150</b>
<b>Realized and Unrealized Gain (Loss) on Investments, Futures Contracts, Swap Contracts and Foreign Currency Transactions (Notes 1, 3 and 4):</b>	
Net Realized Gain (Loss) From:	
Investment transactions	(1,045,547)
Futures contracts	(1,265,913)
Swap contracts	358,294
Foreign currency transactions	667,076
<b>Net Realized Loss</b>	<b>(1,286,090)</b>
Change in Net Unrealized Appreciation (Depreciation) From:	
Investments	(47,661,581)
Futures contracts	(522,321)
Swap contracts	(155,610)
Foreign currencies	5,671,059
<b>Change in Net Unrealized Appreciation (Depreciation)</b>	<b>(42,668,453)</b>
<b>Net Loss on Investments, Futures Contracts, Swap Contracts and Foreign Currency Transactions</b>	<b>(43,954,543)</b>
<b>Decrease in Net Assets from Operations</b>	<b>\$ (9,363,393)</b>

See Notes to Financial Statements.

## Statements of changes in net assets

For the Six Months Ended October 31, 2014 (unaudited)  
and the Year Ended April 30, 2014

	October 31	April 30
<b>Operations:</b>		
Net investment income	\$ 34,591,150	\$ 73,192,507
Net realized gain (loss)	(1,286,090)	12,272,770
Change in net unrealized appreciation (depreciation)	(42,668,453)	(16,777,986)
<i>Increase (Decrease) in Net Assets From Operations</i>	<i>(9,363,393)</i>	<i>68,687,291</i>
<b>Distributions to Shareholders From (Note 1):</b>		
Net investment income	(35,759,379)	(76,216,170)
<i>Decrease in Net Assets From Distributions to Shareholders</i>	<i>(35,759,379)</i>	<i>(76,216,170)</i>
<b>Fund Share Transactions:</b>		
Reinvestment of distributions (36,676 and 153,861 shares issued, respectively)	328,250	1,430,378
<i>Increase in Net Assets From Fund Share Transactions</i>	<i>328,250</i>	<i>1,430,378</i>
<i>Decrease in Net Assets</i>	<i>(44,794,522)</i>	<i>(6,098,501)</i>
<b>Net Assets:</b>		
Beginning of period	816,304,137	822,402,638
<b>End of period*</b>	<b>\$ 771,509,615</b>	<b>\$ 816,304,137</b>
*Includes undistributed (overdistributed) net investment income, respectively, of:	\$(69,126)	\$1,099,103

See Notes to Financial Statements.

## Statement of cash flows (unaudited)

For the Six Months Ended October 31, 2014

### Increase (Decrease) in Cash:

#### Cash Provided (used) by Operating Activities:

Net increase in net assets resulting from operations	\$ (9,363,393)
Adjustments to Reconcile Net Increase in Net Assets Resulting from Operations to Net Cash Provided (used) by Operating Activities:	
Purchases of portfolio securities	(187,633,579)
Sales of portfolio securities	166,939,010
Net purchases, sales and maturities of short-term investments	15,900,000
Payment-in-kind	(957,098)
Net amortization of premium (accretion of discount)	13,180,285
Increase in receivable for securities sold	(4,264,933)
Increase in interest and dividends receivable	(94,844)
Increase in receivable from broker variation margin on open futures contracts	(136,152)
Decrease in prepaid expenses	28,483
Decrease in deposits with brokers for open futures contracts	72,008
Decrease in deposits with brokers for centrally cleared swap contracts	1,378,155
Decrease in payable for securities purchased	(12,817,922)
Decrease in investment management fee payable	(8,977)
Increase in Directors fees payable	1,551
Decrease in interest payable	(7,631)
Increase in deposits from brokers for reverse repurchase agreements	250,000
Decrease in accrued expenses	(21,165)
Decrease in payable to broker variation margin on open futures contracts	(282,680)
Decrease in payable to broker variation margin on open centrally cleared swap contracts	(11,667)
Net realized loss on investments	1,045,547
Change in unrealized depreciation of investments and forward foreign currency transactions	41,837,150
<b>Net Cash Provided by Operating Activities*</b>	<b>25,032,148</b>

#### Cash Flows from Financing Activities:

Distributions paid on common stock	\$ (35,431,129)
Increase in loan payable	5,000,000
Increase in payable for reverse repurchase agreements	413,237
<b>Net Cash Used in Financing Activities</b>	<b>(30,017,892)</b>
<b>Net Decrease in Cash</b>	<b>(4,985,744)</b>
Cash at Beginning of Period	6,844,981
Cash at End of Period	\$ 1,859,237

#### Non-Cash Financing Activities:

Proceeds from reinvestment of distributions	\$ 328,250
---	------------

\* Included in operating expenses is cash of \$1,160,741 paid for interest on borrowings.

See Notes to Financial Statements.

## Financial highlights

For a share of capital stock outstanding throughout each year ended April 30, unless otherwise noted:

	2014 <sup>1,2</sup>	2014 <sup>2</sup>	2013 <sup>2</sup>	2012 <sup>2</sup>	2011 <sup>2</sup>	2010 <sup>2</sup>
Net asset value, beginning of period	\$9.47	\$9.56	\$8.86	\$9.57	\$9.00	\$6.13
<b>Income (loss) from operations:</b>						
Net investment income	0.40	0.85	0.90	0.96	1.00	1.07
Net realized and unrealized gain (loss)	(0.50)	(0.05)	0.77	(0.67)	0.62	2.94
<b>Total income (loss) from operations</b>	<b>(0.10)</b>	<b>0.80</b>	<b>1.67</b>	<b>0.29</b>	<b>1.62</b>	<b>4.01</b>
<b>Less distributions from:</b>						
Net investment income	(0.42) <sup>3</sup>	(0.89)	(0.97)	(1.00)	(1.05)	(1.14)
<b>Total distributions</b>	<b>(0.42)</b>	<b>(0.89)</b>	<b>(0.97)</b>	<b>(1.00)</b>	<b>(1.05)</b>	<b>(1.14)</b>
Net asset value, end of period	\$8.95	\$9.47	\$9.56	\$8.86	\$9.57	\$9.00
Market price, end of period	\$8.82	\$9.39	\$10.20	\$10.10	\$10.04	\$9.82
<b>Total return based on NAV<sup>4,5</sup></b>	<b>(1.20)%</b>	<b>8.89%</b>	<b>20.03%</b>	<b>3.80%</b>	<b>19.40%</b>	<b>69.38%</b>
<b>Total return, based on Market Price<sup>6</sup></b>	<b>(1.78)%</b>	<b>1.30%</b>	<b>11.68%</b>	<b>11.89%</b>	<b>14.54%</b>	<b>81.29%</b>
Net assets, end of period (000s)	\$771,510	\$816,304	\$822,403	\$756,448	\$807,319	\$751,122
<b>Ratios to average net assets:</b>						
Gross expenses	1.42% <sup>7</sup>	1.45%	1.41%	1.51%	1.61%	2.12%
Net expenses <sup>8</sup>	1.42 <sup>7</sup>	1.45	1.41	1.51	1.61	2.12
Net investment income	8.53 <sup>7</sup>	9.10	9.84	10.93	11.03	13.44
<b>Portfolio turnover rate</b>	<b>16%</b>	<b>45%</b>	<b>52%</b>	<b>45%</b>	<b>84%</b>	<b>81%</b>
<b>Supplemental data:</b>						
Loans Outstanding, End of Period (000s)	\$260,000	\$255,000	\$215,000	\$215,000	\$190,000	\$196,500
Asset Coverage for Loan Outstanding	397%	420%	483%	452%	525%	482%
Weighted Average Loan (000s)	\$243,397	\$248,493	\$215,000	\$211,038	\$197,170	\$169,363
Weighted Average Interest Rate on Loans	0.92%	0.92%	0.97%	1.09%	1.49%	1.80%

