WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.
Form DEF 14A
December 23, 2008

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.
(Name of Registrant as Specified in Its Charter)

Payment of Filing Fee (Check the appropriate box):

x	No fee required.	
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.	
	(1)	Title of each class of securities to which transaction applies:
	(2)	Aggregate number of securities to which transaction applies:
	(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
	(4)	Proposed maximum aggregate value of transaction:
	(5)	Total fee paid:
o	Fee paid previously with preliminary materials.	
o	Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by the registration statement number, or the Form or Schedule and the date of its filing.	
	(1)	Amount Previously Paid:
	(2)	Form, Schedule or Registration Statement No.:
	(3)	Filing Party:
	(4)	Date Filed:

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

55 Water Street, New York, New York 10041

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

December 23, 2008

To the Stockholders:

The Annual Meeting of Stockholders of Western Asset High Income Opportunity Fund Inc. (the "Fund") will be held at 620 Eighth Avenue, 49th Floor, New York, New York, on Friday, February 6, 2009 at 3:30 p.m., New York time, for the following purposes:

1. A proposal to elect two Class II Directors to the Fund's Board of Directors; and

2. The transaction of such other business as may properly come before the meeting or any adjournments or postponements thereof.

The Board of Directors has fixed the close of business on December 5, 2008 as the record date for the determination of stockholders entitled to notice of, and to vote at, the meeting and any adjournments or postponements thereof.

By Order of the Board of Directors

Robert I. Frenkel
Secretary

December 23, 2008

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE MEETING IN PERSON OR BY PROXY; IF YOU DO NOT EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY IN THE ACCOMPANYING ENVELOPE PROVIDED FOR YOUR CONVENIENCE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

Instructions for Signing Proxy Cards

The following general rules for signing proxy cards may be of assistance to you and avoid the time and expense to the Fund in validating your vote if you fail to sign your proxy card properly.

1. *Individual Accounts:* Sign your name exactly as it appears in the registration on the proxy card.

2. *Joint Accounts:* Either party may sign, but the name of the party signing should conform exactly to a name shown in the registration.

3. *All Other Accounts:* The capacity of the individual signing the proxy card should be indicated unless it is reflected in the form of registration. For example:

		Registration	**Valid Signature**
Corporate Accounts			
	(1)	ABC Corp	ABC Corp. (by John Doe, Treasurer)
	(2)	ABC Corp	John Doe, Treasurer
	(3)	ABC Corp., c/o John Doe, Treasurer	John Doe
	(4)	ABC Corp. Profit Sharing Plan	John Doe, Trustee
Trust Accounts			
	(1)	ABC Trust	Jane B. Doe, Trustee
	(2)	Jane B. Doe, Trustee, u/t/d 12/28/78	Jane B. Doe
Custodial or Estate Accounts			
	(1)	John B. Smith, Cust., f/b/o John B. Smith, Jr. UGMA	John B. Smith
	(2)	John B. Smith	John B. Smith, Jr., Executor

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

55 Water Street, New York, New York 10041

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation by the Board of Directors (the "Board") of Western Asset High Income Opportunity Fund Inc. (the "Fund") of proxies to be voted at the Annual Meeting of Stockholders of the Fund to be held at 620 Eighth Avenue, 49th Floor, New York, New York, on Friday, February 6, 2009 at 3:30 p.m., New York time, and at any adjournments or postponements thereof (the "Meeting"), for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders (the "Notice").

This Proxy Statement and the accompanying materials are being mailed to stockholders on or about December 23, 2008.

The Fund is organized as a Maryland corporation and is a registered investment company.

Legg Mason Partners Fund Advisor, LLC ("LMPFA"), whose principal business address is 620 Eighth Avenue, New York, NY 10018, is the Fund's investment adviser and administrator. Pursuant to a sub-advisory agreement with LMPFA, Western Asset Management Company ("Western Asset") is the Fund's sub-investment advisor. Both LMPFA and Western Asset are wholly-owned subsidiaries of Legg Mason, Inc. ("Legg Mason").

Even if you plan to attend the Meeting, please sign, date and return the enclosed proxy card, or provide voting instructions by telephone or over the Internet. If you vote by telephone or over the Internet, you will be asked to enter a unique code that has been assigned to you, which is printed on your proxy card. This code is designed to confirm your identity, provide access into the voting sites and confirm that your instructions are properly recorded.

All properly executed proxies received prior to the Meeting will be voted at the Meeting in accordance with the instructions marked thereon or otherwise as provided therein. Unless instructions to the contrary are marked, shares represented by the proxies will be voted "FOR" the election of each nominee in Proposal 1. In accordance with the Fund's By-Laws, a quorum is constituted by the presence in person or by proxy of the holders of record of a majority of the outstanding shares of the Fund's common stock entitled to vote at the Meeting. For purposes of determining the presence of a quorum for transacting business at the Meeting, abstentions will be treated as shares that are present but which have not been voted.

The Board has fixed the close of business on December 5, 2008 as the record date (the "Record Date") for the determination of stockholders of the Fund entitled to notice of and to vote at the Meeting or any adjournment or postponement thereof. Stockholders of the Fund on that date will be entitled to one vote on each matter for each share held, and a fractional vote with respect to fractional shares, with no cumulative voting rights. At the Record Date, the Fund had outstanding 73,927,179.249 shares of Common Stock, par value $0.001 per share, the only authorized class of stock, of which 73,364,844 or 99.23% were held in accounts, but not beneficially owned, by Cede & Co., as nominee for The Depository Trust Company, Box 20, Bowling Green Station, New York, New York 10004-9998, including, First Trust Portfolios L.P., 1001 Warrenville Road, Lisle, IL 60532 beneficially owned 7.90% of the outstanding shares of Common Stock of the Fund as per the Schedule 13G/A filed on

February 12, 2008 with the Securities and Exchange Commission ("SEC") and Loomis, Sayles & Co., L.P, One Financial Center, Boston, MA, 02111, beneficially owned 6.48% of the outstanding shares of Common Stock of the Fund, as per the Schedule 13G/A filed on February 14, 2008 with the SEC.

Annual reports are sent to stockholders of record of the Fund following the Fund's fiscal year end. The Fund will furnish, without charge, a copy of its annual report and most recent semi-annual report succeeding the annual report, if any, to a stockholder upon request. Such requests should be directed to the Fund at 55 Water Street, New York, New York 10041 or by calling toll free at 888-777-0102. Copies of annual and semi-annual reports of the Fund are also available on the EDGAR Database on the Securities and Exchange Commission's Internet site at www.sec.gov.

Please note that only one annual or semi-annual report or Proxy Statement may be delivered to two or more stockholders of the Fund who share an address, unless the Fund has received instructions to the contrary. To request a separate copy of an annual or semi-annual report or the Proxy Statement, or for instructions as to how to request a separate copy of these documents or as to how to request a single copy if multiple copies of these documents are received, stockholders should contact the Fund at the address and phone number set forth above.

Vote Required and Manner of Voting Proxies

A quorum of stockholders is required to take action at the Meeting. A majority of the shares of the Fund entitled to vote at the Meeting, represented in person or by proxy, will constitute a quorum of stockholders at the Meeting.

Votes cast by proxy or in person at the Meeting will be tabulated by the inspector of election appointed for the Meeting. The inspector of election, who is an employee of the proxy solicitor engaged by the Fund, will determine whether or not a quorum is present at the Meeting. The inspector of election will treat abstentions and "broker non-votes" (i.e., shares held by brokers or nominees, typically in "street name," as to which proxies have been returned but (a) instructions have not been received from the beneficial owners or persons entitled to vote and (b) the broker or nominee does not have discretionary voting power on a particular matter) as present for purposes of determining a quorum.

If you hold shares directly (not through a broker-dealer, bank or other financial intermediary) and if you return a signed proxy card that does not specify how you wish to vote on a proposal, your shares will be voted "FOR" Proposal 1.

Required Vote

Directors are elected by a plurality of the votes cast by the holders of shares of the Fund's Common Stock present in person or represented by proxy at a Meeting at which a quorum is present.

For purposes of the election of Directors, abstentions and broker non-votes will not be considered votes cast, and do not affect the plurality vote required for the election of Directors.

In the event that a quorum is not present, or if sufficient votes to elect Directors in Proposal No. 1 as set forth in the Notice and this Proxy Statement are not received by the time scheduled for the Meeting, the persons named as proxies may move for one or more adjournments of the Meeting to permit further solicitation of proxies with respect to such proposal. In determining whether to adjourn the Meeting, the following factors may be considered: the nature of the proposal that is the subject of the Meeting, the percentage of votes actually cast, the nature of any further solicitation and the information to be provided to stockholders with respect to the reasons for the solicitation. Any such adjournment will require the affirmative vote of a majority of the shares present at the Meeting. If an adjournment is proposed, the persons named as proxies will vote the shares that they are entitled to vote in their discretion.

Proposal No. 1: Election of Directors

In accordance with the Fund's Charter, the Board is currently classified into three classes: Class I, Class II and Class III. The Directors serving in Class II have terms expiring at the Meeting, and they have been nominated by the Board of Directors for election at the Meeting to serve for a term of three years (until the 2012 Annual Meeting of Stockholders), or until their successors have been duly elected and qualified or until they resign or are otherwise removed. The terms of office of the remaining Class III and Class I Directors expire at the year 2010 or 2011 Annual Meeting of Stockholders, respectively, or thereafter when their successors have been duly elected and qualified or until they resign or are otherwise removed. The effect of these staggered terms is to limit the ability of other entities or persons to acquire control of the Fund by delaying the replacement of a majority of the Board of Directors.

Each of the nominees is currently a member of the Fund's Board of Directors and has indicated that he or she will serve if elected. The Board knows of no reason why any of the nominees listed below will be unable to serve, but in the event of any such unavailability, the proxy confers discretionary power on the persons named therein to vote in favor of a substitute nominee or nominees in their discretion.

Certain information concerning the nominees is set forth below. Any Director affiliated with the Manager or otherwise considered an "interested person" of the Fund, as defined in the Investment Company Act of 1940, as amended (the "1940 Act"), is indicated by an asterisk(*). Information as to beneficial ownership is based upon information furnished to the Fund by the Directors.

