

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.
Form N-Q
March 28, 2012

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

FORM N-Q

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

Investment Company Act file number 811-5497

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

620 Eighth Avenue, New York, NY
(Address of principal executive offices)

10018
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

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

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

Date of fiscal year end: October 31

Date of reporting period: January 31, 2012

ITEM 1.

SCHEDULE OF INVESTMENTS.

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

FORM N-Q

JANUARY 31, 2012

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Schedule of investments (unaudited)

January 31, 2012

| SECURITY | RATE | MATURITY DATE | FACE AMOUNT | VALUE |
|--|--------|------------------|----------------|------------------|
| MUNICIPAL BONDS 97.8% | | | | |
| Arizona 1.8% | | | | |
| Pima County, AZ, IDA Revenue, Tucson Electric Power Co. | 5.750% | 9/1/29 | \$ 1,000,000 | \$ 1,046,110 |
| Salt Verde, AZ, Financial Corp. Gas Revenue | 5.000% | 12/1/37 | 1,500,000 | 1,512,945 |
| University Medical Center Corp., AZ, Hospital Revenue | 6.250% | 7/1/29 | 500,000 | 561,295 |
| <i>Total Arizona</i> | | | | <i>3,120,350</i> |
| Arkansas 0.4% | | | | |
| Arkansas State Development Financing Authority, Industrial Facilities Revenue, Potlatch Corp. Projects | 7.750% | 8/1/25 | 600,000 | 617,982(a) |
| California 5.5% | | | | |
| California State Public Works Board, Lease Revenue, Various Capital Projects | 5.125% | 10/1/31 | 1,500,000 | 1,621,545 |
| Golden State Tobacco Securitization Corp., California Tobacco Settlement Revenue, Asset Backed | 7.800% | 6/1/42 | 2,000,000 | 2,193,240(b) |
| M-S-R Energy Authority, CA, Gas Revenue | 7.000% | 11/1/34 | 2,000,000 | 2,565,400 |
| M-S-R Energy Authority, CA, Gas Revenue | 6.500% | 11/1/39 | 2,000,000 | 2,440,440 |
| Redding, CA, Redevelopment Agency, Tax Allocation, Shastec Redevelopment Project | 5.000% | 9/1/29 | 600,000 | 601,698 |
| <i>Total California</i> | | | | <i>9,422,323</i> |
| Colorado 4.7% | | | | |
| Colorado Educational & Cultural Facilities Authority Revenue: | | | | |
| Cheyenne Mountain Charter Academy | 5.250% | 6/15/25 | 680,000 | 694,287 |
| Cheyenne Mountain Charter Academy | 5.125% | 6/15/32 | 510,000 | 510,321 |
| Elbert County Charter | 7.375% | 3/1/35 | 785,000 | 783,634 |
| Public Authority for Colorado Energy, Natural Gas Purchase Revenue | 6.125% | 11/15/23 | 4,000,000 | 4,561,560 |
| Reata South Metropolitan District, CO, GO | 7.250% | 6/1/37 | 1,000,000 | 876,450 |
| Southlands, CO, Metropolitan District No. 1, GO | 7.125% | 12/1/34 | 500,000 | 592,735(b) |
| <i>Total Colorado</i> | | | | <i>8,018,987</i> |
| Delaware 4.3% | | | | |
| Delaware State EDA Revenue, Indian River Power LLC | 5.375% | 10/1/45 | 4,000,000 | 4,056,360 |
| Sussex County, DE, Recovery Zone Facility Revenue, NRG Energy Inc., Indian River Power LLC | 6.000% | 10/1/40 | 3,000,000 | 3,192,390 |
| <i>Total Delaware</i> | | | | <i>7,248,750</i> |
| District of Columbia 1.2% | | | | |
| District of Columbia COP, District Public Safety & Emergency, AMBAC | 5.500% | 1/1/20 | 1,895,000 | 2,015,408 |
| Florida 6.1% | | | | |
| Beacon Lakes, FL, Community Development District, Special Assessment | 6.900% | 5/1/35 | 815,000 | 825,929 |
| Bonnet Creek Resort Community Development District, Special Assessment | 7.500% | 5/1/34 | 1,500,000 | 1,441,875 |
| Century Parc Community Development District, Special Assessment | 7.000% | 11/1/31 | 865,000 | 878,477 |
| | 6.000% | 11/15/25 | 1,000,000 | 1,042,530(b) |

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Highlands County, FL, Health Facilities Authority Revenue,
Adventist Health Systems
Martin County, FL, IDA Revenue, Indiantown Cogeneration
Project

7.875%

12/15/25

2,000,000

2,010,100(a)

See Notes to Schedule of Investments.

