

WESTERN ASSET EMERGING MARKETS INCOME FUND INC.

Form N-Q

April 25, 2012

**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 811-7686

Western Asset Emerging Markets Income 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 May 31  
end:

Date of reporting period: February 29, 2012

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ITEM 1.

SCHEDULE OF INVESTMENTS.

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**WESTERN ASSET EMERGING MARKETS INCOME FUND INC.**

FORM N-Q

FEBRUARY 29, 2012

## WESTERN ASSET EMERGING MARKETS INCOME FUND INC.

Schedule of investments (unaudited)

February 29, 2012

SECURITY	RATE	MATURITY DATE	FACE AMOUNT	VALUE
<b>SOVEREIGN BONDS</b> 61.5%				
<b>Argentina 3.0%</b>				
Republic of Argentina	7.820%	12/31/33	3,500,474EUR \$	3,143,320(a)
Republic of Argentina, GDP Linked Securities	4.191%	12/15/35	10,461,590EUR	1,707,401(a)(b)
Republic of Argentina, GDP Linked Securities, Senior Bonds	4.383%	12/15/35	3,195,000	442,508(a)(b)
Republic of Argentina, Senior Bonds	7.000%	9/12/13	1,541,000	1,545,800
Republic of Argentina, Senior Bonds	7.000%	10/3/15	2,007,000	1,899,258
Republic of Argentina, Senior Bonds	2.260%	12/31/38	508,097EUR	218,448
Republic of Argentina, Senior Notes	8.750%	6/2/17	4,334,544	4,345,380
<i>Total Argentina</i>				13,302,115
<b>Brazil 6.4%</b>				
Brazil Nota do Tesouro Nacional, Notes	10.000%	1/1/14	2,865,000BRL	1,673,244
Brazil Nota do Tesouro Nacional, Notes	10.000%	1/1/17	34,874,000BRL	19,680,552
Federative Republic of Brazil	7.125%	1/20/37	5,117,000	7,102,396
Federative Republic of Brazil, Collective Action Securities	8.000%	1/15/18	667	801
<i>Total Brazil</i>				28,456,993
<b>Chile 1.0%</b>				
Banco del Estado de Chile, Senior Notes	4.125%	10/7/20	1,080,000	1,117,800(c)
Corporacion Nacional del Cobre de Chile, Senior Notes	3.750%	11/4/20	1,190,000	1,224,511(c)
Republic of Chile, Senior Notes	3.875%	8/5/20	1,750,000	1,916,250
<i>Total Chile</i>				4,258,561
<b>Colombia 3.6%</b>				
Republic of Colombia	7.375%	9/18/37	6,091,000	8,582,219
Republic of Colombia, Senior Bonds	6.125%	1/18/41	760,000	937,460
Republic of Colombia, Senior Notes	7.375%	3/18/19	4,926,000	6,344,688
<i>Total Colombia</i>				15,864,367
<b>India 0.2%</b>				
ICICI Bank Ltd., Junior Subordinated Bonds	6.375%	4/30/22	454,000	433,570(a)(c)
ICICI Bank Ltd., Subordinated Bonds	6.375%	4/30/22	570,000	544,350(a)(c)
<i>Total India</i>				977,920
<b>Indonesia 5.4%</b>				
Republic of Indonesia, Notes	5.250%	1/17/42	7,540,000	8,077,225(c)
Republic of Indonesia, Senior Bonds	6.875%	1/17/18	420,000	509,775(c)
Republic of Indonesia, Senior Bonds	10.250%	7/15/22	10,904,000,000IDR	1,623,461
Republic of Indonesia, Senior Bonds	11.000%	9/15/25	21,720,000,000IDR	3,517,325
Republic of Indonesia, Senior Bonds	10.250%	7/15/27	21,034,000,000IDR	3,252,826
Republic of Indonesia, Senior Bonds	6.625%	2/17/37	1,105,000	1,386,775(c)
Republic of Indonesia, Senior Bonds	9.750%	5/15/37	25,039,000,000IDR	3,901,484
Republic of Indonesia, Senior Notes	4.875%	5/5/21	1,371,000	1,509,814(c)
<i>Total Indonesia</i>				23,778,685
<b>Malaysia 1.7%</b>				

