

WESTERN ASSET INTERMEDIATE MUNI FUND INC.
Form N-CSR
March 05, 2009

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

FORM N-CSR

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

Investment Company Act file number 811-6506

Western Asset Intermediate Muni Fund Inc.
(Exact name of registrant as specified in charter)

55 Water Street, New York, NY
(Address of principal executive offices)

10041
(Zip code)

Robert I. Frenkel, Esq.
Legg Mason & Co., LLC
100 First Stamford Place
Stamford, CT 06902
(Name and address of agent for service)

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

Date of fiscal year end: December 31

Date of reporting period: December 31, 2008

ITEM 1. REPORT TO STOCKHOLDERS.

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

ANNUAL REPORT / DECEMBER 31, 2008

**Western Asset
Intermediate Muni
Fund Inc.**

(SBI)

Managed by **WESTERN ASSET**

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

Fund objective

The Fund's investment objective is to provide common shareholders a high level of current income exempt from regular federal income taxes* consistent with prudent investing.

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

What's inside

Letter from the chairman	I
Fund overview	1
Fund at a glance	6
Schedule of investments	7
Statement of assets and liabilities	19
Statement of operations	20
Statements of changes in net assets	21
Financial highlights	22
Notes to financial statements	23
Report of independent registered public accounting firm	30
Board approval of management and subadvisory agreements	31
Additional information	36
Annual chief executive officer and chief financial officer certifications	41
Dividend reinvestment plan	42
Important tax information	44

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

Letter from the chairman

Dear Shareholder,

The U.S. economy weakened significantly during the 12-month reporting period ended December 31, 2008. Looking back, U.S. gross domestic product (GDP) contracted 0.2% in the fourth quarter of 2007. This was due to continued weakness in the housing market, an ongoing credit crunch and soaring oil and food prices. The economy then expanded 0.9% and 2.8% during the first and second quarters of 2008, respectively. Contributing to this rebound were rising exports that were buoyed by a weakening U.S. dollar. In addition, consumer spending accelerated, aided by the government's tax rebate program. However, the dollar's rally and the end of the rebate program, combined with other strains on the economy, caused GDP to take a step backward during the second half of 2008. According to the U.S. Department of Commerce, third quarter 2008 GDP declined 0.5% and its advance estimate for fourth quarter GDP decline was 3.8%, the latter being the worst quarterly reading since 1982.

While there were increasing signs that the U.S. was headed for a recession, the speculation ended in December 2008. At that time, the National Bureau of Economic Research (NBER) which has the final say on when one begins and ends announced that a recession had begun in December 2007. The NBER determined that a recession had already started using its definition, which is based on a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income and other indicators.

Regardless of how one defines a recession, it felt like we were in the midst of an economic contraction for much of 2008. Consumer spending, which represents approximately two-thirds of GDP, has been disappointing. According to the International Council of Shopping Centers, retail sales rose a tepid 1% in 2008, the weakest level in at least 38 years. In terms of the job market, the U.S. Department of Labor reported that payroll employment declined in each of the 12 months of 2008. During 2008 as a whole, 2.6 million jobs were lost, the largest annual decline since World War II ended in 1945. In addition, at the end of 2008, the unemployment rate had risen to 7.2%, its highest level since January 1993.

Letter from the chairman *continued*

Ongoing issues related to the housing and subprime mortgage markets and seizing credit markets prompted the Federal Reserve Board (Fed)ii to take aggressive and, in some cases, unprecedented actions. When 2008 began, the federal funds rateiii was 4.25%. This was quickly brought down to 3.00% by the end of January 2008, on the back of two Fed rate cuts. The Fed continued to lower the federal funds rate to 2.00% by the end of April 2008, but then left rates on hold for several months. This was due to growing inflationary pressures as a result of soaring oil and commodity prices, coupled with the sagging U.S. dollar. However, as inflation receded along with oil prices and the global financial crisis escalated, the Fed cut rates twice in October to 1.00%. Then, in mid-December 2008, it reduced the federal funds rate to a range of zero to 0.25%, an historic low. In conjunction with its December meeting, the Fed stated that it will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability. In particular, the Committee anticipates that weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time.

