

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Form N-CSR

December 31, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

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

Investment Company Act file number 811-5497

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

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: (888)777-0102

Date of fiscal year end: October 31

Date of reporting period: October 31, 2009

ITEM 1. REPORT TO STOCKHOLDERS.

The Annual Report to Stockholders is filed herewith.

ANNUAL REPORT / OCTOBER 31, 2009

Western Asset Municipal High Income Fund Inc.

(MHF)

Managed by **WESTERN ASSET**

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

Fund objective

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

What's inside

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Legg Mason Partners Fund Advisor, LLC (LMPFA) is the Fund's investment manager and Western Asset Management Company (Western Asset) is the Fund's subadviser. LMPFA and Western Asset are wholly-owned subsidiaries of Legg Mason, Inc.

Letter from the chairman

Dear Shareholder,

While the U.S. economy remained weak during much of the twelve-month reporting period ended October 31, 2009, the lengthiest recession since the Great Depression finally appeared to have ended during the third quarter of 2009.

Looking back, the U.S. Department of Commerce reported that fourth quarter 2008 U.S. gross domestic product (GDP)i contracted 5.4%. Economic weakness accelerated during the first quarter of 2009, as GDP fell 6.4%. However, the economic environment started to get relatively better during the second quarter, as GDP fell 0.7%. The economy's more modest contraction was due, in part, to smaller declines in both exports and business spending. After contracting four consecutive quarters, the Commerce Department's preliminary estimate for third quarter 2009 GDP growth was 2.8%. A variety of factors helped the economy to expand, including the government's \$787 billion stimulus program and its Cash for Clunkers car rebate program, which helped spur an increase in car sales.

Even before GDP advanced in the third quarter, there were signs that the economy was starting to regain its footing. The manufacturing sector, as measured by the Institute for Supply Management's PMIⁱⁱ, rose to 52.9 in August 2009, the first time it surpassed 50 since January 2008 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). While the PMI dipped to 52.6 in September, it rose to 55.7 in October, its best reading since April 2006.

The housing market also saw some improvement during the reporting period. According to its most recent data, the S&P/Case-Shiller Home Price Indexⁱⁱⁱ indicated that home prices rose 1.2% in August 2009 versus the prior month. This marked the fourth straight monthly gain. In addition, the National Association of Realtors' Pending Home Sales Index^{iv} rose 6.1% in September, the eighth consecutive monthly increase.

One area that remained weak and could hamper the magnitude of economic recovery was the labor market. While monthly job losses have moderated compared to earlier in the year, the unemployment rate rose to 10.2% in October 2009, its highest level in more than twenty-six

years. Since

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

Letter from the chairman *continued*

December 2007, the number of unemployed has risen by approximately 8.2 million and there have been twenty-two consecutive months of job losses.

The Federal Reserve Board (Fed)v continued to pursue an accommodative monetary policy during the reporting period. After reducing the federal funds ratevi from 5.25% in August 2007 to a range of 0 to 1/4 percent in December 2008 a historic low the Fed has maintained this stance thus far in 2009. In conjunction with its November 2009 meeting, the Fed said that it will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period.

During the twelve months ended October 31, 2009, both short- and long-term Treasury yields experienced periods of heightened volatility. When the period began, two- and ten-year Treasury yields were 1.56% and 4.01%, respectively. The ongoing fallout from the issues related to the subprime mortgage market, the credit crisis, forced selling by leveraged investors and a lack of liquidity triggered several flights to quality. During these periods, Treasury yields moved lower (and their prices higher), while riskier segments of the market saw their yields move higher (and their prices lower). This was particularly true toward the end of 2008, as the turmoil in the financial markets and sharply falling stock prices caused investors to flee securities that were perceived to be risky, even high-quality corporate bonds and high-grade municipal bonds. When the first half of the reporting period ended on April 30, 2009, two- and ten-year Treasury yields were 0.91% and 3.16%, respectively.

During the second half of the period, Treasury yields generally moved higher (and their prices lower) until early June. Two- and ten-year yields peaked at 1.42% and 3.98%, respectively, before falling and ending the reporting period at 0.90% and 3.41%, respectively. In a reversal from 2008, investor risk aversion faded as the twelve-month reporting period progressed, driving spread sector (non-Treasury) prices higher.

The municipal bond market performed largely in line with its taxable bond counterpart over the twelve months ended October 31, 2009. Over that period, the Barclays Capital Municipal Bond Indexvii and the Barclays Capital U.S. Aggregate Indexviii returned 13.60% and 13.79%, respectively. The municipal market was supported by strong demand, coupled with declining new issuance of tax-free bonds.

A special note regarding increased market volatility

Dramatically higher volatility in the financial markets has been very challenging for many investors. Market movements have been rapid sometimes in reaction to economic news, and sometimes creating the news.

II

Western Asset Municipal High Income Fund Inc.

In the midst of this evolving market environment, we at Legg Mason want to do everything we can to help you reach your financial goals. Now, as always, we remain committed to providing you with excellent service and a full spectrum of investment choices. Rest assured, we will continue to work hard to ensure that our investment managers make every effort to deliver strong long-term results.

We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our enhanced website, www.leggmason.com/cef. Here you can gain immediate access to many special features to help guide you through difficult times, including:

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

During periods of market unrest, it is especially important to work closely with your financial advisor and remember that reaching one's investment goals unfolds over time and through multiple market cycles. Time and again, history has shown that, over the long run, the markets have eventually recovered and grown.

Information about your fund

Please read on for a more detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

Important information with regard to recent regulatory developments that may affect the Fund is contained in the Notes to Financial Statements included in this report.

As always, thank you for your confidence in our stewardship of your assets. We look forward to helping you meet your financial goals.

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

November 27, 2009

III

Western Asset Municipal High Income Fund Inc.

Letter from the chairman *continued*

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

- i Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.
- ii The Institute for Supply Management 's PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.
- iii The S&P/Case-Shiller Home Price Index measures the residential housing market, tracking changes in the value of the residential real estate market in twenty metropolitan regions across the United States.
- iv The Pending Home Sales Index is an index created by the National Association of Realtors that tracks home sales in which a contract is signed but the sale has not yet closed. The Index is a leading indicator of future existing home sales as it typically takes four to six weeks to close a sale after a contract has been signed.
- v The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- vi The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.
- vii The Barclays Capital Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more.
- viii The Barclays Capital U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.

