

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Form N-CSRS

June 23, 2015

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 811-05497

Western Asset Municipal High Income Fund Inc.

(Exact name of registrant as specified in charter)

620 Eighth Avenue, 49th Floor, New York, NY 10018

(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place,

Stamford, CT 06902

(Name and address of agent for service)

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

Date of fiscal year end: October 31

Date of reporting period: April 30, 2015

ITEM 1. REPORT TO STOCKHOLDERS.

The **Semi-Annual** Report to Stockholders is filed herewith.

Semi-Annual Report

April 30, 2015

WESTERN ASSET
MUNICIPAL HIGH
INCOME FUND INC.
(MHF)

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

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Fund objective

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

Letter from the chairman

Dear Shareholder,

We are pleased to provide the semi-annual report of Western Asset Municipal High Income Fund Inc. for the six-month reporting period ended April 30, 2015. Please read on for Fund performance information and a detailed look at prevailing economic and market conditions during the Fund's reporting period.

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, www.lmcef.com. Here you can gain immediate access to market and investment information, including:

Fund prices and performance,

Market insights and commentaries from our portfolio managers, and

A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

Kenneth D. Fuller

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Chairman, President and Chief Executive Officer

May 29, 2015

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Investment commentary

Economic review

The U.S. economy expanded moderately during the six months ended April 30, 2015 (the reporting period). The U.S. Department of Commerce reported that third quarter 2014 U.S. gross domestic product (GDP) growth was 5.0%, its strongest reading since the third quarter of 2003. However, fourth quarter 2014 GDP growth slowed to a modest 2.2%. The deceleration in growth primarily reflected an upturn in imports, a downturn in federal government spending and moderating nonresidential fixed investment. After the reporting period ended, the U.S. Department of Commerce reported that its second estimate for first quarter 2015 GDP was -0.7%. This downturn was attributed to a number of factors, including negative contributions from exports, nonresidential fixed investment, and state and local government spending.

Activity in the U.S. manufacturing sector also moderated during the reporting period. Based on the Institute for Supply Management's Purchasing Managers Index (PMI), U.S. manufacturing expanded during all six months of the reporting period (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). After a reading of 57.6 in November 2014, the PMI generally decelerated over much of the reporting period and the PMI was 51.5 in April 2015.

The labor market was largely a tailwind for the economy during the reporting period. When the period began, unemployment was 5.8%, as reported by the U.S. Department of Labor. Unemployment generally declined during the reporting period and was 5.4% in April 2015, its lowest level since May 2008.

Investment commentary (cont d)

Market review

Q. How did the Federal Reserve Board (Fedⁱⁱ) respond to the economic environment?

A. The Fed took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As it has since December 2008, the Fed kept the federal funds rate^{iv} at a historically low range between zero and 0.25%. The Fed ended its asset purchase program that was announced in December 2012. In December 2014, the Fed said that it can be patient in beginning to normalize the stance of monetary policy. Finally, at its meeting that ended on April 29, 2015, the Fed said, economic growth slowed during the winter months, in part reflecting transitory factors. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

Q. Did Treasury yields trend higher or lower during the six months ended April 30, 2015?

A. Short-term Treasury yields moved higher, whereas long-term Treasury yields declined during the reporting period. When the reporting period began, the yield on the two-year Treasury was 0.50%. It was as high as 0.73% towards the end of December 2014 and again on March 6, 2015, and fell as low as 0.44% on January 15, 2015, before ending the period at 0.58%. The yield on the ten-year Treasury began the period at 2.35% and its peak of 2.39% occurred on November 6, 2014. The yield on the ten-year Treasury was as low as 1.68% in late January/early February 2015 and concluded the period at 2.05%.

Q. How did the municipal bond market perform versus the taxable bond market over the reporting period?

A. The municipal bond market lagged its taxable bond counterpart during the six months ended April 30, 2015, as the Barclays Municipal Bond Index^v and the Barclays U.S. Aggregate Index^{vi} gained 1.17% and 2.06%, respectively. The overall municipal market was supported by overall positive investor demand, largely improving fundamentals and declining longer-term rates. Its underperformance versus the taxable bond market was partially due to an increase in new issuance thus far in 2015.

