

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Form N-Q

March 28, 2008

**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

300 First Stamford Place, 4<sup>th</sup> Floor

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

Registrant's telephone number, including area code: 1-800-451-2010

Date of fiscal year end: October 31

Date of reporting period: January 31, 2008

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ITEM 1. SCHEDULE OF INVESTMENTS

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**WESTERN ASSET MUNICIPAL HIGH INCOME  
FUND INC.**

**FORM N-Q**

January 31, 2008

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## Western Asset Municipal High Income Fund Inc.

Schedule of Investments (unaudited)

January 31, 2008

Face Amount	Security	Value
<b>MUNICIPAL BONDS 98.4%</b>		
<b>Alaska 0.7%</b>		
\$ 1,055,000	Alaska Industrial Development & Export Authority Revenue, Williams Lynxs Alaska Cargoport, 8.125% due 5/1/31 (a)	\$ 1,125,115
<b>Arizona 2.1%</b>		
1,500,000	Casa Grande, AZ, IDA, Hospital Revenue, Casa Grande Regional Medical Center, 7.625% due 12/1/29	1,576,710
1,740,000	Phoenix, AZ, IDA, MFH Revenue, Ventana Palms Apartments Project, 8.000% due 10/1/34 *	1,937,890
	<b>Total Arizona</b>	<b>3,514,600</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)	1,095,440
600,000	Industrial Facilities Revenue, Potlatch Corp. Projects, 7.750% due 8/1/25 (a)	654,726
	<b>Total Arkansas</b>	<b>1,750,166</b>
<b>California 8.5%</b>		
1,500,000	Barona, CA, Band of Mission Indians, GO, 8.250% due 12/1/20 (c)	1,528,485
2,000,000	California Health Facilities Financing Authority Revenue, Refunding, Cedars-Sinai Medical Center, 5.000% due 11/15/27 (d)	2,004,960
5,000,000	California Statewide CDA Revenue, Lodi Memorial Hospital, California Mortgage Insurance, 5.000% due 12/1/37 (d)	4,878,550
2,000,000	Golden State Tobacco Securitization Corp., California Tobacco Settlement Revenue: Asset Backed, 7.800% due 6/1/42 (b)	2,465,540
1,000,000	Enhanced Asset Backed, 5.625% due 6/1/38 (b)	1,131,870
600,000	Redding, CA, Redevelopment Agency, Tax Allocation, Shastec Redevelopment Project, 5.000% due 9/1/29	574,770
1,865,000	Vallejo, CA, COP, Touro University, 7.375% due 6/1/29	1,908,902
	<b>Total California</b>	<b>14,493,077</b>
<b>Colorado 3.1%</b>		
760,000	Colorado Educational & Cultural Facilities Authority Revenue: Charter School, Peak to Peak Project, 7.500% due 8/15/21 (b)	864,766
680,000	Cheyenne Mountain Charter Academy: 5.250% due 6/15/25	694,579
510,000	5.125% due 6/15/32	506,807

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785,000	Elbert County Charter, 7.375% due 3/1/35	818,559
810,000	Unrefunded, University of Denver Project, FGIC, 5.250% due 3/1/23	879,822
1,000,000	Reata South Metropolitan District, CO, GO, 7.250% due 6/1/37	970,220
500,000	Southlands, CO, Metropolitan District No. 1, GO, 7.125% due 12/1/34 (b)	621,475
	<b>Total Colorado</b>	<b>5,356,228</b>
<b>District of Columbia 1.2%</b>		
1,895,000	District of Columbia COP, District Public Safety & Emergency, AMBAC, 5.500% due 1/1/20	2,037,959
<b>Florida 9.9%</b>		
955,000	Beacon Lakes, FL, Community Development District, Special Assessment, 6.900% due 5/1/35	984,911
1,500,000	Bonnet Creek Resort Community Development District, Special Assessment, 7.500% due 5/1/34	1,562,790
2,000,000	Capital Projects Finance Authority, FL, Continuing Care Retirement Glenridge on Palmer Ranch, 8.000% due 6/1/32 (b)(d)	2,423,160
2,000,000	Capital Projects Finance Authority, FL, Student Housing Revenue, Capital Projects Loan Program, Florida University, 7.850% due 8/15/31 (b)	2,321,720