In addition to the interest rate cuts, the Fed took several actions to improve liquidity in the credit markets. In March 2008, it established a new lending program allowing certain brokerage firms, known as primary dealers, to also borrow from its discount window. Also in March, the Fed played a major role in facilitating the purchase of Bear Stearns by JPMorgan Chase. In mid-September 2008, it announced an \$85 billion rescue plan for ailing AIG and pumped \$70 billion into the financial system as Lehman Brothers' bankruptcy and mounting troubles at other financial firms roiled the markets.

The U.S. Department of the Treasury has also taken an active role in attempting to stabilize the financial system, as it orchestrated the government's takeover of mortgage giants Fannie Mae and Freddie Mac in September 2008. In addition, on October 3, 2008, the Treasury's \$700 billion Troubled Asset Relief Program (TARP) was approved by Congress and signed into law by President Bush. As part of TARP, the Treasury had planned to purchase bad loans and other troubled financial assets. However, in November 2008, Treasury Secretary Paulson said,

Our assessment at this time is that this is not the most effective way to use TARP funds, but we will continue to examine whether targeted forms of asset purchase can play a useful role, relative to other potential uses of TARP resources, in helping to strengthen our financial system and support lending.

During the 12-month reporting period ended December 31, 2008, both short- and long-term Treasury yields experienced periods of extreme volatility. Investors were initially focused on the subprime segment of the mortgage-backed market. These concerns broadened, however, to

include a wide range of financial institutions and markets. As a result, other fixed-income instruments also experienced increased price volatility. This unrest triggered several flights to quality, causing Treasury yields to move lower (and their prices higher), while riskier segments of the market saw their yields move higher (and their prices lower). This was particularly true toward the end of the reporting period, as the turmoil in the financial markets and sharply falling stock prices caused investors to flee securities that were perceived to be risky, even high-quality corporate bonds and high-grade municipal bonds. On several occasions, the yield available from short-term Treasuries fell to nearly zero, as investors were essentially willing to forgo any return potential in order to access the relative safety of government-backed securities. During the 12 months ended December 31, 2008, two-year Treasury yields fell from 3.05% to 0.76%. Over the same time frame, 10-year Treasury yields moved from 4.04% to 2.25%.

The municipal bond market underperformed its taxable bond counterpart over the 12 months ended December 31, 2008. Over that period, the Barclays Capital Municipal Bond Index^{iv} and the Barclays Capital U.S. Aggregate Index^v returned -2.47% and 5.24%, respectively. Even though municipal securities typically hold up fairly well during periods of market volatility, the aforementioned flight to quality into Treasuries negatively impacted the tax-free bond market.

A special note regarding increased market volatility

In recent months, we have experienced a series of events that have impacted the financial markets and created concerns among both novice and seasoned investors alike. In particular, we have witnessed the failure and consolidation of several storied financial institutions, periods of heightened market volatility, and aggressive actions by the U.S. federal government to steady the financial markets and restore investor confidence. While we hope that the worst is over in terms of the issues surrounding the credit and housing crises, it is likely that the fallout will continue to impact the financial markets and the U.S. economy well into 2009.

Like all asset management firms, Legg Mason has not been immune to these difficult and, in some ways, unprecedented times. However, today's challenges have only strengthened our resolve to do everything we can to help you reach your financial goals. Now, as always, we remain committed to providing you with excellent service and a full spectrum of investment choices. And rest assured, we will continue to work hard to ensure that our investment managers make every effort to deliver strong long-term results.

We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our enhanced

Letter from the chairman *continued*

website, www.leggmason.com/cef. Here you can gain immediate access to many special features to help guide you through difficult times, including:

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

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

Information about your fund

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

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

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

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

January 30, 2009

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 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.
- iii 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.
- iv The Barclays Capital (formerly 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 Barclays Capital (formerly 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.

IV Western Asset Intermediate Muni Fund Inc.

Fund overview

Q. What is the Fund's investment strategy?

A. The Fund's investment objective is to provide common shareholders a high level of current income exempt from regular federal income taxes consistent with prudent investing. Under normal market conditions, the Fund invests at least 80% of its total assets in municipal obligations. The Fund also maintains a dollar-weighted average effective maturity of between three and 10 years. Under normal market conditions, the Fund will invest at least 80% of its total assets in debt securities that are, at the time of investment, rated investment grade by a nationally recognized statistical rating organization (NRSRO) or, if unrated, of equivalent quality as determined by the investment manager. In addition, up to 20% of the Fund's total assets may be invested in debt securities that are, at the time of investment, rated below investment grade by an NRSRO or, if unrated, of equivalent quality as determined by the investment manager.