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Schedule of investments (unaudited) (cont d)

January 31, 2012

| SECURITY | RATE | MATURITY DATE | FACE AMOUNT | VALUE |
|---|--------|---------------|--------------|-------------------|
| Florida continued | | | | |
| Orange County, FL, Health Facilities Authority Revenue, First Mortgage Healthcare Facilities Revenue Bonds, GF/Orlando Inc. Project | 9.000% | 7/1/31 | \$ 1,000,000 | \$ 999,860 |
| Palm Beach County, FL, Health Facilities Authority Revenue, John F. Kennedy Memorial Hospital Inc. Project | 9.500% | 8/1/13 | 155,000 | 162,056(d) |
| Reunion, FL, East Community Development District, Special Assessment | 7.375% | 5/1/33 | 2,000,000 | 1,631,803 |
| Santa Rosa, FL, Bay Bridge Authority Revenue | 6.250% | 7/1/28 | 1,000,000 | 380,000(c) |
| University of Central Florida, COP, FGIC | 5.000% | 10/1/25 | 1,000,000 | 1,010,930 |
| <i>Total Florida</i> | | | | <i>10,383,560</i> |
| Georgia 4.5% | | | | |
| Atlanta, GA, Airport Revenue, AGM | 5.000% | 1/1/26 | 1,000,000 | 1,066,850 |
| Atlanta, GA, Development Authority Educational Facilities Revenue, Science Park LLC Project | 5.000% | 7/1/32 | 2,000,000 | 2,136,500 |
| Atlanta, GA, Water & Wastewater Revenue | 6.250% | 11/1/39 | 2,000,000 | 2,339,100 |
| DeKalb, Newton & Gwinnett Counties, GA, Joint Development Authority Revenue, GGC Foundation LLC Project | 6.125% | 7/1/40 | 1,000,000 | 1,128,930 |
| Gainesville & Hall County, GA, Development Authority Revenue, Senior Living Facilities, Lanier Village Estates | 7.250% | 11/15/29 | 1,000,000 | 1,005,500 |
| <i>Total Georgia</i> | | | | <i>7,676,880</i> |
| Hawaii 2.4% | | | | |
| Hawaii State Department of Budget & Finance Special Purpose Revenue: | | | | |
| Craigside Retirement Residence | 6.400% | 11/15/14 | 150,000 | 150,694 |
| Craigside Retirement Residence | 7.500% | 11/15/15 | 1,500,000 | 1,514,220 |
| Craigside Retirement Residence | 8.750% | 11/15/29 | 200,000 | 233,098 |
| Hawaiian Electric Co. | 6.500% | 7/1/39 | 2,000,000 | 2,236,260 |
| <i>Total Hawaii</i> | | | | <i>4,134,272</i> |
| Illinois 2.4% | | | | |
| Cook County, IL, Revenue, Navistar International Corp. | 6.500% | 10/15/40 | 2,000,000 | 2,129,500 |
| Illinois Finance Authority Revenue: | | | | |
| Park Place of Elmhurst | 8.125% | 5/15/40 | 1,000,000 | 1,010,880 |
| Refunding, Chicago Charter School Project | 5.000% | 12/1/26 | 1,000,000 | 1,014,050 |
| <i>Total Illinois</i> | | | | <i>4,154,430</i> |
| Indiana 0.5% | | | | |
| County of St. Joseph, IN, EDR: | | | | |
| Holy Cross Village Notre Dame Project | 6.000% | 5/15/26 | 285,000 | 287,106 |
| Holy Cross Village Notre Dame Project | 6.000% | 5/15/38 | 550,000 | 542,075 |
| <i>Total Indiana</i> | | | | <i>829,181</i> |
| Kansas 0.7% | | | | |
| Salina, KS, Hospital Revenue, Refunding & Improvement | | | | |
| Salina Regional Health | 5.000% | 10/1/22 | 1,150,000 | 1,243,507 |
| Kentucky 1.3% | | | | |
| | 6.250% | 6/1/39 | 2,000,000 | 2,152,920 |

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Owen County, KY, Waterworks System Revenue, Kentucky
American Water Co. Project
Louisiana 0.5%
Epps, LA, COP

| | | | |
|--------|--------|---------|---------|
| 8.000% | 6/1/18 | 855,000 | 871,510 |
|--------|--------|---------|---------|

See Notes to Schedule of Investments.

