

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Form N-CSR

December 23, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-5497

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

620 Eighth Avenue, New York, NY  
(Address of principal executive offices)

10018  
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

Stamford, CT 06902  
(Name and address of agent for service)

Registrant's telephone number, including area code: (888)777-0102

Date of fiscal year end: October 31

Date of reporting period: October 31, 2011

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ITEM 1. REPORT TO STOCKHOLDERS.

The Annual Report to Stockholders is filed herewith.

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October 31, 2011

**Annual Report**

**Western Asset Municipal High Income Fund Inc.**

**(MHF)**

INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

II Western Asset Municipal High Income Fund Inc.

**Fund objective**

The Fund seeks high current income exempt from federal income taxes.

**What's inside**

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**Letter from the chairman**

**Dear Shareholder,**

We are pleased to provide the annual report of Western Asset Municipal High Income Fund Inc. for the twelve-month reporting period ended October 31, 2011. Please read on for a detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, [www.leggmason.com/cef](http://www.leggmason.com/cef). Here you can gain immediate access to market and investment information, including:

- Fund prices and performance,
- Market insights and commentaries from our portfolio managers, and
- A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

November 25, 2011



## Investment commentary

### Economic review

Although the U.S. economy continued to grow over the twelve months ended October 31, 2011, the pace of the expansion was generally disappointing. U.S. gross domestic product (GDP) growth, as reported by the U.S. Department of Commerce, has been less robust than during most other periods exiting a severe recession. GDP growth was 2.3% during the fourth quarter of 2010 and 3.0% for calendar 2010 as a whole. The Commerce Department then reported that first and second quarter 2011 GDP growth were 0.4% and 1.3%, respectively. This moderation in growth during the first half of the calendar year was due to a variety of factors, including less robust export activity and a deceleration in consumer spending given higher oil and food prices. The second estimate for third quarter GDP growth was 2.0%. Accelerating growth was attributed, in part, to higher consumer spending, which grew 2.3% in the third quarter, versus a modest 0.7% gain in the second quarter.

Two factors holding back the economy have been the weak job market and continued strains in the housing market. While there was some modest improvement in early 2011, unemployment again moved higher and remained elevated throughout the remainder of the reporting period. After dipping below 9.0% in February and March 2011 (to 8.9% and 8.8%, respectively), unemployment, as reported by the U.S. Department of Labor, moved back to 9.0% in April. Unemployment stayed above 9.0% over the next five months before falling to 9.0% in October.

The housing market continued to experience challenges. Looking back, existing-home sales moved somewhat higher toward the end of 2010 and in January 2011, according to the National Association of Realtors (NAR). Existing-home sales then declined during five of the next nine months. Existing-home prices were weak versus a year ago, with the NAR reporting that the median existing-home price for all housing types was \$162,500 in October 2011, down 4.7% from October 2010.

Even the manufacturing sector, one of the stalwarts of the economy in recent years, softened during much of the reporting period. Based on the Institute for Supply Management's PMI (PMI) <sup>ii</sup>, in February 2011, the manufacturing sector expanded at its fastest pace since May 2004, with a reading of 61.4 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). The PMI then generally moderated over the remainder of the reporting period and ended October at 50.8.

The Federal Reserve Board (Fed) <sup>iii</sup> took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. In November 2010, the Fed announced a second round of quantitative easing (often referred to as QE2) to help stimulate the economy. Also, as has been the case since December 2008, the Fed kept the federal funds rate <sup>iv</sup> at a historically low range between zero and 0.25%. In addition, in August 2011, the Fed declared its intention to keep the federal funds rate on hold until mid-2013. In September 2011, the Fed announced its intention to purchase \$400 billion of longer-term Treasury securities and to sell an equal amount of shorter-term Treasury securities by June 2012 (often referred to as Operation Twist). Finally, at its meeting in early November (after the reporting period ended), the Fed potentially

IV Western Asset Municipal High Income Fund Inc.

**Investment commentary (continued)**

opened the door to another round of quantitative easing, saying it is prepared to employ its tools to promote a stronger economic recovery in a context of price stability.

As always, thank you for your confidence in our stewardship of your assets.

