

WESTERN ASSET EMERGING MARKETS INCOME FUND II INC.

Form N-Q

October 26, 2009

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-07686

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

55 Water Street, New York, NY  
(Address of principal executive offices)

10041  
(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: 1-888-777-0102

Date of fiscal year end: May 31,

Date of reporting period: August 31, 2009

---

ITEM 1. SCHEDULE OF INVESTMENTS

---

**WESTERN ASSET EMERGING MARKETS**

**INCOME FUND INC.**

**FORM N-Q**

AUGUST 31, 2009

---

## Western Asset Emerging Markets Income Fund Inc.

Schedule of Investments (unaudited)

August 31, 2009

Face Amount		Security	Value
<b>SOVEREIGN BONDS</b>	<b>49.3%</b>		
<b>Argentina</b>	<b>3.0%</b>		
		Republic of Argentina:	
2,000,000	DEM	10.250% due 2/6/03 (a)	\$ 344,732
1,000,000	DEM	9.000% due 9/19/03 (a)	172,366
3,500,000	DEM	7.000% due 3/18/04 (a)	603,282
3,875,000	DEM	8.500% due 2/23/05 (a)	667,919
5,400,000	DEM	11.250% due 4/10/06 (a)	930,778
1,000,000	EUR	9.000% due 4/26/06 (a)	337,119
550,000	EUR	9.000% due 7/6/10 (a)	185,415
1,000,000	DEM	11.750% due 5/20/11 (a)	172,366
8,800,000	DEM	12.000% due 9/19/16 (a)	1,516,823
950,000	DEM	11.750% due 11/13/26 (a)	163,748
5,165,000		Bonds, 7.000% due 9/12/13	3,495,414
		GDP Linked Securities:	
3,195,000		1.330% due 12/15/35 (b)	168,057
3,800,000	EUR	1.985% due 12/15/35 (b)	239,857
20,189,523	ARS	2.458% due 12/15/35 (b)	261,362
		Medium-Term Notes:	
6,500,000,000	ITL	7.000% due 3/18/04 (a)	1,083,541
3,000,000,000	ITL	5.002% due 7/13/05 (a)	500,096
1,000,000	EUR	10.000% due 2/22/07 (a)	337,119
1,000,000,000	ITL	7.625% due 8/11/07 (a)	166,699
625,000	DEM	8.000% due 10/30/09 (a)	107,729
		<b>Total Argentina</b>	<b>11,454,422</b>
<b>Brazil</b>	<b>5.2%</b>		
		Brazil Nota do Tesouro Nacional:	
13,377,000	BRL	10.000% due 7/1/10	7,184,896
19,737,000	BRL	10.000% due 1/1/12	10,275,741
		Federative Republic of Brazil:	
1,810,000		7.125% due 1/20/37	2,009,100
944		Collective Action Securities, Notes, 8.000% due 1/15/18	1,079
		<b>Total Brazil</b>	<b>19,470,816</b>
<b>Colombia</b>	<b>3.6%</b>		
		Republic of Colombia:	
1,632,000		7.375% due 1/27/17	1,801,728
8,701,000		7.375% due 9/18/37	9,136,050
2,400,000		Senior Notes, 7.375% due 3/18/19	2,632,800
		<b>Total Colombia</b>	<b>13,570,578</b>
<b>Gabon</b>	<b>0.6%</b>		
2,160,000		Gabonese Republic, 8.200% due 12/12/17 (c)	2,124,900
<b>Indonesia</b>	<b>1.9%</b>		
		Republic of Indonesia:	
10,904,000,000	IDR	10.250% due 7/15/22	1,046,049
21,720,000,000	IDR	11.000% due 9/15/25	2,129,872
21,034,000,000	IDR	10.250% due 7/15/27	1,914,361
25,039,000,000	IDR	Bonds, 9.750% due 5/15/37	2,093,862
		<b>Total Indonesia</b>	<b>7,184,144</b>

