

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Form N-CSRS

July 06, 2007

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)

125 Broad Street, New York, NY
(Address of principal executive offices)

10004
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

300 First Stamford Place, 4th Floor

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

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

Date of fiscal year end: October 31

Date of reporting period: April 30, 2007

ITEM 1. REPORT TO STOCKHOLDERS.

The Semi-Annual Report to Stockholders is filed herewith.

Western Asset Municipal
High Income Fund Inc.
(MHF)

**SEMI-ANNUAL
REPORT**

APRIL 30, 2007

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

Western Asset Municipal High
Income Fund Inc.

Semi-Annual Report April 30, 2007

**What's
Inside**

Fund Objective

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

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Letter from the Chairman

Dear Shareholder,

The U.S. economy showed signs of weakening during the six-month reporting period. U.S. gross domestic product (GDP) expanded 2.5% in the fourth quarter of 2006. Based on the preliminary estimate from the U.S. Commerce Department, GDP growth was a tepid 0.6% in the first quarter of 2007. While consumer spending remained fairly solid, ongoing troubles in the housing market continued to negatively impact the economy. In addition, corporate spending was mixed during the reporting period.

R. JAY GERKEN, CFA
Chairman, President and
Chief Executive Officer

After increasing the federal funds rateⁱⁱ to 5.25% in June 2006 – its 17th consecutive rate hike – the Federal Reserve Board (Fedⁱⁱ) held rates steady at its last seven meetings. In its statement accompanying the May 2007 meeting, the Fed stated, “Economic growth slowed in the first part of this year and the adjustment in the housing sector is ongoing. Nevertheless, the economy seems likely to expand at a moderate pace over coming quarters. Core inflation remains somewhat elevated. Although inflation pressures seem likely to moderate over time, the high level of resource utilization has the potential to sustain those pressures.”

During the reporting period, short- and long-term Treasury yields experienced periods of volatility. Initially, yields fluctuated given mixed economic data and shifting expectations regarding the Fed’s future monetary policy. Yields then fell sharply at the end of February 2007, as economic data weakened and the stock market experienced its largest one-day decline in more than five years. Overall, during the six months ended April 30, 2007, two-year Treasury yields fell from 4.71% to 4.60%. Over the same period, 10-year Treasury yields moved from 4.61% to 4.63%.

Looking at the municipal market, it lagged its taxable bond counterparts over the six months ended April 30, 2007. Over that period, the Lehman Brothers Municipal

Bond Index^{iv} and the Lehman Brothers U.S. Aggregate Index^v returned 1.59% and 2.64%, respectively.

Performance Review

For the six months ended April 30, 2007, the Western Asset Municipal High Income Fund Inc. returned 3.07% based on its net asset value (NAV^{vi}) and 7.28% based on its New York Stock Exchange (NYSE) market price per share. In comparison, the Fund's unmanaged benchmark, the Lehman Brothers Municipal Bond Index, returned 1.59% over the same time frame. The Lipper High Yield Municipal Debt Closed-End Funds Category Average^{vii} increased 2.77% for the same period. Please note that Lipper performance returns are based on each fund's NAV per share.

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

During this six-month period, the Fund made distributions to shareholders totaling \$0.20 per share (which may have included a return of capital). The performance table shows the Fund's six-month total return based on its NAV and market price as of April 30, 2007. **Past performance is no guarantee of future results.**

Performance Snapshot as of April 30, 2007 (unaudited)

Price Per Share	Six-Month Total Return
\$8.26 (NAV)	3.07%
\$8.20 (Market Price)	7.28%

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, including returns of capital, if any, in additional shares.

II Western Asset Municipal High Income Fund Inc.

Special Shareholder Notices

On May 17, 2007, the Board of Directors of the Fund approved changes to the non-fundamental investment policies relating to the Fund's ability to invest in derivative instruments.

Effective June 1, 2007, the Fund may use a variety of derivative instruments for investment purposes, as well as for hedging or risk-management purposes. Previously, the Fund had been limited to the use of derivative instruments for hedging and risk-management purposes only. The use of derivative instruments is intended to provide Legg Mason Partners Fund Advisor, LLC, (LMPFA), the Fund's investment manager and Western Asset Management Company (Western Asset), the Fund's subadviser, greater flexibility in making investment decisions and opportunity to seek to achieve the Fund's investment objectives.

Prior to October 9, 2006, this Fund operated under the name Municipal High Income Fund Inc.

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 XMHFX 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/InvestorServices.

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 6:00 p.m. Eastern Time, for the Fund's current NAV, market price and other information.

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

June 4, 2007

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. Certain investors may be subject to the federal alternative minimum tax (AMT), and state and local taxes may 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 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 federal funds rate is the interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans.
- iii The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- iv The Lehman Brothers Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more.
- v The Lehman Brothers 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.
- vi NAV is calculated by subtracting total liabilities 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 at the Fund's market price, as determined by supply of and demand for the Fund's shares.
- vii Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the six-month period ended April 30, 2007, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 15 funds in the Fund's Lipper category.

Take Advantage of the Fund's Dividend Reinvestment Plan

As an investor in the Fund, you can participate in its Dividend Reinvestment Plan (Plan), a convenient, simple and efficient way to reinvest your dividends and capital gains, if any, in additional shares of the Fund. A more complete description of the Plan begins on page 24. Below is a short summary of how the Plan works.

Plan Summary

If you are a Plan participant who has not elected to receive your dividends in the form of a cash payment, then your dividend and capital gain distributions will be reinvested automatically in additional shares of the Fund.

The number of shares in the Fund you will receive in lieu of a cash dividend is determined in the following manner. If the market price of the shares is equal to or higher than 98% of the net asset value (NAV) per share on the date of valuation, you will be issued shares for the equivalent of either 98% of the most recently determined NAV per share or 95% of the market price, whichever is greater.

If 98% of the NAV per share at the time of valuation is greater than the market price of the common stock, the Fund will buy shares for your account in the open market or on the New York Stock Exchange.

If the Fund begins to purchase additional shares in the open market and the market price of the shares subsequently rises above 98% of the NAV before the purchases are completed, the Fund will attempt to cancel any remaining orders and issue the remaining dividend or distribution in shares at 98% of the Fund's NAV per share. In that case, the number of Fund shares you receive will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares.

To find out more detailed information about the Plan and about how you can participate, please call American Stock Transfer & Trust Company at 1-877-366-6441.