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Western Asset Municipal High Income Fund Inc.

Fund overview

Q. What is the Fund's investment strategy?

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

At Western Asset Management Company (Western Asset), the Fund's subadviser, we utilize a fixed-income team approach, with decisions derived from interaction among various investment management sector specialists. The sector teams are comprised of Western Asset's senior portfolio managers, research analysts and an in-house economist. Under this team approach, management of client fixed-income portfolios will reflect a consensus of interdisciplinary views within the Western Asset organization.

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

A. During the fiscal year, the fixed-income market was impacted by the fallout from the financial crisis in 2008 and the subsequent return to more normal conditions given the aggressive actions taken by the Federal Reserve Board (Fed), the U.S. Department of the Treasury and other government entities.

The yields on two- and ten-year Treasuries began the fiscal year at 1.56% and 4.01%, respectively. As the reporting period began, we were in the midst of a flight to quality, triggered by the seizing credit markets and a sharp drop in Treasury yields. The ten-year Treasury yield bottomed at 2.08% on December 18, 2008. At the epicenter of the turmoil were the continued repercussions from the September 2008 bankruptcy of Lehman Brothers. During this time, investors were drawn to the relative safety of shorter-term Treasuries, while riskier portions of the bond market performed poorly.

However, as the fiscal year progressed, conditions in the credit markets improved, there were signs that the economy was stabilizing and investor risk aversion abated. This led to falling demand (and higher yields) for Treasuries and a strong sharp rally in the spread sectors (non-U.S. Treasuries). Also supporting the spread sectors was strong demand from investors seeking incremental yields given the low rates available from short-term fixed-income securities.

Toward the end of the reporting period, Treasury yields continued to move higher, especially on the long end of the yield curve. This was due to

Fund overview *continued*

concerns regarding the massive amount of new Treasury issuance that would be needed to fund the economic stimulus package. At the conclusion of the fiscal year, two- and ten-year Treasury yields were 0.90% and 3.41%, respectively.

While municipal bonds were not immune to the volatility in the financial markets, overall, they generated strong results during the fiscal year. As the reporting period began in November 2008, there was a great deal of uncertainty in the municipal market, as prices had fallen sharply in the previous two months. This challenging environment was triggered by a number of issues, including increased risk aversion, downgrades of monoline bond insurers, the seizing auction rate preferred market and forced selling by highly leveraged investors into illiquid markets. In addition, there were fears that the deepening recession would negatively impact municipalities, as they would generate less tax revenues.

While the fundamentals in the municipal market did not significantly change, tax-free bond prices rallied during much of the reporting period. This was due, in part, to improving technical factors, including less forced selling and better liquidity. Demand for tax-free bonds also increased, as investors were drawn to their attractive yields. All told, municipal bonds generated strong results, with the Barclays Capital Municipal Bond Index^{xiii} returning 13.60% for the twelve months ended October 31, 2009.

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

A. We made a number of tactical adjustments to the portfolio during the fiscal year. Toward the beginning of the period, we further increased the Fund's overweight exposure to essential service revenue bonds. These included securities issued by municipalities for enterprises such as Power, Water & Sewer, Health Care, Transportation and Education. Not only did these securities offer attractive yields, but we also expected that they would outperform their General Obligation counterparts given the challenging economic environment. We also further pared the Fund's exposure to General Obligation bonds. These securities are typically more economically sensitive, in that the issuing municipality repays bondholders from tax revenues.

Performance review

For the twelve months ended October 31, 2009, Western Asset Municipal High Income Fund Inc. returned 12.30% based on its net asset value (NAV)^{iv} and 18.49% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmark, the Barclays Capital Municipal Bond Index, returned 13.60% over the same time frame. The Lipper High Yield Municipal Debt Closed-End Funds Category Average^v returned 24.22% for the same period. Please note that Lipper performance returns are based on each fund's NAV.

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

During the twelve-month period, the Fund made distributions to shareholders totaling \$0.44 per share. The performance table shows the Fund's twelve-month total return based on its NAV and market price as of October 31, 2009. **Past performance is no guarantee of future results.**

PERFORMANCE SNAPSHOT as of October 31, 2009 (unaudited)

PRICE PER SHARE	12-MONTH TOTAL RETURN*
\$7.45 (NAV)	12.30%
\$7.25 (Market Price)	18.49%

All figures represent past performance and are not a guarantee of future results.

***Total returns are based on changes in NAV or market price, respectively. Total returns assume the reinvestment of all distributions in additional shares in accordance with the Fund's Dividend Reinvestment Plan.**

Q. What were the leading contributors to performance?

A. The largest contributor to relative performance for the period was the Fund's overweight exposure to the Industrial Development Revenue/Pollution Control Revenue (IDR/PCR) sector. Within the sector, the Fund's exposure to gas prepay securities significantly enhanced its results. These securities, which are backed by certain broker/dealers, performed poorly early in 2008 given the turmoil in the financial markets. However, as a number of broker/dealers changed their status to bank holding companies and government initiatives such as the Troubled Asset Relief Program (TARP) added confidence in the financial system, gas prepay securities rebounded sharply during the fiscal year.

The Fund's overweight position and security selection in the Health Care sector also significantly contributed to performance. Within the sector, we emphasized some of the better-quality names that we felt were more secure and less likely to experience downgrades. Elsewhere, our underweight to State and Local General Obligation bonds was beneficial, as they underperformed essential service revenue bonds. We continued to favor essential service revenue bonds as they offered higher yields and are typically less susceptible to fallout from weak economic environments.

Q. What were the leading detractors from performance?

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A. The largest detractor from performance for the period was the Fund's yield curve positioning. An underweight to the intermediate (ten-year) portion of the yield curve detracted from results as it performed well during the twelve-month period as a whole. Our exposure to cash was also a drag

Fund overview *continued*

on performance, given the strong performance in the municipal market and the low yields available from short-term money market instruments.

Our futures trading strategy was another meaningful detractor from performance. In particular, our use of a short position in U.S. Treasury futures reduced the Fund's overall duration^{vi}. This strategy was detrimental to results as municipal yields declined over the period. Additionally, the outperformance of the U.S. Treasury market versus the municipal market, especially following the collapse of Lehman Brothers, caused this strategy to detract from results.