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Schedule of investments (unaudited) (cont d)

January 31, 2012

| SECURITY | RATE | MATURITY DATE | FACE AMOUNT | VALUE |
|--|---------|------------------|----------------|--------------|
| Maryland 2.0% | | | | |
| Maryland State Health & Higher EFA Revenue, Mercy Medical Center | 6.250% | 7/1/31 | \$ 3,000,000 | \$ 3,328,560 |
| Massachusetts 1.2% | | | | |
| Boston, MA, Industrial Development Financing Authority Revenue, Roundhouse Hospitality LLC Project | 7.875% | 3/1/25 | 785,000 | 691,585(a) |
| Massachusetts State DFA Revenue, Tufts Medical Center Inc. | 6.875% | 1/1/41 | 1,000,000 | 1,112,160 |
| Massachusetts State Port Authority Revenue | 13.000% | 7/1/13 | 150,000 | 167,081(d) |
| <i>Total Massachusetts</i> | | | | 1,970,826 |
| Michigan 6.3% | | | | |
| Allen Academy, COP | 7.500% | 6/1/23 | 2,130,000 | 2,182,334 |
| Cesar Chavez Academy, COP | 6.500% | 2/1/33 | 1,000,000 | 1,018,710 |
| Cesar Chavez Academy, COP | 8.000% | 2/1/33 | 1,000,000 | 1,039,750 |
| Detroit, MI, Water Supply System Revenue, Senior Lien | 5.250% | 7/1/41 | 2,000,000 | 2,088,980 |
| Gaudior Academy, COP | 7.250% | 4/1/34 | 1,000,000 | 968,850 |
| Royal Oak, MI, Hospital Finance Authority Revenue, William Beaumont Hospital | 8.250% | 9/1/39 | 2,000,000 | 2,471,600 |
| Star International Academy, COP | 7.000% | 3/1/33 | 920,000 | 931,049 |
| <i>Total Michigan</i> | | | | 10,701,273 |
| Missouri 1.1% | | | | |
| Missouri State Health & Educational Facilities Authority, Lutheran Senior Services | 6.000% | 2/1/41 | 500,000 | 521,150 |
| Missouri State HEFA Revenue, Refunding, St. Lukes Episcopal | 5.000% | 12/1/21 | 1,300,000 | 1,431,963 |
| <i>Total Missouri</i> | | | | 1,953,113 |
| Montana 1.2% | | | | |
| Montana State Board of Investment, Resource Recovery Revenue, Yellowstone Energy LP Project | 7.000% | 12/31/19 | 2,080,000 | 2,058,742(a) |
| New Jersey 3.7% | | | | |
| Casino Reinvestment Development Authority Revenue, NATL | 5.250% | 6/1/20 | 1,500,000 | 1,560,165 |
| New Jersey State EDA Revenue, Refunding | 6.875% | 1/1/37 | 5,000,000 | 4,681,400(a) |
| <i>Total New Jersey</i> | | | | 6,241,565 |
| New Mexico 0.6% | | | | |
| Otero County, NM, COP, Jail Project Revenue | 7.500% | 12/1/24 | 1,000,000 | 1,007,870 |
| New York 4.6% | | | | |
| Brooklyn Arena, NY, Local Development Corp., Barclays Center Project | 6.250% | 7/15/40 | 2,000,000 | 2,136,600 |
| New York City, NY, IDA, Civic Facilities Revenue, Special Needs Facilities Pooled Program | 8.125% | 7/1/19 | 340,000 | 344,685 |
| New York Liberty Development Corp., Liberty Revenue, Refunding, Second Priority, Bank of America | 6.375% | 7/15/49 | 5,000,000 | 5,436,050 |
| <i>Total New York</i> | | | | 7,917,335 |
| Ohio 3.8% | | | | |
| Cuyahoga County, OH, Hospital Facilities Revenue, Canton Inc. Project | 7.500% | 1/1/30 | 1,425,000 | 1,433,579 |

See Notes to Schedule of Investments.

