

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Form N-CSRS

May 29, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-07920

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

620 Eighth Avenue, 49th Floor, New York, NY  
(Address of principal executive offices)

10018  
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

Stamford, CT 06902  
(Name and address of agent for service)

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

Date of fiscal year end: September 30

Date of reporting period: March 31, 2013

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ITEM 1. REPORT TO STOCKHOLDERS.

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

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March 31, 2013

**Semi-Annual Report**

**Western Asset High Income Opportunity Fund Inc.  
(HIO)**

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

II Western Asset High Income Opportunity Fund Inc.

**Fund objectives**

The Fund's primary investment objective is to seek high current income. Capital appreciation is a secondary objective.

**What's inside**

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**Letter from the chairman**

**Dear Shareholder,**

We are pleased to provide the semi-annual report of Western Asset High Income Opportunity Fund Inc. for the six-month reporting period ended March 31, 2013. Please read on for Fund performance information and a detailed look at prevailing economic and market conditions during the Fund's reporting period.

Recent regulations adopted by the Commodity Futures Trading Commission (the "CFTC") require operators of registered investment companies, including closed-end funds, to register as commodity pool operators unless the fund limits its investments in commodity interests. Effective December 31, 2012, your Fund's manager has claimed the exclusion from the definition of commodity pool operator. More information about the CFTC rules and their effect on the Fund is included later in this report on page 42.

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

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

We look forward to helping you meet your financial goals.

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

April 26, 2013

**Investment commentary****Economic review**

The U.S. economy continued to grow over the six months ended March 31, 2013 (the reporting period), but it did so in fits and starts. Looking back, U.S. gross domestic product (GDP) growth, as reported by the U.S. Department of Commerce, was 1.3% in the second quarter of 2012. Economic growth accelerated to 3.1% in the third quarter, partially due to increased private inventory investment, higher federal government spending and moderating imports. However, economic activity sharply moderated in the fourth quarter, with GDP expanding an anemic 0.4%. This was driven by a reversal of the above factors, as private inventory investment and federal government spending weakened. The reporting period then ended on a positive note, as the U.S. Department of Commerce's initial estimate for first quarter 2013 GDP growth was 2.5%. Accelerating growth was due, in part, to strengthening consumer spending, which rose 3.2% during the first quarter, versus a 1.8% increase during the previous quarter.

While there was some improvement in the U.S. job market, unemployment remained elevated throughout the reporting period. When the period began, unemployment, as reported by the U.S. Department of Labor, was 7.8%. The unemployment rate fluctuated between 7.8% and 7.9% through January 2013. Unemployment then fell to 7.7% in February and 7.6% in March, the lowest level since December 2008. However, the decline in March was partially due to people leaving the workforce. In addition, the number of longer-term unemployed continues to be a headwind for the economy, as nearly 40% of the 11.7 million people without a job have been out of work for more than six months.

Meanwhile, the housing market brightened, as sales generally improved and home prices continued to rebound. According to the National Association of Realtors (NAR), existing-home sales slipped 0.6% on a seasonally adjusted basis in March 2013 versus the previous month, but were 10.3% higher than in March 2012. In addition, the NAR reported that the median existing-home price for all housing types was \$184,300 in March 2013, up 11.8% from March 2012. This marked the thirteenth consecutive month that home prices rose compared to the same period a year earlier. While the inventory of homes available for sale rose modestly in March to a 4.7 month supply at the current sales pace, it was 16.8% lower than in March 2012.

While manufacturing activity was weak in many international developed countries, it was generally positive in the U.S. Based on the Institute for Supply Management's PMI (PMI)ii, the U.S. manufacturing sector expanded for the second straight month in October 2012, with a reading of 51.7 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). The PMI then fell to contraction territory with a reading of 49.5 in November. However, manufacturing expanded over the next four months, with the PMI at 51.3 in March 2013. During March, 14 of the 18 industries within the PMI expanded.

