

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Form N-Q

March 27, 2013

**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 811-05497

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

620 Eighth Avenue, 49th Floor, 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: 1-888-777-0102

Date of fiscal year end: October 31

Date of reporting period: January 31, 2013

---

ITEM 1. SCHEDULE OF INVESTMENTS

---

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

FORM N-Q

JANUARY 31, 2013

## WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Schedule of investments (unaudited)

January 31, 2013

| SECURITY   | RATE   | MATURITY<br>DATE | FACE<br>AMOUNT | VALUE        |
|--|--------|------------------|----------------|--------------|
| MUNICIPAL BONDS 97.9%  |        |                  |                |              |
| <b>Arizona 1.9%</b>  |        |                  |                |              |
| Pima County, AZ, IDA Revenue, Tucson Electric Power Co.  | 5.750% | 9/1/29           | \$ 1,000,000   | \$ 1,059,860 |
| Salt Verde, AZ, Financial Corp. Gas Revenue  | 5.000% | 12/1/37          | 1,500,000      | 1,719,150    |
| University Medical Center Corp., AZ, Hospital Revenue  | 6.250% | 7/1/29           | 500,000        | 585,780      |
| <i>Total Arizona</i>   |        |                  |                | 3,364,790    |
| <b>Arkansas 0.3%</b>   |        |                  |                |              |
| Arkansas State Development Financing Authority, Industrial Facilities Revenue, Potlatch Corp. Projects | 7.750% | 8/1/25           | 600,000        | 612,840(a)   |
| <b>California 6.2%</b>   |        |                  |                |              |
| California State PCFA, Water Furnishing Revenue  | 5.000% | 11/21/45         | 3,000,000      | 3,084,570    |
| California State Public Works Board, Lease Revenue, Various Capital Projects                           | 5.125% | 10/1/31          | 1,500,000      | 1,714,305    |
| M-S-R Energy Authority, CA, Gas Revenue  | 7.000% | 11/1/34          | 2,000,000      | 2,865,700    |
| M-S-R Energy Authority, CA, Gas Revenue  | 6.500% | 11/1/39          | 2,000,000      | 2,746,680    |
| Redding, CA, Redevelopment Agency, Tax Allocation, Shastec Redevelopment Project                       | 5.000% | 9/1/29           | 600,000        | 604,572      |
| <i>Total California</i>  |        |                  |                | 11,015,827   |
| <b>Colorado 4.7%</b>   |        |                  |                |              |
| Colorado Educational & Cultural Facilities Authority Revenue:  |        |                  |                |              |
| Cheyenne Mountain Charter Academy  | 5.250% | 6/15/25          | 680,000        | 711,763      |
| Cheyenne Mountain Charter Academy  | 5.125% | 6/15/32          | 510,000        | 524,499      |
| Elbert County Charter  | 7.375% | 3/1/35           | 785,000        | 792,968      |
| Public Authority for Colorado Energy, Natural Gas Purchase Revenue                                     | 6.125% | 11/15/23         | 4,000,000      | 4,899,400    |
| Reata South Metropolitan District, CO, GO  | 7.250% | 6/1/37           | 1,000,000      | 889,180      |
| Southlands, CO, Metropolitan District No. 1, GO  | 7.125% | 12/1/34          | 500,000        | 561,570(b)   |
| <i>Total Colorado</i>  |        |                  |                | 8,379,380    |
| <b>Delaware 4.4%</b>   |        |                  |                |              |
| Delaware State EDA Revenue, Indian River Power LLC   | 5.375% | 10/1/45          | 4,000,000      | 4,395,360    |
| Sussex County, DE, Recovery Zone Facility Revenue, NRG Energy Inc., Indian River Power LLC             | 6.000% | 10/1/40          | 3,000,000      | 3,461,640    |
| <i>Total Delaware</i>  |        |                  |                | 7,857,000    |
| <b>District of Columbia 2.3%</b>   |        |                  |                |              |
| District of Columbia COP, District Public Safety & Emergency, AMBAC                                    | 5.500% | 1/1/20           | 1,895,000      | 1,974,836    |
|  | 5.000% | 6/1/42           | 2,000,000      | 2,080,180    |

Edgar Filing: WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC. - Form N-Q

District of Columbia Revenue, Friendship Public  
Charter School Inc.