Fund at a Glance (unaudited)

Investment Breakdown

As a Percent of Total Investments

Schedule of Investments (April 30, 2007) (unaudited)

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Face Amount	Rating	Security	Value
MUNICIPAL BONDS 98.2%			
Alaska 1.7%			
\$ 1,055,000	NR	Alaska Industrial Development & Export Authority Revenue, Williams Lynxs Alaska Cargoport, 8.125% due 5/1/31 (a)	\$ 1,133,946
1,650,000	AAA	Alaska State Housing Financial Corp., General Housing, Series B, MBIA-Insured, 5.250% due 12/1/30	1,774,608
		Total Alaska	2,908,554
Arizona 2.7%			
1,500,000	NR	Casa Grande, AZ, IDA, Hospital Revenue, Casa Grande Regional Medical Center, Series A, 7.625% due 12/1/29	1,659,630
1,760,000	Aaa(b)	Phoenix, AZ, IDA, MFH Revenue, Ventana Palms Apartments Project, Series B, 8.000% due 10/1/34	1,965,603
1,000,000	AAA	Yuma & La Paz Counties, Arizonal Community College District, Arizona Western College, FSA-Insured, 5.000% due 7/1/24	1,056,860
		Total Arizona	4,682,093
Arkansas 1.0%			
1,000,000	BBB	Arkansas State Development Financing Authority: Hospital Revenue, Washington Regional Medical Center, Call 2/1/10 @ 100, 7.375% due 2/1/29 (c)	1,094,440
600,000	BB	Industrial Facilities Revenue, Potlatch Corp. Projects, Series A, 7.750% due 8/1/25 (a)	679,422
		Total Arkansas	1,773,862
California 12.1%			
1,500,000	NR	Barona, CA, Band of Mission Indians, GO, 8.250% due 1/1/20 (d)	1,554,120
2,000,000	A2(b)	California Health Facilities Financing Authority Revenue, Refunding, Cedars-Sinai Medical Center, 5.000% due 11/15/27	2,077,360
5,000,000	AAA	California State Department of Water Resources & Power Supply Revenue, Series A: MBIA-IBC-Insured, Call 5/1/12 @ 101, 5.375% due 5/1/21 (c)(e)	5,439,450
1,500,000	AAA	XLCA-Insured, Call 5/1/12 @ 101, 5.375% due 5/1/17 (c)	1,631,835
2,500,000	A+	California State, GO, Various Purpose, 5.000% due 9/1/35 (e)	2,627,275
1,500,000	NR	California Statewide CDA Revenue, East Valley Tourist Project, Series A, 9.250% due 10/1/20	1,646,490
		Golden State Tobacco Securitization Corp., California Tobacco Settlement Revenue:	

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2,000,000	AAA	Asset Backed, Series A-4, Call 6/1/13 @ 100, 7.800% due 6/1/42 (c)	2,437,720
1,000,000	AAA	Enhanced Asset Backed, Series B, Call 6/1/13 @ 100, 5.625% due 6/1/38 (c)	1,101,600
600,000	BBB+	Redding, CA, Redevelopment Agency, Tax Allocation, Shastec Redevelopment Project, 5.000% due 9/1/29	619,272
1,865,000	Ba2(b)	Vallejo, CA, COP, Touro University, 7.375% due 6/1/29	1,946,519
		Total California	21,081,641

See Notes to Financial Statements.

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Schedule of Investments (April 30, 2007) (unaudited) (continued)

Face Amount	Rating	Security	Value
Colorado 3.2%			
\$ 500,000	NR	Beacon Point Metropolitan District, GO, Series A, 6.250% due 12/1/35	\$ 532,020
		Colorado Educational & Cultural Facilities Authority Revenue:	
		Charter School:	
1,230,000	AAA	Bromley School Project, Refunding, XLCA-Insured, 5.125% due 9/15/25	1,319,372
805,000	AAA	Peak to Peak Project, Call 8/15/11 @ 100, 7.500% due 8/15/21 (c)	902,268
785,000	NR	Elbert County Charter, 7.375% due 3/1/35	845,563
810,000	AAA	Unrefunded, University of Denver Project, Series B, FGIC-Insured,	
		5.250% due 3/1/23	892,231
500,000	NR	High Plains, CO, Metropolitan District, Series A, GO, 6.250% due 12/1/35	535,575
500,000	NR	Southlands, CO, Metropolitan District Number 1, GO, 7.125% due 12/1/34	549,185
		Total Colorado	5,576,214
District of Columbia 1.2%			
1,895,000	AAA	District of Columbia COP, District Public Safety & Emergency, AMBAC-Insured, 5.500% due 1/1/20	2,056,208
Florida 10.9%			
970,000	NR	Beacon Lakes, FL, Community Development District, Special Assessment, Series A, 6.900% due 5/1/35	1,059,725
1,500,000	NR	Bonnet Creek Resort Community Development District, Special Assessment, 7.500% due 5/1/34	1,642,965
2,000,000	NR	Capital Projects Finance Authority, FL, Continuing Care Retirement Glenridge on Palmer Ranch, Series A, Call 6/1/12 @ 102, 8.000% due 6/1/32 (c)	2,385,360
2,000,000	NR	Capital Projects Finance Authority of Florida, Student Housing Revenue, Capital Projects Loan Program, Florida University, Series A, Call 8/15/10 @ 103, 7.850% due 8/15/31 (c)	2,306,080
950,000	NR	Century Parc Community Development District, Special Assessment, 7.000% due 11/1/31	1,008,786
1,000,000	A2(b)	Highlands County, FL, Health Facilities Authority Revenue, Adventist Health Systems, Series D, Call 11/15/12 @ 100, 6.000% due 11/15/25 (c)	1,111,480
2,000,000	BB+	Martin County, FL, IDA Revenue, Indiantown Cogeneration Project, Series A, 7.875% due 12/15/25 (a)	2,005,420
1,000,000	NR	Orange County, FL, Health Facilities Authority Revenue, First Mortgage, GF,	

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450,000	AAA	Orlando Inc. Project, 9.000% due 7/1/31 Palm Beach County, FL, Health Facilities Authority Revenue, John F. Kennedy	1,098,710
2,000,000	NR	Memorial Hospital Inc. Project, 9.500% due 8/1/13 (f) Reunion East Community Development District, Special Assessment, Series A, 7.375% due 5/1/33	529,434
1,000,000	B-	Santa Rosa, FL, Bay Bridge Authority Revenue, 6.250% due 7/1/28	2,257,260
1,000,000	AAA	University of Central Florida, COP, Series A, FGIC-Insured, 5.000% due 10/1/25	1,012,320
1,450,000	NR	Waterlefe, FL, Community Development District, Golf Course Revenue, 8.125% due 10/1/25	1,053,980
		Total Florida	18,952,477
Georgia 4.0%			
1,000,000	AAA	Atlanta, GA, Airport Revenue: Series B, FGIC-Insured, 5.625% due 1/1/30 (a)	1,044,160

See Notes to Financial Statements.

