Elastomers Holdings LLC
Form 424B2
March 15, 2012
Table of Contents

Filed Pursuant to Rule 424(b)(2)
Registration No. 333-180113
333-180113-01
333-180113-02
333-180113-03
333-180113-04

The information in this prospectus supplement is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus Supplement dated March 15, 2012

PROSPECTUS SUPPLEMENT

(To Prospectus dated March 15, 2012)

$100,000,000

Kraton Polymers LLC

Kraton Polymers Capital Corporation

6.75% Senior Notes due 2019

Payment of principal and interest unconditionally guaranteed by

Kraton Performance Polymers, Inc.

This is an offering by Kraton Polymers LLC (Kraton LLC) and Kraton Polymers Capital Corporation (Kraton Capital and, together with Kraton Polymers LLC, the issuers) of $100,000,000 of their 6.75% Senior Notes due 2019 (the additional notes). The additional notes constitute a further issuance of, and are fungible with, the $250,000,000 aggregate principal amount of 6.75% Senior Notes due 2019 that we issued on February 11, 2011 (the existing notes) and form a single series of debt securities with the existing notes. The existing notes were issued in a private transaction in reliance on Rule 144A and Regulation S under the

Securities Act of 1933, as amended (the Securities Act) and were subsequently exchanged in full for identical notes on June 13, 2011 in a registered exchange offer under the Securities Act. The existing notes are not, and the additional notes offered hereby will not be, subject to transfer restrictions, rights to additional interest or registration rights. Upon completion of this offering, the aggregate principal amount of outstanding 6.75% Senior Notes due 2019 will be $350,000,000. Unless the context requires otherwise, references to the notes include the existing notes, the additional notes offered hereby and any further additional notes that may be issued under the indenture.

The additional notes will mature on March 1, 2019. The issuers will pay interest on the additional notes semi-annually in cash in arrears on March 1 and September 1 of each year, beginning on September 1, 2012, to the holders of record at the close of business on the preceding February 15 and August 15, respectively. Payment of all principal and interest will be guaranteed by Kraton Performance Polymers, Inc., the parent company of the issuers, and each of the issuers wholly-owned domestic subsidiaries that guarantees Kraton Polymers LLC s senior secured credit facility.

The issuers may redeem the notes on or after March 1, 2015 at the redemption prices specified under Description of Notes Optional Redemption. In addition, the issuers may redeem up to 35% of the notes before March 1, 2014 with the net cash proceeds from certain equity offerings.

The additional notes and the guarantees will be unsecured obligations and will be pari passu in right of payment with all of the issuers and the guarantors existing and future senior unsubordinated debt, but will be effectively subordinated to all of the issuers and guarantors secured debt and all existing and future liabilities of non-guarantor subsidiaries, and will be senior in right of payment to all of the issuers and the guarantors existing and future subordinated indebtedness. The additional notes will be issued only in registered form in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.

We expect to receive net proceeds of approximately $ from this offering. See Use of Proceeds.

Investing in the additional notes involves risks that are described in the Risk Factors section beginning on page S-8 of this prospectus supplement.

	Per Note	Total
Offering price (1)	%	$
Underwriting discount	%	$
Proceeds to issuers (before expenses)	%	$

(1) Plus interest accrued on the notes from March 1, 2012, the last day on which interest was paid on the existing notes, to the date of the issuance of the additional notes offered hereby.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the notes to investors through the book-entry facilities of The Depository Trust Company and its direct participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Clearstream Banking, société anonyme, on or about , 2012.

Joint Book-Running Managers

BofA Merrill Lynch **Credit Suisse** **Goldman, Sachs & Co.** **Macquarie Capital** **Morgan Stanley**

The date of this prospectus supplement is , 2012.

Table of Contents

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

Table of Contents

We have not authorized anyone to give any information or make any representation about the offering that is different from, or in addition to, that contained in this prospectus supplement, the accompanying base prospectus, the related registration statement or any of the materials that we have incorporated by reference into the foregoing. If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by these documents are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in these documents does not extend to you. The information contained in these documents speaks only as of the date shown in these documents unless the information specifically indicates that another date applies.

WHERE YOU CAN FIND MORE INFORMATION

Kraton Performance Polymers Inc. (Kraton Performance Polymers) is subject to the full informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and as a result, files periodic reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). Kraton Performance Polymers also furnishes its stockholders with annual reports containing financial statements that have been examined and reported on, with an opinion expressed by an independent registered public accounting firm. You may read and copy the registration statement, including the exhibits to the registration statement, at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site at *www.sec.gov*, from which you can electronically access the registration statement, including the exhibits to the registration statement.

Additionally, we maintain a web site at *www.kraton.com*. Information about us, including our reports filed with the SEC, is available through that site. Such reports are accessible at no charge through our web site and are made available as soon as reasonably practicable after such material is filed with or furnished to the SEC. Our web site and the information contained on that site, or connected to that site, are not incorporated by reference into this prospectus supplement or the accompanying base prospectus.

INDUSTRY AND MARKET DATA

We obtained the industry and market data used throughout this prospectus supplement from our own internal estimates and research as well as from industry and general publications and from research, surveys and studies conducted by third parties. We have not independently verified such data and we do not make any representation as to the accuracy or completeness of such information. While we are not aware of any misstatements regarding any industry, market or similar data presented herein, such data involves risks and uncertainties and is subject to change based on various factors, including those discussed under the headings Cautionary Statement Regarding Forward-Looking Statements and Risk Factors in this prospectus supplmement.

Table of Contents

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

We incorporate by reference into this prospectus supplement and the accompanying base prospectus certain information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement and the accompanying base prospectus. Certain information that we subsequently file with the SEC will automatically update and supersede information in this prospectus supplement and the accompanying base prospectus and in our other filings with the SEC. We incorporate by reference the documents listed below, which we have already filed with the SEC, and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, after the date of the initial registration statement and prior to the termination of this offering, except that we are not incorporating any information included in a Current Report on Form 8-K that has been or will be furnished (and not filed) with the SEC, unless such information is expressly incorporated herein by a reference to a furnished Current Report on Form 8-K or other furnished document:

- Kraton Performance Polymers, Inc. s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as filed on February 29, 2012, and amended by Amendment No. 1 on Form 10-K/A, as filed on March 8, 2012;
- Kraton Performance Polymers, Inc. s Definitive Proxy Statement on Schedule 14A filed on April 8, 2011; and
- Kraton Performance Polymers, Inc. s Current Reports on Form 8-K as filed on February 22, 2012, March 5, 2012 and March 14, 2012.

Copies of these filings may be obtained at no cost by writing or calling us at the following address and telephone number:

Corporate Secretary

Kraton Performance Polymers, Inc.

15710 John F. Kennedy Blvd.

Suite 300

Houston, Texas 77032

Telephone: (281) 504-4700

The above filings are also available to the public on our website *www.kraton.com.* (We have included our website address as an inactive textual reference and do not intend it to be an active link to our website. Information on our website is not part of this prospectus supplement and the accompanying base prospectus.)

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus supplement, the accompanying prospectus, any free writing prospectus prepared by us and the documents incorporated herein and therein by reference contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make written or oral forward-looking statements in our annual report on Form 10-K, quarterly reports on Form 10-Q or current reports on Form 8-K, in press releases and other written materials and in oral statements made by our officers, directors or employees to third parties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements.

Forward-looking statements are often characterized by the use of words such as believes, estimates, expects, projects, may, intends, plan anticipates, or by discussions of strategy, plans or intentions and include statements regarding our general outlook ; our ability to obtain raw materials at competitive prices; anticipated benefits of or performance of our products; anticipated rates of growth, including sales growth and growth in product offerings through innovation; the impact of inflation on our results of operations and financial condition; our ability to realize certain deferred tax assets; estimates regarding the tax expense of repatriating certain cash and short-term investments related to foreign operations; expectations regarding our planned semi-works plant, including anticipated benefits of the facility; estimates related to the useful lives of certain assets for tax purposes; our anticipated dividend policy; adequacy of accruals for contingencies; anticipated growth in demand for Cariflex products; anticipated costs incurred by customers that switch vendors; costs, timing and plans related to our planned joint venture with Formosa Petrochemical Corporation and the related manufacturing facility; estimated future contributions to and assumptions regarding our employee benefit plans; adequacy of cash flows to fund working capital and anticipated capital expenditures; and expectations regarding counterparties ability to perform. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or our achievements, or industry results, to differ materially from historical results, any future results, or performance or achievements expressed or implied by such forward-looking statements. There are a number of risks and uncertainties that could cause our actual results to differ materially from our forward-looking statements. Important factors that could cause our actual results to differ materially from those expressed as forward-looking statements include but are not limited to those under the heading Risk Factors. There may be other factors of which we are currently unaware or deem immaterial that may cause our actual results to differ materially from the forward-looking statements.

Forward-looking statements are based on current plans, estimates and projections, and, therefore, you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them publicly in light of new information or future events. You should fully consider the Risk Factors and subsequent public statements, or reports filed with or furnished to the SEC, before making any investment decision with respect to our securities. If any of these trends, risks, assumptions or uncertainties actually occurs or continues, our business, financial condition or operating results could be materially adversely affected, the trading prices of our securities could decline and you could lose all or part of your investment. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Table of Contents

SUMMARY

This summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. This is not intended to be a complete description of the matters covered in this prospectus supplement and the accompanying prospectus and is subject to, and qualified in its entirety by reference to, the more detailed information and financial statements (including the notes thereto) included or incorporated by reference in this prospectus supplement and the accompanying prospectus. Unless otherwise indicated, all references to Kraton, Kraton Performance Polymers, our company, we, ours or us refer to Kraton Performance Polymers, Inc., the issuers parent company and a guarantor of the notes, together with its consolidated subsidiaries; Kraton LLC refers to Kraton Polymers LLC, the issuer of the notes, and its consolidated subsidiaries; all references to Kraton Capital refer to Kraton Polymers Capital Corporation, a wholly owned subsidiary of Kraton Polymers LLC and the co-issuer of the notes; all references to Issuers refer to Kraton Polymers LLC and Kraton Polymers Capital Corporation; the SBC industry refers to the elastomeric styrenic block copolymers industry and does not include the high styrene or rigid SBC business; all references to the accompanying prospectus are to the prospectus dated March 15, 2012.

Our Company

We are a leading global producer of styrenic block copolymers (SBCs) and other engineered polymers. We market our products under the Kraton® brand. SBCs are highly-engineered synthetic elastomers, which we invented and commercialized almost 50 years ago, that enhance the performance of numerous end use products by imparting greater flexibility, resilience, strength, durability and processability. Our SBC polymers are typically formulated or compounded with other products to achieve improved, customer specific performance characteristics in a variety of applications. We focus on the end use markets we believe offer the highest growth potential and greatest opportunity to differentiate our products from competing products. Within these end use markets, we provide our customers with a broad portfolio of highly-engineered polymers that we believe are value-enhancing and, in many cases, critical to the performance of their products. We seek to maximize the value of our product portfolio by emphasizing complex or specialized polymers and innovations that yield higher margins than more commoditized products. We sometimes refer to these complex or specialized polymers or innovations as being more differentiated. Our products are typically developed using our proprietary, and in many cases patent-protected, technology and require significant engineering, testing and certification. In 2011, we were awarded 79 patents for new products or applications and at December 31, 2011, we had 1,136 granted patents and 286 pending patent applications. We believe our almost 50-year track record of innovation, long-standing customer relationships and global infrastructure position us well to successfully execute our strategies.

Our SBC products are found in many everyday applications, including disposable diapers, the rubberized grips of toothbrushes, razor blades and power tools and asphalt formulations used to pave roads. We also produce Cariflex isoprene rubber (IR) and isoprene rubber latex (IRL). Our Cariflex™ products are highly-engineered, non-SBC synthetic substitutes for natural rubber latex. Our IRL products, which have not been found to contain the proteins present in natural rubber latex and are, therefore, not known to cause allergies, are used in applications such as surgical gloves and condoms. We believe the versatility of IRL provides opportunities for new, high-margin applications. In addition to IRL, we have a portfolio of innovations at various stages of development and commercialization, including polyvinyl chloride (PVC), alternatives for wire, cable and medical applications, and polymers for use in slush molding for automotive applications, and our Nexar™ family of membrane polymers for applications such as water filtration and breathable fabrics.

Our total capacity as of December 31, 2011 was approximately 420 kilotons. We generated approximately $1,437.5 million of sales revenue and 303.0 kilotons of sales volume for the year ended December 31, 2011. In 2011, we generated 14.3% of our sales revenue from innovation-driven revenue, which we define as revenue from products or applications introduced in the preceding five years. Our customers are

Table of Contents

diversified by industry and geography with more than 800 customers in over 60 countries. We manufacture our polymers at five manufacturing facilities globally, including our flagship facility in Belpre, Ohio, as well as facilities in Germany, France, Brazil, and Japan. The facility in Japan is operated by an unconsolidated manufacturing joint venture.

We have had relationships with many of our customers for 15 years or more and work closely with our customers to design products that meet application-specific performance and quality requirements. We have a diverse customer base, with no single customer accounting for more than 10.0% of our sales revenue in 2011 and our top 10 customers together representing approximately 29.2% of our sales revenues in 2011. Because of the technical expertise and investment required to develop many of our product formulations and the lead times required to replace them, our customers would likely incur additional costs by changing to an alternative vendor.

Over the past several years, we have implemented a range of strategic initiatives designed to enhance our profitability and end use market position. These include fixed asset investments to expand our capacity in specialized products, to enhance productivity at our existing facilities and to reduce our fixed costs through headcount reductions, production line closures at our Pernis, the Netherlands, facility (Pernis) and system upgrades. During this period, we have substantially exited the footwear applications business, which typically yielded lower margins than our other core end use markets, and implemented pricing strategies designed to enhance our overall margins and return on invested capital. We believe these initiatives provide us with a platform to benefit from volume growth that may occur in our end use markets.

Corporate and Other Information

Our business is conducted through Kraton Polymers LLC, a Delaware limited liability company and the issuer of the notes offered hereby, and its consolidated subsidiaries. Prior to its initial public offering, our parent company was Polymer Holdings LLC, a Delaware limited liability company. On December 16, 2009, Polymer Holdings LLC, or Polymer Holdings, was converted from a Delaware limited liability company to a Delaware corporation and renamed Kraton Performance Polymers, Inc., which remains our parent company. Trading in common stock of Kraton Performance Polymers on the New York Stock Exchange commenced on December 17, 2009 under the symbol KRA.

Kraton Polymers Capital Corporation, or Kraton Capital, exists solely for the purpose of serving as a co-issuer of the notes. Kraton Capital does not have any substantial operations or assets and will not have any revenues. As a result, prospective purchasers of the notes should not expect Kraton Capital to participate in servicing the interest and principal obligations of the notes.

Our principal executive offices are located at 15710 John F. Kennedy Boulevard, Suite 300, Houston, Texas 77032, and our telephone number is (281) 504-4700. Our corporate web site address is www.kraton.com. We do not incorporate the information contained on, or accessible through, our corporate web site into this prospectus, and you should not consider it part of this prospectus supplement or the accompanying prospectus.

Recent Developments

Establishment of a Joint Venture Framework with Formosa Petrochemical Corporation. In July 2011, we announced the execution of a framework agreement with Formosa Petrochemical Corporation (FPCC), a leading global petrochemicals and plastics manufacturer, which sets forth the major terms and conditions that would, upon completion of the necessary definitive agreements, govern the formation of a 50/50 joint venture between the two companies to construct and operate a 30 kiloton HSBC plant to be located on FPCC s industrial site in Mailiao, Taiwan. Pursuant to the terms of the framework agreement, the plant would incorporate our proprietary polymerization technology, and produce our more differentiated HSBC polymer grades. The plant would be operated by the joint venture, and we would undertake the global marketing of all

products manufactured at the facility. Currently, we are conducting an engineering estimate for the project, which we expect will be completed in March 2012 and will provide data to estimate narrower ranges of total project cost and timing. At this time, we anticipate the total project cost estimate will reflect at least $200.0 million. We currently estimate our share of the funding for the joint venture would be approximately $70.0 million in 2012. This estimate is dependent on a number of factors, including final project cost, timing, and the extent to which the project can be funded through third party debt financing, which will impact the equity contributions to be made by us and FPCC. We currently anticipate funding our 2012 contributions with available liquidity and/or through alternative incremental funding sources, including, with the proceeds of this offering.

Certain required approvals from the Taiwanese environmental authorities remain pending, although we previously obtained approval from the Fair Trade Commission in Taiwan in October 2011. While we are currently targeting to have the plant operational in the first half of 2014, we cannot be certain that we will be able to acquire all necessary permitting or other approvals for the construction of the facility in a timely fashion, if at all, or that the facility will be successfully constructed and operated within our expected timeframe or budget or yield expected results.

In addition, although we are currently in the process of negotiating definitive documentation, the framework agreement expires on March 31, 2012 and we may not be able to negotiate and enter into definitive agreements regarding this joint venture on a timely basis or at all. In the event that we are not able to consummate this joint venture for any of the foregoing reasons, we expect to pursue other possibilities to build a production facility in Asia, which may be structured as a joint venture or without a joint venture partner.

Amendment to the Credit Agreement. Concurrently with the offering, we expect to enter into an amendment (the Amendment) to our 2011 Credit Agreement, among Kraton LLC, as borrower, Kraton Performance Polymers, as guarantor, certain subsidiaries of Kraton Performance Polymers (excluding Kraton LLC), as additional guarantors, Bank of America, N.A. as Administrative Agent and Collateral Agent, and the other lenders party thereto (the Credit Agreement) to, among other things, facilitate the Company s ability to pursue a new manufacturing facility by providing for an additional $50.0 million in investment capacity for certain investments and a $75.0 million increase to the capital expenditures basket under certain circumstances. Additionally, the Amendment provides for certain modifications to the consolidated net leverage ratio we are required to maintain and provides that certain guarantees by the borrower or any of its domestic subsidiaries not to exceed $100.0 million shall not constitute indebtedness for purposes of compliance with certain financial covenants.

Outlook. Prices for our primary raw materials continue to be volatile in the first quarter of 2012 as evidenced by the North America contract price for butadiene increasing from $0.98 per pound in December 2011 to $1.46 per pound in March 2012. These raw material price increases reflect multiple planned cracker capacity outages in particular in Asia in the first quarter 2012 combined with the increase in crude oil prices. As a consequence, we currently anticipate that our cost of goods sold on a FIFO basis will be slightly lower than cost of goods sold would have otherwise been on an estimated current replacement cost basis.

Table of Contents

The Offering

Issuers	Kraton Polymers LLC, a Delaware limited liability company, and Kraton Polymers Capital Corporation, a Delaware corporation.
Securities Offered	$100,000,000 aggregate principal amount of 6.75% Senior Notes due 2019 (the additional notes). The additional notes constitute a further issuance of, and are fungible with, the $250,000,000 aggregate principal amount of 6.75% Senior Notes due 2019 that the Issuers issued on February 11, 2011 (the existing notes , and collectively with the existing notes and any further additional notes issued under the indenture, the notes) and form a single series of debt securities with the existing notes. The existing notes were issued in a private transaction in reliance on Rule 144A and Regulation S under the Securities Act of 1933, as amended (the Securities Act) and were subsequently exchanged in full for identical notes on June 13, 2011 in a registered exchange offer under the Securities Act. The existing notes are not, and the additional notes offered hereby will not be, subject to transfer restrictions, rights to additional interest or registration rights.
Maturity Date	March 1, 2019.
Interest Rate	6.75% per annum, payable semi-annually in arrears on March 1 and September 1 of each year, commencing on September 1, 2012.
Guarantees	The additional notes will be guaranteed on an unsecured senior basis by Kraton Performance Polymers, Inc., the Issuers parent company, and each of the Issuers wholly owned domestic subsidiaries that guarantee Kraton Polymers LLC s senior secured credit facility.
Ranking	The additional notes will be general unsecured obligations of the Issuers and the guarantees will be general unsecured obligations of the guarantors and they will rank: *pari passu* in right of payment with all existing and future senior unsubordinated indebtedness of the Issuers and the guarantors; effectively subordinated to all of the secured debt of the Issuers and all existing and future liabilities of non-guarantor subsidiaries; and senior in right of payment to all existing and future subordinated indebtedness of the Issuers and the guarantors.
Form and Denomination	The additional notes will be issued in fully-registered form. The additional notes will be represented by one or more global notes, deposited with the trustee, as custodian for the Depository Trust Company (the DTC) and registered in the name of Cede & Co., DTC s nominee. Beneficial interests in the global notes will be shown on, and any transfers will be effective only through, records maintained by DTC and its participants.

The additional notes will be issued in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.

Table of Contents

Optional Redemption

Prior to March 1, 2014, the Issuers may redeem up to 35% of the outstanding notes with the net proceeds of certain equity offerings at 106.75% of the principal amount of the notes, plus accrued and unpaid interest, if any, to the date of redemption.

Prior to March 1, 2015, the notes may be redeemed at the option of the Issuers at a redemption price equal to 100% of the principal amount of the notes, plus an applicable make-whole premium and accrued and unpaid interest, if any, to the date of redemption.

On or after March 1, 2015, the notes may be redeemed at the option of the Issuers at the redemption dates and at the redemption prices specified under Description of Notes Optional Redemption.

Change of Control

If we experience a defined change of control, the Issuers may be required to repurchase the notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest, if any, to the date of the repurchase.

Certain Covenants

The additional notes will be issued under an indenture containing certain covenants that, among other things, limit our and our restricted subsidiaries ability to:

- incur or guarantee additional indebtedness or issue preferred stock;
- conduct certain asset sales;
- pay dividends or distributions on, or redeem or repurchase, our capital stock;
- make certain investments;
- create liens on our assets;
- merge or consolidate or sell all or substantially all of our assets;
- enter into transactions with affiliates; and
- create restrictions on the payment of dividends or other amounts to the Issuers.

These covenants are subject to important exceptions and qualifications. See Description of Notes Certain Covenants.

No Public Market

We do not intend to apply for the additional notes to be listed on any securities exchange or to arrange for quotation on any automated dealer quotation system. The underwriters have advised us that they intend to continue to make a market in the notes, but they are not obligated to do so and may discontinue any market making in the notes at any time, in their sole discretion. Accordingly, there can be no assurance as to the development or liquidity of any market for the notes.

Governing Law	The notes are governed by, and construed in accordance with, the internal laws of the State of New York.
Book-Entry Depository	The Depository Trust Company.
Trustee	Wells Fargo Bank, National Association.

Table of Contents

Risk Factors	See Risk Factors for a discussion of factors you should consider carefully before deciding to invest in the additional notes.
Use of Proceeds	We expect to receive net proceeds of approximately $ from this offering. We intend to use the proceeds of this offering for general corporate purposes, which may include funding for capital expenditures or investments, including, among other things, a portion of our proposed new hydrogenated SBC (HSBC) manufacturing facility. For more information relating to our proposed manufacturing facility in Asia, please see Summary Recent Developments.

Table of Contents

SUMMARY CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The table below sets forth Kraton Performance Polymers summary consolidated historical financial data for the periods indicated. The summary consolidated historical financial data presented below for the years ended December 31, 2011, 2010 and 2009 and as of December 31, 2011, 2010 and 2009 have been derived from Kraton Performance Polymers audited consolidated financial statements, which are incorporated by reference in this prospectus supplement. The summary consolidated historical financial data presented below for the years ended December 31, 2008 and 2007 and as of December 31, 2009, 2008 and 2007 have been derived from Kraton Performance Polymers audited consolidated financial statements that are not incorporated in this prospectus supplement and the accompanying prospectus by reference.

The summary consolidated financial information and other data presented below should be read in conjunction with our consolidated financial statements, including the notes thereto, and the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, all of which are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which is incorporated by reference in this prospectus supplement. This historical consolidated financial data is not necessarily indicative of our future performance.

	Years ended December 31,				
	2011	2010	2009	2008	2007
			(in thousands)		
Consolidated statements of operations data:					
Sales	$ 1,437,479	$ 1,228,425	$ 920,362	$ 1,171,253	$ 1,066,044
Other (1)	0	0	47,642	54,780	23,543
Total operating revenues	1,437,479	1,228,425	968,004	1,226,033	1,089,587
Cost of goods sold	1,121,293	927,932	792,472	971,283	938,556
Gross profit	316,186	300,493	175,532	254,750	151,031
Operating expenses					
Research and development	27,996	23,628	21,212	27,049	24,865
Selling, general and administrative	101,606	92,305	79,504	101,431	69,020
Depreciation and amortization	62,735	49,220	66,751	53,162	51,917
Total operating expenses	192,337	165,153	167,467	181,642	145,802
Gain (loss) on extinguishment of debt	(2,985)	0	23,831	0	0
Earnings of unconsolidated joint venture (2)	529	487	403	437	626
Interest expense, net	29,884	23,969	33,956	36,695	43,484
Income (loss) before income taxes	91,509	111,858	(1,657)	36,850	(37,629)
Income tax expense (benefit)	584	15,133	(1,367)	8,431	6,120
Net income (loss)	$ 90,925	$ 96,725	$ (290)	$ 28,419	$ (43,749)

(1) Other revenues include the sale of by-products generated in the production of IR and SIS at Pernis.

(2) Represents our 50% joint venture interest in Kraton JSR Elastomers K.K., which is accounted for using the equity method of accounting.

	As of December 31,				
	2011	2010	2009	2008	2007
			(in thousands)		
Consolidated balance sheets data:					
Cash and cash equivalents	$ 88,579	$ 92,750	$ 69,291	$ 101,396	$ 48,277

Property, plant and equipment (1)	372,973	365,366	354,860	372,008	402,270
Total assets	1,153,756	1,080,723	974,499	1,031,874	984,894
Total debt	392,500	382,675	384,979	575,316	538,686
Net debt	303,921	289,925	315,688	473,920	490,409

(1) Less accumulated depreciation of $281,442, $252,387, $236,558, $182,252 and $157,643, as of December 31, 2011, 2010, 2009, 2008 and 2007 respectively.

Table of Contents

RISK FACTORS

Before investing in the notes, you should consider carefully the information under Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which is incorporated by reference in this prospectus supplement, and the following risks, as well as the other information included and/or incorporated by reference in this prospectus supplement and the accompanying prospectus. Each of the risks described in our Annual Report on Form 10-K and below could result in a decrease in the value of the notes and your investment therein. Although we discuss certain factors below, please be aware that other risks may prove to be important in the future. New risks may emerge at any time, and we cannot predict those risks or estimate the extent to which they may affect the value of the notes and your investment therein.

Risk Factors Relating to the Notes

Our substantial indebtedness and lease obligations could adversely affect our financial flexibility and our competitive position.

We have a significant amount of indebtedness. Following the consummation of this offering, we will have $492.5 million of indebtedness outstanding in addition to availability under the revolving portion of our senior secured credit facility. Our substantial amount of indebtedness could have important consequences for you. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the notes;
- increase our vulnerability to adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness and leases, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in the business and industry in which we operate;
- restrict us from exploiting business opportunities;
- make it more difficult to satisfy our financial obligations, including payments on the notes;
- place us at a disadvantage compared to our competitors that have less debt and lease obligations; and
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy and other general corporate purposes or to refinance our existing debt.

Our indebtedness may restrict our current and future operations, which could adversely affect our ability to respond to changes in our business and manage our operations.

Agreements governing our indebtedness and the indenture governing the notes contain, and any future indebtedness may contain, a number of restrictive covenants that impose significant operating and financial restrictions on us and our restricted subsidiaries, including restrictions on our or our restricted subsidiaries ability to, among other things:

place liens on our or our restricted subsidiaries assets;

Table of Contents

make investments other than permitted investments;

incur additional indebtedness;

merge, consolidate or dissolve;

sell assets;

engage in transactions with affiliates;

change the nature of our business;

change our or our subsidiaries fiscal year or organizational documents; and

make restricted payments (including certain equity issuances).

A failure by us or our subsidiaries to comply with the covenants or to maintain the required financial ratios contained in the agreements governing our indebtedness could result in an event of default under such indebtedness, which could adversely affect our ability to respond to changes in our business and manage our operations. Upon the occurrence of an event of default under any of the agreements governing our indebtedness, the lenders could elect to declare all amounts outstanding to be due and payable and exercise other remedies as set forth in the agreements. If any of our indebtedness were to be accelerated, there can be no assurance that our assets would be sufficient to repay this indebtedness in full, which could have a material adverse effect on our ability to continue to operate as a going concern.

To service our indebtedness, we will require a significant amount of cash.

Our ability to generate cash depends on many factors beyond our control, and any failure to meet our debt service obligations could harm our business, financial condition and results of operations. Our ability to make payments on and to refinance our indebtedness, including the notes, and to fund working capital needs and planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, business, legislative, regulatory and other factors that are beyond our control, including, among other things, the costs of raw materials used in the production of our products.

If our business does not generate sufficient cash flow from operations or if future borrowings are not available to us in an amount sufficient to enable us to pay our indebtedness, including the notes, or to fund our other liquidity needs, we may need to refinance all or a portion of our indebtedness, including the notes, on or before the maturity thereof, sell assets, reduce or delay capital investments or seek to raise additional capital, any of which could have a material adverse effect on our operations. In addition, we may not be able to effect any of these actions, if necessary, on commercially reasonable terms or at all. Our ability to restructure or refinance our indebtedness, including the notes, will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments, including the indenture governing the notes, may limit or prevent us from taking any of these actions. In addition, any failure to make scheduled payments of interest and principal on our outstanding indebtedness would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on commercially reasonable terms or at all. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance or restructure our obligations on commercially reasonable terms or at all, would have an adverse effect, which could be material, on our business, financial condition and results of operations, as well as on our ability to satisfy our obligations in respect of the notes.

Table of Contents

In addition, if we are unable to meet our debt service obligations under the notes, the holders of the notes would have the right following a cure period to cause the entire principal amount of the notes to become immediately due and payable. If the amounts outstanding under these instruments are accelerated, we cannot assure you that our assets will be sufficient to repay in full the money owed to our debt holders, including holders of the notes.

We, including our subsidiaries, have the ability to incur substantially more indebtedness, including senior secured indebtedness.

Subject to the restrictions in our senior secured credit facility and the indenture governing the notes, we, including our subsidiaries, may incur significant additional indebtedness. As of December 31, 2011, as adjusted to give effect to the offering of the additional notes:

- we would have had $142.5 million of senior secured debt under our senior secured credit facility;
- we would have had $350 million of senior unsecured indebtedness under the notes;
- subject to compliance with customary conditions, we would have had available to us $200 million under the revolving portion of our senior secured credit facility, which, if borrowed, would be senior secured indebtedness; and
- subject to our compliance with certain covenants and other conditions, including a maximum consolidated net coverage ratio, we would have had the option to raise up to $125 million of incremental term loans or increased revolving credit commitments without satisfying any additional financial tests under the indentures governing the notes, which, if borrowed, would be senior secured indebtedness.

Although the terms of our senior secured credit facility and the indenture governing the notes contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of important exceptions, and indebtedness incurred in compliance with these restrictions could be substantial. If we and our restricted subsidiaries incur significant additional indebtedness, the related risks that we face could increase.

The additional notes will be unsecured and will be effectively subordinated to our and the guarantors senior secured indebtedness and indebtedness of non-guarantor subsidiaries.

Our obligations under the additional notes and the guarantors obligations under the guarantees of the additional notes will not be secured by any of our or our subsidiaries assets. Following the consummation of this offering, we will have $142.5 million of senior secured indebtedness outstanding in addition to availability under the revolving portion of our senior secured credit facility. If we and the guarantors were to become insolvent or otherwise fail to make payments on the notes, holders of our and our guarantors secured obligations would be paid first and would receive payments from the assets securing such obligations before the holders of the notes would receive any payments. You may therefore not be fully repaid in the event we become insolvent or otherwise fail to make payments on the notes.