*Total District of Columbia*

4,055,016

**Florida 4.7%**

Beacon Lakes, FL, Community Development

District, Special Assessment

6.900%

5/1/35

770,000

779,849

Bonnet Creek Resort Community Development

District, Special Assessment

7.500%

5/1/34

1,500,000

1,493,430

Martin County, FL, IDA Revenue, Indiantown

Cogeneration Project

7.875%

12/15/25

2,000,000

2,010,820(a)

*See Notes to Schedule of Investments.*

## WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Schedule of investments (unaudited) (cont d)

January 31, 2013

| SECURITY  | RATE   | MATURITY<br>DATE | FACE<br>AMOUNT | VALUE      |
|---|--------|------------------|----------------|------------|
| <b>Florida continued</b>  |        |                  |                |            |
| Orange County, FL, Health Facilities Authority<br>Revenue, First Mortgage Healthcare Facilities<br>Revenue Bonds, GF/Orlando Inc. Project | 9.000% | 7/1/31           | \$ 885,000     | \$ 886,115 |
| Palm Beach County, FL, Health Facilities<br>Authority Revenue, John F. Kennedy Memorial<br>Hospital Inc. Project                          | 9.500% | 8/1/13           | 80,000         | 83,507(c)  |
| Reunion, FL, East Community Development<br>District, Special Assessment   | 7.375% | 5/1/33           | 2,000,000      | 1,642,634  |
| Santa Rosa, FL, Bay Bridge Authority Revenue  | 6.250% | 7/1/28           | 1,000,000      | 397,000(d) |
| University of Central Florida, COP, FGIC  | 5.000% | 10/1/25          | 1,000,000      | 1,030,250  |
| <i>Total Florida</i>  |        |                  |                | 8,323,605  |
| <b>Georgia 4.5%</b>   |        |                  |                |            |
| Atlanta, GA, Airport Revenue, AGM   | 5.000% | 1/1/26           | 1,000,000      | 1,070,380  |
| Atlanta, GA, Development Authority Educational<br>Facilities Revenue, Science Park LLC Project  | 5.000% | 7/1/32           | 2,000,000      | 2,210,660  |
| Atlanta, GA, Water & Wastewater Revenue   | 6.250% | 11/1/39          | 2,000,000      | 2,456,820  |
| DeKalb, Newton & Gwinnett Counties, GA, Joint<br>Development Authority Revenue, GGC Foundation<br>LLC Project                             | 6.125% | 7/1/40           | 1,000,000      | 1,162,500  |
| Franklin County, GA, Industrial Building Authority<br>Revenue, Emmanuel College Inc.  | 6.000% | 11/1/32          | 1,000,000      | 995,310    |
| <i>Total Georgia</i>  |        |                  |                | 7,895,670  |
| <b>Hawaii 2.0%</b>  |        |                  |                |            |
| Hawaii State Department of Budget & Finance<br>Special Purpose Revenue:   |        |                  |                |            |
| Craigside Retirement Residence  | 7.500% | 11/15/15         | 870,000        | 879,561    |
| Craigside Retirement Residence  | 8.750% | 11/15/29         | 200,000        | 238,960    |
| Hawaiian Electric Co.   | 6.500% | 7/1/39           | 2,000,000      | 2,332,820  |
| <i>Total Hawaii</i>   |        |                  |                | 3,451,341  |
| <b>Illinois 1.2%</b>  |        |                  |                |            |
| Illinois Finance Authority Revenue:   |        |                  |                |            |
| Park Place of Elmhurst  | 8.125% | 5/15/40          | 1,000,000      | 1,031,560  |
| Refunding, Chicago Charter School Project   | 5.000% | 12/1/26          | 1,000,000      | 1,045,920  |
| <i>Total Illinois</i>   |        |                  |                | 2,077,480  |
| <b>Indiana 0.5%</b>   |        |                  |                |            |
| County of St. Joseph, IN, EDR:  |        |                  |                |            |
| Holy Cross Village Notre Dame Project   | 6.000% | 5/15/26          | 285,000        | 294,448    |
| Holy Cross Village Notre Dame Project   | 6.000% | 5/15/38          | 550,000        | 563,051    |
| <i>Total Indiana</i>  |        |                  |                | 857,499    |
| <b>Kansas 0.7%</b>  |        |                  |                |            |
| Salina, KS, Hospital Revenue, Refunding &<br>Improvement Salina Regional Health   | 5.000% | 10/1/22          | 1,150,000      | 1,240,678  |
| <b>Kentucky 1.3%</b>  |        |                  |                |            |