Persons Nominated for Election as Directors

Name, Address and Birth Year	Position(s) Held with Fund	Term of Office and Length Time Served	Principal Occupations During Past Five Years	Number of Portfolios in Fund Complex** Overseen by Director	Other Directorships Held by Director
Nominees to serve as Class II Directors until the 2012 Annual Meeting of Stockholders					
INTERESTED DIRECTOR:					
R. Jay Gerken, CFA* Legg Mason & Co., LLC ("Legg Mason") 620 Eighth Avenue, 49th Floor New York, NY 10018 Birth year: 1951	Chairman, President and Chief Executive Officer	Since 2002	Managing Director, Legg Mason; Chairman, President and Chief Executive Officer of LMPFA; Chairman of the Board, Trustee, or Director of 163 funds associated with LMPFA and its affiliates (since 2006); Chairman, President and Chief Executive Officer of certain mutual funds associated with Legg Mason or its affiliates; formerly, Chairman, President and Chief Executive Officer, Travelers Investment Advisers Inc. (2002 to 2005)	148	Former Trustee, Consulting Group Capital Markets Fund (2002-2006)
NON-INTERESTED DIRECTOR:					
Paolo M. Cucchi c/o Chairman of the Fund, Legg Mason, 620 Eighth Avenue 49th Floor New York, NY 10018 Birth Year:1941	Director and Member of Audit and Nominating Committees	Since 2007	Vice President and Dean of College of Liberal Arts at Drew University.	23	None

** The term "Fund Complex" means two or more registered investment companies that:

(a) Hold themselves out to investors as related companies for purposes of investment and investor services; or

(b) Have a common investment adviser or have an investment adviser that is an affiliated person of the investment adviser of any of the other registered investment companies.

The following table provides information concerning the remaining Directors of the Fund:

Name, Address and Birth Year	Position(s) Held with Fund	Term of Office and Length Time Served	Principal Occupations During Past Five Years	Number of Portfolios in Fund Complex** Overseen by Director	Other Directorships Held by Director
Class III Directors serving until 2010 Annual Meeting of Stockholders					
NON-INTERESTED DIRECTORS:					
Leslie H. Gelb c/o Chairman of the Fund, Legg Mason, 620 Eighth Avenue 49th Floor New York, NY 10018 Birth year: 1937	Director and Member of Audit and Nominating Committees	Since 2007	President Emeritus and Senior Board Fellow, The Council on Foreign Relations; formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, *The New York Times*	23	Director of two registered investment companies advised by Blackstone Asia Advisors L.L.C. ("Blackstone Advisors")
William R. Hutchinson c/o Chairman of the Fund, Legg Mason, 620 Eighth Avenue 49th Floor New York, NY 10018 Birth year: 1942	Director and Member of Audit and Nominating Committees	Since 2007	President, W.R. Hutchinson & Associates Inc. (consulting), formerly Group Vice President, Mergers and Acquisitions, BP Amoco p.l.c.	23	Director of Associated Banc-Corp.
Dr. Riordan Roett c/o Chairman of the Fund, Legg Mason, 620 Eighth Avenue 49th	Director and Member of Audit and Nominating Committees	Since 2007	Professor and Director, Latin American Studies Program, Paul H. Nitze School of Advanced International Studies, The Johns Hopkins University.	23	None

Floor New York, NY 10018 Birth year: 1938

Class I Directors serving until 2011 Annual Meeting of Stockholders

NON-INTERESTED DIRECTORS:

Carol L. Colman c/o Chairman of the Fund, Legg Mason, 620 Eighth Avenue 49th Floor New York, NY 10018 Birth year: 1946	Director and Member of Audit and Nominating Committees	Since 2007	President, Colman Consulting Co.	23	None

* Designates a Director who is an "interested person" of the Fund as defined in the 1940 Act because he is a Managing Director of Legg Mason, the parent company of the Fund's investment manager.

** The term "Fund Complex" means two or more registered investment companies that:

(a) Hold themselves out to investors as related companies for purposes of investment and investor services; or

(b) Have a common investment adviser or have an investment adviser that is an affiliated person of the investment adviser of any of the other registered investment companies.

Name, Address and Birth Year	Position(s) Held with Fund	Term of Office and Length Time Served	Principal Occupations During Past Five Years	Number of Portfolios in Fund Complex** Overseen by Director	Other Directorships Held by Director
Daniel P. Cronin c/o Chairman of the Fund, Legg Mason, 620 Eighth Avenue 49th Floor New York, NY 10018 Birth year: 1946	Director and Member of Audit and Nominating Committees	Since 2007	Retired; formerly, Associate General Counsel, Pfizer, Inc.	23	None
Jeswald W. Salacuse c/o Chairman of the Fund, Legg Mason, 620 Eighth Avenue 49th Floor New York, NY 10018 Birth year: 1938	Director and Member of Audit and Nominating Committees	Since 2007	Henry J. Braker Professor of Commercial Law and formerly Dean, The Fletcher School of Law & Diplomacy, Tufts University	23	Director of two registered investment companies advised by Blackstone Advisors

** The term "Fund Complex" means two or more registered investment companies that:

(a) Hold themselves out to investors as related companies for purposes of investment and investor services; or

(b) Have a common investment adviser or have an investment adviser that is an affiliated person of the investment adviser of any of the other registered investment companies.

Security Ownership of Management

The following table provides information concerning the dollar range of equity securities owned beneficially by each Director and nominee for election as Director as of December 31, 2007:

Name of Director/Nominee	Dollar Range(1) of Equity Securities in the Fund	Aggregate Dollar Range(2) of Equity Securities in all Funds Overseen by Director/Nominee in Family of Investment Companies(2)
NON-INTERESTED DIRECTORS		
Carol L. Colman	A	E
Daniel P. Cronin	C	E
Paolo M. Cucchi	A	C

Leslie H. Gelb	A	A
William R. Hutchinson	A	E
Dr. Riordan Roett	A	C
Jeswald W. Salacuse	A	C
INTERESTED DIRECTOR		
R. Jay Gerken	B	E

(1) The dollar ranges are as follows: "A" = None; "B" = $1-$10,000; "C" = $10,001-$50,000; "D" = $50,001-$100,000; "E" = Over $100,000.

(2) "Family of Investment Companies" means any two or more registered investment companies that share the same investment adviser or principal underwriter or hold themselves out to investors as related companies for purposes of investment and investor services.

At December 5, 2008, the Directors and officers of the Fund as a group beneficially owned less than 1% of the outstanding shares of the Fund's Common Stock.

No Director or nominee for election as Director who is not an "interested person" of the Fund as defined in the 1940 Act, nor any immediate family members, to the best of the Fund's knowledge, had any interest in the

Fund's investment adviser, or any person or entity (other than the Fund) directly or indirectly controlling, controlled by, or under common control with Legg Mason as of December 31, 2007.

Director Compensation

Under the federal securities laws, and in connection with the Meeting, the Fund is required to provide to stockholders in connection with the Meeting information regarding compensation paid to the Directors by the Fund, as well as by the various other investment companies advised by LMPFA. The following table provides information concerning the compensation paid to each Director by the Fund during the fiscal year ended September 30, 2008 and the total compensation paid to each Director during the calendar year ended December 31, 2007. Certain of the Directors listed below are members of the Fund's Audit and Nominating Committees, as well as other committees of the boards of certain other investment companies advised by LMPFA. Accordingly, the amounts provided in the table include compensation for service on all such committees. The Fund does not provide any pension or retirement benefits to Directors. In addition, no remuneration was paid during the fiscal year ended September 30, 2008 by the Fund to Mr. Gerken who is an "interested person" as defined in the 1940 Act.

Name of Directors	Aggregate Compensation from the Fund for Fiscal Year Ended 09/30/08	Total Compensation from the Fund and Fund Complex(1) for Calendar Year Ended 12/31/07
Directorships(2)		
Carol L. Colman	$ 14,471	$ 326,113
Daniel P. Cronin	13,317	192,450
Paolo M. Cucchi	13,317	174,250
Leslie H. Gelb	13,874	178,250
Willian R. Hutchinson	14,796	368,240
Dr. Riordan Roett	13,874	180,250
Jeswald W. Salacuse	7,897	187,250

(1) "Fund Complex" means two or more Funds (a registrant or, where the registrant is a series company, a separate portfolio of the registrant) that hold themselves out to investors as related companies for purposes of investment and investor services or have a common investment adviser or have an investment adviser that is an affiliated person of the investment adviser of any of the other Funds.

(2) Each Director currently holds 23 investment company directorships.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the 1934 Act and Section 30(h) of the 1940 Act in combination require the Fund's Directors and officers and persons who own more than 10% of the Fund's common stock, as well as LMPFA and certain of its affiliated persons, to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC") and the New York Stock Exchange, Inc. ("NYSE"). Such persons are required by SEC regulations to furnish the Fund with copies of all such filings. Based solely upon its review of the copies of such filings received by it and certain other information received by it, the Fund believes that, for the fiscal year ended September 30, 2008, all filing requirements applicable to such persons were met.

Responsibilities of the Board of Directors

The Board of Directors is responsible for ensuring that the Fund is managed in the best interest of its stockholders. The Directors oversee the Fund's business by, among other things, meeting with the Fund's management and evaluating the performance of the Fund's service providers including LMPFA, Western Asset, the custodian and the transfer agent. As part of this process, the Directors consult with the Fund's independent auditors and with their own separate independent counsel.

The Board of Directors has four regularly scheduled meetings each year, and additional meetings are scheduled as needed. In addition, the Board has an Audit Committee and a Nominating Committee that meet periodically and whose responsibilities are described below.

During the fiscal year ended September 30, 2008, the Board of Directors held four regular meetings. Each Director attended at least 75% of the aggregate number of meetings of the Board and the committees for which he or she was eligible. The Fund does not have a formal policy regarding attendance by Directors at annual meetings of stockholders. Mr. Gerken attended the Fund's 2008 Annual Meeting of Stockholders.

The Directors review the Fund's financial statements, performance and market price as well as the quality of the services being provided to the Fund. As part of this process, the Directors review the Fund's fees and expenses to determine if they are reasonable and competitive in light of the services being received and while also ensuring that the Fund continues to have access to high quality services in the future. Based on these reviews, the Directors periodically make suggestions to the Fund's management and monitor to ensure that responsive action is taken. The Directors also monitor potential conflicts of interest among the Fund, LMPFA and its affiliates and other funds and clients managed by LMPFA and Western Asset to ensure that the Fund is managed in a manner which is in the best interest of the Fund's stockholders.

Audit Committee

The Fund's Audit Committee is composed of all Directors who have been determined not to be "interested persons" of the Fund, LMPFA, Western Asset or their affiliates within the meaning of the 1940 Act, and who are "independent" as defined in the New York Stock Exchange listing standards. Currently, the Audit Committee is composed of Ms. Colman and Messrs. Cronin, Cucchi, Gelb, Hutchinson and Roett. The principal functions of the Audit Committee are: to (a) oversee the scope of the Fund's audit, the Fund's accounting and financial reporting policies and practices and its internal controls and enhance the quality and objectivity of the audit function; (b) approve, and recommend to the Independent Board Members (as such term is defined in the Audit Committee Charter) for their ratification, the selection, appointment, retention or termination of the Fund's independent registered public accounting firm, as well as approving the compensation thereof; and (c) approve all audit and permissible non-audit services provided to the Fund and certain other persons by the Fund's independent registered public accounting firm. This Committee met five times during the fiscal year ended September 30, 2008. The Fund's Board of Directors adopted an amended Audit Committee Charter at a meeting held on December 16, 2005, a copy of which was filed as Exhibit A to the Fund's proxy statement dated January 30, 2007.