The additional notes will not be guaranteed by all of our subsidiaries. For example, our immaterial subsidiaries are not required to guarantee the notes. Accordingly, claims of holders of the notes will be structurally subordinate to the claims of creditors of these non-guarantor subsidiaries, including trade creditors. All obligations of our non-guarantor subsidiaries will have to be satisfied before any of the assets of such subsidiaries would be available for distribution, upon a liquidation or otherwise, to us or a guarantor of the notes.

Table of Contents

Our failure to comply with the agreements relating to our outstanding indebtedness, including as a result of events beyond our control, could result in an event of default that could materially and adversely affect our results of operations and our financial condition.

If there were an event of default under any of the agreements relating to our outstanding indebtedness, the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be due and payable immediately. Upon acceleration of certain of our other indebtedness, holders of the notes could declare all amounts outstanding under the notes immediately due and payable. We cannot assure you that our assets or cash flow would be sufficient to fully repay borrowings under our outstanding debt instruments if accelerated upon an event of default. Further, if we are unable to repay, refinance or restructure our secured debt, the holders of such debt could proceed against the collateral securing that indebtedness. In addition, any event of default or declaration of acceleration under one debt instrument could also result in an event of default under one or more of our other debt instruments. In addition, counterparties to some of our long term customer contracts may have the right to amend or terminate those contracts if we have an event of default or a declaration of acceleration under certain of our indebtedness, which could adversely affect our business, financial condition or results of operations.

Under certain circumstances a court could cancel the additional notes or the related guarantees under fraudulent conveyance laws.

Federal and state fraudulent transfer and conveyance statutes may apply to the issuance of the additional notes and the incurrence of the guarantees. Under federal bankruptcy law and comparable provisions of state fraudulent transfer or conveyance laws, which may vary from state to state, the additional notes or guarantees could be voided as a fraudulent transfer or conveyance if (1) we or any of the guarantors, as applicable, issued the additional notes or incurred the guarantees with the intent of hindering, delaying or defrauding creditors or (2) we or any of the guarantors, as applicable, received less than reasonably equivalent value or fair consideration in return for either issuing the additional notes or incurring the guarantees and, in the case of (2) only, one of the following is also true at the time thereof:

- we or any of the guarantors, as applicable, were insolvent or rendered insolvent by reason of the issuance of the additional notes or the incurrence of the guarantees;
- the issuance of the additional notes or the incurrence of the guarantees left us or any of the guarantors, as applicable, with an unreasonably small amount of capital to carry on the business;
- we or any of the guarantors intended to, or believed that we or such guarantor would, incur debts beyond our or such guarantor s ability to pay as they mature; or
- we or any of the guarantors was a defendant in an action for money damages, or had a judgment for money damages docketed against us or such guarantor if, in either case, after final judgment, the judgment is unsatisfied.

If a court were to find that the issuance of the additional notes or the incurrence of the guarantee was a fraudulent transfer or conveyance, the court could void the payment obligations under the additional notes or such guarantee or further subordinate the additional notes or such guarantee to presently existing and future indebtedness of ours or of the related guarantor, or require the holders of the additional notes to repay any amounts received with respect to such guarantee. In the event of a finding that a fraudulent transfer or conveyance occurred, you may not receive any repayment on the additional notes. Further, the voidance of the additional notes could result in an event of default with respect to our and our subsidiaries other debt that could result in acceleration of such debt.

As a general matter, value is given for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or an antecedent debt is secured or satisfied. A debtor will generally not be

Table of Contents

considered to have received value in connection with a debt offering if the debtor uses the proceeds of that offering to make a dividend payment or otherwise retire or redeem equity securities issued by the debtor. We cannot be certain as to the standards a court would use to determine whether or not we or the guarantors were solvent at the relevant time or, regardless of the standard that a court uses, that the issuance of the guarantees would not be further subordinated to our or any of our guarantors other debt.

You may not be able to sell the additional notes readily or at all or at or above the price that you paid.

We do not intend to apply for the additional notes to be listed on any securities exchange or to arrange for quotation on any automated dealer quotation system. The underwriters have advised us that they intend to continue to make a market in the notes, but they are not obligated to do so and may discontinue any market making in the notes at any time, in their sole discretion. You may not be able to sell your additional notes at a particular time or at favorable prices. As a result, we cannot assure you as to the liquidity of any trading market for the notes. Accordingly, you may be required to bear the financial risk of your investment in the additional notes indefinitely. Future trading prices of the notes may be volatile and will depend on many factors, including:

- our operating performance and financial condition;
- the interest of securities dealers in making a market for them;
- prevailing interest rates; and
- the market for similar securities.

In addition, the market for non-investment grade debt historically has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes. The market for the notes may be subject to similar disruptions that could adversely affect their value.

We may not have the ability to raise the funds necessary to finance the change of control offer required by the indenture governing the notes.

Upon the occurrence of a change of control, as defined in the indenture governing the notes, we must offer to buy back the notes at a price equal to 101% of the principal amount, together with any accrued and unpaid interest, if any, to the date of the repurchase. Our failure to purchase, or give notice of purchase of, the notes would be a default under the indenture governing the notes. See Description of Notes Repurchase at the Option of Holders Change of Control.

If a change of control occurs, it is possible that we may not have sufficient assets at the time of the change of control to make the required repurchase of notes or to satisfy all obligations under our credit facility and the indenture governing the notes. In order to satisfy our obligations, we could seek to refinance any or all of our outstanding indebtedness or seek to obtain a waiver from the lenders under our credit facility or the holders of the notes. We cannot assure you that we would be able to obtain a waiver or refinance our indebtedness on terms acceptable to us, if at all.

We may not be able to generate sufficient cash to service all of our indebtedness, including the notes, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the notes.

Table of Contents

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness, including the notes. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments and the indenture governing the notes may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The indenture governing the notes restricts our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds that we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due. These alternative measures may not be successful and may not permit us to meet our debt service obligations.

The lenders under our credit facility have the discretion to release any guarantors under these facilities in a variety of circumstances, which will cause those guarantors to be released from their guarantees of the notes.

While any obligations under our credit facility remain outstanding, any guarantee of the notes may be released without action by, or consent of, any holder of the notes or the trustee under the indenture governing the notes, at the discretion of lenders under our senior secured credit facility, if the related guarantor is no longer a guarantor of obligations under our senior secured credit facility or any other indebtedness. See Description of Notes. The lenders under our credit facility have the discretion to release the guarantees under our credit facility in a variety of circumstances. Any of our subsidiaries that is released as a guarantor of our credit facility will automatically be released, as a guarantor of the notes. You will not have a claim as a creditor against any subsidiary that is no longer a guarantor of the notes, and the indebtedness and other liabilities, including trade payables, whether secured or unsecured, of those subsidiaries will effectively be senior to claims of noteholders.

Table of Contents

RATIO OF EARNINGS TO FIXED CHARGES

Our ratio of earnings to fixed charges for the year ended December 31, 2011 and each of the five years in the period ended December 31, 2011 is set forth below. For the purpose of computing these ratios, earnings consists of pre-tax income (loss) plus fixed charges, distributed income of equity investees and amortization of capitalized interest, less income from equity investees and interest capitalized. Fixed charges consists of interest expense, capitalized interest, amortization of debt issuance costs and estimate of interest within rental expense.

	Year ended December 31,				
	2011	**2010**	**2009**	**2008**	**2007**
Ratio of Earnings to Fixed Charges	3.54:1.00	5.07:1.00	(1)	1.93:1.00	(1)

(1) Our earnings were insufficient to cover our fixed charges by approximately $1.6 million and approximately $38.1 million for the years ended December 31, 2009 and 2007, respectively.

Table of Contents

USE OF PROCEEDS

We expect that we will receive net proceeds of approximately $ from this offering. We intend to use the proceeds of this offering for general corporate purposes, which may include funding for capital expenditures or investments, including, among other things, a portion of our proposed new HSBC manufacturing facility. As of December 31, 2011, our total indebtedness was $392.5 million. For more information relating to our proposed manufacturing facility in Asia, please see Summary Recent Developments.

Table of Contents

CAPITALIZATION

The following table sets forth Kraton Performance Polymers cash and cash equivalents and its capitalization as of December 31, 2011

on an actual basis; and

on an as adjusted basis, to give effect to the offering of the additional notes and the receipt of the estimated net proceeds of this offering as described under Use of Proceeds.

You should read this information together with our consolidated financial statements, including the notes thereto, and the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, all of which are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which is incorporated by reference into this prospectus supplement. This historical consolidated financial data is not necessarily indicative of our future performance.

	As of December 31, 2011 (in thousands, except par value) (unaudited)	
	Actual	As Adjusted
Cash and cash equivalents(1)	$ 88,579	$
Long-term debt, including current portion:		
Term loans	142,500	142,500
Existing 6.75% senior unsecured notes	250,000	250,000
Additional Notes offered hereby		100,000
Total long-term debt	392,500	492,500
Equity:		
Preferred stock, $0.01 par value per share; 100,000 shares authorized; none issued		
Common stock, $0.01 par value per share; 500,000 shares authorized; 32,092 shares issued and outstanding	321	321
Additional paid in capital	347,455	347,455
Retained earnings	187,636	187,636
Accumulated other comprehensive income (loss)	(17,618)	(17,618)
Total equity	517,794	517,794
Total capitalization	$ 910,294	$ 1,010,294

(1) Reflects cash from the estimated net proceeds of this offering. We intend to use the proceeds of this offering for general corporate purposes, which may include funding for capital expenditures or investments, including, among other things, a portion of our proposed new HSBC manufacturing facility. See Use of Proceeds.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The table below sets forth Kraton Performance Polymers selected consolidated historical financial data for the periods indicated.

The selected consolidated historical financial data presented below for the years ended December 31, 2008 and 2007 and as of December 31, 2009, 2008 and 2007 have been derived from Kraton Performance Polymers audited consolidated financial statements that are not incorporated in this prospectus supplement and the accompanying prospectus by reference. The selected consolidated historical financial data presented below for the years ended December 31, 2011, 2010 and 2009 and as of December 31, 2011 and 2010 have been derived from Kraton Performance Polymers audited consolidated financial statements, which are incorporated by reference in this prospectus supplement and the accompanying prospectus. Our historical results are not indicative of our future performance.

The selected consolidated financial information and other data presented below should be read in conjunction with the information contained in Management s Discussion and Analysis of Financial Condition and Results of Operations, and audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011, which is incorporated by reference in this prospectus supplement and the accompanying prospectus. See Incorporation of Certain Information by Reference.

	Years ended December 31,				
	2011	2010	2009	2008	2007
			(in thousands)		
Consolidated statements of operations data:					
Sales	$ 1,437,479	$ 1,228,425	$ 920,362	$ 1,171,253	$ 1,066,044
Other (1)	0	0	47,642	54,780	23,543
Total operating revenues	1,437,479	1,228,425	968,004	1,226,033	1,089,587
Cost of goods sold	1,121,293	927,932	792,472	971,283	938,556
Gross profit	316,186	300,493	175,532	254,750	151,031
Operating expenses					
Research and development	27,996	23,628	21,212	27,049	24,865
Selling, general and administrative	101,606	92,305	79,504	101,431	69,020
Depreciation and amortization	62,735	49,220	66,751	53,162	51,917
Total operating expenses	192,337	165,153	167,467	181,642	145,802
Gain (loss) on extinguishment of debt	(2,985)	0	23,831	0	0
Earnings of unconsolidated joint venture(2)	529	487	403	437	626
Interest expense, net	29,884	23,969	33,956	36,695	43,484
Income (loss) before income taxes	91,509				

a citizen or resident of the United States;

a corporation, or other entity treated as a corporation for federal income tax purposes, created or organized in or under the laws of the United States or any State or the District of Columbia;

an estate that is subject to federal income tax on its income regardless of its source; or

a trust, the substantial decisions of which are controlled by one or more U.S. persons and which is subject to the primary supervision of a U.S. court, or a trust that validly has elected under applicable Treasury regulations to be treated as a U.S. person for federal income tax purposes.

Tax Consequences of the Merger Generally

EMD and EDF intend the Merger to qualify as a tax-free reorganization within the meaning of Section 368(a)(1) of the Code. The Merger is conditioned upon the receipt by both EMD and EDF of an opinion from Simpson Thacher & Bartlett LLP to the effect that, based upon certain facts, assumptions and representations of the parties, for federal income tax purposes:

(i) the Merger as provided in the Agreement and Plan of Merger will constitute a reorganization within the meaning of Section 368(a)(1) of the Code and that EDF and EMD will each be a party to a reorganization within the meaning of Section 368(b) of the Code;

(ii) except for consequences regularly attributable to a termination of EMD s taxable year, no gain or loss will be recognized to EMD as a result of the Merger or upon the conversion of EMD Common Shares to EDF Common Shares;

(iii) no gain or loss will be recognized to EDF as a result of the Merger or upon the conversion of EMD Common Shares to EDF Common Shares;

(iv) no gain or loss will be recognized to the stockholders of EMD upon the conversion of their EMD Common Shares to EDF Common Shares, except to the extent such stockholders are paid cash in lieu of fractional shares of EDF Common Shares in the Merger;

(v) the tax basis of EMD assets in the hands of EDF will be the same as the tax basis of such assets in the hands of EMD immediately prior to the consummation of the Merger;

(vi) immediately after the Merger, the aggregate tax basis of the EDF Common Shares received by each holder of EMD Common Shares in the Merger (including that of fractional share interests purchased by EDF) will be equal to the aggregate tax basis of the EMD Common Shares owned by such stockholder immediately prior to the Merger;

(vii) a stockholder s holding period for EDF Common Shares (including that of fractional share interests purchased by EDF) will be determined by including the period for which he or she held EMD Common Shares converted pursuant to the Merger, provided that such shares of EMD Common Shares were held as capital assets;

(viii) EDF s holding period with respect to the EMD assets transferred will include the period for which such assets were held by EMD; and

(ix) the payment of cash to the holders of EMD Common Shares in lieu of fractional EDF Common Shares will be treated as though such fractional shares were distributed as part of the Merger and then redeemed by EDF with the result that the holder of EMD Common Shares will generally have a capital gain or loss to the extent the cash distribution differs from such stockholder s basis allocable to the fractional EDF

Common Shares.

Assuming that, in accordance with the opinion referred to above, the Merger qualifies as a reorganization within the meaning of Section 368(a)(1) of the Code, the Merger will result in the tax consequences described above in clauses (i) through (ix).

Information Reporting and Backup Withholding

Cash payments received in the Merger by a holder of EMD Common Shares may, under certain circumstances, be subject to information reporting and backup withholding at a rate of 28% of the cash payable to the holder, unless the holder

provides proof of an applicable exemption, furnishes its taxpayer identification number (in the case of individuals, their social security number) or provides a certification of foreign status on IRS Form W-8BEN or other appropriate form, and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a holder under the backup withholding rules are not additional tax and will be allowed as a refund or credit against the holder s federal income tax liability, provided the required information is timely furnished to the IRS.

Reporting Requirements

A holder of EMD Common Shares who receives EDF Common Shares as a result of the Merger will be required to retain records pertaining to the Merger. Each holder of EMD Common Shares who is required to file a U.S. tax return and who is a significant holder that receives EDF Common Shares in the Merger will be required to file a statement with the holder s federal income tax return setting forth such holder s basis in the EMD Common Shares surrendered and the fair market value of the EDF Common Shares and cash, if any, received in the Merger. A significant holder is a holder of EMD Common Shares who, immediately before the Merger, owned at least 5% of the outstanding stock of EMD.

Other Tax Considerations

While neither EDF nor EMD is aware of any adverse state or local tax consequences of the proposed Merger, they have not requested any ruling or opinion with respect to such consequences, and stockholders should consult their own tax advisor with respect to such matters.

Immediately prior to the Closing Date, EMD, to the extent necessary, will pay a dividend or dividends, which together with all previous dividends, are intended to have the effect of distributing to its stockholders substantially all of its net investment income that has accrued through the Closing Date, if any, and substantially all of its net capital gain, if any, realized through the Closing Date. Such dividends will be included in the taxable income of the stockholders of EMD.

Information Regarding Tax Capital Loss Carryforwards

As of May 31, 2008, the Funds had no unused capital loss carryforwards.

PORTFOLIO SECURITIES

Because the securities in which EMD may invest are permissible for investment under EDF s investment objectives and policies, Western Asset expects to dispose of less than 10% of the portfolio securities of EMD in connection with the Merger.

No securities of EDF need to be sold in order for EDF to comply with its investment restrictions or policies. The Funds may buy and sell securities in the normal course of their operations.

24

INFORMATION ABOUT MANAGEMENT OF THE FUNDS

Information About Directors and Officers

The business and affairs of EDF and EMD are managed under the direction of each Fund s Board of Directors. Information pertaining to the Directors and officers of the Funds is set forth below. The same individuals serve as the Directors and officers of both EDF and EMD.

Name, Address and Age	Position(s) Held with the Funds	Length of Term Served	Principal Occupation(s) During Past 5 years	Number of Portfolios in Fund Complex* Overseen by Director (including the Fund)	Other Directorships Held by Nominee
NON-INTERESTED DIRECTORS					
Carol L. Colman Colman Consulting 278 Hawley Road North Salem, NY 10560 Birth year: 1946	Director and Member of Audit and Nominating Committees, Class III (EDF) and Class II (EMD)	Since 2002 (EDF) Since 2003 (EMD)	President, Colman Consulting Co.	25	None
Daniel P. Cronin c/o Chairman of the Fund 620 Eighth Avenue, 49th Floor New York, NY 10018 Birth year: 1946	Director and Member of Audit and Nominating Committees, Class III (EDF) and Class II (EMD)	Since 2002 (EDF) Since 2003 (EMD)	Retired; formerly, Associate General Counsel, Pfizer, Inc.	25	None
William R. Hutchinson 535 N. Michigan Avenue Suite 1012 Chicago, IL 60611 Birth year: 1942	Director and Member of Audit and Nominating Committees, Class III (EDF) and Class I (EMD)	Since 2003 (EDF) Since 2003 (EMD)	President, W.R. Hutchinson & Associates Inc. (consulting); formerly, Group Vice President, Mergers and Acquisitions, BP Amoco p.l.c.	25	Director of Associated Banc-Corp.
Paolo M. Cucchi Drew University 108 Brothers College Madison, NJ 07940	Director and Member of Audit and Nominating Committees, Class I (EDF) and Class III (EMD)	Since 2007 (EDF) Since 2007 (EMD)	Vice President and Dean of College of Liberal Arts at Drew University.	25	None

Birth year: 1941					
Leslie H. Gelb c/o Chairman of the Fund 620 Eighth Avenue, 49th Floor New York, NY 10018	Director and Member of Audit and Nominating Committees, Class I (EDF) and Class III (EMD)	Since 2001 (EDF) Since 2000 (EMD)	President Emeritus and Senior board Fellow, The Council on Foreign Relations; formerly, Columnist Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times.	25	Director of two registered investment companies advised by Blackstone Asia Advisors L.L.C. (Blackstone Advisors)
Birth year: 1937					
Dr. Riordan Roett The Johns Hopkins University 1740 Massachusetts Ave., N.W. Washington, D.C. 20036	Director and Member of Audit and Nominating Committees, Class I (EDF) and Class I (EMD)	Since 1998 (EDF) Since 1995 (EMD)	Professor and Director, Latin American Studies Program, Paul H. Nitze School of Advanced International Studies. The Johns Hopkins University.	25	None
Birth year: 1938					
Jeswald W. Salacuse c/o Chairman of the Fund 620 Eighth Avenue, 49th Floor New York, NY 10018	Director and Member of Audit and Nominating Committees, Class II (EDF) and Class I (EMD)	Since 1998 (EDF) Since 1994 (EMD)	Henry J. Braker Professor of Commercial Law and formerly Dean, The Fletcher School of Law & Diplomacy, Tufts University.	25	Director of two registered investment companies advised by Blackstone Advisors
Birth year: 1938					

Name, Address and Age	Position(s) Held with the Funds	Length of Term Served	Principal Occupation(s) During Past 5 years	Number of Portfolios in Fund Complex* Overseen by Director (including the Fund)	Other Directorships Held by Nominee
INTERESTED DIRECTORS					
R. Jay Gerken, CFA** Legg Mason, Inc. 620 Eighth Avenue, 49th Floor New York, NY 10018 Birth year: 1951	Chairman, CEO, President and Director, Class II (EDF) and Class III (EMD)	Since 2002 (EDF) Since 2002 (EMD)	Managing Director, Legg Mason & Co., LLC (Legg Mason & Co.); Chairman of the Board and Trustee/Director of 151 funds associated with LMPFA and its affiliates; President, LMPFA (since 2006); Chairman, President and Chief Executive Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates; formerly, Chairman, Smith Barney Fund Management LLC (SBFM) and Citi Fund Management, Inc. (CFM) (2002 to 2005); formerly, Chairman, President and Chief Executive Officer, Travelers Investment Adviser Inc. (2002 to 2005).	138	Trustee, Consulting Group Capital Markets Fund

* The term fund complex means two or more registered investment companies that:
(a) Hold themselves out to investors as related companies for purposes of investment and investor services; or
(b) Have a common investment adviser or have an investment adviser that is an affiliated person of the investment adviser of any of the other registered investment companies.

** Mr. Gerken is an interested person as defined in the 1940 Act , because he is an employee of Legg Mason, the parent company of the Fund s investment adviser.

The Board of Directors of each Fund is divided into three classes, having terms of three years each. At each respective annual meeting of stockholders, the term of one class will expire and Directors will be elected to serve in that class for a term of three years.

The following table provides information concerning the dollar range of equity securities owned beneficially by each Director as of December 31, 2007:

Name of Director/Nominee	Dollar Range[(1)] of Equity Securities in EMD	Dollar Range[(1)] of Equity Securities in EDF	Aggregate Dollar Range[(1)] of Equity Securities in all Funds Overseen by Director/Nominee in Family of Investment Companies[(2)]
NON-INTERESTED DIRECTORS/NOMINEES			
Carol L. Colman	C	A	E
Daniel P. Cronin	C	C	E
Paolo M. Cucchi	A	A	C
Leslie H. Gelb	A	A	A
William R. Hutchinson	A	A	E
Dr. Riordan Roett	B	B	C

Jeswald W. Salacuse	B	B	C
INTERESTED DIRECTOR			
R. Jay Gerken	C	C	E

(1) The dollar ranges are as follows: A = None; B = $1-$10,000; C = $10,001-$50,000; D = $50,001-$100,000; E = Over $100,000.

(2) Family of Investment Companies means any two or more registered investment companies that share the same investment adviser or principal underwriter or hold themselves out to investors as related companies for purposes of investment and investor services.

No Director or nominee for election as Director who is not an interested person of the Fund as defined in the 1940 Act, nor any immediate family members, to the best of the Fund s knowledge, had any interest in the Fund s investment

adviser, or any person or entity (other than the Fund) directly or indirectly controlling, controlled by, or under common control with Legg Mason as of July 23, 2008.

Director Compensation

Under the federal securities laws, and in connection with the Meeting, each Fund is required to provide to stockholders information regarding compensation paid to the Directors by the Fund, as well as by the various other investment companies advised by LMPFA. The following table provides information concerning the compensation paid to each Director by EDF and EMD during the fiscal year ended May 31, 2008 and August 31, 2007, respectively, and the total compensation paid to each Director during the calendar year ended December 31, 2007. Certain of the Directors listed below are members of the Fund s Audit and Nominating Committees, as well as other committees of the boards of certain other investment companies advised by LMPFA. Accordingly, the amounts provided in the table include compensation for service on all such committees. The Fund does not provide any pension or retirement benefits to Directors. In addition, no remuneration was paid during the fiscal year ended May 31, 2008 by the Fund to Mr. Gerken who is an interested person as defined in the 1940 Act.

Name of Directors	Aggregate Compensation from EDF for Fiscal Year Ended 05/31/08	Aggregate Compensation from EMD for Fiscal Year Ended 08/31/07	Total Compensation from the Fund and Fund Complex[1] for Calendar Year Ended 12/31/07	Directorships[2]
Carol L. Colman	$ 9,244	$ 7,186	$ 326,112	22
Daniel P. Cronin	8,377	7,130	192,450	22
Paolo M. Cucchi	8,377	2,547	174,250	22
Leslie H. Gelb	8,795	6,914	178,250	22
William R. Hutchinson	9,377	9,589	368,239	22
Dr. Riordan Roett	8,795	7,186	180,250	22
Jeswald W. Salacuse	11,369	7,324	187,250	22

(1) Fund Complex means two or more Funds (a registrant or, where the registrant is a series company, a separate portfolio of the registrant) that hold themselves out to investors as related companies for purposes of investment and investor services or have a common investment adviser or have an investment adviser that is an affiliated person of the investment adviser of any of the other Funds.

(2) The numbers indicate the applicable number of investment companies in the Fund Complex overseen by that Director as of December 31, 2007.

Responsibilities of the Board of Directors

Each Fund s Board of Directors is responsible for ensuring that each Fund is managed in the best interest of its stockholders. Each Fund s Directors oversee the Fund s business by, among other things, meeting with the Fund s management and evaluating the performance of the Fund s service providers including LMPFA, Western Asset, the custodian and the transfer agent. As part of this process, each Fund s Directors consult with the Fund s independent auditors and with their own separate independent counsel.

Each Fund s Board of Directors has four regularly scheduled meetings each year and additional meetings are scheduled as needed. In addition, each Fund s Board of Directors has an Audit Committee and a Nominating Committee that meet periodically and whose responsibilities are described below.

During EDF s fiscal year ended May 31, 2008, EDF s Board of Directors held four regular meetings and one special meeting. Each Director attended at least 75% of the aggregate number of meetings of the Board and the committees for which he or she was eligible. EDF does not have a formal policy regarding attendance by Directors at annual meetings of stockholders. Mr. Gerken attended EDF s 2007 Annual Meeting of Stockholders.

During EMD s fiscal year ended August 31, 2008, EMD s Board of Directors held four regular meetings and one special meeting. Each Director attended at least 75% of the aggregate number of meetings of the Board and the committees for which he or she was eligible. EMD does not have a formal policy regarding attendance by Directors at annual meetings of stockholders. Mr. Gerken attended EMD s 2007 Annual Meeting of Stockholders.

Each Fund s Directors review the Fund s financial statements, performance and market price as well as the quality of the services being provided to the Fund. As part of this process, the Directors review each Fund s fees and expenses to determine if they are reasonable and competitive in light of the services being received and while also ensuring that the Fund continues to have access to high quality services in the future. Based on these reviews, the Directors of each Fund periodically make suggestions to the Fund s management and monitor to ensure that responsive action is taken. The Directors of each Fund also monitor potential conflicts of interest among the Fund, LMPFA and its affiliates and other funds and clients managed by LMPFA and Western Assets to ensure that the Fund is managed in a manner which is in the best interest of the Fund s stockholders.

The Charter and By-Laws of each Fund provide that the Fund will indemnify its Directors and Officers and may indemnify employees or agents of the Fund against liabilities and expenses incurred in connection with litigation in which they may be involved because of their offices with the Fund to the fullest extent permitted by law. In addition, each Fund s Charter provides that the Fund s Directors and Officers will not be liable to stockholders for money damages, except in limited instances. However, nothing in the Charter or By-Laws of either Fund protects or indemnifies a Director, Officer, employee or agent against any liability he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

Audit Committee

Each Fund s Audit Committee is composed of all Directors who have been determined not to be interested persons of the Fund, LMPFA or its affiliates within the meaning of the 1940 Act, and who are independent as defined in the New York Stock Exchange listing standards. Currently, the Audit Committee of each Fund is composed of Ms. Colman, Messrs. Cronin, Cucchi, Gelb, Hutchinson, Salacuse and Dr. Roett. The principal functions of each Fund s Audit Committee are to (a) oversee the scope of the Fund s audit, the Fund s accounting and financial reporting policies and practices and its internal controls and enhance the quality and objectivity of the audit function; (b) approve, and recommend to the Independent Board Members (as such term is defined in the Audit Committee Charter) for their ratification, the selection, appointment, retention or termination of the Fund s independent registered public accounting firm, as well as approving the compensation thereof; and (c) approve all audit and permissible non-audit services provided to the Fund and certain other persons by the Fund s independent registered public accounting firm. EDF s Committee met five times during the fiscal year ended May 31, 2008, and EMD s met five times during the fiscal year ended August 31, 2007. EDF s Audit Committee Charter was filed as an annex to that Fund s proxy statement dated August 16, 2007, and EMD s Audit Committee Charter was filed as an annex to that fund s proxy statement dated November 2, 2007.

Nominating Committee

Each Fund s Nominating Committee, the principal function of which is to select and nominate candidates for election as Directors of the Fund, is currently composed of Ms. Colman, Messrs. Cronin, Cucchi, Gelb, Hutchinson, Salacuse and Dr. Roett. Only Directors who are not interested persons of the Fund as defined in the 1940 Act and who are independent as defined in the New York Stock Exchange listing standards are members of the Nominating Committee. The Nominating Committee may accept nominees recommended by the stockholder as it deems appropriate. Stockholders who wish to recommend a nominee should send recommendations to the Fund s Secretary that include all information relating to such person that is required to be disclosed in solicitations of proxies for the election of Directors. A recommendation must be accompanied by a written consent of the individual to stand for election if nominated by the Board and to serve if elected by the stockholders. EDF s Nominating Committee met four times during the Fund s fiscal year ended May 31, 2008, and EMD s Nominating Committee met two times during the Fund s fiscal year ended August 31, 2007. EDF s Nominating Committee Charter was filed as an annex to that Fund s proxy statement dated August 16, 2007, and EMD s Nominating Committee Charter was filed as an annex to that Fund s proxy statement dated November 2, 2007.

Each Fund s Nominating Committee identifies potential nominees through its network of contacts, and may also engage, if it deems appropriate, a professional search firm. Each Fund s Nominating Committee meets to discuss and consider such candidates qualifications and then chooses a candidate by majority vote. Neither Nominating Committee has specific, minimum qualifications for nominees and neither has established specific qualities or skills that it regards as necessary for one or more of the Fund s Directors to possess (other than any qualities or skills that

may be required by applicable law, regulation or listing standard). However, as set forth in each Fund s Nominating Committee Charter, in evaluating a person as a potential nominee to serve as a Director of the Fund, the Committee may consider the following factors, among any others it may deem relevant:

whether or not the person is an interested person as defined in the 1940 Act and whether the person is otherwise qualified under applicable laws and regulations to serve as a Director of the Fund;

whether or not the person has any relationships that might impair his or her independence, such as any business, financial or family relationships with Fund management, the investment manager of the Fund, Fund service providers or their affiliates;

whether or not the person serves on boards of, or is otherwise affiliated with, competing financial service organizations or their related mutual fund complexes;

whether or not the person is willing to serve, and willing and able to commit the time necessary for the performance of the duties of a Director of the Fund;

the contribution which the person can make to the Board and the Fund (or, if the person has previously served as a Director of the Fund, the contribution which the person made to the Board during his or her previous term of service), with consideration being given to the person s business and professional experience, education and such other factors as the Committee may consider relevant;

the character and integrity of the person; and

whether or not the selection and nomination of the person would be consistent with the requirements of the Fund s retirement policies.

