

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Form N-Q

September 28, 2009

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-5497

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

55 Water Street, New York, NY  
(Address of principal executive offices)

10041  
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

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

Registrant's telephone number, including area code: 1-888-777-0102

Date of fiscal year end: October 31

Date of reporting period: July 31, 2009

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ITEM 1. SCHEDULE OF INVESTMENTS

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**WESTERN ASSET**

**MUNICIPAL HIGH INCOME FUND INC.**

**FORM N-Q**

JULY 31, 2009

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## Western Asset Municipal High Income Fund Inc.

Schedule of Investments (unaudited)

July 31, 2009

| Face Amount                  | Security  | Value            |
|------------------------------|---|------------------|
| <b>MUNICIPAL BONDS 99.2%</b> |   |                  |
| <b>Alaska 0.6%</b>           |   |                  |
| \$ 1,055,000                 | Alaska Industrial Development & Export Authority Revenue, Williams Lynxs Alaska Cargoport, 8.125% due 5/1/31 (a)            | \$ 896,128       |
| <b>Arizona 2.3%</b>          |   |                  |
| 1,720,000                    | Phoenix, AZ, IDA, MFH Revenue, Ventana Palms Apartments Project, 8.000% due 10/1/34 (e)                                     | 1,774,679        |
| 1,500,000                    | Salt Verde, AZ Financial Corp., Gas Revenue, 5.000% due 12/1/37   | 1,123,320        |
| 500,000                      | University Medical Center Corp., AZ, Hospital Revenue, 6.250% due 7/1/29  | 502,895          |
|                              | <b>Total Arizona</b>  | <b>3,400,894</b> |
| <b>Arkansas 1.0%</b>         |   |                  |
| 1,000,000                    | Arkansas State Development Financing Authority: Hospital Revenue, Washington Regional Medical Center, 7.375% due 2/1/29 (b) | 1,026,860        |
| 600,000                      | Industrial Facilities Revenue, Potlatch Corp. Projects, 7.750% due 8/1/25 (a)   | 535,194          |
|                              | <b>Total Arkansas</b>   | <b>1,562,054</b> |
| <b>California 4.1%</b>       |   |                  |
| 1,500,000                    | Barona, CA, Band of Mission Indians, GO, 8.250% due 12/1/20   | 1,369,260        |
| 2,000,000                    | California Health Facilities Financing Authority Revenue, Refunding, Cedars-Sinai Medical Center, 5.000% due 11/15/27       | 1,814,740        |
| 2,000,000                    | Golden State Tobacco Securitization Corp., California Tobacco Settlement Revenue, Asset Backed, 7.800% due 6/1/42 (b)       | 2,441,240        |
| 600,000                      | Redding, CA, Redevelopment Agency, Tax Allocation, Shastec Redevelopment Project, 5.000% due 9/1/29                         | 486,606          |
|                              | <b>Total California</b>   | <b>6,111,846</b> |
| <b>Colorado 5.7%</b>         |   |                  |
| 740,000                      | Colorado Educational & Cultural Facilities Authority Revenue: Charter School, Peak to Peak Project, 7.500% due 8/15/21 (b)  | 822,184          |
| 680,000                      | Cheyenne Mountain Charter Academy: 5.250% due 6/15/25   | 564,740          |
| 510,000                      | 5.125% due 6/15/32  | 387,503          |
| 785,000                      | Elbert County Charter, 7.375% due 3/1/35  | 683,201          |
| 810,000                      | Unrefunded, University of Denver Project, FGIC, 5.250% due 3/1/23   | 845,608          |
| 4,000,000                    | Public Authority for Colorado Energy, Natural Gas Purchase Revenue, 6.125% due 11/15/23                                     | 3,901,200        |
| 1,000,000                    | Reata South Metropolitan District, CO, GO, 7.250% due 6/1/37  | 721,590          |
| 500,000                      | Southlands, CO, Metropolitan District No. 1, GO, 7.125% due 12/1/34 (b)   | 628,745          |