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Schedule of investments (unaudited) (cont d)

January 31, 2012

| SECURITY | RATE | MATURITY DATE | FACE AMOUNT | VALUE |
|---|--------|---------------|--------------|------------------|
| Ohio continued | | | | |
| Miami County, OH, Hospital Facilities Revenue, Refunding and Improvement Upper Valley Medical Center | 5.250% | 5/15/21 | \$ 1,500,000 | \$ 1,594,290 |
| Ohio State Water Development Authority, Environmental Improvement Revenue, U.S. Steel Corp. Project | 6.600% | 5/1/29 | 2,000,000 | 2,151,520 |
| Riversouth Authority, OH, Revenue, Riversouth Area Redevelopment | 5.000% | 12/1/25 | 1,260,000 | 1,364,668 |
| <i>Total Ohio</i> | | | | <i>6,544,057</i> |
| Oklahoma 1.5% | | | | |
| Tulsa County, OK, Industrial Authority, Senior Living Community Revenue: | | | | |
| Montereau Inc. Project | 6.875% | 11/1/23 | 1,300,000 | 1,376,024 |
| Montereau Inc. Project | 7.125% | 11/1/30 | 1,000,000 | 1,096,030 |
| <i>Total Oklahoma</i> | | | | <i>2,472,054</i> |
| Pennsylvania 4.0% | | | | |
| Cumberland County, PA, Municipal Authority Retirement Community Revenue, Wesley Affiliate Services Inc. Project | 7.250% | 1/1/35 | 1,000,000 | 1,073,160(b) |
| Lebanon County, PA, Health Facilities Authority Revenue, Good Samaritan Hospital Project | 6.000% | 11/15/35 | 1,000,000 | 991,140 |
| Monroe County, PA, Hospital Authority Revenue, Pocono Medical Center | 5.000% | 1/1/27 | 1,000,000 | 1,032,000 |
| Northumberland County, PA, IDA Facilities Revenue, NHS Youth Services Inc. Project | 7.500% | 2/15/29 | 880,000 | 578,556 |
| Pennsylvania Economic Development Financing Authority, Health Systems Revenue, Albert Einstein Healthcare Philadelphia, PA, Authority for IDR, Host Marriot LP Project, Remarketed 10/31/95 | 6.250% | 10/15/23 | 2,000,000 | 2,219,980 |
| | 7.750% | 12/1/17 | 1,000,000 | 1,002,200(a) |
| <i>Total Pennsylvania</i> | | | | <i>6,897,036</i> |
| Puerto Rico 1.3% | | | | |
| Puerto Rico Electric Power Authority, Power Revenue | 5.250% | 7/1/40 | 1,000,000 | 1,057,740 |
| Puerto Rico Sales Tax Financing Corp., Sales Tax Revenue | 5.000% | 8/1/40 | 1,000,000 | 1,088,240 |
| <i>Total Puerto Rico</i> | | | | <i>2,145,980</i> |
| Tennessee 1.4% | | | | |
| Shelby County, TN, Health Educational & Housing Facilities Board Revenue, Trezevant Manor Project | 5.750% | 9/1/37 | 2,500,000 | 2,381,050 |
| Texas 23.0% | | | | |
| Brazos River, TX, Harbor Industrial Development Corp., Environmental Facilities Revenue, Dow Chemical Co. | 5.900% | 5/1/28 | 1,500,000 | 1,608,885(a)(e) |
| Burnet County, TX, Public Facility Project Revenue | 7.500% | 8/1/24 | 1,440,000 | 1,022,270 |
| Garza County, TX, Public Facility Corp. | 5.500% | 10/1/18 | 1,000,000 | 1,036,780 |
| Garza County, TX, Public Facility Corp., Project Revenue | 5.750% | 10/1/25 | 2,000,000 | 2,081,240 |
| Gulf Coast of Texas, IDA, Solid Waste Disposal Revenue, CITGO Petroleum Corp. Project | 7.500% | 10/1/12 | 2,000,000 | 2,020,860(a)(e) |
| Harris County, TX, Cultural Education Facilities Finance Corp., Medical Facilities Revenue, Baylor College of Medicine | 5.625% | 11/15/32 | 2,000,000 | 2,068,680 |

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Houston, TX, Airport System Revenue:

| | | | | |
|--|--------|---------|-----------|--------------|
| Special Facilities, Continental Airlines Inc., Terminal Projects | 6.500% | 7/15/30 | 1,000,000 | 1,019,740(a) |
|--|--------|---------|-----------|--------------|

See Notes to Schedule of Investments.

