

Western Asset High Yield Defined Opportunity Fund Inc.  
Form N-CSR  
October 26, 2011

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 811-22444

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

620 Eighth Avenue, New York, NY  
(Address of principal executive offices)

10018  
(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 August 31  
end:

Date of reporting period: August 31, 2011

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ITEM 1. REPORT TO STOCKHOLDERS.

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

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August 31, 2011

**Annual Report**

**Western Asset High Yield Defined Opportunity Fund Inc.**

**(HYI)**

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

II Western Asset High Yield Defined Opportunity Fund Inc.

**Fund objectives**

The Fund's primary investment objective is to provide high income. As a secondary objective, the Fund will seek capital appreciation.

**What's inside**

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**Letter from the chairman**

**Dear Shareholder,**

We are pleased to provide the annual report of Western Asset High Yield Defined Opportunity Fund Inc. for the period from the Fund's commencement of operations on October 27, 2010 through August 31, 2011 (the reporting period). Please read on for a detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, [www.leggmason.com/cef](http://www.leggmason.com/cef). Here you can gain immediate access to market and investment information, including:

- Fund prices and performance,
- Market insights and commentaries from our portfolio managers, and
- A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

September 30, 2011



## Investment commentary

### Economic review

Although the U.S. economy continued to grow over the period from October 27, 2010 through August 31, 2011 (the reporting period), the pace of the expansion was disappointing, which resulted in a significant shift in investor sentiment. Looking back, beginning in the fourth quarter of 2010, fears regarding moderating economic growth were replaced with optimism for a strengthening economy in 2011. However, as the reporting period progressed, weakening economic data, concerns related to the raising of the U.S. debt ceiling and the downgrading of U.S. government securities resulted in increased investor risk aversion.

U.S. gross domestic product (GDP) growth, as reported by the U.S. Department of Commerce, has been less robust than during most other periods exiting a severe recession. Revised GDP growth was 2.3% during the fourth quarter of 2010 and 3.0% for calendar 2010 as a whole. The Commerce Department then reported that first and second quarter 2011 GDP growth were 0.4% and 1.3%, respectively. This moderation in growth during the first half of the calendar year was due to a variety of factors, including less robust export activity and a deceleration in consumer spending given higher oil and food prices.

Turning to the job market, while there was some improvement in early 2011, unemployment again moved higher from April through June. After being 9.0% or higher since April 2009, the unemployment rate fell to 8.9% in February and 8.8% in March 2011. The job market then weakened, as unemployment rose to 9.0% in April, 9.1% in May and 9.2% in June. The news was slightly better in July, with the unemployment rate easing back to 9.1%. While the rate held steady in August, the U.S. Department of Labor reported that there was zero net job growth during the month, the worst monthly result since September 2010. Additionally, as of the end of the reporting period, approximately fourteen million Americans looking for work had yet to find a job, and nearly 43% of these individuals have been out of work for more than six months.

The housing market continued to experience challenges during the reporting period. While existing-home sales moved somewhat higher toward the end of 2010 and in January 2011, according to the National Association of Realtors (NAR), existing-home sales declined a sharp 8.9% in February. After a 3.5% increase in March, existing-home sales fell 1.8% and 4.0% in April and May, respectively. Following a modest 0.6% increase in June, sales then fell 3.5% in July and moved 7.7% higher in August. At the end of August, the inventory of unsold homes was an 8.5 month supply at the current sales level, versus a 9.5 month supply in July. Existing-home prices were weak versus a year ago, with the NAR reporting that the median existing-home price for all housing types was \$168,300 in August 2011, down 5.1% from August 2010.

Even the manufacturing sector, one of the stalwarts of the economy in recent years, softened toward the end of the reporting period. Based on the Institute for Supply Management's PMI, the manufacturing sector grew twenty-five consecutive months since it began expanding in August 2009 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). In January 2011, the manufacturing sector expanded at its fastest pace since May 2004, with a

IV Western Asset High Yield Defined Opportunity Fund Inc.

#### **Investment commentary (cont d)**

reading of 60.8 versus 58.5 for the previous month. Manufacturing activity remained strong during the next three months and was 60.4 in April. However, May's reading fell to 53.5, partially attributed to supply disruptions triggered by the March earthquake and tsunami in Japan. Manufacturing activity then moved modestly higher in June to 55.3, before falling to 50.9 in July and 50.6 in August—the latter being the worst reading in two years. In addition, only ten of the eighteen industries tracked by the Institute for Supply Management expanded in August.

#### **Financial market overview**

While stocks and lower-quality bonds generated strong results during the reporting period, there were several periods of heightened volatility and periodic sell-offs. These were triggered by a variety of factors, including concerns regarding the global economy, geopolitical unrest, the natural disasters in Japan and the ongoing European sovereign debt crisis. During those periods, investors tended to favor the relative safety of U.S. Treasury securities. However, in most cases these setbacks were only temporary and risk aversion was generally replaced with solid demand for riskier assets. One key exception was in July and August 2011, when concerns as to whether Congress would come to an agreement regarding the raising of the debt ceiling and Standard & Poor's (S&P) downgrade of U.S. Treasuries from AAA to AA+ negatively impacted investor sentiment.

The Federal Reserve Board (Fed)iii took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. In November 2010, the Fed announced a second round of quantitative easing (often referred to as QE2) to help stimulate the economy, entailing the purchase of \$600 billion of long-term U.S. Treasury securities by the end of the second quarter of 2011.

In June, the Fed announced that QE2 would end on schedule at the end of the month. However, given ongoing strains in the economy, it made no overtures toward reversing any of its accommodative policies and stated it would maintain its existing policy of reinvesting principal payments from its securities holdings rather than seeking to reduce the size of its balance sheet.

Also, as has been the case since December 2008, the Fed kept the federal funds rateiv at a historically low range between zero and 0.25%. In addition, in August 2011, the Fed declared its intention to keep the federal funds rate between zero and 0.25% until mid-2013.

At its meeting in September 2011, after the end of the reporting period, the Fed announced its intention to purchase \$400 billion of longer-term Treasury securities and to sell an equal amount of shorter-term Treasury securities by June 2012. The Fed said, "This program should put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative."

#### **Fixed-income market review**



The spread sectors (non-Treasuries) began the reporting period on a positive note, as they rallied in late October and early November 2010. Following a brief setback in the middle of November, triggered by the European sovereign debt crisis, most spread sectors then rallied through the end of April 2011. While the spread sectors generally posted positive results in May, they underperformed equal-duration Treasuries. Risk aversion then increased from June through

August given a host of disappointing economic data, a further escalation of the European sovereign debt crisis and the S&P rating downgrade of U.S. sovereign debt.

Both short- and long-term Treasury yields fluctuated but, overall, moved lower during the reporting period. When the period began, two- and ten-year Treasury yields were 0.40% and 2.75%, respectively. Yields declined in early November, but then moved sharply higher given expectations for stronger growth in 2011 and the potential for rising inflation. Two- and ten-year Treasury yields peaked at 0.87% and 3.75%, respectively, in February 2011. Yields again declined during much of the remainder of the period due to disappointing economic data and several flights to quality. Two-year Treasuries hit their low for the reporting period of 0.19% on several occasions in August 2011. Ten-year Treasuries reached their reporting period trough of 2.07% on August 19, 2011. When the period ended on August 31, 2011, two-year Treasury yields were 0.20% and ten-year Treasury yields were 2.23%. During the reporting period, the Barclays Capital U.S. Aggregate Index<sup>vi</sup> returned 4.34%.

The U.S. high-yield bond market produced a positive return during the reporting period. The asset class posted a positive return during each month except for November 2010, June 2011 and August 2011, when risk aversion rose sharply. The high-yield market was supported by generally better-than-expected corporate profits and overall strong investor demand. However, a large portion of its earlier gains were given back in August 2011 when high-yield prices moved sharply lower given a flight to quality. All told, the Barclays Capital U.S. High Yield 2% Issuer Cap Index<sup>vii</sup> returned 2.84% during the reporting period.

Despite periods of volatility, the emerging market debt asset class generated a solid return during the reporting period. In general, emerging market debt was supported by higher commodity prices, robust growth in developing countries and solid demand. These factors more than offset periods of weakness triggered by concerns regarding interest rate hikes in China, geopolitical unrest and decelerating growth in many developed countries. Overall, the JPMorgan Emerging Markets Bond Index Global (EMBI Global)<sup>viii</sup> returned 4.04% over the reporting period.

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

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

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September 30, 2011

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.