Edgar Filing: WESTERN ASSET EMERGING MARKETS INCOME FUND II INC. - Form N-Q

Mexico 4.4%

1,400,000	United Mexican States, Medium-Term Notes:	1,424,500
8,525,000	5.625% due 1/15/17	
	8.000% due 9/24/22	10,102,125

*See Notes to Schedule of Investments.*

## Western Asset Emerging Markets Income Fund Inc.

Schedule of Investments (unaudited) (continued)

August 31, 2009

Face Amount	Security	Value
<b>Mexico 4.4% (continued)</b>		
5,334,000	6.050% due 1/11/40	\$ 5,027,295
	<b>Total Mexico</b>	16,553,920
<b>Panama 4.3%</b>		
1,664,000	Republic of Panama:	
2,283,000	7.250% due 3/15/15	1,853,696
11,050,000	9.375% due 4/1/29	2,933,655
	6.700% due 1/26/36	11,298,625
	<b>Total Panama</b>	16,085,976
<b>Peru 3.1%</b>		
169,000	Republic of Peru:	
2,725,000	8.750% due 11/21/33	209,138
4,300,000	Bonds, 6.550% due 3/14/37	2,725,000
3,550,000	Global Bonds, 7.350% due 7/21/25	4,708,500
	Global Senior Bonds, 8.375% due 5/3/16	4,171,250
	<b>Total Peru</b>	11,813,888
<b>Russia 8.9%</b>		
110,000	Russian Federation:	
617,000	11.000% due 7/24/18 (c)	152,361
31,514,880	12.750% due 6/24/28 (c)	935,433
	7.500% due 3/31/30 (c)	32,617,901
	<b>Total Russia</b>	33,705,695
<b>Turkey 8.0%</b>		
3,348,000	Republic of Turkey:	
25,804,000	11.875% due 1/15/30	5,239,620
100,000	Notes, 6.875% due 3/17/36	24,868,605
	Senior Notes, 7.500% due 7/14/17	109,000
	<b>Total Turkey</b>	30,217,225
<b>United Arab Emirates 0.2%</b>		
860,000	MDC-GMTN B.V., Senior Notes, 5.750% due 5/6/14 (c)	898,327
<b>Venezuela 6.1%</b>		
6,694,000	Bolivarian Republic of Venezuela:	
9,192,000	8.500% due 10/8/14	5,656,430
1,920,000	5.750% due 2/26/16 (c)	6,342,480
933,000	7.000% due 12/1/18 (c)	1,238,400
	7.650% due 4/21/25	557,468
	Collective Action Securities:	
7,239,000	9.375% due 1/13/34	4,958,715
4,600,000	Notes, 10.750% due 9/19/13	4,416,000
	<b>Total Venezuela</b>	23,169,493
	<b>TOTAL SOVEREIGN BONDS</b>	
	(Cost \$188,843,126)	186,249,384
<b>COLLATERALIZED SENIOR LOANS 0.5%</b>		
<b>United States 0.5%</b>		
248,796	Ashmore Energy International:	
	Synthetic Revolving Credit Facility, 3.288% due 3/30/14	
	(b)	225,160
1,946,394	Term Loan, 3.598% due 3/30/14 (b)	1,761,487
		1,986,647

**TOTAL COLLATERALIZED SENIOR LOANS**

(Cost \$2,086,080)

*See Notes to Schedule of Investments.*

## Western Asset Emerging Markets Income Fund Inc.

Schedule of Investments (unaudited) (continued)