Edgar Filing: WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC. - Form N-Q

|   |        |        |           |           |
|---|--------|--------|-----------|-----------|
| Owen County, KY, Waterworks System Revenue,<br>Kentucky American Water Co. Project          | 6.250% | 6/1/39 | 2,000,000 | 2,239,580 |
| <b>Louisiana 0.4%</b><br>Epps, LA, COP  | 8.000% | 6/1/18 | 775,000   | 766,777   |
| <b>Maryland 2.0%</b><br>Maryland State Health & Higher EFA Revenue,<br>Mercy Medical Center | 6.250% | 7/1/31 | 3,000,000 | 3,591,330 |

*See Notes to Schedule of Investments.*

## WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Schedule of investments (unaudited) (cont d)

January 31, 2013

| SECURITY   | RATE    | MATURITY DATE | FACE AMOUNT | VALUE             |
|--|---------|---------------|-------------|-------------------|
| <b>Massachusetts 1.1%</b>  |         |               |             |                   |
| Boston, MA, Industrial Development Financing Authority Revenue, Roundhouse Hospitality LLC Project | 7.875%  | 3/1/25        | \$ 740,000  | \$ 689,125(a)     |
| Massachusetts State DFA Revenue, Tufts Medical Center Inc.   | 6.875%  | 1/1/41        | 1,000,000   | 1,206,720         |
| Massachusetts State Port Authority Revenue   | 13.000% | 7/1/13        | 80,000      | 84,128(c)         |
| <i>Total Massachusetts</i>   |         |               |             | <i>1,979,973</i>  |
| <b>Michigan 6.9%</b>   |         |               |             |                   |
| Allen Academy, COP   | 7.500%  | 6/1/23        | 2,130,000   | 2,181,716         |
| Cesar Chavez Academy, COP  | 6.500%  | 2/1/33        | 1,000,000   | 1,020,000(b)      |
| Cesar Chavez Academy, COP  | 8.000%  | 2/1/33        | 1,000,000   | 1,020,000(b)      |
| Detroit, MI, Water Supply System Revenue, Senior Lien  | 5.250%  | 7/1/41        | 2,000,000   | 2,160,580         |
| Gaudior Academy, COP   | 7.250%  | 4/1/34        | 1,000,000   | 1,011,610         |
| Michigan State Strategic Fund Limited Obligation Revenue:  |         |               |             |                   |
| Evangelical Homes of Michigan  | 5.250%  | 6/1/32        | 500,000     | 503,995(e)        |
| Evangelical Homes of Michigan  | 5.500%  | 6/1/47        | 750,000     | 755,918(e)        |
| Royal Oak, MI, Hospital Finance Authority Revenue, William Beaumont Hospital                       | 8.250%  | 9/1/39        | 2,000,000   | 2,545,640         |
| Star International Academy, COP  | 7.000%  | 3/1/33        | 900,000     | 922,392(b)        |
| <i>Total Michigan</i>  |         |               |             | <i>12,121,851</i> |
| <b>Missouri 1.1%</b>   |         |               |             |                   |
| Missouri State HEFA Revenue:   |         |               |             |                   |
| Lutheran Senior Services   | 6.000%  | 2/1/41        | 500,000     | 565,980           |
| Refunding, St. Lukes Episcopal   | 5.000%  | 12/1/21       | 1,300,000   | 1,423,201         |
| <i>Total Missouri</i>  |         |               |             | <i>1,989,181</i>  |
| <b>Nebraska 2.1%</b>   |         |               |             |                   |
| Central Plains Energy Project, NE, Gas Project Revenue, Project #3                                 | 5.000%  | 9/1/42        | 3,340,000   | 3,664,648         |
| <b>New Jersey 3.8%</b>   |         |               |             |                   |
| Casino Reinvestment Development Authority Revenue, NATL  | 5.250%  | 6/1/20        | 1,500,000   | 1,598,055         |
| New Jersey State EDA Revenue, Refunding  | 6.875%  | 1/1/37        | 5,000,000   | 5,069,550(a)      |
| <i>Total New Jersey</i>  |         |               |             | <i>6,667,605</i>  |
| <b>New Mexico 0.6%</b>   |         |               |             |                   |
| Otero County, NM, COP, Jail Project Revenue  | 7.500%  | 12/1/24       | 1,000,000   | 1,005,700         |
| <b>New York 1.5%</b>   |         |               |             |                   |
| Brooklyn Arena, NY, Local Development Corp., Barclays Center Project                               | 6.250%  | 7/15/40       | 2,000,000   | 2,345,980         |
| New York City, NY, IDA, Civic Facilities Revenue, Special Needs Facilities Pooled Program          | 8.125%  | 7/1/19        | 265,000     | 266,161           |