Officers of the Funds

Each Fund s executive officers are chosen each year at a regular meeting of the Board of the Fund, to hold office until their respective successors are duly elected and qualified. In addition to Mr. Gerken, the Funds Chairman, CEO and President, the executive officers of the Funds currently are:

Name, Address and Age	Position(s) Held with Funds	Length of Time Served	Principal Occupation(s) During Past 5 years
Kaprel Ozsolak Legg Mason 55 Water Street New York, NY 10041 Birth year: 1965	Treasurer and Chief Financial Officer	Since 2007 (EDF) Since 2007 (EMD)	Director of Legg Mason; Chief Financial Officer and Treasurer of certain mutual funds associated with Legg Mason.
Robert I. Frenkel Legg Mason 300 First Stamford Place Stamford, CT 06902 Birth year: 1954	Secretary and Chief Legal Officer)	Since 2003 (EDF) Since 2003 (EMD)	Managing Director and General Counsel of Global Mutual Funds for Legg Mason and its predecessor (since 1994); Secretary and Chief Legal Officer of certain mutual funds associated with Legg Mason.
Ted P. Becker Legg Mason	Chief Compliance Officer	Since 2006 (EDF) Since 2006 (EMD)	Managing Director of Compliance at Legg Mason (2005-Present); Chief Compliance Officer with certain mutual funds associated with Legg Mason (since 2006);

620 Eighth Avenue New York, NY 10018 Birth year: 1951			Managing Director of Compliance at Legg Mason or its predecessors (2002 2005). Prior to 2002, Managing Director-Internal Audit & Risk Review at Citigroup Inc.
Thomas S. Mandia Legg Mason 300 First Stamford Place Stamford, CT 06902 Birth year: 1962	Assistant Secretary	Since 2007 (EDF) Since 2007 (EMD)	Managing Director and Deputy General Counsel of Legg Mason & Co. (since 2005); Managing Director and Deputy General Counsel for Citigroup Asset Management (since 1992); Assistant Secretary of certain mutual funds associated with Legg Mason
Steven Frank Legg Mason 55 Water Street New York, NY 10041 Birth year: 1967	Controller	Since 2007 (EDF) Since 2007 (EMD)	Vice President of Legg Mason (since 2002); Controller of certain funds associated with Legg Mason or its predecessors (since 2005); Formerly, Assistant Controller of certain mutual funds associated with Legg Mason predecessors (from 2001 to 2005)

Name, Address and Age	Position(s) Held with Funds	Length of Time Served	Principal Occupation(s) During Past 5 years
Albert Laskaj Legg Mason 55 Water Street New York, NY 10041 Birth year: 1977	Controller	Since 2007 (EDF) Since 2007 (EMD)	Controller of certain mutual funds associated with Legg Mason (Since 2007); Formerly, Assistant Controller of certain mutual funds associated with Legg Mason (from 2005 to 2007); Formerly, Accounting Manager of certain mutual funds associated with certain predecessor firms of Legg Mason (from 2003 to 2005)

Investment Manager and Sub-Adviser

LMPFA has served as each Fund s investment manager since August 1, 2006. LMPFA, located at 620 Eighth Avenue, New York, NY 10018, is a registered investment adviser that provides administrative and compliance oversight services to each Fund.

Under each Fund s management agreement with LMPFA, subject to the supervision and direction of the Fund s Board, LMPFA is delegated the responsibility of managing the Fund s portfolio in accordance with the Fund s stated investment objectives and policies, making investment decisions for the Fund and placing orders to purchase and sell securities. LMPFA performs administrative and management services necessary for the operation of each Fund, such as (i) supervising the overall administration of the Fund, including negotiation of contracts and fees with and the monitoring of performance and billings of the Fund s transfer agent, stockholder servicing agents, custodian and other independent contractors or agents; (ii) providing certain compliance, Fund accounting, regulatory reporting, and tax reporting services; (iii) preparing or participating in the preparation of Board materials, registration statements, proxy statements and reports and other communications to stockholders; (iv) maintaining the Fund s existence, and (v) maintaining the registration and qualification of the Fund s shares under federal and state laws.

Each Fund s management agreement will continue in effect from year to year provided such continuance is specifically approved at least annually (a) by the Fund s Board or by a majority of the outstanding voting securities of the Fund (as defined in the 1940 Act), and (b) in either event, by a majority of the Independent Directors with such Independent Directors casting votes in person at a meeting called for such purpose. Each Fund s management agreement provides that LMPFA may render services to others. Each Fund s management agreement is terminable without penalty on not more than 60 days nor less than 30 days written notice by the Fund when authorized either by a vote of holders of shares representing a majority of the voting power of the outstanding voting securities of the Fund (as defined in the 1940 Act) or by a vote of a majority of the Fund s Directors, or by LMPFA on not less than 90 days written notice, and will automatically terminate in the event of its assignment. Each Fund s management agreement provides that neither LMPFA nor its personnel shall be liable for any error of judgment or mistake of law or for any loss arising out of any investment or for any act or omission in the execution of security transactions for the Fund, except for willful misfeasance, bad faith or gross negligence or reckless disregard of its or their obligations and duties.

Under EDF s management agreement with LMPFA, the aggregate fees paid for professional services rendered by LMPFA were $3,724,724, $3,781,956 and $3,843,772, for fiscal years ended May 31, 2008, 2007 and 2006, respectively. Under EMD s management agreement with LMPFA, the aggregate fees paid for professional services rendered by LMPFA were $672,713, $709,702 and $723,062, for fiscal years ended August 31, 2007, 2006 and 2005, respectively.

Other than the cash management services it provides for certain equity funds, LMPFA does not provide day-to-day portfolio management services. Rather, portfolio management for each Fund is provided by Western Asset, located at 385 East Colorado Boulevard, Pasadena, California 91101.

Western Asset provides services to each Fund pursuant to a sub-advisory agreement between LMPFA and Western Asset. Under each sub-advisory agreement, subject to the supervision and direction of each Fund s Board and LMPFA, Western Asset will, except for the management of cash and short-term investments that is performed by LMPFA, manage the Fund s portfolio in accordance with the Fund s stated investment objective and policies, assist in supervising all aspects of the Fund s operations, make investment decisions for the Fund, place orders to purchase and sell securities, and employ professional portfolio managers and securities analysts who provide research services to the Fund.

The sub-advisory agreement for each Fund will continue in effect from year to year provided such continuance is specifically approved at least annually (a) by the Board or by a majority of the outstanding voting securities of the Fund (as defined in the 1940 Act), and (b) in either event, by a majority of the Independent Directors with such Independent Directors casting votes in person at a meeting called for such purpose. The Board or a majority of the outstanding voting securities of each Fund (as defined in the 1940 Act) may terminate that Fund s sub-advisory agreement without penalty, in each case on not more than 60 days nor less than 30 days written notice to Western Asset. Western Asset may terminate each sub-advisory agreement on 90 days written notice to the Fund and LMPFA. LMPFA and Western Asset may terminate each sub-advisory agreement upon their mutual written consent. Each sub-advisory agreement will terminate automatically in the event of assignment by Western Asset and shall not be assignable by LMPFA without the consent of Western Asset.

Western Asset Management Company Limited (WAML) is an additional subadviser to each Fund. WAML provides certain advisory services to the Fund relating to currency transactions and investments in non-dollar denominated securities.

LMPFA, Western Asset and WAML are wholly-owned subsidiaries of Legg Mason. Legg Mason, whose principal executive offices are at 100 Light Street, Baltimore, Maryland 21202, is a global asset management company.

EMD pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 1.05% of the Fund s average weekly net assets. Similarly, EDF pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 1.05% of the Fund s average weekly net assets.

For each Fund, LMPFA, and not the Fund, pays sub-advisory fees to Western Asset at the rate of 70% of the management fee paid to LMPFA. In addition, WAML is compensated for its services by Western Asset and not the Funds.

Additional information about the factors considered by the Board of EDF in approving its Investment Management Agreement and Sub-Advisory Agreement will be set forth in EDF s Annual Report to Stockholders for the Fiscal Year ended May 31, 2008. Additional information about the factors considered by the Board of EMD in approving its Investment Management Agreement and Sub-Advisory Agreement is set forth in EMD s Semi-Annual Report to Stockholders for the Semi-Annual Period ending ended February 29, 2008.

Codes of Ethics

Pursuant to Rule 17j-1 under the 1940 Act, each Fund, LMPFA and Western Asset have each adopted codes of ethics that permit their respective personnel to invest in securities for their own accounts, including securities that may be purchased or held by a Fund. All personnel must place the interests of clients first and avoid activities, interests and relationships that might interfere with the duty to make decisions in the best interests of the clients. All personal securities transactions by employees must adhere to the requirements of the codes and must be conducted in such a manner as to avoid any actual or potential conflict of interest, the appearance of such a conflict, or the abuse of an employee s position of trust and responsibility.

When personnel covered by either Fund s Code of Ethics are employed by more than one of the managers affiliated with Legg Mason, those employees may be subject to such affiliate s Code of Ethics adopted pursuant to Rule 17j-1, rather than the Fund s Code of Ethics.

Copies of the Codes of Ethics of the Funds, LMPFA and Western Asset are on file with the SEC.

Proxy Voting Policies

Although individual Directors may not agree with particular policies or votes by LMPFA or Western Asset, each Fund s Board has delegated proxy voting discretion to LMPFA and/or Western Asset, believing that LMPFA and/or Western Asset should be responsible for voting because it is a matter relating to the investment decision making process.

LMPFA delegates the responsibility for voting proxies for each Fund to Western Asset through its contracts with Western Asset. Western Asset will use its own proxy voting policies and procedures to vote proxies. Accordingly, LMPFA does not expect to have proxy voting responsibility for the Funds. Should LMPFA become responsible for voting proxies for any reason, such as the inability of Western Asset to provide investment advisory services, LMPFA shall utilize the proxy voting guidelines established by the most recent subadviser to vote proxies until a new subadviser is retained. In the case of a

material conflict between the interests of LMPFA (or its affiliates if such conflict is known to persons responsible for voting at LMPFA) and either Fund, the Board of Directors of LMPFA shall consider how to address the conflict and/or how to vote the proxies. LMPFA shall maintain records of all proxy votes in accordance with applicable securities laws and regulations, to the extent that LMPFA votes proxies. LMPFA shall be responsible for gathering relevant documents and records related to proxy voting from Western Asset and providing them to the relevant Fund as required for the Fund to comply with applicable rules under the 1940 Act.

LMPFA s Proxy Voting Policy governs in determining how proxies relating to each Fund s portfolio securities are voted and is attached as Appendix C to this Proxy Statement/Prospectus. Information regarding how each Fund voted proxies (if any) relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge (1) by calling 888-425-6432, (2) on the Fund s website at *http://www.leggmason.com/cef* and (3) on the SEC s website at *http://www.sec.gov.*

Portfolio Managers of the Funds

Below is summary information for the Funds portfolio managers. The employees of Western Asset listed below are members of the portfolio management teams of both EDF and EMD.

Name and Address	Length of Time Served	Principal Occupation(s) During Last Five Years
Michael C. Buchanan Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2007 (EDF) Since 2007 (EMD)	Co-portfolio manager of EDF and EMD; Managing Director and head of U.S. Credit Products from 2003 2005 at Credit Suisse Asset Management; Executive Vice President and portfolio manager for Janus Capital in 2003; Managing Director and head of High Yield Trading from 1998 2003 at Blackrock Financial Management.
Matthew C. Duda Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2006 (EDF) Since 2006 (EMD)	Co-portfolio manager of EDF and EMD; Research Analyst at Western Asset Management since 2001; Vice President and Investment Strategist from 1997 2001 at Credit Suisse First Boston Corporation.
Keith J. Gardner Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2006 (EDF) Since 2006 (EMD)	Co-portfolio manager of EDF and EMD; portfolio manager and research analyst at Western Asset since 1994.
S. Kenneth Leech Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2006 (EDF) Since 2006 (EMD)	Co-portfolio manager of EDF and EMD; portfolio manager at Western Asset since 1991; Chief Investment Officer of Western Asset from 1998-2008.
Detlev Schlichter	Since 2007 (EDF)	

Western Asset Limited	Since 2007 (EMD)	Co-portfolio manager of EDF and EMD; portfolio manager at Western Asset since 2001.
10 Exchange Place		
London, England		
Stephen A. Walsh	Since 2006 (EDF)	Co-portfolio manager of EDF and EMD; Chief Investment Officer of Western Asset since 2008; Deputy Chief Investment Officer of Western Asset from 2000-2008.
Western Asset	Since 2006 (EMD)	
385 East Colorado Blvd.		
Pasadena, CA 91101		

Other Accounts Managed by Portfolio Managers

The table below identifies the number of accounts (other than the Funds) for which the Funds portfolio managers have day-to-day management responsibilities and the total assets in such accounts, within each of the following categories: registered investment companies, other pooled investment vehicles and other accounts. For each category, the number of accounts and total assets in the accounts where fees are based on performance is also indicated as of March 31, 2008.

Portfolio Manager	Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts
Michael C. Buchanan	14 registered investment companies with $6.9 billion in total assets under management	8 other pooled investment vehicles with $5.1 billion in assets under management	14 other accounts with $1.0 million in total assets under management
Matthew C. Duda	1 registered investment company with $8.0 million in total assets under management	0 other pooled investment vehicles with $0 billion in total assets under management	0 other accounts with $0 million in total assets under management[2]
Keith J. Gardner	4 registered investment companies with $0.8 billion in total assets under management	6 other pooled investment vehicles with $1.6 billion in assets under management	1 other account with $14.5 million in total assets under management[2]
S. Kenneth Leech[1]	115 registered investment companies with $123.8 billion in total assets under management	262 other pooled investment vehicles with $217.8 billion in assets under management	1,041 other accounts with $290.1 billion in total assets under management[3]
Detlev Schlichter	2 registered investment companies with $234.8 million in total assets under management	29 other pooled investment vehicles with $4.6 billion in assets under management	69 other accounts with $26.9 billion in total assets under management[4]
Stephen A. Walsh[1]	115 registered investment companies with $123.8 billion in total assets under management	262 other pooled investment vehicles with $217.8 billion in assets under management	1,041 other accounts with $290.1 billion in total assets under management[3]

(1) The numbers above reflect the overall number of portfolios managed by employees of Western Asset. Mr. Leech and Mr. Walsh are involved in the management of all the Firm s portfolios, but they are not solely responsible for particular portfolios. Western Asset s investment discipline emphasizes a team approach that combines the efforts of groups of specialists working in different market sectors. They are responsible for overseeing implementation of Western Asset s overall investment ideas and coordinating the work of the various sector teams. This structure ensures that client portfolios benefit from a consensus that draws on the expertise of all team members.

(2) Includes 1 account managed, totaling $14.5 million, for which advisory fee is performance based.

(3) Includes 91 accounts managed, totaling $29.0 billion, for which advisory fee is performance based.

(4) Includes 19 accounts managed, totaling $7.3 billion, for which advisory fee is performance based.

Portfolio Manager Compensation

With respect to the compensation of the portfolio managers, the Manager s compensation system assigns each employee a total compensation target and a respective cap, which are derived from annual market surveys that benchmark each role with their job function and peer universe. This method is designed to reward employees with total compensation reflective of the external market value of their skills, experience, and ability to produce desired results.

Standard compensation includes competitive base salaries, generous employee benefits, and a retirement plan. In addition, employees are eligible for bonuses. These are structured to closely align the interests of employees with those of the Manager, and are determined by the professional s job function and performance as measured by a formal review process. All bonuses are completely discretionary. One of the principal factors considered is a portfolio manager s investment

performance versus appropriate peer groups and benchmarks. Because portfolio managers are generally responsible for multiple accounts (including the Funds) with similar investment strategies, they are compensated on the performance of the aggregate group of similar accounts, rather than a specific account. A smaller portion of a bonus payment is derived from factors that include client service, business development, length of service to the Manager, management or supervisory responsibilities, contributions to developing business strategy and overall contributions to the Manager s business.

Finally, in order to attract and retain top talent, all professionals are eligible for additional incentives in recognition of outstanding performance. These are determined based upon the factors described above and include Legg Mason stock options and long-term incentives that vest over a set period of time past the award date.

Potential Conflicts of Interest

Potential conflicts of interest may arise in connection with the management of multiple accounts (including accounts managed in a personal capacity). These could include potential conflicts of interest related to the knowledge and timing of a Fund s trades, investment opportunities and broker selection. Portfolio managers may be privy to the size, timing and possible market impact of a Fund s trades.

It is possible that an investment opportunity may be suitable for both a Fund and other accounts managed by a portfolio manager, but may not be available in sufficient quantities for both the Fund and the other accounts to participate fully. Similarly, there may be limited opportunity to sell an investment held by a Fund and another account. A conflict may arise where the portfolio manager may have an incentive to treat an account preferentially as compared to a Fund because the account pays a performance-based fee or the portfolio manager, the Manager or an affiliate has an interest in the account. The Manager has adopted procedures for allocation of portfolio transactions and investment opportunities across multiple client accounts on a fair and equitable basis over time. All eligible accounts that can participate in a trade share the same price on a pro-rata allocation basis in an attempt to mitigate any conflict of interest. Trades are allocated among similarly managed accounts to maintain consistency of portfolio strategy, taking into account cash availability, investment restrictions and guidelines, and portfolio composition versus strategy.

With respect to securities transactions for the Funds, the Manager or an affiliate determines which broker or dealer to use to execute each order, consistent with its duty to seek best execution of the transaction. However, with respect to certain other accounts (such as pooled investment vehicles that are not registered investment companies and other accounts managed for organizations and individuals), the Manager may be limited by the client with respect to the selection of brokers or dealers or may be instructed to direct trades through a particular broker or dealer. In these cases, trades for a Fund in a particular security may be placed separately from, rather than aggregated with, such other accounts. Having separate transactions with respect to a security may temporarily affect the market price of the security or the execution of the transaction, or both, to the possible detriment of a Fund or the other account(s) involved. Additionally, the management of multiple Funds and/or other accounts may result in a portfolio manager devoting unequal time and attention to the management of each Fund and/or other account.

It is theoretically possible that portfolio managers could use information to the advantage of other accounts they manage and to the possible detriment of a Fund. For example, a portfolio manager could short sell a security for an account immediately prior to a Fund s sale of that security. To address this conflict, the Manager or an affiliate has adopted procedures for reviewing and comparing selected trades of alternative investment accounts (which may make directional trades such as short sales) with long only accounts (which include the Funds) for timing and pattern related issues. Trading decisions for alternative investment and long only accounts may not be identical even though the same portfolio manager may manage both types of accounts. Whether the Manager or an affiliate allocates a particular investment opportunity to only alternative investment accounts or to alternative investment and long only accounts will depend on the investment strategy being implemented. If, under the circumstances, an investment opportunity is appropriate for both its alternative investment and long only accounts, then it will be allocated to both on a pro-rata basis.

A portfolio manager may also face other potential conflicts of interest in managing a Fund, and the description above is not a complete description of every conflict of interest that could be deemed to exist in managing both a Fund and the other accounts listed above.

Portfolio Manager Securities Ownership

The table below identifies the dollar range of securities beneficially owned by the portfolio managers of each Fund as of March 31, 2008.

Portfolio Manager	Dollar Range[(1)] of EDF Securities Beneficially Owned	Dollar Range[(1)] of EMD Securities Beneficially Owned	Aggregate Dollar Range[(1)] of Fund Securities Beneficially Owned
Michael C. Buchanan	A	A	A
Matthew C. Duba	A	A	A
Keith J. Gardner	A	A	A
S. Kenneth Leech	C	C	D
Detlev Schlichter	A	A	A
Stephen A. Walsh	A	A	A

(1) The dollar ranges are as follows: A = None; B = $1-$10,000; C = $10,001-$50,000; D = $50,001-$100,000; E = Over $100,000.

ADDITIONAL INFORMATION ABOUT THE FUNDS

EDF has operated under two additional names in the past five years. Prior to September 25, 2006, EDF operated under the name Salomon Brothers Emerging Markets Income Fund II Inc, and prior to December 9, 2003, under the name of The Emerging Markets Income Fund II Inc. EMD has operated under one additional name in the past five years. Prior to September 25, 2006, EMD operated under the name Salomon Brothers Emerging Markets Income Fund Inc.

Legg Mason, LMPFA and Western Asset, affiliates of Legg Mason, have a financial interest in the Merger because their respective fees under agreements with EDF generally increase as the amount of the assets of EDF increase, and the amount of those assets will increase as a result of the Merger (although this increase in assets is expected to be offset by the concomitant loss of EMD s assets).

Further information about EDF is included in its Annual Report to Stockholders for the Fiscal Year Ended May 31, 2008, filed with the SEC on August 7, 2008, and further information about EMD is included in its Annual Report to Stockholders for the Fiscal Year Ended August 31, 2007, filed with the SEC on November 8, 2007, and its Semi-Annual Report to Stockholders for the Semi-Annual Period Ended February 29, 2008, filed with the SEC on May 5, 2008. Copies of these documents, the SAI related to this Proxy Statement/Prospectus and any subsequently released stockholder reports are available upon request and without charge, by writing to the Funds at 55 Water Street, New York, New York 10041, by visiting the Funds website at *www.leggmason.com/cef* or by calling the Funds at 888-777-0102.

The Funds are subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith, file reports and other information including proxy material, reports and charter documents with the SEC. These reports and other information can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, NE, Washington, DC 20549. Reports and other information about each Fund are available on the Edgar Database on the SEC s website at *www.sec.gov*. Copies of such material can also be obtained from the Public Reference Branch, Office of Consumer Affairs and Information Services, SEC, 100 F Street, NE, Washington, DC 20549 at prescribed rates. You may obtain information about the operation of the Public Reference Room by calling the SEC at 202-551-8090.

Financial Highlights

The financial highlights tables are intended to help you understand the performance of each Fund for the past five years. Certain information reflects financial results for a single share. Total return represents the rate that a stockholder would have earned (or lost) on a Fund share assuming reinvestment of all dividends and distributions. The information in the following tables has been derived from the Funds financial statements, which, for the fiscal years ended 2005, 2006, 2007 and 2008 have been audited by KPMG LLP (KPMG), an independent registered public accounting firm, whose reports, along with the Funds financial statements, are included in the Funds annual reports (available upon request). Financial highlights presented for periods ended prior to May 31, 2005 for EDF and prior to August 31, 2005 for EMD have been audited by other independent registered public accountants. The financial highlights of EMD for the six-month period ended February 29, 2008 are unaudited.

Financial Highlights for EDF (Acquiring Fund)

For a share of capital stock outstanding throughout each year ended May 31, unless otherwise noted:

	2008[1]	2007	2006	2005[1]	2004[1]
Net Asset Value, Beginning of Year	$ 15.00	$ 14.34	$ 14.72	$ 12.84	$ 13.88
Income (Loss) From Operations:					
Net investment income	0.90	0.81	0.98	1.15	1.26
Net realized and unrealized gain (loss)	(0.25)	1.18	0.35	2.37	(0.65)
Total Income From Operations	0.65	1.99	1.33	3.52	0.61
Less Distributions From:					
Net investment income	(0.77)	(0.68)	(0.78)	(1.41)	(1.06)
Net realized gains	(0.36)	(0.65)	(0.93)	(0.24)	(0.59)
Total Distributions	(1.13)	(1.33)	(1.71)	(1.65)	(1.65)
Increase in Net Asset Value Due to Shares Issued on Reinvestment of Distributions				0.01	
Net Asset Value, End of Year	$ 14.52	$ 15.00	$ 14.34	$ 14.72	$ 12.84
Market Price, End of Year	$ 13.41	$ 13.82	$ 12.57	$ 13.57	$ 14.40
Total Return, Based on NAV[2,3]	4.62%	14.46%	9.12%	29.20%	4.11%
Total Return, Based on Market Price[3]	5.86%	21.77%	5.05%	5.27%	3.38%
Net Assets, End of Year (000s)	$ 354,852	$ 366,393	$ 350,372	$ 359,610	$ 311,714
Ratios to Average Net Assets:					
Gross expenses	1.53%	1.27%	1.83%	2.22%	1.98%
Gross expenses, excluding interest expense	1.28	1.18	1.17	1.19	1.21
Net expenses	1.53	1.27[4]	1.82[4]	2.22	1.98
Net expenses, excluding interest expense	1.28	1.18[4]	1.17[4]	1.19	1.21
Net investment income	6.21	5.47	6.06	8.29	9.19
Portfolio Turnover Rate	45%	87%	98%	75%	169%
Supplemental Data:					
Loans Outstanding, End of Year (000s)	[5]	[5]	$ 30,000	$ 55,000	$ 100,000
Asset Coverage (000s)	[5]	[5]	$ 380,372	$ 414,610	$ 411,714
Asset Coverage for Loan Outstanding	[5]	[5]	1,268%	754%	412%
Weighted Average Loan (000s)	[5]	$ 904	$ 38,767	$ 74,192	$ 100,000
Weighted Average Interest Rate on Loans	[5]	5.22%[5]	5.16%	3.34%	2.19%

[1] Per share amounts have been calculated using the average shares method.

2 Performance figures may reflect fee waivers and/or expense reimbursements. In the absence of fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results.

3 The total return calculation assumes that distributions are reinvested in accordance with the Fund s dividend reinvestment plan. Past performance is no guarantee of future results.

4 Reflects fee waivers and/or expense reimbursements.

5 At May 31, 2008 and May 31, 2007 EDF did not have an outstanding loan.

Financial Highlights for EMD (Target Fund)

For a share of capital stock outstanding throughout each year ended August 31, unless otherwise noted:

	2008[1]	2007	2006	2005	2004[2]	2003[2]
Net Asset Value, Beginning of Period	$ 14.55	$ 15.66	$ 17.50	$ 16.16	$ 15.56	$ 11.80
Income (Loss) From Operations:						
Net investment income	0.43	0.84	0.98	1.26	1.35	1.54
Net realized and unrealized gain (loss)	0.43	(0.07)	0.39	1.77	0.90	3.87
Total Income From Operations	0.86	0.77	1.37	3.03	2.25	5.41
Less Distributions From:						
Net investment income	(0.11)	(0.85)	(1.40)	(1.69)	(0.60)	(1.65)
Net realized gains	(0.52)	(1.03)	(1.81)		(1.05)	
Total Distributions	(0.63)	(1.88)	(3.21)	(1.69)	(1.65)	(1.65)
Net Asset Value, End of Period	$ 14.78	$ 14.55	$ 15.66	$ 17.50	$ 16.16	$ 15.56
Market Price, End of Period	$ 13.29	$ 13.28	$ 15.29	$ 17.58	$ 17.56	$ 16.80
Total Return, Based on NAV[3][4]	6.02%	4.99%	8.74%	19.94%	15.26%	48.99%
Total Return, Based on Market Price[4]	5.00%	(1.70)%	5.84%	10.14%	15.33%	53.82%
Net Assets, End of Period (000s)	$ 62,279	$ 61,335	$ 65,739	$ 72,773	$ 66,821	$ 63,824
Ratios to Average Net Assets:						
Gross expenses	1.76%	1.75%	2.10%	2.46%	2.24%	2.72%
Gross expenses, excluding interest expense	1.57	1.52	1.46	1.44	1.55	1.83
Net expenses	1.76	1.75[5]	2.10[5]	2.46	2.24	2.72
Net expenses, excluding interest expense	1.57	1.52[5]	1.46[5]	1.44	1.55	1.83
Net investment income	5.89	5.52	5.59	7.59	8.45	11.16
Portfolio Turnover Rate	15%	90%	90%	88%	110%	179%
Supplemental Data:						
Loans Outstanding, End of Period (000s)	[6]	[6]	[6]	$ 16,000	$ 20,000	$ 20,000
Weighted Average Loan (000s)	[6]	[6]	$ 7,771[6]	$ 18,707	$ 20,000	$ 20,000
Weighted Average Interest Rate on Loans	[6]	[6]	5.54%[6]	3.58%	2.27%	2.51%

(1) For the six months ended February 29, 2008 (unaudited).

(2) Per share amounts have been calculated using the average shares method.

(3) Performance figures may reflect fee waivers and/or expense reimbursements. In the absence of fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results. Total Returns for periods of less than one year are not annualized.

(4) The total return calculation assumes that distributions are reinvested in accordance with the Fund s dividend reinvestment plan. Past performance is no guarantee of future results. Total Returns for periods of less than one year are not annualized.

(5) Reflects fee waivers and/or expense reimbursements.

(6) At February 29, 2008, August 31, 2007 and August 31, 2006, EMD did not have an outstanding loan.

Management s Discussion of Fund Performance

The discussion of performance for EDF is dated as of May 31, 2008 and does not reflect developments occurring after that date.

Q. What were the overall market conditions during EDF s reporting period?

A. During the fiscal year, the U.S. bond market experienced periods of increased volatility. Changing perceptions regarding the economy, inflation and future Federal Reserve Board (Fed) monetary policy caused bond prices to fluctuate. Two- and 10-year Treasury yields began the reporting period at 4.92% and 4.90%, respectively. Treasury yields then moved higher as incoming economic data improved and inflationary pressures increased. By mid-June 2007, two- and 10-year Treasurys were yielding 5.10% and 5.26%, respectively, and market sentiment was that the Fed s next move would be to raise interest rates.

However, after their June peaks, Treasury yields moved lower, as concerns regarding the subprime mortgage market and a severe credit crunch triggered a massive flight to quality. Investors were drawn to the relative safety of Treasurys, causing their yields to fall and their prices to rise. At the same time, increased investor risk aversion caused other segments of the bond market to falter. As conditions in the credit market worsened in August 2007, central banks around the world took action by injecting approximately $500 billion of liquidity into the financial system. Additionally, the Fed began lowering the discount rate and the federal funds rate in August and September 2007, respectively. While this initially helped ease the credit crunch, continued subprime mortgage write-offs and weak economic data triggered additional flights to quality in November 2007 and the first quarter of 2008. As of May 31, 2008, two- and 10-year Treasury yields had fallen to 2.66% and 4.06%, respectively. While the Fed attempted to stimulate growth by cutting short-term interest rates from 5.25% to 2.00% over the course of the reporting period, by the end of May, it was generally assumed that the U.S. could be headed for a mild recession.

Emerging market debt also experienced periods of volatility during the 12-month reporting period. However, all told, the asset class generated solid results, with the JPMorgan Emerging Markets Bond Index Global (EMBI Global) returning 5.13% during the 12 months ended May 31, 2008. Despite periodic flights to quality, emerging market debt prices benefited due to solid underlying fundamentals, including stronger balance sheets, high commodity prices and solid domestic spending.

Q. How did we respond to these changing market conditions?

A. Our disciplined investment process did not change in response to market conditions. Emerging market debt continues to trade at relatively stable prices compared to the volatility of Treasurys, as well as other riskier asset classes. We believe that the ability to integrate fundamental research with rigorous relative value analysis drives performance in our portfolios. This is the basis of each investment and does not change regardless of market conditions. We remained committed to a value approach.

Performance Review

For the 12 months ended May 31, 2008, EDF returned 4.62% based on its NAV and 5.86% based on its NYSE market price per share. In comparison, EDF s unmanaged benchmark, the EMBI Global, returned 5.13% and its Lipper Emerging Markets Debt Closed-End Funds Category Average increased 2.81% over the same time frame. Please note that Lipper performance returns are based on each fund s NAV.

During the 12-month period ended May 31, 2008, EDF made distributions to stockholders totaling $1.13 per share. The performance table shows EDF s 12-month total return based on its NAV and market price as of May 31, 2008. **Past performance is no guarantee of future results.**

Performance Snapshot as of May 31, 2008 (unaudited)

Price Per Share	12-Month Total Return
EDF (Acquiring Fund)	
$14.52 (NAV)	4.62%
$13.41 (Market Price)	5.86%

All figures represent past performance and are not a guarantee of future results.