August 31, 2009

Face Amount	Security	Value
<b>CORPORATE BONDS &amp; NOTES 41.0%</b>		
<b>Brazil 5.6%</b>		
2,556,000	Globo Comunicacoes e Participacoes SA: Bonds, 7.250% due 4/26/22 (c)	\$ 2,632,680
110,000	Senior Bonds, 7.250% due 4/26/22 (c)	113,300
960,000	GTL Trade Finance Inc.: 7.250% due 10/20/17 (c)	1,034,880
1,633,000	Senior Notes, 7.250% due 10/20/17 (c)	1,760,374
1,900,000	Odebrecht Finance Ltd., 7.500% due 10/18/17 (c)	1,914,250
2,436,000	Vale Overseas Ltd., Notes: 8.250% due 1/17/34	2,841,572
10,660,000	6.875% due 11/21/36	10,726,145
	<b>Total Brazil</b>	<b>21,023,201</b>
<b>Chile 0.9%</b>		
2,894,000	Enersis SA, Notes, 7.375% due 1/15/14	3,196,180
<b>China 0.3%</b>		
1,040,000	Galaxy Entertainment Finance Co., Ltd., Senior Notes, 6.218% due 12/15/10 (b)(c)	1,014,000
<b>Colombia 0.5%</b>		
720,000	EEB International Ltd.: 8.750% due 10/31/14 (c)	770,400
1,120,000	Senior Bonds, 8.750% due 10/31/14 (c)	1,198,400
	<b>Total Colombia</b>	<b>1,968,800</b>
<b>India 0.2%</b>		
570,000	ICICI Bank Ltd., Subordinated Bonds: 6.375% due 4/30/22 (b)(c)	449,795
454,000	6.375% due 4/30/22 (b)(c)	361,681
	<b>Total India</b>	<b>811,476</b>
<b>Ireland 1.3%</b>		
5,017,000	VIP Finance Ireland Ltd. for OJSC Vimpel Communications, Loan Participation Notes, Secured Notes, 8.375% due 4/30/13 (c)	5,049,721
<b>Kazakhstan 1.8%</b>		
7,070,000	KazMunaiGaz Finance Sub B.V., Senior Notes, 8.375% due 7/2/13 (c)	6,934,324
<b>Malaysia 3.4%</b>		
12,910,000	Petronas Capital Ltd., 5.250% due 8/12/19 (c)	12,898,665
<b>Mexico 7.6%</b>		
3,160,000	America Movil SAB de CV, Senior Notes, 5.625% due 11/15/17	3,184,556
230,000	Axtel SAB de CV, Senior Notes: 11.000% due 12/15/13	238,050
8,540,000	7.625% due 2/1/17 (c)	7,750,050
2,156,000	7.625% due 2/1/17 (c)	1,951,180
1,910,000	Grupo Televisa SA, Senior Notes, 6.625% due 3/18/25	1,921,492
320,000	Kansas City Southern de Mexico, Senior Notes, 9.375% due 5/1/12	316,800
14,461,000	Pemex Project Funding Master Trust, Senior Bonds, 6.625% due 6/15/35	13,243,124



Edgar Filing: WESTERN ASSET EMERGING MARKETS INCOME FUND II INC. - Form N-Q

	130,000	Petroleos Mexicanos, 8.000% due 5/3/19 (c)	146,900
		<b>Total Mexico</b>	28,752,152
<b>Russia</b>	<b>11.8%</b>		
	2,265,000	Evraz Group SA, Notes:	
	1,000,000	8.875% due 4/24/13 (c)	2,089,462
	810,000	8.875% due 4/24/13 (c)	918,750
		9.500% due 4/24/18 (c)	725,963

*See Notes to Schedule of Investments.*

## Western Asset Emerging Markets Income Fund Inc.

Schedule of Investments (unaudited) (continued)