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**Investment commentary (cont d)**

i Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.

ii The Institute for Supply Management s PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.

iii The Federal Reserve Board ( Fed ) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

iv The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

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

vi The Barclays Capital 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.

vii The Barclays Capital U.S. High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays Capital U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.

viii 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.

## **Fund overview**

### **Q. What is the Fund's investment strategy?**

**A.** The Fund's primary investment objective is to provide high income. As a secondary investment objective, the Fund will seek capital appreciation. We believe the extensive credit research and security selection expertise of Western Asset Management Company (Western Asset) will be key factors in driving Fund performance.

The Fund seeks to achieve its investment objectives by investing, under normal market conditions, at least 80% of its net assets in a portfolio of high-yield corporate fixed-income securities with varying maturities. Currently, the Fund focuses on lower-quality and higher-yielding opportunities in the below investment grade corporate debt markets. Under normal market conditions, the Fund may also invest up to 20% of its net assets in fixed-income securities issued by U.S. or foreign governments, agencies and instrumentalities and/or fixed-income securities that are of investment grade quality. The Fund intends to terminate on or about September 30, 2025 and distribute substantially all of its net assets to stockholders after making appropriate provisions for any liabilities of the Fund.

In purchasing securities and other investments for the Fund, Western Asset, the Fund's subadviser, may take full advantage of the entire range of maturities offered by fixed-income securities and may adjust the average maturity or duration of the Fund's portfolio from time to time, depending on its assessment of the relative yields available on securities of different durations and its expectations of future changes in interest rates. The Fund may utilize a variety of derivative instruments primarily for hedging and risk management purposes, although the Fund may also use derivative instruments for investment purposes.

At Western Asset, we utilize a fixed-income team approach, with decisions derived from interaction among various investment management sector specialists. The sector teams are comprised of Western Asset's senior portfolio managers, research analysts and an in-house economist. Under this team approach, management of client fixed-income portfolios will reflect a consensus of interdisciplinary views within the Western Asset organization. The portfolio managers responsible for development of investment strategy, day-to-day portfolio management, oversight and coordination of the Fund are Stephen A. Walsh, Michael C. Buchanan and Keith J. Gardner. Effective May 1, 2011, S. Kenneth Leech no longer serves as a portfolio manager for this Fund. While Mr. Leech continues to help shape Western Asset's overall investment strategy, his day-to-day role is becoming more concentrated on global portfolios. To reflect this global focus, he will continue to serve as a portfolio manager of the global funds, but not of the non-global funds.

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

**A.** The fixed-income market experienced periods of volatility during the period from the Fund's commencement of operations on October 27, 2010 through August 31, 2011 (the reporting period). Despite corporate profits that

### **Fund overview (cont d)**

were generally better-than-expected, due to increased risk aversion toward the end of the period, investors who assumed greater risk were not rewarded, as the spread sectors (non-Treasuries) generally underperformed U.S. Treasuries.

This volatile reporting period saw both spread sector rallies as well as several periods when investor risk aversion increased. These flights to quality were triggered by a number of events, including the sovereign debt crisis in Europe, concerns regarding the economy and inflation, geopolitical issues in the Middle East and Northern Africa and the tragedy in Japan. One notable period of risk aversion occurred toward the end of the period, as concerns regarding the raising of the U.S. debt ceiling and the subsequent Standard & Poor's downgrade of U.S. sovereign debt caused investors to gravitate to the relative safety of U.S. Treasury securities.

The yields on two- and ten-year Treasuries began the fiscal year at 0.40% and 2.75%, respectively. Treasury yields fluctuated during the reporting period given the aforementioned flights to quality, as well as uncertainties regarding Federal Reserve Board ( Fed ) ii monetary policy. During the reporting period, two-year Treasury yields moved as high as 0.87% and as low as 0.19%, while ten-year Treasury yields rose as high as 3.75% and fell as low as 2.07%. On August 31, 2011, yields on two- and ten-year Treasuries were 0.20% and 2.23%, respectively.

All told, the Barclays Capital U.S. Aggregate Index<sup>xiii</sup> returned 4.34% during the reporting period. Comparatively, riskier fixed-income securities, including high-yield bonds, produced weaker results, with the Barclays Capital U.S. High Yield 2% Issuer Cap Index<sup>iv</sup> returning 2.84% for the period.

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

**A.** A number of adjustments were made to the Fund's portfolio during the reporting period. We invested nearly all of the cash from the Fund's initial public offering, with the vast majority being allocated to high-yield bonds rated below BB. We actively participated in the new issue market and targeted securities that we believed to be attractively valued.

During the period, the Fund employed U.S. Treasury futures to manage its yield curve<sup>v</sup> positioning and duration. This strategy detracted from performance. The Fund also utilized currency forwards to hedge our currency exposure. In particular, our Eurozone and sterling currency forwards were detractors from the Fund's performance during the reporting period with the euro and the sterling strengthening roughly 4% and 3%, respectively, versus the U.S. dollar. Our losses on these currency hedges were offset by the currency appreciation of our euro- and sterling-denominated holdings.

### **Performance review**

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For the period from its commencement of operations on October 27, 2010 through August 31, 2011, Western Asset High Yield Defined Opportunity Fund Inc. returned 0.90% based on its net asset value ( NAV )vi and -1.16% based on its New York Stock Exchange ( NYSE ) market price per share. The Fund s unmanaged benchmarks, the

Barclays Capital U.S. High Yield 2% Issuer Cap Index B Componentvii and the Barclays Capital U.S. High Yield 2% Issuer Cap Index Caa Componentviii, returned 3.02% and 1.73%, respectively, over the same time frame. The Lipper High Current Yield Closed-End Funds Category Averageix returned 2.08% for the period from October 31, 2010 through August 31, 2011. Please note that Lipper performance returns are based on each fund's NAV.

During the reporting period, the Fund made distributions to shareholders totaling \$1.32 per share. The performance table shows the Fund's total return since its commencement of operations based on its NAV and market price as of August 31, 2011. **Past performance is no guarantee of future results.**

#### Performance Snapshot as of August 31, 2011

	<b>Total Return* Since Commencement of Operations**</b>
<b>Price Per Share</b>	
\$17.93 (NAV)	0.90%
\$18.43 (Market Price)	-1.16%

**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. Total returns assume the reinvestment of all distributions in additional shares in accordance with the Fund's Dividend Reinvestment Plan.**

\*\* **The Fund commenced operations on October 27, 2010.**

#### Q. What were the leading contributors to performance?

A. The largest contributor to the Fund's relative performance during the reporting period was security selection. In particular, our overweight exposures to **Energy Future Holdings Corp.**, **NES Rentals Holdings Inc.**, and AIG's aircraft leasing arm **International Lease Finance Corp.** (ILFC) enhanced the Fund's results. Energy Future Holdings benefited primarily from strong balance sheet management, as well as general economic improvement. The company was able to extend the maturity of more than \$15 billion of its debt, originally due from 2014 to 2017. The market responded very favorably to the company's ability to secure extended financing through 2017. NES Rentals Holdings is an equipment rental company. We purchased its bonds at the beginning of the period at distressed levels as we felt the market was overly pessimistic on the outlook for rental equipment in NES's regions. The consensus view was fundamental performance would be challenged due to high capacity and limited demand from minimal construction activity. However, the company was able to manage inventory well, capture share as weaker players left the market, and deliver improved fundamental results during the period. Finally, we managed our position well in ILFC during the period. The company's BB-rated unsecured bonds benefited from continued balance sheet management and stable fundamental results



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as carriers continued to utilize ILFC's leasing services. We realized profits in roughly half our position during the period, including multiple sales after the company was

**Fund overview (cont'd)**

upgraded to BBB- by Standard & Poor's in May 2011. Despite weakness in the high-yield market at the end of the reporting period, our remaining ILFC bonds performed relatively well.

Sector positioning in a number of areas was also a positive for results. Our overweight to the Wireless<sup>1</sup> sector was beneficial as fundamentals in the sector improved given increased adaptation of wireless communication devices. An underweight to the Wireline<sup>2</sup> sector was also rewarded as the sector performed poorly given secular concerns and declining market share to its wireless counterpart.

**Q. What were the leading detractors from performance?**

**A.** The largest detractor from the Fund's relative performance during the reporting period was our exposure to cash. As discussed, early in the period we sought to put the cash from the Fund's initial public offering to work in the market. With the market rallying sharply during a majority of the period, the Fund's cash position was a drag on results. In addition, toward the end of the reporting period, the Fund was negatively impacted, along with the benchmarks, as nearly 100% of the Fund was invested and the high-yield market sold off sharply given increased risk aversion.