*See Notes to Schedule of Investments.*

## Western Asset Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

January 31, 2008

Face Amount	Security	Value
<b>Florida 9.9% (continued)</b>		
\$ 935,000	Century Parc Community Development District, Special Assessment, 7.000% due 11/1/31	\$ 930,577
1,000,000	Highlands County, FL, Health Facilities Authority Revenue, Adventist Health Systems, 6.000% due 11/15/25 (b)	1,136,850
2,000,000	Martin County, FL, IDA Revenue, Indiantown Cogeneration Project, 7.875% due 12/15/25 (a)	2,005,060
1,000,000	Orange County, FL, Health Facilities Authority Revenue, First Mortgage, GF, Orlando Inc. Project, 9.000% due 7/1/31	1,096,400
400,000	Palm Beach County, FL, Health Facilities Authority Revenue, John F. Kennedy Memorial Hospital Inc. Project, 9.500% due 8/1/13 (e)	478,120
2,000,000	Reunion East Community Development District, Special Assessment, 7.375% due 5/1/33	2,102,580
1,000,000	Santa Rosa, FL, Bay Bridge Authority Revenue, 6.250% due 7/1/28	963,150
1,000,000	University of Central Florida, COP, FGIC, 5.000% due 10/1/25	1,028,110
	<b>Total Florida</b>	<b>17,033,428</b>
<b>Georgia 4.7%</b>		
1,000,000	Atlanta, GA, Airport Revenue: FGIC, 5.625% due 1/1/30 (a)	1,022,650
1,000,000	FSA, 5.000% due 1/1/26	1,032,350
2,000,000	Atlanta, GA, Development Authority Educational Facilities Revenue, Science Park LLC Project, 5.000% due 7/1/32	1,983,200
2,500,000	Atlanta, GA, Tax Allocation, Atlantic Station Project, 7.900% due 12/1/24 (b)(d)	2,997,600
1,000,000	Gainesville & Hall County, GA, Development Authority Revenue, Senior Living Facilities, Lanier Village Estates, 7.250% due 11/15/29	1,046,780
	<b>Total Georgia</b>	<b>8,082,580</b>
<b>Illinois 1.8%</b>		
2,000,000	Chicago, IL, GO, Neighborhoods Alive 21 Program, FGIC, 5.500% due 1/1/31 (b)	2,173,540
1,000,000	Illinois Finance Authority Revenue, Refunding, Chicago Charter School Project, 5.000% due 12/1/26	917,700
	<b>Total Illinois</b>	<b>3,091,240</b>
<b>Indiana 0.5%</b>		
285,000	County of St Joseph, IN, EDR, Holy Cross Village Notre Dame Project: 6.000% due 5/15/26	278,177
550,000	6.000% due 5/15/38	517,869

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		<b>Total Indiana</b>	796,046
<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	1,188,824
<b>Kentucky</b>	<b>1.2%</b>		
	2,000,000	Louisville & Jefferson County, KY, Metro Government Health System Revenue, Norton Healthcare Inc., 5.250% due 10/1/36	1,976,480
<b>Louisiana</b>	<b>0.6%</b>		
	1,000,000	Epps, LA, COP, 8.000% due 6/1/18	1,022,540
<b>Maryland</b>	<b>1.5%</b>		
	1,500,000	Maryland State Economic Development Corp. Revenue, Chesapeake Bay, 7.730% due 12/1/27 (b)	1,661,430
	1,000,000	Maryland State Health & Higher EFA Revenue, Refunding, Edenwald, 5.400% due 1/1/31	923,420
		<b>Total Maryland</b>	2,584,850