Nominating Committee

The Fund's Corporate Governance and Nominating Committee (the "Nominating Committee"), the principal function of which is to select and nominate candidates for election as Directors of the Fund, is currently composed of Ms. Colman and Messrs. Cronin, Cucchi, Gelb, Hutchinson and Roett. Only Directors who are not "interested persons" of the Fund as defined in the 1940 Act and who are "independent" as defined in the New York Stock Exchange listing standards are members of the Nominating Committee. The Nominating Committee may accept nominees recommended by the stockholder as it deems appropriate. Stockholders who wish to recommend a nominee should send recommendations to the Fund's Secretary that include all information relating to such person that is required to be disclosed in solicitations of proxies for the election of Directors. A recommendation must be accompanied by a written consent of the individual to stand for election if nominated by the Board of Directors and to serve if elected by the stockholders. The Nominating Committee did not meet during the Fund's fiscal year ended September 30, 2008. The Fund's Board of Directors adopted a Corporate Governance and Nominating Committee Charter at a meeting held on January 20, 2004, a copy of which was filed as Exhibit B to the Fund's proxy statement dated January 30, 2007.

The Nominating Committee identifies potential nominees through its network of contacts, and may also engage, if it deems appropriate, a professional search firm. The Nominating Committee meets to discuss and consider such candidates' qualifications and then chooses a candidate by majority vote. The Nominating Committee does not have specific, minimum qualifications for nominees and has not established specific qualities or skills that it regards as necessary for one or more of the Fund's Directors to possess (other than any qualities or skills that may be required by applicable law, regulation or listing standard). However, as set forth in the Nominating Committee Charter, in evaluating a person as a potential nominee to serve as a Director of the Fund, the Nominee Committee may consider the following factors, among any others it may deem relevant:

whether or not the person is an "interested person" as defined in the 1940 Act and whether the person is otherwise qualified under applicable laws and regulations to serve as a Director of the Fund;

whether or not the person has any relationships that might impair his or her independence, such as any business, financial or family relationships with Fund management, the investment manager of the Fund, Fund service providers or their affiliates;

whether or not the person serves on boards of, or is otherwise affiliated with, competing financial service organizations or their related mutual fund complexes;

whether or not the person is willing to serve, and willing and able to commit the time necessary for the performance of the duties of a Director of the Fund;

the contribution which the person can make to the Board and the Fund (or, if the person has previously served as a Director of the Fund, the contribution which the person made to the Board during his or her previous term of service), with consideration being given to the person's business and professional experience, education and such other factors as the Committee may consider relevant;

the character and integrity of the person; and

whether or not the selection and nomination of the person would be consistent with the requirements of the Fund's retirement policies.

Officers

The Fund's executive officers are chosen each year at a regular meeting of the Board of Directors of the Fund, to hold office until their respective successors are duly elected and qualified. In addition to Mr. Gerken, the Fund's Chairman, CEO and President, the executive officers of the Fund currently are:

Name, Address and Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 years
Kaprel Ozsolak Legg Mason 55 Water Street, New York, NY 10041 Birth year: 1965	Chief Financial Officer and Treasurer	Since 2007	Director of Legg Mason; Chief Financial Officer and Treasurer of certain mutual funds associated with Legg Mason; Formerly, Controller of certain mutual funds associated with certain predecessor firms of Legg Mason (2002-2004)
Ted P. Becker Legg Mason 620 Eighth Avenue, 49th Floor New York, NY 10018 Birth year: 1951	Chief Compliance Officer	Since 2006	Director of Global Compliance at Legg Mason (since 2006); Managing Director of Compliance at Legg Mason, (since 2005); Chief Compliance Officer with certain mutual funds associated with Legg Mason (since 2006); Managing Director of Compliance at Legg Mason or its predecessors (2002-2005). Prior to 2002, Managing Director Internal Audit & Risk Review at Citigroup Inc.
Albert Laskaj Legg Mason, 55 Water Street, New York, NY 10041 Birth Year: 1977	Controller	Since 2007	Vice President of Legg Mason (since 2008); Controller of certain funds associated with Legg Mason (since 2007); Formerly, Assistant Controller of certain mutual funds associated with Legg Mason (from 2005 to 2007); Formerly, Accounting Manager of certain mutual funds associated with certain predecessor firms of Legg Mason (from 2003 to 2005)
Steven Frank Legg Mason, 55 Water Street, New York, NY 10041 Birth Year: 1967	Controller	Since 2005	Vice President of Legg Mason (since 2002); Controller of certain funds associated with Legg Mason or its predecessors (since 2005); Formerly, Assistant Controller of certain mutual funds associated with Legg Mason predecessors (from 2001 to 2005)
Robert I. Frenkel Legg Mason 100 First Stamford Place Stamford, CT 06902 Birth year: 1954	Secretary and Chief Legal Officer	Since 2003	Managing Director and General Counsel of Global Mutual Funds for Legg Mason and its predecessor (since 1994); Secretary and Chief Legal Officer of mutual funds associated with Legg Mason (since 2003); formerly, Secretary of CFM (2001-2004)

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Report of the Audit Committee

Pursuant to a meeting of the Audit Committee on November 24, 2008, the Audit Committee reports that it has: (i) reviewed and discussed the Fund's audited financial statements with management; (ii) discussed with KPMG LLP ("KPMG"), the independent registered public accounting firm of the Fund, the matters required to be discussed by Statement on Auditing Standards No. 61; and (iii) previously received written confirmation from KPMG that it is independent and written disclosures regarding such independence as required by Independence Standards Board Standard No. 1, and discussed with KPMG the independent registered public accounting firm's independence.

Pursuant to the Audit Committee Charter adopted by the Fund's Board, the Audit Committee is responsible for conferring with the Fund's independent registered public accounting firm, reviewing annual financial statements and recommending the selection of the Fund's independent registered public accounting firm. The Audit Committee advises the full Board with respect to accounting, auditing and financial matters affecting the Fund. The independent registered public accounting firm is responsible for planning and carrying out the proper audits and reviews of the Fund's financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States of America.

The members of the Audit Committee are not professionally engaged in the practice of auditing or accounting and are responsible for oversight. Moreover, the Audit Committee relies on and makes no independent verification of the facts presented to it or representations made by management or the independent registered public accounting firm. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principals and policies, or internal controls and procedures, designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to above do not provide assurance that the audit of the Fund's financial statements has been carried out in accordance with generally accepted accounting standards or that the financial statements are presented in accordance with generally accepted accounting principles.

Based on the review and discussions referred to in items (i) through (iii) above, the Audit Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in the Fund's annual report for the Fund's fiscal year ended September 30, 2008.

Submitted by the Audit Committee
of the Fund's Board of Directors

Carol L. Colman
Daniel P. Cronin
Paolo M. Cucchi
Leslie H. Gelb
William R. Hutchinson
Riordan Roett
Jeswald W. Salacuse

November 24, 2008

Board Recommendation and Required Vote

Directors are elected by a plurality of the votes cast by the holders of shares of the Fund's common stock present in person or represented by proxy at a meeting at which a quorum is present. For purposes of the election of Directors, abstentions and broker non-votes will not be considered votes cast, and do not affect the plurality vote required for Directors.

The Fund's Board of Directors unanimously recommends that stockholders of the Fund vote FOR each of the nominees for Director.

Disclosure of Fees Paid to Independent Registered Public Accounting Firm

Audit Fees. The aggregate fees billed in the last two fiscal years ended September 30, 2007 and September 30, 2008 for professional services rendered by KPMG for the audit of the Fund's annual financial statements, or services that are normally provided in connection with the statutory and regulatory filings or engagements in those fiscal years, were $31,000 and $32,600, respectively.

Audit Related Fees. The aggregate fees billed by KPMG in connection with assurance and related services related to the annual audit of the Fund and for review of the Fund's financial statements, other than the Audit Fees described above, for the fiscal years ended September 30, 2007 and September 30, 2008 were $0 and $0, respectively.

In addition, there were no Audit Related Fees billed in the fiscal years ended September 30, 2007 and September 30, 2008 for assurance and related services by KPMG to LMPFA and any entity controlling, controlled by or under common control with LMPFA that provides ongoing services to the Fund (LMPFA and such other entities together, the "Service Affiliates"), that were related to the operations and financial reporting of the Fund.

Tax Fees. The aggregate fees billed by KPMG for tax compliance, tax advice and tax planning services, which include the filing and amendment of federal, state and local income tax returns, timely regulated investment company qualification review and tax distribution and analysis planning to the Fund for the fiscal years ended September 30, 2007 and September 30, 2008 were $6,000 and $3,200, respectively.

There were no fees billed by KPMG to the Service Affiliates for tax services for the fiscal years ended September 30, 2007 and September 30, 2008 that were required to be approved by the Fund's Audit Committee.

All Other Fees. There were no other fees billed for other non-audit services rendered by KPMG to the Fund for the fiscal years ended September 30, 2007 and September 30, 2008.

There were no other non-audit services rendered by KPMG to the Service Affiliates in the fiscal years ended September 30, 2007 and September 30, 2008.

Generally, the Audit Committee must approve (a) all audit and permissible non-audit services to be provided to the Fund and (b) all permissible non-audit services to be provided to the Service Affiliates that relate directly to the operations and financial reporting of the Fund. The Audit Committee may implement policies and procedures by which such services are approved other than by the full Committee but has not yet done so.

For the Fund, the percentage of fees that were approved by the Audit Committee, with respect to: Audit-Related Fees were 100% and 100% for the fiscal years ended September 30, 2007 and September 30, 2008; Tax

Fees were 100% and 100% for the fiscal years ended September 30, 2007 and September 30, 2008; and for Other Fees paid were 100% and 100% for the fiscal years ended September 30, 2007 and September 30, 2008.