Although overall security selection contributed to performance, selection of several individual holdings detracted from results. In particular, overweight positions in **Hawker Beechcraft Acquisition Co.**, **CMA CGM** and **Cengage Learning Acquisitions Inc.** were among the worst performing securities in the portfolio. Hawker Beechcraft Acquisitions is a manufacturer of business, special-mission and trainer aircraft. The company has been negatively impacted by moderating economic growth and concerns regarding corporate business spending and corporate governance. In addition, the company has a highly leveraged balance sheet. CMA CGM, based in France, is the world's third largest container shipping company. The firm performed poorly due to a variety of factors, including signs that global economic growth was decelerating, higher oil prices and fears related to the escalating European sovereign debt crisis. In addition, there was an overhang regarding allegations that the company engaged in illegal shipping practices from various foreign ports to Sudan. Cengage Learning Acquisitions is an educational book publisher. The company missed earnings projections and was hurt by negative investor sentiment regarding book publishers and increasing secular concerns that tablet devices will be more widely adopted in classrooms.

Finally, the Fund's overweight exposure to the Transportation sector was a negative for performance. It was the worst performing sector in the benchmarks during the reporting period given concerns that moderating global growth would temper demand.

**Looking for additional information?**

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The Fund is traded under the symbol `HYI` and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol `XHYIX` on most financial websites. *Barron's* and the *Wall Street Journal's* Monday edition both carry closed-end fund

1 Wireless is included in the Telecommunication Services sector.

2 Wireline is included in the Telecommunication Services sector.

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.leggmason.com/cef](http://www.leggmason.com/cef).

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 Yield Defined Opportunity Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

Western Asset Management Company

September 20, 2011

**RISKS:** *The Fund's investments are subject to credit risk, inflation risk and interest rate risk. As interest rates rise, bond prices fall, reducing the value of the Fund's share price. The Fund may invest in lower-rated high-yield bonds which are subject to greater credit risk (risk of default) than higher-rated obligations. Investments in foreign securities involve risks, including the possibility of losses due to changes in currency exchange rates and negative developments in the political, economic, or regulatory structure of specific countries or regions. These risks are greater in emerging markets. The Fund may make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.*

Portfolio holdings and breakdowns are as of August 31, 2011 and are subject to change and may not be representative of the portfolio managers current or future investments. Please refer to pages 10 through 19 for a list and percentage breakdown of the Fund's holdings.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. The Fund's top five sector holdings (as a percentage of net assets) as of August 31, 2011 were: Consumer Discretionary (22.1%), Industrials (15.9%), Materials (14.5%), Telecommunication Services (8.2%) and Financials (8.2%). The Fund's portfolio composition is subject to change at any time.

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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.

Western Asset High Yield Defined Opportunity Fund Inc. 2011 Annual Report

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**Fund overview (cont d)**

- i Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.
- ii 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.
- iii The Barclays Capital 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.
- iv The Barclays Capital U.S. High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays Capital U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.
- v The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.
- vi Net asset value ( NAV ) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total investments) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.
- vii The Barclays Capital U.S. High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays Capital U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. The B Component is comprised of B-rated securities included in this Index.
- viii The Barclays Capital U.S. High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays Capital U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. The Caa Component is comprised of Caa-rated securities included in this Index.
- ix Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the period from October 31, 2010 through August 31, 2011, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 9 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 August 31, 2011 and does not include derivatives, such as futures 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.

**Spread duration (unaudited)**

**Economic Exposure August 31, 2011**

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.

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60% BC/40% BC	60% Barclays Capital U.S. High Yield	2% Issuer Cap Index B Component &
	40% Barclays Capital U.S. High Yield	2% Issuer Cap Index Caa Component
BL	Bank Loans	
EM	Emerging Markets	
HY	High Yield	
HYI	Western Asset High Yield Defined Opportunity Fund Inc.	



IG Credit  
Non-\$

Investment Grade Credit  
Non-U.S. Dollar

**Effective duration (unaudited)**

**Interest Rate Exposure August 31, 2011**

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.

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60% BC/40% BC	60% Barclays Capital U.S. High Yield	2% Issuer Cap Index B Component &
	40% Barclays Capital U.S. High Yield	2% Issuer Cap Index Caa Component
BL	Bank Loans	
EM	Emerging Markets	
HY	High Yield	
HYI	Western Asset High Yield Defined Opportunity Fund Inc.	

IG Credit  
Non-\$

Investment Grade Credit  
Non-U.S. Dollar

10 Western Asset High Yield Defined Opportunity Fund Inc. 2011 Annual Report

**Schedule of investments**

August 31, 2011

**Western Asset High Yield Defined Opportunity Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Corporate Bonds &amp; Notes 88.0%</b>				
<b>Consumer Discretionary 20.6%</b>				
<i>Auto Components 0.5%</i>				
Europcar Groupe SA, Senior Notes	9.375%	4/15/18	1,540,000EUR	\$ 1,825,074(a)
<i>Diversified Consumer Services 1.1%</i>				
Odeon & UCI Finco PLC, Senior Secured Notes	9.000%	8/1/18	1,390,000GBP	2,075,876(a)
Service Corp. International, Senior Notes	7.500%	4/1/27	1,130,000	1,062,200
Sotheby's, Senior Notes	7.750%	6/15/15	1,300,000	1,384,500
<b>Total Diversified Consumer Services</b>				<b>4,522,576</b>
<i>Hotels, Restaurants &amp; Leisure 9.5%</i>				
Boyd Gaming Corp., Senior Notes	9.125%	12/1/18	740,000	693,750(a)
Caesars Entertainment Operating Co. Inc., Senior Notes	10.750%	2/1/16	1,000,000	857,500
Caesars Entertainment Operating Co. Inc., Senior Secured Notes	10.000%	12/15/15	150,000	141,375
Caesars Entertainment Operating Co. Inc., Senior Secured Notes	11.250%	6/1/17	3,000,000	3,247,500
CityCenter Holdings LLC/CityCenter Finance Corp., Senior Secured Notes	10.750%	1/15/17	1,995,052	1,895,299(a)(b)
CKE Restaurants Inc., Senior Secured Notes	11.375%	7/15/18	2,800,000	2,992,500
Codere SA, Senior Secured Notes	8.250%	6/15/15	2,000,000EUR	2,686,257(a)
Downstream Development Quapaw, Senior Secured Notes	10.500%	7/1/19	1,090,000	1,051,850(a)
Fiesta Restaurant Group, Secured Notes	8.875%	8/15/16	600,000	598,500(a)
Hoa Restaurant Group LLC/Hoa Finance Corp., Senior Secured Notes	11.250%	4/1/17	3,000,000	2,910,000(a)
Inn of the Mountain Gods Resort & Casino, Senior Secured Notes	8.750%	11/30/20	2,280,000	2,245,800(a)
Landry's Restaurants Inc., Senior Secured Notes	11.625%	12/1/15	4,500,000	4,758,750
MGM Resorts International, Senior Notes	5.875%	2/27/14	1,250,000	1,200,000
Mohegan Tribal Gaming Authority, Senior Subordinated Notes	8.000%	4/1/12	3,610,000	2,635,300
NCL Corp. Ltd., Senior Notes	9.500%	11/15/18	6,270,000	6,520,800(a)
Seneca Gaming Corp., Senior Notes	8.250%	12/1/18	1,410,000	1,392,375(a)
Seven Seas Cruises S de RL LLC, Senior Secured Notes	9.125%	5/15/19	1,250,000	1,243,750(a)
Sugarhouse HSP Gaming Prop Mezz LP/Sugarhouse HSP Gaming Finance Corp., Secured Notes	8.625%	4/15/16	1,186,000	1,186,000(a)
<b>Total Hotels, Restaurants &amp; Leisure</b>				<b>38,257,306</b>

See Notes to Financial Statements.