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

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

A. During the fiscal year, the U.S. bond market experienced periods of increased volatility. Changing perceptions regarding the economy, inflation and future Federal Reserve Board (Fed) monetary policy caused bond prices to fluctuate. Two- and 10-year Treasury yields began the reporting period at 3.05% and 4.04%, respectively. Treasury yields moved lower and their prices moved higher during the first quarter of 2008, as concerns regarding the subprime mortgage market and a severe credit crunch caused a flight to quality. During this period, investors were drawn to the relative safety of Treasuries, while increased risk aversion caused other segments of the bond market to falter.

Treasury yields then moved higher in April, May and early June 2008, as the economy performed better than expected and inflation moved higher. Over this period, riskier fixed-income asset classes, such as high-yield bonds and emerging market debt, rallied. However, the credit crunch resumed in mid-June, resulting in another flight to quality. Investors' risk aversion then intensified from September through November given the severe disruptions

Fund overview *continued*

in the global financial markets. During this time, virtually every asset class, with the exception of short-term Treasuries, performed poorly. At the end of the fiscal year, two- and 10-year Treasury yields were 0.76% and 2.25%, respectively.

Tax-free bonds were not immune to the volatility in the financial markets during the reporting period. In addition to increased risk aversion, the municipal market was pressured by issues related to monoline bond insurers and a lack of liquidity. In addition, there were fears that an economic recession would negatively impact municipalities, as they would generate less tax revenues.

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

A. During the reporting period, two major themes played out. The municipal yield curveⁱⁱ steepened dramatically from a very flat to a more normal or, at various times, steep slope. Additionally, credit quality spreads widened substantially as deleveraging and forced selling in the municipal market created a scenario where higher quality was much more in demand. As a result of these developments, we extended the Fund's durationⁱⁱⁱ and added some attractively valued lower-quality securities to the portfolio.

Performance review

For the 12 months ended December 31, 2008, Western Asset Intermediate Muni Fund Inc. returned -7.56% based on its net asset value (NAV)^{iv} and -8.44% based on its New York Stock Exchange (NYSE)^v market price per share. The Fund's unmanaged benchmark, the Barclays Capital 1-15 Year Municipal Bond Index^v, returned 2.48% for the same period. The Lipper Intermediate Municipal Debt Closed-End Funds Category Average^{vi} returned -10.85% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During the 12-month period, the Fund made distributions to shareholders totaling \$0.41 per share. The performance table on the next page shows the Fund's 12-month total return based on its NAV and market price as of December 31, 2008. **Past performance is no guarantee of future results.**

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.

PERFORMANCE SNAPSHOT as of December 31, 2008 (unaudited)

PRICE PER SHARE	12-MONTH TOTAL RETURN*
\$8.52 (NAV)	-7.56%
\$7.55 (Market Price)	-8.44%

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

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

Q. What were the leading contributors to performance?

A. The Fund's allocation to the Local General Obligation sector contributed to performance for the period. General Obligation municipal bonds are supported by the full faith and credit of the issuing jurisdiction and are senior to all other obligations of the municipality. In an environment where concerns were mounting about creditworthiness, the municipal market could no longer rely on municipal bond insurance, which was previously attached to 60% of new issues, causing them to be AAA-rated. Investors sought out General Obligation securities in the wake of the unprecedented volatility witnessed in the municipal market during 2008. These securities also tend to be more liquid and actively traded, making them appealing in an uncertain market environment.

Our weighting to the Pre-refunded^{vii} sector was also beneficial as a flight to quality to U.S. Treasuries caused this area to be the best performer within the municipal market. A lack of exposure to the Tobacco and Airline sectors contributed to the Fund's relative performance, as well, as did maintaining an underweight to the Housing sector. Finally, having a portfolio with higher credit quality positions than that of its peers contributed to performance as spreads widened significantly during the 12-month reporting period.