Total returns are based on changes in NAV or market price, respectively. Total returns assume the reinvestment of all distributions, in additional shares.

Q. What were the leading contributors to EDF s performance?

A. Diversifying EDF s portfolio into local currency sovereign debt was a major contributor to performance, as the U.S. dollar lost value against a large number of emerging market currencies. The U.S. dollar continued to trade under pressure in response to the Fed slashing rates and one of the worst financial market crises in memory. In contrast, growth remained strong in the emerging world and ongoing fundamental improvement put further upward pressure on currencies to appreciate. Relative to EDF s benchmark, an overweight exposure to Brazil and Russia also had a positive impact on EDF s performance. Brazil s debt was upgraded to investment grade, which drove a strong rally in Brazilian debt in both the external and local markets.

Q. What were the leading detractors from performance?

A. An emphasis on corporate bonds of companies headquartered in the emerging world was a small detractor from results. With the rise of the credit crisis in the U.S. and Europe, corporate bond spreads widened relative to their sovereign counterparts in all countries. The discount on some of these bonds steepened in response to the flight to quality. However, the discount partially reversed in the final months of the reporting period. That said, the rally was not significant enough to recoup the losses experienced during the second half of 2007 and the first quarter of 2008. A modest overweight to Argentina also detracted from performance as rising political tensions, increasing suspicion over the validity of inflation data and general risk aversion towards this higher-risk country put Argentine bond prices under pressure.

Q. Were there any significant changes to EDF during the reporting period?

A. EDF increased its allocation to local currency sovereign bonds and U.S. dollar-denominated corporate bonds.

Net Asset Value, Market Price and Premium/Discount

Common shares of closed-end investment companies, such as the Funds, have frequently traded at a discount from net asset value, or in some cases trade at a premium. Shares of closed-end investment companies investing primarily in fixed income securities tend to trade on the basis of income yield on the market price of the shares and the market price may also be affected by trading volume, general market conditions and economic conditions and other factors beyond the control of the fund. As a result, the market price of each Fund s Common Shares may be greater or less than the net asset value per share. Since the commencement of each Fund s operations, each Fund s Common Shares have traded in the market at prices that were generally below net asset value per share.

The following tables set forth the high and low sales prices for EDF Common Shares and EMD Common Shares on the NYSE, the net asset value per share and the discount or premium to net asset value per share represented by the quotation for each quarterly period during the last two calendar years.

EDF (Acquiring Fund)

Fiscal Year End is May 31

	Quarterly High Price			Quarterly Low Price		
Quarter Ended	**Net Asset Value Per Share**	**NYSE Price**	**Premium/ (Discount)**	**Net Asset Value Per Share**	**NYSE Price**	**Premium/ (Discount)**
6/30/06	$ 14.71	$ 13.17	(10.469)%	$ 13.82	$ 12.10	(12.446)%
9/30/06	14.83	12.89	(13.082)	14.24	12.31	(13.553)
12/31/06	15.22	13.42	(11.827)	14.69	12.62	(14.091)
3/31/07	14.82	12.98	(12.416)	14.82	12.56	(15.250)
6/30/07	15.07	13.86	(8.029)	14.79	12.96	(12.373)
9/30/07	14.60	13.25	(9.247)	13.96	11.51	(17.550)
12/31/07	14.55	13.13	(9.759)	14.41	12.19	(15.406)
3/31/08	14.52	13.17	(9.298)	14.28	12.34	(13.585)
6/30/08	14.50	13.56	(7.418)	14.01	12.34	(11.920)

EMD (Target Fund)

Fiscal Year End is August 31

	Quarterly High Price			Quarterly Low Price		
Quarter Ended	Net Asset Value Per Share	NYSE Price	Premium/ (Discount)	Net Asset Value Per Share	NYSE Price	Premium/ (Discount)
6/30/06	$ 15.45	$ 15.93	3.107%	$ 14.67	$ 13.96	(4.840)%
9/30/06	15.69	15.40	(1.848)	14.94	14.26	(4.552)
12/31/06	15.98	17.23	7.822	15.52	15.00	(3.351)
3/31/07	15.10	15.48	2.517	15.20	14.52	(4.474)
6/30/07	15.35	14.88	(3.062)	14.75	14.03	(4.881)
9/30/07	14.85	14.35	(3.367)	14.18	11.63	(17.983)
12/31/07	14.74	13.31	(9.701)	14.57	12.32	(15.443)
3/31/08	14.70	13.33	(9.320)	14.38	12.42	(13.630)
6/30/08	14.62	13.58	(7.114)	14.09	12.48	(11.568)

On June 30, 2008, the net asset value per share of EDF was $14.50 and the closing price of EDF Common Shares on the NYSE was $13.56, meaning EDF Common Shares were trading at a (7.418)% discount to EDF s net asset value per share. Also on June 30, 2008, the net asset value per share of EMD was $14.62 and the closing price of EMD Common Shares on the NYSE was $13.58, meaning that EMD Common Shares were trading at a (7.114)% discount to EMD s net asset value per share.

CAPITALIZATION

The following table sets forth the unaudited capitalization of each Fund as of the date set out below, and on a pro forma basis as of that date, giving effect to the proposed acquisition of assets at net asset value. The pro forma capitalization information is for informational purposes only. No assurance can be given as to how many shares of EDF will be received by stockholders of EMD on the Closing Date, and the information should not be relied upon to reflect the number of shares of EDF that actually will be received.

The following table sets out the effect of the proposed acquisition of assets at net asset value on a pro forma basis:

Pro Forma Combined Capitalization Table

As of May 31, 2008 (Unaudited)

	EDF (Acquiring Fund)	EMD (Target Fund)	Pro Forma Adjustments	Pro Forma Combined Fund
Total Net Assets	$ 354,851,619	$ 61,752,203	$ (40,000)[1]	$ 416,563,822
Shares Outstanding	24,432,561	4,214,736	37,087	28,684,384
Net Asset Value	$ 14.52	$ 14.65		$ 14.52

(1) Reflects adjustments for estimated reorganization expenses of $40,000 related to the Target and Acquiring Funds.

For more information about the Funds capital stock, see Description of the Funds Capital Stock.

PORTFOLIO COMPOSITION

As of March 31, 2008, approximately 96.12% of the market value of EDF s portfolio was invested in long-term securities and approximately 3.88% was invested in short-term securities.

S&P[1]	Moody s[1]	Number of Issues	Market Value	Percent
AAA	Aaa	14	$ 7,873,194.02	2.18%
AA+, AA, AA-	Aa1, Aa, Aa2, Aa3			
A+,A, A-	A1, A, A2, A3	12	$ 42,067,143.83	11.65%
BBB+, BBB, BBB-	Baa1, Baa, Baa2, Baa3	26	$ 103,283,500.74	28.60%
Below Investment Grade	Below Investment Grade	66	$ 207,894,910.40	57.57%
Total		118	$ 361,118,748.99	100%

(1) Ratings: using the higher of S&P or Moody s rating.

As of March 31, 2008, approximately 97.21% of the market value of EMD s portfolio was invested in long-term securities and approximately 2.79% was invested in short-term securities.

S&P[1]	Moody s[1]	Number of Issues	Market Value	Percent
AAA	Aaa	12	$ 713,182.14	1.12%
AA+, AA, AA-	Aa1, Aa, Aa2, Aa3			
A+, A, A-	A1, A, A2, A3	11	$ 6,467,892.59	10.18%
BBB+, BBB, BBB-	Baa1, Baa, Baa2, Baa3	23	$ 17,676,582.81	27.83%
Below Investment Grade	Below Investment Grade	59	$ 38,666,285.47	60.87%
Total		105	$ 63,523,943.01	100%

(1) Ratings: using the higher of S&P or Moody s rating.

PORTFOLIO TRANSACTIONS

Neither Fund has an obligation to deal with any brokers or dealers in the execution of transactions in portfolio securities. Subject to policy established by the Board, the Manager is responsible for each Fund s portfolio decisions and the placing of a Fund s portfolio transactions.

Portfolio securities normally will be purchased or sold from or to dealers serving as market makers for the securities at a net price, which may include dealer spreads and underwriting commissions. In placing orders, it is the policy of each Fund to obtain the best results taking into account the general execution and operational facilities of the broker or dealer, the type of transaction involved and other factors such as the risk of the broker or dealer in positioning the securities involved. While the Manager generally seeks the best price in placing its orders, neither Fund may necessarily be paying the lowest price available. Subject to seeking the best price and execution, securities firms which provide supplemental research to the Manager may receive orders for transactions by the Fund. Information so received will be in addition to and not in lieu of the services required to be performed by the Manager under each Fund s management agreement, and the expenses of the Manager will not necessarily be reduced as a result of the receipt of such supplemental information.

Each Fund expects that all portfolio transactions will be effected on a principal basis and, accordingly, does not expect to pay any brokerage commissions. To the extent a Fund does effect brokerage transactions, affiliated persons (as such term is defined in the 1940 Act) of the Fund, or affiliated persons of such persons, may from time to time be selected to perform brokerage services for the Fund, subject to the considerations discussed above, but are prohibited by the 1940 Act from dealing with the Fund as principal in the purchase or sale of securities. In order for such an affiliated person to be permitted to effect any portfolio transactions for a Fund, the commissions, fees or other remuneration received by such affiliated person must be reasonable and fair compared to the commissions, fees or other remuneration received by other brokers in connection with comparable transactions involving similar securities being purchased or sold during a comparable period of time. This standard would allow such an affiliated person to receive no more than the remuneration which would be expected to be received by an unaffiliated broker in a commensurate arm s-length transaction.

Investment decisions for each Fund are made independently from those for other funds and accounts advised or managed by the Manager or an affiliate. Such other funds and accounts may also invest in the same securities as the Funds. When a purchase or sale of the same security is made at substantially the same time on behalf of a Fund and another fund or account, the transaction will be averaged as to price, and available investments allocated as to amount, in a manner which the Manager believes to be equitable to the Fund and such other fund or account. In some instances, this investment procedure may adversely affect the price paid or received by a Fund or the size of the position obtained or sold by the Fund. To the extent permitted by law, the Manager may aggregate the securities to be sold or purchased for the Fund with those to be sold or purchased for other funds and accounts in order to obtain best execution.

Although neither Fund has any restrictions on portfolio turnover, it is neither Fund s policy to engage in transactions with the objective of seeking profits from short-term trading. It is expected that the annual portfolio turnover rate of the Funds will not exceed 200%. The portfolio turnover rate is calculated by dividing the lesser of sales or purchases of portfolio securities by the average monthly value of a Fund s portfolio securities. For purposes of this calculation, portfolio securities exclude all securities having a maturity when purchased of one year or less. A high rate of portfolio turnover involves correspondingly greater transaction costs than a lower rate, which costs are borne by the Funds and their stockholders.

DIVIDENDS AND DISTRIBUTIONS

Distributions

General

Each Fund intends to distribute its net investment (ordinary) income on a quarterly basis. At least annually, each Fund intends to distribute all of its net realized capital gains, if any. For each Fund, both monthly and annual distributions to holders of Common Shares will be made only after making interest and required principal payments on borrowings, if any, or paying any accrued dividends on, or redeeming or liquidating, any Fund Preferred Shares.

From time to time, each Fund may distribute less than the entire amount of net investment income earned in a particular period, which amount may be available to supplement future distributions. As a result, the distributions paid by a Fund for any particular quarterly period may be more or less than the amount of net investment income actually earned by the Fund during the period and the Fund may have to sell a portion of its investment portfolio to make a distribution at a time when independent investment judgment might not dictate such action. Undistributed net investment income is included in the net asset value of a Fund s Common Shares and, correspondingly, distributions from net investment income will reduce the Common Shares net asset value. In addition, the terms of any borrowings or Fund Preferred Shares (if issued) may prohibit a Fund from making distributions in the amount or at the time that it otherwise would.

Managed Distribution Policy [EDF and EMD]

On August 15, 2007, each Fund s Board of Directors adopted a managed distribution policy. Under each Fund s managed distribution policy, each Fund seeks to maintain a consistent distribution level, stated as a fixed-rate per common share per month, that may be paid in part or in full from net investment income and realized capital gains, or a combination thereof. Stockholders should note, however, that if each Fund s aggregate net investment income and net realized capital gains are less than the amount of the new distribution level, the difference will be distributed from the Fund s assets and will constitute a return of the stockholder s capital. A return of capital is not taxable; rather it reduces a stockholder s tax basis in his or her shares of a Fund.

Each Fund s Board of Directors may terminate or suspend that Fund s managed distribution policy at any time. Any such termination or suspension could have an adverse effect on the market price of a Fund s common shares.

Dividend Reinvestment and Cash Purchase Plan [EDF and EMD]

Each holder of common stock of each respective Fund (the Plan Shares), will be deemed to have elected to be a participant in each respective Amended and Restated Dividend Reinvestment and Cash Purchase Plan (the Plan), unless the shareholder specifically elects in writing (addressed to the Agent, at the address below or to any nominee who holds Plan Shares for the shareholder in its name) to receive all distributions in cash, paid by check, mailed directly to the record holder by or under the direction of American Stock Transfer & Trust Company as each Fund s dividend-paying agent (Agent). A holder whose Plan Shares are held in the name of a broker or nominee who does not provide an automatic reinvestment service may be required to take such Plan Shares out of street name and register such Plan Shares in the shareholder s name in order to participate, otherwise distributions will be paid in cash to such shareholder by the broker or nominee. Each participant in the

Plan is referred to herein as a Participant. The Agent will act as agent for each Participant, and will open accounts for each Participant under the Plan in the same name as their Plan Shares are registered.

Unless either Fund declares a distribution payable only in the form of cash, the Agent will apply all distributions in the manner set forth below.

If, on the determination date, the market price per Plan Share equals or exceeds the net asset value per Plan Share on that date (such condition, a market premium), the Agent will receive distribution in newly issued Plan Shares of the respective Fund on behalf of Participants. If, on the determination date, the net asset value per Plan Share exceeds the market price per Plan Share (such condition, a market discount), the Agent will purchase Plan Shares in the open-market. The determination date will be the fourth NYSE trading day (a NYSE trading day being referred to herein as a Trading Day) preceding the payment date for the distribution. For purposes herein, market price will mean the average of the highest and lowest prices at which the Plan Shares sell on NYSE on the particular date, or if there is no sale on that date, the average of the closing bid and asked quotations.

Purchases made by the Agent will be made as soon as practicable commencing on the Trading Day following the determination date and terminating no later than 30 days after the distribution payment date except where temporary curtailment or suspension of purchase is necessary to comply with applicable provisions of federal securities law; provided, however, that such purchases will, in any event, terminate on the earlier of (i) 60 days after the distribution payment date and (ii) the Trading Day prior to the ex-dividend date next succeeding the distribution payment date.

If (i) the Agent has not invested the full distribution amount in open-market purchases by the date specified in paragraph 4 above as the date on which such purchases must terminate or (ii) a market discount shifts to a market premium during the purchase period, then the Agent will cease making open-market purchases and will receive the uninvested portion of the distribution amount in newly issued Plan Shares (x) in the case of (i) above, at the close of business on the date the Agent is required to terminate making open-market purchases as specified above or (y) in the case of (ii) above, at the close of business on the date such shift occurs; but in no event prior to the payment date for the distribution.

In the event that all or part of a distribution amount is to be paid in newly issued Plan Shares, such Plan Shares will be issued to Participants in accordance with the following formula: (i) if, on the valuation date, the net asset value per Plan Share is less than or equal to the market price per Plan Share, then the newly issued Plan Shares will be valued at net asset value per Plan Share on the valuation date; provided, however, that if the net asset value is less than 95% of the market price on the valuation date, then such Plan Shares will be issued at 95% of the market price and (ii) if, on the valuation date, the net asset value per Plan Share is greater than the market price per Plan Share, then the newly issued Plan Shares will be issued at the market price on the valuation date. The valuation date will be the distribution payment date, except that with respect to Plan Shares issued pursuant to the paragraph above, the valuation date will be the date such Plan Shares are issued. If a date that would otherwise be a valuation date is not a Trading Day, the valuation date will be the next preceding Trading Day.

Participants have the option of making additional cash payments to the Agent, monthly, in a minimum amount of $250, for investment in Plan Shares. The Agent will use all such funds received from Participants to purchase Plan Shares in the open market on or about the first business day of each month. To avoid unnecessary cash accumulations, and also to allow ample time for receipt and processing by the Agent, Participants should send in voluntary cash payments to be received by the Agent approximately 10 days before an applicable purchase date specified above. A Participant may withdraw a voluntary cash payment by written notice, if the notice is received by the Agent not less than 48 hours before such payment is to be invested.

Purchases by the Agent pursuant to paragraphs 4 and 7 above may be made on any securities exchange on which the Plan Shares are traded, in the over-the-counter market or in negotiated transactions, and may be on such terms as to price, delivery and otherwise as the Agent shall determine. Funds held by the Agent uninvested will not bear interest, and it is understood that, in any event, the Agent shall have no liability in connection with any inability to purchase Plan Shares within the time periods herein provided, or with the timing of any purchases effected. The Agent shall have no responsibility as to the value of the Plan Shares acquired for the Participant s account. The Agent may commingle amounts of all Participants to be used for open-market purchases of Plan Shares and the price per Plan Share allocable to each Participant in connection with such purchases shall be the average price (including brokerage commissions) of all Plan Shares purchased by the Agent.

The Agent will maintain all Participants accounts in the Plan and will furnish written confirmations of all transactions in each account, including information needed by Participants for personal and tax records. The Agent will hold Plan Shares acquired pursuant to the Plan in noncertificated form in the Participant s name or that of its nominee, and each Participant s proxy will include those Plan Shares purchased pursuant to the Plan. The Agent will forward to Participants any proxy solicitation material and will vote any Plan Shares so held for Participants only in accordance with the proxy returned by Participants to each respective Fund. Upon written request, the Agent will deliver to Participants, without charge, a certificate or certificates for the full Plan Shares.

The Agent will confirm to Participants each acquisition made for their respective accounts as soon as practicable but not later than 60 days after the date thereof. Although Participants may from time to time have an undivided fractional interest (computed to three decimal places) in a Plan Share of each respective Fund, no certificates for fractional shares will be issued. Dividends and distributions on fractional shares will be credited to each Participant s account. In the event of termination of a Participant s account under the Plan, the Agent will adjust for any such

undivided fractional interest in cash at the market value of each Fund s Plan Shares at the time of termination less the pro rata expense of any sale required to make such an adjustment.

Any share dividends or split shares distributed by either Fund on Plan Shares held by the Agent for Participants will be credited to their respective accounts. In the event that either Fund makes available to Participants rights to purchase additional Plan Shares or other securities, the Plan Shares held for Participants under the Plan will be added to other Plan Shares held by the Participants in calculating the number of rights to be issued to Participants.

The Agent s service fee for handling distributions will be paid by each respective Fund. Participants will be charged a pro rata share of brokerage commissions on all open-market purchases.

Participants may terminate their accounts under the Plan by notifying the Agent in writing. Such termination will be effective immediately if notice is received by the Agent not less than 10 days prior to any distribution record date; otherwise such termination will be effective on the first Trading Day after the payment date for such distribution with respect to any subsequent distribution. The Plan may be amended or terminated by each respective Fund as applied to any voluntary cash payments made and any distribution paid subsequent to written notice of the change or termination sent to Participants at least 30 days prior to the record date for the distribution. The Plan may be amended or terminated by the Agent, with each respective Fund s prior written consent, on at least 30 days written notice to Participants. Notwithstanding the preceding two sentences, the Agent or each respective Fund may amend or supplement the Plan at any time or times when necessary or appropriate to comply with applicable law or rules or policies of the Securities and Exchange Commission or any other regulatory authority. Upon any termination, the Agent will cause a certificate or certificates for the full Plan Shares held by each Participant under the Plan and cash adjustment for any fraction to be delivered to each Participant without charge. If the Participant elects by notice to the Agent in writing in advance of such termination to have the Agent sell part or all of a Participant s Plan Shares and remit the proceeds to the Participant, the Agent is authorized to deduct a $2.50 fee plus brokerage commission for this transaction from the proceeds.

Any amendment or supplement shall be deemed to be accepted by each Participant unless, prior to the effective date thereof, the Agent receives written notice of the termination of the Participant s account under the Plan. Any such amendment may include an appointment by the Agent in its place and stead of a successor Agent under these terms and conditions, with full power and authority to perform all or any of the acts to be performed by the Agent under these terms and conditions. Upon any such appointment of an Agent for the purpose of receiving distributions, each respective Fund will be authorized to pay to such successor Agent, for each Participant s account, all distributions payable on Plan Shares of each respective Fund held in each Participant s name or under the Plan for retention or application by such successor Agent as provided in these terms and conditions.

In the case of Participants, such as banks, broker-dealers or other nominees, which hold Plan Shares for others who are beneficial owners (Nominee Holders), the Agent will administer the Plan on the basis of the number of Plan Shares certified from time to time by each Nominee Holder as representing the total amount registered in the Nominee Holder s name and held for the account of beneficial owners who are to participate in the Plan.

The Agent shall at all times act in good faith and use its best efforts within reasonable limits to insure the accuracy of all services performed under this Agreement and to comply with applicable law, but assumes no responsibility and shall not be liable for loss or damage due to errors unless such error is caused by its negligence, bad faith, or willful misconduct or that of its employees.

All correspondence concerning the Plan should be directed to the Agent at 59 Maiden Lane, New York, New York 10038.

TAXATION

The following is a general summary of certain U.S. federal income tax considerations affecting the Funds and United States and foreign stockholders and, except as otherwise indicated, reflects provisions of the Code as of the date of this Proxy Statement/Prospectus. No attempt is made to present a detailed explanation of all federal, state, local and foreign income tax considerations, and this discussion is not intended as a substitute for careful tax planning. Accordingly, potential investors are urged to consult their own tax advisors regarding an investment in the Funds.

THE FUNDS

Each Fund has elected to be treated and intends to continue to qualify as a regulated investment company for U.S. federal income tax purposes under Subchapter M of the Code. In order to so qualify, each Fund must, among other things: (a) derive in each taxable year at least 90% of its gross income from (1) dividends, interest, payments with respect to loans of securities, gains from the sale or other disposition of stock or securities, or foreign currencies, or other income (including, but not limited to, gains from options, futures or forward contracts) derived with respect to its business of investing in such stock, securities or currencies; and (2) net income derived from interests in certain publicly traded partnerships that are treated as partnerships for U.S. federal income tax purposes and that derive less than 90% of their gross income from the items described in (1) above (each a Qualified Publicly Traded Partnership), and (b) diversify its holdings so that, at the end of each quarter of each taxable year, (i) at least 50% of the market value of the Fund s assets is represented by cash, cash items, U.S. Government securities, securities of other regulated investment companies, and other securities which, with respect to any one issuer, do not represent more than 5% of the value of the Fund s assets nor more than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of its total assets is invested in the securities (other than U.S. Government securities or the securities of other regulated investment companies) of (I) any one issuer, (II) any two or more issuers that the Fund controls and that are engaged in the same, similar or related trades or businesses or (III) any one or more Qualified Publicly Traded Partnerships.

If each Fund continues to qualify as a regulated investment company and distributes to its stockholders at least 90% of its investment company taxable income (as that term is defined in the Code, determined without regard to the deduction for dividends paid), then the Fund will not be subject to U.S. federal income tax on the investment company taxable income and net capital gain (the excess of the Fund s net long-term capital gains over net short-term capital losses) that it distributes. Each Fund, however, would be subject to corporate income tax (currently at a rate of 35%) on any undistributed investment company taxable income and net capital gain. Each Fund currently expects to distribute any such amounts annually. In the event a Fund retains amounts attributable to its net capital gain, such Fund expects to designate such retained amounts as undistributed capital gains in a notice to its stockholders who (i) will be required to include in income for U.S. federal income tax purposes, as long-term capital gains, their proportionate shares of the undistributed amount, (ii) will be entitled to credit their proportionate shares of the tax paid by the Fund on the undistributed amount against their U.S. federal income tax liabilities and to claim refunds to the extent such credits exceed their liabilities and (iii) will be entitled to increase their tax basis, for U.S. federal income tax purposes, in their shares by an amount equal to the deemed distribution less the tax credit.

In addition, a Fund will be subject to a nondeductible 4% excise tax on the amount by which the aggregate income it distributes in any calendar year is less than the sum of: (a) 98% of the Fund s ordinary income for such calendar year; (b) 98% of the excess of capital gains over capital losses (both long- and short-term) for the one-year period ending on October 31 of each year; and (c) 100% of the undistributed ordinary income and gains from prior years. For this purpose, any income or gain retained by the Fund subject to corporate income tax will be considered to have been distributed by year-end.

If in any year a Fund should fail to qualify as a regulated investment company, the Fund would be subject to U.S. federal tax on its taxable income (including its net capital gain, and even if such income were distributed to its stockholders) in the same manner as an ordinary corporation, and all distributions out of earnings and profits to stockholders would be taxable to such holders as ordinary income. Such distributions generally would be eligible (i) to be treated as qualified dividend income in the case of individual stockholders and (ii) for the dividends received deduction in the case of corporate stockholders. Distributions in excess of earnings and profits would be treated as a tax-free

return of capital, to the extent of a holder s basis in its shares, and any excess, as a long or short-term capital gain. In addition, such Fund could be required to recognize unrealized gains, pay taxes and make distributions (which could be subject to interest charges) before requalifying for taxation as a regulated investment company.

Each Fund intends to distribute sufficient income so as to avoid both corporate income tax and the excise tax.

If at any time when leverage is outstanding, a Fund does not meet the asset coverage requirements of the 1940 Act or of any rating agency that has rated such leverage, such Fund will be required to suspend distributions to holders of common stock until the asset coverage is restored. This may prevent the Fund from distributing at least 90% of its investment company taxable income, and may therefore jeopardize the Fund s qualification for taxation as a regulated investment company or cause the Fund to incur a tax liability or a non-deductible 4% excise tax on the undistributed taxable income (including gain), or both. Upon any failure to meet the asset coverage requirements of the 1940 Act, or imposed by a rating agency, the Fund may, in its sole discretion, purchase or redeem any preferred stock or short-term debt securities in order to maintain or restore the requisite asset coverage and avoid the adverse consequences to the Fund and its stockholders of failing to qualify as a regulated investment company. There can be no assurance, however, that any such redemption would achieve such objectives.

In an attempt to reduce or eliminate the potential for a market value discount from net asset value, a Fund may repurchase its shares. Such Fund may liquidate portfolio securities in order to purchase shares and the securities sold may include securities held by the Fund for less than twelve months, on which any capital gain would be short-term, taxed at ordinary income rates.

The Funds may engage in various hedging transactions. Such transactions will be subject to special provisions of the Code that, among other things, may affect the character of gains and losses realized by a Fund (that is, may affect whether gains or losses are ordinary or capital), accelerate recognition of income to the Fund and defer recognition of certain of the Fund s losses. These rules could therefore affect the character, amount and timing of distributions to stockholders. In addition, these provisions (1) will require the Fund to mark-to-market certain types of positions in its portfolio (that is, treat them as if they were closed out) and (2) may cause the Fund to recognize income without receiving cash with which to pay dividends or make distributions in amounts necessary to satisfy the distribution requirements for avoiding income and excise taxes. Each Fund intends to monitor its transactions, make the appropriate tax elections and make the appropriate entries in its books and records when it acquires any forward contract, option, futures contract, or hedged investment in order to mitigate the effect of these rules and prevent disqualification of the Fund as a regulated investment company.

Each Fund may make investments that produce income that is not matched by a corresponding cash distribution to such Fund, such as investments in pay-in-kind bonds, obligations such as certain Brady Bonds or other obligations having original issue discount (i.e., an amount equal to the excess of the stated redemption price of the security at maturity over its issue price), or market discount (i.e., an amount equal to the excess of the stated redemption price of the security over the basis of such bond immediately after it was acquired) if the Fund elects to accrue market discount on a current basis. In addition, income may continue to accrue for U.S. federal income tax purposes with respect to a non-performing investment. Any such income would be treated as income earned by the Fund and therefore would be subject to the distribution requirements of the Code. Because such income may not be matched by a corresponding cash distribution to the Fund, the Fund may be required to dispose of other securities to be able to make distributions to its investors.

Under Section 988 of the Code, gains or losses attributable to fluctuations in exchange rates between the time a Fund accrues income or receivables or expenses or other liabilities denominated in a foreign currency and the time such Fund actually collects such income or receivables or pays such liabilities are generally treated as ordinary income or loss. Similarly, gains or losses on foreign currency forward contracts and the disposition of debt securities denominated in a foreign currency, to the extent attributable to fluctuations in exchange rates between the acquisition and disposition dates, are also treated as ordinary income or loss.

Furthermore, exchange control regulations may restrict the ability of a Fund to repatriate investment income or the proceeds of sales of securities. These restrictions and limitations may limit the Fund s ability to make sufficient distributions to satisfy the 90% distribution requirement and avoid the 4% excise tax.

A Fund s taxable income will in most cases be determined on the basis of reports made to the Fund by the issuer of the securities in which the Fund invests. The tax treatment of certain securities in which the Fund may invest is not free from doubt and it is possible that an IRS examination of the issuers of such securities or of the Fund could result in adjustments to the income of the Fund. An upward adjustment by the IRS to the income of the Fund may result in the failure of the Fund to satisfy the 90% distribution requirement described above necessary for the Fund to maintain its status as a regulated investment company under the Code. In such event, the Fund may be able to make a deficiency

dividend distribution to its stockholders with respect to the year under examination to satisfy this requirement. Such distribution will be taxable as a dividend to the stockholders receiving the distribution (whether or not the Fund has sufficient current or accumulated

earnings and profits for the year in which such distribution is made). A downward adjustment by the IRS to the income of the Fund may cause a portion of the previously made distribution with respect to the year under examination not to be treated as a dividend. In such event, the portion of distributions to each stockholder not treated as a dividend would be recharacterized as a return of capital and reduces the stockholder s basis in the shares held at the time of the previously made distributions. Accordingly, this reduction in basis could cause a stockholder to recognize additional gain upon the sale of such stockholder s shares.

Certain of a Fund s investments in structured investments may, for U.S. federal income tax purposes, constitute investments in shares of foreign corporations. If a Fund purchases shares in certain foreign investment entities, called passive foreign investment companies (PFICs), the Fund may be subject to U.S. federal income tax on a portion of any excess distribution or gain from the disposition of the shares even if the income is distributed as a taxable dividend by the Fund to its stockholders. Additional charges in the nature of interest may be imposed on either the Fund or its stockholders with respect to deferred taxes arising from the distributions or gains. If the Fund were to invest in a PFIC and (if the Fund received the necessary information available from the PFIC, which may be difficult to obtain) elected to treat the PFIC as a qualified electing fund (a QEF) under the Code, in lieu of the foregoing requirements, the Fund would be required to include in income each year a portion of the ordinary earnings and net capital gains of the PFIC, even if not distributed to the Fund. Alternatively, the Fund may be able to elect to mark-to-market at the end of each taxable year its shares in a PFIC; in this case, the Fund would recognize as ordinary income any increase in the value of such shares, and as ordinary loss any decrease in such value to the extent it did not exceed prior increases included in income. Under either election, the Fund might be required to recognize in a year income in excess of its distributions from PFICs and its proceeds from dispositions of PFIC stock during that year, and such income would nevertheless be subject to the distribution requirement and would be taken into account for purposes of the 4% excise tax (described above). Dividends paid by PFICs will not be treated as qualified dividend income.

