

Western Asset Income Fund
Form N-PX
August 21, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM N-PX

ANNUAL REPORT OF PROXY VOTING RECORD OF REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number: 811-02351

Name of Fund: **Western Asset Income Fund**

Fund Address: **100 International Drive
Baltimore, MD 21202**

Name and address of agent for service:
**Richard M. Wachterman
Western Asset Income Fund
100 International Drive
Baltimore, MD 21202**

Registrant's telephone number, including area code:
1-800-368-2558

Date of fiscal year end:
December 31

Date of reporting period:
07/01/2008 06/30/2009

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Item 1 Proxy Voting Record:

Item 1 Proxy Voting Record The Fund held no voting securities during the period covered by this report. No records are attached.

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

Western Asset Income Fund

By: /s/ R. Jay Gerken

R. Jay Gerken,
President of Western Asset Income Fund

Date: August 21, 2009

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Subtotal

32.2 16.5

Reimbursement for spending under government contract

14.9 10.2

Net spending

\$ 17.3 \$ 6.3

We have a contract with the U.S. Department of Defense (DoD) for the design and development of a new facility for the production of primary beryllium. The total cost of the project is estimated to be approximately \$90.3 million; we will contribute land, buildings, research and development, technology and ongoing operations valued at approximately \$23.2 million to the project. The DoD will reimburse us for the balance of the project cost. Reimbursements from the DoD are recorded as unearned income on the Consolidated Balance Sheets. We anticipate the facility will be completed in the second half of this year. We spent \$18.2 million on this project (which is included in the \$24.8 million figure in the table above) and received \$14.9 million from the DoD in the first half of 2010 as our payments and the subsequent reimbursements do not necessarily occur in the same periods.

Our Utah operations are developing a new bertrandite ore mine using the open pit method. The pit should be complete in the fourth quarter 2010 with ore extraction scheduled to begin in the first quarter 2011.

The remainder of the capital spending was on isolated pieces of equipment and various infrastructure projects across the organization. The Elmore and Buffalo facilities had the highest levels of spending in the first half of 2010.

The Elmore spending included payments for a new degreaser, cranes and related equipment used in the manufacture of bulk products. In addition to small pieces of manufacturing equipment, the Buffalo spending also included amounts for a software implementation. We also invested in new equipment at Barr and Academy in the first half of 2010.

Other assets were \$42.1 million at the end of the second quarter 2010, an increase of \$0.1 million from year-end 2009. The increase in other assets in the first half of 2010 as a result of the fair value of intangible assets acquired with Academy was largely offset by the amortization of the existing and acquired intangibles, a reduction in the insurance recoverable account and other factors.

Other liabilities and accrued items totaled \$46.0 million at the end of the second quarter 2010, an increase of \$1.9 million since the end of 2009. The increase was primarily due to growth in the incentive compensation accrual as a result of the 2010 performance offset in part by a decline in the fair value of derivative financial instruments. Other accruals, including accruals for utilities and insurance, declined by more minor amounts as well.

Unearned revenue, which is a liability representing products invoiced to customers but not shipped, was \$0.4 million as of July 2, 2010, unchanged from December 31, 2009. Revenue and the associated margin will be recognized for these transactions when the goods ship, title passes and all other revenue recognition criteria are met. Invoicing in advance of the shipment, which is only done in certain circumstances, allows us to collect cash sooner than we would otherwise.

Other long-term liabilities were \$9.5 million as of the end of the second quarter 2010 and \$9.6 million as of year-end 2009. This small decline was primarily due to a net reduction in the legal reserves in the first half of 2010.

The **retirement and post-employment benefit** balance totaled \$78.6 million at the end of the second quarter 2010, a decline of \$3.7 million from the balance at December 31, 2009. This balance represents the liability under our domestic defined benefit pension plan, the retiree medical plan and other retirement plans and post-employment obligations.

The liability for the domestic pension plan declined a net \$2.8 million in the first six months of 2010 as a result of the contributions to the plan of \$4.5 million and an adjustment to other comprehensive income, a component of shareholders' equity, of \$1.2 million offset in part by an expense of \$2.9 million. The retiree medical plan liability declined \$0.3 million as payments under the plan exceeded the expense in the first half of 2010.