<sup>1</sup> For the six months ended October 31, 2014 (unaudited).

<sup>2</sup> Per share amounts have been calculated using the average shares method.

<sup>3</sup> The actual source of the Fund's current fiscal year distributions may be from net investment income, return of capital or a combination of both. Shareholders will be informed of the tax characteristics of the distributions after the close of the fiscal year.

<sup>4</sup> Performance figures may reflect compensating balance arrangements, fee waivers and/or expense reimbursements. In the absence of compensating balance arrangements, fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

<sup>5</sup> The total return calculation assumes that distributions are reinvested at NAV. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

<sup>6</sup> The total return calculation assumes that distributions are reinvested in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

<sup>7</sup> Annualized.



<sup>8</sup> The impact of compensating balance arrangements, if any, was less than 0.01%.

[See Notes to Financial Statements.](#)

## Notes to financial statements (unaudited)

### 1. Organization and significant accounting policies

Western Asset High Income Fund II 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 seeks to maximize current income by investing at least 80% of its net assets, plus any borrowings for investment purposes, in high-yield debt securities. As a secondary objective, the Fund seeks capital appreciation to the extent consistent with its objective of seeking to maximize current income.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ. Subsequent events have been evaluated through the date the financial statements were issued.

**(a) Investment valuation.** The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment's fair value. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. 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 the Fund holds securities or other assets that are denominated in a foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, 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 values these securities as determined in accordance with procedures approved by the Fund's Board of Directors.

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North American Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies

adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer's financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts' research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Directors, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Directors quarterly.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed 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)

## Notes to financial statements (unaudited) (cont d)

The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

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

<b>ASSETS</b>				
Description	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Long-term investments :</b>				
<b>Corporate bonds &amp; notes:</b>				
Consumer discretionary		\$ 189,901,794	\$ 3,171,453	\$ 193,073,247
Materials		103,960,715	0*	103,960,715
Utilities		38,475,845	0*	38,475,845
Other corporate bonds & notes		584,875,855		584,875,855
Collateralized mortgage obligations		1,063,570		1,063,570
Convertible bonds & notes		2,767,525		2,767,525
<b>Senior loans:</b>				
Consumer discretionary		7,371,716	906,981	8,278,697
Other senior loans		15,920,889		15,920,889
Sovereign bonds		19,040,730		19,040,730
<b>Common stocks:</b>				
Consumer discretionary	\$ 2,826,835		0*	2,826,835
Energy			2,882,381	2,882,381
Financials	11,464,774		0*	11,464,774
Health care			1,512,000	1,512,000
Industrials	588,574		4,920,220	5,508,794
Materials	1,741	423,310		425,051
Preferred stocks	19,132,531	874,394		20,006,925
Warrants		328,375		328,375
<b>Total investments</b>	<b>\$ 34,014,455</b>	<b>\$ 965,004,718</b>	<b>\$ 13,393,035</b>	<b>\$ 1,012,412,208</b>
<b>Other financial instruments:</b>				
Forward foreign currency contracts		\$ 4,500,105		\$ 4,500,105
<b>Total</b>	<b>\$ 34,014,455</b>	<b>\$ 969,504,823</b>	<b>\$ 13,393,035</b>	<b>\$ 1,016,912,313</b>
<b>LIABILITIES</b>				
Description	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Other financial instruments:</b>				
Futures contracts	\$ 508,764			\$ 508,764
Forward foreign currency contracts		\$ 50,618		50,618
<b>Total</b>	<b>\$ 508,764</b>	<b>\$ 50,618</b>		<b>\$ 559,382</b>

See Schedule of Investments for additional detailed categorizations.

\* Amount represents less than \$1.

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

Investments in Securities	Corporate Bonds & Notes			Senior Loans	Total
	Consumer Discretionary	Materials	Utilities	Consumer Discretionary	
Balance as of April 30, 2014	\$ 2,878,399	\$ 609,500	\$ 0*		\$ 3,487,899
Accrued premiums/discounts	24,493	45,423			69,916
Realized gain (loss) <sup>1</sup>		4,128			4,128
Change in unrealized appreciation (depreciation) <sup>2</sup>	(354,927)	(49,551)		\$ (4,558)	(409,036)
Purchases	623,488	0*		911,539	1,535,027
Sales		(609,500)			(609,500)
Transfers into Level 3					
Transfers out of Level 3 <sup>3</sup>					
<b>Balance as of October 31, 2014</b>	<b>\$ 3,171,453</b>	<b>\$ 0*</b>	<b>\$ 0*</b>	<b>\$ 906,981</b>	<b>\$ 4,078,434</b>
Net change in unrealized appreciation (depreciation) for investments in securities still held at October 31, 2014 <sup>2</sup>	\$ (354,927)	\$ (49,551)		\$ (4,558)	\$ (409,036)

  

Investments in Securities	Common Stocks						Total
	Consumer Discretionary	Energy	Financials	Health Care	Industrials	Warrants	
Balance as of April 30, 2014	\$ 332,700	\$ 3,651,159	\$ 0*	\$ 1,512,000	\$ 7,068,061	\$ 455,563	\$ 13,019,483
Accrued premiums/discounts							
Realized gain (loss) <sup>1</sup>							
Change in unrealized appreciation (depreciation) <sup>2</sup>	(332,700)	(768,778)			(2,147,841)	(127,188)	(3,376,507)
Purchases							
Sales							
Transfers into Level 3							
Transfers out of Level 3 <sup>3</sup>						(328,375)	(328,375)
<b>Balance as of October 31, 2014</b>	<b>\$ 0*</b>	<b>\$ 2,882,381</b>	<b>\$ 0*</b>	<b>\$ 1,512,000</b>	<b>\$ 4,920,220</b>		<b>\$ 9,314,601</b>
Net change in unrealized appreciation (depreciation) for investments in securities still held at October 31, 2014 <sup>2</sup>	\$ (332,700)	\$ (768,778)			\$ (2,147,841)		\$ (3,249,319)

\* Amount Represents less than \$1.