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**Investment commentary (cont d)**

**Market review**

**Q. How did the Federal Reserve Board ( Fed )iii respond to the economic environment?**

A. The Fed took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As has been the case since December 2008, the Fed kept the federal funds rateiv at a historically low range between zero and 0.25%. At its September 2012 meeting, prior to the beginning of the reporting period, the Fed announced a third round of quantitative easing ( QE3 ), which involves purchasing \$40 billion each month of agency mortgage-backed securities ( MBS ) on an open-end basis. In addition, the Fed further extended the duration that it expects to keep the federal funds rate on hold, until at least mid-2015. At its meeting in December, the Fed announced that it would continue purchasing \$40 billion per month of agency MBS, as well as initially purchasing \$45 billion a month of longer-term Treasuries. The Fed also said that it would keep the federal funds rate on hold ...as long as the unemployment rate remains above 6.5%, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee s 2% longer-run goal, and longer-term inflation expectations continue to be well anchored. As expected, at its meeting in March 2013, the Fed said it would continue its asset purchase program. It also stated that When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2%.

**Q. Did Treasury yields trend higher or lower during the six months ended March 31, 2013?**

A. Both short- and long-term Treasury yields moved higher during the reporting period. When the period began, the yield on the two-year Treasury was 0.23%, matching its low over the six months ended March 31, 2013. It rose as high as 0.32% on October 22 and ended the period at 0.25%. The yield on the ten-year Treasury began the period at 1.65%. Ten-year Treasuries hit a low of 1.58% in mid-November 2012 and peaked at 2.07% on March 11, 2013, before ending the period at 1.87%.

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

A. The spread sectors experienced periods of volatility during the period given a number of macro issues, including the European sovereign debt crisis, mixed economic data and concerns related to the U.S. fiscal cliff and sequestration. However, the majority of spread sectors outperformed equal-durationv Treasuries given generally solid demand from investors looking to generate incremental yield in the low interest rate environment. For the six months ended March 31, 2013, the Barclays U.S. Aggregate Indexvi returned 0.09%.

**Q. How did the high-yield market perform over the six months ended March 31, 2013?**

**A.** The U.S. high-yield bond market generated a strong return during the reporting period. The asset class, as measured by the Barclays U.S. Corporate High Yield 2% Issuer Cap



Indexvii, posted positive returns during all six months of the period. Risk appetite was often solid as investors were drawn to higher yielding securities. All told, the high-yield market gained 6.28% for the six months ended March 31, 2013.

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

A. The asset class generated mixed results during the six months ended March 31, 2013. After rising during the first half of the reporting period, the asset class declined over the second half of the period. Overall, the JPMorgan Emerging Markets Bond Index Global ( EMBI Global )viii returned 0.95% over the six months ended March 31, 2013.

**Performance review**

For the six months ended March 31, 2013, Western Asset High Income Opportunity Fund Inc. returned 7.92% based on its net asset value ( NAV )ix and -0.44% based on its New York Stock Exchange ( NYSE ) market price per share. The Fund’s unmanaged benchmark, the Barclays U.S. Corporate High Yield 2% Issuer Cap Index returned 6.28% for the same period. The Lipper High Yield Closed-End Funds Category Averagex returned 8.07% over the same time frame. Please note that Lipper performance returns are based on each fund’s NAV.

During this six-month period, the Fund made distributions to shareholders totaling \$0.25 per share, which may have included a return of capital. The performance table shows the Fund’s six-month total return based on its NAV and market price as of March 31, 2013. **Past performance is no guarantee of future results.**

**Performance Snapshot**

as of March 31, 2013 (unaudited)

	<b>6-Month</b>
<b>Price Per Share</b>	<b>Total Return*</b>
\$6.50 (NAV)	7.92%
\$6.37 (Market Price)	-0.44%

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

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

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

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

**Looking for additional information?**

The Fund is traded under the symbol **HIO** and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol **XHIOX** on most financial websites. *Barron's* and the *Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as [www.lmcef.com](http://www.lmcef.com).

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 5:30 p.m. Eastern Time, for the Fund's current NAV, market price and other information.

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**Investment commentary (cont d)**

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

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

April 26, 2013

**RISKS:** *The Fund's investments are subject to credit risk, inflation risk and interest rate risk. The Fund invests in high-yield debt securities, which are subject to greater risks than investments in higher-rated bonds, such as the increased risk of default and greater volatility because of the lower credit quality of the issues. Fixed-income investments are subject to interest rate risk. As interest rates rise, bond prices fall, reducing the value of the Fund's holdings. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. In addition, the Fund may invest in foreign securities, which are subject to certain risks of overseas investing, including currency fluctuations and changes in political and economic conditions, which could result in significant fluctuations. These risks are magnified in emerging markets.*

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

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- i Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.
- ii The Institute for Supply Management's PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.
- iii The Federal Reserve Board ( Fed ) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- iv The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.
- v Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.
- vi The Barclays U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.
- vii The Barclays U.S. Corporate High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.
- viii The JPMorgan Emerging Markets Bond Index Global ( EMBI Global ) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds and local market instruments.
- ix Net asset value ( NAV ) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.
- x Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the six-month period ended March 31, 2013, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 7 funds in the Fund's Lipper category.