Unearned income increased from \$39.7 million as of December 31, 2009 to \$54.6 million as of July 2, 2010. As previously noted, this liability represents payments received from the government for the design and construction of the new beryllium production facility. The liability will be relieved to income ratably with depreciation over the life of the facility once it is built and placed into service.

Debt totaled \$120.5 million at the end of the second quarter 2010, an increase of \$56.0 million from the total debt of \$64.5 million at the end of 2009. The increase in debt resulted primarily from funding the acquisition of Academy, the growth in receivables and inventory and capital expenditures. The majority of the debt increase was through increased borrowings under the existing revolving line of credit and was classified as long-term on the consolidated balance sheet.

Short-term debt, which included domestic and foreign currency denominated loans, was \$42.2 million as of the end of the second quarter 2010. Long-term debt was \$78.3 million as of the end of the second quarter 2010, none of which was currently payable. We were in compliance with all of our debt covenants as of the end of the second quarter 2010.

Shareholders' equity of \$363.0 million at the end of the second quarter 2010 was \$23.1 million higher than the balance of \$339.9 million as of year-end 2009. The increase was primarily due to the comprehensive income of \$20.3 million (see Note E to the Consolidated Financial Statements).

We received \$0.9 million for the exercise of approximately 47,000 shares in the first half of 2010.

Equity was also affected by stock compensation expense and other factors.

Prior Year Financial Position

Net cash from operating activities was \$11.7 million in the first half of 2009 as the effects of depreciation and a net reduction in working capital items more than offset the net loss. Receivables declined \$13.8 million, or 16%, during the first half of 2009 as a result of the lower sales volume and an improvement in the average collection period. Inventories were \$23.8 million, or 15%, lower at the end of the second quarter 2009 than year-end 2008 as a result of the markedly lower levels of business. The inventory turnover ratio was unchanged. The majority of the decline in inventory levels was in Specialty Engineered Alloys. Other liabilities and accrued items declined \$14.4 million in the first quarter 2009 largely as a result of the payment of the 2008 incentive compensation to employees and to a lesser degree the change in the fair value of outstanding derivative contracts.

Total debt stood at \$38.4 million at the end of the second quarter 2009, a decrease of \$3.4 million from year-end 2008. The reduction resulted from the strong cash flow from operations in the second quarter 2009 coupled with the limited capital expenditures. Cash on hand of \$21.0 million at the end of the second quarter was \$2.5 million higher than the year-end 2008 balance.

Off-Balance Sheet Arrangements and Contractual Obligations

We maintain the majority of our precious metals that we use in production on a consignment basis in order to reduce our exposure to metal price movements and to reduce our working capital investment. The balance outstanding under the off-balance sheet precious metal consigned inventory arrangements totaled \$165.3 million at the end of the second quarter 2010, an increase of \$66.6 million from year-end 2009 as a result of an increase in the quantities on hand in order to support the current business levels, the addition of Academy in 2010 and higher metal prices.

While our borrowings under existing lines of credit have increased during the first half of 2010, we have not entered into any new material contractual obligations, long-term debt agreements or operating leases as of July 2, 2010 from what was disclosed on page 41 of our Annual Report on Form 10-K for the year ended December 31, 2009.

We were in compliance with the covenants in our off-balance sheet arrangements as of July 2, 2010.

Liquidity

We believe funds from operations plus the available borrowing capacity and the current cash balance are adequate to support operating requirements, capital expenditures, projected pension plan contributions, strategic acquisitions, environmental remediation projects and any repurchases of our common stock.

The debt-to-debt-plus-capital ratio increased to 24.9% as of the end of the second quarter from 15.9% as of the end of 2009 as a result of using debt to fund the Academy acquisition and the increase in working capital. Typically, as business levels expand, the working capital investment increases. As growth rates slow down, our working capital levels will tend to normalize and we should generate cash flow from operations that will enable us to reduce debt.

While our debt levels have increased in 2010, the available debt capacity under existing credit lines was \$135.6 million as of the end of the second quarter 2010, an increase of \$89.3 million since year-end 2009. A covenant in our revolving credit agreement limits our total debt capacity to a function of the rolling twelve month earnings before interest, taxes, depreciation and amortization and certain other adjustments. In general, as our earnings improve, so does our debt capacity. There are no mandatory long-term debt repayments to be made within the next twelve months.