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|                                  |  |           |
|----------------------------------|--|-----------|
|                                  | <b>Total Colorado</b>  | 8,554,771 |
| <b>District of Columbia 1.3%</b> |  |           |
| 1,895,000                        | District of Columbia COP, District Public Safety & Emergency, AMBAC, 5.500% due 1/1/20   | 1,957,649 |
| <b>Florida 8.0%</b>              |  |           |
| 880,000                          | Beacon Lakes, FL, Community Development District, Special Assessment, 6.900% due 5/1/35  | 591,061   |
| 1,500,000                        | Bonnet Creek Resort Community Development District, Special Assessment, 7.500% due 5/1/34  | 1,201,335 |
| 2,000,000                        | Capital Projects Finance Authority, FL, Student Housing Revenue, Capital Projects Loan Program, Florida University, 7.850% due 8/15/31 (b) | 2,201,540 |
| 920,000                          | Century Parc Community Development District, Special Assessment, 7.000% due 11/1/31  | 694,885   |
| 1,000,000                        | Highlands County, FL, Health Facilities Authority Revenue, Adventist Health Systems, 6.000% due 11/15/25 (b)                               | 1,147,190 |

*See Notes to Schedule of Investments.*

## Western Asset Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2009

|                 | Face<br>Amount          | Security  | Value             |
|-----------------|-------------------------|---|-------------------|
| <b>Florida</b>  | <b>8.0% (continued)</b> |   |                   |
| \$              | 2,000,000               | Martin County, FL, IDA Revenue, Indiantown Cogeneration Project, 7.875% due 12/15/25 (a)  | \$ 1,991,520      |
|                 | 1,000,000               | Orange County, FL, Health Facilities Authority Revenue, First Mortgage, GF, Orlando Inc. Project, 9.000% due 7/1/31                 | 963,870           |
|                 | 290,000                 | Palm Beach County, FL, Health Facilities Authority Revenue, John F. Kennedy Memorial Hospital Inc. Project, 9.500% due 8/1/13 (c)   | 338,584           |
|                 | 2,000,000               | Reunion East Community Development District, Special Assessment, 7.375% due 5/1/33  | 1,364,260         |
|                 | 1,000,000               | Santa Rosa, FL, Bay Bridge Authority Revenue, 6.250% due 7/1/28   | 602,350           |
|                 | 1,000,000               | University of Central Florida, COP, FGIC, 5.000% due 10/1/25  | 918,020           |
|                 |                         | <b>Total Florida</b>  | <b>12,014,615</b> |
| <b>Georgia</b>  | <b>7.8%</b>             |   |                   |
|                 | 1,000,000               | Atlanta, GA, Airport Revenue: FGIC, 5.625% due 1/1/30 (a)   | 928,420           |
|                 | 1,000,000               | FSA, 5.000% due 1/1/26  | 1,024,680         |
|                 | 2,000,000               | Atlanta, GA: Development Authority Educational Facilities Revenue, Science Park LLC Project, 5.000% due 7/1/32                      | 1,882,180         |
|                 | 2,500,000               | Tax Allocation, Atlantic Station Project, 7.900% due 12/1/24 (b)  | 2,929,525         |
|                 | 3,000,000               | Water & Wastewater Revenue, 6.250% due 11/1/39  | 2,939,790         |
|                 | 1,000,000               | DeKalb, Newton & Gwinnett Counties, GA, Joint Development Authority Revenue, GGC Foundation LLC Project, 6.125% due 7/1/40          | 1,032,530         |
|                 | 1,000,000               | Gainesville & Hall County, GA, Development Authority Revenue, Senior Living Facilities, Lanier Village Estates, 7.250% due 11/15/29 | 976,020           |
|                 |                         | <b>Total Georgia</b>  | <b>11,713,145</b> |
| <b>Hawaii</b>   | <b>1.4%</b>             |   |                   |
|                 | 2,000,000               | Hawaii State Department of Budget & Finance Special Purpose Revenue, Hawaiian Electric Co., 6.500% due 7/1/39                       | 2,027,220         |
| <b>Illinois</b> | <b>0.5%</b>             |   |                   |
|                 | 1,000,000               | Illinois Finance Authority Revenue, Refunding, Chicago Charter School Project, 5.000% due 12/1/26                                   | 736,290           |
| <b>Indiana</b>  | <b>0.4%</b>             |   |                   |
|                 | 285,000                 | County of St. Joseph, IN, EDR, Holy Cross Village Notre Dame Project: 6.000% due 5/15/26  | 219,459           |
|                 | 550,000                 | 6.000% due 5/15/38  | 394,823           |
|                 |                         | <b>Total Indiana</b>  | <b>614,282</b>    |
| <b>Kansas</b>   | <b>0.7%</b>             |   |                   |
|                 | 1,150,000               | Salina, KS, Hospital Revenue, Refunding & Improvement Salina Regional Health, 5.000% due 10/1/22                                    | 1,118,594         |