Schedule of Investments (April 30, 2007) (unaudited) (continued)

	Face Amount	Rating	Security	Value
Georgia	4.0% (continued)			
\$	1,000,000	AAA	Series G, FSA-Insured, 5.000% due 1/1/26	\$ 1,050,550
	2,500,000	NR	Atlanta, GA, Tax Allocation, Atlantic Station Project, 7.900% due 12/1/24 (e)	2,765,650
	1,000,000	A-(g)	Gainesville & Hall County, GA, Development Authority Revenue, Senior Living Facilities, Lanier Village Estates, Series C, 7.250% due 11/15/29	1,081,490
	1,005,000	NR	Walton County, GA, IDA Revenue, Walton Manufacturing Co. Project, 8.500% due 9/1/07	1,009,301
			Total Georgia	6,951,151
Illinois	1.8%			
	2,000,000	AAA	Chicago, IL, GO, Neighborhoods Alive 21 Program, FGIC-Insured, Call 1/1/11 @ 100, 5.500% due 1/1/31 (c)	2,122,100
	1,000,000	BBB	Illinois Finance Authority Revenue, Refunding, Chicago Charter School Project, 5.000% due 12/1/26	1,031,450
			Total Illinois	3,153,550
Indiana	0.5%			
	285,000	NR	County of St Joseph, IN, EDR, Holy Cross Village Notre Dame Project, Series A: 6.000% due 5/15/26	303,975
	550,000	NR	6.000% due 5/15/38	581,735
			Total Indiana	885,710
Kansas	0.7%			
	1,150,000	A-1(b)	Salina, KS, Hospital Revenue, Refunding & Improvement Salina Regional Health, 5.000% due 10/1/22	1,209,030
Louisiana	0.6%			
	1,000,000	NR	Epps, LA, COP, 8.000% due 6/1/18	1,043,920
Maryland	1.6%			
	1,500,000	AAA	Maryland State Economic Development Corp. Revenue, Chesapeake Bay, Series A, Call 12/1/09 @ 101, 7.730% due 12/1/27 (c)	1,660,515
	1,000,000	NR	Maryland State Health & Higher EFA Revenue, Refunding, Edenwald, Series A, 5.400% due 1/1/31	1,043,980
			Total Maryland	2,704,495
Massachusetts	3.9%			
	915,000	NR	Boston, MA, Industrial Development Financing Authority Revenue, Roundhouse Hospitality LLC Project, 7.875% due 3/1/25 (a)	928,167
	1,000,000	AAA		

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1,000,000	NR	Massachusetts State, School Building Authority, Dedicated Sales Tax Revenue, Series A, FSA-Insured, 5.000% due 8/15/20 Call 12/1/10 @ 101,	1,066,950
1,000,000	BBB	Massachusetts State DFA Revenue, Briarwood, Series B, 8.250% due 12/1/30 (c)	1,157,340
1,830,000	AAA	Massachusetts State HEFA Revenue, Caritas Christi Obligation, Series B, 6.750% due 7/1/16	1,123,730
		Massachusetts State IFA Revenue, Assisted Living Facilities, Marina Bay LLC Project, Call 12/1/07 @ 103, 7.500% due 12/1/27 (a)(c)	1,921,152
390,000	AAA	Massachusetts State Port Authority Revenue, 13.000% due 7/1/13 (f)	505,432
		Total Massachusetts	6,702,771

See Notes to Financial Statements.

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Schedule of Investments (April 30, 2007) (unaudited) (continued)

	Face Amount	Rating	Security	Value
Michigan	7.0%			
\$	2,130,000	NR	Allen Academy, COP, 7.500% due 6/1/23	\$ 2,147,722
			Cesar Chavez Academy, COP:	
	1,000,000	BBB-	6.500% due 2/1/33	1,060,130
	1,000,000	BBB-	8.000% due 2/1/33	1,134,640
	1,000,000	NR	Gaudior Academy, COP, 7.250% due 4/1/34	1,013,770
	1,750,000	NR	Kalamazoo Advantage Academy, COP, 8.000% due 12/1/33	1,915,480
	3,000,000	A+	Michigan State Hospital Finance Authority, Refunding Hospital,	
			Sparrow Obligated, 5.000% due 11/15/31 (e)	3,091,650
	1,000,000	NR	Star International Academy, COP, 7.000% due 3/1/33	1,032,030
	700,000	NR	William C. Abney Academy, COP, 6.750% due 7/1/19	706,461
			Total Michigan	12,101,883
Mississippi	0.9%			
	1,480,000	Aaa(b)	Jackson, MS, Public School District, FSA-Insured, 5.000% due 10/1/20	1,574,306
Missouri	0.8%			
	1,300,000	A	Missouri State HEFA Revenue, Refunding, St Lukes Episcopal, 5.000% due 12/1/21	1,354,184
Montana	1.4%			
	2,475,000	NR	Montana State Board of Investment, Resource Recovery Revenue, Yellowstone Energy LP Project, 7.000% due 12/31/19 (a)	2,483,390
New Hampshire	1.0%			
	1,600,000	A	New Hampshire HEFA Revenue, Covenant Health System, 5.500% due 7/1/34	1,691,904
New Jersey	8.4%			
	1,500,000	AAA	Casino Reinvestment Development Authority Revenue, Series A, MBIA-Insured, 5.250% due 6/1/20 (e)	1,630,455
	1,000,000	NR	New Jersey EDA, Retirement Community Revenue, SeaBrook Village Inc., Series A, Call 11/15/10 @ 101, 8.250% due 11/15/30 (c)	1,153,140
	5,000,000	NR	New Jersey EDA Revenue, Refunding, Series B, 6.875% due 1/1/37 (e) New Jersey Health Care Facilities Financing Authority Revenue:	5,471,800
	1,000,000	BBB	Holy Name Hospital, 5.000% due 7/1/36	1,016,850
	3,000,000	BBB-	Trinitas Hospital Obligation Group, 7.500% due 7/1/30 (e)	3,279,900
	1,750,000	AAA	Tobacco Settlement Financing Corp., Call 6/1/13 @ 100, 6.750% due 6/1/39 (c)	2,033,938
			Total New Jersey	14,586,083
New Mexico	1.3%			
	180,000	AAA	Albuquerque, NM, Hospital Revenue, Southwest Community Health Services,	

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			Call 8/1/08 @100, 10.000% due 8/1/12 (c)	191,473
1,000,000	NR		Otero County, NM, Jail Project Revenue, 7.500% due 12/1/24	1,053,220
1,000,000	A+		Sandoval County, NM, Incentive Payment Revenue, Refunding, 5.000% due 6/1/20	1,056,390
			Total New Mexico	2,301,083
New York	10.0%			
700,000	NR		Brookhaven, NY, IDA Civic Facilities Revenue, Memorial Hospital Medical Center Inc., Series A, Call 11/15/10 @101, 8.250% due 11/15/30 (c)	810,215

See Notes to Financial Statements.