August 31, 2009

Face Amount	Security	Value
<b>Russia 11.8% (continued)</b>		
5,216,000	LUKOIL International Finance BV:	
1,459,000	6.656% due 6/7/22 (c)	\$ 4,746,560
	Notes, 6.356% due 6/7/17 (c)	1,378,755
5,580,000	RSHB Capital, Loan Participation Notes:	
	Notes, 9.000% due 6/11/14 (c)	5,956,092
	Secured Notes:	
3,414,000	7.175% due 5/16/13 (c)	3,422,535
6,890,000	7.125% due 1/14/14 (c)	6,924,450
3,750,000	7.125% due 1/14/14 (c)	3,752,250
	Senior Secured Notes:	
2,630,000	7.175% due 5/16/13 (c)	2,645,254
3,563,000	6.299% due 5/15/17 (c)	3,215,607
	TNK-BP Finance SA:	
2,387,000	6.625% due 3/20/17 (c)	2,130,397
218,000	7.875% due 3/13/18 (c)	206,828
	Senior Notes:	
2,105,000	7.500% due 3/13/13 (c)	2,120,787
2,110,000	7.500% due 7/18/16 (c)	2,015,050
720,000	7.500% due 7/18/16 (c)	680,400
310,000	7.875% due 3/13/18 (c)	292,950
657,000	UBS Luxembourg SA for OJSC Vimpel	
	Communications, Loan Participation Notes, 8.250% due	
	5/23/16 (c)	632,363
750,000	Vimpel Communications, Loan Participation Notes,	
	8.375% due 4/30/13 (c)	750,900
	<b>Total Russia</b>	<b>44,605,353</b>
<b>Thailand 2.4%</b>		
430,000	True Move Co., Ltd.:	
3,070,000	10.750% due 12/16/13 (c)	405,275
6,200,000	10.375% due 8/1/14 (c)	2,809,050
	Notes, 10.750% due 12/16/13 (c)	5,843,500
	<b>Total Thailand</b>	<b>9,057,825</b>
<b>Trinidad and Tobago 0.5%</b>		
1,740,000	Petroleum Co. of Trinidad & Tobago Ltd., Senior Notes,	
	9.750% due 8/14/19 (c)	1,898,775
<b>United Kingdom 1.9%</b>		
56,805,000	RUB HSBC Bank PLC, Credit-Linked Notes, (Russian	
	Agricultural Bank), 8.900% due 12/20/10 (b)(c)	1,251,054
6,200,000	Vedanta Resources PLC, Senior Notes, 8.750% due	
	1/15/14 (c)	6,091,500
	<b>Total United Kingdom</b>	<b>7,342,554</b>
<b>United States 2.8%</b>		
870,000	Celulosa Arauco y Constitucion SA, Senior Notes,	
	7.250% due 7/29/19 (c)	939,401
1,800,000	Centrais Eletricas Brasileiras SA, Senior Notes, 6.875%	
	due 7/30/19 (c)	1,908,000
2,600,000	Ecopetrol SA, Notes, 7.625% due 7/23/19 (c)	2,785,380
1,790,000		1,906,350

Edgar Filing: WESTERN ASSET EMERGING MARKETS INCOME FUND II INC. - Form N-Q

	Empresas Publicas de Medellin ESP, Senior Notes, 7.625% due 7/29/19 (c)	
310,000	Freeport-McMoRan Copper & Gold Inc., Senior Notes, 8.375% due 4/1/17	323,627
2,640,000	Ras Laffan Liquefied Natural Gas Co., Ltd. III, Senior Secured Bonds, 5.500% due 9/30/14 (c)	2,745,064
	<b>Total United States</b>	10,607,822
	<b>TOTAL CORPORATE BONDS &amp; NOTES</b>	
	(Cost \$151,414,779)	155,160,848
<b>U.S. GOVERNMENT &amp; AGENCY OBLIGATIONS</b>	<b>0.8%</b>	
<b>U.S. Government Agencies</b>	<b>0.8%</b>	
	Federal Home Loan Bank (FHLB), Bonds, 4.750% due 12/10/10	946,420
900,000		

*See Notes to Schedule of Investments.*

## Western Asset Emerging Markets Income Fund Inc.

Schedule of Investments (unaudited) (continued)