**Fund at a glance (unaudited)**

**Investment breakdown (%) as a percent of total investments**

The bar graph above represents the composition of the Fund's investments as of March 31, 2013 and September 30, 2012 and does not include derivatives, such as written options, swap contracts and forward foreign currency contracts. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

Represents less than 0.1%.

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**Spread duration (unaudited)**

**Economic Exposure March 31, 2013**

Total Spread Duration

HIO 2.90 years

Benchmark 4.09 years

Spread duration measures the sensitivity to changes in spreads. The spread over Treasuries is the annual risk-premium demanded by investors to hold non-Treasury securities. Spread duration is quantified as the % change in price resulting from a 100 basis points change in spreads. For a security with positive spread duration, an increase in spreads would result in a price decline and a decline in spreads would result in a price increase. This chart highlights the market sector exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

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Benchmark	Barclays U.S. Corporate High Yield 2% Issuer Cap Index
EM	Emerging Markets
HIO	Western Asset High Income Opportunity Fund Inc.
HY	High Yield
IG Credit	Investment Grade Credit
MBS	Mortgage-Backed Securities

**Effective duration (unaudited)****Interest Rate Exposure March 31, 2013**Total Effective Duration

HIO	3.39 years
Benchmark	4.04 years

Effective duration measures the sensitivity to changes in relevant interest rates. Effective duration is quantified as the % change in price resulting from a 100 basis points change in interest rates. For a security with positive effective duration, an increase in interest rates would result in a price decline and a decline in interest rates would result in a price increase. This chart highlights the interest rate exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

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Benchmark	Barclays U.S. Corporate High Yield 2% Issuer Cap Index
EM	Emerging Markets
HIO	Western Asset High Income Opportunity Fund Inc.
HY	High Yield
IG Credit	Investment Grade Credit



**Schedule of investments (unaudited)**

March 31, 2013

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

	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Security</b>				
<b>Corporate Bonds &amp; Notes</b> 86.1%				
<b>Consumer Discretionary</b> 16.3%				
<b>Auto Components</b> 0.2%				
American Axle & Manufacturing Inc., Senior Notes	6.625%	10/15/22	430,000	\$ 447,200
Hertz Holdings Netherlands BV, Senior Secured Bonds	8.500%	7/31/15	300,000EUR	407,629(a)
<b>Total Auto Components</b>				<b>854,829</b>
<b>Automobiles</b> 0.5%				
Chrysler Group LLC/CG Co.-Issuer Inc., Secured Notes	8.250%	6/15/21	1,860,000	2,085,525
Escrow GCB General Motors			2,125,000	0*(b)(c)(d)
Escrow GCB General Motors			825,000	0*(b)(c)(d)
Escrow GCB General Motors	16			

pledgees or donees or their successors in interest, may offer and sell, from time to time, our common

stock directly to purchasers (including pledgees) or through underwriters, broker-dealers or agents, who may act solely as agents or who may acquire shares as principals, who will act independently of us in making decisions with respect to the timing, manner and size of each sale, and who may receive compensation in the form of discounts, concessions or commissions from the respective selling security holders or the purchasers. Any shares sold through underwriters may be resold at different times in one or more transactions, including negotiated transactions, at

fixed prices, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, at varying prices determined at the time of sale, or at negotiated prices. These shares may be offered to the public through underwriting syndicates represented by one or more managing underwriters or may be offered to the public directly by one or more underwriters. Any public offering price and any discounts or concessions allowed or disallowed to be paid to dealers may be changed at different times. Such discounts, concessions or commissions as to any particular underwriter, broker-dealer or agent may be usual and customary or specifically negotiated in connection with their sales. Such sales may be effected in transactions:

- which may involve crosses or block transactions,
- on any national securities exchange or quotation service on which our common stock may be listed or quoted at the time of sale,
- in the over-the-counter market,
- otherwise than on such exchanges or services or in the over-the-counter market,
- through the writing of options, whether such options are listed on an options exchange or otherwise,
- through a block trade in which the broker-dealer so engaged may sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction,
- through a purchase by a broker-dealer as principal and resale by such broker-dealer

- for its own account,
- involving an ordinary brokerage transaction or a transaction in which the broker-dealer solicits purchasers,
- that are privately negotiated,
- by pledge to secure debts or other obligations,
- to cover hedging transactions (other than "short sales" (as defined in Rule 3b-3 under the Securities Exchange Act of 1934)) made pursuant to this prospectus,
- through an underwritten offering, or
- through a combination of the above methods of sale.

At the time a particular offering of our common stock is made, if required, a supplement to this prospectus or, if appropriate, a post-effective amendment to the registration statement of which this prospectus is a part, will be distributed which will set forth the aggregate amount of common stock being offered, the names of the selling security holders, the respective purchase prices and public offering

prices, the terms of the offering, including the name or names of any underwriters, broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling security holders and any discounts, commissions or concessions allowed or reallocated or paid to broker-dealers, that such broker-dealer(s) did not conduct any investigation to verify the information set forth or incorporated by reference in this prospectus and other facts material to the transaction. Each broker-dealer that receives the common stock for its own account pursuant to this prospectus must

acknowledge that it will deliver the prospectus and any prospectus supplement in connection with any sale of common stock. If required, this prospectus may be amended or supplemented on a continual basis to describe a specific plan of distribution.

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In addition, upon receiving notice from a selling security holder that a donee, pledgee or transferee or other successor-in-interest intends to sell shares covered by this prospectus, we will file a supplement to this prospectus pursuant to Rule 424(b) under the Securities Act to identify the transferee.

In connection with the January 2004 private placement transaction, as amended, we have agreed with the selling security holder to keep the registration statement of which this prospectus is a part effective until the earlier of (1) the later of (a) the second anniversary of the issuance of the last share that may be issued, or (b) such time as all shares issued or issuable to the selling security holder can be sold by the selling security holder or its affiliates within a three-month period without compliance with the registration

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requirements of Rule 144 of the Securities Act of 1933; or (2) the date that all shares covered by the registration statement have been sold by the selling security holder or its affiliates.

The aggregate proceeds to the selling security holders from the sale of our common stock offered by them hereby will be the purchase price of such shares of common stock less discounts and commissions, if any. Each of the

selling security holders reserves the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of common stock to be made directly or through agents. We will not receive any of the proceeds from this offering, but we will receive the exercise price if Fletcher exercises its additional investment rights to obtain additional shares of common stock, unless such exercise is effected on a net exercise basis.

Our outstanding common stock is included for quotation on the Nasdaq National Market.

In order to comply with the securities laws of certain jurisdictions, if applicable, the common stock may be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the common stock may not be sold unless it has been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

The selling security holders and any underwriters, broker-dealers or agents that participate in the sale of the common stock may be deemed to be "underwriters" within the meaning of Section 2(a)(11) of the Securities Act of 1933. Any discounts, commissions, concessions or profit they earn on any resale of the shares may be deemed to be underwriting discounts and commissions under the Securities Act of 1933. Selling security holders who are deemed to be "underwriters" within the meaning of Section 2(a)(11) of the Securities Act of 1933 will be subject to the prospectus delivery requirements of the Securities Act of 1933. We will make copies of this prospectus available to the selling security holders and have informed them of their obligation to deliver

copies of this prospectus to purchasers at or before the time of any sale of the shares. Neither the delivery of any prospectus, or any prospectus supplement, nor any other action taken by the selling security holders or any purchaser relating to the purchase or sale of the common stock under this prospectus shall be treated as an admission that any of them is an underwriter within the meaning of the Securities Act of 1933 relating to the sale of any shares. In connection with the January 2004 private placement transaction, the selling security holders have agreed not to engage in "short sales" (as defined in Rule 3b-3 of the Exchange Act) of common stock; however, selling security holders are not prohibited from engaging in any transaction in any stock index, portfolio or derivative in which the common stock is a component. Further, the selling security holders may (1) enter into transactions with