Edgar Filing: WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC. - Form N-Q

|  |        |         |           |           |
|--|--------|---------|-----------|-----------|
| <i>Total New York</i>  |        |         |           | 2,612,141 |
| <b>Ohio 2.9%</b>   |        |         |           |           |
| Cuyahoga County, OH, Hospital Facilities Revenue, Canton Inc. Project                                | 7.500% | 1/1/30  | 1,385,000 | 1,387,368 |
| Miami County, OH, Hospital Facilities Revenue, Refunding and Improvement Upper Valley Medical Center | 5.250% | 5/15/21 | 1,500,000 | 1,619,640 |

*See Notes to Schedule of Investments.*

## WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Schedule of investments (unaudited) (cont d)

January 31, 2013

| SECURITY  | RATE   | MATURITY<br>DATE | FACE<br>AMOUNT | VALUE            |
|---|--------|------------------|----------------|------------------|
| <b>Ohio continued</b>   |        |                  |                |                  |
| Ohio State Water Development Authority,<br>Environmental Improvement Revenue, U.S. Steel<br>Corp. Project       | 6.600% | 5/1/29           | \$ 2,000,000   | \$ 2,156,560     |
| <i>Total Ohio</i>   |        |                  |                | <i>5,163,568</i> |
| <b>Oklahoma 1.4%</b>  |        |                  |                |                  |
| Tulsa County, OK, Industrial Authority, Senior<br>Living Community Revenue:                                     |        |                  |                |                  |
| Montereau Inc. Project  | 6.875% | 11/1/23          | 1,300,000      | 1,379,456        |
| Montereau Inc. Project  | 7.125% | 11/1/30          | 1,000,000      | 1,144,610        |
| <i>Total Oklahoma</i>   |        |                  |                | <i>2,524,066</i> |
| <b>Pennsylvania 4.5%</b>  |        |                  |                |                  |
| Monroe County, PA, Hospital Authority Revenue,<br>Pocono Medical Center   | 5.000% | 1/1/27           | 1,000,000      | 1,052,040        |
| Montgomery County, PA, IDA Revenue:   |        |                  |                |                  |
| Acts Retirement-Life Communities  | 5.000% | 11/15/28         | 1,400,000      | 1,580,446        |
| Acts Retirement-Life Communities  | 5.000% | 11/15/29         | 1,350,000      | 1,503,508        |
| Pennsylvania Economic Development Financing<br>Authority, Health Systems Revenue, Albert<br>Einstein Healthcare | 6.250% | 10/15/23         | 2,000,000      | 2,347,740        |
| Philadelphia, PA, Authority for IDR:  |        |                  |                |                  |
| Discovery Charter School Inc. Project   | 6.250% | 4/1/37           | 500,000        | 555,910          |
| Host Marriot LP Project, Remarketed 10/31/95  | 7.750% | 12/1/17          | 1,000,000      | 1,002,530(a)     |
| <i>Total Pennsylvania</i>   |        |                  |                | <i>8,042,174</i> |
| <b>Puerto Rico 2.1%</b>   |        |                  |                |                  |
| Puerto Rico Electric Power Authority, Power<br>Revenue  | 5.250% | 7/1/40           | 1,000,000      | 1,010,330        |
| Puerto Rico Sales Tax Financing Corp., Sales Tax<br>Revenue   | 5.000% | 8/1/40           | 1,000,000      | 1,072,860(f)     |
| Puerto Rico Sales Tax Financing Corp., Sales Tax<br>Revenue   | 5.000% | 8/1/43           | 1,500,000      | 1,562,100        |
| <i>Total Puerto Rico</i>  |        |                  |                | <i>3,645,290</i> |
| <b>Tennessee 1.4%</b>   |        |                  |                |                  |
| Shelby County, TN, Health Educational &<br>Housing Facilities Board Revenue, Trezevant<br>Manor Project         | 5.750% | 9/1/37           | 2,500,000      | 2,542,550        |
| <b>Texas 23.9%</b>  |        |                  |                |                  |
| Brazos River, TX, Harbor Industrial Development<br>Corp., Environmental Facilities Revenue, Dow<br>Chemical Co. | 5.900% | 5/1/28           | 1,500,000      | 1,702,350(a)(g)  |
| Burnet County, TX, Public Facility Project<br>Revenue   | 7.500% | 8/1/24           | 1,335,000      | 934,500          |
| Dallas-Fort Worth, TX, International Airport<br>Revenue, Joint Improvement                                      | 5.000% | 11/1/42          | 4,000,000      | 4,341,480(a)     |