Sincerely,

R. Jay Gerken, CFA

Chairman, President and  
Chief Executive Officer

November 25, 2011

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

- i Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.
- ii The Institute for Supply Management's PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.
- iii The Federal Reserve Board ( Fed ) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.



iv The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

**Fund overview****Q. What is the Fund's investment strategy?**

A. The Fund seeks high current income exempt from federal income taxes. The Fund invests primarily in intermediate- and long-term municipal debt securities issued by state and local governments. However, the Fund may invest in municipal obligations of any maturity. The Fund may invest in non-publicly traded municipal securities, zero-coupon municipal obligations and non-appropriation or other municipal lease obligations.

At Western Asset Management Company (Western Asset), the Fund's subadviser, we utilize a fixed-income team approach, with decisions derived from interaction among various investment management sector specialists. The sector teams are comprised of Western Asset's senior portfolio managers, research analysts and an in-house economist. Under this team approach, management of client fixed-income portfolios will reflect a consensus of interdisciplinary views within the Western Asset organization. The portfolio managers responsible for development of investment strategy, day-to-day portfolio management, oversight and coordination of the Fund are Stephen A. Walsh, Robert E. Amodeo and David T. Fare. Effective July 1, 2011, Joseph P. Deane no longer serves as a portfolio manager for this Fund. Effective May 1, 2011, S. Kenneth Leech no longer serves as a portfolio manager for this Fund. While Mr. Leech continues to help shape Western Asset's overall investment strategy, his day-to-day role is becoming more concentrated on global portfolios. To reflect this global focus, he will continue to serve as a portfolio manager of the global funds, but not of the non-global funds.

**Q. What were the overall market conditions during the Fund's reporting period?**

A. Given changing perceptions for the economy and a number of macro issues, the performance of the spread sectors (non-Treasuries) fluctuated during the reporting period. The spread sectors began the period on a weak note in November 2010, triggered by the European sovereign debt crisis. Most spread sectors then rallied through the end of April 2011 as expectations for the economy were generally positive. While the spread sectors generally posted positive results in May, they underperformed equal-duration Treasuries. Risk aversion then increased from June through September given a host of disappointing economic data, a further escalation of the European sovereign debt crisis and the Standard & Poor's rating downgrade of U.S. sovereign debt. However, most spread sectors then rallied in October given hopes of progress in Europe and some better-than-expected economic data.

Both short- and long-term Treasury yields fluctuated but, overall, moved lower during the reporting period. When the period began, two- and ten-year Treasury yields were 0.34% and 2.63%, respectively. Yields declined in early November, but then moved sharply higher given expectations for stronger growth in 2011 and the potential for rising inflation. Two- and ten-year Treasury yields peaked at 0.87% and 3.75%, respectively, in February 2011. Yields then declined during much of the next seven months due to disappointing economic data and several flights to quality. Two-year Treasuries hit their low for the reporting period of 0.16% on September 19, 2011. Ten-year Treasuries reached their reporting period trough of 1.72% on

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**Fund overview (cont d)**

September 22, 2011. Yields then moved higher in October as investor risk appetite increased. When the period ended on October 31, 2011, two-year Treasury yields were 0.25% and ten-year Treasury yields were 2.17%.

The municipal bond market also experienced periods of heightened volatility. The municipal market weakened during most of the first three months of the period as investor demand could not absorb a sharp increase in new issuance of Build America Bonds ( BABs ). This spike in new issuance occurred as the BAB program was expiring at the end of December 2010. Also pressuring the market were concerns regarding the financial health of some municipal bond issuers, fears of increasing defaults and investor redemptions from municipal bond mutual funds. The municipal market then strengthened over the majority of the remainder of the reporting period, as tax revenues rose, new issuance declined, investor demand increased, defaults remained low and numerous states took actions to reduce spending and get their financial houses in order. All told, the Barclays Capital Municipal Bond Index<sup>ii</sup> returned 3.78% for the twelve months ended October 31, 2011. Over the same period, the overall taxable bond market, as measured by the Barclays Capital U.S. Aggregate Index<sup>iii</sup>, returned 5.00%.

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

**A.** We did not make any significant changes to the Fund during the reporting period. The Fund employed short U.S. Treasury futures on several occasions during the reporting period to manage duration and to express our views that the municipal market would outperform the Treasury market. This strategy modestly contributed to the Fund's performance during the period.