*See Notes to Schedule of Investments.*

## Western Asset Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

January 31, 2008

Face Amount	Security	Value
<b>Massachusetts 2.1%</b>		
\$ 915,000	Boston, MA, Industrial Development Financing Authority Revenue, Roundhouse Hospitality LLC Project, 7.875% due 3/1/25 (a)	\$ 891,933
1,000,000	Massachusetts State DFA Revenue, Briarwood, 8.250% due 12/1/30 (b)	1,165,610
1,000,000	Massachusetts State HEFA Revenue, Caritas Christi Obligation, 6.750% due 7/1/16	1,088,820
355,000	Massachusetts State Port Authority Revenue, 13.000% due 7/1/13 (e)	462,611
	<b>Total Massachusetts</b>	<b>3,608,974</b>
<b>Michigan 6.8%</b>		
2,130,000	Allen Academy, COP, 7.500% due 6/1/23 (d)	2,101,117
1,000,000	Cesar Chavez Academy, COP: 6.500% due 2/1/33	1,016,630
1,000,000	8.000% due 2/1/33	1,090,970
1,000,000	Gaudior Academy, COP, 7.250% due 4/1/34	1,000,470
1,750,000	Kalamazoo Advantage Academy, COP, 8.000% due 12/1/33	1,839,810
3,000,000	Michigan State Hospital Finance Authority, Refunding Hospital, Sparrow Obligated, 5.000% due 11/15/31	2,882,820
1,000,000	Star International Academy, COP, 7.000% due 3/1/33	983,690
700,000	William C. Abney Academy, COP, 6.750% due 7/1/19	724,122
	<b>Total Michigan</b>	<b>11,639,629</b>
<b>Mississippi 0.9%</b>		
1,480,000	Jackson, MS, Public School District, FSA, 5.000% due 10/1/20	1,598,948
<b>Missouri 0.8%</b>		
1,300,000	Missouri State HEFA Revenue, Refunding, St Lukes Episcopal, 5.000% due 12/1/21	1,338,233
<b>Montana 1.4%</b>		
2,425,000	Montana State Board of Investment, Resource Recovery Revenue, Yellowstone Energy LP Project, 7.000% due 12/31/19 (a)	2,441,878
<b>New Hampshire 1.0%</b>		
1,600,000	New Hampshire HEFA Revenue, Covenant Health System, 5.500% due 7/1/34	1,633,648
<b>New Jersey 10.6%</b>		
1,500,000	Casino Reinvestment Development Authority Revenue, MBIA, 5.250% due 6/1/20	1,639,815



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1,000,000	New Jersey EDA, Retirement Community Revenue, SeaBrook Village Inc., 8.250% due 11/15/30 (b)	1,161,770
5,000,000	New Jersey EDA Revenue, Refunding, 6.875% due 1/1/37 (a)(d)	5,210,900
5,000,000	New Jersey Health Care Facilities Financing Authority Revenue, Trinitas Hospital Obligation Group: 5.250% due 7/1/30 (d)	4,675,100
3,000,000	7.500% due 7/1/30 (b)	3,385,290
1,750,000	Tobacco Settlement Financing Corp., 6.750% due 6/1/39 (b)	2,088,555
	<b>Total New Jersey</b>	<b>18,161,430</b>
<b>New Mexico 1.3%</b>		
160,000	Albuquerque, NM, Hospital Revenue, Southwest Community Health Services, 10.000% due 8/1/12 (b)	166,187
1,000,000	Otero County, NM, Jail Project Revenue, 7.500% due 12/1/24	1,065,040
1,000,000	Sandoval County, NM, Incentive Payment Revenue, Refunding, 5.000% due 6/1/20	1,064,180
	<b>Total New Mexico</b>	<b>2,295,407</b>