**Western Asset High Yield Defined Opportunity Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Household Durables 1.6%</b>				
DFS Furniture Holdings PLC, Senior Secured Notes	9.750%	7/15/17	650,000GBP	\$ 917,976(a)
Norcraft Cos. LP/Norcraft Finance Corp., Senior Secured Notes	10.500%	12/15/15	5,000,000	4,800,000
Standard Pacific Corp., Senior Notes	8.375%	1/15/21	960,000	830,400
<b>Total Household Durables</b>				<b>6,548,376</b>
<b>Leisure Equipment &amp; Products 0.6%</b>				
Cirsa Funding Luxembourg SA, Senior Notes	8.750%	5/15/18	2,000,000EUR	2,510,285(a)
<b>Media 3.8%</b>				
Cengage Learning Acquisitions Inc., Senior Notes	10.500%	1/15/15	3,310,000	2,565,250(a)
Cengage Learning Acquisitions Inc., Senior Subordinated Notes	13.250%	7/15/15	1,690,000	1,242,150(a)
Good Sam Enterprises LLC, Secured Notes	11.500%	12/1/16	1,500,000	1,477,500
LBI Media Inc., Senior Secured Notes	9.250%	4/15/19	1,190,000	1,078,438(a)
Musketeer GmbH, Senior Secured Notes	9.500%	3/15/21	1,600,000EUR	2,304,147(a)
Ono Finance II PLC, Senior Bonds	11.125%	7/15/19	1,250,000EUR	1,566,684(a)
PagesJaunes Finance & Co. SCA, Senior Secured Notes	8.875%	6/1/18	1,700,000EUR	1,819,328(a)
Polish Television Holding BV, Senior Secured Bonds, step bond	11.250%	5/15/17	1,600,000EUR	2,309,894(a)(c)
Seat Pagine Gialle SpA, Senior Secured Bonds	10.500%	1/31/17	581,000EUR	688,551(a)
<b>Total Media</b>				<b>15,051,942</b>
<b>Multiline Retail 0.4%</b>				
Neiman Marcus Group Inc., Senior Secured Notes	7.125%	6/1/28	1,920,000	1,737,600
<b>Specialty Retail 2.2%</b>				
Edcon Proprietary Ltd., Senior Secured Notes	9.500%	3/1/18	1,950,000EUR	2,205,927(a)
Gymboree Corp., Senior Notes	9.125%	12/1/18	1,940,000	1,687,800
Michaels Stores Inc., Senior Subordinated Notes, step bond	0.000%	11/1/16	3,920,000	4,018,000
Spencer Spirit Holdings Inc./Spencer Gifts LLC/Spirit Halloween Superstores, Senior Notes	11.000%	5/1/17	770,000	760,375(a)
<b>Total Specialty Retail</b>				<b>8,672,102</b>
<b>Textiles, Apparel &amp; Luxury Goods 0.9%</b>				
Boardriders SA, Senior Notes	8.875%	12/15/17	1,500,000EUR	2,143,978(a)
Burlington Coat Factory Warehouse Corp., Senior Notes	10.000%	2/15/19	810,000	759,375(a)
Empire Today LLC/Empire Today Finance Corp., Senior Secured Notes	11.375%	2/1/17	550,000	517,000(a)
<b>Total Textiles, Apparel &amp; Luxury Goods</b>				<b>3,420,353</b>
<b>Total Consumer Discretionary</b>				<b>82,545,614</b>

See Notes to Financial Statements.

12 Western Asset High Yield Defined Opportunity Fund Inc. 2011 Annual Report

**Schedule of investments (cont d)**

August 31, 2011

**Western Asset High Yield Defined Opportunity Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Consumer Staples 3.2%</b>				
<b>Beverages 0.1%</b>				
Beverage Packaging Holdings Luxembourg II SA, Senior Notes	8.000%	12/15/16	430,000EUR	\$ <b>484,891</b> (a)
<b>Food Products 2.4%</b>				
Boparan Holdings Ltd., Senior Notes	9.875%	4/30/18	1,000,000GBP	1,286,465(a)
Bumble Bee Acquisition Co., Senior Secured Notes	9.000%	12/15/17	680,000	663,000(a)
Foodcorp Ltd., Senior Secured Notes	8.750%	3/1/18	700,000EUR	879,857(a)
Harbinger Group Inc., Senior Secured Notes	10.625%	11/15/15	2,000,000	1,930,000
Harmony Foods Corp., Senior Secured Notes	10.000%	5/1/16	530,000	528,675(a)
Simmons Foods Inc., Senior Secured Notes	10.500%	11/1/17	4,600,000	4,220,500(a)
<b>Total Food Products</b>				<b>9,508,497</b>
<b>Household Products 0.0%</b>				
Reynolds Group DL Escrow Inc./Reynolds Group Escrow LLC, Senior Secured Notes	8.750%	10/15/16	100,000	<b>102,750</b> (a)
<b>Tobacco 0.7%</b>				
Alliance One International Inc., Senior Notes	10.000%	7/15/16	3,175,000	<b>2,885,281</b>
<b>Total Consumer Staples</b>				<b>12,981,419</b>
<b>Energy 5.1%</b>				
<b>Energy Equipment &amp; Services 2.0%</b>				
Complete Production Services Inc., Senior Notes	8.000%	12/15/16	550,000	558,250
Hercules Offshore LLC, Senior Secured Notes	10.500%	10/15/17	3,000,000	2,970,000(a)
Vantage Drilling Co., Senior Secured Notes	11.500%	8/1/15	4,000,000	4,280,000
<b>Total Energy Equipment &amp; Services</b>				<b>7,808,250</b>
<b>Oil, Gas &amp; Consumable Fuels 3.1%</b>				
Calumet Specialty Products Partners LP/Calumet Finance Corp., Senior Notes	9.375%	5/1/19	910,000	882,700(a)
Milagro Oil & Gas Inc., Secured Notes	10.500%	5/15/16	1,040,000	894,400(a)
Offshore Group Investments Ltd., Senior Secured Notes	11.500%	8/1/15	520,000	556,400(a)
Overseas Shipholding Group Inc., Senior Notes	8.125%	3/30/18	2,630,000	2,248,650
Peabody Energy Corp., Senior Notes	7.875%	11/1/26	660,000	724,350
Petroplus Finance Ltd., Senior Notes	6.750%	5/1/14	4,250,000	3,846,250(a)
Quicksilver Resources Inc., Senior Notes	11.750%	1/1/16	1,100,000	1,218,250
Saratoga Resources Inc., Senior Secured Notes	12.500%	7/1/16	1,070,000	1,053,950(a)
Xinergy Ltd., Senior Secured Notes	9.250%	5/15/19	1,230,000	1,162,350(a)
<b>Total Oil, Gas &amp; Consumable Fuels</b>				<b>12,587,300</b>
<b>Total Energy</b>				<b>20,395,550</b>
<b>Financials 5.5%</b>				
<b>Commercial Banks 2.2%</b>				
	8.070%	12/31/26	3,200,000	3,200,000(a)

BankAmerica Institutional Capital A, Junior Subordinated  
Bonds

See Notes to Financial Statements.

**Western Asset High Yield Defined Opportunity Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Commercial Banks continued</b>				
NB Capital Trust II, Junior Subordinated Notes	7.830%	12/15/26	1,310,000	\$ 1,288,713
Royal Bank of Scotland Group PLC, Junior Subordinated Notes, Medium-Term Notes	7.640%	9/29/17	7,000,000	4,235,000(d)
<b>Total Commercial Banks</b>				<b>8,723,713</b>
<b>Consumer Finance 0.5%</b>				
Ally Financial Inc., Senior Notes	8.000%	11/1/31	2,000,000	<b>1,965,000</b>
<b>Diversified Financial Services 2.4%</b>				
Capital One Capital V, Junior Subordinated Notes, Cumulative Trust Preferred Securities	10.250%	8/15/39	3,770,000	3,937,199
International Lease Finance Corp., Senior Notes	8.750%	3/15/17	1,000,000	1,030,000
International Lease Finance Corp., Senior Notes	8.250%	12/15/20	3,140,000	3,202,800
Residential Capital LLC, Junior Secured Notes	9.625%	5/15/15	1,380,000	1,229,925
<b>Total Diversified Financial Services</b>				<b>9,399,924</b>
<b>Insurance 0.1%</b>				
Dai-ichi Life Insurance Co., Ltd., Subordinated Notes	7.250%	7/25/21	470,000	<b>479,723</b> (a)(d)(e)
<b>Real Estate Management &amp; Development 0.3%</b>				
Countrywide Holdings, Senior Secured Notes	10.000%	5/8/18	790,000GBP	<b>1,269,583</b> (a)
<b>Total Financials</b>				<b>21,837,943</b>
<b>Health Care 5.6%</b>				
<b>Health Care Equipment &amp; Supplies 0.2%</b>				
Ontex, Senior Notes	9.000%	4/15/19	680,000EUR	<b>764,362</b> (a)
<b>Health Care Providers &amp; Services 3.5%</b>				
American Renal Holdings, Senior Notes	9.750%	3/1/16	3,000,000	2,856,186(a)(b)
CRC Health Corp., Senior Subordinated Notes	10.750%	2/1/16	5,504,000	5,531,520
Crown Newco 3 PLC, Senior Notes	8.875%	2/15/19	225,000GBP	341,502(a)(c)
ExamWorks Group Inc., Senior Notes	9.000%	7/15/19	780,000	739,050(a)
INC Research LLC, Senior Notes	11.500%	7/15/19	590,000	548,700(a)
InVentiv Health Inc., Senior Notes	10.000%	8/15/18	1,210,000	1,098,075(a)
Labco SAS, Senior Secured Notes	8.500%	1/15/18	530,000EUR	664,274(a)
Tenet Healthcare Corp., Senior Notes	6.875%	11/15/31	2,610,000	2,081,475
Vanguard Health Systems Inc., Senior Notes	0.000%	2/1/16	36,000	23,220
<b>Total Health Care Providers &amp; Services</b>				<b>13,884,002</b>
<b>Health Care Technology 0.7%</b>				
Multiplan Inc., Senior Notes	9.875%	9/1/18	2,750,000	<b>2,805,000</b> (a)
<b>Pharmaceuticals 1.2%</b>				
ConvaTec Healthcare E SA, Senior Notes	10.875%	12/15/18	1,530,000EUR	1,967,072(a)
ConvaTec Healthcare E SA, Senior Notes	10.875%	12/15/18	1,400,000EUR	1,799,936(a)
Giant Funding Corp., Senior Secured Notes	8.250%	2/1/18	640,000	643,200(a)