The Fund's exposure to Pre-refunded^{vii} securities also detracted from results. While these high-quality securities performed extremely well during the market's meltdown in 2008 and during periods of risk aversion over the fiscal year, this sector underperformed the benchmark during the twelve-month period as a whole. Elsewhere, certain IDR/PCR holdings and security selection in the Special Tax Obligation sector negatively impacted the Fund's results.

Finally, the Fund does not use leverage as compared to its Lipper peer group, which is comprised of funds that are both levered and unlevered. The levered funds within the Lipper peer group benefited from the municipal bond rally in 2009, driving up the peer group average return for the period.

Looking for additional information?

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

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

Thank you for your investment in Western Asset Municipal High Income Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

Western Asset Management Company

November 17, 2009

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

RISKS: The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. High-yield bonds involve greater credit and liquidity risks than investment grade bonds. As interest rates rise, bond prices fall, reducing the value of the Fund. Certain investors may be subject to the federal alternative minimum tax, and state and local taxes will apply. Capital gains, if any, are fully taxable.

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

- i The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- ii The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.
- iii The Barclays Capital Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more.
- iv Net asset value (NAV) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.
- v Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended October 31, 2009, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 15 funds in the Fund's Lipper category.
- vi Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.
- vii A pre-refunded bond is a bond in which the original security has been replaced by an escrow, usually consisting of treasuries or agencies, which has been structured to pay principal and interest and any call premium, either to a call date (in the case of a pre-refunded bond), or to maturity (in the case of an escrowed to maturity bond).

Fund at a glance (unaudited)

INVESTMENT BREAKDOWN (%) As a percent of total investments

The bar graphs above represent the composition of the Fund's investments as of October 31, 2009 and October 31, 2008 and do not include derivatives. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

Schedule of investments

October 31, 2009

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

	FACE AMOUNT	SECURITY	VALUE
MUNICIPAL BONDS	98.6%		
\$	1,055,000	Alaska 0.6% Alaska Industrial Development & Export Authority Revenue, Williams Lynxs Alaska Cargoport, 8.125% due 5/1/31(a)	\$ 939,699
	1,500,000	Arizona 1.1% Salt Verde, AZ Financial Corp., Gas Revenue, 5.000% due 12/1/37	1,284,615
	500,000	University Medical Center Corp., AZ, Hospital Revenue, 6.250% due 7/1/29	536,675
		<i>Total Arizona</i>	<i>1,821,290</i>
		Arkansas 1.0% Arkansas State Development Financing Authority: Hospital Revenue, Washington Regional Medical Center, 7.375% due 2/1/29(b)	1,013,330
	1,000,000		
	600,000	Industrial Facilities Revenue, Potlatch Corp. Projects, 7.750% due 8/1/25(a)	604,428
		<i>Total Arkansas</i>	<i>1,617,758</i>
		California 5.4% Barona, CA, Band of Mission Indians, GO, 8.250% due 12/1/20	1,413,495
	1,500,000	California Health Facilities Financing Authority Revenue, Refunding, Cedars-Sinai Medical Center, 5.000% due 11/15/27	1,990,560
	2,000,000	Golden State Tobacco Securitization Corp., California Tobacco Settlement Revenue, Asset Backed, 7.800% due 6/1/42(b)	2,419,060
	2,000,000	M-S-R Energy Authority, CA, 6.500% due 11/1/39	2,138,340
	600,000	Redding, CA, Redevelopment Agency, Tax Allocation, Shastec Redevelopment Project, 5.000% due 9/1/29	537,972
		<i>Total California</i>	<i>8,499,427</i>
		Colorado 5.8% Colorado Educational & Cultural Facilities Authority Revenue: Charter School, Peak to Peak Project, 7.500% due 8/15/21(b)	772,384
	705,000		
	680,000	5.250% due 6/15/25	696,674
	510,000	5.125% due 6/15/32	502,916
	785,000	Elbert County Charter, 7.375% due 3/1/35	732,758
	810,000	Unrefunded, University of Denver Project, NATL/FGIC, 5.250% due 3/1/23	851,707
	4,000,000	Public Authority for Colorado Energy, Natural Gas Purchase Revenue, 6.125% due 11/15/23	4,146,920
	1,000,000	Reata South Metropolitan District, CO, GO, 7.250% due 6/1/37	809,090
	500,000	Southlands, CO, Metropolitan District No. 1, GO, 7.125% due 12/1/34(b)	621,705
		<i>Total Colorado</i>	<i>9,134,154</i>
		District of Columbia 1.3% District of Columbia COP, District Public Safety & Emergency, AMBAC, 5.500% due 1/1/20	1,994,639
	1,895,000		

See Notes to Financial Statements.

Schedule of investments *continued*

October 31, 2009

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Florida 8.0%	
\$ 875,000	Beacon Lakes, FL, Community Development District, Special Assessment, 6.900% due 5/1/35	\$ 747,591
1,500,000	Bonnet Creek Resort Community Development District, Special Assessment, 7.500% due 5/1/34	1,227,420
2,000,000	Capital Projects Finance Authority, FL, Student Housing Revenue, Capital Projects Loan Program, Florida University, 7.850% due 8/15/31(b)	2,169,080
905,000	Century Parc Community Development District, Special Assessment, 7.000% due 11/1/31	878,366
1,000,000	Highlands County, FL, Health Facilities Authority Revenue, Adventist Health Systems, 6.000% due 11/15/25(b)	1,128,070
2,000,000	Martin County, FL, IDA Revenue, Indiantown Cogeneration Project, 7.875% due 12/15/25(a)	2,105,720
1,000,000	Orange County, FL, Health Facilities Authority Revenue, First Mortgage, GF, Orlando Inc. Project, 9.000% due 7/1/31	990,390
290,000	Palm Beach County, FL, Health Facilities Authority Revenue, John F. Kennedy Memorial Hospital Inc. Project, 9.500% due 8/1/13(c)	342,461
2,000,000	Reunion East Community Development District, Special Assessment, 7.375% due 5/1/33	1,459,840
1,000,000	Santa Rosa, FL, Bay Bridge Authority Revenue, 6.250% due 7/1/28	630,710
1,000,000	University of Central Florida, COP, FGIC, 5.000% due 10/1/25	940,620
	<i>Total Florida</i>	<i>12,620,268</i>
	Georgia 7.0%	
	Atlanta, GA, Airport Revenue:	
1,000,000	FGIC, 5.625% due 1/1/30(a)	1,007,680
1,000,000	FSA, 5.000% due 1/1/26	1,035,290
	Atlanta, GA:	
2,000,000	Development Authority Educational Facilities Revenue, Science Park LLC Project, 5.000% due 7/1/32	1,951,900
2,500,000	Tax Allocation, Atlantic Station Project, 7.900% due 12/1/24(b)	2,886,300
2,000,000	Water & Wastewater Revenue, 6.250% due 11/1/39	2,149,120
1,000,000	DeKalb, Newton & Gwinnett Counties, GA, Joint Development Authority Revenue, GGC Foundation LLC Project, 6.125% due 7/1/40	1,097,320
1,000,000	Gainesville & Hall County, GA, Development Authority Revenue, Senior Living Facilities, Lanier Village Estates, 7.250% due 11/15/29	1,011,940
	<i>Total Georgia</i>	<i>11,139,550</i>
	Hawaii 2.8%	
	Hawaii State Department of Budget & Finance Special Purpose:	
2,000,000	Revenue, Hawaiian Electric Co., 6.500% due 7/1/39	2,160,580
	Senior Living Revenue:	
550,000	6.400% due 11/15/14	558,635
1,500,000	7.500% due 11/15/15	1,563,600
200,000	15 Craigsides Project, 8.750% due 11/15/29	221,696
	<i>Total Hawaii</i>	<i>4,504,511</i>