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Government of Malaysia, Senior Bonds	3.835%	8/12/15	21,410,000MYR	7,320,512
Government of Malaysia, Senior Bonds	4.262%	9/15/16	1,155,000MYR	402,773
<i>Total Malaysia</i>				7,723,285
<b>Mexico 5.6%</b>				
Mexican Bonos, Bonds	8.000%	6/11/20	173,986,000MXN	15,332,953
Mexican Bonos, Bonds	8.500%	11/18/38	22,930,000MXN	1,965,928
United Mexican States, Bonds	10.000%	12/5/24	19,610,000MXN	1,993,922
United Mexican States, Medium-Term Notes	6.050%	1/11/40	4,000	4,890
United Mexican States, Senior Notes	5.950%	3/19/19	3,560,000	4,279,120

*See Notes to Schedule of Investments.*

## WESTERN ASSET EMERGING MARKETS INCOME FUND INC.

Schedule of investments (unaudited) (cont d)

February 29, 2012

SECURITY	RATE	MATURITY DATE	FACE AMOUNT	VALUE
<b>Mexico (continued)</b>				
United Mexican States, Senior Notes	5.125%	1/15/20	880,000	\$ 1,009,800
<i>Total Mexico</i>				<i>24,586,613</i>
<b>Panama 2.0%</b>				
Republic of Panama	9.375%	4/1/29	1,603,000	2,570,411
Republic of Panama	6.700%	1/26/36	4,639,000	6,067,812
<i>Total Panama</i>				<i>8,638,223</i>
<b>Peru 5.8%</b>				
Republic of Peru	8.750%	11/21/33	7,805,000	12,047,017
Republic of Peru, Bonds	7.840%	8/12/20	12,055,000PEN	5,231,798
Republic of Peru, Bonds	6.550%	3/14/37	1,080,000	1,374,300
Republic of Peru, Global Senior Bonds	7.350%	7/21/25	4,300,000	5,822,200
Republic of Peru, Senior Bonds	5.625%	11/18/50	1,000,000	1,105,000
<i>Total Peru</i>				<i>25,580,315</i>
<b>Philippines 0.4%</b>				
Republic of Philippines, Senior Bonds	5.500%	3/30/26	1,550,000	1,788,313
<b>Poland 2.7%</b>				
Republic of Poland, Senior Notes	6.375%	7/15/19	1,840,000	2,162,000
Republic of Poland, Senior Notes	5.125%	4/21/21	3,910,000	4,213,025
Republic of Poland, Senior Notes	5.000%	3/23/22	5,170,000	5,512,771
<i>Total Poland</i>				<i>11,887,796</i>
<b>Russia 6.3%</b>				
RSHB Capital, Loan Participation Notes, Senior Secured Bonds	6.299%	5/15/17	1,073,000	1,135,288(c)
RSHB Capital, Loan Participation Notes, Senior Secured Notes	9.000%	6/11/14	1,000,000	1,110,000(c)
Russian Foreign Bond - Eurobond	11.000%	7/24/18	110,000	155,788(c)
Russian Foreign Bond - Eurobond	12.750%	6/24/28	617,000	1,102,887(c)
Russian Foreign Bond - Eurobond, Senior Bonds	7.500%	3/31/30	20,478,375	24,471,658(c)
<i>Total Russia</i>				<i>27,975,621</i>
<b>Sri Lanka 0.3%</b>				
Sri Lanka Government International Bond, Senior Notes	6.250%	7/27/21	1,580,000	1,539,029(c)
<b>Turkey 8.0%</b>				
Republic of Turkey, Notes	6.750%	5/30/40	2,750,000	2,970,000
Republic of Turkey, Senior Bonds	5.625%	3/30/21	820,000	856,900
Republic of Turkey, Senior Bonds	11.875%	1/15/30	3,348,000	5,649,750
Republic of Turkey, Senior Notes	7.500%	7/14/17	100,000	115,250
Republic of Turkey, Senior Notes	6.875%	3/17/36	23,290,000	25,560,775
<i>Total Turkey</i>				<i>35,152,675</i>
<b>Venezuela 9.1%</b>				
Bolivarian Republic of Venezuela	5.750%	2/26/16	15,166,000	13,747,979(c)