The Fund's policy is to recognize transfers between levels as of the end of the reporting period.

<sup>1</sup> This amount is included in net realized gain (loss) from investment transactions in the accompanying Statement of Operations.

<sup>2</sup> This amount is included in the change in net unrealized appreciation (depreciation) in the accompanying Statement of Operations. Change in unrealized appreciation (depreciation) includes net unrealized appreciation (depreciation) resulting from changes in investment values during the reporting period and the reversal of previously recorded unrealized appreciation (depreciation) when gains or losses are realized.

<sup>3</sup> Transferred out of Level 3 as a result of the availability of a quoted price in an active market for an identical investment or the availability of other significant observable inputs.

## Notes to financial statements (unaudited) (cont d)

**(b) Repurchase agreements.** The Fund may enter into repurchase agreements with institutions that its investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, the Fund acquires a debt security subject to an obligation of the seller to repurchase, and of the Fund to resell, the security at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. When entering into repurchase agreements, it is the Fund's policy that its custodian or a third party custodian, acting on the Fund's behalf, take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction maturity exceeds one business day, the value of the collateral is marked-to-market and measured against the value of the agreement in an effort to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if the market value of the collateral declines during the period in which the Fund seeks to assert its rights or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

**(c) Reverse repurchase agreements.** The Fund may enter into reverse repurchase agreements. Under the terms of a typical reverse repurchase agreement, a fund sells a security subject to an obligation to repurchase the security from the buyer at an agreed-upon time and price. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Fund's use of the proceeds of the agreement may be restricted pending a determination by the counterparty, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities. In entering into reverse repurchase agreements, the Fund will maintain cash, U.S. government securities or other liquid debt obligations at least equal in value to its obligations with respect to reverse repurchase agreements or will take other actions permitted by law to cover its obligations. Interest payments made on reverse repurchase agreements are recognized as a component of Interest expense on the Statement of Operations. In periods of increased demand for the security, the Fund may receive a fee for use of the security by the counterparty, which may result in interest income to the Fund.

**(d) Loan participations.** The Fund may invest in loans arranged through private negotiation between one or more financial institutions. The Fund's investment in any such loan may be in the form of a participation in or an assignment of the loan. In connection with purchasing participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement related to the loan, or any rights of off-set against the borrower and the Fund may not benefit directly from any collateral supporting the loan in which it has purchased the participation.

The Fund assumes the credit risk of the borrower, the lender that is selling the participation and any other persons interpositioned between the Fund and the borrower. In the event of the insolvency of the lender selling the participation, the Fund may be treated as a general creditor of the lender and may not benefit from any off-set between the lender and the borrower.

**(e) Unfunded loan commitments.** The Fund may enter into certain credit agreements where all or a portion of which may be unfunded. The Fund is obligated to fund these commitments at the borrower's discretion. The commitments are disclosed in the accompanying Schedule of Investments. At October 31, 2014, the Fund had sufficient cash and/or securities to cover these commitments.

**(f) Forward foreign currency contracts.** The Fund enters into a forward foreign currency contract to hedge against foreign currency exchange rate risk on its non-U.S. dollar denominated securities or to facilitate settlement of a foreign currency denominated portfolio transaction. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price with delivery and settlement at a future date. The contract is marked-to-market daily and the change in value is recorded by the Fund as an unrealized gain or loss. When a forward foreign currency contract is closed, through either delivery or offset by entering into another forward foreign currency contract, the Fund recognizes a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it is closed.

Forward foreign currency contracts involve elements of market risk in excess of the amounts reflected on the Statement of Assets and Liabilities. The Fund bears the risk of an unfavorable change in the foreign exchange rate underlying the forward foreign currency contract. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

**(g) Futures contracts.** The Fund uses futures contracts generally to gain exposure to, or hedge against, changes in interest rates or gain exposure to, or hedge against, changes in certain asset classes. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the Fund is required to deposit cash or cash equivalents with a broker in an amount equal to a certain percentage of the contract amount. This is known as the initial margin and subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract. For certain futures, including foreign denominated futures, variation margin is not settled daily, but is recorded as a net variation margin payable or receivable. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. The daily changes in contract value are recorded as unrealized gains or losses in the Statement of Operations and the Fund recognizes a realized gain or loss when the contract is closed.

Futures contracts involve, to varying degrees, risk of loss in excess of the amounts reflected in the financial statements. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

**(h) Foreign currency translation.** Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment

## Notes to financial statements (unaudited) (cont d)

securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from fluctuations in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, including gains and losses on forward foreign currency contracts, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the values of assets and liabilities, other than investments in securities, on the date of valuation, resulting from changes in exchange rates.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

**(i) Swap agreements.** The Fund invests in swaps for the purpose of managing its exposure to interest rate, credit or market risk, or for other purposes, including to increase Fund's return. The use of swaps involves risks that are different from those associated with other portfolio transactions. Swap agreements are privately negotiated in the over-the-counter market ( OTC Swaps ) or may be executed on a registered exchange ( Centrally Cleared Swaps ). Unlike Centrally Cleared Swaps, the Fund has credit exposure to the counterparties of OTC Swaps.

Swap contracts are marked-to-market daily and changes in value are recorded as unrealized appreciation (depreciation). The daily change in valuation of Centrally Cleared Swaps, if any, is recorded as a receivable or payable for variation margin on the Statement of Assets and Liabilities. Gains or losses are realized upon termination of the swap agreement. Collateral, in the form of restricted cash or securities, may be required to be held in segregated accounts with the Fund's custodian in compliance with the terms of the swap contracts. Securities posted as collateral for swap contracts are identified in the Schedule of Investments and restricted cash, if any, is identified on the Statement of Assets and Liabilities. Risks may exceed amounts recorded in the Statement of Assets and Liabilities. These risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts' terms, and the possible lack of liquidity with respect to the swap agreements.

OTC swap payments received or made at the beginning of the measurement period are reflected as a premium or 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 in the Statement of Operations. Net periodic payments received or paid by the Fund are recognized as a realized gain or loss in the Statement of Operations.

The Fund's maximum exposure in the event of a defined credit event on a credit default swap to sell protection is the notional amount. As of October 31, 2014, the Fund did not hold any credit default swaps to sell protection.

For average notional amounts of swaps held during the six months ended October 31, 2014, see Note 4.

#### Credit default swaps

The Fund enters 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 or sovereign issuers, 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 protection against defaults of the issuers (i.e., to reduce risk where the Fund has exposure to an 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 is 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 prices 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 or sovereign issues are disclosed in the Notes to Financial Statements 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

## Notes to financial statements (unaudited) (cont d)

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 indication of the current status of the payment/performance risk.