See Notes to Financial Statements.



14 Western Asset High Yield Defined Opportunity Fund Inc. 2011 Annual Report

## Schedule of investments (cont d)

August 31, 2011

## Western Asset High Yield Defined Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<b>Pharmaceuticals continued</b>				
UCB SA, Subordinated Notes	7.750%	3/18/16	450,000EUR	\$ 651,112(d)(e)
<b>Total Pharmaceuticals</b>				<b>5,061,320</b>
<b>Total Health Care</b>				<b>22,514,684</b>
<b>Industrials 15.3%</b>				
<b>Aerospace &amp; Defense 3.0%</b>				
Ducommun Inc., Senior Notes	9.750%	7/15/18	600,000	606,000(a)
FGI Operating Co. Inc., Senior Secured Notes	10.250%	8/1/15	2,700,000	2,875,500
Hawker Beechcraft Acquisition Co., Senior Notes	8.500%	4/1/15	3,470,000	1,561,500
Hawker Beechcraft Acquisition Co., Senior Toggle Notes	8.875%	4/1/15	2,000,000	910,000(b)
Kratos Defense & Security Solutions Inc., Senior Notes	10.000%	6/1/17	20,000	20,450(a)
Kratos Defense & Security Solutions Inc., Senior Secured Notes	10.000%	6/1/17	2,000,000	2,065,000
Wyle Services Corp., Senior Subordinated Notes	10.500%	4/1/18	4,200,000	4,184,250(a)
<b>Total Aerospace &amp; Defense</b>				<b>12,222,700</b>
<b>Airlines 1.6%</b>				
DAE Aviation Holdings Inc., Senior Notes	11.250%	8/1/15	4,275,000	4,392,563(a)
Delta Air Lines Inc., Pass-Through Certificates, Secured Notes	8.021%	8/10/22	1,835,633	1,835,633
<b>Total Airlines</b>				<b>6,228,196</b>
<b>Building Products 0.2%</b>				
Shea Homes LP, Senior Secured Notes	8.625%	5/15/19	820,000	694,950(a)
<b>Commercial Services &amp; Supplies 2.3%</b>				
ADS Tactical Inc., Senior Secured Notes	11.000%	4/1/18	2,000,000	2,010,000(a)
ALBA Group PLC & Co. KG, Senior Notes	8.000%	5/15/18	440,000EUR	618,629(a)
Altegrity Inc., Senior Subordinated Notes	11.750%	5/1/16	1,500,000	1,447,500(a)
American Reprographics Co., Senior Notes	10.500%	12/15/16	5,000,000	4,675,000
RSC Equipment Rental Inc./RSC Holdings III LLC, Senior Notes	8.250%	2/1/21	670,000	628,125
<b>Total Commercial Services &amp; Supplies</b>				<b>9,379,254</b>
<b>Construction &amp; Engineering 1.2%</b>				
Abengoa Finance SAU, Senior Notes	8.875%	11/1/17	5,000,000	4,612,500(a)
<b>Electrical Equipment 1.0%</b>				
NES Rentals Holdings Inc., Senior Secured Notes	12.250%	4/15/15	4,250,000	3,931,250(a)
<b>Machinery 0.8%</b>				
Dematic SA, Senior Secured Notes	8.750%	5/1/16	1,890,000	1,814,400(a)
Heidelberger Druckmaschinen AG, Senior Notes	9.250%	4/15/18	1,500,000EUR	1,481,392(a)
<b>Total Machinery</b>				<b>3,295,792</b>
<b>Marine 1.1%</b>				
Horizon Lines Inc., Senior Secured Notes	11.000%	10/15/16	810,000	810,000(c)
Horizon Lines Inc., Senior Secured Notes	13.000%	10/15/16	1,070,000	1,070,000(b)(c)

See Notes to Financial Statements.

**Western Asset High Yield Defined Opportunity Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Marine continued</b>				
Navios Maritime Acquisition Corp., Senior Secured Notes	8.625%	11/1/17	520,000	\$ 436,150(a)
Navios Maritime Acquisition Corp./Navios Acquisition Finance U.S. Inc., Senior Secured Notes	8.625%	11/1/17	1,960,000	1,643,950
Navios Maritime Holdings Inc./Navios Maritime Finance II U.S. Inc., Senior Notes	8.125%	2/15/19	680,000	557,600(a)
<b>Total Marine</b>				<b>4,517,700</b>
<b>Road &amp; Rail 2.0%</b>				
Florida East Coast Holdings Corp., Senior Notes	10.500%	8/1/17	2,316,875	2,225,412(a)(b)
Florida East Coast Industries Inc., Senior Secured Notes	8.125%	2/1/17	1,470,000	1,470,000(a)
Jack Cooper Holdings Corp., Senior Secured Notes	12.750%	12/15/15	2,026,000	2,066,520(a)
Quality Distribution LLC/QD Capital Corp., Secured Notes	9.875%	11/1/18	2,130,000	2,137,987
<b>Total Road &amp; Rail</b>				<b>7,899,919</b>
<b>Trading Companies &amp; Distributors 0.6%</b>				
H&E Equipment Services Inc., Senior Notes	8.375%	7/15/16	2,520,000	2,513,700
<b>Transportation 1.5%</b>				
CMA CGM, Senior Notes	8.875%	4/15/19	1,600,000EUR	1,040,027(a)
Hapag-Lloyd AG, Senior Notes	9.750%	10/15/17	2,000,000	1,640,000(a)
Syncreon Global Ireland Ltd./Syncreon Global Finance US Inc., Senior Notes	9.500%	5/1/18	3,450,000	3,268,875(a)
<b>Total Transportation</b>				<b>5,948,902</b>
<b>Total Industrials</b>				
<b>Information Technology 5.5%</b>				
<b>Electronic Equipment, Instruments &amp; Components 0.8%</b>				
NXP BV/NXP Funding LLC, Senior Secured Notes	9.750%	8/1/18	3,000,000	3,172,500(a)
<b>IT Services 2.1%</b>				
Ceridian Corp., Senior Notes	12.250%	11/15/15	2,000,000	1,860,000(b)
First Data Corp., Senior Notes	10.550%	9/24/15	3,158,250	2,844,206(b)
First Data Corp., Senior Notes	11.250%	3/31/16	3,000,000	2,535,000
Sterling Merger Inc., Senior Notes	11.000%	10/1/19	1,120,000	1,099,000(a)
<b>Total IT Services</b>				<b>8,338,206</b>
<b>Semiconductors &amp; Semiconductor Equipment 2.6%</b>				
CDW LLC/CDW Finance Corp., Senior Notes	11.000%	10/12/15	5,000,000	5,125,000
Freescale Semiconductor Inc., Senior Subordinated Notes	10.125%	12/15/16	5,000,000	5,250,000
<b>Total Semiconductors &amp; Semiconductor Equipment</b>				<b>10,375,000</b>
<b>Total Information Technology</b>				
<b>Materials 13.7%</b>				
<b>Chemicals 2.1%</b>				

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Ineos Group Holdings PLC, Senior Notes

7.875% 2/15/16

1,600,000EUR 1,896,181(a)

See Notes to Financial Statements.

