

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, 49th Floor, New York, NY 10018
(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

Stamford, CT 06902

(Name and address of agent for service)

Registrant's telephone number, including area code: (888)777-0102

Date of fiscal year end: 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

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Fund objectives	

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. 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

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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 (Fedⁱⁱ) 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^{iv} 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^v, 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^x, 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 Globalⁱⁱ) 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 (NAVⁱⁱⁱ) 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^{ix} 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.

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.

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.

- 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 U.S. 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 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.
- ^{vi} 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.
- ^{vii} 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.
- ^{viii} 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.
- ^{ix} 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
Corporate Bonds & Notes 119.3%				
Consumer Discretionary 25.0%				
<i>Auto Components 0.4%</i>				
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 Automobiles 0.4%</i>				<i>3,166,572</i>
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 1.0%</i>				
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 Hotels, Restaurants & Leisure 6.7%</i>				<i>7,957,775</i>
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	