Edgar Filing: WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC. - Form N-Q

|  |        |          |           |              |
|--|--------|----------|-----------|--------------|
| Gulf Coast, TX, IDA Revenue, Citgo Petroleum Corp. Project   | 4.875% | 5/1/25   | 1,000,000 | 1,018,060(a) |
| Harris County, TX, Cultural Education Facilities Finance Corp., Medical Facilities Revenue, Baylor College of Medicine | 5.625% | 11/15/32 | 2,000,000 | 2,227,100    |
| Houston, TX, Airport System Revenue: Special Facilities, Continental Airlines Inc. Projects                            | 6.125% | 7/15/27  | 2,750,000 | 2,762,100(a) |
| Special Facilities, Continental Airlines Inc., Terminal Projects   | 6.500% | 7/15/30  | 1,000,000 | 1,128,700(a) |
| Special Facilities, Continental Airlines Inc., Terminal Projects   | 6.625% | 7/15/38  | 1,000,000 | 1,122,500(a) |
| Laredo, TX, ISD Public Facility Corp., Lease Revenue, AMBAC  | 5.000% | 8/1/29   | 1,000,000 | 1,011,870    |

*See Notes to Schedule of Investments.*

## WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Schedule of investments (unaudited) (cont d)

January 31, 2013

| SECURITY   | RATE   | MATURITY<br>DATE | FACE<br>AMOUNT | VALUE        |
|--|--------|------------------|----------------|--------------|
| <b>Texas continued</b>   |        |                  |                |              |
| Love Field Airport Modernization Corp.,<br>TX, Special Facilities Revenue,<br>Southwest Airlines Co. Project<br>Midlothian, TX, Development Authority,<br>Tax Increment Contract Revenue | 5.250% | 11/1/40          | \$ 6,000,000   | \$ 6,561,420 |
| North Texas Tollway Authority Revenue  | 6.200% | 11/15/29         | 1,000,000      | 1,011,120    |
| Texas Midwest Public Facility Corp.<br>Revenue, Secure Treatment Facility<br>Project   | 5.750% | 1/1/40           | 2,500,000      | 2,861,675    |
| Texas Private Activity Bond Surface<br>Transportation Corp., Senior Lien, NTE<br>Mobility Partners LLC   | 9.000% | 10/1/30          | 2,000,000      | 600,000(d)   |
| Texas Private Activity Bond Surface<br>Transportation Corp. Revenue, LBJ<br>Infrastructure Group LLC   | 6.875% | 12/31/39         | 2,000,000      | 2,387,800    |
| Texas State Municipal Gas Acquisition &<br>Supply Corp. III, Gas Supply Revenue  | 7.000% | 6/30/40          | 4,000,000      | 4,856,440    |
| Texas State Public Finance Authority:<br>Charter School Finance Corp. Revenue,<br>Cosmos Foundation Inc.   | 5.000% | 12/15/28         | 1,500,000      | 1,642,935    |
| Uplift Education   | 6.200% | 2/15/40          | 1,000,000      | 1,204,280    |
| West Texas Detention Facility Corp.<br>Revenue   | 5.750% | 12/1/27          | 1,500,000      | 1,637,415    |
| Willacy County, TX, PFC Project<br>Revenue   | 8.000% | 2/1/25           | 1,865,000      | 1,794,484    |