**Performance review**

For the twelve months ended October 31, 2011, Western Asset Municipal High Income Fund Inc. returned 3.39% based on its net asset value ( NAV )<sup>iv</sup> and 0.74% based on its New York Stock Exchange ( NYSE ) market price per share. The Fund's unmanaged benchmark, the Barclays Capital Municipal Bond Index, returned 3.78% for the same period. The Lipper High Yield Municipal Debt Closed-End Funds Category Average<sup>v</sup> returned 3.76% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

Certain investors may be subject to the federal alternative minimum tax, and state and local taxes will apply. Capital gains, if any, are fully taxable. Please consult your personal tax or legal adviser.

During the twelve-month period, the Fund made distributions to shareholders totaling \$0.44 per share. The performance table shows the Fund's twelve-month total return based on its NAV and market price as of October 31, 2011. **Past performance is no guarantee of future results.**

**Performance Snapshot as of October 31, 2011**

<b>Price Per Share</b>	<b>12-Month Total Return*</b>
\$7.63 (NAV)	3.39%
\$7.52 (Market Price)	0.74%

**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 in accordance with the Fund's Dividend Reinvestment Plan.**

**Q. What were the leading contributors to performance?**

**A.** The largest contributors to the Fund's relative performance during the reporting period were its duration and yield curve positioning. Our longer duration than that of the benchmark was beneficial as rates moved lower. The same dynamic held true for the Fund's yield curve positioning. Overall, the Fund's overweight to the long end of the municipal yield curve (22+ year maturities) positively impacted performance as longer-term securities outperformed shorter-term securities.

Having a significant overweight to the Health Care sector was beneficial for results as it outperformed the overall benchmark during the reporting period. Within the Health Care sector, we preferred securities from issuers that had solid balance sheets and strong management teams. In contrast, we avoided issuers that are disproportionately dependent on Medicaid reimbursements, given our concerns that federal government reimbursement levels would decline.

Our overweights to BBB-rated and BB-rated securities contributed to performance, especially during the second half of the period when investor sentiment for the municipal market improved and demand for lower-rated, higher-yielding securities increased. Also benefiting the Fund's relative performance was its underweight exposure to AAA-rated municipal bonds. We felt that these high-quality securities were richly valued and the underweight position was rewarded given that they lagged their lower-rated counterparts during the reporting period.

**Q. What were the leading detractors from performance?**

**A.** The largest detractors from relative performance for the period were the Fund's exposures to a number of sectors. In particular, having an overweight in the Industrial Revenue sector was negative for results given its underperformance versus the benchmark. The Fund's underweights to State and Local General Obligation bonds and the Water & Sewer sector were not rewarded, as they outperformed the benchmark. Finally, security selection in the Leasing sector, especially the Jail sub-sector, was a small detractor from performance for the period.

**Looking for additional information?**

The Fund is traded under the symbol **MHF** and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol **XMHF** on most financial websites. *Barron's* and the *Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as [www.leggmason.com/cef](http://www.leggmason.com/cef).

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 5:30 p.m. Eastern Time, for the Fund's current NAV, market price and other information.

Thank you for your investment in Western Asset Municipal High Income Fund Inc. As always, we appreciate that you have chosen us to manage your

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**Fund overview (cont'd)**

assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

Western Asset Management Company

November 15, 2011

**RISKS:** *The Fund's investments are subject to credit risk, inflation risk and interest rate risk. High-yield bonds involve greater credit and liquidity risks than investment grade bonds. As interest rates rise, bond prices fall, reducing the value of the Fund's holdings. Municipal securities purchased by the Fund may be adversely affected by changes in the financial condition of municipal issuers and insurers, regulatory and political developments, uncertainties and public perceptions, and other factors. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.*

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. Portfolio holdings are subject to change at any time and may not be representative of the portfolio managers' current or future investments. The Fund's portfolio composition is subject to change at any time.

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

i Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.

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ii The Barclays Capital Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more.

iii The Barclays Capital U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.

iv Net asset value ( NAV ) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total investments) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.

v Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended October 31, 2011, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 14 funds in the Fund's Lipper category.

vi The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.



**Fund at a glance (unaudited)**

**Investment breakdown (%) as a percent of total investments**

The bar graph above represents the composition of the Fund's investments as of October 31, 2011 and October 31, 2010 and does not include derivatives. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

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**Spread duration (unaudited)**

**Economic Exposure October 31, 2011**

Spread duration measures the sensitivity to changes in spreads. The spread over Treasuries is the annual risk-premium demanded by investors to hold non-Treasury securities. Spread duration is quantified as the % change in price resulting from a 100 basis points change in spreads. For a security with positive spread duration, an increase in spreads would result in a price decline and a decline in spreads would result in a price increase. This chart highlights the market sector exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

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BC Muni Bond      Barclays Capital Municipal Bond Index  
MHF                Western Asset Municipal High Income Fund Inc.