*See Notes to Schedule of Investments.*

## Western Asset Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

January 31, 2008

Face Amount	Security	Value
<b>New York 8.5%</b>		
\$ 700,000	Brookhaven, NY, IDA Civic Facilities Revenue, Memorial Hospital Medical Center Inc., 8.250% due 11/15/30 (b)	\$ 815,297
2,000,000	Metropolitan Transportation Authority of New York, AMBAC, 5.000% due 7/1/30	2,049,920
1,000,000	Monroe County, NY, IDA, Civic Facilities Revenue, Woodland Village Project, 8.550% due 11/15/32 (b)	1,183,560
1,290,000	New York City, NY, IDA, Civic Facilities Revenue: Community Residence for the Developmentally Disabled Project, 7.500% due 8/1/26	1,302,745
860,000	Special Needs Facilities Pooled Program, 8.125% due 7/1/19 (b)	964,860
1,000,000	New York City, NY, Municipal Water Finance Authority, Water & Sewer System Revenue, MBIA, 5.000% due 6/15/27	1,044,360
2,090,000	New York State Dormitory Authority Revenue: Cornell University, 5.000% due 7/1/21	2,268,946
1,500,000	Mental Health Services Facilities Improvement, AMBAC, 5.000% due 2/15/35	1,539,285
2,500,000	New York University Hospitals Center, 5.000% due 7/1/26	2,386,950
875,000	Suffolk County, NY, IDA, Civic Facilities Revenue, Eastern Long Island Hospital Association, 7.750% due 1/1/22 (b)	1,031,214
	<b>Total New York</b>	<b>14,587,137</b>
<b>North Carolina 0.6%</b>		
920,000	North Carolina Medical Care Community, Health Care Facilities Revenue, First Mortgage, DePaul Community Facilities Project, 7.625% due 11/1/29 (b)	1,016,490
<b>Ohio 2.6%</b>		
1,500,000	Cuyahoga County, OH, Hospital Facilities Revenue, Canton Inc. Project, 7.500% due 1/1/30	1,578,750
1,500,000	Miami County, OH, Hospital Facilities Revenue, Refunding and Improvement Upper Valley Medical Center, 5.250% due 5/15/21	1,535,250
1,260,000	Riversouth Authority, OH, Revenue, Riversouth Area Redevelopment, 5.000% due 12/1/25	1,323,113
	<b>Total Ohio</b>	<b>4,437,113</b>
<b>Oregon 0.6%</b>		
1,000,000	Salem, OR, Hospital Facility Authority Revenue, Salem Hospital Project, 5.000% due 8/15/36	989,490
<b>Pennsylvania 4.7%</b>		
1,000,000	Cumberland County, PA, Municipal Authority Retirement Community Revenue, Wesley Affiliate Services Inc.	1,205,710

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		Project, 7.250% due 1/1/35 (b)	
1,000,000		Lebanon County, PA, Health Facilities Authority Revenue, Good Samaritan Hospital Project, 6.000% due 11/15/35	1,015,470
1,000,000		Monroe County, PA, Hospital Authority Revenue, Pocono Medical Center, 5.000% due 1/1/27	955,210
2,640,000		Montgomery County, PA, Higher Education & Health Authority Revenue, Temple Continuing Care Center, 6.625% due 7/1/19 (f)(g)	633,600
955,000		Northumberland County, PA, IDA Facilities Revenue, NHS Youth Services Inc. Project, 7.500% due 2/15/29	978,464
1,000,000		Philadelphia, PA, Authority for IDR, Host Marriot LP Project, Remarketed 10/31/95, 7.750% due 12/1/17 (a)	1,003,420
2,000,000		Westmoreland County, PA, IDA Revenue, Health Care Facilities, Redstone Highlands Health, 8.125% due 11/15/30 (b)	2,316,860
		<b>Total Pennsylvania</b>	<b>8,108,734</b>
<b>South Carolina</b>	<b>0.1%</b>		
	210,000	McCormick County, SC, COP, 9.750% due 7/1/09	213,986

*See Notes to Schedule of Investments.*

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Western Asset Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