Q. What were the leading detractors from performance?

A. From a sector perspective, allocations to Health Care,¹ Industrial Development and Pollution Control and Electric revenue bonds detracted from results. As opposed to General Obligation municipal bonds that are supported by the full faith and credit of the issuing jurisdiction, securities in these sectors are supported by a defined stream of revenue. In times of market stress, investors tend to move out of these sectors as they seek the refuge of State and Local General Obligation securities, which they perceive to be more secure. In addition, there were concerns regarding the Health Care sector due to pressure on funding, as municipalities struggled to

¹ Health Care consists of the following industries: Hospitals/Nursing Facilities, Pharmacy Services, Medical Wholesale Drug Distributors, Drug Delivery Systems, Medical Products/Instruments, Medical & Laboratory Testing, Healthcare Cost Containment and Scientific Instruments.

Fund overview *continued*

balance their budgets. Industrial Development and Pollution Control issues are supported by corporate credit. During the reporting period, corporate credit spreads widened significantly due to increased investor risk aversion.

The Fund's yield curve positioning also detracted from performance for the period.

A short position in U.S. Treasury futures was a drag on the Fund's performance. We use U.S. Treasury futures, both long and short positions, to manage opportunistically the Fund's interest rate exposure (i.e., duration). We would sell these futures short if we wanted to shorten the duration of the portfolio. Conversely, we would be long the futures contracts if we wanted to quickly extend the portfolio's duration. This strategy generally produces reliable results. However, this was not the case during the reporting period as the massive flight to quality toward the end of the fiscal year drove U.S. Treasury yields down to historically low levels while, at the same time, municipal yields rose dramatically. Therefore, while the short position did help reduce the Fund's average duration, the defensive aspect of the strategy was overwhelmed by the extreme widening between U.S. Treasury and municipal yields.

Finally, the Fund's use of leverage, via municipal Auction Rate Cumulative Preferred Stock (ARCPS), detracted from performance relative to the unleveraged benchmark. While leverage offers the potential to generate additional income and increased total returns for common shareholders, the benefits provided by leveraging are influenced by the price movements of the bonds added to the portfolio as a result of the leverage. As mentioned above, tax-free bonds came under pressure due to risk aversion, concerns about monolines and lack of liquidity. Overall declining valuations had a negative effect on performance that was magnified by the use of leverage. The ARCPS dividend rates ranged from 1.142% to 11.347% during the fiscal year. The weighted average dividend rate for the year ended December 31, 2008 was 3.499%. Although the Fund's borrowing costs were relatively high for periods during the fiscal year, overall, the use of leverage increased the Fund's net investment income available to common shareholders.

Looking for additional information?

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

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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.

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

Sincerely,

Western Asset Management Company

January 20, 2009

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

RISKS: Keep in mind, the Fund's investments are subject to interest rate and credit risks. As interest rates rise, bond prices fall, reducing the value of the fixed-income securities held by the Fund. Lower-rated, higher-yielding bonds, known as "junk bonds", are subject to greater credit risk, including the risk of default, than higher-rated obligations. 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. Certain investors may be subject to the federal alternative minimum tax, and state and local taxes will apply. Capital gains, if any, are fully taxable.

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

- i The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- ii The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.
- iii Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.
- iv Net asset value (NAV) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.
- v The Barclays Capital (formerly Lehman Brothers) 1-15 Year Municipal Bond Index is a market value weighted index of investment grade (Baa3/BBB- or higher) fixed-rate municipal bonds with maturities of 1-15 years.

- vi Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the 12-month period ended December 31, 2008, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 7 funds in the Fund's Lipper category.
- vii A pre-refunded bond is a bond in which the original security has been replaced by an escrow, usually consisting of treasuries or agencies, which has been structured to pay principal and interest and any call premium, either to a call date (in the case of a pre-refunded bond), or to maturity (in the case of an escrowed to maturity bond).

Fund at a glance (unaudited)

INVESTMENT BREAKDOWN (%) As a percent of total investments December 31, 2008

Schedule of investments

December 31, 2008

WESTERN ASSET INTERMEDIATE MUNI FUND INC.