**Effective duration (unaudited)**

**Interest Rate Exposure October 31, 2011**

Effective duration measures the sensitivity to changes in relevant interest rates. Effective duration is quantified as the % change in price resulting from a 100 basis points change in interest rates. For a security with positive effective duration, an increase in interest rates would result in a price decline and a decline in interest rates would result in a price increase. This chart highlights the interest rate exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

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BC Muni Bond      Barclays Capital Municipal Bond Index  
MHF                Western Asset Municipal High Income Fund Inc.

## Western Asset Municipal High Income Fund Inc. 2011 Annual Report

**Schedule of investments**

October 31, 2011

**Western Asset Municipal High Income Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Municipal Bonds 96.1%</b>				
<b>Arizona 1.8%</b>				
Pima County, AZ, IDA Revenue, Tucson Electric Power Co.	5.750%	9/1/29	\$1,000,000	\$ 1,022,680
Salt Verde, AZ, Financial Corp. Gas Revenue	5.000%	12/1/37	1,500,000	1,360,140
University Medical Center Corp., AZ, Hospital Revenue	6.250%	7/1/29	500,000	519,660
<b>Total Arizona</b>				<b>2,902,480</b>
<b>Arkansas 0.4%</b>				
Arkansas State Development Financing Authority, Industrial Facilities Revenue, Potlatch Corp. Projects	7.750%	8/1/25	600,000	<b>615,042</b> (a)
<b>California 5.5%</b>				
California State Public Works Board, Lease Revenue, Various Capital Projects	5.125%	10/1/31	1,500,000	1,484,250
Golden State Tobacco Securitization Corp., California Tobacco Settlement Revenue, Asset Backed	7.800%	6/1/42	2,000,000	2,225,780(b)
M-S-R Energy Authority, CA, Gas Revenue	7.000%	11/1/34	2,000,000	2,394,700
M-S-R Energy Authority, CA, Gas Revenue	6.500%	11/1/39	2,000,000	2,274,620
Redding, CA, Redevelopment Agency, Tax Allocation, Shastec Redevelopment Project	5.000%	9/1/29	600,000	550,176
<b>Total California</b>				<b>8,929,526</b>
<b>Colorado 4.6%</b>				
Colorado Educational & Cultural Facilities Authority Revenue:				
Cheyenne Mountain Charter Academy	5.250%	6/15/25	680,000	664,448
Cheyenne Mountain Charter Academy	5.125%	6/15/32	510,000	468,874
Elbert County Charter	7.375%	3/1/35	785,000	742,861
Public Authority for Colorado Energy, Natural Gas Purchase Revenue	6.125%	11/15/23	4,000,000	4,254,080
Reata South Metropolitan District, CO, GO	7.250%	6/1/37	1,000,000	832,770
Southlands, CO, Metropolitan District No. 1, GO	7.125%	12/1/34	500,000	597,135(b)(c)
<b>Total Colorado</b>				<b>7,560,168</b>
<b>Delaware 4.1%</b>				
Delaware State EDA Revenue, Indian River Power LLC	5.375%	10/1/45	4,000,000	3,687,920
Sussex County, DE, Recovery Zone Facility Revenue, NRG Energy Inc., Indian River Power LLC	6.000%	10/1/40	3,000,000	3,033,300
<b>Total Delaware</b>				<b>6,721,220</b>

See Notes to Financial Statements.

