WELLS FARGO ADVANTAGE INCOME OPPORTUNITIES FUND
Form N-CSR
June 29, 2011
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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- 21269

Wells Fargo Advantage Income Opportunities Fund

(Exact name of registrant as specified in charter)

525 Market St., San Francisco, CA 94105

(Address of principal executive offices) (Zip code)

C. David Messman

Wells Fargo Funds Management, LLC

525 Market St., San Francisco, CA 94105

(Name and address of agent for service)

Registrant s telephone number, including area code: 800-643-9691

Date of fiscal year end: April 30, 2011

Date of reporting period: April 30, 2011

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ITEM 1. REPORT TO SHAREHOLDERS

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Annual Report

April 30, 2011

WELLS FARGO ADVANTAGE INCOME OPPORTUNITIES FUND

This closed-end fund is no longer offered as an initial public offering and is only offered through broker/dealers on the secondary market. A closed-end fund is not required to buy its shares back from investors upon request.

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Karla M. Rabusch,

President

Wells Fargo Advantage Funds

There certainly were a rash of geopolitical and geological issues that provided headwinds, but overall, many areas across both the global equity and bond markets showed resilience and posted solid annual returns.

Dear Valued Shareholder,

We are pleased to provide you with this annual report for the *Wells Fargo Advantage Income Opportunities Fund* for the 12-month period that ended April 30, 2011. After a series of extraordinary financial and economic events that affected the financial markets in the United States and throughout the world dating back to the beginning of the financial crisis in 2008 it seemed the global economy continued to move toward a more sustainable recovery throughout the period. There certainly were a rash of geopolitical and geological issues that provided headwinds, but overall, many areas across both the global equity and bond markets showed resilience and posted solid annual returns, suggesting that the most underlying fundamentals of the economy continue to strengthen.

The global economic recovery moved toward expansion.

The global economic recovery that began in mid-2009, especially within the developed countries, gained further momentum throughout the period, particularly toward the end of 2010. For example, within the U.S., gross domestic product (GDP) grew at an annualized rate of 3.1% in the fourth quarter of 2010 capping a streak of six consecutive quarters of positive GDP growth and 2.8% for the full year. Although the path of recovery within the U.S. has been uneven at times and growth remains subpar compared with previous recoveries, the general consensus among economists is that the economy will likely continue to move toward a sustainable expansion.

Jobs and housing remained troublesome.

By the end of the reporting period, the unemployment rate in the U.S. stood at 8.8%, down from 9.8% a year earlier but still notably higher than historical averages. Unfortunately, the drop may be more attributable to a decline in the labor force than to a meaningful uptick in hiring. In fact, employers added just 1.1 million jobs during the entire 2010 calendar year, below the historical average of 1.4 million jobs created each year over the past 80 years, suggesting that the improving economy has yet to translate into widespread hiring. Meanwhile, the beleaguered housing market was an ongoing source of concern, despite some tentative late-year signs of stabilization. That said, persistent weakness in the labor and housing markets bears close watching in the months ahead.

Other economic data in the U.S. was more encouraging, reflecting greater confidence in the sustainability of the expansion on the part of both consumers and businesses. Retail sales came in strong at certain points during the period, including the critical holiday shopping season, and industrial production and new orders have picked up. Although still reluctant to hire, businesses have gradually increased spending in other areas, such as equipment and technology. Core inflation, which excludes volatile food and energy prices, remained benign.

The Federal Reserve continued to do its part.

With inflation subdued, the Federal Reserve (Fed) held its target range for the federal funds rate a proxy for short-term interest rates steady at 0.00% to 0.25%. On April 27, 2011, in its final statement of the 12-month period, the Fed noted that economic recovery is proceeding at a moderate pace, while the employment situation is improving gradually. With regard to inflation, the Fed noted that the rate of inflation increased but that longer-term inflation expectations have remained stable and measures of underlying inflation are still subdued. As a result, the Fed indicated that it intends to keep short-term rates at historically low levels for as long as necessary to ensure a sustainable recovery and expansion.

The Fed also stated that to promote a stronger pace of economic recovery, it plans to proceed with other stimulus measures, including its second round of quantitative easing (QE2) a plan to purchase $600 billion in long-term Treasury securities by mid-2011. The launch of QE2 in the third quarter of 2010 marked a turning point for the equity markets in that it ushered in a favorable shift in investor sentiment. By and large, investors interpreted the plan as further evidence of the Fed s commitment to avoiding deflation and spurring economic growth.

Central banks focused on balancing the need for sustainable growth with ongoing sovereign debt concerns.

The coordinated efforts of the developed markets central banks to quell the worldwide financial crisis were effective in restoring order to the capital markets, and the stimulus packages provided a significant underpinning to economies, helping to restore them to growth. As a result, throughout the 12-month period, stock markets in the United States and worldwide rebounded dramatically from their March 2009 lows.

Either many emerging markets countries were not as affected by the same problems as the U.S. and eurozone economies or, if they were, their difficulties were more manageable. With lower levels of consumer debt and less-speculative housing markets, economies and stock markets in China, India, and Singapore recovered quickly and continued to post generally strong returns throughout the period.