The Fund's maximum risk of loss from counterparty risk, as the protection buyer, is the fair value of the contract (this risk is mitigated by the posting of collateral by the counterparty to the Fund to cover the Fund's exposure to the counterparty). As the protection seller, the Fund's maximum risk is the notional amount of the contract. Credit default swaps are considered to have credit risk-related contingent features since they require payment by the protection seller to the protection buyer upon the occurrence of a defined credit event.

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.

**(j) Cash flow information.** The Fund invests in securities and distributes dividends from net investment income and net realized gains, which are paid in cash and may be reinvested at the discretion of shareholders. These activities are reported in the Statement of Changes in Net Assets and additional information on cash receipts and cash payments are presented in the Statement of Cash Flows.

**(k) Foreign investment risks.** The Fund's investments in foreign securities may involve risks not present in domestic investments. Since securities may be denominated in foreign currencies, may require settlement in foreign currencies or pay interest or dividends in foreign currencies, changes in the relationship of these foreign currencies to the U.S. dollar can significantly affect the value of the investments and earnings of the Fund. Foreign investments may also subject the Fund to foreign government exchange restrictions, expropriation, taxation or other political, social or economic developments, all of which affect the market and/or credit risk of the investments.

**(l) Credit and market risk.** The Fund invests in high-yield and emerging market instruments that are subject to certain credit and market risks. The yields of high-yield and emerging market debt obligations reflect, among other things, perceived credit and market risks. The Fund's investments in securities rated below investment grade typically involve 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. The consequences of political, social, economic or diplomatic changes may have disruptive effects on the market prices of investments held by the Fund. The Fund's investments in non-U.S. dollar denominated securities may also result in foreign currency losses caused by devaluations and exchange rate fluctuations.

Investments in securities that are collateralized by residential real estate mortgages are subject to certain credit and liquidity risks. When market conditions result in an increase in

default rates of the underlying mortgages and the foreclosure values of underlying real estate properties are materially below the outstanding amount of these underlying mortgages, collections of the full amount of accrued interest and principal on these investment may be doubtful. Such market conditions may significantly impair the value and liquidity of these investments and may result in a lack of correlation between their credit ratings and values.

**(m) Counterparty risk and credit-risk-related contingent features of derivative instruments.** The Fund may invest in certain securities or engage in other transactions, where the Fund is exposed to counterparty credit risk in addition to broader market risks. The Fund may invest in securities of issuers, which may also be considered counterparties as trading partners in other transactions. This may increase the risk of loss in the event of default or bankruptcy by the counterparty or if the counterparty otherwise fails to meet its contractual obligations. The Fund's investment manager attempts to mitigate counterparty risk by (i) periodically assessing the creditworthiness of its trading partners, (ii) monitoring and/or limiting the amount of its net exposure to each individual counterparty based on its assessment and (iii) requiring collateral from the counterparty for certain transactions. Market events and changes in overall economic conditions may impact the assessment of such counterparty risk by the investment manager. In addition, declines in the values of underlying collateral received may expose the Fund to increased risk of loss.

The Fund has entered into master agreements with certain of its derivative counterparties that provide for general obligations, representations, agreements, collateral, events of default or termination and credit related contingent features. The credit related contingent features include, but are not limited to, a percentage decrease in the Fund's net assets or NAV over a specified period of time. If these credit related contingent features were triggered, the derivatives counterparty could terminate the positions and demand payment or require additional collateral.

Collateral requirements differ by type of derivative. Collateral or margin requirements are set by the broker or exchange clearing house for exchange traded derivatives while collateral terms are contract specific for over-the-counter traded derivatives. Cash collateral that has been pledged to cover obligations of the Fund under derivative contracts, if any, will be reported separately in the Statement of Assets and Liabilities. Securities pledged as collateral, if any, for the same purpose are noted in the Schedule of Investments.

Absent an event of default by the counterparty or a termination of the agreement, the terms of the master agreements do not result in an offset of reported amounts of financial assets and financial liabilities in the Statement of Assets and Liabilities across transactions between the Fund and the applicable counterparty. The enforceability of the right to offset may vary by jurisdiction.

As of October 31, 2014, the Fund held forward foreign currency contracts with credit related contingent features which had a liability position of \$50,618. If a contingent feature in the master agreements would have been triggered, the Fund would have been required to pay this amount to its derivatives counterparties.

## Notes to financial statements (unaudited) (cont d)

**(n) Security transactions and investment income.** Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Foreign dividend income is recorded on the ex-dividend date or as soon as practicable after the Fund determines the existence of a dividend declaration after exercising reasonable due diligence. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults or a credit event occurs that impacts the issuer, the Fund may halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default or credit event.

**(o) Distributions to shareholders.** Distributions from net investment income of the Fund, if any, are declared quarterly and paid on a monthly basis. The actual source of the Fund's monthly distributions may be from net investment income, return of capital or a combination of both. Distributions of net realized gains, if any, are declared at least annually. Distributions to shareholders of the Fund are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

**(p) Compensating balance arrangements.** The Fund has an arrangement with its custodian bank whereby a portion of the custodian's fees is paid indirectly by credits earned on the Fund's cash on deposit with the bank.

**(q) Federal and other taxes.** It is the Fund's policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986 (the Code), as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute its taxable income and net realized gains, if any, to shareholders in accordance with timing requirements imposed by the Code. Therefore, no federal or state income tax provision is required in the Fund's financial statements.

Management has analyzed the Fund's tax positions taken on income tax returns for all open tax years and has concluded that as of October 31, 2014, no provision for income tax is required in the Fund's financial statements. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

Under the applicable foreign tax laws, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

**(r) Reclassification.** GAAP requires that certain components of net assets be reclassified to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset value per share.

### 2. Investment management agreement and other transactions with affiliates

Legg Mason Partners Fund Advisor, LLC (LMPFA) is the Fund's investment manager. Western Asset Management Company (Western Asset), Western Asset Management Company Limited (Western Asset Limited) and Western Asset Management Company Pte. Ltd. (Western Singapore) are the Fund's subadvisers. LMPFA, Western Asset,

Western Asset Limited and Western Singapore are wholly-owned subsidiaries of Legg Mason, Inc. ( Legg Mason ).

LMPFA provides administrative and certain oversight services to the Fund. The Fund pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of the Fund's average weekly net assets plus the proceeds of any outstanding borrowings used for leverage.

LMPFA delegates to Western Asset the day-to-day portfolio management of the Fund. Western Singapore and Western Asset Limited do not receive any compensation from the Fund and are paid by Western Asset for their services to the Fund. For its services, LMPFA pays Western Asset 70% of the net management fee it receives from the Fund. In turn, Western Asset pays Western Singapore and Western Asset Limited a subadvisory fee of 0.30% on assets managed by each subadviser.

During periods in which the Fund utilizes financial leverage, the fees which are payable to the investment manager as a percentage of the Fund's net assets will be higher than if the Fund did not utilize leverage because the fees are calculated as a percentage of the Fund's assets, including those investments purchased with leverage.