STOCKHOLDERS

Distributions. Distributions to stockholders of investment company taxable income will be taxable as ordinary income whether paid in cash or reinvested in additional shares. It is not anticipated that such distributions, if any, will qualify for the dividends received deduction generally available for corporate stockholders under the Code, nor that such distributions will be derived from qualified dividend income. Stockholders receiving distributions from the Fund in the form of additional shares pursuant to the Plan will be treated for U.S. federal income tax purposes as receiving a distribution in an amount equal to the fair market value of the additional shares on the date of such distribution.

Distributions to stockholders of net capital gain that are designated by the Fund as capital gains dividends will be taxable as long-term capital gains, whether paid in cash or reinvested in additional shares, regardless of how long the shares have been held by such stockholders. These distributions will not be eligible for the dividends received deduction. The current maximum U.S. federal income tax rate imposed on individuals with respect to long-term capital gains is 15%, whereas the current maximum U.S. federal income tax rate imposed on individuals with respect to ordinary income (and short-term capital gains, which are taxed at the same rates as ordinary income) is 35%. With respect to corporate taxpayers, long-term capital gains are currently taxed at the same U.S. federal income tax rates as ordinary income and short-term capital gains.

Investors considering buying shares just prior to a dividend or capital gain distribution should be aware that, although the price of shares purchased at that time may reflect the amount of the forthcoming distribution, those who purchase just prior to a distribution will receive a distribution that will be taxable to them.

Dividends and distributions by a Fund are generally taxable to the stockholders at the time the dividend or distribution is made (even if paid or reinvested in additional shares). Any dividend declared by a Fund in October, November or December of any calendar year, however, which is payable to stockholders of record on a specified date in such a month and which is not paid on or before December 31 of such year will be treated as received by the stockholders as of December 31 of such year, provided that the dividend is paid during January of the following year. Any distribution in excess of the Fund s investment company taxable income and net capital gains would first reduce a stockholder s basis in his shares and, after the stockholder s basis is reduced to zero, will constitute capital gains to a stockholder who holds shares as capital assets.

A notice detailing the tax status of dividends and distributions paid by each Fund will be mailed annually to the stockholders of such Fund.

Dispositions and Repurchases. Gain or loss, if any, recognized on the sale or other disposition of shares of a Fund will be taxed as capital gain or loss if the shares are capital assets in the stockholder s hands. Generally, a stockholder s gain or loss will be a long-term gain or loss if the shares have been held for more than one year. If a stockholder sells or otherwise disposes of a share of a Fund before holding it for more than six months, any loss on the sale or other disposition of such share shall be treated as a long-term capital loss to the extent of any capital gain dividends received by the stockholder with respect to such share. A loss realized on a sale or exchange of shares may be disallowed if other shares are acquired (whether under the Plan or otherwise) within a 61-day period beginning 30 days before and ending 30 days after the date that the shares are disposed of. If disallowed, the loss will be reflected by an upward adjustment to the basis of the shares acquired.

A repurchase by a Fund of shares generally will be treated as a sale of the shares by a stockholder provided that after the repurchase the stockholder does not own, either directly or by attribution under Section 318 of the Code, any shares. If after a repurchase a stockholder continues to own, directly or by attribution, any shares, it is possible that any amounts received in the repurchase by such stockholder will be taxable as a dividend to such stockholder, and there is a risk that stockholders who do not have any of their shares repurchased would be treated as having received a dividend distribution as a result of their proportionate increase in the ownership of the Fund.

Foreign Taxes. Each Fund may be subject to certain taxes imposed by foreign countries with respect to dividends, capital gains and interest income. If the Fund qualifies as a regulated investment company, if certain distribution requirements are satisfied and if more than 50% in value of the Fund s total assets at the close of any taxable year consists of stocks or securities of foreign corporations, which for this purpose should include obligations issued by foreign governmental issuers, the Fund may elect to treat any foreign income taxes paid by it that can be treated as income taxes under U.S. income tax regulations as paid by its stockholders. Each Fund intends to make such an election for taxable years in which it qualifies for the election. For any year that a Fund makes such an election, an amount equal to the foreign income taxes paid by the Fund that can be treated as income taxes under U.S. federal income tax principles will be included in the income of its stockholders and each stockholder will be entitled (subject to certain limitations) to credit the amount included in his income against his U.S. tax liabilities, if any, or to deduct such amount from his U.S. federal taxable income, if any. Shortly after any year for which it makes such an election, the Fund will report to its stockholders, in writing, the amount per share of such foreign income taxes that must be included in each stockholder s gross income and the amount that will be available for deductions or credit. In general, a stockholder may elect each year whether to claim deductions or credits for foreign taxes. No deductions for foreign taxes may be claimed, however, by non-corporate stockholders (including certain foreign stockholders as described below) who do not itemize deductions. If a stockholder elects to credit foreign taxes, the amount of credit that may be claimed in any year may not exceed the same proportion of the U.S. tax against which such credit is taken that the stockholder s taxable income from foreign sources (but not in excess of the stockholder s entire taxable income) bears to his entire taxable income. If a Fund makes this election, a stockholder will be treated as receiving foreign source income in an amount equal to the sum of his proportionate share of foreign income taxes paid by the Fund and the portion of dividends paid by the Fund representing income earned from foreign sources. This limitation must be applied separately to certain categories of income and the related foreign taxes. Each stockholder should consult his own tax advisor regarding the potential application of foreign tax credits.

Backup Withholding. Each Fund may be required to withhold U.S. federal income tax at a rate of 28% (backup withholding) from dividends and redemption proceeds paid to non-corporate stockholders. This tax may be withheld from dividends if (i) the stockholder fails to furnish the Fund with the stockholder s correct taxpayer identification number, (ii) the IRS notifies the Fund that the stockholder has failed to report properly certain interest and dividend income to the IRS and to respond to notices to that effect, or (iii) when required to do so, the stockholder fails to certify that he or she is not subject to backup withholding. Redemption proceeds may be subject to withholding under the circumstances described in (i) above. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from payments made to a stockholder may be credited against such stockholder s U.S. federal income tax liability.

Foreign Stockholders. Taxation of a stockholder who, as to the United States, is a non-resident alien individual, foreign trust or estate, foreign corporation or foreign partnership (foreign stockholder) depends, in part, on whether the stockholder s income from a Fund is effectively connected with a U.S. trade or business carried on by the stockholder. If a stockholder is a resident alien or if dividends or distributions from a Fund are effectively connected with a U.S. trade or business carried on by a foreign stockholder, then dividends of investment company income, distributions of net capital gains (including amounts designated as undistributed capital gains) and gain realized upon the sale of shares of the Fund will be subject to U.S. income tax at the rates applicable to U.S. persons.

49

If the income from a Fund is not effectively connected with a U.S. trade or business carried on by the foreign stockholder, (i) dividends of investment company taxable income will be subject to a 30% (or lower treaty rate) U.S. federal withholding tax, and (ii) distributions of net capital gains (including amounts designated as undistributed capital gains) and gains realized upon the sale of shares of the Fund will not be subject to U.S. federal tax as long as such foreign stockholder is not a non-resident alien individual who was physically present in the United States for more than 183 days or more during the taxable year. In addition, with respect to taxable years of regulated investment companies beginning before January 1, 2008, U.S. source withholding taxes are not imposed on dividends paid by regulated investment companies to the extent the dividends are designated as interest-related dividends or short-term capital gain dividends. Under this exemption, interest-related dividends and short-term capital gain dividends generally represent distributions of interest or short-term capital gains that would not have been subject to U.S. withholding tax at the source if they had been received directly by a foreign person, and that satisfy certain other requirements. Legislation has recently been proposed that would extend this exemption through taxable years beginning before January 1, 2009; no assurances can be given, however, as to whether this legislation will be enacted. Each Fund does not currently, and does not intend to, designate any amounts as interest related dividends or as short-term capital gain dividends for this purpose. However, certain foreign stockholders may nonetheless be subject to 28% backup withholding on distributions of net capital gains and gross proceeds paid to them upon the sale of their shares of the Fund. See Backup Withholding.

Foreign stockholders may be subject to an increased United States tax on their income resulting from a Fund s election to pass through amounts of foreign taxes paid by the Fund but may not be able to claim a credit or deduction with respect to the foreign taxes treated as having been paid by them. See Foreign Taxes.

Transfer by gift of shares of a Fund by a foreign stockholder who is a non-resident alien individual may be subject to U.S. federal gift tax. In addition, the value of shares of the Fund held by such a stockholder at his death will be includible in such stockholder s gross estate for U.S. federal estate tax purposes.

The tax consequences to a foreign stockholder entitled to claim the benefits of an applicable tax treaty may be different from those described in this section. Stockholders may be required to provide appropriate documentation to establish their entitlement to the benefits of such treaty. Foreign investors are advised to consult their own tax advisers with respect to (a) whether their income from a Fund is or is not effectively connected with a U.S. trade or business carried on by them, (b) whether they may claim the benefits of an applicable tax treaty and (c) any other tax consequences to them of an investment in the Fund.

Investors should consult their own tax advisors regarding specific questions as to the federal, state, local and foreign tax consequence of ownership of shares in a Fund.

NET ASSET VALUE

The Funds have the same valuation procedures. Each Fund determines the net asset value of its common shares on each day the NYSE is open for business, as of the close of the customary trading session (normally 4:00 p.m. Eastern Time), or any earlier closing time that day. Each Fund determines the net asset value per common share by dividing the value of the Fund s securities, cash and other assets (including interest accrued but not collected) less all its liabilities (including accrued expenses, the liquidation preference of any outstanding preferred shares and dividends payable) by the total number of common shares outstanding. Each Fund values portfolio securities for which market quotations are readily available at market value. Each Fund s short-term investments are valued at amortized cost when the security has 60 days or less to maturity. Determination of the common shares net asset value is made in accordance with generally accepted accounting principles.

Each Fund values all other securities and assets at their fair value. If events occur that materially affect the value of a security between the time trading ends on the security and the close of the customary trading session of the NYSE, a Fund may value the security at its fair value as

determined in good faith by or under the supervision of the Board of Directors of the Fund. The effect of using fair value pricing is that the common shares net asset value will be subject to the judgment of the Board of Directors or its designee instead of being determined by the market.

Any swap transaction that a Fund enters into may, depending on the applicable interest rate environment, have a positive or negative value for purposes of calculating net asset value. Any cap transaction that a Fund enters into may, depending on the applicable interest rate environment, have no value or a positive value. In addition, accrued payments to a Fund under such transactions will be assets of the Fund and accrued payments by the Fund will be liabilities of the Fund.

DESCRIPTION OF THE FUNDS CAPITAL STOCK

The authorized capital stock of EDF is 100,000,000 shares of capital stock, par value $0.001 per share, and the authorized capital stock of EMD is 100,000,000 shares of capital stock, par value $0.001 per share. The following table presents the number of shares of (i) capital stock authorized by each Fund, and (ii) capital stock outstanding for each class of authorized shares of each Fund as of July 23, 2008:

Fund	Amount Authorized	Amount Outstanding as of July 23, 2008
EDF (Common Shares)	100,000,000	24,432,561
EMD (Common Shares)	100,000,000	4,214,736

There are no material differences between the rights of holders of EDF Common Shares and the holders of EMD Common Shares.

As described above, the authorized capital stock of EDF is 100,000,000 shares of capital stock, $0.001 par value per share, all of which have been designated as EDF Common Shares. The outstanding EDF Common Shares are, and the EDF Common Shares to be issued in the Merger will be, when issued, fully paid and nonassessable. All EDF Common Shares are equal as to dividends, distributions and voting privileges. There are no conversion, preemptive or other subscription rights. In the event of liquidation, each EDF Common Share is entitled to its proportion of EDF s assets after debts and expenses. There are no cumulative voting rights for the election of Directors.

Also as described above, the authorized capital stock of EMD is 100,000,000 shares of capital stock, $0.001 par value per share, all of which have been designated EMD Common Shares. The outstanding EMD Common Shares are fully paid and nonassessable. All EMD Common Shares are equal as to dividends, distribution and voting privileges. There are no conversion, preemptive or other subscription rights. In the event of liquidation, each EMD Common Share is entitled to its proportion of EMD s assets after debts and expenses. There are no cumulative voting rights for the election of Directors.

Neither Fund has a present intention of offering additional Common Shares to the public except to the extent that EDF intends to issue new EDF Common Shares to holders of EMD Common Shares in the Merger. Other offerings of a Fund s Common Shares, if made, will require approval of that Fund s Board. Any additional offering will be subject to the requirements of the 1940 Act that shares of common stock may not be sold at a price below the then current net asset value (exclusive of underwriting discounts and commissions) except in connection with an offering to existing stockholders or with the consent of a majority of the outstanding shares of common stock.

Special Voting Provisions

Each Fund has provisions in its Charter and By-Laws that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund, to cause it to engage in certain transactions or to modify its structure. Each Fund s Board is divided into three classes, each having terms of three years. At each Fund s annual meeting of stockholders in each year, the term of one class expires and Directors are elected to serve in that class for terms of three years. This provision could delay for up to two years the replacement of a majority of the Board. A Director may be removed from office only for cause and only by a vote of the holders of at least 75% of the shares of the Fund entitled to be cast on the matter.

The affirmative vote of 75% of the entire Board of each Fund is required to authorize the conversion of the Fund from a closed-end to an open-end investment company. The conversion also requires the affirmative vote of the holders of 75% of the votes entitled to be cast thereon by holders of the outstanding voting stock of the Fund, unless it is approved by a vote of 75% of the Continuing Directors (as defined below), in which event such conversion requires the approval of the holders of a majority of the outstanding voting stock of the Fund. A Continuing Director is any member of the Board of a Fund who (i) is not a person or affiliate of a person, other than an investment company advised by the Fund s initial investment manager or any of its affiliates, who enters or proposes to enter into a Business Combination (as defined below) with the Fund (an Interested Party) and (ii) who has been a member of the Board since the commencement of the Fund s operations, or is a successor of a Continuing Director who is unaffiliated with an Interested Party and is recommended to succeed a Continuing Director by a majority of the Continuing Directors then on the Board of a Fund.

The affirmative votes of 75% of the entire Board and the holders of 75% of the outstanding voting stock of either Fund are required to adopt, approve, advise or authorize any of the following transactions:

(1) a merger, consolidation or statutory share exchange of the Fund with or into any other person;

(2) issuance or transfer by the Fund (in one or a series of transactions in any 12 month period) of any securities of the Fund to any person or entity for cash, securities or other property (or combination thereof) having an aggregate fair market value of $1,000,000 or more, excluding (applicable to EDF only) issuances or transfers of debt securities of the Fund, sales of securities of the Fund in connection with a public offering, issuances of securities of the Fund pursuant to a dividend reinvestment plan adopted by the Fund, issuances of securities of the Fund upon the exercise of any stock subscription rights distributed by the Fund and (applicable to EDF only) portfolio transactions effected by the Fund in the ordinary course of its business;

(3) sale, lease, exchange, mortgage, pledge, transfer or other disposition by the Fund (in one or a series of transactions in any 12 month period) to or with any person or entity of any assets of the Fund having an aggregate fair market value of $1,000,000 or more except for portfolio transactions effected by the Fund in the ordinary course of its business (EDF explicitly includes pledges of portfolio securities in connection with borrowings as part of this exception) (transactions described in clauses (1), (2) and (3) above being each a Business Combination);

(4) the voluntary liquidation or dissolution of the Fund or an amendment to the Fund s Charter to terminate the Fund s existence or any stockholder proposal to effect such liquidation, dissolution or amendment; or

(5) unless the 1940 Act or federal law requires a lesser vote, any stockholder proposal as to specific investment decisions made or to be made with respect to the Fund s assets as to which stockholder approval is required under federal or Maryland law.

However, the 75% stockholder vote will not be required with respect to the foregoing transactions (other than those set forth in (5) above) if they are approved by a vote of 75% of the Continuing Directors. In that case, if Maryland law requires, the affirmative vote of a majority of the votes entitled to be cast shall be required.

The Board of each Fund has determined that the foregoing voting requirements, which are generally greater than the minimum requirements under Maryland law and the 1940 Act, are in the best interests of stockholders generally.

EDF s By-Laws contain provisions the effects of which are to prevent matters, including nominations of Directors, from being considered at a stockholders meeting where the Fund has not received notice of the matters at least 60 days prior to the first anniversary of the preceding year s annual meeting (or 10 days following the date on which public announcement of the date of such meeting is first made by the Fund if less the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from the preceding year s annual meeting date). Similarly, EMD s By-Laws contain provisions the effects of which are to prevent matters, including nominations of Directors, from being considered at an annual meeting where the Fund has not received notice of the matters at least 60 days from the preceding year s annual meeting date.

Reference is made to the Charter and By-Laws of each Fund, on file with the SEC, for the full text of these provisions. These provisions could have the effect of depriving stockholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of a Fund in a tender offer or similar transaction. In the opinion of the Manager, however, these provisions offer several possible advantages. They may require persons seeking control of a Fund to negotiate with its management regarding the price to be paid for the shares required to obtain such control, they promote continuity and stability and they enhance the Fund s ability to pursue long-term strategies that are consistent with its investment objectives.

In any event, holders of each Fund s Common Shares are entitled to one vote per Common Share, and each Common Share of each Fund has equal voting rights with all other outstanding Common Shares of that Fund.

Board Recommendation and Required Vote

The Merger in Proposal 1 has been approved by at least 75% of EMD s Continuing Directors, as that term is defined in EMD s Charter. Under EMD s Charter, Proposal 1 must be approved by the holders of a majority of the outstanding EMD Common Shares. Approval of Proposal 1 will occur only if a sufficient number of votes at the Meeting are cast FOR that Proposal. Abstentions and broker non-votes are not considered votes cast and, therefore, do not constitute a vote FOR Proposal 1. Abstentions effectively result in a vote AGAINST Proposal 1. Any broker non-votes would effectively be treated as a vote AGAINST Proposal 1.

The Fund s Board of Directors, including the Independent Directors, unanimously recommends that stockholders of the Fund vote FOR the approval of the Merger of EMD with and into EDF in accordance with the Maryland General Corporation Law.

FEES PAID TO INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (EMD)

Audit Fees. The aggregate fees billed for professional services rendered by KPMG for the audit of EMD s annual financial statements for the fiscal years ended August 31, 2006 and August 31, 2007, or for services that are normally provided in connection with the statutory and regulatory filings or engagements in those fiscal years, were $51,000 and $54,000, respectively.

Audit Related Fees. The aggregate fees billed by KPMG in connection with assurance and related services related to the annual audit of the Fund and for review of the Fund s financial statements, other than the Audit Fees described above, for the fiscal years ended August 31, 2006 and August 31, 2007 were $9,412 and $0, respectively.

In addition, there were no Audit Related Fees billed in the year ended August 31, 2007 for assurance and related services by KPMG to LMPFA and any entity controlling, controlled by or under common control with LMPFA that provides ongoing services to the Fund (LMPFA and such other entities together, the Service Affiliates), that were related to the operations and financial reporting of the Fund. Accordingly, there were no such fees that required pre-approval by the Audit Committee for the period May 6, 2003 to August 31, 2007 (prior to May 6, 2003 such services provided were not subject to pre-approval requirements).

Tax Fees. The aggregate fees billed by KPMG for tax compliance, tax advice and tax planning services, which include the filing and amendment of federal, state and local income tax returns, timely regulated investment company qualification review, and tax distribution and analysis planning to the Fund for the fiscal years ended August 31, 2006 and August 31, 2007 were $6,535 and $5,150, respectively.

There were no fees billed by KPMG to the Service Affiliates for tax services for the period May 6, 2003 through December 31, 2007 that were required to be approved by the Fund s Audit Committee.

All Other Fees. There were no other fees billed for other non-audit services rendered by KPMG to the Fund for the fiscal years ended August 31, 2006 and August 31, 2007.

There were no other non-audit services rendered by KPMG to the Service Affiliates requiring preapproval by the Audit Committee in the Reporting Period.

Generally, the Audit Committee must approve (a) all audit and permissible non-audit services to be provided to the Fund and (b) all permissible non-audit services to be provided to the Service Affiliates that relate directly to the operations and financial reporting of the Fund. The Audit Committee may implement policies and procedures by which such services are approved other than by the full Committee, but has not yet done so.

For the Fund, the percentage of fees that were approved by the Audit Committee with respect to Audit-Related Fees was 100% for the year ended August 31, 2006 and Tax Fees was 100% for the year ended August 31, 2006.

The Audit Committee shall not approve non-audit services that the Committee believes may impair the independence of the independent registered public accounting firm. As of the date of the approval of the Audit Committee Charter, permissible non-audit services include any professional services (including tax services), that are not prohibited services as described below, provided to the Fund by the independent registered public accounting firm, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services may not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Audit Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund and the Service Affiliates constitutes not more than 5% of the total amount of revenues paid to the Fund s independent registered public accounting firm during the fiscal year in which the permissible non-audit services are provided to (a) the Fund, (b) LMPFA and (c) any entity controlling, controlled by or

under common control with LMPFA that provides ongoing services to the Fund during the fiscal year in which the services are provided that would have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Audit Committee and approved by the Audit Committee (or its delegate(s)) prior to the completion of the audit.

The aggregate non-audit fees billed by KPMG for services rendered to the Fund and Service Affiliates for the fiscal years ended August 31, 2006 and August 31, 2007 were $0 and $0, respectively.

The Audit Committee has considered whether the provision of non-audit services to the Service Affiliates that were not pre-approved by the Audit Committee (because they did not require pre-approval) is compatible with maintaining KPMG s independence. All services provided by KPMG to the Fund or to the Service Affiliates that were required to be approved by the Audit Committee were pre-approved.

A representative of KPMG, if requested by any stockholder, will be present via telephone at the Meeting to respond to appropriate questions from stockholders and will have an opportunity to make a statement if he or she chooses to do so.

STOCKHOLDER PROPOSALS AND OTHER STOCKHOLDER COMMUNICATIONS

All proposals by stockholders of EMD which are intended to be presented at the Fund s 2009 Annual Meeting of Stockholders must be received by the Fund no later than August 7, 2009 to be included in EMD s proxy statement relating to that meeting. Any stockholder who desires to present a proposal at the EMD s 2009 Annual Meeting of Stockholders without including the proposal in the Fund s proxy statement must deliver written notice of the proposal to the Chairman of EMD (addressed to c/o Legg Mason, 620 Eighth Avenue, 49th Floor, New York, NY 10018) during the period from September 6, 2009 to October 6, 2009. However, if the Fund s 2009 Annual Meeting of Stockholders is held earlier than November 10, 2009 or later than February 6, 2010, such written notice must be delivered to the Secretary of the Fund during the period from 90 days before the date of the 2009 Annual Meeting of Stockholders to the later of 60 days prior to the date of the 2009 Annual Meeting of Stockholders or 10 days following the public announcement of the date of the 2009 Annual Meeting of Stockholders.

EMD s Audit Committee has also established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters (collectively, Accounting Matters). Persons with complaints or concerns regarding Accounting Matters may submit their complaints to the Fund s Chief Compliance Officer (CCO). Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to EMD s Audit Committee Chair (together with the CCO, Complaint Officers). Complaints may by submitted on an anonymous basis.

The CCO may be contacted at:

Legg Mason

Compliance Department

620 Eighth Avenue, 49th Floor

New York, NY 10018

Complaints may also be submitted by telephone at 800-742-5274. Complaints submitted through this number will be received by the CCO.

EMD s Audit Committee Chair may be contacted at:

Western Asset Emerging Markets Income Fund Inc.

Audit Committee Chair

c/o Robert K. Fulton, Esq.

Stradley Ronon Stevens & Young, LLP

2600 One Commerce Square

Philadelphia, PA 19103

Any stockholder who wishes to send any other communications to the Board of Directors should also deliver such communications to the Secretary of EMD at the address listed above. The Secretary is responsible for determining, in consultation with other officers of EMD, counsel, and other advisers as appropriate, which stockholder communications will be relayed to the Board.

5% BENEFICIAL OWNERSHIP

At July 23, 2008 to the knowledge of management, no person owned of record or owned beneficially more than 5% of the Fund s capital stock outstanding at that date, except that Cede & Co., a nominee for participants in Depository Trust Company, held of record shares equal to approximately 98.6% of the Fund s outstanding shares.

OTHER BUSINESS

The Fund s Board of Directors does not know of any other matter that may come before the Meeting. If any other matter properly comes before the Meeting, it is the intention of the persons named in the proxy to vote the proxies in accordance with their judgment on that matter.

VOTING INFORMATION

This Proxy Statement/Prospectus is furnished in connection with a solicitation of proxies by EMD s Board of Directors to be used at the Meeting. This Proxy Statement/Prospectus, along with the Notice of Special Meeting and a proxy card, are first being mailed to EMD stockholders on or about September 12, 2008 or as soon as practicable thereafter.

Only stockholders of record of EMD at the close of business on July 23, 2008 are entitled to notice of and to vote at the Meeting and at any postponement or adjournment thereof. On July 23, 2008, there were 4,214,736 outstanding EMD Common Shares.

A quorum of EMD stockholders is required to take action at the Meeting. A majority of the outstanding EMD Common Shares entitled to vote at the Meeting, represented in person or by proxy, will constitute a quorum of stockholders at the Meeting.

Votes cast by proxy or in person at the Meeting will be tabulated by the inspector of election appointed for the Meeting. The inspector of election, who is an employee of the proxy solicitor engaged by EMD, will determine whether or not a quorum is present at the Meeting. The inspector of election will treat abstentions and broker non-votes (i.e., shares held by brokers or nominees, typically in street name, as to which proxies have been returned but (a) instructions have not been received from the beneficial owners or persons entitled to vote and (b) the broker or nominee does not have discretionary voting power on a particular matter) as present for purposes of determining a quorum.

If you hold shares directly (not through a broker-dealer, bank or other financial intermediary) and if you return a signed proxy card that does not specify how you wish to vote on a proposal, your shares will be voted FOR Proposal 1.

Broker-dealer firms holding EMD Common Shares in street name for the benefit of their customers and clients will request the instructions of such customers and clients on how to vote their shares on each Proposal before the Meeting. The NYSE has taken the position that a broker-dealer that is a member of the NYSE and that has not received instructions from a customer or client prior to the date specified in the broker-dealer firm s request for voting instructions may not vote such customer or client s shares with respect to Proposal 1. If a service agent is not a member of the NYSE, it may be permissible for the service agent to vote shares with respect to which it has not received specific voting

instructions from its customers on Proposal 1. A signed proxy card or other authorization by a beneficial owner of EMD Common Shares that does not specify how the beneficial owner s shares should be voted on a proposal will be deemed an instruction to vote such shares in favor of the applicable proposal.

If you hold EMD Common Shares through a service agent that has entered into a service agreement with EMD, the service agent may be the record holder of your EMD Common Shares. At the Meeting, a service agent will vote shares for which it receives instructions from its customers in accordance with those instructions. A signed proxy card or other authorization by a stockholder that does not specify how the stockholder s shares should be voted on a proposal may be deemed to authorize a service agent to vote such shares in favor of the applicable proposal. Depending on its policies, applicable law or contractual or other restrictions, a service agent may be permitted to vote shares with respect to which it has not received specific voting instructions from its customers. In those cases, the service agent may, but may not be required to, vote such shares in the same proportion as those shares for which the service agent has received voting instructions. This practice is commonly referred to as echo voting.

If you beneficially own shares that are held in street name through a broker-dealer or that are held of record by a service agent and if you do not give specific voting instructions for your shares, they may not be voted at all or, as described above, they may be voted in a manner that you may not intend. Therefore, you are strongly encouraged to give your broker-dealer or service agent specific instructions as to how you want your shares to be voted.

A stockholder may revoke a proxy at any time on or before the Meeting by either (1) submitting to the applicable Fund a subsequently dated proxy, (2) delivering to the applicable Fund a written notice of revocation (addressed to the Secretary at the principal executive office of the Fund at the address shown at the beginning of this Proxy Statement/Prospectus) or (3) otherwise giving notice of revocation at the Meeting, at all times prior to the exercise of the authority granted in the proxy card. Merely attending the Meeting, however, will not revoke any previously executed proxy. Unless revoked, all valid and executed proxies will be voted in accordance with the specifications thereon or, in the absence of such specifications, for approval of each Proposal.

Even if you plan to attend the Meeting, we ask that you return the enclosed proxy card or vote by telephone or through the Internet. This will help us ensure that an adequate number of shares are present for the Meeting to be held.

Photographic identification will be required for admission to the Meeting.

Proposal 1:

The Merger in Proposal 1 has been approved by at least 75% of EMD s Continuing Directors, as that term is defined in EMD s Charter. The Merger in Proposal 1 must be approved by the holders of a majority of the outstanding EMD Common Shares.

Approval of Proposal 1 will occur only if a sufficient number of votes at the Meeting are cast FOR that Proposal. Abstentions and broker non-votes are not considered votes cast and, therefore, do not constitute a vote FOR Proposal 1. Abstentions effectively result in a vote AGAINST Proposal 1. Any broker non-votes would effectively be treated as a vote AGAINST Proposal 1.

Adjournments and Postponements

If the necessary quorum to transact business or the vote required to approve the Proposal is not obtained at the Meeting, the chairman of the Meeting may propose one or more adjournments or postponements of the Meeting in accordance with applicable law to permit further solicitation of proxies. If in the judgment of the chairman of the Meeting, it is advisable to defer action on one or more Proposals, the chairman of the Meeting may propose one or more adjournments of the Meeting with respect to the Proposal for a reasonable period or periods. The Meeting may be adjourned up to 120 days after the original record date for the Meeting without further notice other than announcement at the Meeting.

Appraisal Rights

Under the Maryland General Corporation Law, holders of EMD Common Shares are not entitled to appraisal rights in connection with the Merger.

EXPENSES OF PROXY SOLICITATION

The costs of preparing, assembling and mailing material in connection with this solicitation of proxies will be split between Legg Mason and its affiliates, EDF, and EMD. Legg Mason and its affiliates has agreed to bear 50% of the expenses incurred in connection with this solicitation of proxies. The remaining 50% will be borne by EDF and EMD in proportion to their respective total assets. These costs are estimated to be approximately $80,000. Proxies may also be solicited in-person, by telephone or by use of the mails by officers of the Fund, by regular employees of LMPFA, Western Asset or their affiliates or by other representatives of the Fund. Brokerage houses, banks and other fiduciaries may be requested to forward proxy solicitation material to their principals to obtain authorization for the execution of proxies and will be reimbursed by the Fund for such out-of-pocket expenses. In addition, the Fund has retained Computershare Fund Services Inc. (Computershare), 17 State Street, New York, New York 10004, a proxy solicitation firm, to assist in the solicitation of proxies. It is anticipated that Computershare will be paid approximately $12,400 for such solicitation services (including reimbursements of out-of-pocket expenses), which costs are to be borne by LMPFA. Computershare may solicit proxies personally and by telephone.

SERVICE PROVIDERS

State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts 02110, serves as the custodian of each Fund.

American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10038, serves as each Fund s dividend disbursing and transfer agent.

KPMG LLP, an independent registered public accounting firm, 345 Park Avenue, New York, New York 10154, has been selected to audit and report upon each Fund s financial statements and financial highlights for the fiscal year ended May 31, 2009 (EDF) and August 31, 2008 (EMD), respectively.

Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, New York 10017, serves as counsel to the Funds.

Stradley Ronon Stevens & Young, LLP, 2600 One Commerce Square, Philadelphia, PA 19103, serves as counsel to each Fund s Independent Directors.

Certain legal matters concerning the issuance of EDF Common Shares will be passed upon by DLA Piper US LLP, 6225 Smith Avenue, Baltimore, Maryland 21209.