The Audit Committee shall not approve non-audit services that the Committee believes may impair the independence of the registered public accounting firm. As of the date of the approval of the Audit Committee Charter, permissible non-audit services include any professional services (including tax services), that are not prohibited services as described below, provided to the Fund by the independent registered public accounting firm, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services may not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Audit Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund, the Manager and any Covered Service Provider constitutes not more than 5% of the total amount of revenues paid to the independent registered public accounting firm during the fiscal year in which the permissible non-audit services are provided to (a) the Fund, (b) LMPFA and (c) any entity partially controlled by or under common control with LMPFA that provides ongoing services to the Fund during the fiscal year in which the services are provided that would not have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Audit Committee and approved by the Audit Committee (or its delegate(s)) prior to the completion of the audit.

The aggregate non-audit fees billed by KPMG for non-audit services rendered to the Fund and Service Affiliates for the fiscal years ended September 30, 2007 and 2008 were $0 and $0, respectively.

The Audit Committee has considered whether the provision of non-audit services to the Service Affiliates that were not pre-approved by the Audit Committee (because they did not require pre-approval) is compatible with maintaining KPMG's independence. All services provided by KPMG to the Fund or to the Service Affiliates that were required to be pre-approved by the Audit Committee were pre-approved.

Submission of Stockholder Proposals and Other Stockholder Communications

All proposals by stockholders that are intended to be presented at the 2010 Annual Meeting of the Stockholders of the Fund must be received by the Fund for inclusion in the Fund's proxy statement and proxy relating to that meeting no later than September 1, 2009. Any stockholder who desires to submit a proposal at the 2010 Annual Meeting of Stockholders without including such proposal in the Fund's proxy statement must deliver written notice thereof to the Secretary of the Fund (addressed to c/o Legg Mason, 100 First Stamford Place, 7th Floor, Stamford, CT 06902) during the period from November 5, 2009 to November 29, 2009. However, that if less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, any such notice by a stockholder to be timely must be so received not later than the close of business on the tenth day following the day on which notice of the date of the annual or special meeting was given or such public disclosure was made.

The Fund's Audit Committee has established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters (collectively, "Accounting Matters"). Persons with complaints or concerns regarding Accounting Matters may submit their complaints to the Chief Compliance Officer ("CCO"). Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to the Fund's Audit Committee Chair (together with the CCO, "Complaint Officers"). Complaints may be submitted on an anonymous basis.

The CCO may be contacted at:

Legg Mason & Co., LLC
Compliance Department
620 Eighth Avenue, 49th Floor
New York, New York 10018

Complaints may also be submitted by telephone at 1-800-742-5274. Complaints submitted through this number will be received by the CCO.

The Fund's Audit Committee Chair may be contacted at:

Western Asset High Income Opportunity Fund Inc.
Audit Committee Chair
c/o Robert K. Fulton, Esq.
Stradley Ronon Stevens & Young, LLP
2600 One Commerce Square
Philadelphia, PA 19103

A stockholder who wishes to send any other communications to the Board should also deliver such communications to the Secretary of the Fund at 100 First Stamford Place, 7th Floor, Stamford, CT 06902. The Secretary is responsible for determining, in consultation with other officers of the Fund, counsel, and other advisers as appropriate, which stockholder communications will be relayed to the Board.

Expenses of Proxy Solicitation

The costs of preparing, assembling and mailing material in connection with this solicitation of proxies will be borne by the Fund and are expected to be approximately $15,000.00. Proxies may also be solicited in-person by officers of the Fund and by regular employees of LMPFA or its affiliates, or other representatives of the Fund or by telephone, in addition to the use of mails. Brokerage houses, banks and other fiduciaries may be requested to forward proxy solicitation material to their principals to obtain authorization for the execution of proxies, and will be reimbursed by the Fund for such out-of-pocket expenses.

Other Business

The Fund's Board of Directors does not know of any other matter that may come before the Meeting. If any other matter properly comes before the Meeting, it is the intention of the persons named in the proxy to vote the proxies in accordance with their judgment on that matter.

By Order of the Board of Directors,

Robert I. Frenkel
Secretary

December 23, 2008

IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. STOCKHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETING ARE THEREFORE URGED TO COMPLETE AND SIGN, DATE AND RETURN THE PROXY CARD AS SOON AS POSSIBLE IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

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WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

FEBRUARY 6, 2009 AT 3:30 P.M.

PROXY	**PROXY**

PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS. The undersigned, holder of shares of Western Asset High Income Opportunity Fund Inc. (the Fund), hereby appoints Barbara J. Allen, Robert I. Frenkel, Thomas C. Mandia, Robert M. Nelson and William J. Renahan, attorneys and proxies for the undersigned, each with full powers of substitution and revocation, to represent the undersigned and to vote on behalf of the undersigned all shares of the Fund that the undersigned is entitled to vote at the Annual Meeting of Stockholders of the Fund to be held at 620 Eighth Avenue, 49th Floor, New York, NY 10018, on February 6, 2009, at 3:30 p.m., Eastern Time, and any adjournments or postponements thereof (the Meeting). The undersigned hereby acknowledges receipt of the Notice of Meeting and (if requested) the accompanying Proxy Statement and hereby instructs said attorneys and proxies to vote said shares as indicated herein. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the Meeting or any adjournments or postponements thereof. A majority of the proxies present and acting at the Meeting in person or by substitute (or if only one shall be present, then that one) shall have and may exercise all of the power and authority of said proxies hereunder. The undersigned hereby revokes any proxy previously given.

Please refer to the proxy statement for a discussion of the proposals. This proxy, if properly executed, will be voted in the manner directed by the stockholder. If no direction is made, this proxy will be voted FOR the election of the nominees as director.

NOTE: YOUR PROXY IS NOT VALID UNLESS IT IS SIGNED ON THE REVERSE SIDE.

PROXY TABULATOR

P.O. BOX 9112

FARMINGDALE, NY 11735

To vote by Internet

1) Read the Proxy Statement and have the proxy card below at hand.

2) Go to website **www.proxyvote.com**

3) Follow the instructions provided on the website.

To vote by Telephone

1) Read the Proxy Statement and have the proxy card below at hand.

2) Call **1-800-690-6903**

3) Follow the instructions.

To vote by Mail

1) Read the Proxy Statement.

2) Check the appropriate boxes on the proxy card below.

3) Sign and date the proxy card.

4) Return the proxy card in the envelope provided.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

WAHIO1

KEEP THIS PORTION FOR YOUR RECORDS

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

DETACH AND RETURN THIS PORTION ONLY

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.					
The Board of Directors recommends a vote FOR the following proposal:		**For All**	**Withhold All**	**For All Except**	To withhold authority to vote for any individual nominee(s), mark For All Except and write the name(s) of the nominee(s) on the line below.
Vote On Directors					
1.	**A proposal to elect two Class II Directors to the Fund s Board of Directors to serve until the 2012 Annual Meeting of Stockholders.**	o	o	o	
	Nominees:				
	01) Paolo M. Cucchi				
	02) R. Jay Gerken				
2.	**TO TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE ANNUAL MEETING OR ANY ADJOURNMENT THEREOF.**				

	Signature [PLEASE SIGN WITHIN BOX]	Date		Signature (Joint Owners)	Date	

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

**** IMPORTANT NOTICE ****

Regarding the Availability of Proxy Materials

You are receiving this communication because you hold shares in the above company, and the materials you should review before you cast your vote are now available.

This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. We encourage you to access and review all of the important information contained in the proxy materials before voting.

PROXY TABULATOR

P.O. BOX 9112

FARMINGDALE, NY 11717

Shareholder Meeting to be held on 02/06/09

Proxy Materials Available

- Notice and Proxy Statement

PROXY MATERIALS - VIEW OR RECEIVE
You can choose to view the materials online or receive a paper or e-mail copy. There is NO charge for requesting a copy. Requests, instructions and other inquiries will NOT be forwarded to your investment advisor.

To facilitate timely delivery please make the request as instructed below on or before 01/26/09.

HOW TO VIEW MATERIALS VIA THE INTERNET

Have the 12 Digit Control Number available and visit:
www.proxyvote.com

HOW TO REQUEST A COPY OF MATERIALS

1) BY INTERNET	-	www.proxyvote.com
2) BY TELEPHONE	-	1-800-579-1639
3) BY E-MAIL*	-	sendmaterial@proxyvote.com

*If requesting materials by e-mail, please send a blank e-mail with the 12 Digit Control Number (located on the following page) in the subject line.

See The Reverse Side For Meeting Information and Instructions on How to Vote

	Meeting Information	**H"15" align="left" style="margin:0 0in; text-align: left; layout-grid-mode: char; "> 2011**	1,109,931
2012	5,949,718		
2013	2,834,396		
Thereafter	3,732,456		
Total	$ 26,151,464		

NOTE 5 -- SEGMENT INFORMATION

Our operations include two primary segments: Recycling and Waste Services. In prior years, our three primary reporting segments were ISA Recycling, CWS and WESSCO. In the first quarter of 2009, we decided to consolidate CWS and WESSCO into one reporting segment because CWS revenues have declined so that this segment is no longer material to our total revenues. We named this combined segment Waste Services because it more accurately reflects that business. Waste Services provides waste disposal services including contract negotiations with service providers, centralized billing, invoice auditing, and centralized dispatching. Waste Services also sells, leases, and services waste handling and recycling equipment.

The Recycling segment generates its revenues based on buying and selling of ferrous, non-ferrous, including stainless steel, and fiber scrap. Waste Services' revenues consist of charges to customers for waste disposal services and equipment sales and lease income. The components of the column labeled "other" are selling, general and administrative expenses that are not directly related to the three primary segments.

We evaluate segment performance based on gross profit or loss and the evaluation process for each segment includes only direct expenses and selling, general and administrative costs, omitting any other income and expense and income taxes.