All officers and one Director of the Fund are employees of Legg Mason or its affiliates and do not receive compensation from the Fund.

### 3. Investments

During the six months ended October 31, 2014, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were as follows:

Purchases	\$ 187,633,579
Sales	166,939,010

At October 31, 2014, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

Gross unrealized appreciation	\$ 53,828,196
Gross unrealized depreciation	(51,280,900)
<b>Net unrealized appreciation</b>	<b>\$ 2,547,296</b>

At October 31, 2014, the Fund had the following open futures contracts:

	Number of Contracts	Expiration Date	Basis Value	Market Value	Unrealized Depreciation
<b>Contracts to Sell:</b>					
U.S. Treasury 5-Year Notes	277	12/14	\$ 32,907,928	\$ 33,082,024	\$ (174,096)
U.S. Treasury 10-Year Notes	338	12/14	42,374,800	42,709,468	(334,668)
<b>Net unrealized depreciation on open futures contracts</b>					<b>\$ (508,764)</b>

## Notes to financial statements (unaudited) (cont d)

At October 31, 2014, the Fund had the following open forward foreign currency contracts:

Currency Purchased		Currency Sold		Counterparty	Settlement Date	Unrealized Appreciation (Depreciation)
EUR	2,892,334	USD	3,658,774	UBS AG	11/14/14	\$ (34,014)
GBP	403,196	USD	650,000	UBS AG	11/14/14	(5,060)
GBP	290,000	USD	475,420	Citibank, N.A.	11/14/14	(11,544)
USD	2,517,833	GBP	1,500,000	Citibank, N.A.	11/14/14	118,477
USD	7,897,162	GBP	4,689,000	UBS AG	11/14/14	396,777
USD	27,117,961	EUR	20,243,373	Citibank, N.A.	11/14/14	1,748,357
USD	35,156,535	EUR	26,268,154	UBS AG	11/14/14	2,236,494
<b>Total</b>						<b>\$ 4,449,487</b>

### Abbreviations used in this table:

EUR Euro  
GBP British Pound

Transactions in reverse repurchase agreements for the Fund during the six months ended October 31, 2014 were as follows:

Average Daily Balance*	Weighted Average Interest Rate*	Maximum Amount Outstanding
\$7,452,710	0.76%	\$9,513,850

\* Averages based on the number of days that Fund had reverse repurchase agreements outstanding.

Interest rates on reverse repurchase agreements ranged from 0.55% to 0.95% during the six months ended October 31, 2014. Interest expense incurred on reverse repurchase agreements totaled \$28,439.

At October 31, 2014, the Fund had the following open reverse repurchase agreements:

Counterparty	Rate	Effective Date	Maturity Date	Face Amount of Reverse Repurchase Agreements
Credit Suisse	0.85%	5/5/14	TBD*	\$ 511,000
Credit Suisse	0.85%	8/12/14	TBD*	2,492,672
JPMorgan Chase & Co.	0.75%	3/24/14	TBD*	960,082
JPMorgan Chase & Co.	0.75%	3/24/14	TBD*	1,810,760
JPMorgan Chase & Co.	0.95%	3/24/14	TBD*	404,500
JPMorgan Chase & Co.	0.55%	4/23/14	TBD*	1,385,803
				<b>\$ 7,564,817</b>

\* TBD To Be Determined; These reverse repurchase agreements have no maturity dates because they are renewed daily and can be terminated by either the Fund or the counterparty in accordance with the terms of the agreements.

On October 31, 2014, the total market value of underlying collateral (refer to the Schedule of Investments for positions held at the counterparty as collateral for reverse repurchase agreements) for open reverse repurchase agreements was \$9,383,151.



**4. Derivative instruments and hedging activities**

GAAP requires enhanced disclosure about an entity's derivative and hedging activities.

Below is a table, grouped by derivative type, that provides information about the fair value and the location of derivatives within the Statement of Assets and Liabilities at October 31, 2014.

<b>ASSET DERIVATIVES<sup>1</sup></b>			
		Foreign Exchange Risk	
Forward foreign currency contracts		\$ 4,500,105	
 <b>LIABILITY DERIVATIVES<sup>1</sup></b>			
	Interest Rate Risk	Foreign Exchange Risk	Total
Futures contracts <sup>2</sup>	\$ 508,764		\$ 508,764
Forward foreign currency contracts		\$ 50,618	50,618
<b>Total</b>	<b>\$ 508,764</b>	<b>\$ 50,618</b>	<b>\$ 559,382</b>

<sup>1</sup> Generally, the balance sheet location for asset derivatives is receivables/net unrealized appreciation (depreciation) and for liability derivatives is payables/net unrealized appreciation (depreciation).

<sup>2</sup> Includes cumulative appreciation (depreciation) of futures contracts as reported in the footnotes. Only variation margin is reported within the receivables and/or payables on the Statement of Assets and Liabilities.

The following tables provide information about the effect of derivatives and hedging activities on the Fund's Statement of Operations for the six months ended October 31, 2014. The first table provides additional detail about the amounts and sources of gains (losses) realized on derivatives during the period. The second table provides additional information about the change in unrealized appreciation (depreciation) resulting from the Fund's derivatives and hedging activities during the period.

<b>AMOUNT OF REALIZED GAIN (LOSS) ON DERIVATIVES RECOGNIZED</b>				
	Interest Rate Risk	Foreign Exchange Risk	Credit Risk	Total
Futures contracts	\$ (1,265,913)			\$ (1,265,913)
Swap contracts			\$ 358,294	358,294
Forward foreign currency contracts <sup>1</sup>		\$ 821,159		821,159
<b>Total</b>	<b>\$ (1,265,913)</b>	<b>\$ 821,159</b>	<b>\$ 358,294</b>	<b>\$ (86,460)</b>

<sup>1</sup> Net realized gain (loss) from forward foreign currency contracts is reported in the net realized gain (loss) from foreign currency transactions in the Statement of Operations.

<b>CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) ON DERIVATIVES RECOGNIZED</b>				
	Interest Rate Risk	Foreign Exchange Risk	Credit Risk	Total
Futures contracts	\$ (522,321)			\$ (522,321)
Swap contracts			\$ (155,610)	(155,610)
Forward foreign currency contracts <sup>1</sup>		\$ 5,824,431		5,824,431
<b>Total</b>	<b>\$ (522,321)</b>	<b>\$ 5,824,431</b>	<b>\$ (155,610)</b>	<b>\$ 5,146,500</b>

<sup>1</sup> The change in unrealized appreciation (depreciation) from forward foreign currency contracts is reported in the change in net unrealized appreciation (depreciation) from foreign currency transactions in the Statement of Operations.