Performance review

For the six months ended April 30, 2015, Western Asset Municipal High Income Fund Inc. returned 1.79% based on its net asset value (NAV^{vii}) and 7.77% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmark, the Barclays Municipal Bond Index, returned 1.17% for the same period. The Lipper High Yield Municipal Debt Closed-End Funds Category Average^{viii} returned 2.94% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

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

During this six-month period, the Fund made distributions to shareholders totaling \$0.17 per share. As of April 30, 2015, the Fund estimates that all of the distributions were sourced from net investment income.* The performance table shows the Fund's six-month total return based on its NAV and

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market price as of April 30, 2015. **Past performance is no guarantee of future results.**

Performance Snapshot as of April 30, 2015
(unaudited)

Price Per Share	6-Month Total Return**
\$8.08 (NAV)	1.79%
\$7.87 (Market Price)	7.77%

All figures represent past performance and are not a guarantee of future results. Performance figures for periods shorter than one year represent cumulative figures and are not annualized.

**** Total returns are based on changes in NAV or market price, respectively. Returns reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.**

Total return assumes the reinvestment of all distributions, including returns of capital, if any, at NAV.

Total return assumes the reinvestment of all distributions, including returns of capital, if any, in additional shares in accordance with the Fund's Dividend Reinvestment Plan.

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.lmcef.com.

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

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

Sincerely,

Kenneth D. Fuller

Chairman, President and

Chief Executive Officer

May 29, 2015

*These estimates are not for tax purposes. The Fund will issue a Form 1099 with final composition of the distributions for tax purposes after year-end. A return of capital is not taxable and results in a reduction in the tax basis of a shareholder's investment. For more information about a distribution's composition, please refer to the Fund's distribution press release or, if applicable, the Section 19 notice located in the press release section of our website, www.lmcef.com.

Investment commentary (cont d)

***RISKS:** The Fund's investments are subject to credit risk, inflation risk and interest rate risk. High-yield bonds involve greater credit and liquidity risks than investment grade bonds. As interest rates rise, bond prices fall, reducing the value of the Fund's holdings. Municipal securities purchased by the Fund may be adversely affected by changes in the financial condition of municipal issuers and insurers, regulatory and political developments, uncertainties and public perceptions, and other factors. 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.*

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

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.

- ⁱ Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.
- ⁱⁱ The Institute for Supply Management's PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the U.S. manufacturing sector.
- 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 federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.
- ^v The Barclays Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more.
- ^{vi} The Barclays 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.
- ^{vii} Net asset value (NAV) is calculated by subtracting total liabilities, including liabilities associated with financial leverage (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.
- ^{viii} Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the six-month period ended April 30, 2015, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 11 funds in the Fund's Lipper category.

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Fund at a glance (unaudited)

Investment breakdown (%) as a percent of total investments

The bar graph above represents the composition of the Fund's investments as of April 30, 2015 and October 31, 2014 and does not include derivatives, such as futures contracts. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

Spread duration (unaudited)

Economic exposure April 30, 2015

Total Spread Duration

MHF 7.33 years

Benchmark 5.66 years

Spread duration measures the sensitivity to changes in spreads. The spread over Treasuries is the annual risk-premium demanded by investors to hold non-Treasury securities. Spread duration is quantified as the % change in price resulting from a 100 basis points change in spreads. For a security with positive spread duration, an increase in spreads would result in a price decline and a decline in spreads would result in a price increase. This chart highlights the market sector exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

Benchmark Barclays Municipal Bond Index

MHF Western Asset Municipal High Income Fund Inc.

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Effective duration (unaudited)

Interest rate exposure April 30, 2015

Total Effective Duration

MHF 7.28 years

Benchmark 5.81 years

Effective duration measures the sensitivity to changes in relevant interest rates. Effective duration is quantified as the % change in price resulting from a 100 basis points change in interest rates. For a security with positive effective duration, an increase in interest rates would result in a price decline and a decline in interest rates would result in a price increase. This chart highlights the interest rate exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

Benchmark Barclays Municipal Bond Index
MHF Western Asset Municipal High Income Fund Inc.