See Notes to Financial Statements.

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Western Asset Municipal High Income Fund Inc. 2009 Annual Report

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
\$ 1,000,000	Illinois 0.5% Illinois Finance Authority Revenue, Refunding, Chicago Charter School Project, 5.000% due 12/1/26	\$ 868,930
285,000	Indiana 0.4% County of St. Joseph, IN, EDR, Holy Cross Village Notre Dame Project: 6.000% due 5/15/26	244,627
550,000	6.000% due 5/15/38 <i>Total Indiana</i>	433,229 677,856
1,150,000	Kansas 0.7% Salina, KS, Hospital Revenue, Refunding & Improvement Salina Regional Health, 5.000% due 10/1/22	1,170,758
1,000,000	Kentucky 2.0% Louisville & Jefferson County, KY, Metro Government Health System Revenue, Norton Healthcare Inc., 5.250% due 10/1/36	956,940
2,000,000	Owen County, KY, Waterworks System Revenue, Kentucky American Water Co. Project, 6.250% due 6/1/39 <i>Total Kentucky</i>	2,156,720 3,113,660
1,000,000	Louisiana 1.2% Epps, LA, COP, 8.000% due 6/1/18	1,005,680
1,000,000	St. John Baptist Parish, LA, Revenue, Marathon Oil Corp., 5.125% due 6/1/37 <i>Total Louisiana</i>	910,180 1,915,860
1,500,000	Maryland 1.0% Maryland State Economic Development Corp. Revenue, Chesapeake Bay, 7.730% due 12/1/27(b)	1,523,340
860,000	Massachusetts 4.0% Boston, MA, Industrial Development Financing Authority Revenue, Roundhouse Hospitality LLC Project, 7.875% due 3/1/25(a)	722,142
3,000,000	Massachusetts Educational Financing Authority Education Loan Revenue, AGC, 6.125% due 1/1/22(a)	3,125,760
1,000,000	Massachusetts State DFA Revenue, Briarwood, 8.250% due 12/1/30(b)	1,088,120
265,000	Massachusetts State Port Authority Revenue, 13.000% due 7/1/13(c)	320,934
1,000,000	Massachusetts State, HEFA Revenue, Caritas Christi Obligation, 6.750% due 7/1/16 <i>Total Massachusetts</i>	1,039,340 6,296,296
2,130,000	Michigan 5.3% Allen Academy, COP, 7.500% due 6/1/23 Cesar Chavez Academy, COP:	1,876,189
1,000,000	6.500% due 2/1/33	847,240
1,000,000	8.000% due 2/1/33	1,001,920
1,000,000	Gaudior Academy, COP, 7.250% due 4/1/34	852,300
2,000,000	Royal Oak, MI, Hospital Finance Authority Revenue, William Beaumont Hospital, 8.250% due 9/1/39	2,352,640

See Notes to Financial Statements.

Schedule of investments *continued*

October 31, 2009

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Michigan 5.3%<i>continued</i>	
\$ 975,000	Star International Academy, COP, 7.000% due 3/1/33	\$ 817,196
700,000	William C. Abney Academy, COP, 6.750% due 7/1/19	693,567
	<i>Total Michigan</i>	<i>8,441,052</i>
	Missouri 0.8%	
1,300,000	Missouri State HEFA Revenue, Refunding, St. Lukes Episcopal, 5.000% due 12/1/21	<i>1,301,482</i>
	Montana 1.2%	
2,345,000	Montana State Board of Investment, Resource Recovery Revenue, Yellowstone Energy LP Project, 7.000% due 12/31/19(a)	<i>1,920,508</i>
	New Hampshire 1.0%	
1,600,000	New Hampshire HEFA Revenue, Healthcare System, Covenant Health System, 5.500% due 7/1/34	<i>1,559,840</i>
	New Jersey 8.7%	
1,500,000	Casino Reinvestment Development Authority Revenue, NATL, 5.250% due 6/1/20	1,528,215
1,000,000	New Jersey EDA, Retirement Community Revenue, SeaBrook Village Inc., 8.250% due 11/15/30(b)	1,087,640
	New Jersey Health Care Facilities Financing Authority Revenue, Trinitas Hospital Obligation Group:	
5,000,000	5.250% due 7/1/30	4,194,750
3,000,000	7.500% due 7/1/30(b)	3,161,520
5,000,000	New Jersey State, EDA, Revenue, Refunding, 6.875% due 1/1/37(a)	3,794,050
	<i>Total New Jersey</i>	<i>13,766,175</i>
	New Mexico 0.6%	
1,000,000	Otero County, NM, Jail Project Revenue, 7.500% due 12/1/24	988,380
	New York 3.5%	
700,000	Brookhaven, NY, IDA Civic Facilities Revenue, Memorial Hospital Medical Center Inc., 8.250% due 11/15/30(b)	759,822
1,000,000	Monroe County, NY, IDA, Civic Facilities Revenue, Woodland Village Project, 8.550% due 11/15/32(b)	1,097,340
2,000,000	MTA, New York Service Contract, Refunding, AMBAC, 5.000% due 7/1/30	2,024,180
695,000	New York City, NY, IDA, Civic Facilities Revenue, Special Needs Facilities Pooled Program, 8.125% due 7/1/19(b)	720,242
840,000	Suffolk County, NY, IDA, Civic Facilities Revenue, Eastern Long Island Hospital Association, 7.750% due 1/1/22(b)	939,549
	<i>Total New York</i>	<i>5,541,133</i>
	North Carolina 0.6%	
905,000	North Carolina Medical Care Community, Health Care Facilities Revenue, First Mortgage, DePaul Community Facilities Project, 7.625% due 11/1/29(b)	923,100