After a year filled with global events, the high-yield market showed its resilience.

The high-yield market was resilient to the numerous problem areas throughout the past 12 months. Neither the horrible earthquake and tsunami in Japan nor the unrest and social upheaval in the Middle East and North Africa nor rising oil prices nor the evolving sovereign debt issues among the European peripheral economies derailed the high-yield market. Indeed, the most prevailing factor propelling asset prices, including high-yield bonds, was the Fed s continued accommodative policies. QE2 seemed to propel the equity markets and the prices of virtually all commodities higher and ensured a liquid environment, low Treasury rates, and easy financing conditions for corporate borrowers. Such a benign environment for corporate borrowers supported high-yield companies, as they were able to refinance existing debt at cheaper rates, and for the more-troubled, overleveraged issuers, many were able to push out near-term maturities at favorable terms.

Central banks attempted to balance growth with inflation pressures.

2011 began moderately well, building on the momentum established during the fourth quarter of 2010. Investors focused on signs of sustainable economic growth and low volatility in many countries. In step with stronger economic conditions, corporate earnings continued to improve, further bolstering investor confidence. However, during the period, investors shifted their focus away from these

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developments to the political unrest in the Middle East and the tragedy affecting Japan, which prompted concerns about the impact on oil prices and the supply chain. In the developed markets, Europe and the U.S. are good examples of how many countries are attempting to balance the effects of higher inflation with the need to firmly establish sustainable economic expansion. These governments believe that this can best be achieved through an exceptionally accommodative monetary policy. In an effort to stave off the effects of rising inflation, China, India, and Brazil have already been tightening their monetary policies through rate increases and a more restrictive approach to money supply. It is possible that if the rate of inflation in those emerging markets countries begins to stabilize or even subside, particularly in China, the countries will actually begin to loosen their monetary policies.

Lower-rated credit continued to drive performance of high-yield markets.

Within the high-yield universe, the lower-quality credit tiers rated CCC[1] and below have outperformed their higher-quality counterparts since the beginning of the period. Clearly, the trend continues to be that CCCs have underperformed during market corrections and outperformed during rallies. By comparison, during the past 12 months and year to date, high yield has outperformed both Treasuries and investment-grade corporates.

For the full 12-month period, the Barclays Capital U.S. Corporate High Yield Bond Index[2] advanced 13.42%, the Barclays Capital U.S. Treasury Index[3] returned 0.99%, and the broad investment-grade Barclays Capital U.S. Aggregate Bond Index[4] returned 5.36%.

During the period, as noted, there was outperformance in lower-quality issues that typically perform well in periods of significant market liquidity and environments in which they can push out maturities. The *Wells Fargo Advantage Income Opportunities Fund* was underweight such securities. In addition, the Fund had less interest-rate-sensitive issues, as it was positioned, and continues to be positioned, away from what we deem to be uncompensated risk. Our portfolio manager s view is that Treasury rates are not being set by market forces extraordinary central bank and government actions and policies continue to artificially lower interest rates, creating a situation where the risk and reward to

1. The ratings indicated are from Standard & Poor s, Moody s Investors Service, and/or Fitch Ratings Ltd. Credit Quality Ratings: Credit quality ratings apply to underlying holdings of the fund and not the fund itself. Standard & Poor s rates the creditworthiness of bonds, ranging from AAA (highest) to D (lowest). Ratings from A to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories. Moody s rates the creditworthiness of bonds, ranging from Aaa (highest) to C (lowest). Ratings Aa to B may be modified by the addition of a number 1 (highest) to 3 (lowest) to show relative standing within the ratings categories. Fitch rates the creditworthiness of bonds, ranging from AAA (highest) to D (lowest).

2. The Barclays Capital U.S. Corporate High Yield Bond Index is an unmanaged, U.S. dollar-denominated, nonconvertible, non-investment grade debt index. The index consists of domestic and corporate bonds rated Ba and below with a minimum outstanding amount of $150 million. You cannot invest directly in an index.

3. The Barclays Capital U.S. Treasury Index is an unmanaged index of U.S. Treasury securities. You cannot invest directly in an index.

4. The Barclays Capital U.S. Aggregate Bond Index is composed of the Barclays Capital Government/Credit Index and the Mortgage-Backed Securities Index and includes U.S. Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities. You cannot invest directly in an index.

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interest-rate sensitivity is unfavorable. During the past year, the most interest-rate- sensitive issues outperformed, including longer-dated issues and issues within the financials sector.

The high-yield markets remain attractive, supported by a strong corporate environment.

Within high-yield markets, the portfolio managers believe that the lowest-quality assets may have the most to lose in a higher rate environment. Meanwhile, we believe higher-quality double-B and single-B bonds are potentially the sweet spot for investors and are supported by a low default environment, liquidity-enhancing policies, strong corporate earnings, and minimal near-term maturities while offering enough spread to Treasuries to provide some cushion in a rising rate environment. The team feels that high yield has low exposure or uncorrelated risk to most of the problematic areas, such as European sovereign debt, rising commodity costs, and the unrest in the Middle East. However, the team thinks that total returns in high yield will be subdued compared with the experience over the past two years.