Schedule of investments (unaudited)

April 30, 2015

Western Asset Municipal High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Municipal Bonds 98.9%				
<i>Alabama 4.1%</i>				
Jefferson County, AL, Sewer Revenue	6.000%	10/1/42	\$ 1,120,000	\$ 1,258,824
Jefferson County, AL, Sewer Revenue: AGM	5.500%	10/1/53	400,000	439,436 ^(a)
Convertible CAB, Subordinated Lien	0.000%	10/1/50	3,020,000	1,956,205 ^(b)
Subordinated Lien Warrants	6.500%	10/1/53	3,000,000	3,491,220
<i>Total Alabama</i>				<i>7,145,685</i>
<i>Arizona 1.9%</i>				
Phoenix, AZ, IDA, Education Revenue, Basis School Inc.	5.000%	7/1/35	1,000,000	1,024,760 ^(c)
Salt Verde, AZ, Financial Corp. Gas Revenue	5.000%	12/1/37	1,500,000	1,716,720
University Medical Center Corp., AZ, Hospital Revenue	6.250%	7/1/29	500,000	596,660 ^(d)
<i>Total Arizona</i>				<i>3,338,140</i>
<i>California 9.5%</i>				
Anaheim, CA, Public Financing Authority Lease Revenue	5.000%	5/1/46	2,000,000	2,223,140
California State PCFA, Water Furnishing Revenue	5.000%	11/21/45	3,000,000	3,116,580 ^(e)
California State Public Works Board, Lease Revenue, Various Capital Project	5.125%	10/1/31	1,500,000	1,703,175
California Statewide CDA, Student Housing Revenue: Provident Group-Pomona Properties LLC	5.600%	1/15/36	505,000	510,298
Provident Group-Pomona Properties LLC	5.750%	1/15/45	360,000	355,921
Inland Valley, CA, Development Agency, Successor Agency Tax Allocation Revenue	5.000%	9/1/44	500,000	549,705
M-S-R Energy Authority, CA, Gas Revenue	7.000%	11/1/34	2,000,000	2,806,760
M-S-R Energy Authority, CA, Gas Revenue	6.500%	11/1/39	3,000,000	4,083,180
Redding, CA, Redevelopment Agency, Tax Allocation, Shastec Redevelopment Project	5.000%	9/1/29	600,000	600,228
River Islands, CA, Public Financing Authority Special Tax, Community Facilities District No. 2003-1	5.500%	9/1/45	620,000	640,962
<i>Total California</i>				<i>16,589,949</i>
<i>Colorado 4.5%</i>				
Colorado Educational & Cultural Facilities Authority Revenue: Cheyenne Mountain Charter Academy	5.250%	6/15/25	680,000	710,763
Cheyenne Mountain Charter Academy	5.125%	6/15/32	510,000	529,661
Elbert County Charter	7.375%	3/1/35	785,000	785,345
Public Authority for Colorado Energy, Natural Gas Purchase Revenue	6.125%	11/15/23	4,000,000	4,914,080
Reata South Metropolitan District, CO, GO	7.250%	6/1/37	1,000,000	957,750
<i>Total Colorado</i>				<i>7,897,599</i>

See Notes to Financial Statements.

Western Asset Municipal High Income Fund Inc.