The cash balance of \$16.1 million as of the end of the second quarter 2010 was \$3.8 million higher than year-end 2009.

Our precious metal operations rely upon off-balance sheet arrangements in order to finance working capital requirements and to efficiently reduce our metal price exposure. The increase in metal prices and the expansion of our business levels in the first half of 2010 has put pressure on the available capacity under the existing metal lines. Capacity under various lines has recently been increased. As of July 2, 2010, the available and unused capacity under the metal financing lines totaled approximately \$43.9 million. The bulk of these metal arrangements mature

at the end of September 2010 and we are in negotiations with the metal providers to extend the maturity dates, increase the capacity and potentially amend other terms of the current agreements. None of our metal providers have indicated an unwillingness to give us the necessary extensions (with our largest metal provider currently considering a multi-year extension); however, there can be no assurance that we will reach definitive agreements to extend the maturity dates, increase the capacity or amend any other terms of our metal arrangements on commercially acceptable terms at all. Should capacity under the off-balance sheet lines become constrained, we would purchase our metal requirements financed by traditional debt to the extent we have available capacity under those existing lines.

In July 2010, our Board of Directors authorized the Company to repurchase up to 700,000 shares, or approximately 3% of our outstanding shares of common stock. The primary purpose of the repurchase program is to offset the dilution created through shares issued under our stock-based compensation plans. Any stock repurchases will be made from time to time for cash in the open market or otherwise, including without limitation, in privately negotiated transactions and round lot or block transactions on the New York Stock Exchange or pursuant to accelerated share repurchases or Rule 10b5-1 plans. The repurchase program may be suspended or discontinued at any time.

Critical Accounting Policies

For additional information regarding critical accounting policies, please refer to pages 43 to 46 of our Annual Report on Form 10-K for the year ended December 31, 2009. There have been no material changes in our critical accounting policies since the inclusion of this discussion in our Annual Report on Form 10-K.

Market Risk Disclosures

For information regarding market risks, please refer to pages 47 to 48 of our Annual Report on Form 10-K for the year ended December 31, 2009. There have been no material changes in our market risks since the inclusion of this discussion in our Annual Report on Form 10-K.

Outlook

Our sales order entry rate exceeded our record sales level in the first half of 2010. The strong order entry rate continued into the early portion of the third quarter 2010. While consumer electronic applications were a main driver behind the strong order pattern, we saw improved demand from many of our key markets in the second quarter. Our two recent acquisitions have also expanded our market reach and our new product development activities continue to enhance our long-term growth opportunities.

Visibility into projected business levels remains difficult given the current state of the global economy. It can also be difficult to project the timing and amounts of potential defense applications, given government budget issues and other factors. Sales in the third quarter of a given year are often adversely affected by a seasonal slow down in our European markets and the U.S. automotive market due to the model year change over. However, sales in the third quarter can benefit from the increased production schedules by manufacturers of consumer electronic products in preparation for the year-end holiday season.

In 2009, we made reductions to our cost structure due to the significant fall-off in sales at that time. We have added back some resources in order to meet the current high production requirements, but the resources have not been added back proportionately with the growth in sales. Excluding the impact of Barr and Academy, employment was still down 9% as of the end of the second quarter 2010 from year-end 2008, despite the current improved business levels and outlook. We have reversed the wage reductions that were implemented in 2009 due to our improved actual and projected profitability. Additional spending requirements may arise in the second half of 2010 as we face the challenges of a growing business with increasing complexity.

The new beryllium facility is scheduled to be completed and we expect product testing and qualification to occur in the second half of this year. Those qualification and testing efforts could increase our costs and reduce profits in those periods. However, once operational, this facility will provide a long-term source of high-quality beryllium metal.