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009	RECYCLING	WASTE SERVICES	OTHER	SEGMENT TOTALS
Recycling revenues	$136,029,879	$ -	$ -	$136,029,879
Equipment sales, service and leasing revenues	-	1,593,434	-	1,593,434
Management fees	-	5,720,398	-	5,720,398
Cost of goods sold	(123,725,378)	(4,969,014)	-	(128,694,392)
Selling, general and administrative expenses	(4,488,417)	(1,031,862)	(2,235,741)	(7,756,020)
Segment profit (loss)	$ 7,816,084	$ 1,312,956	$ (2,235,741)	$ 6,893,299
Segment assets	$ 63,361,309	$ 3,115,724	$ 3,575,266	$ 70,052,299

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008	RECYCLING	WASTE SERVICES	OTHER	SEGMENT TOTALS
Recycling revenues	$ 73,936,140	$ -	$ -	$ 73,936,140
Equipment sales, service and leasing revenues	-	1,736,991	-	1,736,991
Management fees	-	13,759,177	-	13,759,177
Cost of goods sold	(61,590,647)	(13,500,501)	-	(75,091,148)
Selling, general and administrative expenses	(4,009,324)	(1,174,379)	(2,517,984)	(7,701,687)
Segment profit (loss)	$ 8,336,169	$ 821,288	$ (2,517,984)	$ 6,639,473
Segment assets	$ 25,953,912	$ 4,166,162	$ 5,047,802	$ 35,167,876

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009	RECYCLING	WASTE SERVICES	OTHER	SEGMENT TOTALS
Recycling revenues	$ 77,877,987	$ -	$ -	$ 77,877,987
Equipment sales, service and leasing revenues	-	538,791	-	538,791
Management fees	-	1,552,696	-	1,552,696
Cost of goods sold	(72,294,051)	(1,161,980)	-	(73,456,031)
Selling, general and administrative expenses	(1,577,366)	(321,661)	(707,449)	(2,606,476)
Segment profit (loss)	$ 4,006,570	$ 607,846	$ (707,449)	$ 3,906,967

Segment assets	$ 63,361,309	$ 3,115,724	$ 3,575,266	$ 70,052,299

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008	RECYCLING	WASTE SERVICES	OTHER	SEGMENT TOTALS
Recycling revenues	$ 23,392,074	$ -	$ -	$ 23,392,074
Equipment sales, service and leasing revenues	-	570,375	-	570,375
Management fees	-	4,875,379	-	4,875,379
Cost of goods sold	(19,566,712)	(4,808,272)	-	(24,374,984)
Selling, general and administrative expenses	(1,339,619)	(393,229)	(789,580)	(2,522,428)
Segment profit (loss)	$ 2,485,743	$ 244,253	$ (789,580)	$ 1,940,416
Segment assets	$ 25,953,912	$ 4,166,162	$ 5,047,802	$ 35,167,876

NOTE 6 -- INVENTORIES

Our inventories primarily consist of ferrous and non-ferrous, including stainless steel, scrap metals and are valued at the lower of average purchased cost or market. Quantities of inventories are determined based on our inventory systems and are subject to periodic physical verification using estimation techniques including observation, weighing and other industry methods. We would recognize inventory impairment when the market value, based upon current market pricing, falls below recorded value or when the estimated volume is less than the recorded volume of the inventory. We would record the loss in cost of goods sold in the period during which we identified the loss.

Some commodities are in saleable condition at acquisition. We purchase these commodities in small amounts until we have a truckload of material available for shipment. Some commodities are not in saleable condition at acquisition. These commodities must be torched, sheared or baled. We do not have work-in-process inventory that needs to be manufactured to become finished goods. We include processing costs in inventory for all commodities.

Ferrous inventory of $2,966,362 at September 30, 2009 was comprised of $958,909 in raw materials and $2,007,453 of finished goods. Non-ferrous inventory of $2,296,825 at September 30, 2009 was comprised of $728,158 in raw materials and $1,568,667 of finished goods. Stainless steel inventory at September 30, 2009 was $15,335,381. Replacement parts inventory for the shredder at September 30, 2009 was $593,419. Ferrous inventory of $2,162,149 at December 31, 2008 was comprised of $418,035 in raw materials and $1,744,114 of finished goods. Non-ferrous inventory of $2,033,154 at December 31, 2008 was comprised of $362,065 in raw materials and $1,671,089 of finished goods. We charged $3,135,501 in general and administrative processing costs to cost of sales for the nine months ended September 30, 2009 and $3,098,870 for the year ended December 31, 2008.

Inventory also includes all types of industrial waste handling equipment and machinery held for resale such as compactors, balers, and containers. Other inventory includes cardboard and baling wire. Inventories as of September 30, 2009 and December 31, 2008 consist of the following:

	September 30, 2009 (unaudited)	December 31, 2008
Stainless steel alloys	$ 15,335,381	$ -
Ferrous materials	2,966,362	2,162,149
Non-ferrous materials	2,296,825	2,033,154
Shredder replacement parts	593,419	-
Waste equipment machinery	102,725	95,675
Other	75,079	80,370
Total inventories	$ 21,369,791	$ 4,371,348

NOTE 7 - LEASE COMMITMENTS

Operating Leases:

We lease our Louisville, Kentucky facility from a related party under an operating lease expiring December 2012. The rent was adjusted in December 2007 per the agreement to monthly payments of $48,500 through December 2012. In addition, we are also responsible for real estate taxes, insurance, utilities and maintenance expense.

We also lease a management services operations facility and various pieces of equipment in Dallas, Texas for which monthly payments of $969 are due through September 2010.

We also lease other machinery and equipment under operating leases which expire through June 2010.

Future minimum lease payments for operating leases as of September 30, 2009 are as follows:

2009	$ 642,543
2010	636,000
2011	636,000
2012	159,000
Future minimum lease payments	$ 2,073,543

Total rent expense for the nine months ended September 30, 2009 and 2008 was $831,687 and $661,111 respectively.

Capital Leases:

We lease various pieces of equipment which qualify as capital leases. These lease arrangements require monthly lease payments expiring at various dates through June 2010.

The following is a summary of assets held under capital leases which are included in property and equipment:

	2009	2008
Equipment	$ 366,172	$ 771,567
Less accumulated depreciation	104,280	242,418
	$ 261,892	$ 529,149

The present value of future net minimum capital lease payments at September 30, 2009 is $40,481, all current.

NOTE 8 -- PER SHARE DATA

The computation for basic and diluted earnings per share is as follows:

Nine months ended September 30, 2009 compared to nine months ended September 30, 2008:

	2009	2008
Basic earnings per share		
Net income	$ 3,737,487	$ 4,029,298
Weighted average shares outstanding	3,710,395	3,602,703
Basic earnings per share	$ 1.01	$ 1.12
Diluted earnings per share		
Net income	$ 3,737,487	$ 4,029,298

Weighted average shares outstanding	3,710,395	3,602,703
Add dilutive effect of assumed exercising of stock options	3,134	-
Diluted weighted average shares outstanding	3,713,529	3,602,703
Diluted earnings per share	$ 1.01	$ 1.12

Three months ended September 30, 2009 compared to three months ended September 30, 2008:

	2009	2008
Basic earnings per share		
Net income	$ 2,161,214	$ 1,280,115
Weighted average shares outstanding	3,900,422	3,593,966
Basic earnings per share	$ 0.55	$ 0.36
Diluted earnings per share		
Net income	$ 2,161,214	$ 1,280,115
Weighted average shares outstanding	3,900,422	3,593,966
Add dilutive effect of assumed exercising of stock options	9,301	-
Diluted weighted average shares outstanding	3,909,723	3,593,966
Diluted earnings per share	$ 0.55	$ 0.36

NOTE 9 -- PURCHASE OF INVENTORY AND FIXED ASSETS OF VENTURE METALS

On January 13, 2009 we entered into an inventory purchase agreement with Venture Metals, LLC and its members, Steve Jones, Jeff Valentine and Carlos Corona, under which we agreed to pay to Venture Metals $8,846,794 for inventory comprised of stainless steel and high temperature alloys, which we verified as to weight. We funded the purchase of the inventory through our line of credit with BB&T. We subsequently paid an additional $262,265 for inventory after the final verification of weight.

Under the agreement, we had the right to retain the use of the property located at 3409 Camp Ground Road, Louisville, Kentucky, the site of the Venture Metals business that Venture Metals leases from Luca Investments, LLC, an affiliate of Venture Metals, owned 50% each by Messrs. Jones and Valentine. We had the right to use the facilities located on those premises for a period not to exceed two years from the date of the agreement for a monthly rental of $15,000. Messrs. Jones, Valentine and Corona are our employees.

On April 13, 2009, we exercised our option to purchase fixed assets under an installment purchase agreement with Venture Metals, LLC, whereby Venture Metals sold all of its fixed assets, located at 3409 Camp Ground Road, Louisville, Kentucky, to us by virtue of an installment purchase agreement effective February 11, 2009. Steve Jones, Jeff Valentine and Carlos Corona are the sole members of Venture Metals and are currently our employees with Steve Jones now serving as one of our officers. Under the notice of exercise of option to purchase fixed assets we agreed to purchase the fixed assets on April 17, 2009 for the purchase price of $1,498,885 less the aggregate amount of all rent we paid to Venture Metals under the previous agreement. The installment payment we owed to Venture Metals was $15,000 per month commencing March 1, 2009 with a pro-rata amount paid for the period from February 11, 2009 through February 28, 2009. A further description of the installment purchase agreement and related transactions is contained in Items 1.01 and 2.01 of Form 8-K for the event dated February 11, 2009, as filed on February 18, 2009, with the Securities and Exchange Commission by us.

At the time of the consummation of the option to purchase fixed assets, the installment purchase agreement terminated. In connection with the exercise of the option to purchase, Venture Metals had to satisfy outstanding obligations with respect to the fixed assets owed to a number of creditors. The fixed assets include equipment such as cranes, loaders, scales, forklifts, computers, including computer software, furniture and certain leasehold improvements to the property at 3409 Camp Ground Road, Louisville, Kentucky.

We completed the acquisition of the real property at 3409 Camp Ground Road, Louisville, Kentucky, from Luca Investments, LLC, an affiliate of Venture Metals, on April 2, 2009. Under the agreement, we purchased the property and improvements thereon consisting of 5.67 acres with a 7,875 square foot building located thereon. We paid $2,067,041 for the property, comprised of $1,267,041 in cash and 200,000 shares of ISA common stock priced at the per share NASDAQ last sale price of $4.00, as quoted on NASDAQ at 10:30 a.m. (EDT) on April 2, 2009. We determined the purchase price for the real estate based on internal analyses as to the value of the property. BB&T provided credit to us under our $10,000,000 line of credit with BB&T funding the cash portion of the purchase price.

NOTE 10 -- LONG TERM INCENTIVE PLAN

At our June 16, 2009 annual shareholders meeting, shareholders approved ratification of a long term incentive plan and approved the issuance of additional common shares of our stock. The plan proposes to make available up to 800,000 shares of our common stock for performance-based awards under the plan. We may grant any of these types of awards: non-qualified and incentive stock options; stock appreciation rights; and other stock awards including stock units, restricted stock units, performance shares, performance units, and restricted stock. The performance goals that we may use for such awards will be based on any one or more of the following performance measures: cash flow; earnings; earnings per share; market value added or economic value added; profits; return on assets; return on equity; return on investment; revenues; stock price; or total shareholder return.

The plan is administered by a committee selected by the Board, initially our Compensation Committee, and consisting solely of two or more outside members of the Board. The Committee may grant one or more awards to our employees, including our officers, our directors and consultants, and will determine the specific employees who will receive awards under the plan and the type and amount of any such awards. A participant who receives shares of stock awarded under the plan must hold those shares for six months before the participant may dispose of such shares. The Committee may settle an award under the plan in cash rather than stock.