As always, the *Wells Fargo Advantage Income Opportunities Fund s* strategy is to capture the total return potential offered by high yield through careful security selection of issues that have a higher probability of continuing to make their interest payments, deleveraging their balance sheets, and repaying their debt without relying on liquid market conditions to refinance overleveraged balance sheets.

Thank you for choosing *Wells Fargo Advantage Funds*®. We appreciate your confidence in us. Through each market cycle, we are committed to helping you meet your financial needs. Please visit us at **www.wellsfargo.com/advantagefunds** for more information about our funds and other investment products available to you. Thank you for your continued support of *Wells Fargo Advantage Funds*.

Sincerely,

Karla M. Rabusch

President

Wells Fargo Advantage Funds

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Security Name				Shares	Value
Common Stocks: 0.32%					
Consumer Discretionary: 0.00%					
Hotels, Restaurants & Leisure: 0.00%					
Trump Entertainment Resorts Incorporated(a)				2,149	$ 0
Telecommunication Services: 0.32%					
Diversified Telecommunication Services: 0.32%					
Fairpoint Communications Incorporated				134,375	2,249,440
Total Common Stocks (Cost $3,109,765)					**2,249,440**

		Interest Rate	Maturity Date	Principal	
Corporate Bonds and Notes: 113.19%					
Consumer Discretionary: 18.61%					
Auto Components: 1.41%					
Allison Transmission Incorporated		7.13%	05/15/2019	$ 450,000	456,750
Cooper Tire & Rubber Company		7.63	03/15/2027	4,455,000	4,343,625
Cooper Tire & Rubber Company		8.00	12/15/2019	150,000	160,313
Goodyear Tire & Rubber Company		10.50	05/15/2016	4,440,000	5,028,300
					9,988,988
Diversified Consumer Services: 3.52%					
Carriage Services Incorporated		7.88	01/15/2015	4,055,000	4,136,100
Service Corporation International		6.75	04/01/2016	950,000	1,021,250
Service Corporation International		7.00	05/15/2019	1,125,000	1,195,313
Service Corporation International		7.50	04/01/2027	9,376,000	9,106,440
Service Corporation International		8.00	11/15/2021	880,000	972,400
Service Corporation International Series WI		7.00	06/15/2017	1,600,000	1,740,000
Stonemor Operating LLC		10.25	12/01/2017	6,550,000	6,812,000
					24,983,503
Hotels, Restaurants & Leisure: 4.42%					
American Casinos Incorporated		7.50	04/15/2021	1,950,000	1,996,313
Blue Merger Sub Incorporated		7.63	02/15/2019	1,150,000	1,177,313
Burger King Corporation		9.88	10/15/2018	1,600,000	1,692,000
Chukchansi Economic Development Authority	±	3.94	11/15/2012	2,525,000	2,020,000
Citycenter Holdings LLC		7.63	01/15/2016	350,000	364,875
Citycenter Holdings LLC	¥	11.50	01/15/2017	1,800,000	1,894,500
DineEquity Incorporated		9.50	10/30/2018	1,025,000	1,119,813
Greektown Superholdings		13.00	07/01/2015	6,662,000	7,519,733

NAI Entertainment Holdings LLC	8.25	12/15/2017	1,775,000	1,917,000
Pinnacle Entertainment Incorporated	7.50	06/15/2015	2,880,000	2,937,600
Scientific Games Corporation	9.25	06/15/2019	1,130,000	1,248,650
Speedway Motorsports Incorporated	6.75	02/01/2019	450,000	455,625
Speedway Motorsports Incorporated	8.75	06/01/2016	2,075,000	2,272,125
Yonkers Racing Corporation	11.38	07/15/2016	4,325,000	4,757,500
				31,373,047

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Security Name	Interest Rate	Maturity Date	Principal	Value
Household Durables: 0.02%				
Sealy Corporation	10.88%	04/15/2016	$ 144,000	$ 162,000
Media: 7.59%				
Cablevision Systems Corporation	8.63	09/15/2017	2,975,000	3,332,000
CCH II Capital Corporation	13.50	11/30/2016	12,981,015	15,658,349
CCO Holdings LLC	8.13	04/30/2020	940,000	1,045,750
Charter Communications Incorporated Step Bond	8.00	04/30/2012	2,290,000	2,404,500
Charter Communications Incorporated Step Bond	10.88	09/15/2014	11,640,000	13,007,700
Cinemark USA Incorporated	8.63	06/15/2019	350,000	383,250
CSC Holdings LLC	8.50	04/15/2014	200,000	223,750
DISH DBS Corporation	7.88	09/01/2019	2,260,000	2,446,450
EchoStar DBS Corporation	7.75	05/31/2015	650,000	708,500
Gray Television Incorporated	10.50	06/29/2015	1,275,000	1,373,813
Lamar Media Corporation Series C	9.75	04/01/2014	675,000	786,375
LIN Television Corporation	8.38			