16 Western Asset High Yield Defined Opportunity Fund Inc. 2011 Annual Report

**Schedule of investments (cont d)**

August 31, 2011

**Western Asset High Yield Defined Opportunity Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Chemicals continued</b>				
Kerling PLC, Senior Secured Notes	10.625%	2/1/17	1,300,000EUR	\$ 1,708,718(a)
Lyondell Chemical Co., Senior Secured Notes	11.000%	5/1/18	2,670,000	2,993,738
Styrolution GmbH, Senior Secured Notes	7.625%	5/15/16	1,600,000EUR	1,942,149(a)
<b>Total Chemicals</b>				<b>8,540,786</b>
<b>Containers &amp; Packaging 5.2%</b>				
Ardagh Packaging Finance PLC, Senior Notes	9.250%	10/15/20	2,500,000EUR	3,173,769(a)
Berry Plastics Corp., Secured Notes	9.750%	1/15/21	1,390,000	1,296,175
Clondalkin Industries BV, Senior Secured Notes	8.000%	3/15/14	690,000EUR	879,677(a)
Longview Fibre Paper & Packaging Inc., Senior Secured Notes	8.000%	6/1/16	1,040,000	1,034,800(a)
Pretium Packaging LLC/Pretium Finance Inc., Senior Secured Notes	11.500%	4/1/16	4,500,000	4,443,750(a)
Reynolds Group Issuer Inc., Senior Notes	9.500%	6/15/17	1,900,000EUR	2,183,482(a)
Reynolds Group Issuer Inc./Reynolds Group Issuer LLC, Senior Notes	9.000%	4/15/19	2,740,000	2,479,700(a)
Reynolds Group Issuer Inc./Reynolds Group Issuer LLC, Senior Secured Notes	7.875%	8/15/19	100,000	99,500(a)
Solo Cup Co., Senior Secured Notes	10.500%	11/1/13	2,983,000	3,057,575
Viskase Cos. Inc., Senior Secured Notes	9.875%	1/15/18	2,000,000	2,030,000(a)
<b>Total Containers &amp; Packaging</b>				<b>20,678,428</b>
<b>Metals &amp; Mining 3.2%</b>				
Atkore International Inc., Senior Secured Notes	9.875%	1/1/18	680,000	664,700(a)
Eco-Bat Finance PLC, Senior Bonds	10.125%	1/31/13	900,000EUR	1,305,779(a)
Midwest Vanadium Pty Ltd., Senior Secured Notes	11.500%	2/15/18	3,130,000	2,973,500(a)
Mirabela Nickel Ltd., Senior Notes	8.750%	4/15/18	620,000	579,700(a)
Novelis Inc., Senior Notes	8.750%	12/15/20	1,770,000	1,871,775
Ryerson Holding Corp., Senior Secured Notes	0.000%	2/1/15	5,000,000	2,525,000
Ryerson Inc., Senior Secured Notes	12.000%	11/1/15	1,904,000	1,963,500
Tempel Steel Co., Senior Secured Notes	12.000%	8/15/16	780,000	781,950(a)
<b>Total Metals &amp; Mining</b>				<b>12,665,904</b>
<b>Paper &amp; Forest Products 3.2%</b>				
Appleton Papers Inc., Senior Secured Notes	10.500%	6/15/15	1,010,000	1,017,575(a)
Appleton Papers Inc., Senior Secured Notes	11.250%	12/15/15	3,100,000	3,038,000
NewPage Corp., Senior Secured Notes	11.375%	12/31/14	1,360,000	1,203,600(g)
PE Paper Escrow GmbH, Senior Secured Notes	11.750%	8/1/14	2,000,000EUR	3,088,477(a)
Verso Paper Holdings LLC, Senior Subordinated Notes	11.375%	8/1/16	6,000,000	4,710,000
<b>Total Paper &amp; Forest Products</b>				<b>13,057,652</b>
<b>Total Materials</b>				<b>54,942,770</b>

See Notes to Financial Statements.

**Western Asset High Yield Defined Opportunity Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Telecommunication Services 8.2%</b>				
<b><i>Diversified Telecommunication Services</i></b>				
<b><i>4.9%</i></b>				
Cogent Communications Group Inc., Senior Secured Notes	8.375%	2/15/18	5,000,000	\$ 5,231,250(a)
Intelsat Jackson Holdings Ltd., Senior Notes	11.250%	6/15/16	1,000,000	1,047,500
Intelsat Luxembourg SA, Senior Notes	11.250%	2/4/17	2,500,000	2,431,250
Level 3 Financing Inc., Senior Notes	9.250%	11/1/14	3,854,000	3,921,445
Primus Telecommunications Holding Inc., Senior Notes	10.000%	4/15/17	215,794	207,971(a)
Satellite Mexicanos SA de CV, Senior Secured Notes	9.500%	5/15/17	910,000	897,488(a)
West Corp., Senior Notes	8.625%	10/1/18	1,620,000	1,587,600
Wind Acquisition Holdings Finance SpA, Senior Notes	12.250%	7/15/17	4,505,006	4,455,550(a)(b)
<b><i>Total Diversified Telecommunication Services</i></b>				<b><i>19,780,054</i></b>
<b><i>Wireless Telecommunication Services 3.3%</i></b>				
Buccaneer Merger Sub Inc., Senior Notes	9.125%	1/15/19	1,585,000	1,592,925(a)
Cricket Communications Inc., Senior Notes	7.750%	10/15/20	2,000,000	1,785,000
Phones4u Finance PLC, Senior Secured Notes	9.500%	4/1/18	1,150,000GBP	1,446,766(a)
Phones4u Finance PLC, Senior Secured Notes	9.500%	4/1/18	150,000GBP	188,709(a)
Sprint Capital Corp., Senior Notes	8.750%	3/15/32	7,900,000	8,137,000
<b><i>Total Wireless Telecommunication Services</i></b>				<b><i>13,150,400</i></b>
<b>Total Telecommunication Services</b>				<b>32,930,454</b>
<b>Utilities 5.3%</b>				
<b><i>Electric Utilities 2.3%</i></b>				
AES Ironwood LLC, Secured Notes	8.857%	11/30/25	810,543	834,859
Northeast Generation Co., Senior Secured Notes	8.812%	10/15/26	2,736,328	3,071,616
Reliant Energy Mid-Atlantic Power Holdings LLC, Senior Notes	9.681%	7/2/26	3,190,000	3,205,950
Texas Competitive Electric Holdings Co. LLC/TCEH Finance Inc., Senior Secured Notes	11.500%	10/1/20	2,520,000	2,142,000(a)
<b><i>Total Electric Utilities</i></b>				<b><i>9,254,425</i></b>
<b><i>Independent Power Producers &amp; Energy Traders 3.0%</i></b>				
Dynegy Inc., Bonds	7.670%	11/8/16	1,180,000	796,500
Energy Future Holdings Corp., Senior Notes	10.875%	11/1/17	2,000,000	1,650,000
Energy Future Holdings Corp., Senior Notes	11.250%	11/1/17	2,088,200	1,691,215(b)
First Wind Holdings Inc., Senior Secured Notes	10.250%	6/1/18	1,000,000	960,000(a)
Foresight Energy LLC/Foresight Energy Corp., Senior Notes	9.625%	8/15/17	2,635,000	2,661,350(a)
Mirant Americas Generation LLC, Senior Notes	9.125%	5/1/31	3,000,000	2,835,000
Mirant Mid Atlantic LLC, Pass-Through Certificates	10.060%	12/30/28	1,461,442	1,592,971
<b><i>Total Independent Power Producers &amp; Energy Traders</i></b>				<b><i>12,187,036</i></b>
<b>Total Utilities</b>				<b>21,441,461</b>
<b>Total Corporate Bonds &amp; Notes (Cost \$373,353,118)</b>				<b>352,720,464</b>

See Notes to Financial Statements.