As of July 1, 2009, we awarded options to purchase 20,000 shares of our stock each to our three independent directors for a total of 60,000 shares at a per share exercise price of $6.35.

NOTE 11 -- REAL ESTATE PURCHASE

On September 10, 2009 we completed the acquisition of all outstanding membership interests in 7124 Grade Lane LLC and 7200 Grade Lane LLC, each a Kentucky limited liability company, owned by Harry Kletter Family Limited Partnership, a Kentucky limited partnership. Mr. Kletter is the chairman and chief executive officer of ISA and the general partner of Harry Kletter Family Limited Partnership.

7124 Grade Lane LLC and 7200 Grade Lane LLC own properties at 7124 Grade Lane and 7200 Grade Lane, Louisville, Kentucky, respectively. Prior to the consummation of the acquisition of the interests in the limited liability companies on September 10, 2009, Harry Kletter Family Limited Partnership owned all the membership interests in each of 7124 Grade Lane LLC and 7200 Grade Lane LLC. ISA acquired these membership interests, and in effect the properties, due to their strategic location adjacent to 7100 Grade Lane, Louisville, Kentucky where ISA has its principal operations and headquarters and recently completed the construction of a new shredder system and part of the installation rests on the property.

As described in each agreement and plan of share exchange, one by and among the limited partnership, 7124 Grade Lane LLC and ISA and the second among the limited partnership, 7200 Grade Lane LLC and ISA, ISA exchanged in the aggregate 500,000 newly-issued, unregistered shares of its $.005 par value common stock for all the outstanding membership interest in the two limited liability companies. These shares do not have any registration rights. With respect to the purchase of the membership interests in 7200 Grade Lane LLC, ISA provided to the limited partnership 367,187 shares at $6.40 per share for a purchase price of $2,349,996.80 and with respect to the purchase of the membership interests in 7124 Grade Lane LLC, ISA provided to the limited partnership 132,813 shares at $6.40 per share for a purchase price of $850,003.20. The transaction did not involve financing provided by any financial institutions.

Lohan Realty Resources, Inc., a member of the Appraisal Institute and located in Louisville, Kentucky, provided an appraisal for each property to assist ISA in determining the purchase price for the membership interests in the limited liability companies. As of the date of the appraisals on July 3, 2009, the property at 7124 Grade Lane had an "as is" estimated market value of $850,000 while the property located at 7200 Grade Lane had an "as is" estimated market value of $2,350,000. The respective purchase prices paid in the form of ISA shares to the limited partnership for the 7124 Grade Lane LLC and 7200 Grade Lane LLC were $850,003.20 and $2,349,996.80, respectively, as evidenced by the 132,813 shares and 367,187 shares of ISA common stock at the per share price of $6.40.

The transaction received approval of the ISA audit committee comprised of independent directors, the board of directors, without the participation of Harry Kletter, the ISA chairman and chief executive officer and also the general partner of the limited partnership, and a majority of the outstanding shares of ISA common stock by written consent. Because of the relationship between Harry Kletter and ISA, NASDAQ rules required the approval of the ISA stockholders.

Although the form of transaction involved the exchange of ISA unregistered securities for interests in the limited liability companies, the substance of the transaction was the purchase of two tracts of real estate from the limited partnership. Each limited liability company is a special purpose entity formed solely to hold its respective real estate tract to provide greater liability protection. The only income generated from these tracts was an immaterial amount of $6,000 a month through August 2011 from a lease of four acres of the 7200 Grade Lane tract. Effectively these limited liability companies had no operating assets and were therefore not operating businesses.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the accompanying notes thereto included elsewhere in this report.

The following discussion and analysis contains certain financial predictions, forecasts and projections which constitute "forward-looking statements" within the meaning of the federal securities laws. Actual results could differ materially from those financial predictions, forecasts and projections and there can be no assurance that we will achieve such financial predictions, forecasts and projections. Factors that could affect financial predictions, forecasts and projections include the fluctuations in the commodity price index and any conditions internal to our major customers, including loss of their accounts and other factors as listed in our Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission.

General

We are primarily focusing our attention now and in the future towards our recycling business. We sell processed ferrous and non-ferrous scrap material to end-users such as steel mini-mills, integrated steel makers, foundries and refineries. We purchase ferrous and non-ferrous scrap material primarily from industrial and commercial generators of steel, iron, aluminum, copper, stainless steel and other metals as well as from other scrap dealers who deliver these materials directly to our facilities. We process these materials by sorting, shearing, cutting and/or baling. We will also continue to focus on initiating growth in our management services business segment and our waste and recycling equipment sales, service and leasing division.

In 2009, we expanded into the stainless steel recycling market for super alloys and high temperature metals by purchasing inventories and related equipment from Venture Metals, LLC and hiring two of its key executives. We buy, remelt, and sell stainless steel and high-temperature alloys to steel mills like North American Stainless, our primary customer. The Venture Metals asset purchase is the latest in a series of actions we have undertaken to position ourselves for strategic growth. The multi-million-dollar shredder project, completed in June 2009, expands our processing capacity, offers specialty grades of scrap and improves end-product quality. The shredder began operations on July 1, 2009.

Despite the loss of two major customers in 2009, we continue to pursue a growth strategy in the waste management services arena by adding new locations of existing customers as well as marketing our services to potential customers. Currently, we service approximately 600 customer locations throughout the United States and we utilize an active database of over 6,500 vendors to provide timely, thorough and cost-effective service to our customers.

Although our focus is on the recycling industry, our goal is to remain dedicated to the management services, and equipment industry as well, while sustaining steady growth at an acceptable profit, adding to our net worth, and providing positive returns for stockholders. We intend to increase efficiencies and productivity in our core business while remaining alert for possible acquisitions, strategic partnerships, mergers and joint-ventures that would enhance our profitability.

We have operating locations in Louisville, Kentucky, Seymour, Indiana, New Albany, Indiana, and Dallas, Texas. We do not have operating locations outside the United States.

Liquidity and Capital Resources

As of September 30, 2009 we held cash and cash equivalents of $962,301.

On June 30, 2009, we executed a promissory note, loan agreement and related security documents with Branch Banking and Trust Company in the amount of $5,000,000 to support our ongoing growth and as a first step in our planned and forthcoming restructuring of our banking facilities. Over the past seven years, we have been acquiring real estate and have made substantial investments in our real property infrastructure using operating cash. We have acquired a valuable portfolio of real estate and this is a first step in maximizing its value to us.

Together with the loan agreement we executed a promissory note, which matured September 28, 2009, at which time the principal plus accrued interest thereon was to be paid in full. On October 15, 2009, we executed a note modification agreement, which extended the maturity date to December 15, 2009. The loan is a non-revolving credit facility and provides that we may borrow from time to time through the maturity date. The loan bears interest at the one month LIBOR plus 3.25% per annum, which shall be adjusted monthly on the first day of each month for each LIBOR interest period. The minimum rate of interest is 4.5%, which was the interest rate as of September 30, 2009. Accrued interest is payable monthly commencing November 15, 2009 with the balance due at maturity on December 15, 2009. We have secured the loan with mortgages, related assignments of leases and rents and environmental certificates against our properties or those of our affiliates, ISA Real Estate, LLC, ISA Indiana Real Estate, LLC and 7021 Grade Lane, LLC. In addition we have cross-collateralized this loan with our other indebtedness owed to BB&T. As a result of this financing BB&T has reduced our available amount under the BB&T Bankcard from $2.5 million to an amount not to exceed $500,000 so long as this loan is outstanding. In addition to the cross-collateralization of these other financings with this note, if ISA defaults on any note with BB&T, it is considered to have defaulted on all notes with BB&T. The terms of the loan agreement place certain restrictive covenants on us, including maintenance of a specified tangible net worth, debt to net worth and EBITA ratio. Consequently, these covenants restrict our ability to incur as much additional debt as we may desire for future growth. At September 30, 2009, upon execution of the note modification agreement, we were in compliance with all restrictive covenants related to our indebtedness owed to BB&T. As of September 30, 2009, the outstanding balance on this credit facility was $5,000,000.

Management is currently in discussions with its current lender and several other banks regarding the modification of the current debt structure. This restructuring is expected to be completed prior to the December 15, 2009 maturity date of the note described above and would ideally consolidate all of ISA's outstanding debt. Additionally, we are evaluating other possible financing alternatives related to accounts receivable as part of our overall evaluation of the capital structure. While we believe this process will be completed by December 15, 2009, there is no assurance of that as we currently do not have any commitments in place.

In addition to the $5,000,000 short term credit facility, we have long term debt comprised of the following:

	September 30, 2009 (unaudited)	December 31, 2008
Non-revolving line of credit	$ 11,517,440	$ -
Revolving line of credit	4,877,098	-
Notes payable	9,756,926	9,367,877
Total debt	$ 26,151,464	$ 9,367,877

Results of Operations

The following table presents, for the years indicated, the percentage relationship that certain captioned items in our Consolidated Statements of Operations bear to total revenues and other pertinent data:

	Nine months ended September 30,	
	2009	2008
Statements of Operations Data:		
Total Revenue	100.0%	100.0%
Cost of goods sold	89.8%	83.8%
Selling, general and administrative expenses	5.4%	8.8%
Income before other income/expenses	4.8%	7.4%

Nine months ended September 30, 2009 compared to nine months ended September 30, 2008

Total revenue increased $53,911,403 or 60.3% to $143,343,711 in 2009 compared to $89,432,308 in 2008. Recycling revenue increased $62,093,739 or 84.0% to $136,029,879 in 2009 compared to $73,936,140 in 2008. This is primarily due to our acquisition of the Venture Metals stainless steel recycling business, partially offset by a decrease in shipments of 8.3% in ferrous and 32.6% in other nonferrous materials and an average decrease in price of commodities of 38.0%. Management services revenue decreased $8,038,779 or 58.4% to $5,720,398 in 2009 compared to $13,759,177 in 2008 primarily due to the loss of major customers Circuit City and Mervyn's, both of whom declared bankruptcy and closed. Equipment sales, service and leasing revenue decreased $143,557 or 8.3% to $1,593,434 in 2009 compared to $1,736,991 in 2008. This decrease is due to a $70,190 decrease in equipment sales, a $55,778 decrease in service and repairs revenue, a $16,152 decrease in baling wire revenue, and a $14,427 decrease in other revenue, partially offset by a $16,770 increase in rental revenue.