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Schedule of investments (unaudited) (cont d)

January 31, 2012

| SECURITY | RATE | MATURITY DATE | FACE AMOUNT | VALUE |
|---|--------|---------------|--------------|-----------------|
| Texas continued | | | | |
| Special Facilities, Continental Airlines Inc., Terminal Projects | 6.625% | 7/15/38 | \$ 1,000,000 | \$ 1,019,980(a) |
| Houston, TX, Airport Systems Revenue, Special Facilities, Continental Airlines Inc. Project | 6.125% | 7/15/27 | 2,750,000 | 2,737,680(a) |
| Laredo, TX, ISD Public Facility Corp., Lease Revenue, AMBAC | 5.000% | 8/1/29 | 1,000,000 | 1,001,800 |
| Love Field Airport Modernization Corp, TX, Special Facilities Revenue, Southwest Airlines Co. Project | 5.250% | 11/1/40 | 6,000,000 | 6,104,700 |
| Midlothian, TX, Development Authority, Tax Increment Contract Revenue | 6.200% | 11/15/29 | 1,000,000 | 1,014,520 |
| North Texas Tollway Authority Revenue | 5.750% | 1/1/40 | 2,500,000 | 2,702,225 |
| Texas Midwest Public Facility Corp. Revenue, Secure Treatment Facility Project | 9.000% | 10/1/30 | 2,000,000 | 1,080,000(c) |
| Texas Private Activity Bond Surface Transportation Corp., Senior Lien, NTE Mobility Partners LLC | 6.875% | 12/31/39 | 2,000,000 | 2,232,740 |
| Texas Private Activity Bond Surface Transportation Corp. Revenue, LBJ Infrastructure Group LLC | 7.000% | 6/30/40 | 4,000,000 | 4,517,080 |
| Texas State Public Finance Authority: Charter School Finance Corp. Revenue, Cosmos Foundation Inc. | 6.200% | 2/15/40 | 1,000,000 | 1,054,890 |
| Uplift Education | 5.750% | 12/1/27 | 1,500,000 | 1,531,830 |
| West Texas Detention Facility Corp. Revenue | 8.000% | 2/1/25 | 1,865,000 | 1,885,813 |
| Willacy County, TX, PFC Project Revenue | 8.250% | 12/1/23 | 1,000,000 | 1,040,710 |
| Willacy County, TX, PFC Project Revenue, County Jail | 7.500% | 11/1/25 | 520,000 | 482,966 |
| <i>Total Texas</i> | | | | 39,265,389 |
| U.S. Virgin Islands 1.7% | | | | |
| Virgin Islands Public Finance Authority Revenue, Matching Fund Loan | 6.750% | 10/1/37 | 2,500,000 | 2,831,475 |
| Virginia 2.0% | | | | |
| Broad Street CDA Revenue | 7.500% | 6/1/33 | 748,000 | 831,739(b) |
| Chesterfield County, VA, EDA, Solid Waste and Sewer Disposal Revenue, Virginia Electric Power Co. Project | 5.600% | 11/1/31 | 2,500,000 | 2,633,775(a) |
| <i>Total Virginia</i> | | | | 3,465,514 |
| West Virginia 1.5% | | | | |
| Pleasants County, WV, PCR, Refunding, County Commission, Allegheny Energy Supply Co., LLC | 5.250% | 10/15/37 | 2,500,000 | 2,600,825 |

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Wisconsin 0.6%

Wisconsin State HEFA Revenue, Aurora

| | | | | |
|------------------|--------|---------|-----------|-----------|
| Health Care Inc. | 6.400% | 4/15/33 | 1,000,000 | 1,033,960 |
|------------------|--------|---------|-----------|-----------|

| | | | | |
|--|--|--|--|-------------|
| TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS (Cost \$158,692,003) | | | | 166,706,684 |
|--|--|--|--|-------------|