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## Schedule of investments (cont d)

August 31, 2011

## Western Asset High Yield Defined Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<b>Collateralized Senior Loans 0.5%</b>				
<b>Consumer Discretionary 0.5%</b>				
<i>Diversified Consumer Services 0.5%</i>				
Realogy Corp., Term Loan (Cost \$2,160,755)	13.500%	10/15/17	2,000,000	\$ 2,020,000(h)
<b>Convertible Bonds &amp; Notes 2.3%</b>				
<b>Consumer Discretionary 1.0%</b>				
<i>Diversified Consumer Services 1.0%</i>				
Realogy Corp., Senior Subordinated Bonds	11.000%	4/15/18	5,000,000	4,200,000(a)
<b>Energy 0.0%</b>				
<i>Oil, Gas &amp; Consumable Fuels 0.0%</i>				
James River Coal Co., Senior Notes	3.125%	3/15/18	110,000	82,500(a)
<b>Industrials 0.5%</b>				
<i>Marine 0.5%</i>				
Horizon Lines Inc., Senior Notes	4.250%	8/15/12	2,535,000	1,799,850(f)
<b>Materials 0.8%</b>				
<i>Chemicals 0.8%</i>				
Hercules Inc.	6.500%	6/30/29	4,000,000	3,110,000
<b>Total Convertible Bonds &amp; Notes (Cost \$10,487,723)</b>				<b>9,192,350</b>
<b>Sovereign Bonds 3.6%</b>				
<i>Argentina 1.4%</i>				
Republic of Argentina, Discount Notes	8.280%	12/31/33	3,438,096	2,836,429
Republic of Argentina, Senior Notes	8.750%	6/2/17	3,030,000	3,045,150
<b>Total Argentina</b>				<b>5,881,579</b>
<i>Venezuela 2.2%</i>				
Bolivarian Republic of Venezuela	5.750%	2/26/16	5,970,000	4,581,975(a)
Bolivarian Republic of Venezuela, Senior Bonds	9.250%	9/15/27	5,820,000	4,132,200
<b>Total Venezuela</b>				<b>8,714,175</b>
<b>Total Sovereign Bonds (Cost \$15,236,552)</b>				<b>14,595,754</b>
			<b>Shares</b>	
<b>Convertible Preferred Stocks 1.1%</b>				
<b>Financials 1.1%</b>				
<i>Diversified Financial Services 1.1%</i>				
Citigroup Inc. (Cost \$5,635,113)	7.500%		47,500	4,493,975
<b>Preferred Stocks 1.7%</b>				
<b>Financials 1.6%</b>				
<i>Consumer Finance 1.6%</i>				
GMAC Capital Trust I	8.125%		292,200	6,238,470(e)
<b>Industrials 0.1%</b>				

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<i>Road &amp; Rail 0.1%</i>			
Jack Cooper Holdings Corp.	20.000%	3,773	<b>358,435</b> (a)(e)
<b>Total Preferred Stocks (Cost \$7,669,315)</b>			<b>6,596,905</b>

See Notes to Financial Statements.

**Western Asset High Yield Defined Opportunity Fund Inc.**

<b>Security</b>	<b>Expiration Date</b>	<b>Warrants</b>	<b>Value</b>
<b>Warrants 0.0%</b>			
Jack Cooper Holdings Corp.	12/15/17	1,686	\$ 105,375*
Jack Cooper Holdings Corp.	5/6/18	846	52,875*
<b>Total Warrants (Cost \$46,253)</b>			<b>158,250</b>
<b>Total Investments before Short-Term Investments (Cost \$414,588,829)</b>			<b>389,777,698</b>
	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>
<b>Short-Term Investments 0.1%</b>			
<b>U.S. Government Agencies 0.1%</b>			
Federal Home Loan Mortgage Corp. (FHLMC), Discount Notes (Cost \$172,934)	0.100 - 0.105%	1/10/12	173,000
<b>Total Investments 97.3% (Cost \$414,761,763#)</b>			<b>172,987<sup>(i)(j)</sup></b>
<b>Other Assets in Excess of Liabilities 2.7%</b>			<b>10,937,642</b>
<b>Total Net Assets 100.0%</b>			<b>\$400,888,327</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) Payment-in-kind security for which part of the income earned may be paid as additional principal.

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

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

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

(f) Illiquid security (unaudited).

(g) Subsequent to August 31, 2011, the issuer filed for bankruptcy.

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

(i) Rate shown represents yield-to-maturity.

(j) All or a portion of this security is held at the broker as collateral for open futures contracts.

# Aggregate cost for federal income tax purposes is \$415,551,658.

**Abbreviations used in this schedule:**

EUR	Euro
GBP	British Pound

See Notes to Financial Statements.

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**Statement of assets and liabilities**

August 31, 2011

**Assets:**

Investments, at value (Cost \$414,761,763)	\$389,950,685
Foreign currency, at value (Cost \$747,342)	744,973
Cash	5,797,095
Interest receivable	9,803,916
Unrealized appreciation on forward foreign currency contracts	43,334
Receivable from broker variation margin on open futures contracts	19,125
Prepaid expenses	19,654
<b>Total Assets</b>	<b>406,378,782</b>

**Liabilities:**

Distributions payable	2,676,722
Payable for securities purchased	1,880,000
Unrealized depreciation on forward foreign currency contracts	527,606
Investment management fee payable	276,217
Directors' fees payable	730
Accrued expenses	129,180
<b>Total Liabilities</b>	<b>5,490,455</b>
<b>Total Net Assets</b>	<b>\$400,888,327</b>

**Net Assets:**

Par value (\$0.001 par value, 22,360,851 shares issued and outstanding; 100,000,000 shares authorized)	\$ 22,361
Paid-in capital in excess of par value	426,037,623
Overdistributed net investment income	(1,010,414)
Accumulated net realized gain on investments, futures contracts and foreign currency transactions	1,151,638
Net unrealized depreciation on investments, futures contracts and foreign currencies	(25,312,881)
<b>Total Net Assets</b>	<b>\$400,888,327</b>

<b>Shares Outstanding</b>	22,360,851
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<b>Net Asset Value</b>	\$17.93
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See Notes to Financial Statements.

**Statement of operations**

For the Period Ended August 31, 2011

**Investment Income:**

Interest	\$ 32,392,317
Dividends	361,050
Less: Foreign taxes withheld	(2,927)
<b>Total Investment Income</b>	<b>32,750,440</b>

**Expenses:**

Investment management fee (Note 2)	2,906,151
Directors' fees	68,138
Excise tax (Note 1)	67,726
Organization expenses	65,000
Audit and tax	63,000
Legal fees	61,844
Shareholder reports	44,135
Fund accounting fees	29,064
Transfer agent fees	25,889
Stock exchange listing fees	16,032
Custody fees	10,401
Miscellaneous expenses	6,470
<b>Total Expenses</b>	<b>3,363,850</b>
Less: Expense reimbursements (Note 2)	(65,000)
<b>Net Expenses</b>	<b>3,298,850</b>
<b>Net Investment Income</b>	<b>29,451,590</b>

**Realized and Unrealized Gain (Loss) on Investments, Futures Contracts and Foreign Currency Transactions (Notes 1, 3 and 4):**

Net Realized Gain (Loss) From:	
Investment transactions	2,903,556
Futures contracts	(777,692)
Foreign currency transactions	(2,063,121)
<b>Net Realized Gain</b>	<b>62,743</b>
Change in Net Unrealized Appreciation (Depreciation) From:	
Investments	(24,811,078)
Futures contracts	(17,226)
Foreign currencies	(484,577)
<b>Change in Net Unrealized Appreciation (Depreciation)</b>	<b>(25,312,881)</b>
<b>Net Loss on Investments, Futures Contracts and Foreign Currency Transactions</b>	<b>(25,250,138)</b>
<b>Increase in Net Assets from Operations</b>	<b>\$ 4,201,452</b>

For the period October 27, 2010 (commencement of operations) through August 31, 2011.

See Notes to Financial Statements.



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**Statement of changes in net assets**

<b>For the Period Ended August 31, 2011</b>	<b>2011</b>
<b>Operations:</b>	
Net investment income	\$ 29,451,590
Net realized gain	62,743
Change in net unrealized appreciation (depreciation)	(25,312,881)
<b><i>Increase in Net Assets From Operations</i></b>	<b><i>4,201,452</i></b>
<b>Distributions to Shareholders From (Note 1):</b>	
Net investment income	(29,440,835)
<b><i>Decrease in Net Assets From Distributions to Shareholders</i></b>	<b><i>(29,440,835)</i></b>
<b>Fund Share Transactions:</b>	
Net proceeds from sale of shares (22,189,177 shares issued)	422,925,916
Reinvestment of distributions (171,674 shares issued)	3,201,794
<b><i>Increase in Net Assets From Fund Share Transactions</i></b>	<b><i>426,127,710</i></b>
<b><i>Increase in Net Assets</i></b>	<b><i>400,888,327</i></b>
<b>Net Assets:</b>	
Beginning of period	
<b>End of period*</b>	<b>\$ 400,888,327</b>
* Includes overdistributed net investment income of:	\$(1,010,414)

For the period October 27, 2010 (commencement of operations) through August 31, 2011.