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Bolivarian Republic of Venezuela	7.000%	12/1/18	1,920,000	1,632,000(c)
Bolivarian Republic of Venezuela	7.650%	4/21/25	933,000	729,606
Bolivarian Republic of Venezuela, Collective Action Securities, Global Senior Bonds	9.375%	1/13/34	7,239,000	6,316,027
Bolivarian Republic of Venezuela, Collective Action Securities, Notes	10.750%	9/19/13	3,800,000	3,990,000
Bolivarian Republic of Venezuela, Global Senior Bonds	8.500%	10/8/14	6,694,000	6,770,981
Bolivarian Republic of Venezuela, Senior Bonds	9.250%	9/15/27	764,000	695,240
Bolivarian Republic of Venezuela, Senior Notes	7.750%	10/13/19	7,280,000	6,198,920(c)
<i>Total Venezuela</i>				40,080,753
TOTAL SOVEREIGN BONDS (Cost \$242,584,937)				271,591,264

*See Notes to Schedule of Investments.*

## WESTERN ASSET EMERGING MARKETS INCOME FUND INC.

Schedule of investments (unaudited) (cont d)

February 29, 2012

SECURITY	RATE	MATURITY DATE	FACE AMOUNT	VALUE
CORPORATE BONDS & NOTES 35.2%				
CONSUMER DISCRETIONARY 1.3%				
<b>Media 1.3%</b>				
Globo Comunicacoes e Participacoes SA, Bonds	7.250%	4/26/22	866,000	\$ 917,960(c)
Globo Comunicacoes e Participacoes SA, Senior Bonds	7.250%	4/26/22	110,000	116,600(c)
Grupo Televisa SA, Senior Bonds	6.625%	1/15/40	3,910,000	4,646,155
TOTAL CONSUMER DISCRETIONARY				5,680,715
CONSUMER STAPLES 0.2%				
<b>Personal Products 0.2%</b>				
Hypermarcas SA, Notes	6.500%	4/20/21	1,040,000	1,014,000(c)
ENERGY 16.2%				
<b>Oil, Gas &amp; Consumable Fuels 16.2%</b>				
Dolphin Energy Ltd., Senior Secured Bonds	5.888%	6/15/19	2,419,123	2,608,419(c)
Ecopetrol SA, Senior Notes	7.625%	7/23/19	2,600,000	3,282,500
KazMunayGas Finance Sub BV, Senior Notes	8.375%	7/2/13	5,390,000	5,783,255(c)
KazMunayGas Finance Sub BV, Senior Notes	8.375%	7/2/13	910,000	976,394(c)
LUKOIL International Finance BV, Bonds	6.656%	6/7/22	4,339,000	4,694,798(c)
Novatek Finance Ltd., Notes	6.604%	2/3/21	1,800,000	1,957,500(c)
Pacific Rubiales Energy Corp., Senior Notes	7.250%	12/12/21	730,000	799,350(c)
Pan American Energy LLC, Senior Notes	7.875%	5/7/21	1,860,000	1,971,600(c)
Pan American Energy LLC, Senior Notes	7.875%	5/7/21	974,000	1,032,440(c)
Pemex Project Funding Master Trust, Senior Bonds	6.625%	6/15/35	6,176,000	7,102,400
Petrobras International Finance Co., Senior Notes	5.375%	1/27/21	1,990,000	2,149,435
Petrobras International Finance Co., Senior Notes	6.875%	1/20/40	3,710,000	4,409,112
Petrobras International Finance Co., Senior Notes	6.750%	1/27/41	1,560,000	1,820,099
Petroleos Mexicanos, Notes	8.000%	5/3/19	130,000	163,150
Petroleos Mexicanos, Senior Notes	5.500%	1/21/21	9,100,000	10,026,380
Petroleum Co. of Trinidad & Tobago Ltd., Senior Notes	9.750%	8/14/19	1,740,000	2,134,110(c)
Petronas Capital Ltd.	5.250%	8/12/19	5,560,000	6,306,430(c)
Petronas Capital Ltd., Senior Notes	5.250%	8/12/19	1,448,000	1,642,394(c)
PT Pertamina Persero, Notes	5.250%	5/23/21	2,280,000	2,445,300(c)
Ras Laffan Liquefied Natural Gas Co., Ltd. III, Senior Secured Bonds	6.750%	9/30/19	2,429,000	2,890,510(c)
Reliance Holdings USA Inc., Senior Notes	4.500%	10/19/20	2,220,000	2,165,359(c)
TNK-BP Finance SA	6.625%	3/20/17	1,417,000	1,565,785(c)
TNK-BP Finance SA, Senior Notes	7.500%	7/18/16	2,830,000	3,190,825(c)
TNK-BP Finance SA, Senior Notes	7.875%	3/13/18	310,000	359,600(c)
TNK-BP Finance SA, Senior Notes	7.875%	3/13/18	218,000	252,880(c)
TOTAL ENERGY				71,730,025
INDUSTRIALS 1.4%				
<b>Building Products 0.2%</b>				
Rearden G Holdings EINS GmbH, Senior Notes	7.875%	3/30/20	810,000	854,550(c)
<b>Construction &amp; Engineering 0.8%</b>				