| Willacy County, TX, PFC Project<br>Revenue, County Jail  | 8.250% | 12/1/23          | 955,000        | 976,421      |
| <i>Total Texas</i>   | 7.500% | 11/1/25          | 485,000        | 477,512      |
|  |        |                  |                | 42,260,162   |
| <b>U.S. Virgin Islands 1.6%</b>  |        |                  |                |              |
| Virgin Islands Public Finance Authority<br>Revenue, Matching Fund Loan   | 6.750% | 10/1/37          | 2,500,000      | 2,912,375    |
| <b>Virginia 3.8%</b>   |        |                  |                |              |
| Broad Street CDA Revenue<br>Chesterfield County, VA, EDA, Solid<br>Waste and Sewer Disposal Revenue,<br>Virginia Electric Power Co. Project  | 7.500% | 6/1/33           | 748,000        | 779,768(b)   |
| Virginia State Small Business Financing<br>Authority Revenue:<br>Elizabeth River Crossings OpCo LLC<br>Project   | 5.600% | 11/1/31          | 2,500,000      | 2,692,200(a) |
| Elizabeth River Crossings OpCo LLC<br>Project  | 5.250% | 1/1/32           | 1,000,000      | 1,089,780(a) |
| <i>Total Virginia</i>  | 5.500% | 1/1/42           | 2,000,000      | 2,196,960(a) |
|  |        |                  |                | 6,758,708    |
| <b>West Virginia 1.5%</b>  |        |                  |                |              |

Edgar Filing: WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC. - Form N-Q

|  |        |          |           |               |
|--|--------|----------|-----------|---------------|
| Pleasants County, WV, PCR, Refunding,<br>County Commission, Allegheny Energy<br>Supply Co., LLC  | 5.250% | 10/15/37 | 2,500,000 | 2,673,225     |
| <b>Wisconsin 0.6%</b>  |        |          |           |               |
| Wisconsin State HEFA Revenue, Aurora<br>Health Care Inc.   | 6.400% | 4/15/33  | 1,000,000 | 1,007,990     |
| TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS  |        |          |           |               |
| (Cost \$159,698,423)   |        |          |           | 173,300,020   |
| SHORT-TERM INVESTMENTS 1.6%  |        |          |           |               |
| <b>Florida 0.1%</b>  |        |          |           |               |
| Miami-Dade County, FL, Health<br>Facilities Authority Hospital Revenue,<br>Miami Children's Hospital Project,<br>NATL, LOC-Wells Fargo Bank N.A. | 0.120% | 8/1/34   | 200,000   | 200,000(h)(i) |
| <b>Massachusetts 0.1%</b>  |        |          |           |               |
| Massachusetts State HEFA Revenue,<br>Partners Healthcare Systems,<br>SPA-JPMorgan Chase  | 0.090% | 7/1/27   | 100,000   | 100,000(h)(i) |

*See Notes to Schedule of Investments.*

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

Schedule of investments (unaudited) (cont d)