## Notes to financial statements (unaudited) (cont d)

During the six months ended October 31, 2014, the volume of derivative activity for the Fund was as follows:

	Average Market Value
Futures contracts (to sell)	\$ 87,121,380
Forward foreign currency contracts (to buy)	3,030,261
Forward foreign currency contracts (to sell)	77,041,831
	Average Notional Balance
Credit default swap contracts (to buy protection)	\$ 17,847,957

At October 31, 2014, there were no open positions held in this derivative.

The following table presents by financial instrument, the Fund's derivative assets net of the related collateral received by the Fund at October 31, 2014:

	Gross Amount of Derivative Assets in the Statement of Assets and Liabilities <sup>1</sup>	Collateral Received	Net Amount
Futures contracts <sup>2</sup>	\$ 136,152		\$ 136,152
Forward foreign currency contracts	4,500,105		4,500,105
<b>Total</b>	<b>\$ 4,636,257</b>		<b>\$ 4,636,257</b>

The following table presents by financial instrument, the Fund's derivative liabilities net of the related collateral pledged by the Fund at October 31, 2014:

	Gross Amount of Derivative Liabilities in the Statement of Assets and Liabilities <sup>1</sup>	Collateral Pledged	Net Amount
Forward foreign currency contracts	\$ 50,618		\$ 50,618

<sup>1</sup> Absent an event of default or early termination, derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities.

<sup>2</sup> Amount represents the current day's variation margin as reported in the Statement of Assets & Liabilities. It differs from the cumulative appreciation (depreciation) presented in the previous table.

### 5. Loan

The Fund has a revolving credit agreement with Pershing LLC that allows the Fund to borrow up to an aggregate amount of \$300,000,000 and renews daily for a 180-day term unless notice to the contrary is given to the Fund. The interest on the loan is calculated at a variable rate based on the one-month LIBOR plus any applicable margin. To the extent of the borrowing outstanding, the Fund is required to maintain collateral in a special custody account at the Fund's custodian on behalf of Pershing LLC. The Fund's credit agreement contains customary covenants that, among other things, may limit the Fund's ability to pay distributions in certain circumstances, incur additional debt, change its fundamental investment policies and engage in certain transactions, including mergers and consolidations, and require asset coverage ratios in addition to those required by the 1940 Act. In addition, the credit agreement may be subject to early termination under certain conditions and may contain other provisions that could limit the Fund's ability to utilize borrowing under the agreement. Interest expense



related to this loan for the six months ended October 31, 2014 was \$1,124,671. For the six months ended October 31, 2014, the Fund had an average daily loan balance outstanding of \$243,396,739 and the weighted average interest rate was 0.92%. At October 31, 2014, the Fund had \$260,000,000 of borrowings outstanding.

**6. Distributions subsequent to October 31, 2014**

The following distributions have been declared by the Fund's Board of Directors and are payable subsequent to the period end of this report:

Record Date	Payable Date	Amount
11/21/14	11/28/14	\$ 0.0690
12/19/14	12/26/14	\$ 0.0690
1/23/15	1/30/15	\$ 0.0690
2/20/15	2/27/15	\$ 0.0690

**7. Capital loss carryforwards**

As of April 30, 2014, the Fund had the following net capital loss carryforwards remaining:

Year of Expiration	Amount
4/30/2017	\$ (65,770,134)
4/30/2018	(181,154,391)
4/30/2019	(2,458,757)
	\$ (249,383,282)

This amount will be available to offset any future taxable capital gains, except that under applicable tax rules, deferred capital losses, if any, which have no expiration date, must be used first to offset any such gains.

## Additional shareholder information (unaudited)

### Results of annual meeting of shareholders

The Annual Meeting of Shareholders of Western Asset High Income Fund II Inc. was held on August 28, 2014 for the purpose of considering and voting upon the election of Directors. The following table provides information concerning the matter voted upon at the Meeting:

### Election of directors

Nominees	Votes For	Votes Withheld
Daniel P. Cronin	72,100,986	2,540,039
Eileen A. Kamerick	71,947,490	2,693,535

At October 31, 2014, in addition to Daniel P. Cronin and Eileen A. Kamerick, the other Directors of the Fund were as follows:

Carol L. Colman

Paolo M. Cucchi

Kenneth D. Fuller

Leslie H. Gelb

William R. Hutchinson

Riordan Roett

## Dividend reinvestment plan (unaudited)

Pursuant to certain rules of the Securities and Exchange Commission the following additional disclosure is provided.

Each shareholder purchasing shares of common stock ( Shares ) of Western Asset High Income Fund II Inc. ( Fund ) will be deemed to have elected to be a participant in the Dividend Reinvestment Plan ( Plan ), unless the shareholder specifically elects in writing (addressed to the Agent at the address below or to any nominee who holds Shares for the shareholder in its name) to receive all distributions in cash, paid by check, mailed directly to the record holder by or under the direction of American Stock Transfer & Trust Company as the Fund's dividend-paying agent ( Agent ). A shareholder whose Shares are held in the name of a broker or nominee who does not provide an automatic reinvestment service may be required to take such Shares out of street name and register such Shares in the shareholder's name in order to participate, otherwise dividends and distributions will be paid in cash to such shareholder by the broker or nominee. Each participant in the Plan is referred to herein as a Participant. The Agent will act as Agent for each Participant, and will open accounts for each Participant under the Plan in the same name as their Shares are registered.

Unless the Fund declares a distribution payable only in the form of cash, the Agent will apply all distributions in the manner set forth below.

If, on the determination date (as defined below), the market price per Share equals or exceeds the net asset value per Share on that date (such condition, a market premium ), the Agent will receive the distribution in newly issued Shares of the Fund on behalf of Participants. If, on the determination date, the net asset value per Share exceeds the market price per Share (such condition, a market discount ), the Agent will purchase Shares in the open market. The determination date will be the fourth New York Stock Exchange trading day (a New York Stock Exchange trading day being referred to herein as a Trading Day ) preceding the payment date for the distribution. For purposes herein, market price will mean the average of the highest and lowest prices at which the Shares sell on the New York Stock Exchange on the particular date, or if there is no sale on that date, the average of the closing bid and asked quotations.

Purchases made by the Agent will be made as soon as practicable commencing on the Trading Day following the determination date and terminating no later than 30 days after the distribution payment date except where temporary curtailment or suspension of purchase is necessary to comply with applicable provisions of federal securities law; provided, however, that such purchases will, in any event, terminate on the Trading Day prior to the ex-dividend date next succeeding the distribution payment date.

If (i) the Agent has not invested the full distribution amount in open market purchases by the date specified above as the date on which such purchases must terminate or (ii) a market discount shifts to a market premium during the purchase period, then the Agent will cease making open market purchases and will receive the uninvested portion of the distribution amount in newly issued Shares (x) in the case of (i) above, at the close of business

## Dividend reinvestment plan (unaudited) (cont d)

on the date the Agent is required to terminate making open market purchases as specified above or (y) in the case of (ii) above, at the close of business on the date such shift occurs; but in no event prior to the payment date for the distribution.