See Notes to Financial Statements.

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Ohio 2.7%	
\$ 1,500,000	Cuyahoga County, OH, Hospital Facilities Revenue, Canton Inc. Project, 7.500% due 1/1/30	\$ 1,522,830
1,500,000	Miami County, OH, Hospital Facilities Revenue, Refunding and Improvement Upper Valley Medical Center, 5.250% due 5/15/21	1,468,260
1,260,000	Riversouth Authority, OH, Revenue, Riversouth Area Redevelopment, 5.000% due 12/1/25	1,314,205
	<i>Total Ohio</i>	<i>4,305,295</i>
	Pennsylvania 5.7%	
1,000,000	Cumberland County, PA, Municipal Authority Retirement Community Revenue, Wesley Affiliate Services Inc. Project, 7.250% due 1/1/35(b)	1,180,090
1,000,000	Lebanon County, PA, Health Facilities Authority Revenue, Good Samaritan Hospital Project, 6.000% due 11/15/35	923,510
1,000,000	Monroe County, PA, Hospital Authority Revenue, Pocono Medical Center, 5.000% due 1/1/27	926,970
940,000	Northumberland County, PA, IDA Facilities Revenue, NHS Youth Services Inc. Project, 7.500% due 2/15/29	817,988
2,000,000	Pennsylvania Economic Development Financing Authority, Health Systems Revenue, Albert Einstein Healthcare, 6.250% due 10/15/23	2,090,280
1,000,000	Philadelphia, PA, Authority for IDR, Host Marriot LP Project, Remarketed 10/31/95, 7.750% due 12/1/17(a)	942,290
2,000,000	Westmoreland County, PA, IDA Revenue, Health Care Facilities, Redstone Highlands Health, 8.125% due 11/15/30(b)	2,172,720
	<i>Total Pennsylvania</i>	<i>9,053,848</i>
	Tennessee 4.3%	
1,000,000	Clarksville, TN, Natural Gas Acquisition Corp. Gas Revenue, 5.000% due 12/15/21	930,200
1,000,000	Johnson City, TN, Health & Educational Facilities Board, Hospital Revenue, Mountain States Health Alliance, 5.500% due 7/1/36	976,690
2,500,000	Shelby County, TN, Health Educational & Housing Facilities Board Revenue, Trezevant Manor Project, 5.750% due 9/1/37	1,979,475
3,000,000	Tennessee Energy Acquisition Corp., Gas Revenue, 5.250% due 9/1/26	2,842,470
	<i>Total Tennessee</i>	<i>6,728,835</i>
	Texas 15.3%	
1,500,000	Brazos River, TX, Harbor Industrial Development Corp., Environmental Facilities Revenue, Dow Chemical Co., 5.900% due 5/1/28(a)(d)	1,503,960
1,500,000	Burnet County, TX, Public Facility Project Revenue, 7.500% due 8/1/24	1,509,630
1,000,000	Garza County, TX, Public Facility Corp.: 5.500% due 10/1/18	940,190
2,000,000	Project Revenue, 5.750% due 10/1/25	2,049,520
2,000,000	Gulf Coast of Texas, IDA, Solid Waste Disposal Revenue, CITGO Petroleum Corp. Project, 7.500% due 9/30/12(a)(d)	2,057,380

See Notes to Financial Statements.

Schedule of investments *continued*

October 31, 2009

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Texas 15.3%<i>continued</i>	
\$ 2,000,000	Harris County, TX, Cultural Education Facilities Finance Corp., Medical Facilities Revenue, Baylor College of Medicine, 5.625% due 11/15/32	\$ 1,815,080
2,750,000	Houston, TX, Airport Systems Revenue, Special Facilities, Continental Airlines Inc. Project, 6.125% due 7/15/27(a)	2,304,610
1,000,000	Laredo, TX, ISD Public Facility Corp. Lease Revenue, AMBAC, 5.000% due 8/1/29	1,002,730
1,000,000	Midlothian, TX, Development Authority, Tax Increment Contract Revenue, 6.200% due 11/15/29	995,430
2,500,000	North Texas Tollway Authority Revenue, 5.750% due 1/1/40	2,535,500
2,000,000	Texas Midwest Public Facility Corp. Revenue, Secure Treatment Facility Project, 9.000% due 10/1/30	2,082,840
1,500,000	Texas State Public Finance Authority, Uplift Education, 5.750% due 12/1/27	1,462,110
1,865,000	West Texas Detention Facility Corp. Revenue, 8.000% due 2/1/25	1,656,679
	Willacy County, TX:	
1,025,000	Local Government Corp. Revenue, 6.875% due 9/1/28	855,896
	PFC Project Revenue:	
1,000,000	8.250% due 12/1/23	926,480
580,000	County Jail, 7.500% due 11/1/25	510,528
	<i>Total Texas</i>	24,208,563
	U.S. Virgin Islands 1.7%	
2,500,000	Virgin Islands Public Finance Authority Revenue, Matching Fund Loan, 6.750% due 10/1/37	2,647,925
	Virginia 2.3%	
345,000	Alexandria, VA, Redevelopment & Housing Authority, MFH Revenue, Parkwood Court Apartments Project, 8.125% due 4/1/30	321,826
1,000,000	Broad Street CDA Revenue, 7.500% due 6/1/33	896,930
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)	2,450,450
	<i>Total Virginia</i>	3,669,206
	West Virginia 1.5%	
2,500,000	Pleasants County, WV, PCR, Refunding County Commission Allegheny, 5.250% due 10/15/37	2,340,275
	Wisconsin 0.6%	
1,000,000	Wisconsin State HEFA Revenue, Aurora Health Care, 6.400% due 4/15/33	1,018,150
	TOTAL INVESTMENTS 98.6% (Cost \$158,218,638#)	156,251,763
	Other Assets in Excess of Liabilities 1.4%	2,168,556
	TOTAL NET ASSETS 100.0%	\$ 158,420,319

(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.