August 31, 2009

Face Amount	Security	Value
<b>U.S. Government Agencies 0.8% (continued)</b> 2,100,000	Federal National Mortgage Association (FNMA), Notes, 2.875% due 10/12/10 (d)	\$ 2,154,140
	<b>TOTAL U.S. GOVERNMENT &amp; AGENCY OBLIGATIONS</b> (Cost \$3,082,751)	3,100,560
<b>Warrants</b> <b>WARRANTS 0.1%</b> 11,500	Bolivarian Republic of Venezuela, Oil-linked payment obligations, Expires 4/15/20*	
	(Cost - \$356,500)	293,250
	<b>TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS</b> (Cost \$345,783,236)	346,790,689
<b>Face</b> <b>Amount</b> <b>SHORT-TERM INVESTMENTS 6.3%</b> <b>U.S. Government Agency 0.2%</b> 812,000	Federal National Mortgage Association (FNMA), Discount Notes, 0.401% due 1/25/10 (d)(e)(f)	
	(Cost - \$810,683)	811,522
<b>U.S. Government Obligation 1.3%</b> 5,000,000	U.S. Treasury Bills, 0.170% due 10/29/09 (e)	
	(Cost - \$4,998,634)	4,998,635
<b>Repurchase Agreement 4.8%</b> 17,986,000	Morgan Stanley tri-party repurchase agreement dated 8/31/09, 0.170% due 9/1/09; Proceeds at maturity - \$17,986,085; (Fully collateralized by U.S. government agency obligation, 3.875% due 6/29/11; Market value - \$18,466,581)	
	(Cost - \$17,986,000)	17,986,000
	<b>TOTAL SHORT-TERM INVESTMENTS</b> (Cost \$23,795,317)	23,796,157
	<b>TOTAL INVESTMENTS 98.0%</b> Cost \$369,578,553#)	370,586,846
	Other Assets in Excess of Liabilities 2.0%	7,686,898
	<b>TOTAL NET ASSETS 100.0%</b>	\$ 378,273,744

Face amount denominated in U.S. dollars, unless otherwise noted.

\* Non-income producing security.

Edgar Filing: WESTERN ASSET EMERGING MARKETS INCOME FUND II INC. - Form N-Q

- (a) The coupon payment on these securities is currently in default as of August 31, 2009.
- (b) Variable rate security. Interest rate disclosed is that which is in effect at August 31, 2009.
- (c) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors, unless otherwise noted.
- (d) On September 7, 2008, the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship.
- (e) Rate shown represents yield-to-maturity.
- (f) All or a portion of this security is held as collateral for open futures contracts.
- # Aggregate cost for federal income tax purposes is substantially the same.

Abbreviations used in this schedule:

ARS	- Argentine Peso
BRL	- Brazilian Real
DEM	- German Mark
EUR	- Euro
GDP	- Gross Domestic Product

*See Notes to Schedule of Investments.*

**Western Asset Emerging Markets Income Fund Inc.**

Schedule of Investments (unaudited) (continued)

August 31, 2009

IDR - Indonesian Rupiah  
ITL - Italian Lira  
OJSC - Open Joint Stock Company  
RUB - Russian Ruble

*See Notes to Schedule of Investments.*

**Notes to Schedule of Investments (unaudited)**

**1. Organization and Significant Accounting Policies**

Western Asset Emerging Markets Income Fund Inc. (the Fund) was incorporated in Maryland and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund's primary investment objective is to seek high current income. As a secondary objective, the Fund seeks capital appreciation. In pursuit of these objectives, the Fund under normal conditions invests at least 80% of its net assets, plus any borrowings for investment purposes, in debt securities of government and government related issuers located in emerging market countries (including participations in loans between governments and financial institutions), and of entities organized to restructure the outstanding debt of such issuers, and in debt securities of corporate issuers located in emerging market countries.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP).

**(a) Investment Valuation.** Debt securities are valued at the mean between the last quoted bid and asked prices provided by an independent pricing service that are based on transactions in debt obligations, quotations from bond dealers, market transactions in comparable securities and various other relationships between securities. Publicly traded foreign government debt securities are typically traded internationally in the over-the-counter market, and are valued at the mean between the last quoted bid and asked prices as of the close of business of that market. Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. When prices are not readily available, or are determined not to reflect fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund may value these securities at fair value as determined in accordance with the procedures approved by the Fund's Board of Directors. Short-term obligations with maturities of 60 days or less are valued at amortized cost, which approximates fair value.

The Fund has adopted Statement of Financial Accounting Standards No. 157 (FAS 157). FAS 157 establishes a single definition of fair value, creates a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the Fund's investments, and requires additional disclosure about fair value. The hierarchy of inputs is summarized below.