	Rate	Maturity Date	Face Amount	Value
<i>Security</i>				
<i>Delaware 3.2%</i>				
Delaware State EDA Revenue, Indian River Power LLC	5.375%	10/1/45	\$ 2,000,000	\$ 2,191,420
Sussex County, DE, Recovery Zone Facility Revenue, NRG Energy Inc., Indian River Power LLC	6.000%	10/1/40	3,000,000	3,453,780
<i>Total Delaware</i>				<i>5,645,200</i>
<i>District of Columbia 1.5%</i>				
District of Columbia Revenue:				
Friendship Public Charter School Inc.	5.000%	6/1/42	2,000,000	2,093,560
KIPP Charter School	6.000%	7/1/33	200,000	233,190
KIPP Charter School	6.000%	7/1/43	250,000	286,360
<i>Total District of Columbia</i>				<i>2,613,110</i>
<i>Florida 3.7%</i>				
Bonnet Creek Resort Community Development District, Special Assessment	7.500%	5/1/34	835,000	835,284
Martin County, FL, IDA Revenue, Indiantown Cogeneration LP Project	4.200%	12/15/25	1,500,000	1,531,785 ^(f)
Palm Beach County, FL, Health Facilities Authority Revenue:				
Sinai Residences Boca Raton Project	7.500%	6/1/49	400,000	456,080
Sinai Residences Boca Raton Project, Entrance Fee	6.000%	6/1/21	300,000	325,989
Reunion, FL, East Community Development District, Special Assessment	7.375%	5/1/33	1,385,000	1,388,518
Reunion, FL, East Community Development District, Special Assessment	7.375%	5/1/33	615,000	430,500 ^(e)
Santa Rosa, FL, Bay Bridge Authority Revenue	6.250%	7/1/28	876,300	394,335 ^(e)
University of Central Florida, COP, FGIC	5.000%	10/1/25	1,000,000	1,014,000
<i>Total Florida</i>				<i>6,376,491</i>
<i>Georgia 3.7%</i>				
Atlanta, GA, Development Authority Educational Facilities Revenue, Science Park LLC Project	5.000%	7/1/32	2,000,000	2,147,900
Atlanta, GA, Water & Wastewater Revenue	6.250%	11/1/39	2,000,000	2,436,180 ^(d)
DeKalb, Newton & Gwinnett Counties, GA, Joint Development Authority Revenue, GGC Foundation LLC Project	6.125%	7/1/40	1,000,000	1,131,220
Franklin County, GA, Industrial Building Authority Revenue, Emmanuel College Inc.	6.000%	11/1/32	1,000,000	697,830
<i>Total Georgia</i>				<i>6,413,130</i>
<i>Hawaii 1.3%</i>				
Hawaii State Department of Budget & Finance Special Purpose Revenue, Hawaiian Electric Co.	6.500%	7/1/39	2,000,000	2,318,960
<i>Illinois 1.8%</i>				
Chicago, IL, Motor Fuel Tax Revenue, AGM	5.000%	1/1/32	1,000,000	1,098,590
Illinois Finance Authority Revenue, Refunding, Chicago Charter School Project	5.000%	12/1/26	1,000,000	1,014,450

See Notes to Financial Statements.

Schedule of investments (unaudited) (cont d)

April 30, 2015

Western Asset Municipal High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Illinois continued</i>				
Illinois State Finance Authority Revenue, Franciscan Communities Inc.	5.250%	5/15/47	\$ 1,000,000	\$ 1,028,330
<i>Total Illinois</i>				<i>3,141,370</i>
<i>Indiana 2.1%</i>				
County of St. Joseph, IN, EDR:				
Holy Cross Village Notre Dame Project	6.000%	5/15/26	285,000	292,245
Holy Cross Village Notre Dame Project	6.000%	5/15/38	550,000	557,304
Indiana State Finance Authority Revenue, Private Activity Ohio River Bridges East End Crossing Project	5.000%	7/1/48	2,000,000	2,135,040 ^(f)
Valparaiso, IN, Exempt Facilities Revenue, Pratt Paper LLC Project	7.000%	1/1/44	500,000	611,670 ^(f)
<i>Total Indiana</i>				<i>3,596,259</i>
<i>Iowa 3.2%</i>				
Iowa State Finance Authority Midwestern Disaster Area Revenue:				
Iowa Fertilizer Co. Project	5.000%	12/1/19	500,000	541,750
Iowa Fertilizer Co. Project	5.250%	12/1/25	4,540,000	5,095,287
<i>Total Iowa</i>				<i>5,637,037</i>
<i>Kansas 0.7%</i>				
Salina, KS, Hospital Revenue, Refunding & Improvement Salina Regional Health	5.000%	10/1/22	1,150,000	1,195,299
<i>Kentucky 1.3%</i>				
Owen County, KY, Waterworks System Revenue, Kentucky American Water Co. Project	6.250%	6/1/39	2,000,000	2,303,700
<i>Louisiana 0.1%</i>				
Epps, LA, COP	8.000%	6/1/18	775,000	155,000 ^(e)
<i>Maryland 2.0%</i>				
Maryland State Health & Higher EFA Revenue, Mercy Medical Center	6.250%	7/1/31	3,000,000	3,419,280
<i>Massachusetts 0.7%</i>				
Massachusetts State DFA Revenue, Tufts Medical Center Inc.	6.875%	1/1/41	1,000,000	1,185,840
<i>Michigan 3.1%</i>				
Gaudior Academy, COP	7.250%	4/1/34	1,000,000	235,700 ^{(g)(h)}
Michigan State Finance Authority Limited Obligation Revenue:				
Higher Education, Thomas M Cooley Law School Project	6.000%	7/1/24	310,000	