SHORT-TERM INVESTMENTS 0.8%

New York 0.8%

New York City, NY, TFA, Future Tax

Secured Revenue, SPA-Dexia Credit Local

| | | | | |
|----------------------|--------|--------|-----------|-----------------|
| (Cost - \$1,400,000) | 0.300% | 8/1/23 | 1,400,000 | 1,400,000(f)(g) |
|----------------------|--------|--------|-----------|-----------------|

| | | | | |
|--|--|--|--|-------------|
| TOTAL INVESTMENTS 98.6 % (Cost \$160,092,003#) | | | | 168,106,684 |
|--|--|--|--|-------------|

| | | | | |
|--|--|--|--|-----------|
| Other Assets in Excess of Liabilities 1.4% | | | | 2,359,693 |
|--|--|--|--|-----------|

| | | | | |
|-------------------------|--|--|----|-------------|
| TOTAL NET ASSETS 100.0% | | | \$ | 170,466,377 |
|-------------------------|--|--|----|-------------|

- (a) Income from this issue is considered a preference item for purposes of calculating the alternative minimum tax (AMT).
- (b) Pre-Refunded bonds are escrowed with U.S. government obligations and/or U.S. government agency securities and are considered by the manager to be triple-A rated even if issuer has not applied for new ratings.
- (c) The coupon payment on these securities is currently in default as of January 31, 2012.

See Notes to Schedule of Investments.

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Schedule of investments (unaudited) (cont d)

January 31, 2012

- (d) 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.
 - (e) Maturity date shown represents the mandatory tender date.
 - (f) Variable rate demand obligations have a demand feature under which the Fund can tender them back to the issuer or liquidity provider on no more than 7 days notice.
 - (g) Maturity date shown is the final maturity date. The security may be sold back to the issuer before final maturity.
- # Aggregate cost for federal income tax purposes is substantially the same.

Abbreviations used in this schedule:

| | |
|-------|---|
| AGM | - Assured Guaranty Municipal Corporation - Insured Bonds |
| AMBAC | - American Municipal Bond Assurance Corporation - Insured Bonds |
| CDA | - Communities Development Authority |
| COP | - Certificates of Participation |
| DFA | - Development Finance Agency |
| EDA | - Economic Development Authority |
| EDR | - Economic Development Revenue |
| EFA | - Educational Facilities Authority |
| FGIC | - Financial Guaranty Insurance Company - Insured Bonds |
| GO | - General Obligation |
| HEFA | - Health & Educational Facilities Authority |
| IDA | - Industrial Development Authority |
| IDR | - Industrial Development Revenue |
| ISD | - Independent School District |
| NATL | - National Public Finance Guarantee Corporation - Insured Bonds |
| PCR | - Pollution Control Revenue |
| PFC | - Public Facilities Corporation |
| SPA | - Standby Bond Purchase Agreement - Insured Bonds |
| TFA | - Transitional Finance Authority |

See Notes to Schedule of Investments.

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Schedule of investments (unaudited) (cont d)

January 31, 2012

Summary of Investments by Industry*

| | |
|-----------------------------------|--------|
| Health care | 19.3% |
| Industrial revenue | 18.2 |
| Transportation | 16.8 |
| Education | 11.5 |
| Special tax obligation | 9.1 |
| Power | 5.7 |
| Other | 4.1 |
| Leasing | 2.5 |
| Pre-refunded/escrowed to maturity | 1.4 |
| Solid waste/resource recovery | 1.4 |
| Local general obligation | 0.9 |
| Water & sewer | 0.7 |
| Housing | 0.6 |
| Short-term investments | 7.8 |
| | 100.0% |

*As a percentage of total investments. Please note that Fund holdings are as of January 31, 2012 and are subject to change.

Ratings Table

| | |
|--|--------|
| <u>Standard & Poor's/Moody's/Fitch</u> | |
| AAA/Aaa | 0.1% |
| AA/Aa | 4.5 |
| A | 20.3 |
| BBB/Baa | 41.4 |
| BB/Ba | 4.2 |
| B/B | 5.4 |
| CC/Cc | 0.2 |
| D | 0.6 |
| A-1/VMIG 1 | 0.8 |
| NR | 22.5 |
| | 100.0% |

As a percentage of total investments.