6 Western Asset Municipal High Income Fund Inc. 2007 Semi-Annual Report

Schedule of Investments (April 30, 2007) (unaudited) (continued)

Face Amount	Rating	Security	Value
New York 10.0% (continued)			
\$ 2,000,000	AAA	Metropolitan Transportation Authority of New York, Series A, AMBAC-Insured, 5.000% due 7/1/30	\$ 2,082,860
1,000,000	NR	Monroe County, NY, IDA, Civic Facilities Revenue, Woodland Village Project, Call 11/15/10 @ 102, 8.550% due 11/15/32 (c)	1,172,430
1,315,000	NR	New York City, NY, IDA, Civic Facilities Revenue: Community Residence for the Developmentally Disabled Project, 7.500% due 8/1/26	1,346,100
930,000	NR	Special Needs Facilities Pooled Program, Series A-1, Call 7/1/10 @ 102, 8.125% due 7/1/19 (c)	1,032,625
1,000,000	AAA	New York City, NY, Municipal Water Finance Authority, Water & Sewer System Revenue, Series C, MBIA-Insured, 5.000% due 6/15/27	1,060,140
2,090,000	AA+	New York State Dormitory Authority Revenue: Cornell University, Series A, 5.000% due 7/1/21	2,247,210
1,500,000	AAA	Mental Health Services Facilities Improvement, Series B, AMBAC-Insured, 5.000% due 2/15/35	1,575,825
1,450,000	AAA	Montefiore Hospital, FGIC/FHA-Insured, 5.000% due 8/1/29	1,526,908
2,500,000	BB	New York University Hospitals Center, Series A, 5.000% due 7/1/26	2,592,650
910,000	NR	Suffolk County, NY, IDA: Civic Facilities Revenue, Eastern Long Island Hospital Association, Series A, 7.750% due 1/1/22	963,290
1,000,000	BBB-	Continuing Care Retirement Revenue, Refunding, Jeffersons Ferry Project, 5.000% due 11/1/28	1,025,070
		Total New York	17,435,323
North Carolina 0.6%			
935,000	NR	North Carolina Medical Care Community, Health Care Facilities Revenue, First Mortgage, DePaul Community Facilities Project, 7.625% due 11/1/29	979,422
Ohio 3.5%			
1,500,000	BBB	Cuyahoga County, OH, Hospital Facilities Revenue, Canton Inc. Project, 7.500% due 1/1/30	1,652,985
1,500,000	A-	Miami County, OH, Hospital Facilities Revenue, Refunding and Improvement Upper Valley Medical Center, 5.250% due 5/15/21 (e)	1,591,875
60,000	AAA	Montgomery County, OH, Health Systems Revenue, Unrefunded Balance, Series B-1, 8.100% due 7/1/18	61,019
1,500,000	BBB-	Ohio State, Air Quality Development Authority Revenue, Cleveland Pollution	

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	1,260,000	AA+	Control, Series A, 6.000% due 12/1/13 Riversouth Authority Ohio, Revenue, Riversouth Area Redevelopment, Series A, 5.000% due 12/1/25	1,533,135 1,331,934
			Total Ohio	6,170,948
Oregon	0.6%			
	1,000,000	A+	Salem, OR, Hospital Facility Authority Revenue, Salem Hospital Project, Series A, 5.000% due 8/15/36	1,029,880
Pennsylvania	3.8%			
	2,200,000	C(b)	Allegheny County, PA, IDA, Airport Special Facilities Revenue, USAir Inc. Project, Series B, 8.500% due 3/1/21 (a)(h)	220

See Notes to Financial Statements.

Western Asset Municipal High Income Fund Inc. 2007 Semi-Annual Report

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Schedule of Investments (April 30, 2007) (unaudited) (continued)

	Face Amount	Rating	Security	Value
Pennsylvania	3.8% (continued)			
\$	1,000,000	NR	Cumberland County, PA, Municipal Authority Retirement Community Revenue, Wesley Affiliate Services Inc. Project, Series A, Call 1/1/13 @ 101, 7.250% due 1/1/35 (c)	\$ 1,176,670
	1,000,000	BBB	Lebanon County, PA, Health Facilities Authority Revenue, Good Samaritan Hospital Project, 6.000% due 11/15/35	1,082,080
	2,640,000	NR	Montgomery County, PA, Higher Education & Health Authority Revenue, Temple Continuing Care Center, 6.625% due 7/1/19 (h)	105,600
	965,000	NR	Northumberland County, PA, IDA Facilities Revenue, NHS Youth Services Inc.	1,036,178
	1,000,000	NR	Philadelphia, PA, Authority for IDR, Host Marriot LP Project, Remarketed 10/31/95, 7.750% due 12/1/17	1,000,990
	2,000,000	NR	Westmoreland County, PA, IDA Revenue, Health Care Facilities, Redstone Highlands Health, Series B, Call 11/15/10 @ 101, 8.125% due 11/15/30 (c)	2,293,800
			Total Pennsylvania	6,695,538
South Carolina	0.2%			
	300,000	NR	McCormick County, SC, COP, 9.750% due 7/1/09	301,428
Tennessee	2.1%			
	1,000,000	AA-	Clarksville, TN, Natural Gas Acquisition Corp. Gas Revenue, 5.000% due 12/15/21	1,077,590
	2,500,000	NR	Shelby County, TN, Health Educational & Housing Facilities Board Revenue, Trezevant Manor Project, Series A, 5.750% due 9/1/37	2,574,325
			Total Tennessee	3,651,915
Texas	8.6%			
	560,000	NR	Bexar County, TX, Housing Financial Corp., MFH Revenue, Continental Lady Ester, Series A, 6.875% due 6/1/29	546,622
	1,000,000	BBB	Garza County Public Facility Corp., 5.500% due 10/1/18	1,084,090
	2,000,000	BBB-	Gulf Coast of Texas, IDA, Solid Waste Disposal Revenue, CITGO Petroleum Corp. Project, 7.500% due 10/1/12 (a)(i)	2,244,320
	2,750,000	B-	Houston, TX, Airport Systems Revenue, Special Facilities, Continental Airlines Inc. Project, Series C, 6.125% due 7/15/27 (a)(e)	2,755,637
	1,000,000	AAA	Laredo, TX, ISD Public Facility Corp. Lease Revenue, Series A, AMBAC-Insured, 5.000% due 8/1/29	1,032,310
	1,000,000	NR	Midlothian, TX, Development Authority, Tax Increment Contract Revenue,	

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1,000,000	AAA	6.200% due 11/15/29 North Texas Tollway Authority, Dallas North Tollway Systems Revenue, Series A, FSA-Insured, 5.000% due 1/1/35	1,069,160
1,000,000	BBB-	Port Corpus Christi, TX, Industrial Development Corp., CITGO Petroleum Corp. Project, 8.250% due 11/1/31 (a)	1,047,880
1,865,000	NR	West Texas Detention Facility Corp. Revenue, 8.000% due 2/1/25	1,029,080
1,000,000	NR	Willacy County, TX, PFC Project Revenue: County Jail, 7.500% due 11/1/25	1,936,299
1,000,000	NR	Series A-1, 8.250% due 12/1/23	1,070,810
		Total Texas	1,046,770
			14,862,978

See Notes to Financial Statements.