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|                  |             |   |                  |
|------------------|-------------|---|------------------|
| <b>Kentucky</b>  | <b>1.9%</b> |   |                  |
|                  | 1,000,000   | Louisville & Jefferson County, KY, Metro Government Health System Revenue, Norton Healthcare Inc., 5.250% due 10/1/36 | 865,770          |
|                  | 2,000,000   | Owen County, KY, Waterworks System Revenue, Kentucky American Water Co. Project, 6.250% due 6/1/39                    | 2,036,500        |
|                  |             | <b>Total Kentucky</b>   | <b>2,902,270</b> |
| <b>Louisiana</b> | <b>1.2%</b> |   |                  |
|                  | 1,000,000   | Epps, LA, COP, 8.000% due 6/1/18  | 933,650          |
|                  | 1,000,000   | St. John Baptist Parish, LA, Revenue, Marathon Oil Corp., 5.125% due 6/1/37   | 848,910          |
|                  |             | <b>Total Louisiana</b>  | <b>1,782,560</b> |

*See Notes to Schedule of Investments.*

## Western Asset Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2009

| Face Amount               | Security  | Value             |
|---------------------------|---|-------------------|
| <b>Maryland 1.0%</b>      |   |                   |
| \$ 1,500,000              | Maryland State Economic Development Corp. Revenue, Chesapeake Bay, 7.730% due 12/1/27 (b)                                 | \$ 1,550,595      |
| <b>Massachusetts 4.1%</b> |   |                   |
| 860,000                   | Boston, MA, Industrial Development Financing Authority Revenue, Roundhouse Hospitality LLC Project, 7.875% due 3/1/25 (a) | 693,590           |
| 3,000,000                 | Massachusetts Educational Financing Authority Education Loan Revenue, 6.125% due 1/1/22 (a)                               | 3,070,770         |
| 1,000,000                 | Massachusetts State DFA Revenue, Briarwood, 8.250% due 12/1/30 (b)  | 1,104,280         |
| 265,000                   | Massachusetts State Port Authority Revenue, 13.000% due 7/1/13 (c)  | 328,454           |
| 1,000,000                 | Massachusetts State, HEFA Revenue, Caritas Christi Obligation, 6.750% due 7/1/16  | 1,014,250         |
|                           | <b>Total Massachusetts</b>  | <b>6,211,344</b>  |
| <b>Michigan 7.0%</b>      |   |                   |
| 2,130,000                 | Allen Academy, COP, 7.500% due 6/1/23   | 1,784,003         |
| 1,000,000                 | Cesar Chavez Academy, COP: 6.500% due 2/1/33  | 789,590           |
| 1,000,000                 | 8.000% due 2/1/33   | 939,870           |
| 1,000,000                 | Gaudiior Academy, COP, 7.250% due 4/1/34  | 797,230           |