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Odebrecht Finance Ltd., Senior Notes	7.000%	4/21/20	2,440,000	2,690,100(c)
Odebrecht Finance Ltd., Senior Notes	6.000%	4/5/23	700,000	719,250(c)
<i>Total Construction &amp; Engineering</i>				<i>3,409,350</i>
<b>Industrial Conglomerates 0.4%</b>				
Sinochem Overseas Capital Co., Ltd., Senior Notes	4.500%	11/12/20	1,765,000	1,733,161(c)
TOTAL INDUSTRIALS				5,997,061
MATERIALS 9.4%				
<b>Chemicals 0.4%</b>				
Braskem Finance Ltd., Senior Notes	7.000%	5/7/20	1,712,000	1,900,320(c)
<b>Containers &amp; Packaging 0.5%</b>				
Suzano Trading Ltd., Senior Notes	5.875%	1/23/21	2,260,000	2,220,450(c)

*See Notes to Schedule of Investments.*

## WESTERN ASSET EMERGING MARKETS INCOME FUND INC.

Schedule of investments (unaudited) (cont d)

February 29, 2012

SECURITY	RATE	MATURITY DATE	FACE AMOUNT	VALUE
<b>Metals &amp; Mining 7.5%</b>				
Corporacion Nacional del Cobre de Chile, Senior Notes	3.875%	11/3/21	1,970,000	\$ 2,041,036(c)
CSN Resources SA, Senior Bonds	6.500%	7/21/20	1,020,000	1,124,550(c)
CSN Resources SA, Senior Bonds	6.500%	7/21/20	998,000	1,100,295(c)
Evraz Group SA, Notes	8.250%	11/10/15	500,000	533,750(c)
Evraz Group SA, Notes	9.500%	4/24/18	810,000	907,200(c)
Evraz Group SA, Notes	6.750%	4/27/18	5,355,000	5,308,144(c)
Evraz Group SA, Senior Notes	9.500%	4/24/18	1,180,000	1,321,600(c)
Southern Copper Corp., Senior Notes	5.375%	4/16/20	800,000	891,883
Southern Copper Corp., Senior Notes	6.750%	4/16/40	2,560,000	2,814,369
Vale Overseas Ltd., Notes	8.250%	1/17/34	5,756,000	7,919,945
Vale Overseas Ltd., Notes	6.875%	11/21/36	3,349,000	4,123,564
Vedanta Resources PLC, Senior Notes	8.750%	1/15/14	2,752,000	2,875,840(c)
Vedanta Resources PLC, Senior Notes	6.750%	6/7/16	1,630,000	1,572,950(c)
Vedanta Resources PLC, Senior Notes	9.500%	7/18/18	360,000	363,600(c)
<i>Total Metals &amp; Mining</i>				32,898,726
<b>Paper &amp; Forest Products 1.0%</b>				
Celulosa Arauco y Constitucion SA, Senior Notes	7.250%	7/29/19	1,022,000	1,214,495
Celulosa Arauco y Constitucion SA, Senior Notes	4.750%	1/11/22	625,000	636,091(c)
Empresas CMPC SA, Notes	4.750%	1/19/18	1,020,000	1,074,261(c)
Fibria Overseas Finance Ltd., Senior Notes	7.500%	5/4/20	950,000	996,313(c)
Fibria Overseas Finance Ltd., Senior Notes	6.750%	3/3/21	610,000	603,900(c)
<i>Total Paper &amp; Forest Products</i>				4,525,060
<b>TOTAL MATERIALS</b>				41,544,556
<b>TELECOMMUNICATION SERVICES 4.8%</b>				
<b>Diversified Telecommunication Services 4.2%</b>				
Axtel SAB de CV, Senior Notes	7.625%	2/1/17	8,240,000	7,210,000(c)