Forward-Looking Statements

Portions of the narrative set forth in this document that are not statements of historical or current facts are forward-looking statements. Our actual future performance may materially differ from that contemplated by the forward-looking statements as a result of a variety of factors. These factors include, in addition to those mentioned elsewhere herein:

The global economy;

The condition of the markets which we serve, whether defined geographically or by segment, with the major market segments being telecommunications and computer, aerospace and defense, medical, industrial components, data storage, automotive electronics and appliance;

Changes in product mix and the financial condition of customers;

Actual sales, operating rates and margins for 2010;

Our success in developing and introducing new products and new product ramp-up rates;

Our success in passing through the costs of raw materials to customers or otherwise mitigating fluctuating prices for those materials, including the impact of fluctuating prices on inventory values;

Our success in integrating newly acquired businesses, including the acquisitions of Barr and Academy;

The impact of the results of Barr and Academy on our ability to achieve fully the strategic and financial objectives related to these acquisitions, including the acquisitions being accretive to earnings in 2010;

Our success in implementing our strategic plans and the timely and successful completion and start-up of any capital projects, including the new primary beryllium facility being constructed in Elmore, Ohio;

The availability of adequate lines of credit and the associated interest rates;

Other financial factors, including cost and availability of raw materials (both base and precious metals), metal financing fees, tax rates, exchange rates, pension costs and required cash contributions and other employee benefit costs, energy costs, regulatory compliance costs, the cost and availability of insurance and the impact of the Company's stock price on the cost of incentive compensation plans;

The uncertainties related to the impact of war and terrorist activities;

Changes in government regulatory requirements and the enactment of new legislation that impacts our obligations and operations;

The conclusion of pending litigation matters in accordance with our expectation that there will be no material adverse effects;

The amount and timing of repurchases of the Company's common stock, if any, and,

The risk factors set forth in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For information about our market risks, please refer to our annual report on Form 10-K to shareholders for the period ended December 31, 2010.

Item 4. Controls and Procedures

We carried out an evaluation under the supervision and with participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of July 2, 2010 pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the evaluation date.

In the second quarter 2010, the Company implemented SAP (an information technology system for accounting, sales and manufacturing) at one of its domestic facilities. SAP was implemented in part to improve internal control over financial reporting at this facility. This change in systems was subject to thorough testing and review by internal and external parties both before and after final implementation. SAP had previously been implemented at a significant number of the Company's other facilities. The Company continually strives to improve its internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Except as set forth above, there have been no changes in our internal controls over financial reporting identified in connection with the evaluation required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended, that occurred during the quarter ended July 2, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Our subsidiaries and our holding company are subject, from time to time, to a variety of civil and administrative proceedings arising out of our normal operations, including, without limitation, product liability claims, health, safety and environmental claims and employment-related actions. Among such proceedings are the cases described below.

Beryllium Claims

As of July 2, 2010, our subsidiary, Brush Wellman Inc., was a defendant in two proceedings in state and federal courts brought by plaintiffs alleging that they have contracted, or have been placed at risk of contracting, beryllium sensitization or chronic beryllium disease or other lung conditions as a result of exposure to beryllium. Plaintiffs in beryllium cases seek recovery under negligence and various other legal theories and seek compensatory and punitive damages, in many cases of an unspecified sum. Spouses of some plaintiffs claim loss of consortium.

During the second quarter of 2010, the number of beryllium cases decreased from four cases (involving eight plaintiffs) as of April 2, 2010, to two cases (involving six plaintiffs) as of July 2, 2010. Two cases (involving two plaintiffs) were settled and dismissed during the quarter. The earlier dismissal of one case, a purported class action, as discussed more fully below, was affirmed by the court of appeals. One case (involving one plaintiff) was filed during the quarter.

The two pending beryllium cases as of July 2, 2010 involve four plaintiffs, plus two spouses with consortium claims. The Company has some insurance coverage, subject to an annual deductible.