**Western Asset Municipal High Income Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>District of Columbia 1.2%</b>				
District of Columbia COP, District Public Safety & Emergency, AMBAC	5.500%	1/1/20	\$1,895,000	\$ 1,979,972
<b>Florida 6.2%</b>				
Beacon Lakes, FL, Community Development District, Special Assessment	6.900%	5/1/35	815,000	818,236
Bonnet Creek Resort Community Development District, Special Assessment	7.500%	5/1/34	1,500,000	1,414,860
Century Parc Community Development District, Special Assessment	7.000%	11/1/31	865,000	864,991
Highlands County, FL, Health Facilities Authority Revenue, Adventist Health Systems	6.000%	11/15/25	1,000,000	1,055,330(b)
Martin County, FL, IDA Revenue, Indiantown Cogeneration Project	7.875%	12/15/25	2,000,000	2,008,980(a)
Orange County, FL, Health Facilities Authority Revenue, First Mortgage Healthcare Facilities Revenue Bonds, GF/Orlando Inc. Project	9.000%	7/1/31	1,000,000	984,420
Palm Beach County, FL, Health Facilities Authority Revenue, John F. Kennedy Memorial Hospital Inc. Project	9.500%	8/1/13	155,000	165,163(d)
Reunion East Community Development District, Special Assessment	7.375%	5/1/33	2,000,000	1,434,520
Santa Rosa, FL, Bay Bridge Authority Revenue	6.250%	7/1/28	1,000,000	380,000(e)
University of Central Florida, COP, FGIC	5.000%	10/1/25	1,000,000	976,460
<b>Total Florida</b>				<b>10,102,960</b>
<b>Georgia 6.1%</b>				
Atlanta, GA, Airport Revenue, AGM	5.000%	1/1/26	1,000,000	1,031,160
Atlanta, GA, Development Authority Educational Facilities Revenue, Science Park LLC Project	5.000%	7/1/32	2,000,000	2,115,200
Atlanta, GA, Tax Allocation, Atlantic Station Project	7.900%	12/1/24	2,500,000	2,540,075(b)
Atlanta, GA, Water & Wastewater Revenue	6.250%	11/1/39	2,000,000	2,238,520
DeKalb, Newton & Gwinnett Counties, GA, Joint Development Authority Revenue, GGC Foundation LLC Project	6.125%	7/1/40	1,000,000	1,093,410
Gainesville & Hall County, GA, Development Authority Revenue, Senior Living Facilities, Lanier Village Estates	7.250%	11/15/29	1,000,000	1,000,520
<b>Total Georgia</b>				<b>10,018,885</b>
<b>Hawaii 2.7%</b>				
Hawaii State Department of Budget & Finance Special Purpose Revenue:				
Craigside Retirement Residence	6.400%	11/15/14	550,000	553,041
Craigside Retirement Residence	7.500%	11/15/15	1,500,000	1,521,825

See Notes to Financial Statements.

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**Schedule of investments (cont d)**

October 31, 2011

**Western Asset Municipal High Income Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Hawaii continued</b>				
Craigside Retirement Residence	8.750%	11/15/29	\$ 200,000	\$ 227,542
Hawaiian Electric Co.	6.500%	7/1/39	2,000,000	2,137,660
<b>Total Hawaii</b>				<b>4,440,068</b>
<b>Illinois 2.5%</b>				
Cook County, IL, Revenue, Navistar International Corp.	6.500%	10/15/40	2,000,000	2,065,600
Illinois Finance Authority Revenue:				
Park Place of Elmhurst	8.125%	5/15/40	1,000,000	1,004,520
Refunding, Chicago Charter School Project	5.000%	12/1/26	1,000,000	963,050
<b>Total Illinois</b>				<b>4,033,170</b>
<b>Indiana 0.5%</b>				
County of St. Joseph, IN, EDR:				
Holy Cross Village Notre Dame Project	6.000%	5/15/26	285,000	273,010
Holy Cross Village Notre Dame Project	6.000%	5/15/38	550,000	498,746
<b>Total Indiana</b>				<b>771,756</b>
<b>Kansas 0.7%</b>				
Salina, KS, Hospital Revenue, Refunding & Improvement Salina Regional Health	5.000%	10/1/22	1,150,000	<b>1,203,142</b>
<b>Kentucky 1.3%</b>				
Owen County, KY, Waterworks System Revenue, Kentucky American Water Co. Project	6.250%	6/1/39	2,000,000	<b>2,095,620</b>
<b>Louisiana 0.5%</b>				
Epps, LA, COP	8.000%	6/1/18	855,000	<b>861,216</b>
<b>Maryland 1.9%</b>				
Maryland State Health & Higher EFA Revenue, Mercy Medical Center	6.250%	7/1/31	3,000,000	<b>3,136,860</b>
<b>Massachusetts 1.2%</b>				
Boston, MA, Industrial Development Financing Authority Revenue, Roundhouse Hospitality LLC Project	7.875%	3/1/25	785,000	665,492(a)
Massachusetts State DFA Revenue, Tufts Medical Center Inc.	6.875%	1/1/41	1,000,000	1,055,110
Massachusetts State Port Authority Revenue	13.000%	7/1/13	150,000	171,331(d)
<b>Total Massachusetts</b>				<b>1,891,933</b>
<b>Michigan 5.1%</b>				
Allen Academy, COP	7.500%	6/1/23	2,130,000	2,153,664
Cesar Chavez Academy, COP	6.500%	2/1/33	1,000,000	1,005,660
Cesar Chavez Academy, COP	8.000%	2/1/33	1,000,000	1,038,400
Gaudior Academy, COP	7.250%	4/1/34	1,000,000	919,400

See Notes to Financial Statements.