In the event that all or part of a distribution amount is to be paid in newly issued Shares, such Shares will be issued to Participants in accordance with the following formula: (i) if, on the valuation date, the net asset value per share is less than or equal to the market price per Share, then the newly issued Shares will be valued at net asset value per Share on the valuation date provided, however, that if the net asset value is less than 95% of the market price on the valuation date, then such Shares will be issued at 95% of the market price and (ii) if, on the valuation date, the net asset value per share is greater than the market price per Share, then the newly issued Shares will be issued at the market price on the valuation date. The valuation date will be the distribution payment date, except that with respect to Shares issued pursuant to the paragraph above, the valuation date will be the date such Shares are issued. If a date that would otherwise be a valuation date is not a Trading Day, the valuation date will be the next preceding Trading Day.

The open market purchases provided for above may be made on any securities exchange on which the Shares of the Fund are traded, in the over-the-counter market or in negotiated transactions, and may be on such terms as to price, delivery and otherwise as the Agent shall determine. Funds held by the Agent uninvested will not bear interest, and it is understood that, in any event, the Agent shall have no liability in connection with any inability to purchase Shares within the time periods herein provided, or with the timing of any purchases effected. The Agent shall have no responsibility as to the value of the Shares acquired for the Participant's account. The Agent may commingle amounts of all Participants to be used for open market purchases of Shares and the price per Share allocable to each Participant in connection with such purchases shall be the average price (including brokerage commissions) of all Shares purchased by the Agent.

The Agent will maintain all Participant accounts in the Plan and will furnish written confirmations of all transactions in each account, including information needed by Participants for personal and tax records. The Agent will hold Shares acquired pursuant to the Plan in noncertificated form in the Participant's name or that of its nominee, and each Participant's proxy will include those Shares purchased pursuant to the Plan. The Agent will forward to Participants any proxy solicitation material and will vote any Shares so held for Participants only in accordance with the proxy returned by Participants to the Fund. Upon written request, the Agent will deliver to Participants, without charge, a certificate or certificates for the full Shares.

The Agent will confirm to Participants each acquisition made for their respective accounts as soon as practicable but not later than 60 days after the date thereof. Although Participants may from time to time have an undivided fractional interest (computed to three decimal places) in a Share of the Fund, no certificates for fractional shares will be issued. Distributions on fractional shares will be credited to each Participant's account. In the event of termination of a Participant's account under the Plan, the Agent will adjust for any such

undivided fractional interest in cash at the market value of the Fund's Shares at the time of termination less the pro rata expense of any sale required to make such an adjustment.

Any share dividends or split shares distributed by the Fund on Shares held by the Agent for Participants will be credited to their respective accounts. In the event that the Fund makes available to Participants rights to purchase additional Shares or other securities, the Shares held for Participants under the Plan will be added to other Shares held by the Participants in calculating the number of rights to be issued to Participants.

The Agent's service fee for handling distributions will be paid by the Fund. Participants will be charged a pro rata share of brokerage commissions on all open market purchases.

Participants may terminate their accounts under the Plan by notifying the Agent in writing. Such termination will be effective immediately if notice is received by the Agent not less than ten days prior to any distribution record date; otherwise such termination will be effective on the first Trading Day after the payment due for such distribution with respect to any subsequent distribution. The Plan may be amended or terminated by the Fund as applied to any distribution paid subsequent to written notice of the change or termination sent to Participants at least 30 days prior to the record date for the distribution. The Plan may be amended or terminated by the Agent, with the Fund's prior written consent, on at least 30 days' written notice to Plan Participants. Notwithstanding the preceding two sentences, the Agent or the Fund may amend or supplement the Plan at any time or times when necessary or appropriate to comply with applicable law or rules or policies of the Securities and Exchange Commission or any other regulatory authority. Upon any termination, the Agent will cause a certificate or certificates for the full Shares held by each Participant under the Plan and cash adjustment for any fraction to be delivered to each Participant without charge. If the Participant elects by notice to the Agent in writing in advance of such termination to have the Agent sell part or all of a Participant's Shares and remit the proceeds to Participant, the Agent is authorized to deduct a \$2.50 fee plus brokerage commission for this transaction from the proceeds.

Any amendment or supplement shall be deemed to be accepted by each Participant unless, prior to the effective date thereof, the Agent receives written notice of the termination of the Participant's account under the Plan. Any such amendment may include an appointment by the Agent in its place and stead of a successor Agent under these terms and conditions, with full power and authority to perform all or any of the acts to be performed by the Agent under these terms and conditions. Upon any such appointment of an Agent for the purpose of receiving distributions, the Fund will be authorized to pay to such successor Agent, for each Participant's account, all distributions payable on Shares of the Fund held in each Participant's name or under the Plan for retention or application by such successor Agent as provided in these terms and conditions.

In the case of Participants, such as banks, broker-dealers or other nominees, which hold Shares for others who are beneficial owners (Nominee Holders), the Agent will administer the Plan on the basis of the number of Shares certified from time to time by each Nominee



## Dividend reinvestment plan (unaudited) (cont d)

Holder as representing the total amount registered in the Nominee Holder's name and held for the account of beneficial owners who are to participate in the Plan.

The Agent shall at all times act in good faith and use its best efforts within reasonable limits to insure the accuracy of all services performed under this Agreement and to comply with applicable law, but assumes no responsibility and shall not be liable for loss or damage due to errors unless such error is caused by its negligence, bad faith, or willful misconduct or that of its employees.

All correspondence concerning the Plan should be directed to the Agent at 6201 15th Avenue, Brooklyn, NY 11219 or by telephone at 1-888-888-0151.

Western Asset

## High Income Fund II Inc.

### **Directors**

Carol L. Colman

Daniel P. Cronin

Paolo M. Cucchi

Kenneth D. Fuller

*Chairman*

Leslie H. Gelb

William R. Hutchinson

Eileen A. Kamerick

Riordan Roett

Jeswald W. Salacuse\*

### **Officers**

Kenneth D. Fuller

*President and*

*Chief Executive Officer*

Richard F. Sennett

*Principal Financial*

*Officer*

Ted P. Becker

*Chief Compliance*

*Officer*

Vanessa A. Williams

*Identity Theft*

*Prevention*

*Officer*

## Edgar Filing: WESTERN ASSET HIGH INCOME FUND II INC. - Form N-CSRS

Robert I. Frenkel

*Secretary and*

*Chief Legal Officer*

Thomas C. Mandia

*Assistant Secretary*

Steven Frank

*Treasurer*

Jeanne M. Kelly

*Senior Vice President*

\* Mr. Salacuse retired from the Board of Directors on June 30, 2014.

### **Western Asset High Income Fund II Inc.**

620 Eighth Avenue

49th Floor

New York, NY 10018

### **Investment manager**

Legg Mason Partners Fund Advisor, LLC

### **Subadvisers**

Western Asset Management Company Western Asset Management Company Limited

Western Asset Management Company Pte. Ltd.