Axtel SAB de CV, Senior Notes	7.625%	2/1/17	386,000	337,750(c)
Axtel SAB de CV, Senior Notes	9.000%	9/22/19	1,693,000	1,481,375(c)
Qtel International Finance Ltd., Senior Notes	4.750%	2/16/21	910,000	938,392(c)
Telemar Norte Leste SA, Senior Notes	5.500%	10/23/20	1,600,000	1,636,000(c)
UBS Luxembourg SA for OJSC Vimpel Communications, Loan Participation Notes	8.250%	5/23/16	657,000	708,706(c)
Vimpel Communications, Loan Participation Notes	8.375%	4/30/13	750,000	789,375(c)
Vimpel Communications, Notes	6.493%	2/2/16	200,000	206,500(c)
VIP Finance Ireland Ltd. for OJSC Vimpel Communications, Loan Participation Notes, Secured Notes	8.375%	4/30/13	5,017,000	5,280,392(c)
<i>Total Diversified Telecommunication Services</i>				18,588,490
<b>Wireless Telecommunication Services 0.6%</b>				
Indosat Palapa Co. BV, Senior Notes	7.375%	7/29/20	1,270,000	1,441,450(c)
Oi S.A., Senior Notes	5.750%	2/10/22	1,030,000	1,058,325(c)
VimpelCom Holdings BV, Senior Notes	7.504%	3/1/22	240,000	236,520(c)

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<i>Total Wireless Telecommunication Services</i>				2,736,295
TOTAL TELECOMMUNICATION SERVICES				21,324,785
UTILITIES 1.9%				
<b>Electric Utilities 0.7%</b>				
Centrais Eletricas Brasileiras SA, Senior Notes	6.875%	7/30/19	385,000	451,413(c)
Majapahit Holding BV, Senior Notes	7.750%	1/20/20	1,970,000	2,418,175(c)
<i>Total Electric Utilities</i>				2,869,588
<b>Gas Utilities 0.4%</b>				
Empresa de Energia de Bogota SA, Senior Notes	6.125%	11/10/21	1,550,000	1,635,250(c)
<b>Independent Power Producers &amp; Energy Traders 0.6%</b>				
AES Gener SA, Notes	5.250%	8/15/21	1,000,000	1,050,000(c)
Colbun SA, Senior Notes	6.000%	1/21/20	1,660,000	1,788,922(c)
<i>Total Independent Power Producers &amp; Energy Traders</i>				2,838,922

*See Notes to Schedule of Investments.*

## WESTERN ASSET EMERGING MARKETS INCOME FUND INC.

Schedule of investments (unaudited) (cont d)

February 29, 2012

SECURITY	RATE	MATURITY DATE	FACE AMOUNT	VALUE
<b>Multi-Utilities 0.2%</b>				
Empresas Publicas de Medellin ESP, Senior Notes	7.625%	7/29/19	870,000 \$	1,041,825(c)
TOTAL UTILITIES				8,385,585
TOTAL CORPORATE BONDS & NOTES (Cost \$142,391,542)				155,676,727
		EXPIRATION DATE	WARRANTS	
<b>WARRANTS 0.1%</b>				
Bolivarian Republic of Venezuela, Oil-linked payment obligations (Cost - \$356,500)		4/15/20	11,500	360,812
TOTAL INVESTMENTS 96.8% (Cost \$385,332,979#)				427,628,803
Other Assets in Excess of Liabilities 3.2%				13,949,626
TOTAL NET ASSETS 100.0%			\$	441,578,429