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

See pages 8 through 10 for definitions of ratings.

See Notes to Schedule of Investments.

Bond ratings

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

Long-term security ratings (unaudited)

Standard & Poor's Ratings Service (Standard & Poor's) Long-term Issue Credit Ratings 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 | An obligation rated AAA has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. |
| AA | An obligation rated AA differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong. |
| A | An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. |
| BBB | An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. |
| BB | An obligation rated BB is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. |
| B | An obligation rated B is more vulnerable to nonpayment than obligations rated BB, but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation. |
| CCC | An obligation rated CCC is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation. |
| CC | An obligation rated CC is currently highly vulnerable to nonpayment. |
| C | The C rating may be used to cover a situation where a bankruptcy petition has been filed or similar action has been taken, but payments on this obligation are being continued. |
| D | An obligation rated D is in payment default. The D rating category is used when payments on an obligation are not made on the date due, even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments of an obligation are jeopardized. |

Moody's Investors Service (Moody's) Long-term Obligation Ratings 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 | Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk. |
| Aa | Obligations rated Aa are judged to be of high quality and are subject to very low credit risk. |
| A | Obligations rated A are considered upper-medium grade and are subject to low credit risk. |
| Baa | Obligations rated Baa are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics. |

Ba Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.
B Obligations rated B are considered speculative and are subject to high credit risk.

Long-term security ratings (unaudited) (cont d)

| | |
|-----|--|
| Caa | Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk. |
| Ca | Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery for principal and interest. |
| C | Obligations rated C are the lowest rated class and are typically in default, with little prospect of recovery for principal and interest. |

Fitch Ratings Service (Fitch) Structured, Project & Public Finance Obligations 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 | Obligations rated AAA by Fitch denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events. |
| AA | Obligations rated AA denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. |
| A | Obligations rated A denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings. |
| BBB | Obligations rated BBB indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity. |
| BB | Obligations rated BB indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments. |
| B | Obligations rated B indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment. |
| CCC | Default is a real possibility. |
| CC | Default of some kind appears probable. |
| C | Default is imminent or inevitable, or the issuer is in standstill. |
| NR | Indicates that the obligation is not rated by Standard & Poor's, Moody's or Fitch. |

Short-term security ratings (unaudited)

Standard & Poor's Municipal Short-Term Notes Ratings

| | |
|------|---|
| SP-1 | A short-term obligation rated SP-1 is rated in the highest category by Standard & Poor's. Strong capacity to pay principal and interest. An issue determined to possess a very strong capacity to pay debt service is given a plus (+) designation. |
| SP-2 | A short-term obligation rated SP-2 is a Standard & Poor's rating indicating satisfactory capacity to pay principal and interest, with some vulnerability to adverse financial and economic changes over the term of the notes. |
| SP-3 | A short-term obligation rated SP-3 is a Standard & Poor's rating indicating speculative capacity to pay principal and interest. |

Standard & Poor's Short-Term Issues Credit Ratings

A-1 A short-term obligation rated A-1 is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

Short-term security ratings (unaudited) (cont d)

- A-2 A short-term obligation rated A-2 by Standard & Poor's is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.
- A-3 A short-term obligation rated A-3 by Standard & Poor's exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.
- B A short-term obligation rated B by Standard & Poor's is regarded as having significant speculative characteristics. Ratings of B-1, B-2 and B-3 may be assigned to indicate finer distinctions within the B category. The obligor currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

Moody's Variable Rate Demand Obligations (VRDO) Ratings

- VMIG 1 Moody's highest rating for issues having a variable rate demand feature VRDO. This designation denotes superior credit quality. Excellent protection is afforded by the superior short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price on demand.
- VMIG 2 This designation denotes strong credit quality. Good protection is afforded by the strong short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price on demand.
- VMIG 3 This designation denotes acceptable credit quality. Adequate protection is afforded by the strong short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price on demand.
- SG This designation denotes speculative-grade credit quality. Demand features rated in this category may be supported by a liquidity provider that does not have an investment grade short term rating or may lack the structural and/or legal protections necessary to ensure the timely payment of purchase price upon demand.