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

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

Edgar Filing: WESTERN ASSET EMERGING MARKETS INCOME FUND II INC. - Form N-Q

The Fund uses valuation techniques to measure fair value that are consistent with the market approach, income approach and/or cost approach, depending on the type of the security and the particular circumstance.

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

<b>Description</b>	<b>Quoted Prices (Level 1)</b>	<b>Other Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
Long-term investments		\$ 346,790,689		\$ 346,790,689
Short-term investments		\$ 23,796,157		\$ 23,796,157
Total investments		\$ 370,586,846		\$ 370,586,846
Other financial instruments:				
Futures contracts	\$ 426,532			\$ 426,532
Interest rate swaps		\$ (70,635)		\$ (70,635)
Total other financial instruments	\$ 426,532	\$ (70,635)		\$ 355,897
Total	\$ 426,532	\$ 370,516,211		\$ 370,942,743

See Schedule of Investments for additional detailed categorizations.



**Notes to Schedule of Investments (unaudited) (continued)**

**(b) Repurchase Agreements.** When entering into repurchase agreements, it is the Fund's policy that its custodian or a third party custodian take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market daily to ensure the adequacy of the collateral. If the seller defaults, and the market value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

**(c) Loan Participations.** The Fund may invest in loans arranged through private negotiation between one or more financial institutions. The Fund's investment in any such loan may be in the form of a participation in or an assignment of the loan. In connection with purchasing participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower and the Fund may not benefit directly from any collateral supporting the loan in which it has purchased the participation.

The Fund assumes the credit risk of the borrower, the lender that is selling the participation and any other persons interpositioned between the Fund and the borrower. In the event of the insolvency of the lender selling the participation, the Fund may be treated as a general creditor of the lender and may not benefit from any set-off between the lender and the borrower.

**(d) Futures Contracts.** The Fund may use futures contracts to gain exposure to, or hedge against, changes in the value of equities, interest rates or foreign currencies. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the Fund is required to deposit with a broker cash or cash equivalents in an amount equal to a certain percentage of the contract amount. This is known as the initial margin. Subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract. For certain futures including foreign denominated futures, variation margin is not settled daily, but is recorded as a net variation margin payable or receivable. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. The daily changes in contract value are recorded as unrealized gains or losses and the Fund recognizes a realized gain or loss when the contract is closed.

Futures contracts involve, to varying degrees, risk of loss in excess of the amounts reflected in the financial statements. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

**(e) Swap Agreements.** The Fund may invest in swaps for the purpose of managing their exposure to interest rate, credit or market risk, or for other purposes. The use of swaps involves risks that are different from those associated with ordinary portfolio transactions.

**Interest Rate Swaps**

## Edgar Filing: WESTERN ASSET EMERGING MARKETS INCOME FUND II INC. - Form N-Q

The Fund may enter into interest rate swap contracts. Interest rate swaps are agreements between two parties to exchange cash flows based on a notional principal amount. The Fund may elect to pay a fixed rate and receive a floating rate, or, receive a fixed rate and pay a floating rate on a notional principal amount. The net periodic payments received or paid on interest rate swap agreements are recognized as realized gains or losses. Interest rate swaps are marked to market daily based upon quotations from the market makers and the change, if any, is recorded as an unrealized gain or loss. A liquidation payment received or made at the termination of the swap is recognized as a realized gain or loss. The risks of interest rate swaps include changes in market conditions that will affect the value of the contract or changes in the present value of the future cash flow streams and the possible inability of the counterparty to fulfill its obligations under the agreement. The Fund's maximum risk of loss from counterparty credit risk is the discounted net value of the cash flows to be received from the counterparty over the contract's remaining life, to the extent that that amount is positive. This risk is mitigated by the posting of collateral by the counterparty to the Fund to cover the Fund's exposure to the counterparty.