brokers, dealers or others, who in turn may engage in sales, including short sales, of the shares in the course of hedging the positions they assume, (2) deliver shares to close out hedging transactions or derivative security positions or (3) loan shares to brokers, dealers or others that may in turn sell such shares. The brokers, dealers or others referred to in (1) above may engage in those transactions referred to in (1), (2) or (3) above through this prospectus. The selling security holders may enter into option or other transactions with broker-dealers or other financial institutions that require the delivery to the broker-dealer of the shares. The broker-dealer or other financial institution may then resell or transfer these shares through this prospectus. The selling security holders may also loan or pledge their shares to a broker-dealer or other financial institution. The broker-dealer or financial institution may sell the

shares which are loaned or pursuant to a right to rehypothecate while pledged, or upon a default, the broker-

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dealer or other financial institution may sell the pledged shares by use of this prospectus. The broker-dealer or other financial institution may use shares pledged by the selling security holders or borrowed from the selling security holders or other to settle those sales or to close out any related open borrowings of shares, and may use securities received from the selling security holders in settlement of those derivatives to close out any related open borrowings of shares.

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In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 of the Securities Act of 1933 may be sold under Rule 144 or any other available exemption rather than pursuant to this prospectus. There is no assurance that any selling security holder will sell any or all of the common stock described herein, and any selling security holder may transfer, devise or gift such securities by other means not described in this prospectus.

We entered into an agreement for the benefit of the selling security holders to register their common stock under applicable federal and state securities laws under particular circumstances and at specified times. We will pay all of our expenses, and the selling security holders will pay all of their expenses, incident to the offering and sale of the common stock.

We also have agreed to indemnify the selling security holders from certain damages or liabilities arising out of or based upon any untrue or alleged

untrue statement of a material fact contained in, or material omission or alleged omission from, the registration statement of which this prospectus is a part, except to the extent the untrue or alleged untrue statement or omission or alleged omission was made in reliance upon written information furnished for inclusion herein by such selling security holders. The selling security holders may agree to indemnify any broker-dealer or agent that participates in transactions involving sales of the shares against certain liabilities, including liabilities arising under the Securities Act of 1933. The anti-manipulation rules of Regulation M under the Securities Exchange Act may apply to sales of common stock and activities of the selling security holders.

#### Legal Matters

The validity of the common stock being offered hereby will be passed upon for us by Wilmer Cutler Pickering LLP, New York, New York.

#### Experts

The financial statements incorporated in this Prospectus by reference to the Annual Report on Form 10-K of Mechanical Technology Incorporated for the year ended December 31, 2002 2003 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

#### Where You Can Find More Information

We are subject to the reporting requirements of the Securities Exchange Act of 1934 and in accordance with its requirements file annual and quarterly reports, proxy



statements and other information with the

Securities and Exchange Commission. These reports, proxy statements and other information may be inspected, and copies of these materials may be obtained upon payment of the prescribed fees, at the SEC's Public Reference Room, 450 Fifth Street, Suite 1300, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information regarding the Public Reference Room. In addition, we are required to file electronic versions of these materials with the SEC through the SEC's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC.

We have filed with the SEC a Registration Statement on Form S-3 under the Securities Act of 1933 with

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respect to the common stock offered by this prospectus. This prospectus and any prospectus supplement are part of that registration statement, but do not contain all of the information set forth in the Registration Statement and the exhibits and the schedules to the Registration Statement. For further information with respect to us and our common stock, you should read the Registration Statement, including its exhibits

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and schedules. Statements contained in this prospectus and any prospectus supplement, including documents that we have incorporated by reference, as

to the contents of any contract or other document referred to are not necessarily complete, and, with respect to any contract or other document filed as an exhibit to the Registration Statement, each such statement is qualified in all respects by reference to the corresponding exhibit. Copies of the Registration Statement and its exhibits are on file at the offices of the SEC and may be obtained upon payment of the prescribed fee or may be examined without charge at the SEC's Public Reference Room, at the address listed above, or via the EDGAR database.

#### Incorporation of Information Filed With the SEC

The SEC allows us to incorporate by reference information into this prospectus and any prospectus supplement. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this prospectus and any prospectus supplement, except for any information superseded by information contained directly in this prospectus and any prospectus supplement. This prospectus and any prospectus supplement incorporate by reference the documents set forth below that we have previously filed with the SEC. These documents contain important information about us and our financial condition.

Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, filed with the SEC on May 12, 2004;

Our Current Report on Form 8-K, filed with the SEC on May 5, 2004;

Our Amended Annual Report on Form 10-K/A for the year ended December 31, 2003, filed with the SEC on April 29, 2004;

Our Annual Report on Form 10-K for the year ended December 31, 2003, filed with the SEC on March 10, 2004;

Our Current Report on Form 8-K, filed with the SEC on January 27, 2004;

Our Current Report on Form 8-K/A, filed with the SEC on January 16, 2004;

Our Form 10, dated on or about February 20, 1973, with respect to our common stock.

All documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of this prospectus and any prospectus supplement and prior to the completion of this offering of our common stock will be deemed to be incorporated by reference into this prospectus and any prospectus supplement and to be a part hereof from the date of filing of such documents.

Any statement contained in a document incorporated or deemed to be incorporated by reference into this prospectus and any prospectus supplement shall be deemed to be modified or superseded for purposes of this prospectus and any prospectus supplement to the extent that a statement contained in this prospectus and any prospectus supplement, or in any other subsequently filed document that is also incorporated or deemed to be incorporated by reference in this prospectus and any prospectus supplement, modifies or

supersedes the earlier statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus and any prospectus supplement.

Documents incorporated by reference are available from us without charge, excluding all exhibits unless specifically incorporated by reference as an exhibit to this prospectus and any prospectus supplement.

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Prospective investors may obtain documents incorporated by reference in this prospectus and any prospectus supplement by requesting them in writing or by telephone from us at our executive offices at

431 New Karner Road, Albany, New York 12205, telephone number (518) 533-2200, Attention: Dale W. Church.

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PART II  
INFORMATION NOT REQUIRED  
IN PROSPECTUS

Item 14. Other Expenses of Issuance  
and Distribution

Except for the SEC registration fee and the Nasdaq listing fee, all expenses are estimated. All such expenses will be paid by the Registrant.

Registration Fee -- Securities and Exchange Commission	\$ 5,517.069
Nasdaq Listing Fee	45,000.00
Accountants' fees and expenses	28,025.0033
Legal fees and expenses	20150,000.0

Printing and engraving expenses	4,000.00
Miscellaneous	<u>5,000.00</u>
Total	\$107,542.00

Item 15. Indemnification of Directors  
And Officers

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Pursuant to the statutes of the State of New York, a director or officer of a corporation is entitled, under specified circumstances, to indemnification by the corporation against reasonable expenses, including attorney's fees, incurred by him/her in connection with the defense of a civil or criminal proceeding to which he/she has been made, or threatened to be made, a party by reason of the fact that he/she was such director or officer. In certain circumstances, indemnity is provided against judgments, fines and amounts paid in settlement. In general, indemnification is available where the director or officer acted in good faith, for a purpose he/she reasonably believed to be in the best interests of the corporation. Specific court approval is required in some cases. The foregoing statement is subject to the detailed provisions of Sections 715, 717 and 721-725 of the New York Business Corporation Law.

Under provisions of Mechanical Technology's Amended and Restated Certificate of Incorporation, Mechanical Technology shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, proceeding or suit (including one by or in the right of Mechanical Technology to procure a judgment in its favor), whether civil or

criminal, by reason of the fact that he, his testator or interstate is or was a director or officer of Mechanical Technology, or is or was serving any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise in any capacity at the request of Mechanical Technology, against judgments, fines, amounts paid in settlement and expenses, including attorneys' fees, actually incurred as a result of or in connection with any such action, proceeding or suit, or any appeal therefrom, if such director or officer acted in good faith for a purpose which he reasonably believed to be in or not opposed to the best interests of Mechanical Technology, and, in criminal actions or proceedings, in which he had no reasonable cause to believe that his conduct was unlawful; provided, however, that no indemnification shall be made to or on behalf of any director or officer if a judgment or other final adjudication adverse to the director or officer establishes that his acts were committed in bad faith or were the result of active and deliberate dishonesty and were material to the cause of action so adjudicated, or that he personally gained a financial profit or other advantage to which he was not legally entitled.

The directors and officers of Mechanical Technology are covered by insurance policies indemnifying against certain liabilities, including certain liabilities arising under the Securities Act that might be incurred by them in such capacities.