Moody's Short-Term Municipal Obligations Ratings

- MIG 1 Moody's highest rating for short-term municipal obligations. This designation denotes superior credit quality. Excellent protection is afforded by established cash flows, highly reliable liquidity support, or demonstrated broad-based access to the market for refinancing.
- MIG 2 This designation denotes strong credit quality. Margins of protection are ample, although not as large as the preceding group.
- MIG 3 This designation denotes acceptable credit quality. Liquidity and cash flow protection may be narrow, and market access for refinancing is likely to be less well-established.
- SG This designation denotes speculative-grade credit quality. Debt instruments in this category may lack sufficient margins of protection.

Moody's Short-Term Obligations Ratings

- P-1 Moody's highest rating for commercial paper and for VRDO prior to the advent of the VMIG 1 rating. Have a superior ability to repay short-term debt obligations.

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- P-2 Have a strong ability to repay short-term debt obligations.
- P-3 Have an acceptable ability to repay short-term debt obligations.
- NP Issuers do not fall within any of the Prime rating categories.

Fitch's Short-Term Issuer or Obligations Ratings

- F1 Fitch's highest rating indicating the strongest intrinsic capacity for timely payment of financial commitments; may have an added + to denote any exceptionally strong credit feature.
- F2 Fitch rating indicating good intrinsic capacity for timely payment of financial commitments.
- F3 Fitch rating indicating intrinsic capacity for timely payment of financial commitments is adequate.
- B Fitch rating indicating minimal capacity for timely payment of financial commitments, plus heightened vulnerability to near term changes in financial and economic conditions.
- C Fitch rating indicating default is a real possibility.
- NR Indicates that the obligation is not rated by Standard & Poor's, Moody's or Fitch.

Notes to schedule of investments (unaudited)

1. Organization and significant accounting policies

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

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

(a) Investment valuation. The valuations for fixed income securities and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of fair valuation techniques and methodologies. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment's fair value. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers. When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund's Board of Directors.

The Fund has adopted Financial Accounting Standards Board Codification Topic 820 (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.

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

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

| DESCRIPTION | ASSETS | | | TOTAL |
|------------------------|-------------------------------|---|--|----------------|
| | QUOTED PRICES (LEVEL 1) | OTHER SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) | SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) | |
| Municipal bonds | | \$ 166,706,684 | | \$ 166,706,684 |
| Short-term investments | | 1,400,000 | | 1,400,000 |
| Total investments | | \$ 168,106,684 | | \$ 168,106,684 |

See Schedule of Investments for additional detailed categorizations.

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

Notes to schedule of investments (unaudited) (continued)

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

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

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

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

2. Investments

At January 31, 2012, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

| | | |
|-------------------------------|----|-------------|
| Gross unrealized appreciation | \$ | 11,357,168 |
| Gross unrealized depreciation | | (3,342,487) |
| Net unrealized appreciation | \$ | 8,014,681 |

3. Derivative Instruments and Hedging Activities

Financial Accounting Standards Board Codification Topic 815 requires enhanced disclosure about an entity's derivative and hedging activities.

At January 31, 2012, the Fund did not have any derivative instruments outstanding.

During the period ended January 31, 2012, the volume of derivative activity for the Fund was as follows:

| | Average Market Value |
|--|---------------------------------|
| Futures contracts (to sell) | 4,895,773 |
| At January 31, 2012, there were no open positions held in this derivative. | |

4. Recent accounting pronouncement

In May 2011, the Financial Accounting Standards Board issued Accounting Standard Update No. 2011-04, Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU No. 2011-04). ASU No. 2011-04 establishes common requirements for measuring fair value and for disclosing information about fair value measurements. ASU No. 2011-04 is effective during interim and annual periods beginning after December 15, 2011. Management is currently evaluating the impact the adoption of ASU No. 2011-04 will have on the Fund's financial statements and related disclosures.

ITEM 2. CONTROLS AND PROCEDURES.

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

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

ITEM 3. EXHIBITS.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Western Asset Municipal High Income Fund Inc.

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

Date: March 27, 2012

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

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

Date: March 27, 2012

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

Date: March 27, 2012