The purported class action was Gary Anthony v. Small Tube Manufacturing Corporation d/b/a Small Tube Products Corporation, Inc., et al., filed in the Court of Common Pleas of Philadelphia County, Pennsylvania, case number 000525, on September 7, 2006. The case was removed to the U.S. District Court for the Eastern District of Pennsylvania, case number 06-CV-4419, on October 4, 2006. The only named plaintiff was Gary Anthony. The defendants were Small Tube Manufacturing Corporation, d/b/a Small Tube Products Corporation, Inc.; Admiral Metals Inc.; Tube Methods, Inc.; and Cabot Corporation. The plaintiff purported to sue on behalf of a class of current and former employees of the U.S. Gauge facility in Sellersville, Pennsylvania who had ever been exposed to beryllium for a period of at least one month while employed at U.S. Gauge. The plaintiff brought claims for negligence. Plaintiff sought the establishment of a medical monitoring trust fund, cost of publication of approved guidelines and procedures for medical monitoring of the class, attorneys' fees and expenses. Defendant Tube Methods, Inc. filed a third-party complaint against Brush Wellman Inc. in that action on November 15, 2006. Tube Methods alleged that Brush supplied beryllium-containing products to U.S. Gauge, and that Tube Methods worked on those products, but that Brush was liable to Tube Methods for indemnification and contribution. Brush moved to dismiss the Tube Methods complaint on December 22, 2006. On January 12, 2007, Tube Methods filed an amended third-party complaint, which Brush moved to dismiss on January 26, 2007; however, the court denied the motion on September 28, 2007. Brush filed its answer to the amended third-party complaint on October 19, 2007. On February 29, 2008, Brush filed a motion for summary judgment based on plaintiff's lack of any substantially increased risk of CBD. On September 30, 2008, the court granted the motion for summary judgment in favor of all of the defendants and dismissed plaintiff's class action complaint. On October 29, 2008, plaintiff filed a notice of appeal. The Court of Appeals granted a motion to stay the appeal due to the bankruptcy of one of the appellees, Millennium Petrochemicals. On April 3, 2009, Small Tube Manufacturing filed a motion for relief in bankruptcy court from the automatic stay, asking that the bankruptcy court modify the stay to allow Small Tube Manufacturing's indemnification claim against Millennium Petrochemicals and the Anthony case to proceed to final judgment, including all appeals. On May 14, 2009, the bankruptcy court approved a stipulation and order modifying the automatic stay to permit

Millennium Petrochemicals and Small Tube Manufacturing to participate in the appeal. On May 27, 2009, Small Tube Manufacturing filed an unopposed motion with the Court of Appeals to lift the stay, which the court granted on June 22, 2009. On July 29, 2009, the Company and the other appellees filed their brief in the Court of Appeals. The Court heard oral argument on January 11, 2010. On June 7, 2010, the Court affirmed the trial court's ruling.

Item 4. Reserved

Item 5. Other Information

Item 6. Exhibits

- 4.1 Third Amendment to the Credit Agreement dated May 7, 2010, among Brush Engineered Materials Inc. and other borrowers and JPMorgan Chase Bank N.A., acting for itself and as agent for certain other banking institutions as lenders (filed as Exhibit 99.1 to the Company's Form 8-K (File No. 1-15885) filed on May 12, 2010), incorporated herein by reference.
- 10.1 Fifth Amendment to the Second Amended and Restated Precious Metals Agreement dated April 30, 2010, among Brush Engineered Materials Inc. and other borrowers and The Bank of Nova Scotia.
- 10.2 Sixth Amendment to the Second Amended and Restated Precious Metals Agreement dated June 9, 2010, among Brush Engineered Materials Inc. and other borrowers and The Bank of Nova Scotia, (filed as Exhibit 99.1 to the Company's Form 8-K (File No. 1-15885) filed on June 9, 2010), incorporated herein by reference.
- 10.3 Amendment No. 2 to the Consignment Agreement dated June 11, 2010 between Brush Engineered Materials Inc. and Canadian Imperial Bank of Commerce and CIBC World Markets Inc., (filed as Exhibit 99.1 to the Company's Form 8-K (File No. 1-15885) filed on June 14, 2010), incorporated herein by reference.
- 11 Statement regarding computation of per share earnings
- 31.1 Certification of Chief Executive Officer required by Rule 13a-14(a) or 15d-14(a)
- 31.2 Certification of Chief Financial Officer required by Rule 13a-14(a) or 15d-14(a)
- 32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

BRUSH ENGINEERED MATERIALS INC.

/s/ John D. Grampa
John D. Grampa
Senior Vice President Finance and
Chief Financial Officer

Dated: August 9, 2010