See Notes to Financial Statements.

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WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

(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.

Aggregate cost for federal income tax purposes is \$158,158,897.

Abbreviations used in this schedule:

AGC	Assured Guaranty Corporation	Insured Bonds
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	

SUMMARY OF INVESTMENTS BY INDUSTRY* (unaudited)

Health care	19.9%
Pre-refunded/escrowed to maturity	16.8
Industrial revenue	16.8
Leasing	11.3
Education	7.0
Power	6.7
Special tax obligation	5.2
Transportation	4.6
Solid waste/resource recovery	4.1
Other revenue	3.6
Local general obligation	2.4
Water & sewer	1.4
Housing	0.2
	100.0%

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

See Notes to Financial Statements.

Schedule of investments *continued*

October 31, 2009

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

RATINGS TABLE (unaudited)

S&P/Moody s/Fitch

AAA/Aaa	6.6%
AA/Aa	2.8
A	26.8
BBB/Baa	24.9
BB/Ba	6.7
CCC/Caa	1.5
CC/Ca	0.4
NR	30.3
	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 15 and 16 for definitions of ratings.

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,	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.
CC and C 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 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.

Bond ratings (unaudited) *continued*

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.
MIG 1	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.

Statement of assets and liabilities

October 31, 2009

ASSETS:	
Investments, at value (Cost \$158,218,638)	\$156,251,763
Interest receivable	3,356,286
Receivable for securities sold	20,000
Prepaid expenses	11,994
<i>Total Assets</i>	<i>159,640,043</i>
LIABILITIES:	
Due to custodian	1,020,200
Investment management fee payable	74,583
Directors' fees payable	5,036
Accrued expenses	119,905
<i>Total Liabilities</i>	<i>1,219,724</i>
TOTAL NET ASSETS	\$158,420,319
NET ASSETS:	
Par value (\$0.01 par value; 21,273,078 shares issued and outstanding; 500,000,000 shares authorized)	\$ 212,731
Paid-in capital in excess of par value	192,096,219
Undistributed net investment income	750,301
Accumulated net realized loss on investments and futures contracts	(32,672,057)
Net unrealized depreciation on investments	(1,966,875)
TOTAL NET ASSETS	\$158,420,319
Shares Outstanding	21,273,078
Net Asset Value	\$7.45

See Notes to Financial Statements.

Statement of operations

For the Year Ended October 31, 2009

INVESTMENT INCOME:	
Interest	\$ 10,146,420
EXPENSES:	
Investment management fee (Note 2)	810,495
Shareholder reports	50,744
Audit and tax	43,623
Directors' fees	42,861
Legal fees	38,354
Transfer agent fees	28,979
Stock exchange listing fees	19,867
Insurance	5,037
Custody fees	1,578
Miscellaneous expenses	9,404
<i>Total Expenses</i>	<i>1,050,942</i>
NET INVESTMENT INCOME	9,095,478
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FUTURES CONTRACTS (NOTES 1, 3 AND 4):	
Net Realized Loss From:	
Investment transactions	(2,768,659)
Futures contracts	(2,460,161)
<i>Net Realized Loss</i>	<i>(5,228,820)</i>
Change in Net Unrealized Appreciation/Depreciation From:	
Investments	14,402,370
Futures contracts	(950,949)
<i>Change in Net Unrealized Appreciation/Depreciation</i>	<i>13,451,421</i>
NET GAIN ON INVESTMENTS AND FUTURES CONTRACTS	8,222,601
INCREASE IN NET ASSETS FROM OPERATIONS	\$17,318,079

See Notes to Financial Statements.

Statements of changes in net assets

FOR THE YEARS ENDED OCTOBER 31,	2009	2008
OPERATIONS:		
Net investment income	\$ 9,095,478	\$ 9,315,087
Net realized loss	(5,228,820)	(3,721,736)
Change in net unrealized appreciation/depreciation	13,451,421	(20,902,204)
<i>Increase (Decrease) in Net Assets From Operations</i>	<i>17,318,079</i>	<i>(15,308,853)</i>
DISTRIBUTIONS TO SHAREHOLDERS FROM (NOTE 1):		
Net investment income	(9,409,089)	(8,918,253)
<i>Decrease in Net Assets From Distributions to Shareholders</i>	<i>(9,409,089)</i>	<i>(8,918,253)</i>
FUND SHARE TRANSACTIONS:		
Reinvestment of distributions (153,817 and 56,336 shares issued, respectively)	1,059,181	436,238
<i>Increase in Net Assets From Fund Share Transactions</i>	<i>1,059,181</i>	<i>436,238</i>
INCREASE (DECREASE) IN NET ASSETS	8,968,171	(23,790,868)
NET ASSETS:		
Beginning of year	149,452,148	173,243,016
End of year*	\$158,420,319	\$149,452,148
* Includes undistributed net investment income of:	\$750,301	\$1,079,803

See Notes to Financial Statements.