January 31, 2013

| SECURITY  | RATE   | MATURITY DATE | FACE AMOUNT | VALUE            |
|---|--------|---------------|-------------|------------------|
| <b>Missouri 0.1%</b><br>Missouri State HEFA, Educational Facilities Revenue, St. Louis University, LOC-Bank of America N.A. | 0.100% | 10/1/35       | \$ 100,000  | \$ 100,000(h)(i) |
| <b>New York 0.1%</b><br>New York City, NY, GO, SPA-Wells Fargo Bank N.A.  | 0.080% | 4/1/32        | 300,000     | 300,000(h)(i)    |
| <b>North Carolina 1.2%</b><br>Raleigh, NC, COP, Downtown Improvement Project, SPA-Wells Fargo Bank N.A.                     | 0.110% | 2/1/34        | 2,100,000   | 2,100,000(h)(i)  |
| TOTAL SHORT-TERM INVESTMENTS (Cost \$2,800,000)   |        |               |             | 2,800,000        |
| TOTAL INVESTMENTS 99.5 % (Cost \$162,498,423#)  |        |               |             | 176,100,020      |
| Other Assets in Excess of Liabilities 0.5%  |        |               |             | 944,364          |
| TOTAL NET ASSETS 100.0%   |        |               | \$          | 177,044,384      |

- (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) The coupon payment on these securities is currently in default as of January 31, 2013.
- (e) Security is purchased on a when-issued basis.
- (f) All or a portion of this security is held at the broker as collateral for open futures contracts.
- (g) Maturity date shown represents the mandatory tender date.
- (h) Variable rate demand obligations have a demand feature under which the Fund can tender them back to the issuer or liquidity provider on no more than 7 days notice.
- (i) Maturity date shown is the final maturity date. The security may be sold back to the issuer before final maturity.
- # Aggregate cost for federal income tax purposes is substantially the same.

Abbreviations used in this schedule:

|       |   |
|-------|---|
| AGM   | - Assured Guaranty Municipal Corporation - Insured Bonds        |
| AMBAC | - American Municipal Bond Assurance Corporation - Insured Bonds |
| CDA   | - Communities Development Authority                             |
| COP   | - Certificates 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          |

|      |   |
|------|---|
| GO   | - General Obligation  |
| HEFA | - Health & Educational Facilities Authority                     |
| IDA  | - Industrial Development Authority                              |
| IDR  | - Industrial Development Revenue                                |
| ISD  | - Independent School District                                   |
| LOC  | - Letter of Credit  |
| NATL | - National Public Finance Guarantee Corporation - Insured Bonds |
| PCFA | - Pollution Control Financing Authority                         |
| PCR  | - Pollution Control Revenue                                     |
| PFC  | - Public Facilities Corporation                                 |
| SPA  | - Standby Bond Purchase Agreement - Insured Bonds               |

*See Notes to Schedule of Investments.*

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

Schedule of investments (unaudited) (cont d)

January 31, 2013

**Summary of Investments by Industry**

|                                   |        |
|-----------------------------------|--------|
| Industrial Revenue                | 28.6%  |
| Health Care                       | 18.5   |
| Transportation                    | 10.3   |
| Power                             | 7.6    |
| Leasing                           | 7.4    |
| Education                         | 7.0    |
| Special Tax Obligation            | 6.0    |
| Water & Sewer                     | 4.4    |
| Pre-Refunded/Escrowed to Maturity | 3.9    |
| Other                             | 2.7    |
| Solid Waste/Resource Recovery     | 1.5    |
| Local General Obligation          | 0.5    |
| Short - Term Investments          | 1.6    |
|                                   | 100.0% |

As a percentage of total investments. Please note that Fund holdings are as of January 31, 2013 and are subject to change.

**Ratings Table\***

**Standard & Poors/Moody s/Fitch\*\***

|            |        |
|------------|--------|
| AAA/Aaa    | 0.0%   |
| AA/Aa      | 2.2    |
| A          | 23.1   |
| BBB/Baa    | 46.3   |
| BB/Ba      | 3.6    |
| B/B        | 4.1    |
| D          | 0.6    |
| A-1/VMIG 1 | 1.6    |
| NR         | 18.5   |
|            | 100.0% |

\* As a percentage of total investments.

\*\* The ratings shown are based on each portfolio security's rating as determined by Standard & Poor's, Moody's or Fitch, each a Nationally Recognized Statistical Rating Organization (NRSRO). These ratings are the opinions of the NRSRO and are not measures of quality or guarantees of performance. Securities may be rated by other NRSROs, and these ratings may be higher or lower. In the event that a security is rated by multiple NRSROs and receives different ratings, the Fund will treat the security as being rated in the lowest rating.



category received from a NRSRO.