Total cost of goods sold increased $53,603,244 or 71.4% to $128,694,392 in 2009 compared to $75,091,148 in 2008. Recycling cost of goods sold increased $62,134,731 or 100.9% to $123,725,378 in 2009 compared to $61,590,647 in 2008. This is primarily due to our acquisition of the Venture Metals stainless steel recycling business, partially offset by a 51.1% decrease in shipments of ferrous and 45.0% decrease in shipments of other nonferrous materials, and to 38.3% lower commodity purchase prices. Waste services cost of goods sold decreased $8,531,487 or 63.2% to $4,969,014 in 2009 compared to $13,500,501 in 2008 primarily due to the loss of major customers Circuit City and Mervyn's due to bankruptcy and due to a decrease of $58,006 in cost of equipment sales.

Selling, general and administrative expenses decreased $54,333 or 0.7% to $7,756,020 in 2009 compared to $7,701,687 in 2008. As a percentage of revenue, selling, general and administrative expenses were 5.4% in 2009 compared to 8.6% in 2008. The primary drivers of the decrease in total expenses are decreases in fuel expense of $410,716 and stock bonus of $284,900, offset by increases in sales manager and labor costs of $536,772 and an increase of $111,117 in licenses and fees, both attributable to our new stainless steel recycling business.

Other income/(expense) decreased ($740,178) to other expense of ($664,154) in 2009 compared to other income of $76,024 in 2008. This was primarily due to an increase in interest expense of $397,058 and an increase in other expense of $330,337. The increase in other expense is primarily due to an additional $65,597 paid in the All-American legal settlement in the first quarter of 2009.

Also, in 2008, we recorded other income of $117,306 due to an insurance reimbursement and a reduction in accounts payable of $156,400.

Income tax provision decreased $ 194,541 to $2,491,658 in 2009 compared to $2,686,199 in 2008. The effective tax rate in 2009 and 2008 was 40.0% based on federal and state statutory rates.

Three months ended September 30, 2009 compared to three months ended September 30, 2008

Total revenue increased $51,131,646 or 177.3% to $79,969,474 in 2009 compared to $28,837,828 in 2008. Recycling revenue increased $54,485,913 or 232.9% to $77,877,987 in 2009 compared to $23,392,074 in 2008. This is primarily due to our acquisition of the Venture Metals stainless steel recycling business and an increase in shipments of 51.2% in ferrous, partially offset by a decrease in shipments of 12.1% in other nonferrous materials and an average decrease in price of commodities of 22.5%. Management services revenue decreased $3,322,683 or 68.2% to $1,552,696 in 2009 compared to $4,875,379 in 2008 primarily due to the loss of major customers Circuit City and Mervyn's, both of whom declared bankruptcy and closed. Equipment sales, service and leasing revenue decreased $31,584 or 5.5% to $538,791 in 2009 compared to $570,375 in 2008. This decrease is due to a decrease in equipment sales and service and repairs revenue.

Total cost of goods sold increased $49,081,047 or 201.4% to $73,456,031 in 2009 compared to $24,374,984 in 2008. Recycling cost of goods sold increased $52,727,339 or 269.5% to $72,294,051 in 2009 compared to $19,566,712 in 2008. This is primarily due to our acquisition of the Venture Metals stainless steel recycling business and an increase of 80.8% in shipments of ferrous, partially offset by a 17.5% decrease in shipments of other nonferrous materials, and to 14.9% lower commodity purchase prices. Waste services cost of goods sold decreased $3,646,292 or 75.8% to $1,161,980 in 2009 compared to $4,808,272 in 2008 primarily due to the loss of major customers Circuit City and Mervyn's who declared bankruptcy and due to a decrease in the cost of equipment sales.

Selling, general and administrative expenses increased $84,048 or 3.3% to $2,606,476 in 2009 compared to $2,522,428 in 2008. As a percentage of revenue, selling, general and administrative expenses were 3.3% in 2009 compared to 8.7% in 2008. The primary drivers of the increase in total expense are increases in sales manager and labor, advertising, commissions, vehicle repairs and maintenance, and depreciation expenses, offset by the decreases in stock bonus and fuel expenses.

Other income/(expense) decreased ($420,393) to other expense of ($304,944) in 2009 compared to other income of $115,449 in 2008 primarily due to a reduction in accounts payable of $156,400 in 2008 and due to the increase in interest expense due to new debt in 2009.

Income tax provision increased $665,059 to $1,440,809 in 2009 compared to $775,750 in 2008. The effective tax rate in 2009 was 40.0% compared to 37.7% in 2008 based on federal and state statutory rates.

Financial condition at September 30, 2009 compared to December 31, 2008

Cash and cash equivalents decreased $141,541 to $962,301 as of September 30, 2009 compared to $1,103,842 as of December 31, 2008.

We used net cash from operating activities of $3,256,465 for the nine months ended September 30, 2009. This was primarily due to increases in accounts receivable and inventory, partially offset by the increase in accounts payable and other current liabilities. The increases in accounts receivable and accounts payable were both due to our acquisition of the Venture Metals stainless steel business.

We used net cash from investing activities of $18,607,575 for the nine months ended September 30, 2009. We used $10,607,944 for our acquisition of the inventory and fixed assets of Venture Metals. Additionally, we purchased recycling and rental fleet equipment and shredder system equipment of $8,114,340. The rental fleet equipment consists of solid waste handling and recycling equipment such as compactors, containers and balers. It is our intention to continue to pursue this market.

Our net cash from financing activities of $21,722,499 for the nine months ended September 30, 2009 is primarily due to the advance of $25,202,887 on our new lines of credit offset by payments on debt of $3,419,300.

Accounts receivable trade increased $12,145,542 or 318.7% to $15,957,026 as of September 30, 2009 compared to $3,811,484 as of December 31, 2008. This change is due to our acquisition of the Venture Metals stainless steel business and their level of accounts receivable from time to time.

Inventories consist principally of stainless steel, ferrous and nonferrous scrap materials and waste equipment machinery held for resale. We value inventory at the lower of cost or market. Inventory increased $16,998,443 or 388.9% to $21,369,791 as of September 30, 2009 compared to $4,371,348 as of December 31, 2008. The primary reason for the increase was the acquisition of Venture Metals and the stainless steel inventory that became a portion of our assets.

Inventory aging for the period ended September 30, 2009 (Days Outstanding):

Description	1-30	31-60	61-90	Over 90	Total
Stainless steel alloys	$14,972,606	$ -	$ -	$ 362,775	$ 15,335,381
Ferrous materials	2,820,814	94,350	8,136	43,062	2,966,362
Non-ferrous materials	1,575,900	300,856	61,436	358,633	2,296,825
Shredder replacement parts	-	-	-	593,419	593,419
Waste equipment machinery	2,238	-	-	100,487	102,725
Other	75,079	-	-	-	75,079
	$19,446,637	$ 395,206	$ 69,572	$ 1,458,376	$ 21,369,791

Inventory aging for the year ended December 31, 2008 (Days Outstanding):

Description	1-30	31-60	61-90	Over 90	Total
Ferrous Materials	$1,364,091	$ 376,684	$ 326,874	$ 94,500	$2,162,149
Non-ferrous materials	990,843	217,591	294,992	529,728	2,033,154
Waste equipment machinery	95,675	-	-	-	95,675
Other	80,370	-	-	-	80,370
	$2,530,979	$ 594,275	$ 621,866	$624,228	$4,371,348

Accounts payable trade increased $9,290,956 or 251.0% to $12,992,851 as of September 30, 2009 compared to $3,701,895 as of December 31, 2008, primarily due to our acquisition of the Venture Metals stainless steel recycling business and their level of accounts payable from time to time.

Working capital increased $1,262,957 to $4,251,829 as of September 30, 2009 compared to $2,988,872 as of December 31, 2008. The increase was primarily driven by the $12.1 million increase in accounts receivable and the $17.0 million increase in inventories, partially offset by the $16.7 million increase in current maturities of long term debt, the $9.2 million increase in accounts payable, and the $1.9 million in income taxes payable.

Contractual Obligations

The following table provides information with respect to our known contractual obligations for the quarter ended September 30, 2009.

Obligation Description (1)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations	$26,151,464	$12,524,963	$ 9,894,045	$ 3,732,456	$ -
Capital Lease Obligations (2)	40,481	40,481	-	-	-
Operating Lease Obligations (3)	2,073,543	642,543	1,272,000	159,000	-
Total	$28,265,488	$13,207,987	$11,166,045	$ 3,891,456	$ -

(1) Does not include the short term $5 million non-revolving credit facility modified on October 15, 2009 and coming due December 15, 2009.

(2) We lease various pieces of equipment that qualify for capital lease treatment. These lease arrangements require monthly lease payments expiring at various dates through June 2010.

(3) We lease the Louisville, Kentucky facility from K&R, LLC, the sole member of which is Harry Kletter, our chief executive officer, under an operating lease expiring December 2012. We have monthly rental payments of $48,500 through December 2012. In the event of a change of control, the monthly payments become $62,500. We have subleased the Lexington property to an unaffiliated third party for a term commencing March 1, 2007 and ending December 31, 2012 for $4,500 per month. We currently lease this property from an unrelated party for $4,500 per month; the lease terminates December 31, 2012. If for any reason the sub-lessee defaults, we remain liable for the remainder of the lease payments through December 31, 2012.

We also lease a management services operations facility and various pieces of equipment in Dallas, Texas for which monthly payments of $969 are due through September 2010.

Long-term debt, including the current portions thereof, increased $16,783,587 to $26,151,464 as of September 30, 2009 compared to $9,367,877 as of December 31, 2008.

Impact of Recently Issued Accounting Standards

In December 2007, the Financial Accounting Standards Board (FASB) issued authoritative guidance on business combinations that applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which for us is January 1, 2009. The objective of this guidance is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This statement requires us as an acquirer of the assets of Venture Metals to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in Venture Metals at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. Refer to Note 9 of our financial statements for more detailed information about our acquisition of Venture Metals.

In February 2007, the FASB issued authoritative guidance on the fair value option for financial assets and financial liabilities. This guidance provides companies with an option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. This guidance is effective for fiscal years beginning after November 15, 2007, the year beginning January 1, 2008 for us. While we continue to review the provisions of this guidance, we have not yet identified any assets or liabilities for which we currently believe we will elect the fair value reporting option.

In March 2008, the FASB issued authoritative guidance on disclosures about derivative instruments and hedging activities. This guidance amends and expands the disclosure requirements in the previously issued guidance on accounting for derivative instruments and hedging activities. The new guidance is effective for fiscal years and interim periods beginning after November 15, 2008, the year beginning January 1, 2009 for us, and we have included the required disclosures in Note 4 of our Condensed Consolidated Financial Statements.