Schedule of Investments (April 30, 2007) (unaudited) (continued)

Face Amount	Rating	Security	Value
Virginia 1.5%			
\$ 415,000	NR	Alexandria, VA, Redevelopment & Housing Authority, MFH Revenue, Parkwood Court Apartments Project, Series C, 8.125% due 4/1/30	\$ 435,198
1,000,000	NR	Broad Street CDA Revenue, 7.500% due 6/1/33	1,133,690
1,000,000	BBB(g)	Fairfax County, VA, EDA Revenue, Retirement Community, Greenspring Village, Inc., Series A, Call 10/1/09 @ 102, 7.500% due 10/1/29 (c)	1,104,900
		Total Virginia	2,673,788
Wisconsin 0.6%			
1,000,000	BBB+	Wisconsin State HEFA Revenue, Aurora Health Care, 6.400% due 4/15/33	1,108,080
		TOTAL INVESTMENTS 98.2% (Cost \$165,147,247#)	170,683,809
		Other Assets in Excess of Liabilities 1.8%	3,086,749
		TOTAL NET ASSETS 100.0%	\$ 173,770,558

All ratings are by Standard & Poor's Ratings Service, unless otherwise noted.

(a) Income from this issue is considered a preference item for purposes of calculating the alternative minimum tax (AMT).

(b) Rating by Moody's Investors Service.

(c) Pre-Refunded bonds are escrowed with government obligations and/or government agency securities and are considered by the manager to be triple-A rated even if issuer has not applied for new ratings.

(d) All or a portion of this security is held at the broker as collateral for open futures contracts.

(e) All or a portion of this security is segregated for open futures contracts.

(f) 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.

(g) Rating by Fitch Ratings Service.

(h) Security is currently in default.

(i) Variable rate security. Interest rate disclosed is that which is in effect at April 30, 2007.

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

See pages 11 and 12 for definitions of ratings.

Abbreviations used in this schedule:

AMBAC	Ambac Assurance Corporation
CDA	Community Development Authority
COP	Certificate of Participation
DFA	Development Finance Agency
EDA	Economic Development Authority
EDR	Economic Development Revenue
EFA	Educational Facilities Authority
FGIC	Financial Guaranty Insurance Company
FHA	Federal Housing Administration
FSA	Financial Security Assurance
GO	General Obligation
HEFA	Health & Educational Facilities Authority
IBC	Insured Bond Certificates
IDA	Industrial Development Authority

IDR	Industrial Development Revenue
IFA	Industrial Finance Agency
ISD	Independent School District
MBIA	Municipal Bond Investors Assurance Corporation
MFH	Multi-Family Housing
PFC	Public Facilities Corporation
XLCA	XL Capital Assurance Inc.

See Notes to Financial Statements.

Schedule of Investments (April 30, 2007) (unaudited) (continued)

Summary of Investments by Industry* (unaudited)

Pre-Refunded	21.2%
Hospitals	20.0
Education	13.5
Transportation	8.5
Industrial Development	4.6
Public Facilities	3.7
General Obligation	3.4
Housing:Multi-Family	2.8
Life Care Systems	2.7
Cogeneration Facilities	2.6
Pollution Control	2.6
Tax Allocation	1.0
Utilities	0.6
Water & Sewer	0.6
Escrowed to Maturity	0.6
Miscellaneous	11.6
	100.0%

* As a percentage of total investments. Please note that Fund holdings are as of April 30, 2007 and subject to change.

See Notes to Financial Statements.

Bond Ratings (unaudited)

The definitions of the applicable rating symbols are set forth below:

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

AAA	Bonds rated AAA have the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.
AA	Bonds rated AA have a very strong capacity to pay interest and repay principal and differ from the highest rated issues only in a small degree.
A	Bonds rated A have a strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.
BBB	Bonds rated BBB are regarded as having an adequate capacity to pay interest and repay principal. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for bonds in this category than in higher rated categories.
BB, B, CCC, CC and C	Bonds rated BB, B, CCC, CC and C are regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB represents the lowest degree of speculation and C the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.
D	Bonds rated D are in default and payment of interest and/or repayment of principal is in arrears.

Moody's Investors Service (Moody's) Numerical modifiers 1, 2 and 3 may be applied to each generic rating from Aaa 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 as can be visualized are 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 Ratings Service.

Statement of Assets and Liabilities (April 30, 2007) (unaudited)**ASSETS:**

Investments, at value (Cost \$165,147,247)	\$	170,683,809
Cash		111,389
Interest receivable		3,461,488
Receivable for securities sold		15,000
Prepaid expenses		15,627
Total Assets		174,287,313

LIABILITIES:

Payable to broker - variation margin on open futures contracts		215,156
Distributions payable		97,743
Investment management fee payable		78,578
Accrued expenses		125,278
Total Liabilities		516,755
Total Net Assets	\$	173,770,558

NET ASSETS:

Par value (\$0.01 par value; 21,035,711 shares issued and outstanding; 500,000,000 shares authorized)	\$	210,357
Paid-in capital in excess of par value		192,590,225
Undistributed net investment income		472,679
Accumulated net realized loss on investments and futures contracts		(25,362,875)
Net unrealized appreciation on investments and futures contracts		5,860,172
Total Net Assets	\$	173,770,558

Shares Outstanding	21,035,711
Net Asset Value	\$8.26

See Notes to Financial Statements.

Statement of Operations (For the six months ended April 30, 2007) (unaudited)**INVESTMENT INCOME:**

Interest	\$	5,081,040
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EXPENSES:

Investment management fee (Note 2)	472,398
Directors' fees	227,977
Legal fees	52,680
Shareholder reports	23,640
Audit and tax	19,713
Stock exchange listing fees	12,280
Transfer agent fees	4,911
Insurance	2,043
Custody fees	905
Miscellaneous expenses	9,140
Total Expenses	825,687
Less: Fee waivers and/or expense reimbursements (Note 2)	(95,677)
Net Expenses	730,010
Net Investment Income	4,351,030

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FUTURES CONTRACTS (NOTES 1 AND 3):

Net Realized Gain (Loss) From:	
Investment transactions	(1,663,132)
Futures contracts	160,030
Net Realized Loss	(1,503,102)
Change in Net Unrealized Appreciation/Depreciation From:	
Investments	1,734,879
Futures contracts	558,305
Change in Net Unrealized Appreciation/Depreciation	2,293,184
Net Gain on Investments and Futures Contracts	790,082
Increase in Net Assets From Operations	\$ 5,141,112

See Notes to Financial Statements.