	FACE AMOUNT	SECURITY	VALUE
MUNICIPAL BONDS	99.3%		
\$	3,000,000	Alabama 3.2%	
		Alabama State Public School & College Authority, FSA, 5.125% due 11/1/15	\$ 3,051,630
	1,225,000	Baldwin County, AL, Board of Education, Capital Outlay School Warrants, AMBAC, 5.000% due 6/1/20	1,251,680
	1,000,000	Saraland, AL, GO, MBIA, 5.250% due 1/1/15	1,052,690
		<i>Total Alabama</i>	<i>5,356,000</i>
		Alaska 1.7%	
	1,000,000	Alaska Industrial Development & Export Authority Revenue, Williams Lynxs Alaska Cargo Port LLC, 8.000% due 5/1/23(a)	817,300
	500,000	Anchorage, AK, GO, Refunding, FGIC, 6.000% due 10/1/14	582,775
	1,250,000	North Slope Boro, AK, Refunding, MBIA, 5.000% due 6/30/15	1,342,163
		<i>Total Alaska</i>	<i>2,742,238</i>
		Arizona 0.1%	
	158,000	Maricopa County, AZ, Hospital Revenue, St. Lukes Medical Center, 8.750% due 2/1/10(b)	164,036
		Arkansas 1.5%	
	1,500,000	Arkansas State Development Finance Authority Hospital Revenue, Washington Regional Medical Center, 7.000% due 2/1/15(c)	1,567,995
	1,000,000	Warren County, AR, Solid Waste Disposal Revenue, Potlatch Corp. Project, 7.000% due 4/1/12(a)	942,330
		<i>Total Arkansas</i>	<i>2,510,325</i>
		California 3.3%	
	1,500,000	Barona, CA, Band of Mission Indians, GO, 8.250% due 1/1/20	1,303,995
	2,000,000	California Statewide CDA Revenue, Lodi Memorial Hospital, 5.000% due 12/1/22	1,775,060
	785,000	Los Angeles, CA, COP, Hollywood Presbyterian Medical Center, INDLC, 9.625% due 7/1/13(b)	928,592
	250,000	San Francisco, CA, Airport Improvement Corp. Lease Revenue, United Airlines Inc., 8.000% due 7/1/13(b)	285,233
	1,000,000	San Francisco, CA, City & County Airports Commission, International Airport Revenue, 6.500% due 5/1/10(a)(d)(g)	1,013,260
	70,000	San Leandro, CA, Hospital Revenue, Vesper Memorial Hospital, 11.500% due 5/1/11(b)	78,698
		<i>Total California</i>	<i>5,384,838</i>
		Colorado 6.5%	
	1,860,000	Broomfield, CO, COP, Open Space Park & Recreation Facilities, AMBAC, 5.500% due 12/1/20	1,873,894
		Colorado Educational & Cultural Facilities Authority Revenue Charter School:	
	1,000,000	Bromley East Project, 7.000% due 9/15/20(c)	1,132,320
	1,155,000	Bromley School Project, XLCA, 5.125% due 9/15/20	1,180,167

See Notes to Financial Statements.

Schedule of investments *continued*

December 31, 2008

WESTERN ASSET INTERMEDIATE MUNI FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Colorado 6.5% <i>continued</i>	
\$ 1,350,000	Refunding & Improvement, University Lab School, XLCA, 5.250% due 6/1/24	\$ 1,223,802
500,000	University Lab School Project, 6.125% due 6/1/21(c)	547,025
710,000	Denver, CO, Health & Hospital Authority, 6.250% due 12/1/16(c)	789,776
2,000,000	Public Authority for Colorado Energy, Natural Gas Purchase Revenue, 6.125% due 11/15/23	1,676,740
1,765,000	Pueblo, CO, Bridge Waterworks Water Revenue, Improvement, FSA, 6.000% due 11/1/14(c)	1,904,329
750,000	SBC Metropolitan District, CO, GO, ACA, 5.000% due 12/1/25	433,470
	<i>Total Colorado</i>	<i>10,761,523</i>
	Connecticut 2.1%	
2,000,000	Connecticut State HEFA Revenue, Bristol Hospital, 5.500% due 7/1/21	1,706,740
1,855,000	Connecticut State Special Obligation Parking Revenue, Bradley International Airport, ACA, 6.375% due 7/1/12(a)	1,745,036
	<i>Total Connecticut</i>	<i>3,451,776</i>
	Florida 1.9%	
55,000	Lee County, FL, Southwest Florida Regional Airport Revenue, MBIA, 8.625% due 10/1/09(b)	55,955
1,110,000	Old Palm Community Development District, FL, Palm Beach Gardens, 5.375% due 5/1/14	885,869
	Orange County, FL, Health Facilities Authority Revenue:	
395,000	First Mortgage Healthcare Facilities, 8.750% due 7/1/11	395,513
1,500,000	Hospital Adventist Health Systems, 6.250% due 11/15/24(c)	1,708,575
130,000	Southern Adventist Hospital, Adventist Health Systems, 8.750% due 10/1/09(b)	132,300
	<i>Total Florida</i>	<i>3,178,212</i>
	Georgia 7.6%	
970,000	Athens, GA, Housing Authority Student Housing Lease Revenue, University of Georgia East Campus, AMBAC, 5.250% due 12/1/23	992,940
650,000	Chatham County, GA, Hospital Authority Revenue, Hospital Memorial Health Medical Center, 6.000% due 1/1/17	538,967
	Georgia Municipal Electric Authority:	
3,000,000	Power Revenue, Refunding, FSA, 5.000% due 1/1/18	3,098,340
315,000	Power System Revenue, 6.500% due 1/1/12	334,568
1,000,000	Griffin, GA, Combined Public Utilities Revenue, Refunding & Improvement, AMBAC, 5.000% due 1/1/21	1,010,290
6,000,000	Main Street Natural Gas Inc., GA, Gas Project Revenue, 5.500% due 9/15/24	4,445,820
2,015,000	Metropolitan Atlanta Rapid Transit Georgia Sales Tax Revenue, 7.000% due 7/1/11(b)	2,176,160
	<i>Total Georgia</i>	<i>12,597,085</i>