| 3,000,000                 | Michigan State Hospital Finance Authority, Refunding Hospital, Sparrow Obligated, 5.000% due 11/15/31                     | 2,477,580         |
| 2,000,000                 | Royal Oak, MI, Hospital Finance Authority Revenue, William Beaumont Hospital, 8.250% due 9/1/39                           | 2,279,620         |
| 975,000                   | Star International Academy, COP, 7.000% due 3/1/33  | 764,351           |
| 700,000                   | William C. Abney Academy, COP, 6.750% due 7/1/19  | 664,160           |
|                           | <b>Total Michigan</b>   | <b>10,496,404</b> |
| <b>Missouri 0.8%</b>      |   |                   |
| 1,300,000                 | Missouri State HEFA Revenue, Refunding, St. Lukes Episcopal, 5.000% due 12/1/21   | 1,245,985         |
| <b>Montana 1.3%</b>       |   |                   |
| 2,345,000                 | Montana State Board of Investment, Resource Recovery Revenue, Yellowstone Energy LP Project, 7.000% due 12/31/19 (a)      | 1,950,477         |
| <b>New Hampshire 1.0%</b> |   |                   |
| 1,600,000                 | New Hampshire HEFA Revenue, Healthcare System, Covenant Health System, 5.500% due 7/1/34                                  | 1,445,136         |
| <b>New Jersey 8.8%</b>    |   |                   |
| 1,500,000                 | Casino Reinvestment Development Authority Revenue, NATL, 5.250% due 6/1/20  | 1,514,865         |
| 1,000,000                 | New Jersey EDA, Retirement Community Revenue, SeaBrook Village Inc., 8.250% due 11/15/30 (b)                              | 1,097,730         |
|                           | New Jersey Health Care Facilities Financing Authority Revenue, Trinitas Hospital Obligation Group: 5.250% due 7/1/30      | 3,765,950         |
| 5,000,000                 | 7.500% due 7/1/30 (b)   | 3,208,170         |
| 3,000,000                 |   | 3,681,300         |
| 5,000,000                 |   |                   |



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|                   |             |   |            |
|-------------------|-------------|---|------------|
|                   |             | New Jersey State, EDA, Revenue, Refunding, 6.875% due<br>1/1/37 (a)             |            |
| <b>New Mexico</b> | <b>1.3%</b> | <b>Total New Jersey</b>   | 13,268,015 |
|                   | 1,000,000   | Otero County, NM, Jail Project Revenue, 7.500% due<br>12/1/24                   | 930,350    |
|                   | 1,000,000   | Sandoval County, NM, Incentive Payment Revenue,<br>Refunding, 5.000% due 6/1/20 | 1,045,610  |
|                   |             | <b>Total New Mexico</b>   | 1,975,960  |