Statements of Changes in Net Assets
For the six months ended April 30, 2007 (unaudited)
and the year ended October 31, 2006

	2007		2006
OPERATIONS:			
Net investment income	\$ 4,351,030	\$	8,924,290
Net realized gain (loss)	(1,503,102)		2,320,936
Change in net unrealized appreciation/depreciation	2,293,184		3,054,466
Increase in Net Assets From Operations	5,141,112		14,299,692
DISTRIBUTIONS TO SHAREHOLDERS FROM (NOTE 1):			
Net investment income	(4,287,617)		(8,568,898)
Decrease in Net Assets From Distributions to Shareholders	(4,287,617)		(8,568,898)
FUND SHARE TRANSACTIONS:			
Net proceeds from sale of shares (15,443 shares issued)	124,679		
Reinvestment of distributions (18,067 shares issued)	145,313		
Increase in Net Assets From Fund Share Transactions	269,992		
Increase in Net Assets	1,123,487		5,730,794
NET ASSETS:			
Beginning of period	172,647,071		166,916,277
End of period*	\$ 173,770,558	\$	172,647,071
	\$472,679		\$409,266

* Includes undistributed net investment income of:

See Notes to Financial Statements.

Financial Highlights

For a share of capital stock outstanding throughout each year ended October 31, unless otherwise noted:

	2007 ⁽¹⁾	2006	2005	2004	2003	2002
Net Asset Value, Beginning of Period	\$8.22	\$7.95	\$7.84	\$7.92	\$8.16	\$8.67
Income (Loss) From Operations:						
Net investment income	0.21	0.42	0.45	0.51	0.57	0.58
Net realized and unrealized gain (loss)	0.03	0.26	0.11	(0.05)	(0.25)	(0.52)
Total Income From Operations	0.24	0.68	0.56	0.46	0.32	0.06
Less Distributions From:						
Net investment income	(0.20)	(0.41)	(0.45)	(0.53)	(0.56)	(0.57)
In excess of net investment income				(0.01)		
Total Distributions	(0.20)	(0.41)	(0.45)	(0.54)	(0.56)	(0.57)
Net Asset Value, End of Period	\$8.26	\$8.22	\$7.95	\$7.84	\$7.92	\$8.16
Market Price, End of Period	\$8.20	\$7.84	\$7.10	\$7.39	\$7.65	\$7.68
Total Return, Based on NAV⁽²⁾⁽³⁾	3.07%	9.24%	7.82% ⁽⁴⁾	6.32%	4.42%	0.91%
Total Return, Based on Market Price⁽³⁾	7.28%	16.66%	2.16%	3.76%	7.17%	(4.70)%
Net Assets, End of Period (millions)	\$174	\$173	\$167	\$165	\$166	\$171
Ratios to Average Net Assets:						
Gross expenses	0.96% ⁽⁵⁾⁽⁶⁾	0.79%	0.85%	0.80%	0.80%	0.80%
Net expenses	0.85(5)(6)(7)	0.79(7)	0.85	0.80	0.80	0.80
Net investment income	5.07(5)	5.27	5.74	6.47	7.13	6.84
Portfolio Turnover Rate	3%	18%	39%	33%	28%	33%

(1) For the six months ended April 30, 2007 (unaudited).

(2) 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.

(3) 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. Total returns for periods of less than one year are not annualized.

(4) 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.

(5) Annualized.

(6) 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 have been 0.74%.

(7) Reflects fee waivers and/or expense reimbursements.

See Notes to Financial Statements.

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Notes to Financial Statements (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 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.

(a) Investment Valuation. Securities are valued at the mean between the 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. Securities for which market quotations are not readily available or are determined not to reflect fair value, will be valued in good faith by or under the direction of the Fund's Board of Directors. Short-term obligations with maturities of 60 days or less are valued at amortized cost, which approximates market value.

(b) Financial Futures Contracts. The Fund may enter into financial futures contracts typically to hedge a portion of the portfolio. Upon entering into a financial futures contract, the Fund is required to deposit cash or securities as initial margin. Additional securities are also segregated up to the current market value of the financial futures contracts. Subsequent payments, known as variation margin, are made or received by the Fund each day, depending on the daily fluctuation in the value of the underlying financial instruments. The Fund recognizes an unrealized gain or loss equal to the daily variation margin. When the financial futures contracts are closed, a realized gain or loss is recognized equal to the difference between the proceeds from (or cost of) the closing transactions and the Fund's basis in the contracts.

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

(c) 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. 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.

(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

Notes to Financial Statements (unaudited) (continued)

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.

(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, as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute substantially all of its income and net realized gains on investments, if any, to shareholders each year. Therefore, no federal income tax provision is required in the Fund's financial statements.

(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.

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 subadviser. LMPFA and Western Asset are wholly-owned subsidiaries of Legg Mason Inc. (Legg Mason).

Under the investment management agreement, the Fund pays 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 provides administrative and certain oversight services to the Fund. LMPFA delegates to the subadviser 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.

During the six months ended April 30, 2007, the Fund was reimbursed for expenses in the amount of \$95,677 for a portion of non-recurring payments due to retiring directors.

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 six months ended April 30, 2007, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were as follows:

Purchases	\$7,582,916
Sales	4,693,546

Notes to Financial Statements (unaudited) (continued)

At April 30, 2007, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

Gross unrealized appreciation		\$	10,156,113
Gross unrealized depreciation			(4,619,551)
Net unrealized appreciation		\$	5,536,562

At April 30, 2007, the Fund had the following open futures contracts:

Contracts to Sell:	Number of Contracts	Expiration Date	Basis Value	Market Value	Unrealized Gain
U.S.Treasury Bonds	255	06/07	\$28,819,860	\$28,496,250	\$323,610

4. Capital Loss Carryforward

On October 31, 2006, the Fund had a net capital loss carryforward of approximately \$24,160,946, of which \$725,889 expires in 2007, \$747,959 expires in 2008, \$733,106 expires in 2009, \$601,572 expires in 2010, \$5,066,581 expires in 2011, \$10,608,178 expires in 2012, and \$5,677,661 expires in 2013. These amounts will be available to offset any future taxable gains.

5. Regulatory Matters

On May 31, 2005, the U.S. Securities and Exchange Commission (SEC) issued an order in connection with the settlement of an administrative proceeding against Smith Barney Fund Management LLC (SBFM), the Fund's prior investment manager, and Citigroup Global Markets Inc. (CGM) relating to the appointment of an affiliated transfer agent for the Smith Barney family of mutual funds (the Affected Funds).