January 31, 2008

Face Amount	Security	Value
<b>Tennessee 1.9%</b>		
\$ 1,000,000	Clarksville, TN, Natural Gas Acquisition Corp. Gas Revenue, 5.000% due 12/15/21	\$ 980,350
2,500,000	Shelby County, TN, Health Educational & Housing Facilities Board Revenue, Trezevant Manor Project, 5.750% due 9/1/37	2,345,025
	<b>Total Tennessee</b>	<b>3,325,375</b>
<b>Texas 12.0%</b>		
550,000	Bexar County, TX, Housing Financial Corp., MFH Revenue, Continental Lady Ester, 6.875% due 6/1/29 (b)	593,538
1,500,000	Burnet County, TX, Public Facility Project Revenue, 7.500% due 8/1/24	1,483,245
1,000,000	Garza County, TX, Public Facility Corp.: 5.500% due 10/1/18	1,044,870
2,000,000	Project Revenue, 5.750% due 10/1/25	2,025,660
2,000,000	Gulf Coast of Texas, IDA, Solid Waste Disposal Revenue, CITGO Petroleum Corp. Project, 7.500% due 10/1/12 (a)(h)	2,198,140
2,750,000	Houston, TX, Airport Systems Revenue, Special Facilities, Continental Airlines Inc. Project, 6.125% due 7/15/27 (a)	2,595,890
1,000,000	Laredo, TX, ISD Public Facility Corp. Lease Revenue, AMBAC, 5.000% due 8/1/29	1,016,300
1,000,000	Midlothian, TX, Development Authority, Tax Increment Contract Revenue, 6.200% due 11/15/29	1,017,820
1,000,000	North Texas Tollway Authority, Dallas North Tollway Systems Revenue, FSA, 5.000% due 1/1/35	1,028,760
1,500,000	Texas State Public Finance Authority, Uplift Education, 5.750% due 12/1/27	1,491,090
1,865,000	West Texas Detention Facility Corp. Revenue, 8.000% due 2/1/25	1,873,281
2,000,000	Willacy County, TX: Local Government Corp. Revenue, 6.875% due 9/1/28	2,093,900
1,000,000	PFC Project Revenue: 8.250% due 12/1/23	1,014,600
1,000,000	County Jail, 7.500% due 11/1/25	1,035,360
	<b>Total Texas</b>	<b>20,512,454</b>
<b>Virginia 3.0%</b>		
415,000	Alexandria, VA, Redevelopment & Housing Authority, MFH Revenue, Parkwood Court Apartments Project, 8.125% due 4/1/30	425,483
1,000,000	Broad Street CDA Revenue, 7.500% due 6/1/33	1,067,330
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)	2,507,200
1,000,000		1,103,900

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		Fairfax County, VA, EDA Revenue, Retirement Community, Greenspring Village, Inc., 7.500% due 10/1/29 (b)	
		<b>Total Virginia</b>	5,103,913
<b>West Virginia</b>	<b>1.4%</b>		
	2,500,000		
		Pleasants County, WV, PCR, Refunding County Commission Allegheny, 5.250% due 10/15/37	2,415,925
<b>Wisconsin</b>	<b>0.6%</b>		
	1,000,000	Wisconsin State HEFA Revenue, Aurora Health Care, 6.400% due 4/15/33	1,027,370
		<b>TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS</b>	
		(Cost \$163,729,657)	168,509,267
<b>SHORT-TERM INVESTMENTS</b>	<b>0.5%</b>		
<b>Delaware</b>	<b>0.1%</b>		
	100,000	University of Delaware Revenue, Refunding, SPA-Landesbank Hessen-Thuringen, 1.950%, 2/1/08 (i)	100,000

*See Notes to Schedule of Investments.*

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

Schedule of Investments (unaudited) (continued)

January 31, 2008

Face Amount	Security	Value
<b>Washington 0.4%</b> \$ 800,000	Washington State Health Care Facilities Authority Revenue, Multicare Health Systems, FSA, SPA-U.S. Bank NA, 1.880%, 2/1/08 (i)	\$ 800,000
	<b>TOTAL SHORT-TERM INVESTMENTS</b> (Cost \$900,000)	900,000
	<b>TOTAL INVESTMENTS 98.9%</b> (Cost \$164,629,657#)	169,409,267
	Other Assets in Excess of Liabilities 1.1%	1,884,520
	<b>TOTAL NET ASSETS 100.0%</b>	\$ 171,293,787

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- (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 government obligations and/or government agency securities and are considered by the manager to be triple-A rated even if issuer has not applied for new ratings.
  - (c) All or a portion of this security is held at the broker as collateral for open futures contracts.
  - (d) All or a portion of this security is segregated for extended settlements and open futures contracts.
  - (e) 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.
  - (f) Security is currently in default.
  - (g) Security is valued in good faith at fair value by or under the direction of the Board of Directors (See Note 1).
  - (h) Variable rate security. Interest rate disclosed is that which is in effect at January 31, 2008.
  - (i) Variable rate demand obligations have a demand feature under which the Fund can tender them back to the issuer on no more than 7 days notice. Date shown is the date of the next interest rate change.