INDEX OF APPENDICES

APPENDIX A

FORM OF AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (Agreement) is made as of this day of , 2008, between Western Asset Emerging Markets Income Fund Inc. (the Acquired Fund), a Maryland corporation with its principal place of business at 55 Water Street, New York, New York 10041, and Western Asset Emerging Markets Income Fund II Inc. (the Acquiring Fund), a Maryland corporation with its principal place of business at 55 Water Street, New York, New York 10041.

WHEREAS, each of the Acquired Fund and the Acquiring Fund is a closed-end management investment company registered pursuant to the Investment Company Act of 1940, as amended (the 1940 Act);

WHEREAS, it is intended that, for United States federal income tax purposes (i) the transactions contemplated by this Agreement shall qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code), and (ii) that the Agreement shall constitute a plan of reorganization for purposes of the Code;

WHEREAS, the reorganization will consist of the merger of the Acquired Fund with and into the Acquiring Fund pursuant to the Maryland General Corporation Law (MGCL) as provided herein, and upon the terms and conditions hereinafter set forth in this Agreement;

WHEREAS, the Acquired Fund currently owns securities that are generally assets of the character in which the Acquiring Fund is permitted to invest;

WHEREAS, the Board of Directors of the Acquiring Fund (the Acquiring Fund Board) has determined, with respect to the Acquiring Fund, that the Merger (as hereinafter defined) is in the best interests of the Acquiring Fund and its stockholders and that the interests of the existing stockholders of the Acquiring Fund will not be diluted as a result of this transaction;

WHEREAS, the Board of Directors of the Acquired Fund (the Acquired Fund Board) has determined, with respect to the Acquired Fund, that the Merger (as hereinafter defined) is in the best interests of the Acquired Fund and its stockholders and that the interests of the existing stockholders of the Acquired Fund will not be diluted as a result of this transactions;

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements hereinafter set forth, the parties hereto, intending to be legally bound, agree as follows:

1. BASIC TRANSACTION

1.1 *The Merger*. On and subject to the terms and conditions of this Agreement, the Acquired Fund will merge with and into the Acquiring Fund (the Merger) at the Effective Date (as defined in paragraph 1.3 below) in accordance with the MGCL. The Acquiring Fund shall be the surviving corporation and investment company. The Acquired Fund shall cease to exist as a separate corporation and investment company.

Each outstanding share of Acquired Fund Common Stock (as defined in paragraph 2.2(p), will be converted into an equivalent dollar amount (to the nearest one tenth of one cent) of full shares of Acquiring Fund Common Stock (as defined in paragraph 2.1(p)), based on the net asset value per share of each of the parties at 4:00 p.m. Eastern Time on the Business Day (as defined below) prior to the Effective Date (the Valuation Time). No fractional shares of Acquiring Fund Common Stock will be issued to the holders of Acquired Fund Common Stock. In lieu thereof, the Acquiring Fund will purchase all fractional shares of Acquiring Fund Common Stock at the current net asset value per share of the Acquiring Fund Common Stock for the account of all holders of fractional interests, and each such holder will receive such holder s pro rata share of the proceeds of such purchase. The Effective Date and the Business Day prior to it must each be a day on which the New York Stock Exchange is open for trading (a Business Day).

From and after the Effective Date, the Acquiring Fund shall possess all of the properties, assets, rights, privileges and powers and shall be subject to all of the restrictions, liabilities, obligations, disabilities and duties of the Acquired Fund, all as provided under Maryland law.

1.2 *Actions at Closing*. At the closing of the transactions contemplated by this Agreement (the Closing) on the date thereof (the Closing Date), (i) the Acquired Fund will deliver to the Acquiring Fund the various certificates and documents referred to in Article 6 below, (ii) the Acquiring Fund will deliver to the Acquired Fund the various certificates and documents referred to in Article 5 below, and (iii) the Acquired Fund and the Acquiring Fund will file jointly with the State Department of Assessments and Taxation of Maryland (the Department) articles of merger (the Articles of Merger) and make all other filings or recordings required by Maryland law in connection with the Merger.

1.3 *Effect of Merger*. Subject to approval by the stockholders of the Acquired Fund, and to the other terms and conditions described herein, the Merger shall become effective at such time as the Articles of Merger are accepted for record by the Department or at such later time, not to exceed 30 days after such acceptance, as is specified in the Articles of Merger (the Effective Date), and the separate corporate existence of the Acquired Fund shall cease. As promptly as practicable after the Merger, the Acquired Fund shall delist the Acquired Fund Common Stock from the New York Stock Exchange (NYSE) and its registration under the 1940 Act shall be terminated. Any reporting responsibility of the Acquired Fund is, and shall remain, the responsibility of the Acquired Fund up to and including the Effective Date.

2. REPRESENTATIONS AND WARRANTIES

2.1 *Representations and Warranties of the Acquiring Fund*. The Acquiring Fund represents and warrants to the Acquired Fund that the statements contained in this paragraph 2.1 are correct and complete in all material respects as of the execution of this Agreement on the date hereof. The Acquiring Fund represents and warrants to, and agrees with, the Acquired Fund that:

(a) The Acquiring Fund is a corporation duly organized, validly existing under the laws of the State of Maryland and is in good standing with the Department, and has the power to own all of its assets and to carry on its business as it is now being conducted and to carry out this Agreement.

(b) The Acquiring Fund is duly registered under the 1940 Act as a non-diversified, closed-end management investment company (File No. 811-07686) and such registration has not been revoked or rescinded and is in full force and effect. The Acquiring Fund has elected and qualified for the special tax treatment afforded regulated investment companies (RICs) under Sections 851 855 of the Code at all times since its inception. The Acquiring Fund is qualified as a foreign corporation in every jurisdiction where required, except to the extent that failure to so qualify would not have a material adverse effect on the Acquiring Fund.

(c) No consent, approval, authorization or order of any court or governmental authority is required for the consummation by the Acquiring Fund of the transactions contemplated herein, except (i) such as have been obtained or applied for under the Securities Act of 1933, as amended (the 1933 Act), the Securities Exchange Act of 1934, as amended (the 1934 Act), and the 1940 Act, (ii) such as may be required by state securities laws and (iii) such as may be required under Maryland law for the acceptance for record of the Articles of Merger by the Department.

(d) The Acquiring Fund is not, and the execution, delivery and performance of this Agreement by the Acquiring Fund will not result, in violation of the laws of the State of Maryland or of the charter of the Acquiring Fund (the Acquiring Fund Charter) or the Bylaws, as amended, of the Acquiring Fund, or of any material agreement, indenture, instrument, contract, lease or other undertaking to which the Acquiring Fund is a party or by which it is bound, and the execution, delivery and performance of this Agreement by the Acquiring Fund will not result in the acceleration of any obligation, or the imposition of any penalty, under any agreement, indenture, instrument, contract, lease, judgment or decree to which the Acquiring Fund is a party or by which it is bound.

(e) The Acquired Fund has been furnished with a statement of assets, liabilities and capital and a schedule of investments of the Acquiring Fund, each as of May 31, 2008, said financial statements having been examined by KPMG LLP, independent public accountants. These financial

statements are in accordance with generally accepted accounting principles applied on a consistent basis (GAAP) and present fairly, in all material respects, the financial position of the Acquiring Fund as of such date in accordance with GAAP, and there are no known contingent liabilities of the Acquiring Fund required to be reflected on a balance sheet (including the notes thereto) in accordance with GAAP as of such date not disclosed therein.

(f) The Acquired Fund has been furnished with the Acquiring Fund s Annual Report to Stockholders for the year ended May 31, 2008.

(g) The Acquiring Fund has full power and authority to enter into and perform its obligations under this Agreement. The execution, delivery and performance of this Agreement has been duly authorized by all necessary

action of the Acquiring Fund Board, and, subject to stockholder approval, this Agreement constitutes a valid and binding contract enforceable in accordance with its terms, subject to the effects of bankruptcy, insolvency, moratorium, fraudulent conveyance and similar laws relating to or affecting creditors rights generally and court decisions with respect thereto.

(h) No material litigation or administrative proceeding or investigation of or before any court or governmental body is presently pending or to its knowledge threatened against the Acquiring Fund or any properties or assets held by it. The Acquiring Fund knows of no facts that might form the basis for the institution of such proceedings which would materially and adversely affect its business and is not a party to or subject to the provisions of any order, decree or judgment of any court or governmental body which materially and adversely affects its business or its ability to consummate the transactions herein contemplated.

(i) There are no material contracts outstanding to which the Acquiring Fund is a party that have not been disclosed in the Registration Statement (as defined in paragraph 2.1(n) below) or will not be otherwise disclosed to the Acquired Fund prior to the Effective Date.

(j) Since May 31, 2008, there has not been any material adverse change in the Acquiring Fund s financial condition, assets, liabilities or business and the Acquiring Fund has no known liabilities of a material amount, contingent or otherwise, required to be disclosed in a balance sheet with GAAP other than those shown on the Acquiring Fund s statements of assets, liabilities and capital referred to above, those incurred in the ordinary course of its business as an investment company since May 31, 2008, and those incurred in connection with the Merger. Prior to the Effective Date, the Acquiring Fund will advise the Acquired Fund in writing of all known liabilities, contingent or otherwise, whether or not incurred in the ordinary course of business, existing or accrued. For purposes of this paragraph 2.1(j), a decline in net asset value per share of the Acquiring Fund due to declines in market values of securities in the Acquiring Fund s portfolio or the discharge of the Acquiring Fund liabilities will not constitute a material adverse change.

(k) All federal and other tax returns and information reports of the Acquiring Fund required by law to have been filed shall have been filed and are or will be correct in all material respects, and all federal and other taxes shown as due or required to be shown as due on said returns and reports shall have been paid or provision shall have been made for the payment thereof, and, to the best of the Acquiring Fund s knowledge, no such return is currently under audit and no assessment has been asserted with respect to such returns. All tax liabilities of the Acquiring Fund have been adequately provided for on its books, and no tax deficiency or liability of the Acquiring Fund has been asserted and no question with respect thereto has been raised by the Internal Revenue Service or by any state or local tax authority for taxes in excess of those already paid, up to and including the taxable year in which the Effective Date occurs.

(l) For each taxable year of its operation, the Acquiring Fund has met the requirements of Subchapter M of the Code for qualification as a RIC and has elected to be treated as such, has been eligible to and has computed its federal income tax under Section 852 of the Code, and will have distributed substantially all of its investment company taxable income and net realized capital gain (as defined in the Code) that has accrued through the Effective Date.

(m) The Acquiring Fund has not taken any action and does not know of any fact or circumstance that could reasonably be expected to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

(n) The registration statement filed with the Securities and Exchange Commission (the SEC) by the Acquiring Fund on Form N-14 relating to the Acquiring Fund Common Stock to be issued pursuant to this Agreement, and any supplement or amendment thereto or to the documents therein (as amended, the Registration Statement), on the effective date of the Registration Statement, at the time of the stockholders meeting referred to in Article 4 of this Agreement and at the Effective Date, insofar as it relates to the Acquiring Fund (i) shall have complied or will comply in all material respects with the provisions of the 1933 Act, the 1934 Act and the 1940 Act and the rules and regulations thereunder and (ii) did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary

to make the statements therein not misleading; and the prospectus included therein did not or will not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that the representations and warranties in this paragraph 2.1(n) shall not apply to statements in, or omissions from, the Registration Statement made in reliance upon and in conformity with information furnished by the Acquired Fund for use in the Registration Statement.

(o) All issued and outstanding shares of Acquiring Fund Common Stock (i) have been offered and sold in compliance in all material respects with applicable registration requirements of the 1933 Act and state securities laws,

(ii) are, and on the Effective Date will be, duly and validly issued and outstanding, fully paid and non-assessable, and (iii) will be held at the time of the Closing by the persons and in the amounts set forth in the records of the transfer agent. The Acquiring Fund does not have outstanding any options, warrants or other rights to subscribe for or purchase any shares of Acquiring Fund Common Stock, nor is there outstanding any security convertible into, or exchangeable for, any shares of Acquiring Fund Common Stock.

(p) The Acquiring Fund is authorized to issue 100,000,000 shares of capital stock, par value $0.001 per share, all of which shares are classified as Common Stock (the Acquiring Fund Common Stock); each outstanding share of which is fully paid, non-assessable and has full voting rights.

(q) The offer and sale of the shares of Acquiring Fund Common Stock to be issued pursuant to this Agreement will be in compliance with all applicable federal and state securities laws.

(r) At or prior to the Effective Date, the Acquiring Fund will have obtained any and all regulatory, board and stockholder approvals necessary to issue the shares of Acquiring Fund Common Stock to be issued pursuant to this Agreement.

(s) The books and records of the Acquiring Fund made available to the Acquired Fund are substantially true and correct and contain no material misstatements or omissions with respect to the operations of the Acquiring Fund.

(t) The Acquiring Fund Board has not adopted a resolution electing to be subject to the Maryland Business Combination Act or the Maryland Control Share Acquisition Act.

2.2 *Representations and Warranties of the Acquired Fund*. The Acquired Fund represents and warrants to the Acquiring Fund that the statements contained in this paragraph 2.2 are correct and complete in all material respects as of the execution of this Agreement on the date hereof. The Acquired Fund represents and warrants to, and agrees with, the Acquiring Fund that:

(a) The Acquired Fund is a corporation duly organized, validly existing under the laws of the State of Maryland and is in good standing with the Department, and has the power to own all of its assets and to carry on its business as it is now being conducted and to carry out this Agreement.

(b) The Acquired Fund is duly registered under the 1940 Act as a closed-end, non-diversified management investment company (File No. 811-07066), and such registration has not been revoked or rescinded and is in full force and effect. The Acquired Fund has elected and qualified for the special tax treatment afforded RICs under Sections 851 855 of the Code at all times since its inception. The Acquired Fund is qualified as a foreign corporation in every jurisdiction where required, except to the extent that failure to so qualify would not have a material adverse effect on the Acquired Fund.

(c) No consent, approval, authorization or order of any court or governmental authority is required for the consummation by the Acquired Fund of the transactions contemplated herein, except (i) such as have been obtained or applied for under the 1933 Act, the 1934 Act and the 1940 Act, (ii) such as may be required by state securities laws and (iii) such as may be required under Maryland law for the acceptance for record of the Articles of Merger by the Department.

(d) The Acquired Fund is not, and the execution, delivery and performance of this Agreement by the Acquired Fund will not result, in violation of the laws of the State of Maryland or of the charter of the Acquired Fund (the Acquired Fund Charter), or the Bylaws, as amended, of the Acquired Fund, or of any material agreement, indenture, instrument, contract, lease or other undertaking to which the Acquired Fund is a party or by which it is bound, and the execution, delivery and performance of this Agreement by the Acquired Fund will not result in the acceleration of any obligation, or the imposition of any penalty, under any agreement, indenture, instrument, contract, lease, judgment or decree to which the Acquired Fund is a party or by which it is bound.

(e) The Acquiring Fund has been furnished with a statement of assets, liabilities and capital and a schedule of investments of the Acquired Fund, each as of the fiscal year ended August 31, 2008, said financial statements having been examined by KPMG LLP, independent public accountants. These financial statements are in accordance with GAAP and present fairly, in all material respects, the financial position of the Acquired Fund as of such date in accordance with GAAP, and there are no known contingent liabilities of the Acquired Fund required to be reflected on a balance sheet (including the notes thereto) in accordance with GAAP as of such date not disclosed therein.

(f) The Acquiring Fund has been furnished with the Acquired Fund s Annual Report to Stockholders for the fiscal year ended August 31, 2008.

(g) The Acquired Fund has full power and authority to enter into and perform its obligations under this Agreement. The execution, delivery and performance of this Agreement has been duly authorized by all necessary action of the Acquired Fund Board, and, subject to stockholder approval, this Agreement constitutes a valid and binding contract enforceable in accordance with its terms, subject to the effects of bankruptcy, insolvency, moratorium, fraudulent conveyance and similar laws relating to or affecting creditors rights generally and court decisions with respect thereto.

(h) No material litigation or administrative proceeding or investigation of or before any court or governmental body is presently pending (in which service of process has been received) or to its knowledge threatened against the Acquired Fund or any properties or assets held by it. The Acquired Fund knows of no facts that might form the basis for the institution of such proceedings which would materially and adversely affect its business and is not a party to or subject to the provisions of any order, decree or judgment of any court or governmental body which materially and adversely affects its business or its ability to consummate the transactions herein contemplated.

(i) There are no material contracts outstanding to which the Acquired Fund is a party that have not been disclosed in the Registration Statement or will not be otherwise disclosed to the Acquiring Fund prior to the Effective Date.

(j) Since February 28, 2008, there has not been any material adverse change in the Acquired Fund s financial condition, assets, liabilities or business and the Acquired Fund has no known liabilities of a material amount, contingent or otherwise, required to be disclosed in a balance sheet in accordance with GAAP other than those shown on the Acquired Fund s statements of assets, liabilities and capital referred to above, those incurred in the ordinary course of its business as an investment company since February 28, 2008, and those incurred in connection with the Merger. Prior to the Effective Date, the Acquired Fund will advise the Acquiring Fund in writing of all known liabilities, contingent or otherwise, whether or not incurred in the ordinary course of business, existing or accrued. For purposes of this paragraph 2.2(j), a decline in net asset value per share of the Acquired Fund due to declines in market values of securities in the Acquired Fund s portfolio or the discharge of the Acquired Fund liabilities will not constitute a material adverse change.

(k) All federal and other tax returns and information reports of the Acquired Fund required by law to have been filed shall have been filed and are or will be correct in all material respects, and all federal and other taxes shown as due or required to be shown as due on said returns and reports shall have been paid or provision shall have been made for the payment thereof, and, to the best of the Acquired Fund s knowledge, no such return is currently under audit and no assessment has been asserted with respect to such returns. All tax liabilities of the Acquired Fund have been adequately provided for on its books, and no tax deficiency or liability of the Acquired Fund has been asserted and no question with respect thereto has been raised by the Internal Revenue Service or by any state or local tax authority for taxes in excess of those already paid, up to and including the taxable year in which the Effective Date occurs.

(l) For each taxable year of its operation (including the taxable year ending on the Effective Date), the Acquired Fund has met the requirements of Subchapter M of the Code for qualification as a RIC and has elected to be treated as such, has been eligible to and has computed its federal income tax under Section 852 of the Code, and will have distributed substantially all of its investment company taxable income and net realized capital gain (as defined in the Code) that has accrued through the Effective Date.

(m) The Acquired Fund has not taken any action and does not know of any fact or circumstance that could reasonably be expected to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

(n) The Registration Statement, on the effective date of the Registration Statement, at the time of the stockholders meetings referred to in Article 4 of this Agreement and at the Effective Date, insofar as it relates to the Acquired Fund (i) shall have complied or will comply in all material respects with the provisions of the 1933 Act, the 1934 Act and the 1940 Act and the rules and regulations thereunder and (ii) did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the

statements therein not misleading; and the prospectus included therein did not or will not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that the representations and warranties in this paragraph 2.2(n) shall only apply to statements in, or omissions from, the Registration Statement made in reliance upon and in conformity with information furnished by the Acquiring Fund for use in the Registration Statement.

(o) All issued and outstanding shares of Acquired Fund Common Stock (i) have been offered and sold in compliance in all material respects with applicable registration requirements of the 1933 Act and state securities laws, (ii) are, and on the Effective Date will be, duly and validly issued and outstanding, fully paid and non-assessable, and

(iii) will be held at the time of the Closing by the persons and in the amounts set forth in the records of the transfer agent as provided in paragraph 4.7. The Acquired Fund does not have outstanding any options, warrants or other rights to subscribe for or purchase any shares of Acquired Fund Common Stock, nor is there outstanding any security convertible into, or exchangeable for, any shares of Acquired Fund Common Stock.

(p) The Acquired Fund is authorized to issue 100,000,000 shares of capital stock, par value $0.001 per share, all of which shares are classified as Common Stock (the Acquired Fund Common Stock), each outstanding share of which is fully paid, non-assessable and has full voting rights.

(q) The books and records of the Acquired Fund made available to the Acquiring Fund are substantially true and correct and contain no material misstatements or omissions with respect to the operations of the Acquired Fund.

(r) The Acquired Fund Board has not adopted a resolution electing to be subject to the Maryland Business Combination Act or the Maryland Control Share Acquisition Act.

3. CONVERSION TO THE ACQUIRING FUND COMMON STOCK

3.1 *Conversion.*

(a) Subject to the requisite approval of the stockholders of the parties, and the other terms and conditions contained herein, at the Effective Date, each share of Acquired Fund Common Stock will be converted into an equivalent dollar amount (to the nearest one tenth of one cent) of full shares of Acquiring Fund Common Stock, computed based on the net asset value per share of each of the parties at the Valuation Time.

(b) No fractional shares of Acquiring Fund Common Stock will be issued to the holders of Acquired Fund Common Stock. In lieu thereof, the Acquiring Fund will purchase all fractional shares of Acquiring Fund Common Stock at the current net asset value per share of Acquiring Fund Common Stock for the account of all holders of fractional interests, and each such holder will receive such holder s pro rata share of the proceeds of such purchase.

3.2 *Computation of Net Asset Value.* The net asset value per share of the Acquired Fund Common Stock and the Acquiring Fund Common Stock shall be determined as of the Valuation Time, and no formula will be used to adjust the net asset value per share so determined of either of the parties common stock to take into account differences in realized and unrealized gains and losses. The value of the assets of the Acquired Fund to be transferred to the Acquiring Fund shall be determined by the Acquiring Fund pursuant to the principles and procedures consistently utilized by the Acquiring Fund in valuing its own assets and determining its own liabilities for purposes of the Merger, which principles and procedures are substantially similar to those employed by the Acquired Fund when valuing its own assets and determining its own liabilities. Such valuation and determination shall be made by the Acquiring Fund in cooperation with the Acquired Fund and shall be confirmed in writing by the Acquiring Fund to the Acquired Fund. The net asset value per share of Acquiring Fund Common Stock shall be determined in accordance with such procedures, and the Acquiring Fund shall certify the computations involved.

3.3 *Issuance of the Acquiring Fund Common Stock.* The Acquiring Fund shall issue to the holders of Acquired Fund Common Stock separate certificates or share deposit receipts for Acquiring Fund Common Stock by delivering the certificates or share deposit receipts evidencing ownership of Acquiring Fund Common Stock to American Stock Transfer & Trust Company, as the transfer agent and registrar for the

Acquiring Fund Common Stock.

3.4 *Surrender of the Acquired Fund Stock Certificates*. With respect to any holder of Acquired Fund Common Stock holding certificates representing shares of Acquired Fund Common Stock as of the Effective Date, and subject to the Acquiring Fund being informed thereof in writing by the Acquired Fund, the Acquiring Fund will not permit such stockholder to receive new certificates evidencing ownership of Acquiring Fund Common Stock until such stockholder has surrendered his or her outstanding certificates evidencing ownership of Acquired Fund Common Stock or, in the event of lost certificates, posted adequate bond. The Acquired Fund will request its stockholders to surrender their outstanding certificates representing shares of Acquired Fund Common Stock or post adequate bond therefor. Dividends payable to holders of record of shares of Acquiring Fund Common Stock as of any date after the Effective Date and prior to the exchange of certificates by any holder of Acquired Fund Common Stock shall be paid to such stockholder, without interest; however, such dividends shall not be paid unless and until such stockholder surrenders his or her certificates representing shares of Acquired Fund Common Stock for exchange.

4. COVENANTS

4.1 *Operations in the Normal Course.* Each party covenants to operate its business in the ordinary course between the date hereof and the Effective Date, it being understood that such ordinary course of business will include (i) the declaration and payment of customary dividends and other distributions and (ii) in the case of the Acquired Fund, preparing for its deregistration, except that the distribution of dividends pursuant to paragraph 6.6 of this Agreement shall not be deemed to constitute a breach of the provisions of this paragraph 4.1.

4.2 *Stockholders Meeting*.

(a) The Acquired Fund shall hold a meeting of its stockholders for the purpose of considering the Merger as described herein, which meeting has been called for October 17, 2008, and any adjournments or postponements thereof.

(b) The Acquired Fund has mailed to each of its stockholders of record entitled to vote at the meeting of stockholders at which action is to be considered regarding the Merger in sufficient time to comply with requirements as to notice thereof, a combined Proxy Statement and Prospectus which complies in all material respects with the applicable provisions of Section 14(a) of the 1934 Act and Section 20(a) of the 1940 Act, and the rules and regulations, respectively, thereunder.

4.3 *Articles of Merger.* The parties agree that, as soon as practicable after satisfaction of all conditions to the Merger, they will jointly file executed Articles of Merger with the Department and make all other filings or recordings required by Maryland law in connection with the Merger.

4.4 *Regulatory Filings*.

(a) The Acquired Fund undertakes that, if the Merger is consummated, it will file, or cause its agents to file, an application pursuant to Section 8(f) of the 1940 Act for an order declaring that the Acquired Fund has ceased to be a registered investment company.

(b) The Acquiring Fund has filed the Registration Statement with the SEC, which has become effective. The Acquired Fund agrees to cooperate fully with the Acquiring Fund, and has furnished to the Acquiring Fund the information relating to itself as set forth in the Registration Statement as required by the 1933 Act, the 1934 Act, the 1940 Act, and the rules and regulations thereunder and the state securities or blue sky laws.

4.5 *Preservation of Assets*. The Acquiring Fund agrees that it has no plan or intention to sell or otherwise dispose of the assets of the Acquired Fund to be acquired in the Merger, except for dispositions made in the ordinary course of business.

4.6 *Tax Matters*. Each of the parties agrees that by the Effective Date all of its federal and other tax returns and reports required to be filed on or before such date shall have been filed and all taxes shown as due on said returns either have been paid or adequate liability reserves have been provided for the payment of such taxes. In connection with this covenant, the parties agree to cooperate with each other in filing any tax return,

amended return or claim for refund, determining a liability for taxes or a right to a refund of taxes or participating in or conducting any audit or other proceeding in respect of taxes. The Acquiring Fund agrees to retain for a period of ten (10) years following the Effective Date all returns, schedules and work papers and all material records or other documents relating to tax matters of the Acquired Fund for its final taxable year and for all prior taxable periods. Any information obtained under this paragraph 4.6 shall be kept confidential except as otherwise may be necessary in connection with the filing of returns or claims for refund or in conducting an audit or other proceeding. After the Effective Date, the Acquiring Fund shall prepare, or cause its agents to prepare, any federal, state or local tax returns, including any Forms 1099, required to be filed and provided to required persons by the Acquired Fund with respect to its final taxable years ending with the Effective Date and for any prior periods or taxable years for which the due date for such return has not passed as of the Effective Date and further shall cause such tax returns and Forms 1099 to be duly filed with the appropriate taxing authorities and provided to required persons. Notwithstanding the aforementioned provisions of this paragraph 4.6, any expenses incurred by the Acquiring Fund (other than for payment of taxes) in excess of any accrual for such expenses by the Acquired Fund in connection with the preparation and filing of said tax returns and Forms 1099 after the Effective Date shall be borne by the Acquiring Fund. The Acquiring Fund and the Acquired Fund will (i) use all reasonable best efforts to cause the Merger to constitute a reorganization under Section 368(a) of the Code and (ii) shall execute and deliver officer s certificates containing appropriate representations at such time or times as may be reasonably requested by counsel, including the effective date of the Registration Statement and the Closing Date, for purposes of rendering opinions with respect to the tax treatment of the Merger.

4.7 *Stockholder List*. Prior to the Effective Date, the Acquired Fund shall have made arrangements with its transfer agent to deliver to the Acquiring Fund a list of the names and addresses of all of the holders of record of Acquired Fund

Common Stock on the Effective Date and the respective number of shares of Acquired Fund Common Stock owned by each such stockholder, certified by the Acquired Fund s transfer agent or President to the best of their knowledge and belief.

4.8 *Delisting, Termination of Registration as an Investment Company*. The Acquired Fund agrees that the (i) delisting of the shares of the Acquired Fund with the NYSE and (ii) termination of its registration as a RIC will be effected in accordance with applicable law as soon as practicable following the Effective Date.

5. CONDITIONS PRECEDENT TO THE OBLIGATIONS OF THE ACQUIRED FUND

The obligations of the Acquired Fund to consummate the transactions provided for herein shall be subject, at the Acquired Fund s election, to the following conditions:

5.1 *Certificates and Statements by the Acquiring Fund.*

(a) The Acquiring Fund shall have furnished a statement of assets, liabilities and capital, together with a schedule of investments with their respective dates of acquisition and tax costs, certified on its behalf by its President (or any Vice President) and its Treasurer, and a certificate executed by both such officers, dated the Effective Date, certifying that there has been no material adverse change in its financial position since May 31, 2008, other than changes in its portfolio securities since that date or changes in the market value of its portfolio securities.

(b) The Acquiring Fund shall have furnished to the Acquired Fund a certificate signed by its President (or any Vice President), dated the Effective Date, certifying that as of the Effective Date, all representations and warranties made by the Acquiring Fund in this Agreement are true and correct in all material respects as if made at and as of such date and that the Acquiring Fund has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied at or prior to such date.

(c) The Acquiring Fund shall have delivered to the Acquired Fund a letter from KPMG LLP, dated the Effective Date, stating that such firm has performed a limited review of the federal, state and local income tax returns for the period ended May 31, 2008, and that based on such limited review, nothing came to their attention which caused them to believe that such returns did not properly reflect, in all material respects, the federal, state and local income taxes of the Acquiring Fund for the period covered thereby; and that for the period from May 31, 2008 to and including the Effective Date, such firm has performed a limited review to ascertain the amount of such applicable federal, state and local taxes, and has determined that either such amount has been paid or reserves established for payment of such taxes, this review to be based on unaudited financial data; and that based on such limited review, nothing has come to their attention which caused them to believe that the taxes paid or reserves set aside for payment of such taxes were not adequate in all material respects for the satisfaction of federal, state and local taxes for the period from May 31, 2008, to and including the Effective Date or that the Acquiring Fund would not continue to qualify as a RIC for federal income tax purposes.

5.2 *Absence of Litigation.* There shall be no material litigation pending with respect to the matters contemplated by this Agreement.

5.3 *Legal Opinion.* The Acquired Fund shall have received an opinion of Simpson Thacher & Bartlett LLP, as counsel to the Acquiring Fund, in form and substance reasonably satisfactory to the Acquired Fund and dated the Effective Date, to the effect that:

(i) the Acquiring Fund is a corporation duly organized, validly existing under the laws of the State of Maryland and in good standing with the Department;

(ii) the Acquiring Fund has the corporate power to carry on its business as a closed-end investment company registered under the 1940 Act;

(iii) the Agreement has been duly authorized, executed and delivered by the Acquiring Fund and, assuming due authorization, execution and delivery of the Agreement by the Acquired Fund, constitutes a valid and legally binding obligation of the Acquiring Fund enforceable in accordance with its terms;

(iv) to such counsel s knowledge, no consent, approval, authorization or order of any United States federal or Maryland or New York state court or governmental authority is required for the consummation by the Acquiring Fund of the Merger, except such as may be required under the 1933 Act, the 1934 Act, the 1940 Act and the published rules and regulations of the SEC thereunder and under Maryland law, New York law and such as may be required under state securities or blue sky laws;

(v) the Registration Statement has become effective under the 1933 Act and the combined Proxy Statement and Prospectus was filed on [ ], 2008 pursuant to Rule 497(c) of the rules and regulations of the SEC under the 1933 Act and, to such counsel s knowledge, no stop order suspending the effectiveness of the Registration Statement has been issued or proceeding for that purpose has been instituted or threatened by the SEC;

(vi) to such counsel s knowledge, there are no statutes, legal or governmental proceedings or contracts to which the Acquiring Fund is a party or by which it is bound required to be described in the Registration Statement which are not described therein or, if required to be filed, filed as required;

(vii) the execution and delivery of this Agreement does not, and the consummation of the Merger will not, violate any material provision of the Acquiring Fund Charter, the Bylaws, as amended, or any agreement set forth in a schedule to the opinion, which the Acquiring Fund has advised such counsel are all material contracts to which the Acquiring Fund is a party or by which it is bound, except insofar as the parties have agreed to amend such provision as a condition precedent to the Merger; and

(viii) to such counsel s knowledge, no material suit, action or legal or administrative proceeding is pending or threatened against the Acquiring Fund.