*See Notes to Schedule of Investments.*

## Western Asset Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2009

|                       | Face<br>Amount | Security   | Value            |
|-----------------------|----------------|--|------------------|
| <b>New York</b>       | <b>3.7%</b>    |  |                  |
| \$                    | 700,000        | Brookhaven, NY, IDA Civic Facilities Revenue, Memorial Hospital Medical Center Inc., 8.250% due 11/15/30 (b)                                       | \$ 771,267       |
|                       | 1,000,000      | Monroe County, NY, IDA, Civic Facilities Revenue, Woodland Village Project, 8.550% due 11/15/32 (b)  | 1,114,100        |
|                       | 2,000,000      | MTA, New York Service Contract, Refunding, AMBAC, 5.000% due 7/1/30  | 2,016,040        |
|                       | 695,000        | New York City, NY, IDA, Civic Facilities Revenue, Special Needs Facilities Pooled Program, 8.125% due 7/1/19 (b)                                   | 730,424          |
|                       | 840,000        | Suffolk County, NY, IDA, Civic Facilities Revenue, Eastern Long Island Hospital Association, 7.750% due 1/1/22 (b)                                 | 952,585          |
|                       |                | <b>Total New York</b>  | <b>5,584,416</b> |
| <b>North Carolina</b> | <b>0.6%</b>    |  |                  |
|                       | 905,000        | North Carolina Medical Care Community, Health Care Facilities Revenue, First Mortgage, DePaul Community Facilities Project, 7.625% due 11/1/29 (b) | 937,209          |
| <b>Ohio</b>           | <b>2.7%</b>    |  |                  |
|                       | 1,500,000      | Cuyahoga County, OH, Hospital Facilities Revenue, Canton Inc. Project, 7.500% due 1/1/30   | 1,463,205        |
|                       | 1,500,000      | Miami County, OH, Hospital Facilities Revenue, Refunding and Improvement Upper Valley Medical Center, 5.250% due 5/15/21                           | 1,301,280        |
|                       | 1,260,000      | Riversouth Authority, OH, Revenue, Riversouth Area Redevelopment, 5.000% due 12/1/25   | 1,301,252        |
|                       |                | <b>Total Ohio</b>  | <b>4,065,737</b> |
| <b>Pennsylvania</b>   | <b>5.9%</b>    |  |                  |
|                       | 1,000,000      | Cumberland County, PA, Municipal Authority Retirement Community Revenue, Wesley Affiliate Services Inc. Project, 7.250% due 1/1/35 (b)             | 1,199,320        |
|                       | 1,000,000      | Lebanon County, PA, Health Facilities Authority Revenue, Good Samaritan Hospital Project, 6.000% due 11/15/35                                      | 835,700          |
|                       | 1,000,000      | Monroe County, PA, Hospital Authority Revenue, Pocono Medical Center, 5.000% due 1/1/27  | 869,270          |
|                       | 940,000        | Northumberland County, PA, IDA Facilities Revenue, NHS Youth Services Inc. Project, 7.500% due 2/15/29   | 776,515          |
|                       | 2,000,000      | Pennsylvania Economic Development Financing Authority, Health Systems Revenue, Albert Einstein Healthcare, 6.250% due 10/15/23                     | 2,004,260        |
|                       | 1,000,000      | Philadelphia, PA, Authority for IDR, Host Marriot LP Project, Remarketed 10/31/95, 7.750% due 12/1/17 (a)  | 915,670          |
|                       | 2,000,000      | Westmoreland County, PA, IDA Revenue, Health Care Facilities, Redstone Highlands Health, 8.125% due 11/15/30 (b)                                   | 2,199,080        |
|                       |                | <b>Total Pennsylvania</b>  | <b>8,799,815</b> |
| <b>Tennessee</b>      | <b>2.3%</b>    |  |                  |
|                       | 1,000,000      | Clarksville, TN, Natural Gas Acquisition Corp. Gas Revenue, 5.000% due 12/15/21  | 856,220          |

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|              |              |   |                      |
|--------------|--------------|---|----------------------|
|              | 1,000,000    | Johnson City, TN, Health & Educational Facilities Board,<br>Hospital Revenue, Mountain States Health Alliance,<br>5.500% due 7/1/36       | 799,020              |
|              | 2,500,000    | Shelby County, TN, Health Educational & Housing<br>Facilities Board Revenue, Trezevant Manor Project,<br>5.750% due 9/1/37                | 1,852,575            |
|              |              | <b>Total Tennessee</b>  | <b>3,507,815</b>     |
| <b>Texas</b> | <b>15.2%</b> |   |                      |
|              | 1,500,000    | Brazos River, TX, Harbor Industrial Development Corp.,<br>Environmental Facilities Revenue, Dow Chemical Co.,<br>5.900% due 5/1/28 (a)(d) | 1,307,865            |
|              | 1,500,000    | Burnet County, TX, Public Facility Project Revenue,<br>7.500% due 8/1/24  | 1,449,075            |
|              | 1,000,000    | Garza County, TX, Public Facility Corp.:  |                      |
|              | 2,000,000    | 5.500% due 10/1/18<br>Project Revenue, 5.750% due 10/1/25   | 909,190<br>1,990,260 |