The SEC order finds that SBFM and CGM willfully violated Section 206(1) of the Investment Advisers Act of 1940 (Advisers Act). Specifically, the order finds that SBFM and CGM knowingly or recklessly failed to disclose to the boards of the Affected Funds in 1999 when proposing a new transfer agent arrangement with an affiliated transfer agent that: First Data Investors Services Group (First Data), the Affected Funds' then existing transfer agent, had offered to continue as transfer agent and do the same work for substantially less money than before; and that Citigroup Asset Management (CAM), the Citigroup business unit that, at the time, included the Affected Funds' investment manager and other investment advisory companies, had entered into a side letter with First Data under which CAM agreed to recommend the appointment of First Data as sub-transfer agent to the affiliated transfer agent in exchange for, among other things, a guarantee by First Data of specified amounts of asset management and investment banking fees to CAM and CGM. The order also finds that SBFM and CGM willfully violated Section 206(2) of the Advisers Act by virtue of the omissions discussed above and other misrepresentations and omissions in the materials provided to the Affected Funds' boards, including the failure to make clear that the affiliated transfer agent would earn a high profit for performing limited functions while First Data continued to perform almost all of the transfer agent functions, and the suggestion that the

proposed arrangement was in the Affected Funds' best interests and that no viable alternatives existed.

Notes to Financial Statements (unaudited) (continued)

SBFM and CGM do not admit or deny any wrongdoing or liability. The settlement does not establish wrongdoing or liability for purposes of any other proceeding.

The SEC censured SBFM and CGM and ordered them to cease and desist from violations of Sections 206(1) and 206(2) of the Advisers Act. The order requires Citigroup to pay \$208.1 million, including \$109 million in disgorgement of profits, \$19.1 million in interest, and a civil money penalty of \$80 million. Approximately \$24.4 million has already been paid to the Affected Funds, primarily through fee waivers. The remaining \$183.7 million, including the penalty, has been paid to the U.S. Treasury and will be distributed pursuant to a plan submitted for the approval of the SEC. At this time, there is no certainty as to how the above-described proceeds of the settlement will be distributed, to whom such distributions will be made, the methodology by which such distributions will be allocated, and when such distributions will be made.

The order also required that transfer agency fees received from the Affected Funds since December 1, 2004, less certain expenses, be placed in escrow and provided that a portion of such fees might be subsequently distributed in accordance with the terms of the order.

On April 3, 2006, an aggregate amount of approximately \$9 million was distributed to the Affected Funds.

The order required SBFM to recommend a new transfer agent contract to the Affected Funds boards within 180 days of the entry of the order; if a Citigroup affiliate submitted a proposal to serve as transfer agent or sub-transfer agent, SBFM and CGM would have been required, at their expense, to engage an independent monitor to oversee a competitive bidding process. On November 21, 2005, and within the specified timeframe, the Affected Funds Board selected a new transfer agent for the Funds. No Citigroup affiliate submitted a proposal to serve as transfer agent. Under the order, SBFM also must comply with an amended version of a vendor policy that Citigroup instituted in August 2004.

Although there can be no assurance, the Fund's manager does not believe that this matter will have a material adverse effect on the Affected Funds.

This Fund is not among the Affected Funds and therefore did not implement the transfer agent arrangement described above and therefore will not receive any portion of the distributions.

On December 1, 2005, Citigroup completed the sale of substantially all of its global asset management business, including SBFM, to Legg Mason.

6. Other Matters

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On September 16, 2005, the staff of the SEC informed SBFM and Salomon Brothers Asset Management Inc. (SBAM) that the staff is considering recommending that the SEC institute administrative proceedings against SBFM and SBAM for alleged violations of Sections 19(a) and 34(b) of the 1940 Act (and related Rule 19a-1). The notification is a result of an industry wide inspection undertaken by the SEC and is based upon alleged deficiencies in disclosures regarding dividends and distributions paid to shareholders of certain funds. Section 19(a) and related Rule 19a-1 of the 1940 Act generally require funds that are making dividend and distribution payments to provide shareholders with a written statement disclosing the source of the dividends and distributions, and, in particular, the portion of the payments made from each of net investment income, undistributed net

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Notes to Financial Statements (unaudited) (continued)

profits and/or paid-in capital. In connection with the contemplated proceedings, the staff may seek a cease and desist order and/or monetary damages from SBFM or SBAM.

Although there can be no assurance, the Fund's manager believes that this matter is not likely to have a material adverse effect on the Fund.

7. Recent Accounting Pronouncements

During June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 48 (FIN 48 or the Interpretation), *Accounting for Uncertainty in Income Taxes - an interpretation of FASB statement 109*. FIN 48 supplements FASB Statement 109, Accounting for Income Taxes, by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 prescribes a comprehensive model for how a fund should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the fund has taken or expects to take on a tax return. FIN 48 requires that the tax effects of a position be recognized only if it is more likely than not to be sustained based solely on its technical merits. Management must be able to conclude that the tax law, regulations, case law, and other objective information regarding the technical merits sufficiently support the position's sustainability with a likelihood of more than 50 percent. FIN 48 is effective for fiscal periods beginning after December 15, 2006, which for this Fund will be November 1, 2007. At adoption, the financial statements must be adjusted to reflect only those tax positions that are more likely than not to be sustained as of the adoption date. Management of the Fund has determined that adopting FIN 48 will not have a material impact on the Fund's financial statements.

* * *

On September 20, 2006, FASB released Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (FAS 157). FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. The application of FAS 157 is required for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. At this time, management is evaluating the implications of FAS 157 and its impact on the financial statements has not yet been determined.

8. Recent Developments

On May 21, 2007, the United States Supreme Court agreed to hear an appeal in *Department of Revenue of Kentucky v. Davis*, a case concerning the validity of statutes that create a state tax exemption for interest from municipal securities. The Kentucky Court of Appeals had held that Kentucky's statute, which provided an exemption for interest earned on municipal securities of Kentucky issuers while taxing interest earned on municipal securities of issuers in other states, violated the Interstate Commerce Clause of the United States Constitution. If the Supreme Court were to adopt the reasoning of the Kentucky Court of Appeals, its decision would affect the state tax status of fund distributions. It is unclear how such a decision would affect the market for municipal securities, but it could adversely affect the value of securities held by the fund, and therefore of the fund's shares. Such a decision could also prompt legislation at the state level that would have further impacts upon the taxability of fund distributions and upon the market for municipal securities.