### **Custodian**

State Street Bank and Trust Company

1 Lincoln Street

Boston, MA 02111

### **Transfer agent**

American Stock Transfer & Trust Company 6201 15th Avenue

Brooklyn, NY 11219

### **Independent registered public accounting firm**

KPMG LLP

345 Park Avenue

New York, NY 10154

**Legal counsel**

Simpson Thacher &

Bartlett LLP

425 Lexington Avenue

New York, NY 10017

**New York Stock Exchange Symbol**

HIX

## Legg Mason Funds Privacy and Security Notice

### Your Privacy and the Security of Your Personal Information is Very Important to the Legg Mason Funds

This Privacy and Security Notice (the **Privacy Notice**) addresses the Legg Mason Funds' privacy and data protection practices with respect to nonpublic personal information the Funds receive. The Legg Mason Funds include any funds sold by the Funds' distributor, Legg Mason Investor Services, LLC, as well as Legg Mason-sponsored closed-end funds and certain closed-end funds managed or sub-advised by Legg Mason or its affiliates. The provisions of this Privacy Notice apply to your information both while you are a shareholder and after you are no longer invested with the Funds.

### The Type of Nonpublic Personal Information the Funds Collect About You

The Funds collect and maintain nonpublic personal information about you in connection with your shareholder account. Such information may include, but is not limited to:

Personal information included on applications or other forms;

Account balances, transactions, and mutual fund holdings and positions;

Online account access user IDs, passwords, security challenge question responses; and

Information received from consumer reporting agencies regarding credit history and creditworthiness (such as the amount of an individual's total debt, payment history, etc.).

### How the Funds Use Nonpublic Personal Information About You

The Funds do not sell or share your nonpublic personal information with third parties or with affiliates for their marketing purposes, or with other financial institutions or affiliates for joint marketing purposes, unless you have authorized the Funds to do so. The Funds do not disclose any nonpublic personal information about you except as may be required to perform transactions or services you have authorized or as permitted or required by law. The Funds may disclose information about you to:

Employees, agents, and affiliates on a **need to know** basis to enable the Funds to conduct ordinary business or comply with obligations to government regulators;

Service providers, including the Funds' affiliates, who assist the Funds as part of the ordinary course of business (such as printing, mailing services, or processing or servicing your account with us) or otherwise perform services on the Funds' behalf, including companies that may perform marketing services solely for the Funds;

The Funds' representatives such as legal counsel, accountants and auditors; and

Fiduciaries or representatives acting on your behalf, such as an IRA custodian or trustee of a grantor trust.



## Legg Mason Funds Privacy and Security Notice (cont d)

Except as otherwise permitted by applicable law, companies acting on the Funds' behalf are contractually obligated to keep nonpublic personal information the Funds provide to them confidential and to use the information the Funds share only to provide the services the Funds ask them to perform.

The Funds may disclose nonpublic personal information about you when necessary to enforce their rights or protect against fraud, or as permitted or required by applicable law, such as in connection with a law enforcement or regulatory request, subpoena, or similar legal process. In the event of a corporate action or in the event a Fund service provider changes, the Funds may be required to disclose your nonpublic personal information to third parties. While it is the Funds' practice to obtain protections for disclosed information in these types of transactions, the Funds cannot guarantee their privacy policy will remain unchanged.

### Keeping You Informed of the Funds' Privacy and Security Practices

The Funds will notify you annually of their privacy policy as required by federal law. While the Funds reserve the right to modify this policy at any time they will notify you promptly if this privacy policy changes.

### The Funds' Security Practices

The Funds maintain appropriate physical, electronic and procedural safeguards designed to guard your nonpublic personal information. The Funds' internal data security policies restrict access to your nonpublic personal information to authorized employees, who may use your nonpublic personal information for Fund business purposes only.

Although the Funds strive to protect your nonpublic personal information, they cannot ensure or warrant the security of any information you provide or transmit to them, and you do so at your own risk. In the event of a breach of the confidentiality or security of your nonpublic personal information, the Funds will attempt to notify you as necessary so you can take appropriate protective steps. If you have consented to the Funds using electronic communications or electronic delivery of statements, they may notify you under such circumstances using the most current email address you have on record with them.

In order for the Funds to provide effective service to you, keeping your account information accurate is very important. If you believe that your account information is incomplete, not accurate or not current, or if you have questions about the Funds' privacy practices, write the Funds using the contact information on your account statements, email the Funds by clicking on the Contact Us section of the Funds' website at [www.leggmason.com](http://www.leggmason.com), or contact the Fund at 1-888-777-0102.

Revised April 2011

**NOT PART OF THE SEMI-ANNUAL REPORT**

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

Western Asset High Income Fund II Inc.

620 Eighth Avenue

49<sup>th</sup> Floor

New York, NY 10018

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase at market prices, shares of its Common Stock in the open market.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ( SEC ) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at [www.sec.gov](http://www.sec.gov). The Fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington D.C., and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. To obtain information on Form N-Q from the Fund, shareholders can call 1-888-777-0102.

Information on how the Fund voted proxies relating to portfolio securities during the prior 12-month period ended June 30th of each year and a description of the policies and procedures that the Fund uses to determine how to vote proxies related to portfolio transactions are available (1) without charge, upon request, by calling 1-888-777-0102, (2) on the Fund's website at [www.lmcef.com](http://www.lmcef.com) and (3) on the SEC's website at [www.sec.gov](http://www.sec.gov).

This report is transmitted to the shareholders of Western Asset High Income Fund II Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or any securities mentioned in this report.

American Stock Transfer & Trust Company

6201 15<sup>th</sup> Avenue,

Brooklyn, NY 11219

**WAS04049 12/14 SR14-2352**



ITEM 2. CODE OF ETHICS.

Not applicable.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not applicable.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not applicable.

ITEM 6. SCHEDULE OF INVESTMENTS.

Included herein under Item 1.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END  
MANAGEMENT INVESTMENT COMPANIES.

Not applicable.

ITEM 8. INVESTMENT PROFESSIONALS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES

No applicable

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT  
COMPANY AND AFFILIATED PURCHASERS.

Not applicable.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

ITEM 11. 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 second fiscal quarter of the period covered by this report that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

ITEM 12. EXHIBITS.

(a) (1) Not applicable.

Exhibit 99.CODE ETH

(a) (2) Certifications pursuant to section 302 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.CERT

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.906CERT

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, there unto duly authorized.

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

By: /s/ Kenneth D. Fuller  
Kenneth D. Fuller  
Chief Executive Officer

Date: December 23, 2014

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/ Kenneth D. Fuller  
Kenneth D. Fuller  
Chief Executive Officer

Date: December 23, 2014

By: /s/ Richard F. Sennett  
Richard F. Sennett  
Principal Financial Officer

Date: December 23, 2014