In April 2009, the FASB issued authoritative guidance entitled "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability has Significantly Decreased and Identifying Transactions That Are Not Orderly" and "Recognition and Presentation of Other-Than-Temporary Impairments". These two documents were issued to provide additional guidance about (1) measuring the fair value of financial instruments when the markets become inactive and quoted prices may reflect distressed transactions, and (2) recording impairment charges on investments in debt instruments. Additionally, the FASB issued authoritative guidance entitled "Interim Disclosures about Fair Value of Financial Instruments" to require disclosures of fair value of certain financial instruments in interim financial statements. We do not anticipate the adoption of this guidance will materially impact us. This guidance is effective for financial statements issued for interim and annual reporting periods ending after June 15, 2009, the quarter ending June 30, 2009 for us.

In May 2009, the FASB issued authoritative guidance on subsequent events. It is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date--that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. In particular, this Statement sets forth:

* The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements;

* The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements;

* The disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

This Statement is effective for interim and annual periods ending after June 15, 2009, the quarter ending June 30, 2009 for us.

In June 2009, the FASB issued the FASB Accounting Standards Codification (ASC). Effective this quarter, the ASC became the single source for all authoritative generally accepted accounting principles (GAAP) recognized by the FASB and is required to be applied to financial statements issued for interim and annual periods ending after September 15, 2009, the quarter ending September 30, 2009 for us. The ASC did not change GAAP and did not impact the Company's consolidated financial statements.

Accounting Standards Issued Not Yet Adopted

In June 2009, the FASB issued authoritative guidance on accounting for transfers of financial assets, which is effective for reporting periods beginning after November 15, 2009. This new guidance limits the circumstances in which a financial asset may be de-recognized when the transferor has not transferred the entire financial asset or has continuing involvement with the transferred asset. The concept of a qualifying special-purpose entity, which had previously facilitated sale accounting for certain asset transfers, is removed by this new guidance. We expect that the adoption of this new guidance will not have a material effect on our financial position or results of operations.

In June 2009, the FASB issued authoritative guidance on accounting for variable interest entities (VIE), which is effective for reporting periods beginning after November 15, 2009 and changes the process for how an enterprise determines which party consolidates a VIE, to a primarily qualitative analysis. The party that consolidates the VIE (the primary beneficiary) is defined as the party with (1) the power to direct activities of the VIE that most significantly affect the VIE's economic performance and (2) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. Upon adoption, reporting enterprises must reconsider their conclusions on whether an entity should be consolidated and should a change result, the effect on net assets will be recorded as a cumulative effect adjustment to retained earnings. We expect that the adoption of this new guidance will not have a material effect on our financial position or results of operations.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Fluctuating commodity prices affect market risk in our recycling segment. We mitigate this risk by selling our product on a monthly contract basis. Each month we negotiate selling prices for all commodities. Based on these monthly agreements, we determine purchase prices based on a margin needed to cover processing and administrative expenses.

We are exposed to commodity price risk, mainly associated with variations in the market price for ferrous and nonferrous metal, and other commodities. The timing and magnitude of industry cycles are difficult to predict and are impacted by general economic conditions. We respond to changes in recycled metal selling prices by adjusting purchase prices on a timely basis and by turning rather than holding inventory in expectation of higher prices. However, financial results may be negatively impacted where selling prices fall more quickly than purchase price adjustments can be made or when levels of inventory have an anticipated net realizable value that is below average cost.

We are exposed to interest rate risk on our floating rate borrowings. On June 30, 2009, we executed a promissory note, loan agreement and related security documents with Branch Banking and Trust Company in the amount of $5,000,000 for the purpose of financing our ongoing growth. On October 15, 2009, we executed a note modification agreement for this note, which extended the maturity date to December 15, 2009. This non-revolving credit facility bears interest at the month LIBOR plus 3.25% per annum, which is to be adjusted monthly on the first day of each month for each LIBOR interest period with a minimum interest rate of 4.5%. The interest rate as of September 30, 2009 was 4.5%. This credit facility had $5,000,000 in outstanding borrowings as of September 30, 2009. We also maintain a $10.0 million senior revolving credit facility with the BB&T which had $4,877,098 in outstanding borrowings as of September 30, 2009. This revolving credit facility bears interest at the one month LIBOR rate, as published in the Wall Street Journal, plus two and twenty-five one-hundredths percent (2.25%) per annum, which was 4.0% as of September 30, 2009. On February 11, 2009, we executed a promissory note with BB&T in the amount of $12,000,000 which had $11,517,440 in outstanding borrowings as of September 30, 2009. This note bears interest at the adjusted LIBOR rate of one month LIBOR plus 2.25% per annum with a floor of 4%. As of September 30, 2009, the applicable interest rate was 4%. Based on our average anticipated borrowings under our credit agreements in fiscal 2009, a hypothetical increase or decrease in the LIBOR rate by 1% would increase or decrease interest expense on our variable borrowings by 1% of the outstanding balance, with a corresponding change in cash flows.

Last year, we entered into three interest rate swap agreements swapping variable rates for fixed rates. The first swap agreement covers $5.8 million in debt and commenced October 15, 2008 and matures on April 7, 2014. The second swap agreement covers approximately $2.7 million in debt and commenced October 15, 2008 and matures on May 7, 2013. The third swap agreement covers approximately $571,000 in debt and commenced October 22, 2008 and matures on October 22, 2013. The three swap agreements fix our interest rate at approximately 5.8%. At September 30, 2009, we recorded the estimated fair value of the three swaps at approximately $648,000. We entered into the swap agreements for the purpose of hedging the interest rate market risk for the respective notional amounts.

We are exposed to market risk from changes in interest rates in the normal course of business. Our interest income and expense are most sensitive to changes in the general level of U.S. interest rates and the LIBOR rate. In order to manage this exposure, we use a combination of debt instruments, including the use of derivatives in the form of interest rate swap agreements. We do not enter into any derivatives for trading purposes. The use of the interest rate swap agreement is intended to convert the variable rate to a fixed rate.

ITEM 4(T): CONTROLS AND PROCEDURES

(a) Disclosure controls and procedures.

ISA's management, including ISA's principal executive officer and principal financial officer, have evaluated the effectiveness of our "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934. Based upon their evaluation, our principal executive officer and principal financial officer concluded that, as of September 30, 2009, ISA's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that ISA files under the Exchange Act with the Securities and Exchange Commission (1) is recorded, processed, summarized and reported within the time periods specific in the SEC's rules and forms, and (2) is accumulated and communicated to ISA's management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding the required disclosure.

(b) Internal controls over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Our internal control over financial reporting is designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements for external purposes in accordance with generally accepted accounting principles in the United States.

Our internal control over financial reporting includes those policies and procedures that:

-- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;

-- provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

-- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting cannot prevent or detect every potential misstatement. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may decline.

(c) Changes to internal control over financial reporting

With the exception noted below, there were no changes in ISA's internal control over financial reporting during the three months ended September 30, 2009 that have materially affected, or are reasonably likely to affect ISA's internal control over financial reporting.

During the nine months ended September 30, 2009, ISA concluded the acquisition of all the assets of Venture Metals, LLC, in order to enter into the stainless steel and alloys recycling business. For this new business, ISA purchased a new recycling system software package from a third party vendor and installed it in April 2009. ISA installed this new software in the New Albany, Seymour, and Campground Road recycling satellite locations on October 1, 2009. ISA is in the process of conducting an assessment of our new stainless steel recycling business and recycling satellite locations' internal controls over financial reporting for the period between the consummation dates and September 30, 2009, the date of our management's assessment, however, the assessment is not yet complete.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

On January 4, 2007, Lennox Industries, Inc., a commercial heating and air-conditioning manufacturer, filed suit against us in the Arkansas County, Arkansas Circuit Court in the case styled Lennox Industries, Inc. v. Industrial

Services of America, Inc., Case No. CV-2007-004. Because of settlement negotiations, Lennox did not serve us until May 23, 2007. Lennox alleges that we breached a 2001 contract with Lennox where we agreed to act as agent for Lennox, by our failure to properly evaluate, categorize, classify and value the production scrap and waste of Lennox, thereby brokering such products at prices below market value. Lennox also alleges negligence and breach of fiduciary duty related to the same alleged failure. Lennox is taking the position that ISA had a duty to obtain a price that was consistent with the materials being sold on their behalf and that it failed to show a proper duty of care in its dealings with Lennox. On July 9, 2008, Lennox amended its Complaint to add a cause of action based on fraud and misrepresentation (civil fraud). The Lennox complaint does not state any specific monetary damages. We have filed an answer denying all claims. The litigation is in its discovery phase with a trial date currently set for November 2009. We currently believe that the claims have no merit.

We have no other litigation at this time.

Item 1A. Risk Factors

We have had no material changes from the risk factors reported in our Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission on September 30, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On November 15, 2005, our Board of Directors authorized a program to repurchase up to 200,000 shares of our common stock at current market prices. During 2008, we repurchased 55,607 shares. In 2007 we repurchased 40,000 shares, in 2006 we repurchased 5,509 shares and in 2005 we repurchased 10,000 shares.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs
Oct-05	-			
Nov-05	10,000	$ 2.9762	10,000	190,000
Dec-05	-			

Jan-06	5,509	$ 2.9658	15,509	184,491
Aug-07	20,000	$ 9.9229	35,509	164,491
Dec-07	20,000	$ 7.7257	55,509	144,491
Mar-08	19,753	$ 8.2823	75,262	124,738
Jun-08	9,854	$ 11.4169	85,116	114,884
Sept-08	26,000	$ 9.7902	111,116	88,884

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

By written consent, the following proposal was adopted by the margin indicated:

(a) PROPOSAL 1: Approval of the purchase of the membership interests in 7124 Grade Lane LLC and 7200 Grade Lane LLC by ISA in exchange for, in the aggregate, 500,000 unregistered shares of ISA common stock issued to Harry Kletter Family Limited Partnership.

For	**Against**	**Broker Non-Votes And Abstentions**
1,904,733	-	1,881,559

Item 5. Other Information

None.

Item 6. Exhibits

See exhibit index.

SIGNATURES

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

INDUSTRIAL SERVICES OF AMERICA, INC.

Date: November 16, 2009	/s/ Harry Kletter Chairman and Chief Executive Officer (Principal Executive and Financial Officer)
Date: November 16, 2009	/s/ Alan L. Schroering Chief Financial Officer

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INDEX TO EXHIBITS

Exhibit Number	**Description of Exhibits**
10.1	Note Modification Agreement
31.1	Rule 13a-14(a) Certification of Harry Kletter for the Form 10-Q for the quarter ended September 30, 2009.
31.2	Rule 13a-14(a) Certification of Alan Schroering for the Form 10-Q for the quarter ended September 30, 2009.
32.1	Section 1350 Certification of Harry Kletter and Alan Schroering for the Form 10-Q for the quarter ended September 30, 2009.