Financial Data (unaudited)

Record Date	Payable Date	NYSE Closing Price*	Net Asset Value*	Dividend Paid	Dividend Reinvestment Price
Fiscal Year 2006					
11/21/05	11/25/05	6.96	7.94	0.0340	7.03
12/27/05	12/30/05	7.13	7.98	0.0340	7.16
1/24/06	1/27/06	7.30	8.01	0.0340	7.37
2/21/06	2/24/06	7.32	8.00	0.0340	7.39
3/28/06	3/31/06	7.34	8.02	0.0340	7.38
4/25/06	4/28/06	7.23	8.04	0.0340	7.35
5/23/06	5/26/06	7.30	8.06	0.0340	7.31
6/27/06	6/30/06	7.31	8.03	0.0340	7.29
7/21/06	7/28/06	7.40	8.06	0.0340	7.52
8/18/06	8/25/06	7.45	8.13	0.0340	7.53
9/22/06	9/29/06	7.73	8.20	0.0340	7.87
10/20/06	10/27/06	7.70	8.18	0.0340	7.79
Fiscal Year 2007					
11/17/06	11/24/06	7.93	8.20	0.0340	7.99
12/22/06	12/29/06	7.78	8.23	0.0340	7.86
1/19/07	1/26/07	8.03	8.21	0.0340	8.05
2/16/07	2/23/07	8.03	8.23	0.0340	8.07
3/23/07	3/30/07	8.03	8.27	0.0340	8.07
4/20/07	4/27/07	8.24	8.26	0.0340	8.09

*As of record date

Additional Shareholder Information (unaudited)

Result of Annual Meeting of Shareholders

The Annual Meeting of Shareholders of Western Asset Municipal High Income Fund Inc. was held on February 26, 2007, for the purpose of considering and voting upon the election of Directors. The following table provides information concerning the matter voted upon at the Meeting:

Election of Directors

Nominee	Common Shares Voted For Election	Common Shares Withheld
Daniel P. Cronin	18,804,770	103,955
Paolo M. Cucchi	18,799,891	108,834
Leslie H. Gelb	18,772,207	136,519

The following Directors, representing the balance of the Board of Directors, continue to serve as Directors: Carol L. Colman, Dwight B. Crane, William R. Hutchinson, Dr. Riordan Roett and Jeswald Salacuse.

Dividend Reinvestment Plan (unaudited)

The Fund's policy, which may be changed by the Fund's Board of Directors, is generally to make monthly distributions of substantially all its net investment income (i.e., income other than net realized capital gains) to the holders of the Fund's capital shares. From time to time, when the Fund makes a substantial capital gains distribution, it may do so in lieu of paying its regular monthly dividend. Net income of the Fund consists of all income accrued on portfolio assets less all expenses of the Fund. Expenses of the Fund are accrued each day. Net realized capital gains, if any, will be distributed to shareholders at least once a year.

Under the Fund's Dividend Reinvestment Plan (Plan), a shareholder whose capital shares are registered in his or her own name will have all distributions reinvested automatically by American Stock Transfer & Trust Company (AST), as purchasing agent under the Plan, unless the shareholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in street name) will be reinvested by the broker or nominee in additional capital shares under the Plan, unless the service is not provided by the broker or nominee or the shareholder elects to receive distributions in cash. Investors who own capital shares registered in street name should consult their broker-dealers for details regarding reinvestment. All distributions to shareholders who do not participate in the Plan will be paid by check mailed directly to the record holder by or under the direction of AST, as dividend-paying agent.

The number of capital shares distributed to participants in the Plan in lieu of a cash dividend is determined in the following manner. Whenever the market price of the capital shares is equal to or exceeds 98% of net asset value (NAV) per share on the determination date (generally, the record date for the distribution), participants will be issued capital shares valued at the greater of (1) 98% of the NAV or (2) 95% of the market price. To the extent that the Fund issues shares to participants in the Plan at a discount to NAV, the interests of remaining shareholders (i.e., those who do not participate in the Plan) in the Fund's net assets will be proportionately diluted.

If 98% of the NAV per share of the capital shares at the time of valuation (which is the close of business on the determination date) exceeds the market price of capital shares, AST will buy capital shares in the open market, on the NYSE or elsewhere, for the participants' accounts. If, following the commencement of the purchases and before AST has completed its purchases, the market price exceeds 98% of what the NAV per share of the capital shares was at the valuation time, AST will attempt to terminate purchases in the open market and cause the Fund to issue the remaining portion of the dividend or distribution by issuing shares at a price equal to the greater of (1) 98% of the NAV per share as of the valuation time, or (2) 95% of the then current market price. In this case, the number of shares of capital shares received by a Plan participant will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares. To the extent AST is unable to stop open market purchases and cause the Fund to issue the remaining shares, the average per share price paid by AST may exceed 98% of the NAV per share of the capital shares. AST will begin to purchase capital shares on the open market as soon as practicable after the payment date of the dividend or capital gains distribution, but in no event shall such purchases continue later than 30 days after that date, except when necessary to comply with applicable provisions of the Federal securities laws.

Dividend Reinvestment Plan (unaudited) (continued)

AST maintains all shareholder accounts in the Plan and furnishes written confirmations of all transactions in each account, including information needed by a shareholder for personal and tax records. The automatic reinvestment of dividends and capital gains distributions will not relieve Plan participants of any income tax that may be payable on the dividends or capital gains distributions. Capital shares in the account of each Plan participant will be held by AST in uncertificated form in the name of the Plan participant.

Plan participants are subject to no charge for reinvesting dividends and capital gains distributions under the Plan. AST's fees for handling the reinvestment of dividends and capital gains distributions will be paid by the Fund. No brokerage charges shall apply with respect to its capital shares issued directly by the Fund under the Plan. Each Plan participant will, however, bear a pro-rata share of brokerage commissions actually incurred with respect to any open market purchases made under the Plan.

Experience under the Plan may indicate that changes to it are desirable. The Fund reserves the right to amend or terminate the Plan as applied to any dividend or capital gains distribution paid subsequent to written notice of the change sent to participants at least 30 days before the record date for the dividend or capital gains distribution. The Plan also may be amended or terminated by AST or the Fund on at least 30 days' written notice to Plan participants. All correspondence concerning the Plan should be directed by mail to American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10038 or by telephone at 1-877-366-6441.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase at market prices its capital shares in the open market.

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

DIRECTORS

Carol L. Colman
Dwight B. Crane
Daniel P. Cronin
Paolo M. Cucchi
Leslie H. Gelb
R. Jay Gerken, CFA
Chairman
William R. Hutchinson
Dr. Riordan Roett
Jeswald W. Salacuse

OFFICERS

R. Jay Gerken, CFA
President and Chief
Executive Officer

Kaprel Ozsolak

INVESTMENT MANAGER

Legg Mason Partners Fund
Advisor, LLC

SUBADVISER

Western Asset Management
Company

CUSTODIAN

State Street Bank and Trust
Company
225 Franklin Street
Boston, Massachusetts 02110

TRANSFER AGENT

American Stock Transfer &
Trust Company
59 Maiden Lane