**Western Asset Municipal High Income Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Michigan continued</b>				
Royal Oak, MI, Hospital Finance Authority Revenue, William				
Beaumont Hospital	8.250%	9/1/39	\$2,000,000	\$ 2,364,260
Star International Academy, COP	7.000%	3/1/33	940,000	934,727
<b>Total Michigan</b>				<b>8,416,111</b>
<b>Missouri 1.2%</b>				
Missouri State Health & Educational Facilities Authority, Lutheran				
Senior Services	6.000%	2/1/41	500,000	501,705
Missouri State HEFA Revenue, Refunding, St. Lukes Episcopal	5.000%	12/1/21	1,300,000	1,380,639
<b>Total Missouri</b>				<b>1,882,344</b>
<b>Montana 1.3%</b>				
Montana State Board of Investment, Resource Recovery Revenue,				
Yellowstone Energy LP Project	7.000%	12/31/19	2,145,000	2,062,460(a)
<b>New Jersey 3.6%</b>				
Casino Reinvestment Development Authority Revenue, NATL	5.250%	6/1/20	1,500,000	1,539,735
New Jersey State EDA Revenue, Refunding	6.875%	1/1/37	5,000,000	4,433,000(a)
<b>Total New Jersey</b>				<b>5,972,735</b>
<b>New Mexico 0.6%</b>				
Otero County, NM, COP, Jail Project Revenue	7.500%	12/1/24	1,000,000	992,530
<b>New York 5.1%</b>				
Brooklyn Arena, NY, Local Development Corp., Barclays Center				
Project	6.250%	7/15/40	2,000,000	2,088,340
New York City, NY, IDA, Civic Facilities Revenue, Special Needs				
Facilities Pooled Program	8.125%	7/1/19	340,000	344,461
New York Liberty Development Corp., Liberty Revenue, Refunding,				
Second Priority, Bank of America	6.375%	7/15/49	5,000,000	5,184,950
Suffolk County, NY, IDA, Civic Facilities Revenue, Eastern Long				
Island Hospital Association	7.750%	1/1/22	755,000	766,929(b)
<b>Total New York</b>				<b>8,384,680</b>
<b>Ohio 2.6%</b>				
Cuyahoga County, OH, Hospital Facilities Revenue, Canton Inc.				
Project	7.500%	1/1/30	1,465,000	1,468,604
Miami County, OH, Hospital Facilities Revenue, Refunding and				
Improvement Upper Valley Medical Center	5.250%	5/15/21	1,500,000	1,541,925
Riversouth Authority, OH, Revenue, Riversouth Area				
Redevelopment	5.000%	12/1/25	1,260,000	1,328,267
<b>Total Ohio</b>				<b>4,338,796</b>

See Notes to Financial Statements.