\* 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 Trustees, unless otherwise noted.

# Aggregate cost for federal income tax purposes is substantially the same.

Abbreviations used in this schedule:

AMBAC - Ambac Assurance Corporation - Insured Bonds

CDA - Community Development Authority

COP - Certificate of Participation

DFA - Development Finance Agency

EDA - Economic Development Authority

EDR - Economic Development Revenue

EFA - Educational Facilities Authority

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

MBIA - Municipal Bond Investors Assurance Corporation - Insured Bonds

MFH - Multi-Family Housing

PCR - Pollution Control Revenue

PFC - Public Facilities Corporation

SPA - Standby Bond Purchase Agreement

*See Notes to Schedule of Investments.*

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

Schedule of Investments (unaudited) (continued)

January 31, 2008

**Summary of Investments by Industry \*\***

Hospitals	25.3%
Pre-Refunded/Escrowed to Maturity	22.5
Leasing	15.0
Industrial Development	9.2
Special Tax	5.6
Other Revenue	5.2
Education	3.6
Transportation	3.6
Local General Obligation	3.3
Resource Recovery	2.9
Electric	1.8
Housing	1.4
Water & Sewer	0.6
	100.0%

\*\* As a percentage of total investments. Please note that Fund holdings are as of January 31, 2008 and are subject to change.

**Ratings Table (unaudited)**

**S&P/Moody's/Fitch**

AAA/Aaa	20.5%
AA/Aa	2.5
A	16.7
BBB/Baa	16.3
BB/Ba	3.7
B/B	2.1
A-1/VMIG1	0.5
NR	37.7
	100.0%

As a percentage of total investments.  
S&P primary rating; Moody's secondary, then Fitch.

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 speculative characteristics as well.
- Ba Bonds rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and therefore



**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, CCC 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's investment objective is high tax-exempt current income.

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.

**(b) Financial Futures Contracts.** The Fund may enter into financial futures contracts typically to hedge a portion of the portfolio. Upon entering into a financial futures contract, the Fund is required to deposit cash or securities as initial margin, equal to a certain percentage of the contract amount (initial margin deposit). Additional securities are also segregated up to the current market value of the financial futures contracts. Subsequent payments, known as variation margin, are made or received by the Fund each day, depending on the daily fluctuations in the value of the underlying financial instruments. For foreign denominated futures, variation margins are not settled daily. The Fund recognizes an unrealized gain or loss equal to the fluctuation in the value. When the financial futures contracts are closed, a realized gain or loss is recognized equal to the difference between the proceeds from (or cost of) the closing transactions and the Fund's basis in the contracts.

The risks associated with entering into financial futures contracts include the possibility that a change in the value of the contract may not correlate with the changes in the value of the underlying financial instruments. In addition, investing in financial futures contracts involves the risk that the Fund could lose more than the initial margin deposit and subsequent payments required for a futures transaction. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

**(c) 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.

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

**2. Investments**

At January 31, 2008, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

Gross unrealized appreciation	\$	8,308,638
Gross unrealized depreciation		(3,529,028)
Net unrealized appreciation	\$	4,779,610

At January 31, 2008, the Fund had the following open futures contracts:

	Number of Contracts	Expiration Date	Basis Value	Market Value	Unrealized Loss
<b>Contracts to Sell:</b>					
U.S. Treasury Bond Futures	170	3/08	\$ 19,659,990	\$ 20,283,125	\$ (623,135)

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: March 28, 2008

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: March 28, 2008

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

Date: March 28, 2008

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