Represents less than 0.1%.

*See Notes to Schedule of Investments.*

**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.** The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment's fair value. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund's Board of Directors.

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North American Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer's financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts' research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

## Edgar Filing: WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC. - Form N-Q

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Directors, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Directors quarterly.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed 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)

**Notes to schedule of investments (unaudited) (continued)**

The inputs or methodologies used to value 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:

| <b>ASSETS</b>                |                            |   |  |                |
|------------------------------|----------------------------|---|--|----------------|
| DESCRIPTION                  | QUOTED PRICES<br>(LEVEL 1) | OTHER<br>SIGNIFICANT<br>OBSERVABLE<br>INPUTS<br>(LEVEL 2) | SIGNIFICANT<br>UNOBSERVABLE<br>INPUTS<br>(LEVEL 3) | TOTAL          |
| Municipal bonds              |                            | \$ 173,300,020  |  | \$ 173,300,020 |
| Short-term investments       |                            | 2,800,000   |  | 2,800,000      |
| Total investments            |                            | \$ 176,100,020  |  | \$ 176,100,020 |
| Other financial instruments: |                            |   |  |                |
| Futures contracts            | \$ 216,156                 |   |  | \$ 216,156     |
| Total                        | \$ 216,156                 | \$ 176,100,020  |  | \$ 176,316,176 |

See Schedule of Investments for additional detailed categorizations.

**(b) Futures contracts.** The Fund uses futures contracts generally to gain exposure to, or hedge against, changes in interest rates or gain exposure to, or hedge against, changes in certain asset classes. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the Fund is required to deposit cash or cash equivalents with a broker in an amount equal to a certain percentage of the contract amount. This is known as the initial margin and subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract.

Futures contracts involve, to varying degrees, risk of loss. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

**(c) Securities traded on a when-issued basis.** The Fund may trade securities on a when-issued basis. In a when-issued transaction, the securities are purchased or sold by the Fund with payment and delivery taking place in the future in order to secure what is considered to be an advantageous price and yield to the Fund at the time of entering into the transaction.

Purchasing such securities involves risk of loss if the value of the securities declines prior to settlement. These securities are subject to market fluctuations and their current value is determined in the same manner as for other securities.

**(d) 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 investments 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.

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

**2. Investments**

At January 31, 2013, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

|                               |    |             |
|-------------------------------|----|-------------|
| Gross unrealized appreciation | \$ | 16,503,295  |
| Gross unrealized depreciation |    | (2,901,698) |
| Net unrealized appreciation   | \$ | 13,601,597  |

At January 31, 2013, the Fund had the following open futures contracts:

|                             | NUMBER OF CONTRACTS | EXPIRATION DATE | BASIS VALUE  | MARKET VALUE | UNREALIZED GAIN |
|-----------------------------|---------------------|-----------------|--------------|--------------|-----------------|
| <b>Contracts to Sell:</b>   |                     |                 |              |              |                 |
| U.S. Treasury 30-Year Bonds | 48                  | 3/13            | \$ 7,102,656 | \$ 6,886,500 | \$ 216,156      |

**3. Derivative instruments and hedging activities**

GAAP requires enhanced disclosure about an entity's derivative and hedging activities.

**Notes to schedule of investments (unaudited) (continued)**

The following is a summary of the Fund's derivative instruments categorized by risk exposure at January 31, 2013.

| <b>Primary Underlying Risk<br/>Disclosure</b> | <b>Futures<br/>Contracts<br/>Unrealized<br/>Appreciation</b> |
|---|--|
| Interest Rate Risk                            | \$ 216,156   |

During the period ended January 31, 2013, the volume of derivative activity for the Fund was as follows:

|                             |    | <b>Average market<br/>value</b> |
|-----------------------------|----|---------------------------------|
| Futures contracts (to sell) | \$ | 6,538,500                       |

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.

---

**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 27, 2013

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 27, 2013

By */s/ Richard F. Sennett*  
Richard F. Sennett  
Principal Financial Officer

Date: March 27, 2013

---