*See Notes to Schedule of Investments.*

## Western Asset Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2009

|                                 | Face<br>Amount | Security  | Value              |
|---------------------------------|----------------|---|--------------------|
| <b>Texas 15.2% (continued)</b>  |                |   |                    |
| \$                              | 2,000,000      | Gulf Coast of Texas, IDA, Solid Waste Disposal Revenue, CITGO Petroleum Corp. Project, 7.500% due 9/30/12 (a)(d)                            | \$ 2,069,780       |
|                                 | 2,000,000      | Harris County, TX, Cultural Education Facilities Finance Corp., Medical Facilities Revenue, Baylor College of Medicine, 5.625% due 11/15/32 | 1,998,520          |
|                                 | 2,750,000      | Houston, TX, Airport Systems Revenue, Special Facilities, Continental Airlines Inc. Project, 6.125% due 7/15/27 (a)                         | 1,872,585          |
|                                 | 1,000,000      | Laredo, TX, ISD Public Facility Corp. Lease Revenue, AMBAC, 5.000% due 8/1/29   | 982,630            |
|                                 | 1,000,000      | Midlothian, TX, Development Authority, Tax Increment Contract Revenue, 6.200% due 11/15/29  | 891,150            |
|                                 | 2,500,000      | North Texas Tollway Authority Revenue, 5.750% due 1/1/40  | 2,454,050          |
|                                 | 2,000,000      | Texas Midwest Public Facility Corp. Revenue, Secure Treatment Facility Project, 9.000% due 10/1/30  | 2,009,560          |
|                                 | 1,500,000      | Texas State Public Finance Authority, Uplift Education, 5.750% due 12/1/27  | 1,150,920          |
|                                 | 1,865,000      | West Texas Detention Facility Corp. Revenue, 8.000% due 2/1/25  | 1,591,069          |
|                                 | 1,025,000      | Willacy County, TX:<br>Local Government Corp. Revenue, 6.875% due 9/1/28  | 836,400            |
|                                 | 1,000,000      | PFC Project Revenue:<br>8.250% due 12/1/23  | 892,320            |
|                                 | 580,000        | County Jail, 7.500% due 11/1/25   | 489,021            |
|                                 |                | <b>Total Texas</b>  | <b>22,894,395</b>  |
| <b>U.S. Virgin Islands 1.7%</b> | 2,500,000      | Virgin Islands Public Finance Authority Revenue, Matching Fund Loan, 6.750% due 10/1/37   | 2,506,975          |
| <b>Virginia 2.9%</b>            | 345,000        | Alexandria, VA, Redevelopment & Housing Authority, MFH Revenue, Parkwood Court Apartments Project, 8.125% due 4/1/30                        | 305,435            |
|                                 | 1,000,000      | Broad Street CDA Revenue, 7.500% due 6/1/33   | 811,550            |
|                                 | 2,500,000      | Chesterfield County, VA, EDA, Solid Waste and Sewer Disposal Revenue, Virginia Electric Power Co. Project, 5.600% due 11/1/31 (a)           | 2,247,850          |
|                                 | 1,000,000      | Fairfax County, VA, EDA Revenue, Retirement Community, Greenspring Village Inc., 7.500% due 10/1/29 (b)                                     | 1,030,760          |
|                                 |                | <b>Total Virginia</b>   | <b>4,395,595</b>   |
| <b>West Virginia 1.4%</b>       | 2,500,000      | Pleasants County, WV, PCR, Refunding County Commission Allegheny, 5.250% due 10/15/37   | 2,149,725          |
| <b>Wisconsin 0.6%</b>           | 1,000,000      | Wisconsin State HEFA Revenue, Aurora Health Care, 6.400% due 4/15/33  | 951,980            |
|                                 |                | <b>TOTAL INVESTMENTS 99.2%</b> (Cost \$159,072,022#)  | <b>149,329,896</b> |

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|                                       |               |                       |
|---------------------------------------|---------------|-----------------------|
| Other Assets in Excess of Liabilities | 0.8%          | 1,261,619             |
| <b>TOTAL NET ASSETS</b>               | <b>100.0%</b> | <b>\$ 150,591,515</b> |

Under the Statement of Financial Accounting Standards No. 157, all securities are deemed Level 2. Please refer to Note 1 of the Notes to Schedule of Investments.