In giving the opinion set forth above, Simpson Thacher & Bartlett LLP may state that it is relying on certificates of officers of the Acquiring Fund with regard to matters of fact and certain certificates and written statements of governmental officials with respect to the good standing of the Acquiring Fund and on the opinion of DLA Piper US LLP as to matters of Maryland law.

5.4 *Auditors Consent and Certification*. The Acquired Fund shall have received from KPMG LLP a letter to the effect that (i) they are independent public accountants with respect to the Acquiring Fund within the meaning of the 1933 Act and the applicable published rules and regulations thereunder; and (ii) in their opinion, the financial statements and supplementary information of the Acquiring Fund incorporated by reference in the Registration Statement and reported on by them comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the published rules and regulations thereunder.

5.5 *Regulatory Orders*. The Acquiring Fund shall have received from any relevant state securities administrator such order or orders as are reasonably necessary or desirable under the 1933 Act, the 1934 Act, the 1940 Act, and any applicable state securities or blue sky laws in connection with the transactions contemplated hereby, and that all such orders shall be in full force and effect.

5.6 *Satisfaction of the Acquired Fund*. All proceedings taken by the Acquiring Fund and its counsel in connection with the Merger and all documents incidental thereto shall be satisfactory in form and substance to the Acquired Fund.

6. CONDITIONS PRECEDENT TO OBLIGATIONS OF THE ACQUIRING FUND

The obligations of the Acquiring Fund to consummate the transactions provided for herein shall be subject, at the Acquiring Fund s election, to the following conditions:

6.1 *Certificates and Statements by the Acquired Fund.*

(a) The Acquired Fund shall have furnished a statement of assets, liabilities and capital, together with a schedule of investments with their respective dates of acquisition and tax costs, certified on its behalf by its President (or any Vice President) and its Treasurer, and a certificate executed by both such officers, dated the Effective Date, certifying that there has been no material adverse change in its financial position since February 28, 2008, other than changes in its portfolio securities since that date or changes in the market value of its portfolio securities.

(b) The Acquired Fund shall have furnished to the Acquiring Fund a certificate signed by its President (or any Vice President), dated the Effective Date, certifying that as of the Effective Dates, all representations and warranties made by the Acquired Fund in this Agreement are true and correct in all material respects as if made at and as of such date and that the Acquired Fund has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied at or prior to such date.

(c) The Acquired Fund shall have delivered to the Acquiring Fund a letter from KPMG LLP, dated the Effective Date, stating that such firm has performed a limited review of the federal, state and local income tax returns for the

period ended August 31, 2008, and that based on such limited review, nothing came to their attention which caused them to believe that such returns did not properly reflect, in all material respects, the federal, state and local income taxes of the Acquired Fund for the period covered thereby; and that for the period from August 31, 2008 to and including the Effective Date and for any taxable year ending upon the Effective Date, such firm has performed a limited review to ascertain the amount of such applicable federal, state and local taxes, and has determined that either such amount has been paid or reserves have been established for payment of such taxes, this review to be based on unaudited financial data; and that based on such limited review, nothing has come to their attention which caused them to believe that the taxes paid or reserves set aside for payment of such taxes were not adequate in all material respects for the satisfaction of federal, state and local taxes for the period from August 31, 2008, to and including the Effective Date and for any taxable year ending upon the Effective Date or that the Acquired Fund would not continue to qualify as a RIC for federal income tax purposes.

6.2 *Absence of Litigation*. There shall be no material litigation pending with respect to the matters contemplated by this Agreement.

6.3 *Legal Opinion*. The Acquiring Fund shall have received an opinion of Simpson Thacher & Bartlett LLP, as counsel to the Acquired Fund, in form and substance reasonably satisfactory to the Acquiring Fund and dated the Effective Date, to the effect that:

(i) the Acquired Fund is a corporation duly organized, validly existing under the laws of the State of Maryland and in good standing with the Department;

(ii) the Acquired Fund has the corporate power to carry on its business as a closed-end investment company registered under the 1940 Act;

(iii) the Agreement has been duly authorized, executed and delivered by the Acquired Fund, and, assuming due authorization, execution and delivery of the Agreement by the Acquiring Fund, constitutes a valid and legally binding obligation of the Acquired Fund enforceable in accordance with its terms;

(iv) to such counsel s knowledge, no consent, approval, authorization or order of any United States federal or Maryland or New York state court or governmental authority is required for the consummation by the Acquired Fund of the Merger, except such as may be required under the 1933 Act, the 1934 Act, the 1940 Act and the published rules and regulations of the SEC thereunder and under Maryland law, New York law and such as may be required under state securities or blue sky laws;

(v) to such counsel s knowledge, there are no statutes, legal or governmental proceedings or contracts to which the Acquired Fund is a party or by which it is bound required to be described in the Registration Statement which are not described therein or, if required to be filed, filed as required;

(vi) the execution and delivery of this Agreement does not, and the consummation of the Merger will not, violate any material provision of the Acquired Fund Charter, the Bylaws, as amended, or any agreement set forth in a schedule to the opinion, which the Acquired Fund has advised such counsel are all material contracts to which the Acquired Fund is a party or by which it is bound, except insofar as the parties have agreed to amend such provision as a condition precedent to the Merger; and

(vii) to such counsel s knowledge, no material suit, action or legal or administrative proceeding is pending or threatened against the Acquired Fund.

In giving the opinion set forth above, Simpson Thacher & Bartlett LLP may state that it is relying on certificates of officers of the Acquired Fund with regard to matters of fact and certain certificates and written statements of governmental officials with respect to the good standing of the Acquired Fund and on the opinion of DLA Piper US LLP, as to matters of Maryland law.

6.4 *Auditor s Consent and Certification*. The Acquiring Fund shall have received from KPMG LLP a letter to the effect that (i) they are independent public accountants with respect to the Acquired Fund within the meaning of the 1933 Act and the applicable published rules and regulations thereunder; and (ii) in their opinion, the financial statements and supplementary information of the Acquired Fund included or incorporated by reference in the Registration Statement and reported on by them comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the published rules and regulations thereunder.

6.5 *Satisfaction of the Acquiring Fund*. All proceedings taken by the Acquired Fund and its counsel in connection with the Merger and all documents incidental thereto shall be satisfactory in form and substance to the Acquiring Fund.

6.6 *Dividends*. Prior to the Effective Date, the Acquired Fund shall have declared and paid a dividend or dividends which, together with all such previous dividends, shall have the effect of distributing to its stockholders substantially all of its net investment income that has accrued through the Effective Date, if any, and substantially all of its net capital gain, if any, realized through the Effective Date.

6.7 *Custodian s Certificate*. The Acquired Fund s custodian shall have delivered to the Acquiring Fund a certificate identifying all of the assets of the Acquired Fund held or maintained by such custodian as of the Valuation Time.

6.8 *Books and Records*. The Acquired Fund s transfer agent shall have provided to the Acquiring Fund (i) the originals or true copies of all of the records of the Acquired Fund in the possession of such transfer agent as of the Effective Date, (ii) a certificate setting forth the number of shares of Acquired Fund Common Stock outstanding as of the Valuation Time, and (iii) the name and address of each holder of record of any shares and the number of shares held of record by each such stockholder.

7. FURTHER CONDITIONS PRECEDENT TO OBLIGATIONS OF ACQUIRING FUND AND ACQUIRED FUND

If any of the conditions set forth below have not been satisfied on or before the Closing Date with respect to the Acquired Fund or the Acquiring Fund, the other party to this Agreement shall be entitled, at its option, to refuse to consummate the transactions contemplated by this Agreement:

7.1 *Approval of Merger*. The Merger shall have been approved by the affirmative vote of the holders of a majority of the issued and outstanding shares of the Acquired Fund Common Stock entitled to vote thereon; the Acquiring Fund shall have delivered to the Acquired Fund a copy of the resolutions approving this Agreement adopted by the Acquiring Fund Board, certified by its secretary; the Acquired Fund shall have delivered to the Acquiring Fund a copy of the resolutions approving this Agreement adopted by the Acquired Fund Board and the Acquiring Fund s stockholders, certified by its secretary.

7.2 *Regulatory Filings*.

(a) Any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, relating to the transactions contemplated hereby shall have expired or been terminated.

(b) The SEC shall not have issued an unfavorable advisory report under Section 25(b) of the 1940 Act, nor instituted or threatened to institute any proceeding seeking to enjoin consummation of the Merger under Section 25(c) of the 1940 Act; no other legal, administrative or other proceeding shall be instituted or threatened which would materially affect the financial condition of the Acquired Fund or would prohibit the Merger.

(c) On the Closing Date, no court or governmental agency of competent jurisdiction shall have issued any order that remains in effect and that restrains or enjoins the Acquired Fund or the Acquiring Fund from completing the transactions contemplated by this Agreement.

7.3 *Consents*. All consents of other parties and all other consents, orders and permits of federal, state and local regulatory authorities deemed necessary by the Acquiring Fund or the Acquired Fund to permit consummation, in all material respects, of the transactions contemplated hereby shall have been obtained, except where failure to obtain any such consent, order or permit would not involve a risk of a material adverse effect on the assets or properties of the Acquiring Fund or the Acquired Fund, provided that either party hereto may for itself waive any of such conditions.

7.4 *Registration Statement*. The Registration Statement shall have become effective under the 1933 Act and no stop orders suspending the effectiveness thereof shall have been issued and, to the best knowledge of the parties hereto, no investigation or proceeding for that purpose shall have been instituted or be pending.

7.5 *Tax Opinion*. The parties shall have received the opinion of Simpson Thacher & Bartlett LLP, dated the Closing Date, substantially to the effect that, based upon certain facts, assumptions and representations made by the Acquired Fund, the Acquiring Fund and their respective authorized officers:

(i) the Merger as provided in this Agreement will constitute a reorganization within the meaning of Section 368(a)(1) of the Code and that the Acquiring Fund and the Acquired Fund will each be a party to a reorganization within the meaning of Section 368(b) of the Code;

(ii) except for consequences regularly attributable to a termination of the Acquired Fund s taxable year, no gain or loss will be recognized to the Acquired Fund as a result of the Merger or upon the conversion of shares of Acquired Fund Common Stock to shares of Acquiring Fund Common Stock;

(iii) no gain or loss will be recognized to the Acquiring Fund as a result of the Merger or upon the conversion of shares of Acquired Fund Common Stock to shares of Acquiring Fund Common Stock;

(iv) no gain or loss will be recognized to the stockholders of the Acquired Fund upon the conversion of their shares of Acquired Fund Common Stock to shares of Acquiring Fund Common Stock, except to the extent such stockholders are paid cash in lieu of fractional shares of Acquiring Fund Common Stock in the Merger;

(v) the tax basis of the Acquired Fund assets in the hands of the Acquiring Fund will be the same as the tax basis of such assets in the hands of the Acquired Fund immediately prior to the consummation of the Merger;

(vi) immediately after the Merger, the aggregate tax basis of the Acquiring Fund Common Stock received by each holder of Acquired Fund Common Stock in the Merger (including that of fractional share interests purchased by the Acquiring Fund) will be equal to the aggregate tax basis of the shares of Acquired Fund Common Stock owned by such stockholder immediately prior to the Merger;

(vii) a stockholder s holding period for Acquiring Fund Common Stock (including that of fractional share interests purchased by the Acquiring Fund) will be determined by including the period for which he or she held shares of Acquired Fund Common Stock converted pursuant to the Merger, provided that such shares of Acquired Fund Common Stock were held as capital assets;

(viii) the Acquiring Fund s holding period with respect to the Acquired Fund s assets transferred will include the period for which such assets were held by the Acquired Fund; and

(ix) the payment of cash to the holders of Acquired Fund Common Stock in lieu of fractional shares of Acquiring Fund Common Stock will be treated as though such fractional shares were distributed as part of the Merger and then redeemed by the Acquiring Fund with the result that the holder of Acquired Fund Common Stock will generally have a capital gain or loss to the extent the cash distribution differs from such stockholder s basis allocable to the fractional shares of Acquiring Fund Common Stock.

The delivery of such opinion is conditioned upon the receipt by Simpson Thacher & Bartlett LLP of representations it shall request of the Acquiring Fund and the Acquired Fund. Notwithstanding anything herein to the contrary, neither the Acquiring Fund nor the Acquired Fund may waive the condition set forth in this paragraph 7.5.

7.6 *Assets and Liabilities*. The assets and liabilities of the Acquired Fund to be transferred to the Acquiring Fund shall not include any assets or liabilities which the Acquiring Fund, by reason of limitations in its Registration Statement or the Acquiring Fund Charter, may not properly acquire or assume. The Acquiring Fund does not anticipate that there will be any such assets or liabilities but the Acquiring Fund will notify the Acquired Fund if any do exist and will reimburse the Acquired Fund for any reasonable transaction costs incurred by the Acquired Fund for the liquidation of such assets and liabilities.

8. INDEMNIFICATION

8.1 *The Acquiring Fund*. The Acquiring Fund, out of its assets and property, agrees to indemnify and hold harmless the Acquired Fund and the members of the Acquired Fund Board and its officers from and against any and all losses, claims, damages, liabilities or expenses (including, without limitation, the payment of reasonable legal fees and reasonable costs of investigation) to which the Acquired Fund and those board members and officers may become subject, insofar as such loss, claim, damage, liability or expense (or actions with respect thereto) arises out of or is based on (a) any breach by the Acquiring Fund of any of its representations, warranties, covenants or agreements set forth in this Agreement or (b) any act, error, omission, neglect, misstatement, materially misleading statement, breach of duty or other act wrongfully done or attempted to be committed by the Acquiring Fund or the members of the Acquiring Fund Board or its officers prior to the Closing Date, provided that such indemnification by the Acquiring Fund is not (i) in violation of any applicable law or (ii) otherwise prohibited as a result of any applicable order or decree issued by any governing regulatory authority or court of competent jurisdiction.

8.2 *The Acquired Fund*. The Acquired Fund, out of its assets and property, agrees to indemnify and hold harmless the Acquiring Fund and the members of the Acquiring Fund Board and its officers from and against any and all losses, claims,

damages, liabilities or expenses (including, without limitation, the payment of reasonable legal fees and reasonable costs of investigation) to which the Acquiring Fund and those board members and officers may become subject, insofar as such loss, claim, damage, liability or expense (or actions with respect thereto) arises out of or is based on (a) any breach by the Acquired Fund of any of its representations, warranties, covenants or agreements set forth in this Agreement or (b) any act, error, omission, neglect, misstatement, materially misleading statement, breach of duty or other act wrongfully done or attempted to be committed by the Acquired Fund or the members of the Acquired Fund Board or its officers prior to the Closing Date, provided that such indemnification by the Acquired Fund is not (i) in violation of any applicable law or (ii) otherwise prohibited as a result of any applicable order or decree issued by any governing regulatory authority or court of competent jurisdiction.

9. BROKER FEES AND EXPENSES

9.1 *No Broker Fees*. The Acquiring Fund and the Acquired Fund represent and warrant to each other that there are no brokers or finders entitled to receive any payments in connection with the transactions provided for herein.

9.2 *Payment of Expenses.* Half of all expenses incurred in connection with the Merger of the Acquiring Fund and the Acquired Fund will be borne by the Acquiring Fund and the Acquired Fund in proportion to their respective total assets in the event the Merger is consummated. The other 50% of all expenses incurred in connection with the Merger of the Acquiring Fund and the Acquired Fund will be borne by Legg Mason, Inc. and its affiliates. Such expenses shall include, but not be limited to, all costs related to the preparation and distribution of the Registration Statement, proxy solicitation expenses, SEC registration fees, and NYSE listing fees. Neither of the Acquiring Fund and the Acquired Fund owes any broker s or finder s fees in connection with the transactions provided for herein.

10. COOPERATION FOLLOWING EFFECTIVE DATE

In case at any time after the Effective Date any further action is necessary to carry out the purposes of this Agreement, each of the parties will take such further action (including the execution and delivery of such further instruments and documents) as the other party may reasonably request, all at the sole cost and expense of the requesting party (unless the requesting party is entitled to indemnification as described below). The Acquired Fund acknowledges and agrees that from and after the Effective Date, the Acquiring Fund shall be entitled to possession of all documents, books, records, agreements and financial data of any sort pertaining to the Acquired Fund.

11. ENTIRE AGREEMENT; SURVIVAL OF WARRANTIES

11.1 *Entire Agreement*. The Acquiring Fund and the Acquired Fund agree that neither party has made any representation, warranty or covenant not set forth herein and that this Agreement constitutes the entire agreement between the parties.

11.2 *Survival of Warranties*. The covenants to be performed after the Closing by both the Acquiring Fund and the Acquired Fund, and the obligations of the Acquiring Fund in Article 8, shall survive the Closing. All other representations, warranties and covenants contained in this Agreement or in any document delivered pursuant hereto or in connection herewith shall not survive the consummation of the transactions contemplated hereunder and shall terminate on the Closing.

12. TERMINATION AND WAIVERS

12.1 *Termination*. This Agreement may be terminated and the transactions contemplated hereby may be abandoned at any time prior to the Closing Date by resolution of either the Acquiring Fund Board or the Acquired Fund Board, if circumstances should develop that, in the opinion of that board, make proceeding with the Agreement inadvisable with respect to the Acquiring Fund or the Acquired Fund, respectively. Any such termination resolution to be effective shall be promptly communicated to the other party and, in any event, prior to the Closing Date. In the event of termination of this Agreement pursuant to the provisions hereof, the Agreement shall become void and have no further effect, and there shall not be any liability hereunder on the part of either of the parties or their respective board members or officers, except for any such material breach or intentional misrepresentation, as to each of which all remedies at law or in equity of the party adversely affected shall survive.

12.2 *Waiver*. At any time prior to the Effective Date, any of the terms or conditions of this Agreement may be waived by either the Acquired Fund Board or the Acquiring Fund Board (whichever is entitled to the benefit thereof), if, in the

judgment of such board after consultation with its counsel, such action or waiver will not have a material adverse effect on the benefits intended in this Agreement to the stockholders of their respective fund, on behalf of which such action is taken.

13. TRANSFER RESTRICTION

Pursuant to Rule 145 under the 1933 Act, and in connection with the issuance of any shares to any person who at the time of the Merger is, to its knowledge, an affiliate of a party to the Merger pursuant to Rule 145(c), the Acquiring Fund will cause to be affixed upon the certificate(s) issued to such person (if any) a legend as follows:

THESE SHARES ARE SUBJECT TO RESTRICTIONS ON TRANSFER UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT TO WESTERN ASSET EMERGING MARKETS INCOME FUND II INC. (OR ITS STATUTORY SUCCESSOR) UNLESS (I) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE SECURITIES ACT OF 1933 OR (II) IN THE OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE FUND, SUCH REGISTRATION IS NOT REQUIRED.

and, further, that stop transfer instructions will be issued to the Acquiring Fund s transfer agent with respect to such shares. The Acquired Fund will provide the Acquiring Fund on the Effective Date with the name of any Acquired Fund Stockholder who is to the knowledge of the Acquired Fund an affiliate of it on such date.

14. MATERIAL PROVISIONS

All covenants, agreements, representations and warranties made under this Agreement and any certificates delivered pursuant to this Agreement shall be deemed to have been material and relied upon by each of the parties, notwithstanding any investigation made by them or on their behalf.

15. AMENDMENTS

This Agreement may be amended, modified or supplemented in such manner as may be deemed necessary or advisable by the authorized officers of the Acquired Fund and the Acquiring Fund; provided, however, that following the meeting of the Acquired Fund stockholders called by the Acquired Fund pursuant to paragraph 4.2 of this Agreement, no such amendment may have the effect of changing the provisions for determining the number of shares of Acquiring Fund Common Stock to be issued to the holders of Acquired Fund Common Stock under this Agreement to the detriment of such stockholders without their further approval.

16. NOTICES

Any notice, report, statement or demand required or permitted by any provisions of this Agreement shall be in writing and shall be given by facsimile, electronic delivery (i.e., e-mail), personal service or prepaid or certified mail addressed to the Acquiring Entity or the Acquired Entity, at its address set forth in the preamble to this Agreement, in each case to the attention of its President.

17. ENFORCEABILITY; HEADINGS; COUNTERPARTS; GOVERNING LAW; SEVERABILITY; ASSIGNMENT; LIMITATION OF LIABILITY

17.1 *Enforceability*. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

17.2 *Headings*. The Article headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

17.3 *Counterparts*. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original.

17.4 *Governing Law*. This Agreement shall be governed by and construed and interpreted in accordance with the internal laws of the State of New York.

17.5 *Successors and Assigns*. This Agreement shall bind and inure to the benefit of the parties hereto and their respective successors and assigns, but no assignment or transfer hereof or of any rights or obligations hereunder shall be made by any party without the written consent of the other party. Nothing herein expressed or implied is intended or shall be construed to confer upon or give any person, firm or corporation, other than the parties hereto and their respective successors and assigns, any rights or remedies under or by reason of this Agreement.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by its duly authorized officer.

WESTERN ASSET EMERGING MARKETS INCOME FUND INC.

By:
Name:
Title:

WESTERN ASSET EMERGING MARKETS INCOME FUND II INC.

By:
Name:
Title:

APPENDIX B

DESCRIPTION OF MOODY S AND S&P RATINGS

The definitions of the applicable rating symbols are set forth below:

Standard & Poor s Ratings Service (Standard & Poor s) Ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sig to show relative standings within the major rating categories.

AAA	Bonds rated AAA have the highest rating assigned by Standard & Poor s. Capacity to pay interest and repay principal is extremely strong.
AA	Bonds rated AA have a very strong capacity to pay interest and repay principal and differ from the highest rated issues only in a small degree.
A	Bonds rated A have a strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.
BBB	Bonds rated BBB are regarded as having an adequate capacity to pay interest and repay principal. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.
BB, B, CCC, CC and C	Bonds rated BB , B , CCC , CC and C are regarded, on balance, as predominantly speculative with respect to capacity to pay inte and repay principal in accordance with the terms of the obligation. BB represents the lowest degree of speculation and C the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.
D	Bonds rated D are in default and payment of interest and/or repayment of principal is in arrears.

Moody s Investors Service (Moody s) Numerical modifiers 1, 2 and 3 may be applied to each generic rating from Aa to Caa, where 1 is the high and 3 the lowest ranking within its generic category.

Aaa	Bonds rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as gilt edge. Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.
Aa	Bonds rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.
A	Bonds rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment some time in the future.
Baa	Bonds rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.
Ba	

	Bonds rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and therefore not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.
B	Bonds rated B generally lack characteristics of desirable investments. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa	Bonds rated Caa are of poor standing. These may be in default, or present elements of danger may exist with respect to principal or interest.
Ca	Bonds rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked short-comings.
C	Bonds rated C are the lowest class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.
NR	Indicates that the bond is not rated by Standard & Poor s, Moody s or Fitch Ratings Service.
Short-Term Security Ratings:	
SP-1	Standard & Poor s highest rating indicating very strong or strong capacity to pay principal and interest; those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign.
A-1	Standard & Poor s highest commercial paper and variable-rate demand obligation (VRDO) rating indicating that the degree of safety regarding timely payment is either overwhelming or very strong; those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign.
VMIG 1	Moody s highest rating for issues having a demand feature VRDO.
MIG1	Moody s highest rating for short-term municipal obligations.
P-1	Moody s highest rating for commercial paper and for VRDO prior to the advent of the VMIG 1 rating.

APPENDIX C

LEGG MASON PARTNERS FUND ADVISOR, LLC

Proxy Voting Policy

LMPFA delegates to each sub-adviser the responsibility for voting proxies for its funds, as applicable, through its contracts with each sub-adviser. Each sub-adviser may use its own proxy voting policies and procedures to vote proxies of the funds if the funds Board reviews and approves the use of those policies and procedures. Accordingly, LMPFA does not expect to have proxy-voting responsibility for any of the funds.

Should LMPFA become responsible for voting proxies for any reason, such as the inability of a sub-adviser to provide investment advisory services, LMPFA shall utilize the proxy voting guidelines established by the most recent sub-adviser to vote proxies until a new sub-adviser is retained and the use of its proxy voting policies and procedures is authorized by the Board. In the case of a material conflict between the interests of LMPFA (or its affiliates if such conflict is known to persons responsible for voting at LMPFA) and any fund, the Board of Directors of LMPFA shall consider how to address the conflict and/or how to vote the proxies. LMPFA shall maintain records of all proxy votes in accordance with applicable securities laws and regulations.

LMPFA shall be responsible for gathering relevant documents and records related to proxy voting from each sub-adviser and providing them to the funds as required for the funds to comply with applicable rules under the Investment Company Act of 1940. LMPFA shall also be responsible for coordinating the provision of information to the Board with regard to the proxy voting policies and procedures of each sub-adviser, including the actual proxy voting policies and procedures of each sub-adviser, changes to such policies and procedures, and reports on the administration of such policies and procedures.

Western Asset Emerging Markets Income Fund II Inc.

STATEMENT OF ADDITIONAL INFORMATION

September 12, 2008

This Statement of Additional Information, which is not a prospectus, supplements and should be read in conjunction with the Proxy Statement/Prospectus dated September 12, 2008, relating specifically to the proposed merger of Western Asset Emerging Markets Income Fund Inc. (EMD) with and into Western Asset Emerging Markets Income Fund II Inc. (EDF, and together with EMD, the Funds) in accordance with the Maryland General Corporation Law (the Merger). You may obtain a copy of the Proxy Statement/Prospectus to by contacting Legg Mason Shareholder Services at 800-822-5544, by writing EDF at the address listed above or by visiting our website at *www.leggmason.com/cef*. The Merger is to occur pursuant to an Agreement and Plan of Merger. Unless otherwise indicated, capitalized terms used herein and not otherwise defined have the same meanings as are given to them in the Proxy Statement/Prospectus.

TABLE OF CONTENTS

GENERAL INFORMATION

A Special Meeting of Stockholders of EMD, at which EMD stockholders will consider the Merger, will be held at 620 Eighth Avenue, 49th Floor, New York, New York, on Monday, October 17, 2008 at 4:00 p.m., Eastern Standard Time. For further information about the Merger, see the Proxy Statement/Prospectus.

FINANCIAL STATEMENTS

The Statement of Additional Information related to the Proxy Statement/Prospectus dated September 12, 2008 consists of this cover page, the accompanying pro forma financial statements and the following documents, each of which was filed electronically with the SEC and is incorporated by reference herein:

The financial statements of each Fund as included in the Funds Annual Reports filed for the last-completed fiscal year and semi-annual period, if applicable, for each Fund:

Western Asset Emerging Markets Income Fund II Inc., Annual Report to Stockholders for the Fiscal Year Ended May 31, 2008, filed on August 7, 2008 (accession no. 0001104659-08-050830).

Western Asset Emerging Markets Income Fund Inc., Semi-Annual Report to Stockholders for the Semi-Annual Period Ended February 29, 2008, filed on May 5, 2008 (accession no. 0001104659-08-029949).

Western Asset Emerging Markets Income Fund Inc., Annual Report to Stockholders for the Fiscal Year Ended August 31, 2007, filed on November 8, 2007 (accession no. 0001104659-07-081146).

PRO FORMA FINANCIAL STATEMENTS

Shown below are the financial statements for each Fund and *pro forma* financial statements for the combined Fund. The first table presents the Schedule of Investments for each Fund and *pro forma* figures for the combined Fund, assuming the merger was consummated as of May 31, 2008. The second table presents the Statements of Assets and Liabilities for each Fund and estimated *pro forma* figures for the combined Fund, assuming the merger was consummated as of May 31, 2008. The third table presents the Statements of Operations for each Fund and estimated *pro forma* figures for the combined Fund, assuming the merger was consummated as of June 1, 2007. These tables are followed by the Notes to the *Pro Forma* Financial Statements.

Because the securities in which Western Asset Emerging Markets Income Fund Inc. (EMD) may invest are permissible for investments under the investment objectives and policies of Western Asset Emerging Markets Income Fund II Inc. (EDF), the sale of EMD portfolio securities in connection with the merger will be minimal and there will be no adverse tax consequences as a result of these sales.