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

- (a) Variable rate security. Interest rate disclosed is as of the most recent information available.
- (b) The security's interest income payments are contingent upon the performance of Argentina's GDP. There are no principal payments over the life of the security or upon the expiration of the security.
- (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.
- # Aggregate cost for federal income tax purposes is substantially the same.

Abbreviations used in this schedule:

BRL	- Brazilian Real
EUR	- Euro
GDP	- Gross Domestic Product
IDR	- Indonesian Rupiah
MXN	- Mexican Peso
MYR	- Malaysian Ringgit
OJSC	- Open Joint Stock Company
PEN	- Peruvian Nuevo Sol

See Notes to Schedule of Investments.

**WESTERN ASSET EMERGING MARKETS INCOME FUND INC.**

Schedule of investments (unaudited) (continued)

February 29, 2012

**Summary of Investments by Country\*\***

Brazil	15.5%
Mexico	13.9
Russia	12.9
Venezuela	9.4
Turkey	8.2
Indonesia	7.0
Peru	6.0
Colombia	5.3
Argentina	3.8
Malaysia	3.7
Chile	2.8
Poland	2.8
Panama	2.0
India	1.9
Kazakhstan	1.6
Qatar	0.9
United Arab Emirates	0.6
Trinidad and Tobago	0.5
Philippines	0.4
China	0.4
Sri Lanka	0.4
	100.0%

\*\*As a percentage of total investments. Please note that Fund holdings are as of February 29, 2012 and are subject to change.

*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.** The valuations for fixed income securities and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of fair valuation techniques and methodologies. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment's fair value. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. 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. If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers. When the Fund holds securities or other assets that are denominated in a foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). When reliable prices are not readily available, 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 values these securities as determined in accordance with procedures approved by the Fund's Board of Directors.

The Fund has adopted Financial Accounting Standards Board Codification Topic 820 (ASC Topic 820). ASC Topic 820 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.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

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

DESCRIPTION	QUOTED PRICES (LEVEL 1)	ASSETS		TOTAL
		OTHER SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	
Long-term investments :				
Sovereign bonds		\$ 271,591,264		\$ 271,591,264
Corporate bonds & notes		155,676,727		155,676,727
Warrants		360,812		360,812
Total investments		\$ 427,628,803		\$ 427,628,803

## Notes to schedule of investments (unaudited) (continued)

LIABILITIES				
DESCRIPTION	QUOTED PRICES (LEVEL 1)	OTHER SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL
Other financial instruments:				
Futures contracts	\$ 52,277			\$ 52,277
Forward foreign currency contracts		\$ 83,594		83,594
Total other financial instruments	\$ 52,277	\$ 83,594		\$ 135,871

See Schedule of Investments for additional detailed categorizations.

**(b) Repurchase agreements.** The Fund may enter into repurchase agreements with institutions that its investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, the Fund acquires a debt security subject to an obligation of the seller to repurchase, and of the Fund to resell, the security at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. When entering into repurchase agreements, it is the Fund's policy that its custodian or a third party custodian, acting on the Fund's behalf, 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 maturity exceeds one business day, the value of the collateral is marked-to-market and measured against the value of the agreement in an effort to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if the market value of the collateral declines during the period in which the Fund seeks to assert its rights 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 related to the loan, or any rights of off-set 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 off-set between the lender and the borrower.

**(d) Futures contracts.** The Fund uses futures contracts generally to gain exposure to, or hedge against, changes in interest rates or gain exposure to, or hedge against, changes in certain asset classes. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.



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Upon entering into a futures contract, the Fund is required to deposit cash or cash equivalents with a broker in an amount equal to a certain percentage of the contract amount. This is known as the initial margin and 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.

Futures contracts involve, to varying degrees, risk of loss. 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.