- (a) Income from this issue is considered a preference item for purposes of calculating the alternative minimum tax ( AMT ).
  - (b) Pre-Refunded bonds are escrowed with U.S. government obligations and/or U.S. government agency securities and are considered by the manager to be triple-A rated even if issuer has not applied for new ratings.
  - (c) Bonds are escrowed to maturity by government securities and/or U.S. government agency securities and are considered by the manager to be triple-A rated even if issuer has not applied for new ratings.
  - (d) Maturity date shown represents the mandatory tender date.
  - (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.
- # Aggregate cost for federal income tax purposes is substantially the same.

*See Notes to Schedule of Investments.*

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

Schedule of Investments (unaudited) (continued)

July 31, 2009

Abbreviations used in this schedule:

|       |   |   |
|-------|---|---|
| AMBAC | - | American Municipal Bond Assurance Corporation - Insured Bonds |
| CDA   | - | Community Development Authority                               |
| COP   | - | Certificate of Participation                                  |
| DFA   | - | Development Finance Agency                                    |
| EDA   | - | Economic Development Authority                                |
| EDR   | - | Economic Development Revenue                                  |
| FGIC  | - | Financial Guaranty Insurance Company - Insured Bonds          |
| FSA   | - | Financial Security Assurance - Insured Bonds                  |
| GO    | - | General Obligation  |
| HEFA  | - | Health & Educational Facilities Authority                     |
| IDA   | - | Industrial Development Authority                              |
| IDR   | - | Industrial Development Revenue                                |
| ISD   | - | Independent School District                                   |
| MFH   | - | Multi-Family Housing  |
| MTA   | - | Metropolitan Transportation Authority                         |
| NATL  | - | National Public Finance Guarantee Corporation - Insured Bonds |
| PCR   | - | Pollution Control Revenue                                     |
| PFC   | - | Public Facilities Corporation                                 |

*See Notes to Schedule of Investments.*

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

Schedule of Investments (unaudited) (continued)

July 31, 2009

**Summary of Investments by Industry \***

|                                   |        |
|-----------------------------------|--------|
| Health Care                       | 19.5%  |
| Pre-Refunded/Escrowed to Maturity | 18.6   |
| Industrial Revenue                | 14.5   |
| Leasing                           | 12.0   |
| Education                         | 7.1    |
| Power                             | 5.3    |
| Special Tax Obligation            | 4.9    |
| Transportation                    | 4.7    |
| Solid Waste/Resource Recovery     | 4.2    |
| Other                             | 3.6    |
| Local General Obligation          | 2.2    |
| Water & Sewer                     | 2.0    |
| Housing                           | 1.4    |
|                                   | 100.0% |

\*As a percentage of total investments. Please note that Fund holdings are as of July, 31, 2009 and are subject to change.

**Ratings Table****S&P/Moody s/Fitch**

|         |        |
|---------|--------|
| AAA/Aaa | 8.9%   |
| AA/Aa   | 3.6    |
| A       | 26.3   |
| BBB/Baa | 25.5   |
| BB/Ba   | 5.0    |
| B       | 1.3    |
| CC/Ca   | 0.4    |
| NR      | 29.0   |
|         | 100.0% |

As a percentage of total investments.

In the event that a security is rated by multiple nationally recognized statistical rating organizations ( NRSROs ) and receives different ratings, the fund will treat the security as being rated in the lowest rating category received from an NRSRO.

See pages 8 and 9 for definitions of ratings.