Pro Forma Combined Schedule of Investments

Western Asset Emerging Markets Income Fund and Western Asset Emerging Markets Income Fund II

As of May 31, 2008 (unaudited)

Western Asset Emerging Markets Income Fund Face Amount	Western Asset Emerging Markets Income Fund II Face Amount	Pro Forma Combined Western Asset Emerging Markets Income Fund II Face Amount		Security	Western Asset Emerging Markets Income Fund Value	Western Asset Emerging Markets Income Fund II Value	Pro Forma Adjustments Value	Pro Forma Combined Western Asset Emerging Markets Income Fund II Value
SOVEREIGN BONDS 48.6%								
Argentina 4.0%								
				Republic of Argentina:				
	2,000,000	2,000,000	DEM	10.250% due 2/6/03 (a)		$ 501,113		$ 501,113
	1,000,000	1,000,000	DEM	9.000% due 9/19/03 (a)		234,648		234,648
500,000	3,000,000	3,500,000	DEM	7.000% due 3/18/04 (a)	$ 120,108	720,648		840,756
	3,875,000	3,875,000	DEM	8.500% due 2/23/05 (a)		950,872		950,872
	5,400,000	5,400,000	DEM	11.250% due 4/10/06 (a)		1,331,529		1,331,529
1,000,000		1,000,000	EUR	9.000% due 4/26/06 (a)	466,710			466,710
	1,000,000	1,000,000	DEM	11.750% due 5/20/11 (a)		246,579		246,579
550,000		550,000	EUR	9.000% due 7/6/10 (a)	241,717			241,717
	8,800,000	8,800,000	DEM	12.000% due 9/19/16 (a)		2,064,903		2,064,903
950,000		950,000	DEM	11.750% due 11/13/26 (a)	221,027			221,027
670,192	3,501,022	4,171,214	ARS	5.830% due 12/31/33 (c)	191,412	999,918		1,191,330
				Bonds:				
365,400	2,357,769	2,723,169	ARS	2.000% due 1/3/10 (c)	259,045	1,671,506		1,930,551
34,000	591,000	625,000		7.000% due 9/12/13	26,998	469,287		496,285
				GDP Linked Securities:				
600,000	3,200,000	3,800,000	EUR	1.262% due 12/15/35 (c)	84,008	448,042		532,050
490,000	2,705,000	3,195,000		1.318% due 12/15/35 (c)	53,287	294,169		347,456
10,662,020	57,059,503	67,721,523	ARS	1.383% due 12/15/35 (c)	294,915	1,578,287		1,873,202
				Medium-Term Notes:				
500,000,000	6,000,000,000	6,500,000,000	ITL	7.000% due 3/18/04 (a)	121,524	1,458,283		1,579,807
	3,000,000,000	3,000,000,000	ITL	5.002% due 7/13/05 (a)		698,992		698,992
	1,000,000,000	1,000,000,000	ITL	7.625% due 8/11/07 (a)		237,011		237,011
1,000,000		1,000,000	EUR	10.000% due 2/22/07 (a)	490,046			490,046
	625,000	625,000	DEM	8.000% due 10/30/09 (a)		143,672		143,672

Total Argentina	**2,570,797**	**14,049,459**	**16,620,256**

Western Asset Emerging Markets Income Fund Face Amount	Western Asset Emerging Markets Income Fund II Face Amount	Pro Forma Combined Western Asset Emerging Markets Income Fund II Face Amount		Security	Western Asset Emerging Markets Income Fund Value	Western Asset Emerging Markets Income Fund II Value	Pro Forma Adjustments Value	Pro Forma Combined Western Asset Emerging Markets Income Fund II Value
Brazil 11.5%								
				Brazil Nota do Tesouro Nacional:				
1,000	1,000	2,000	BRL	10.000% due 1/1/10	$ 579	$ 579		$ 1,158
8,243,000	47,854,000	56,097,000	BRL	10.000% due 7/1/10 (d)	4,703,245	27,304,270		32,007,515
1,433,000	7,616,000	9,049,000	BRL	10.000% due 1/1/12	789,238	4,194,581		4,983,819
1,018,000	5,770,000	6,788,000	BRL	6.000% due 5/15/17	1,009,617	5,722,486		6,732,103
				Federative Republic of Brazil,				
505,000	3,042,000	3,547,000		7.125% due 1/20/37	593,375	3,574,350		4,167,725
				Collective Action Securities,				
	1,000	1,000		Notes, 8.000% due 1/15/18		1,143		1,143
				Total Brazil	**7,096,054**	**40,797,409**		**47,893,463**
Colombia 3.0%								
				Republic of Colombia:				
	1,632,000	1,632,000		7.375% due 1/27/17		1,858,440		1,858,440
1,700,000	7,711,000	9,411,000		7.375% due 9/18/37	1,935,875	8,780,901		10,716,776
				Total Colombia	**1,935,875**	**10,639,341**		**12,575,216**
Ecuador 1.4%								
				Republic of Ecuador,				
877,000	4,840,000	5,717,000		10.000% due 8/15/30 (e)	**890,155**	**4,912,600**		**5,802,755**
Egypt 0.5%								
				Arab Republic of Egypt,				
1,460,000	11,070,000	12,530,000	EGP	8.750% due 7/18/12 (e)	**272,342**	**2,064,951**		**2,337,293**
Gabon 0.5%								
				Gabonese Republic,				
317,000	1,843,000	2,160,000		8.200% due 12/12/17 (e)	**340,379**	**1,978,921**		**2,319,300**
Indonesia 2.2%								
				Republic of Indonesia:				
4,928,000,000	28,181,000,000	33,109,000,000	IDR	10.250% due 7/15/22	439,185	2,511,501		2,950,686
3,799,000,000	21,153,000,000	24,952,000,000	IDR	11.000% due 9/15/25	353,847	1,970,233		2,324,080
3,120,000,000	17,914,000,000	21,034,000,000	IDR	10.250% due 7/15/27	271,461	1,558,637		1,830,098
3,727,000,000	21,312,000,000	25,039,000,000	IDR	9.750% due 5/15/37	300,208	1,716,674		2,016,882
				Total Indonesia	**1,364,701**	**7,757,045**		**9,121,746**
Mexico 5.1%								
				United Mexican States, Medium-Term Notes:				

1,830,000		1,830,000	5.625% due 1/15/17	1,885,815		1,885,815
	8,525,000	8,525,000	8.000% due 9/24/22		10,558,212	10,558,212
	2,395,000	2,395,000	8.300% due 8/15/31		3,075,779	3,075,779
1,380,000	4,470,000	5,850,000	6.050% due 1/11/40	1,366,200	4,425,300	5,791,500
			Total Mexico	**3,252,015**	**18,059,291**	**21,311,306**
Panama 4.4%						
			Republic of Panama:			
5,000		5,000	9.625% due 2/8/11	5,650		5,650
54,000	2,225,000	2,279,000	9.375% due 4/1/29	73,130	3,013,206	3,086,336
2,489,000	11,793,000	14,282,000	6.700% due 1/26/36	2,619,672	12,412,133	15,031,805
			Total Panama	**2,698,452**	**15,425,339**	**18,123,791**

Western Asset Emerging Markets Income Fund Face Amount	Western Asset Emerging Markets Income Fund II Face Amount	Pro Forma Combined Western Asset Emerging Markets Income Fund II Face Amount		Security	Western Asset Emerging Markets Income Fund Value	Western Asset Emerging Markets Income Fund II Value	Pro Forma Adjustments Value	Pro Forma Combined Western Asset Emerging Markets Income Fund II Value
Peru 0.4%								
				Republic of Peru:				
	169,000	169,000		8.750% due 11/21/33		$ 223,925		$ 223,925
202,000	1,073,000	1,275,000		Bonds, 6.550% due 3/14/37	$ 212,605	1,129,333		1,341,938
				Total Peru	**212,605**	**1,353,258**		**1,565,863**
Russia 1.0%								
				Russian Federation:				
750,000		750,000		11.000% due 7/24/18 (e)	1,073,437			1,073,437
455,000	1,350,000	1,805,000		12.750% due 6/24/28 (e)	817,294	2,424,937		3,242,231
				Total Russia	**1,890,731**	**2,424,937**		**4,315,668**
Turkey 8.4%								
				Republic of Turkey:				
920,000	5,206,000	6,126,000	TRY	14.000% due 1/19/11	670,560	3,794,492		4,465,052
919,000	3,519,000	4,438,000		11.875% due 1/15/30 (d)	1,396,032	5,345,634		6,741,666
3,465,000	22,449,000	25,914,000		Notes, 6.875% due 3/17/36 (d)	3,157,481	20,456,651		23,614,132
				Total Turkey	**5,224,073**	**29,596,777**		**34,820,850**
Venezuela 6.2%								
				Bolivarian Republic of Venezuela:				
1,053,000	7,751,000	8,804,000		8.500% due 10/8/14	995,085	7,324,695		8,319,780
1,089,000	5,713,000	6,802,000		5.750% due 2/26/16	860,310	4,513,270		5,373,580
217,000	716,000	933,000		7.650% due 4/21/25	171,430	565,640		737,070
				Collective Action Securities:				
844,000	6,395,000	7,239,000		9.375% due 1/13/34	746,940	5,659,575		6,406,515
1,100,000	3,500,000	4,600,000		Notes, 10.750% due 9/19/13	1,149,500	3,657,500		4,807,000
				Total Venezuela	**3,923,265**	**21,720,680**		**25,643,945**
				TOTAL SOVEREIGN BONDS (Cost $195,912,994)	**31,671,444**	**170,780,008**		**202,451,452**
COLLATERALIZED SENIOR LOANS 0.5%								
United States 0.5%								
				Ashmore Energy International:				
				Synthetic Revolving Credit				
36,179	212,617	248,796		Facility, 5.496% due 3/30/12 (c)(e)	32,607	191,621		224,228
				Term Loan, 5.696% due				
299,281	1,760,994	2,060,275		3/30/14 (c)(e)	269,726	1,587,096		1,856,822
				TOTAL COLLATERALIZED SENIOR LOANS (Cost $2,176,106)	**302,333**	**1,778,717**		**2,081,050**

Western Asset Emerging Markets Income Fund Face Amount	Western Asset Emerging Markets Income Fund II Face Amount	Pro Forma Combined Western Asset Emerging Markets Income Fund II Face Amount	Security	Western Asset Emerging Markets Income Fund Value	Western Asset Emerging Markets Income Fund II Value	Pro Forma Adjustments Value	Pro Forma Combined Western Asset Emerging Markets Income Fund II Value
CORPORATE BONDS & NOTES 43.0%							
Brazil 5.4%							
420,000	2,136,000	2,556,000	Globo Communicacoes e Participacoes SA, Bonds, 7.250% due 4/26/22 (e)	$ 432,600	$ 2,200,080		$ 2,632,680
160,000	930,000	1,090,000	GTL Trade Finance Inc.: 7.250% due 10/20/17 (e)	163,400	949,765		1,113,165
309,000	1,784,000	2,093,000	7.250% due 10/20/17 (e)	315,232	1,819,980		2,135,212
280,000	1,620,000	1,900,000	Odebrecht Finance Ltd., 7.500% due 10/18/17 (e)	289,100	1,672,650		1,961,750
471,000	2,635,000	3,106,000	Vale Overseas Ltd., Notes: 8.250% due 1/17/34	540,062	3,021,365		3,561,427
1,677,000	9,613,000	11,290,000	6.875% due 11/21/36	1,670,426	9,575,317		11,245,743
			Total Brazil	**3,410,820**	**19,239,157**		**22,649,977**
Chile 0.7%							
520,000	2,374,000	2,894,000	Enersis SA, Notes, 7.375% due 1/15/14	**551,019**	**2,515,614**		**3,066,633**
Colombia 0.3%							
110,000	1,010,000	1,120,000	EEB International Ltd., Senior Bonds, 8.750% due 10/31/14 (e)	**117,975**	**1,083,225**		**1,201,200**
India 0.2%							
			ICICI Bank Ltd., Subordinated Bonds:				
114,000	570,000	684,000	6.375% due 4/30/22 (c)(e)	100,221	507,346		607,567
	340,000	340,000	6.375% due 4/30/22 (c)(e)		298,903		298,903
			Total India	**100,221**	**806,249**		**906,470**
Kazakhstan 1.6%							
340,000	2,270,000	2,610,000	ATF Capital BV, Senior Notes, 9.250% due 2/21/14 (e)	347,888	2,322,664		2,670,552
	200,000	200,000	HSBK Europe BV: 9.250% due 10/16/13 (e)		203,500		203,500
320,000	1,720,000	2,040,000	7.250% due 5/3/17 (e)	286,400	1,539,400		1,825,800
320,000	1,610,000	1,930,000	TuranAlem Finance BV, Bonds: 8.250% due 1/22/37 (e)	271,200	1,364,475		1,635,675
	383,000	383,000	8.250% due 1/22/37 (e)		324,592		324,592
			Total Kazakhstan	**905,488**	**5,754,631**		**6,660,119**

Western Asset Emerging Markets Income Fund Face Amount	Western Asset Emerging Markets Income Fund II Face Amount	Pro Forma Combined Western Asset Emerging Markets Income Fund II Face Amount		Security	Western Asset Emerging Markets Income Fund Value	Western Asset Emerging Markets Income Fund II Value	Pro Forma Adjustments Value	Pro Forma Combined Western Asset Emerging Markets Income Fund II Value
Mexico 6.9%								
520,000	680,000	1,200,000		America Movil SAB de CV, 5.625% due 11/15/17	$ 509,147	$ 665,807		$ 1,174,954
				Axtel SAB de CV:				
40,000	190,000	230,000		11.000% due 12/15/13	43,400	206,150		249,550
1,240,000	7,150,000	8,390,000		7.625% due 2/1/17 (e)	1,267,900	7,310,875		8,578,775
240,000	1,410,000	1,650,000		Senior Notes, 7.625% due 2/1/17 (e)	244,800	1,438,200		1,683,000
100,000	220,000	320,000		Grupo Transportacion Ferroviaria Mexicana SA de CV, Senior Notes, 9.375% due 5/1/12	105,000	231,000		336,000
				Pemex Project Funding Master Trust:				
810,000	6,720,000	7,530,000		6.625% due 6/15/35 (e)	821,984	6,819,423		7,641,407
1,608,000	7,233,000	8,841,000		Senior Bonds, 6.625% due 6/15/35	1,631,790	7,340,012		8,971,802
				Total Mexico	**4,624,021**	**24,011,467**		**28,635,488**
Russia 18.0%								
				Evraz Group SA, Notes:				
620,000	3,580,000	4,200,000		8.875% due 4/24/13 (e)	635,500	3,669,500		4,305,000
300,000	1,720,000	2,020,000		9.500% due 4/24/18 (e)	307,860	1,765,064		2,072,924
				Gaz Capital SA:				
440,000	2,660,000	3,100,000		Medium Term Notes, 7.288% due 8/16/37 (e)	432,269	2,613,264		3,045,533
1,880,000	11,090,000	12,970,000		Notes, 8.625% due 4/28/34 (d)(e)	2,194,900	12,947,575		15,142,475
				Gazprom:				
				Bonds:				
39,330,000	217,870,000	257,200,000	RUB	6.790% due 10/29/09	1,660,446	9,198,103		10,858,549
13,110,000	72,620,000	85,730,000	RUB	7.000% due 10/27/11	553,482	3,065,894		3,619,376
50,000		50,000		Loan Participation Notes, Senior Notes, 6.510% due 3/7/22 (e)	47,255			47,255
	1,140,000	1,140,000		Loan Participation Notes, 6.212% due 11/22/16 (e)		1,110,816		1,110,816
17,410,000	96,030,000	113,440,000	RUB	Gazprom OAO, 6.950% due 8/6/09	738,365	4,072,671		4,811,036
				LUKOIL International Finance BV:				
160,000	680,000	840,000		6.356% due 6/7/17 (e)	153,600	652,800		806,400
336,000	4,880,000	5,216,000		6.656% due 6/7/22 (e)	311,640	4,526,200		4,837,840
610,000	3,140,000	3,750,000		RSHB Capital, Notes, 7.125% due 1/14/14 (e)	616,832	3,175,168		3,792,000
				Russian Agricultural Bank, Loan Participation Notes:				
558,000	2,856,000	3,414,000		7.175% due 5/16/13 (e)	567,765	2,905,980		3,473,745
1,139,000	4,062,000	5,201,000		6.299% due 5/15/17 (e)	1,070,660	3,818,280		4,888,940
				TNK-BP Finance SA:				
470,000	3,340,000	3,810,000		7.500% due 7/18/16 (e)	463,561	3,294,242		3,757,803
296,000	2,091,000	2,387,000		6.625% due 3/20/17 (e)	269,745	1,905,528		2,175,273
470,000	1,200,000	1,670,000		Senior Notes,	464,736	1,186,560		1,651,296

			7.875% due 3/13/18 (e)			
387,000	2,180,000	2,567,000	UBS Luxembourg SA for OJSC Vimpel Communications, Loan Participation Notes, 8.250% due 5/23/16 (e)	387,000	2,180,000	2,567,000
310,000	1,770,000	2,080,000	Vimpel Communications, Loan Participation Notes, 8.375% due 4/30/13 (e)	316,132	1,805,011	2,121,143
			Total Russia	**11,191,748**	**63,892,656**	**75,084,404**

Western Asset Emerging Markets Income Fund Face Amount	Western Asset Emerging Markets Income Fund II Face Amount	Pro Forma Combined Western Asset Emerging Markets Income Fund II Face Amount	Security	Western Asset Emerging Markets Income Fund Value	Western Asset Emerging Markets Income Fund II Value	Pro Forma Adjustments Value	Pro Forma Combined Western Asset Emerging Markets Income Fund II Value
Thailand 1.8%							
			True Move Co., Ltd.:				
720,000	200,000	920,000	10.750% due 12/16/13 (e)	$ 644,400	$ 178,302		$ 822,702
	4,230,000	4,230,000	10.750% due 12/16/13 (e)		3,785,850		3,785,850
480,000	2,590,000	3,070,000	10.375% due 8/1/14 (e)	424,800	2,292,150		2,716,950
			Total Thailand	**1,069,200**	**6,256,302**		**7,325,502**
United Kingdom 2.7%							
6,611,000	50,194,000	56,805,000	RUB HSBC Bank PLC, Credit-Linked Notes (Russian Agricultural Bank), 8.900% due 12/20/10 (c)	288,595	2,191,156		2,479,751
	209,880,000	209,880,000	JPMorgan Chase Bank, Credit-Linked Notes (Russian Agricultural Bank), RUB 9.500% due 2/11/11 (c)		8,787,856		8,787,856
			Total United Kingdom	**288,595**	**10,979,012**		**11,267,607**
United States 2.0%							
640,000	3,330,000	3,970,000	Freeport-McMoRan Copper & Gold Inc., Senior Notes, 8.375% due 4/1/17	689,081	3,585,378		4,274,459
617,598	3,536,248	4,153,846	Turanlem Finance BV, Credit Suisse, Credit-Linked Notes, (Turanlem Finance BV), 8.000% due 7/21/08	618,143	3,539,368		4,157,511
			Total United States	**1,307,224**	**7,124,746**		**8,431,970**
Venezuela 3.4%							
			Petrozuata Finance Inc.:				
1,911,049	11,203,898	13,114,947	8.220% due 4/1/17 (e)	1,998,648	11,717,460		13,716,108
	268,339	268,339	8.220% due 4/1/17 (e)		277,731		277,731
			Total Venezuela	**1,998,648**	**11,995,191**		**13,993,839**
			TOTAL CORPORATE BONDS & NOTES (Cost $178,329,616)	**25,564,959**	**153,658,250**		**179,223,209**
	Warrants						
WARRANT 0.1%							
1,500	10,000	11,500	Bolivarian Republic of Venezuela, Oil-linked payment obligations, Expires 4/15/20* (Cost $356,500)	53,625	357,500		411,125
			TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS (Cost $376,775,216)	**57,592,361**	**326,574,475**		**384,166,836**

Western Asset Emerging Markets Income Fund Face Amount	Western Asset Emerging Markets Income Fund II Face Amount	Pro Forma Combined Western Asset Emerging Markets Income Fund II Face Amount		Security	Western Asset Emerging Markets Income Fund Value	Western Asset Emerging Markets Income Fund II Value	Pro Forma Adjustments Value	Pro Forma Combined Western Asset Emerging Markets Income Fund II Value
SHORT-TERM INVESTMENTS 9.8%								
Sovereign Bonds 9.8%								
				Bank Negara Malaysia Islamic Notes:				
$550,000	3,730,000	4,280,000	MYR	Zero coupon bond to yield 3.310% due 7/24/08	168,953	1,145,701		1,314,654
150,000	830,000	980,000	MYR	Zero coupon bond to yield 3.210% due 9/25/08	45,787	253,355		299,142
				Bank Negara Malaysia Monetary Notes:				
2,542,000	14,123,000	16,665,000	MYR	Zero coupon bond to yield 3.320% due 6/17/08	783,497	4,352,607		5,136,104
933,000	5,564,000	6,497,000	MYR	Zero coupon bond to yield 3.410% due 7/1/08	287,185	1,712,485		1,999,670
2,210,000	12,149,000	14,359,000	MYR	Zero coupon bond to yield 3.207% due 7/17/08	678,559	3,734,582		4,413,141
1,575,000	9,481,000	11,056,000	MYR	Zero coupon bond to yield 3.407% due 8/7/08	483,005	2,907,550		3,390,555
48,000	266,000	314,000	MYR	Zero coupon bond to yield 3.460% due 11/13/08	14,584	80,818		95,402
1,263,000	7,171,000	8,434,000	BRL	Brazil Letras Tesouro Nacional, Zero coupon bond to yield 3.320% due 1/1/09	721,243	4,095,039		4,816,282
				Egypt Treasury Bills:				
13,075,000	72,850,000	85,925,000	EGP	Zero coupon bond to yield 7.300% due 10/28/08	2,371,105	13,211,087		15,582,192
3,725,000	17,050,000	20,775,000	EGP	Zero coupon bond to yield 6.800% due 11/11/08	673,426	3,082,391		3,755,817
				TOTAL SHORT-TERM INVESTMENTS (Cost $39,975,945)	**6,227,344**	**34,575,615**		**40,802,959**
				TOTAL INVESTMENTS 102.0% (Cost $416,751,161#)	**63,819,705**	**361,150,090**		**424,969,795**
				Liabilities in Excess of Other Assets (2.0)%	**(2,067,502)**	**(6,298,471)**	**(40,000)(f)**	**(8,405,973)**
				TOTAL NET ASSETS 100.0%	**61,752,203**	**354,851,619**	**(40,000)(f)**	**416,563,822**

* Non-income producing security.
Face amount denominated in U.S. dollars, unless otherwise noted.
(a) Security is currently in default.
(b) Illiquid security.

(c) Variable rate security. Interest rate disclosed is that which is in effect at May 31, 2008.
(d) All or a portion of this security is segregated for reverse repurchase agreements and foreign currency contracts.
(e) 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.
(f) Reflects adjustment for estimated reorganization costs of $40,000 related to the Target and Acquiring Funds.
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
EGP Egyptian Pound
EUR Euro
GDP Gross Domestic Product
IDR Indonesian Rupiah
ITL Italian Lira
MYR Malaysian Ringgit
OJSC Open Joint Stock Company
RUB Russian Ruble
TRY Turkish Lira

At May 31, 2008, the Funds had the following reverse repurchase agreements outstanding:

Western Asset Emerging Markets Income Fund Face Amount	Western Asset Emerging Markets Income Fund II Face Amount	Security	Value
$1,295,239	$ 4,959,679	Reverse Repurchase Agreement with Credit Suisse First Boston, dated 5/27/08 bearing 1.25% to be repurchased at a date and amount to be determined, collateralized by: $4,438,000 Republic of Turkey, 11.875% due 1/15/30; Market value (including accrued interest) $6,941,768	$ 6,254,918
1,979,640	10,361,520	Reverse Repurchase Agreement with JP Morgan, dated 5/5/08 bearing 2.00% to be repurchased at a date and amount to be determined, collateralized by: $9,840,000 Gaz Capital SA Notes, 8.625% due 4/28/34; Market value (including accrued interest) $14,235,041	12,341,160
		Total Reverse Repurchase Agreements (Proceeds $18,596,078)	$ 18,596,078

At May 31, 2008, the Funds had open forward foreign currency contracts as described below:

Foreign Currency	Western Asset Emerging Markets Income Fund Local Currency	Western Asset Emerging Markets Income Fund II Local Currency	Market Value	Settlement Date	Unrealized Loss
Contracts to Buy:					
Indian Rupee	$ 4,661,000		$ 109,624	6/16/08	(5,434)
Indian Rupee	14,004,750		329,384	6/16/08	(17,183)
Indian Rupee	4,655,100		109,485	6/16/08	(5,526)
Indian Rupee		$ 26,702,000	628,015	6/16/08	(31,131)
Indian Rupee		79,965,150	1,880,734	6/16/08	(98,112)

Indian Rupee	26,628,750	626,293	6/16/08	(31,613)
Net unrealized loss on open forward foreign currency contracts				(188,999)

See Notes to Pro Forma Combined Financial Statements

Pro Forma Combined Statement of Assets and Liabilities

As of May 31, 2008 (Unaudited)

	Western Asset Emerging Markets Income Fund	Western Asset Emerging Markets Income Fund II	Pro Forma Adjustments	Pro Forma Combined Western Asset Emerging Markets Income Fund II
ASSETS:				
Investments, at cost	$ 62,388,473	$ 354,362,688		$ 416,751,161
Foreign currency, at cost	178,883	2,513,244		2,692,127
Investments, at value	$ 63,819,705	$ 361,150,090		$ 424,969,795
Foreign currency, at value	179,309	2,530,600		2,709,909
Cash	20,113	96,632		116,745
Receivable for securities sold		425,042		425,042
Interest receivable	1,332,863	7,519,475		8,852,338
Prepaid expenses	18,794	17,610		36,404
Total Assets	**65,370,784**	**371,739,449**		**437,110,233**
LIABILITIES:				
Payable for securities purchased	134,974	837,451		972,425
Payable for open reverse repurchase agreement	3,274,879	15,321,199		18,596,078
Payable for open forward currency contracts	28,143	160,856		188,999
Investment Management fee payable	56,434	313,839		370,273
Directors fees payable	2,391	9,291		11,682
Interest payable	3,892	16,403		20,295
Accrued expenses	117,868	228,791	40,000(a)	386,659
Total Liabilities	**3,618,581**	**16,887,830**	**40,000**(a)	**20,546,411**
Total Net Assets	**61,752,203**	**354,851,619**	**(40,000)**(a)	**416,563,822**
NET ASSETS:				
Par value	4,215	24,433	36	28,684
Paid-in capital in excess of par value	58,592,498	330,079,143	(36)	388,671,605
Undistributed net investment income	975,446	15,615,859	(40,000)(a)	16,551,305
Accumulated net realized gain (loss) on investments, futures contracts, options written, short sales, swap contracts and foreign currency transactions	761,928	2,402,284		3,164,212
Net unrealized appreciation (depreciation) on investments, futures contracts, options written, short sales, swap contracts and foreign currencies	1,418,116	6,729,900		8,148,016
Total Net Assets	**61,752,203**	**354,851,619**	**(40,000)**(a)	**416,563,822**
Shares Outstanding*:				
Composite	4,214,736	24,432,561	37,087(b)	28,684,384
Net Asset Value:				
Composite	$14.65	$14.52		$14.52

* The par value for each class of shares is $0.001.
(a) Reflects adjustment for estimated reorganization costs of $40,000 related to the Target and Acquiring Funds.
(b) Reflects adjustments to the number of shares outstanding due to reorganization.

See Notes to Pro Forma Combined Financial Statements.

Pro Forma Combined Statement of Operations

For the twelve month period ended May 31, 2008 (Unaudited)

	Western Asset Emerging Markets Income Fund	Western Asset Emerging Markets Income Fund II	Pro Forma Adjustments	Pro Forma Combined Western Asset Emerging Markets Income Fund II
INVESTMENT INCOME:				
Dividends	$ 4,500			$ 4,500
Interest	4,830,966	$ 27,530,539		32,361,505
Less: foreign taxes withheld	(12,776)	(73,562)		(86,338)
Total Investment Income	**4,822,690**	**27,456,977**		**32,279,667**
EXPENSES:				
Management fee	653,362	3,724,724		4,378,086
Commitment fees	7,135	41,455		48,590
Excise tax	37,158	217,758		254,916
Transfer agent fees	20,550	24,928	(15,000)(a)	30,478
Shareholder reports	54,356	96,338	(25,000)(b)	125,694
Custody fees	43,795	229,224		273,019
Stock exchange listing fees	18,293	19,862	(15,229)(b)	22,926
Legal fees	23,770	45,400	(21,393)(b)	47,777
Insurance	2,069	6,355		8,424
Audit and tax	59,175	58,879	(58,554)(b)	59,500
Directors fees	9,250	75,371		84,621
Interest Expense	164,867	882,815		1,047,682
Miscellaneous expenses	10,897	11,778	(9,719)(b)	12,956
Total Expenses	**1,104,677**	**5,434,887**	**(144,895)**(a)(b)	**6,394,669**
Less: Fee waivers and/or expenses reimbursements	(2,388)			(2,388)
Net Expenses	**1,102,289**	**5,434,887**	**(144,895)**	**6,392,281**
Net Investment Income	**3,720,401**	**22,022,090**	**144,895**	**25,887,386**
REALIZED AND UNREALIZED GAIN (LOSS) on investments and foreign currencies:				
Net Realized Gain (Loss) From:				
Investments	1,406,269	9,315,088		10,721,357
Futures contracts	(314,961)	(1,742,264)		(2,057,225)
Swap contracts	6,000	34,400		40,400
Foreign currency tranasactions	46,228	274,789		321,017
Net Realized Gain	**1,143,536**	**7,882,013**		**9,025,549**
Change in Net Unrealized Appreciation/Depreciation From:				
Investments	(2,155,481)	(14,067,581)		(16,223,062)
Futures contracts	51,321	326,428		377,749
Foreign currencies	(19,815)	(95,419)		(115,234)
Change in Net Unrealized Appreciation/Depreciation	**(2,123,975)**	**(13,836,572)**		**(15,960,547)**

Net Gain on Investments and Foreign Currencies	**(980,439)**	**(5,954,559)**		**(6,934,998)**
Increase in Net Assets From Operations	**$ 2,739,962**	**$ 16,067,531**	**$ 144,895**	**$ 18,952,388**

(a) To adjust expenses to reflect the Combined Fund s estimated fees and expenses based upon contractual rates in effect for the Western Asset Emerging Markets Income Fund II.
(b) Reflects the elimination of duplicative expenses and economies of scale achieved as a result of the proposed Reorganization.

See Notes to Pro Forma Combined Financial Statements.

Western Asset Emerging Markets Income Fund Inc. Merger With and Into Western Asset Emerging Markets Income Fund II Inc.

Notes to Pro Forma Combined Financial Statements

(Unaudited)

1. Basis of Combination:

The accompanying unaudited Pro Forma Combined Statement of Assets and Liabilities, including the Pro Forma Combined Schedule of Investments at May 31, 2008 and the related Pro Forma Combined Statement of Operations (Pro Forma Statements) for the twelve months ended May 31, 2008, reflect the accounts of Western Asset Emerging Markets Income Fund Inc. (Acquired Fund) and Western Asset Emerging Markets Income Fund II Inc. (Acquiring Fund), each a Fund. Following the combination, Western Asset Emerging Markets Income Fund II Inc. will be the accounting survivor.

Under the terms of the Agreement and Plan of Reorganization, the exchange of assets of the Acquired Fund for shares of the Acquiring Fund will be treated as a tax-free reorganization and accordingly, the tax-free merger will be accounted for in an as-if pooling of interests. The combination would be accomplished by an acquisition of the net assets of the Acquired Fund in exchange for shares of the Acquiring Fund at net asset value. The unaudited Pro Forma Combined Schedule of Investments and the unaudited Pro Forma Combined Statement of Assets and Liabilities have been prepared as though the combination had been effective on May 31, 2008. The unaudited Pro Forma Combined Statement of Operations reflects the results of the Funds for the twelve months ended May 31, 2008 as if the merger occurred on June 1, 2007. These pro forma statements have been derived from the books and records of the Funds utilized in calculating daily net asset values at the dates indicated above in conformity with U.S. generally accepted accounting principles. The historical cost of investment securities will be carried forward to the surviving entity. The fiscal year ends are August 31 for the Western Asset Emerging Markets Income Fund Inc. and May 31 for the Western Asset Emerging Markets Income Fund II Inc.

The Pro Forma Financial Statements should be read in conjunction with the historical financial statements of each Fund, which are incorporated by reference in the Statement of Additional Information.

2. Use of Estimates:

Management has made certain estimates and assumptions relating to the reporting of assets, liabilities, income, and expenses to prepare these Pro Forma Combined Financial Statements in conformity with U.S. generally accepted accounting principles for investment companies. Actual results could differ from these estimates.

3. Investment Valuation:

Securities are valued at the mean of bid and asked prices based on market quotations for those securities, or if no quotations are available, then for securities of similar type, yield and maturity. Securities for which quotations are not readily available or where market quotations are determined not to reflect fair value, will be valued in good faith by or under the direction of the Fund s Board of Directors. Short-term obligations

with maturities of 60 days or less are valued at amortized cost, which approximates market value.

4. Capital Shares

The unaudited pro forma net asset values per share assumes additional shares of capital stock of the Acquiring Fund were issued in connection with the proposed acquisition of the Acquired Fund as of May 31, 2008. The number of additional shares issued was calculated by dividing the net asset value of the Acquired Fund by the net asset value of the Acquiring Fund.

5. Pro Forma Operations:

In the Pro Forma Combined Statement of Operations certain expenses have been adjusted to reflect the expected expenses of the combined entity. The pro forma investment management fees of the combined entity are based on the fee schedules in effect for the Acquiring Fund s combined level of average net assets for the twelve months ended May 31, 2008.

6. Federal and Other Taxes:

It is the policy of the Funds to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, the Funds intend to distribute substantially all of their net investment income and net realized gains on investments, if any, to their shareholders each year. Therefore, no federal income tax provision is required. However, due to the timing of when distributions are made, the Funds may be subject to an excise tax of 4% of the amount by which 98% of the Funds taxable income exceeds the distributions from such taxable income for the year.