

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

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ITEM 1. SCHEDULE OF INVESTMENTS

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**WESTERN ASSET EMERGING MARKETS**

**INCOME FUND INC.**

**FORM N-Q**

AUGUST 31, 2009

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## 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>  |

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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<br>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<br>Amount                           | Security   | Value             |
|--|--|-------------------|
| <b>CORPORATE BONDS &amp; NOTES 41.0%</b> |  |                   |
| <b>Brazil 5.6%</b>                       |  |                   |
| 2,556,000                                | Globo Comunicacoes e Participacoes SA:<br>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.:<br>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:<br>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,<br>6.218% due 12/15/10 (b)(c)  | 1,014,000         |
| <b>Colombia 0.5%</b>                     |  |                   |
| 720,000                                  | EEB International Ltd.:<br>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:<br>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<br>Communications, Loan Participation Notes, Secured<br>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%<br>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<br>11/15/17  | 3,184,556         |
| 230,000                                  | Axtel SAB de CV, Senior Notes:<br>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%<br>due 5/1/12   | 316,800           |
| 14,461,000                               | Pemex Project Funding Master Trust, Senior Bonds,<br>6.625% due 6/15/35  | 13,243,124        |



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|               |              |  |            |
|---------------|--------------|--|------------|
|               | 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         |

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|   |   |             |
|---|---|-------------|
|   | Empresas Publicas de Medellin ESP, Senior Notes,<br>7.625% due 7/29/19 (c)                      |             |
| 310,000   | Freeport-McMoRan Copper & Gold Inc., Senior Notes,<br>8.375% due 4/1/17                         | 323,627     |
| 2,640,000                                       | Ras Laffan Liquefied Natural Gas Co., Ltd. III, Senior<br>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>   |             |
| 900,000   | Federal Home Loan Bank (FHLB), Bonds, 4.750% due<br>12/10/10                                    | 946,420     |

*See Notes to Schedule of Investments.*

## Western Asset Emerging Markets Income Fund Inc.

Schedule of Investments (unaudited) (continued)

August 31, 2009

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

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- (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.

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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<br/>(Level 1)</b> | <b>Other Significant<br/>Observable Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(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)    |