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Item 16. Exhibits

Exhibit	<u>Description of Exhibit</u>
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Number

- 5.1 Opinion of Wilmer Cutler Pickering LLP
- 23.1 Consent of PricewaterhouseCoopers LLP (regarding the Registrant)
- 23.3 Consent of Wilmer Cutler Pickering LLP (included in exhibit 5.1)
- 24.1 Power of Attorney (included on the signature pages to this Registration)

Item 17. Undertakings

The undersigned registrant does hereby undertake:

(1) to file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the



registration  
statement  
(or the  
most  
recent  
post-effective  
amendment  
thereof)  
which,  
individually  
or in  
the  
aggregate,  
represent  
a  
fundamental  
change  
in the  
information  
set  
forth  
in the  
registration  
statement.  
Notwithstanding  
the  
foregoing,  
any  
increase  
or  
decrease  
in  
volume  
of  
securities  
offered  
(if the  
total  
dollar  
value  
of  
securities  
offered  
would  
not  
exceed  
that  
which  
has  
been  
registered)

and  
any  
deviation  
from  
the  
low or  
high  
end of  
the  
estimated  
maximum  
offering  
range  
may  
be  
reflected  
in the  
form  
of  
prospectus  
filed  
with  
the  
Commission  
pursuant  
to  
Rule  
424(b)  
if, in  
the  
aggregate,  
the  
changes  
in  
volume  
and  
price  
represent  
no  
more  
than a  
20%  
change  
in the  
maximum  
aggregate  
offering  
price  
set  
forth  
in the

"Calculation  
of  
Registration  
Fee"  
table  
in the  
effective  
registration  
statement;

(iii) to  
include  
any  
material  
information  
with  
respect  
to the  
plan  
of  
distribution  
not  
previously  
disclosed  
in the  
registration  
statement  
or any  
material  
change  
to  
such  
information  
in the  
registration  
statement;

Provided, however

, that paragraphs (i)  
and (ii) above do not  
apply if the  
information required  
to be included in a  
post-effective  
amendment by those  
paragraphs is  
contained in periodic  
reports filed with or  
furnished to the  
Commission by the

registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

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The undersigned registrant hereby undertakes that, for purposes of determining any liability under

the Securities Act of 1933 each filing of the registrant's annual report pursuant to Section 13(a) or Section

15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration

statement shall be deemed to be a new registration statement relating to the securities offered therein, and

the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 15 above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933, as amended, and will be governed by the final adjudication of such issue.



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#### SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Albany, State of New York, on May 617, 2004.

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#### POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each of the persons whose names appear below constitute and appoint Dale W. Church and Cynthia A. Scheuer, and each of them, his true and lawful attorney in fact and agent, with full power of substitution

and resubstitution, for him and in his name, place and stead, in any and all capacities, to execute any and all amendments (including post-effective amendments) to this Registration Statement (or any other registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933), and to file the same, together with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, and such other agencies, offices and persons as may be required by applicable law, granting unto said attorney in fact and agent, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Da</u>
<p>_____</p> <p>s/ Dale W. Church</p> <p>Dale W. Church</p>	<p>Chairman of the Board and Chief Executive Officer (Principal Executive Officer)</p>	<p>Ma</p>
<p>_____</p> <p>s/ Cynthia A. Scheuer</p> <p>Cynthia A. Scheuer</p>	<p>Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)</p>	<p>Ma</p>



\_\_\_\_\_  
s/ Edward A. Dohring  
  
Edward A. Dohring

Director

Ma

\_\_\_\_\_  
s/ David B. Eisenhaure  
  
David B. Eisenhaure

Director

Ma

\_\_\_\_\_  
s/ E. Dennis O'Connor  
  
E. Dennis O'Connor

Director

Ma

\_\_\_\_\_  
s/ Dr. Walter L. Robb  
  
Dr. Walter L. Robb

Director

Ma

\_\_\_\_\_  
s/ Dr. Beno Sternlicht  
  
Dr. Beno Sternlicht

Director

Ma

\_\_\_\_\_  
s/ Steven N. Fischer  
  
Steven N. Fischer

Director

Ma

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INDEX TO EXHIBITS

Exhibit

Number

Description of Exhibit

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All schedules have been omitted  
because they are not required or  
because the required information is  
given in the Financial Statement or  
Notes thereto.