*See Notes to Schedule of Investments.*





**Bond Ratings (unaudited)**

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 (-) sign 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 bonds 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 interest 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 highest 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 can be visualized as 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 speculatively 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  |

**Bond Ratings (unaudited)(continued)**

|     |   |
|-----|---|
|     | 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.  |

*Fitch Ratings Service ( Fitch )* Ratings from AA to CCC may be modified by the addition of a plus (+) or minus ( ) sign to show relative standings within the major rating categories.

|                         |  |
|-------------------------|--|
| AAA                     | Bonds rated AAA have the highest rating assigned by Fitch. 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 bonds in this category than in higher rated categories.  |
| BB, B,<br>CCC<br>and CC | Bonds rated BB , B , CCC and CC are regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB represents a lower degree of speculation than B , and CC 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. |
| NR                      | Indicates that the bond is not rated by Standard & Poor s, Moody s or Fitch.   |

**Short-Term Security Ratings (unaudited)**

|        |  |
|--------|--|
| 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.   |
| F1     | Fitch s highest rating indicating the strongest capacity for timely payment of financial commitments; those issues determined to possess overwhelming strong credit feature are denoted with a plus (+) sign.  |

**Notes to Schedule of Investments (unaudited)**

**1. Organization and Significant Accounting Policies**

Western Asset Municipal High Income Fund Inc. (the Fund) was incorporated in Maryland and is registered as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended, (the 1940 Act). The Fund seeks high current income exempt from federal income taxes.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP).

**(a) Investment Valuation.** Securities are valued at the mean between the last quoted bid and asked prices provided by an independent pricing service that are based on transactions in municipal obligations, quotations from municipal bond dealers, market transactions in comparable securities and various other relationships between securities. When prices are not readily available, or are determined not to reflect fair value, the Fund may value these securities at fair value as determined in accordance with the procedures approved by the Fund's Board of Directors. Short-term obligations with maturities of 60 days or less are valued at amortized cost, which approximates fair value.

The Fund adopted Statement of Financial Accounting Standard No. 157 (FAS 157). FAS 157 establishes a single definition of fair value, creates a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the Fund's investments, and requires additional disclosure about fair value. The hierarchy of inputs is summarized below.

- Level 1 quoted prices in active markets for identical investments
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

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

| Description | Quoted Prices<br>(Level 1) | Other<br>Significant<br>Observable<br>Inputs | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-------------|----------------------------|--|--|
|-------------|----------------------------|--|--|

(Level 2)

|                 |    |             |
|-----------------|----|-------------|
| Municipal Bonds | \$ | 149,329,896 |
|-----------------|----|-------------|

See Schedule of Investments for additional detailed categorizations.

**(b) Credit and Market Risk.** The Fund invests in high yield instruments that are subject to certain credit and market risks. The yields of high yield obligations reflect, among other things, perceived credit and market risks. The Fund's investment in securities rated below investment grade typically involves risks not associated with higher rated securities including, among others, greater risk related to timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading.

**(c) Security Transactions.** Security transactions are accounted for on a trade date basis.

## 2. Investments

At July 31, 2009, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

|                               |    |              |
|-------------------------------|----|--------------|
| Gross unrealized appreciation | \$ | 4,214,831    |
| Gross unrealized depreciation |    | (13,956,957) |
| Net unrealized depreciation   | \$ | (9,742,126)  |

**Notes to Schedule of Investments (unaudited) (continued)**

**3. Derivative instruments and hedging activities**

Financial Accounting Standards Board Statement of Financial Accounting Standards No. 161, *Disclosure about Derivative Instruments and Hedging Activities*, requires enhanced disclosure about an entity's derivative and hedging activities.

At July 31, 2009, the Fund did not hold any derivative instruments.

ITEM 2. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are attached hereto.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and 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 Municipal High Income Fund Inc.**

By */s/ R. Jay Gerken*  
R. Jay Gerken  
Chief Executive Officer

Date: September 28, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By */s/ R. Jay Gerken*  
R. Jay Gerken  
Chief Executive Officer

Date: September 28, 2009

By */s/ Kaprel Ozsolak*  
Kaprel Ozsolak  
Chief Financial Officer

Date: September 28, 2009

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