Financial highlights

FOR A SHARE OF CAPITAL STOCK OUTSTANDING THROUGHOUT EACH YEAR ENDED OCTOBER 31:

	2009	2008	2007	2006	2005
NET ASSET VALUE, BEGINNING OF YEAR	\$7.08	\$8.23	\$8.22	\$7.95	\$7.84
INCOME (LOSS) FROM OPERATIONS:					
Net investment income	0.43	0.44	0.42	0.42	0.45
Net realized and unrealized gain (loss)	0.38	(1.17)		0.26	0.11
<i>Total income (loss) from operations</i>	<i>0.81</i>	<i>(0.73)</i>	<i>0.42</i>	<i>0.68</i>	<i>0.56</i>
LESS DISTRIBUTIONS FROM:					
Net investment income	(0.44)	(0.42)	(0.41)	(0.41)	(0.45)
<i>Total distributions</i>	<i>(0.44)</i>	<i>(0.42)</i>	<i>(0.41)</i>	<i>(0.41)</i>	<i>(0.45)</i>
NET ASSET VALUE, END OF YEAR	\$7.45	\$7.08	\$8.23	\$8.22	\$7.95
MARKET PRICE, END OF YEAR	\$7.25	\$6.53	\$7.75	\$7.84	\$7.10
<i>Total return, based on NAV^{1,2}</i>	<i>12.30%</i>	<i>(9.02)%</i>	<i>5.40%</i>	<i>9.24%</i>	<i>7.82%³</i>
<i>Total return, based on Market Price²</i>	<i>18.49%</i>	<i>(10.89)%</i>	<i>4.06%</i>	<i>16.66%</i>	<i>2.16%</i>
NET ASSETS, END OF YEAR (MILLIONS)	\$158	\$149	\$173	\$173	\$167
RATIOS TO AVERAGE NET ASSETS:					
Gross expenses	0.71%	0.71%	0.84% ⁴	0.79%	0.85%
Net expenses	0.71	0.71	0.794, ⁵	0.795	0.85
Net investment income	6.17	5.59	5.14	5.27	5.74
PORTFOLIO TURNOVER RATE	17%	17%	16%	18%	39%

1 Performance figures may reflect fee waivers and/or expense reimbursements. In the absence of fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results.

2 The total return calculation assumes that distributions are reinvested in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results.

3 The prior investment manager fully reimbursed the Fund for losses incurred resulting from an investment transaction error. Without this reimbursement, total return would not have changed.

4 Included in the expense ratios are certain non-recurring restructuring (and reorganization, if applicable) fees that were incurred by the Fund during the period. Without these fees, the gross and net expense ratios would both have been 0.73%.

5 Reflects fee waivers and/or expense reimbursements.

See Notes to Financial Statements.

Notes to financial statements

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). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ. Subsequent events have been evaluated through December 31, 2009, the issuance date of the financial statements.

(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. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. When prices are not readily available, or are determined not to reflect fair value, the Fund values 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 has adopted Financial Accounting Standards Board Codification Topic 820 (formerly Statement of Financial Accounting Standards No. 157) (ASC Topic 820). ASC Topic 820 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.

Notes to financial statements *continued*

The Fund uses valuation techniques to measure fair value that are consistent with the market approach, income approach and/or cost approach, depending on the type of the security and the particular circumstance.

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

DESCRIPTION	QUOTED PRICES (LEVEL 1)	OTHER SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL
Municipal bonds		\$156,251,763		\$156,251,763

See Schedule of Investments for additional detailed categorizations.

(b) Futures contracts. The Fund may use futures contracts to gain exposure to, or hedge against, changes in the value of equities, interest rates or foreign currencies. 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 with a broker cash or cash equivalents in an amount equal to a certain percentage of the contract amount. This is known as the initial margin. Subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract. The daily changes in contract value are recorded as unrealized gains or losses in the Statement of Operations and the Fund recognizes a realized gain or loss when the contract is closed.

Futures contracts involve, to varying degrees, risk of loss in excess of the amounts reflected in the financial statements. 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) 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 and investment income. Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults on an expected interest payment, the Fund's policy is to

generally halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default.

(e) Distributions to shareholders. Distributions from net investment income for the Fund, if any, are declared and paid on a monthly basis. The Fund intends to satisfy conditions that will enable interest from municipal securities, which is exempt from federal and certain state income taxes, to retain such tax-exempt status when distributed to the shareholders of the Fund. Distributions of net realized gains, if any, are taxable and are declared at least annually. Distributions are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

(f) Federal and other taxes. It is the Fund's policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986 (the Code), as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute its taxable income and net realized gains, if any, to shareholders in accordance with timing requirements imposed by the Code. Therefore, no federal income tax provision is required in the Fund's financial statements.

Management has analyzed the Fund's tax positions taken on federal income tax returns for all open tax years and has concluded that as of October 31, 2009, no provision for income tax would be required in the Fund's financial statements. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by Internal Revenue Service and state departments of revenue.

(g) Reclassification. GAAP requires that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset values per share. During the current year, the following reclassifications have been made:

	UNDISTRIBUTED NET INVESTMENT INCOME	ACCUMULATED NET REALIZED LOSS	PAID-IN CAPITAL
(a)		\$733,106	\$(733,106)
(b)	\$(15,891)	15,891	

(a) Reclassifications are primarily due to the expiration of a capital loss carryover.

(b) Reclassifications are primarily due to differences between book and tax accretion of market discount on fixed income securities.

2. Investment management agreement and other transactions with affiliates

Legg Mason Partners Fund Advisor, LLC (LMPFA) is the Fund's investment manager and Western Asset Management Company (Western Asset) is the Fund's subadvisor. LMPFA and Western Asset are wholly-owned subsidiaries of Legg Mason, Inc. (Legg Mason).

Notes to financial statements *continued*

LMPFA provides administrative and certain oversight services to the Fund. The Fund pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.55% of the Fund's average daily net assets.

LMPFA has delegated to Western Asset the day-to-day portfolio management of the Fund. For its services, LMPFA pays Western Asset 70% of the net management fee it receives from the Fund.

Certain officers and one Director of the Fund are employees of Legg Mason or its affiliates and do not receive compensation from the Fund.

3. Investments

During the year ended October 31, 2009, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were as follows:

Purchases	\$24,788,260
Sales	23,828,661

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

Gross unrealized appreciation	\$ 6,038,136
Gross unrealized depreciation	(7,945,270)
Net unrealized depreciation	\$(1,907,134)

4. Derivative instruments and hedging activities

Financial Accounting Standards Board Codification Topic 815 (formerly Statement of Financial Accounting Standards No. 161) (ASC Topic 815) requires enhanced disclosure about an entity's derivative and hedging activities.

The following tables provide information about the effect of derivatives and hedging activities on the Fund's Statement of Operations for the six months ended October 31, 2009. The first table provides additional detail about the amounts and sources of gains/(losses) realized on derivatives during the period. The second table provides additional information about the changes in unrealized appreciation/(depreciation) resulting from the Fund's derivatives and hedging activities during the period.