**Notes to Schedule of Investments (unaudited) (continued)**

Swap contracts are marked-to-market daily and changes in value are recorded as unrealized appreciation/(depreciation). Gains or losses are realized upon termination of the swap agreement. Periodic payments and premiums received or made by a Fund are recorded as realized gains or losses, respectively. Collateral, in the form of restricted cash or securities, may be required to be held in segregated accounts with the Fund's custodian in compliance with the terms of the swap contracts. Securities held as collateral for swap contracts are identified in the Schedule of Investments. The risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts terms, and the possible lack of liquidity with respect to the swap agreements.

As of August 31, 2009, the Brazil CETIP Interbank Deposit (CDI) rate was 8.62%.

**(f) Credit and Market Risk.** The Fund invests in high yield and emerging market instruments that are subject to certain credit and market risks. The yields of high yield and emerging market debt obligations reflect, among other things, perceived credit and market risks. The Fund's investment in securities rated below investment grade typically involves risks not associated with higher rated securities including, among others, greater risk related to timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading. The consequences of political, social, economic or diplomatic changes may have disruptive effects on the market prices of investments held by the Fund. The Fund's investment in non-U.S. dollar denominated securities may also result in foreign currency losses caused by devaluations and exchange rate fluctuations.

**(g) Foreign Currency Translation.** Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates at the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

**(h) Security Transactions.** Security transactions are accounted for on a trade date basis.

**2. Investments**

At August 31, 2009, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

Gross unrealized appreciation	\$	18,787,165
-------------------------------	----	------------

Edgar Filing: WESTERN ASSET EMERGING MARKETS INCOME FUND II INC. - Form N-Q

Gross unrealized depreciation		(17,778,872)
Net unrealized appreciation	\$	1,008,293

At August 31, 2009, the Fund had the following open futures contracts:

	Number of Contracts	Expiration Date	Basis Value	Market Value	Unrealized Gain
<b>Contracts to Buy:</b>					
U.S. Treasury 10-Year Notes	353	12/09	\$ 40,951,687	\$ 41,378,219	\$ 426,532

At August 31, 2009, the Fund had the following open swap contracts:

## Notes to Schedule of Investments (unaudited) (continued)

SWAP COUNTERPARTY	NOTIONAL AMOUNT	TERMINATION DATE	PERIODIC PAYMENTS MADE BY THE FUND	PERIODIC PAYMENTS RECEIVED BY THE FUND	UPFRONT PREMIUMS PAID/ (RECEIVED)	UNREALIZED DEPRECIATION
<b>Interest Rate Swaps:</b>						
Credit Suisse First Boston Inc.	7,108,337	1/2/12	BRL-CDI	10.560%		\$ (25,117)*
Credit Suisse First Boston Inc.	10,798,227	1/2/12	BRL-CDI	10.510%		(45,518)*
Net unrealized depreciation on open swap contracts						\$ (70,635)

Notional amount denominated in U.S. dollars, unless otherwise noted.

Percentage shown is an annual percentage rate.

\* Security is valued in good faith at fair value by or under the direction of the Board of Directors (See Note 1).

### 3. Derivative Instruments and Hedging Activities

Financial Accounting Standards Board Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, requires enhanced disclosure about an entity's derivative and hedging activities.

The following is a summary of the Fund's derivative instruments categorized by risk exposure at August 31, 2009.

Primary Underlying Risk Disclosure	Futures Contracts		Swap Contracts		Total
	Unrealized Appreciation	Unrealized Depreciation	Unrealized Appreciation	Unrealized Depreciation	
Interest Rate Contracts	\$ 426,532			\$ (70,635)	\$ 355,897
Other Contracts					
<b>Total</b>	\$ 426,532			\$ (70,635)	\$ 355,897

ITEM 2. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are attached hereto.

---

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Western Asset Emerging Markets Income Fund Inc.**

By */s/ R. Jay Gerken*  
R. Jay Gerken  
Chief Executive Officer

Date: October 26, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By */s/ R. Jay Gerken*  
R. Jay Gerken  
Chief Executive Officer

Date: October 26, 2009

By */s/ Kaprel Ozsolak*  
Kaprel Ozsolak  
Chief Financial Officer

Date: October 26, 2009

---