See Notes to Financial Statements.

**Financial highlights**

For a share of capital stock outstanding throughout the period ended August 31:

	<b>2011,2</b>
<b>Net asset value, beginning of period</b>	\$19.063
<b>Income (loss) from operations:</b>	
Net investment income	1.33
Net realized and unrealized loss	(1.14)
<b>Total income from operations</b>	<b>0.19</b>
<b>Less distributions from:</b>	
Net investment income	(1.32)
<b>Total distributions</b>	<b>(1.32)</b>
<b>Net asset value, end of period</b>	\$17.93
<b>Market price, end of period</b>	\$18.43
<b>Total return, based on NAV<sup>4,5</sup></b>	<b>0.90%</b>
<b>Total return, based on Market Price<sup>5</sup></b>	<b>(1.16)%</b>
<b>Net assets, end of period (millions)</b>	\$401
<b>Ratios to average net assets:</b>	
Gross expenses <sup>6</sup>	0.93%
Net expenses <sup>6,7</sup>	0.91
Net investment income <sup>6</sup>	8.11
<b>Portfolio turnover rate</b>	<b>56%</b>

1 For the period October 27, 2010 (commencement of operations) through August 31, 2011.

2 Per share amounts have been calculated using the average shares method.

3 Initial public offering price of \$20.00 per share less offering costs and sales load totaling \$0.94 per share.

4 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 less than one year are not annualized.

5 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 less than one year are not annualized.

6 Annualized.

7 The investment manager has agreed to reimburse all organization expenses (Note 2).

See Notes to Financial Statements.



## Notes to financial statements

### 1. Organization and significant accounting policies

Western Asset High Yield Defined Opportunity Fund Inc. (the Fund) was incorporated in Maryland on July 20, 2010 and is registered as a non-diversified, limited-term, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund's primary investment objective is to provide high income. As a secondary investment objective, the Fund will seek capital appreciation. The Fund seeks to achieve its investment objectives by investing, under normal market conditions, at least 80% of its net assets in a portfolio of high-yield corporate fixed income securities with varying maturities. The Fund intends to terminate on or about September 30, 2025 and distribute substantially all of its net assets to stockholders, after making appropriate provisions for any liabilities of the Fund.

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 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 fair valuation techniques and methodologies. 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. 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. 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). 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 Fund has adopted Financial Accounting Standards Board Codification Topic 820 (ASC Topic 820). ASC Topic 820 establishes a single definition of

fair value, creates a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the Fund's investments, and requires additional disclosure about fair value. The hierarchy of inputs is summarized below.

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

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

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.

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

Description	ASSETS			Total
	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Long-term investments :				
Corporate bonds & notes		\$350,840,464	\$1,880,000	\$352,720,464
Collateralized senior loans		2,020,000		2,020,000
Convertible bond & notes		9,192,350		9,192,350
Sovereign bonds		14,595,754		14,595,754
Convertible preferred stocks	\$ 4,493,975			4,493,975
Preferred stocks:				
Financials	6,238,470			6,238,470
Industrials		358,435		358,435
Warrants		158,250		158,250
<b>Total long-term investments</b>	<b>\$10,732,445</b>	<b>\$377,165,253</b>	<b>\$1,880,000</b>	<b>\$389,777,698</b>
<b>Short-term investments</b>		<b>172,987</b>		<b>172,987</b>
<b>Total investments</b>	<b>\$10,732,445</b>	<b>\$377,338,240</b>	<b>\$1,880,000</b>	<b>\$389,950,685</b>
Other financial instruments:				
Forward foreign currency contracts		\$ 43,334		\$ 43,334

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<b>Total</b>	<b>\$10,732,445</b>	<b>\$377,381,574</b>	<b>\$1,880,000</b>	<b>\$389,994,019</b>
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**Notes to financial statements (cont d)**

Description	LIABILITIES			Total
	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Other financial instruments:				
Futures contracts	\$17,226			\$ 17,226
Forward foreign currency contracts		\$527,606		527,606
<b>Total</b>	<b>\$17,226</b>	<b>\$527,606</b>		<b>\$544,832</b>

See Schedule of Investments for additional detailed categorizations.

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

	Corporate Bond & Notes
<b>Investments In Securities</b>	
Balance as of October 27, 2010	
Accrued premiums/discounts	
Realized gain (loss)	
Change in unrealized appreciation (depreciation)	
Net purchases (sales)	\$1,880,000
Transfers into Level 3	
Transfers out of Level 3	
<b>Balance as of August 31, 2011</b>	<b>\$1,880,000</b>
<b>Net change in unrealized appreciation (depreciation) for investments in securities still held at August 31, 2011</b>	

**(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) 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.

**(d) 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.

**(e) Foreign currency translation.** Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar

**Notes to financial statements (cont d)**

amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment 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.

**(f) 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.

**(g) 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 investment 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 investment in non-U.S. dollar denominated securities may also result in foreign currency losses caused by devaluations and exchange rate fluctuations.

**(h) 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.

As of August 31, 2011, the Fund held forward foreign currency contracts with credit related contingent features which had a liability position of \$527,606. 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.

**(i) 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

**Notes to financial statements (cont'd)**

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.

**(j) Distributions to shareholders.** Distributions from net investment income of the Fund, if any, are declared quarterly and paid on a monthly basis. 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.

**(k) 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.

**(l) Federal and other taxes.** It is the Fund's policy to comply with the federal income 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 realized gains, if any, to shareholders in accordance with the requirements imposed by the Code. Therefore, no federal or state income tax provision is required in the Fund's financial statements.

However, due to the timing of when distributions are made by the Fund, the Fund may be subject to an excise tax of 4% of the amount by which 98% of the Fund's annual taxable income and net realized gains exceed the distributions from such taxable income and realized gains for the calendar year. The Fund paid \$67,726 of Federal excise tax attributable to calendar year 2010 and estimates it will pay approximately \$130,000 of Federal excise tax attributable to calendar year 2011. Under the recently enacted Regulated Investment Company Modernization Act of 2010, the minimum distribution requirement for capital gains that must be met in order to avoid the imposition of excise tax has been raised from 98% to 98.2% for calendar years beginning after December 22, 2010.

Management has analyzed the Fund's uncertain tax positions and has concluded that as of August 31, 2011, 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 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.

**(m) 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. During the current period, the following reclassifications have been made:

	<b>Overdistributed Net Investment Income</b>	<b>Accumulated Realized Gain</b>	<b>Paid-in Capital</b>
(a)	\$ 67,726		\$(67,726)
(b)	(1,088,895)	\$1,088,895	

(a) Reclassifications are primarily due to a non-deductible excise tax paid by the Fund.

(b) Reclassifications are primarily due to foreign currency transactions treated as ordinary income for tax purposes and differences between book and tax amortization of premium on fixed-income securities.

## 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 Pte. Ltd. ( Western Singapore ), Western Asset Management Company Ltd ( Western Japan ) and Western Asset Management Company Limited ( Western Asset Limited ) are the Fund's subadvisers. LMPFA, Western Asset, Western Singapore, Western Japan and Western Asset Limited 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 daily net assets.

LMPFA delegates to Western Asset the day-to-day portfolio management of the Fund. Western Singapore, Western Japan and Western Asset Limited provide certain advisory services to the Fund relating to currency transactions and investments in non-U.S. dollar denominated debt securities. For its services, LMPFA pays Western Asset 70% of the net management fee it receives from the Fund. In turn, Western Asset pays each of Western Singapore, Western Japan and Western Asset Limited a fee for its services at no additional expense to the Fund. Each of Western Singapore, Western Japan and Western Asset Limited receives a fee from Western Asset, payable monthly, in an amount equal to an annual rate of 0.56% of the Fund's average daily net assets related to the Fund's assets that Western Asset allocates to Western Singapore, Western Japan and Western Asset Limited, respectively, to manage.

LMPFA has agreed to pay (i) all the Fund's organizational costs and (ii) the Fund's offering costs, other than sales load, in excess of \$0.04 per common share.

During the period ended August 31, 2011, LMPFA reimbursed organization expenses amounting to \$65,000.