12 Western Asset Municipal High Income Fund Inc. 2011 Annual Report

**Schedule of investments (cont d)**

October 31, 2011

**Western Asset Municipal High Income Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Oklahoma 1.5%</b>				
Tulsa County, OK, Industrial Authority, Senior Living Community Revenue:				
Montereau Inc. Project	6.875%	11/1/23	\$1,300,000	\$ 1,354,028
Montereau Inc. Project	7.125%	11/1/30	1,000,000	1,053,630
<b>Total Oklahoma</b>				<b>2,407,658</b>
<b>Pennsylvania 4.2%</b>				
Cumberland County, PA, Municipal Authority Retirement Community Revenue, Wesley Affiliate Services Inc. Project	7.250%	1/1/35	1,000,000	1,087,000(b)
Lebanon County, PA, Health Facilities Authority Revenue, Good Samaritan Hospital Project	6.000%	11/15/35	1,000,000	932,700
Monroe County, PA, Hospital Authority Revenue, Pocono Medical Center	5.000%	1/1/27	1,000,000	976,060
Northumberland County, PA, IDA Facilities Revenue, NHS Youth Services Inc. Project	7.500%	2/15/29	900,000	788,247
Pennsylvania Economic Development Financing Authority, Health Systems Revenue, Albert Einstein Healthcare	6.250%	10/15/23	2,000,000	2,096,780
Philadelphia, PA, Authority for IDR, Host Marriot LP Project, Remarketed 10/31/95	7.750%	12/1/17	1,000,000	1,001,890(a)
<b>Total Pennsylvania</b>				<b>6,882,677</b>
<b>Puerto Rico 0.6%</b>				
Puerto Rico Electric Power Authority, Power Revenue	5.250%	7/1/40	1,000,000	<b>1,008,930</b>
<b>Tennessee 1.3%</b>				
Shelby County, TN, Health Educational & Housing Facilities Board Revenue, Trezevant Manor Project	5.750%	9/1/37	2,500,000	<b>2,190,550</b>
<b>Texas 21.8%</b>				
Brazos River, TX, Harbor Industrial Development Corp., Environmental Facilities Revenue, Dow Chemical Co.	5.900%	5/1/28	1,500,000	1,511,235(a)(f)
Burnet County, TX, Public Facility Project Revenue	7.500%	8/1/24	1,440,000	1,005,351
Garza County, TX, Public Facility Corp.	5.500%	10/1/18	1,000,000	1,016,070
Garza County, TX, Public Facility Corp., Project Revenue	5.750%	10/1/25	2,000,000	2,043,040
Gulf Coast of Texas, IDA, Solid Waste Disposal Revenue, CITGO Petroleum Corp. Project	7.500%	10/1/12	2,000,000	2,023,580(a)(f)
Harris County, TX, Cultural Education Facilities Finance Corp., Medical Facilities Revenue, Baylor College of Medicine	5.625%	11/15/32	2,000,000	1,945,900
Houston, TX, Airport Systems Revenue, Special Facilities, Continental Airlines Inc. Project	6.125%	7/15/27	2,750,000	2,517,735(a)

See Notes to Financial Statements.

**Western Asset Municipal High Income Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Texas continued</b>				
Laredo, TX, ISD Public Facility Corp., Lease Revenue, AMBAC	5.000%	8/1/29	\$1,000,000	\$ 1,000,180
Love Field Airport Modernization Corp, TX, Special Facilities Revenue, Southwest Airlines Co. Project	5.250%	11/1/40	6,000,000	5,733,660
Midlothian, TX, Development Authority, Tax Increment Contract Revenue	6.200%	11/15/29	1,000,000	1,007,350
North Texas Tollway Authority Revenue	5.750%	1/1/40	2,500,000	2,590,150
Texas Midwest Public Facility Corp. Revenue, Secure Treatment Facility Project	9.000%	10/1/30	2,000,000	1,080,000(e)
Texas Private Activity Bond Surface Transportation Corp., Senior Lien, NTE Mobility Partners LLC	6.875%	12/31/39	2,000,000	2,138,000
Texas Private Activity Bond Surface Transportation Corp. Revenue, LBJ Infrastructure Group LLC	7.000%	6/30/40	4,000,000	4,314,240
Texas State Public Finance Authority:				
Charter School Finance Corp. Revenue, Cosmos Foundation Inc.	6.200%	2/15/40	1,000,000	1,023,270
Uplift Education	5.750%	12/1/27	1,500,000	1,490,595
West Texas Detention Facility Corp. Revenue	8.000%	2/1/25	1,865,000	1,848,159
Willacy County, TX, PFC Project Revenue	8.250%	12/1/23	1,000,000	1,039,700
Willacy County, TX, PFC Project Revenue, County Jail	7.500%	11/1/25	520,000	463,902
<b>Total Texas</b>				<b>35,792,117</b>
<b>U.S. Virgin Islands 1.6%</b>				
Virgin Islands Public Finance Authority Revenue, Matching Fund Loan	6.750%	10/1/37	2,500,000	<b>2,665,125</b>
<b>Virginia 2.3%</b>				
Alexandria, VA, Redevelopment & Housing Authority, MFH Revenue, Parkwood Court Apartments Project	8.125%	4/1/30	295,000	295,903
Broad Street CDA Revenue	7.500%	6/1/33	748,000	842,846(b)
Chesterfield County, VA, EDA, Solid Waste and Sewer Disposal Revenue, Virginia Electric Power Co. Project	5.600%	11/1/31	2,500,000	2,545,775(a)
<b>Total Virginia</b>				<b>3,684,524</b>
<b>West Virginia 1.5%</b>				