AMOUNT OF REALIZED GAIN OR (LOSS) ON DERIVATIVES RECOGNIZED

	INTEREST RATE CONTRACTS RISK	OTHER CONTRACTS RISK	TOTAL
Futures contracts	\$258,708		\$258,708

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CHANGE IN UNREALIZED APPRECIATION/DEPRECIATION ON DERIVATIVES RECOGNIZED

	INTEREST RATE CONTRACTS RISK	OTHER CONTRACTS RISK	TOTAL
Futures contracts	\$(230,105)		\$(230,105)

At October 31, 2009, the Fund did not have any derivative instruments outstanding. During the year ended October 31, 2009, the Fund had an average market value of \$7,504,792 in futures contracts (to sell).

5. Distributions subsequent to October 31, 2009

On August 13, 2009, the Board of Directors of the Fund declared a dividend distribution in the amount of \$0.037 per share payable on November 27, 2009 to shareholders of record on November 20, 2009. On November 16, 2009, the Board of Directors of the Fund declared dividend distributions in the amount of \$0.037 per share payable on December 28, 2009, January 29, 2010 and February 26, 2010 to shareholders of record on December 18, 2009, January 22, 2010 and February 19, 2010, respectively.

6. Income tax information and distributions to shareholders

The tax character of distributions paid during the fiscal years ended October 31, was as follows:

	2009	2008
Distributions Paid From:		
Tax-exempt income	\$9,405,995	\$8,918,253
Ordinary income	3,094	
Total taxable distributions	3,094	
Total distributions paid	\$9,409,089	\$8,918,253

As of October 31, 2009, the components of accumulated earnings on a tax basis were as follows:

Undistributed tax-exempt income net	\$ 791,710
Capital loss carryforward*	(32,731,798)
Other book/tax temporary differences(a)	(41,409)
Unrealized appreciation/(depreciation)(b)	(1,907,134)
Total accumulated earnings / (losses) net	\$(33,888,631)

Notes to financial statements *continued*

* As of October 31, 2009, the Fund had the following net capital loss carryforward remaining:

Year of Expiration	Amount
10/31/2010	\$ (601,572)
10/31/2011	(5,066,581)
10/31/2012	(10,608,178)
10/31/2013	(5,677,661)
10/31/2015	(1,928,255)
10/31/2016	(2,673,203)
10/31/2017	(6,176,348)
	\$(32,731,798)

These amounts will be available to offset any future taxable capital gains.

- (a) Other book/tax temporary differences are attributable primarily to book/tax differences in the timing of the deductibility of various expenses.
- (b) The difference between book-basis and tax-basis unrealized appreciation/(depreciation) is attributable primarily to the difference between book & tax accretion methods for market discount on fixed income securities.

Report of independent registered public accounting firm

**The Board of Directors and Shareholders
Western Asset Municipal High Income Fund Inc.:**

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Western Asset Municipal High Income Fund Inc. as of October 31, 2009, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 2009, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Western Asset Municipal High Income Fund Inc. as of October 31, 2009, and the results of its operations for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

New York, New York
December 21, 2009

Additional information (unaudited)

Information about Directors and Officers

The business and affairs of Western Asset Municipal High Income Fund Inc. (the Fund) are managed under the direction of the Board of Directors. Information pertaining to the Directors and Officers of the Fund is set forth below.

NON-INTERESTED DIRECTORS

CAROL L. COLMAN

c/o Chairman of the Fund, Legg Mason & Co., LLC (Legg Mason)
620 Eighth Avenue, New York, NY 10018

Birth year	1946
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class I
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past five years	President, Colman Consulting Company (consulting)
Number of portfolios in fund complex overseen by director (including the Fund)	21
Other board member ships held by Director	None

DANIEL P. CRONIN

c/o Chairman of the Fund, Legg Mason
620 Eighth Avenue, New York, NY 10018

Birth year	1946
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class II
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past five years	Retired; formerly, Associate General Counsel, Pfizer Inc. (prior to and including 2004)
Number of portfolios in fund complex overseen by director (including the Fund)	21
Other board member ships held by Director	None

Western Asset Municipal High Income Fund Inc.

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PAOLO M. CUCCHI

c/o Chairman of the Fund, Legg Mason
620 Eighth Avenue, New York, NY 10018

Birth year	1941
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class II
Term of office1 and length of time served	Since 2001
Principal occupation(s) during past five years	Professor of French and Italian at Drew University; formerly, Vice President and Dean of College of Liberal Arts at Drew University (1984 to 2009)
Number of portfolios in fund complex overseen by director (including the Fund)	21
Other board member ships held by Director	None

LESLIE H. GELB

c/o Chairman of the Fund, Legg Mason
620 Eighth Avenue, New York, NY 10018

Birth year	1937
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class II
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past five years	President Emeritus and Senior Board Fellow (since 2003), The Council on Foreign Relations; formerly, President (prior to 2003), The Council on Foreign Relations; formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times
Number of portfolios in fund complex overseen by director (including the Fund)	21
Other board member ships held by Director	Director of two registered investment companies advised by Blackstone Asia Advisors LLC: India Fund, Inc. and Asia Tigers Fund, Inc. (since 1994)

Additional information (unaudited) continued

Information about Directors and Officers

WILLIAM R. HUTCHINSON

c/o Chairman of the Fund, Legg Mason
620 Eighth Avenue, New York, NY 10018

Birth year	1942
Position(s) held with Fund ¹	Director and Member of the Nominating and Audit Committees, Class III
Term of office ¹ and length of time served	Since 1998
Principal occupation(s) during past five years	President, W.R. Hutchinson & Associates Inc. (consulting) (since 2001)
Number of portfolios in fund complex overseen by director (including the Fund)	21
Other board member ships held by Director	Director, Associated Banc Corp. (banking) (since 1994) and Non-Executive Chairman of the Board (since December 1, 2009)

RIORDAN ROETT

c/o Chairman of the Fund, Legg Mason
620 Eighth Avenue, New York, NY 10018

Birth year	1938
Position(s) held with Fund ¹	Director and Member of the Nominating and Audit Committees, Class I
Term of office ¹ and length of time served	Since 2007
Principal occupation(s) during past five years	The Sarita and Don Johnston Professor of Political Science and Director of Western Hemisphere Studies, Paul H. Nitze School of Advanced International Studies, The Johns Hopkins University (since 1973)