See Notes to Financial Statements.

WESTERN ASSET INTERMEDIATE MUNI FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Illinois 3.1%	
\$ 535,000	Bourbonnais, IL, Industrial Development Revenue, Refunding Kmart Corp. Project, 6.600% due 10/1/06(e)	\$ 10,700
1,500,000	Chicago, IL, O Hare International Airport, Revenue, Refunding Bonds, Lien A-2, FSA, 5.750% due 1/1/19(a)	1,383,420
1,000,000	Cicero, IL, Tax Increment, XLCA, 5.250% due 1/1/21	760,900
830,000	Glendale Heights, IL, Hospital Revenue, Refunding Glendale Heights Project, 7.100% due 12/1/15(b)	964,062
300,000	Illinois Development Finance Authority, Chicago Charter School Foundation Project A, 5.250% due 12/1/12(b)	312,459
175,000	Illinois Health Facilities Authority Revenue, Methodist Medical Center of Illinois Project, 9.000% due 10/1/10(b)	183,612
1,310,000	Kane County, IL, GO, FGIC, 5.500% due 1/1/14(c)	1,422,437
	<i>Total Illinois</i>	<i>5,037,590</i>
	Indiana 3.0%	
800,000	Ball State University, Indiana University Revenue, Student Fee, FGIC, 5.750% due 7/1/20(c)	891,216
4,000,000	Indianapolis, IN, Thermal Energy System, Multi-Mode, 5.000% due 10/1/23(d)(f)	3,970,880
70,000	Madison County, IN, Hospital Authority Facilities Revenue, Community Hospital of Anderson Project, 9.250% due 1/1/10(b)	72,499
	<i>Total Indiana</i>	<i>4,934,595</i>
	Iowa 1.0%	
1,000,000	Iowa Finance Authority, Health Care Facilities Revenue, Genesis Medical Center, 6.250% due 7/1/20	1,011,830
600,000	Muscatine, IA, Electric Revenue, 9.700% due 1/1/13(b)	690,576
	<i>Total Iowa</i>	<i>1,702,406</i>
	Louisiana 1.3%	
200,000	Louisiana Public Facilities Authority Hospital Revenue, Southern Baptist Hospital Inc. Project, Aetna, 8.000% due 5/15/12(b)	218,920
1,690,000	Monroe, LA, Sales & Use Tax Revenue, FGIC, 5.625% due 7/1/25(c)	1,932,397
	<i>Total Louisiana</i>	<i>2,151,317</i>
	Maryland 0.6%	
860,000	Maryland State Health & Higher EFA Revenue, Refunding Mercy Medical Center, FSA, 6.500% due 7/1/13	943,884
	Massachusetts 6.0%	
255,000	Boston, MA, Water & Sewer Commission Revenue, 10.875% due 1/1/09(b)	255,000
1,130,000	Lancaster, MA, GO, AMBAC, 5.375% due 4/15/17	1,186,387
2,000,000	Massachusetts Educational Financing Authority Education Loan Revenue, 6.125% due 1/1/22(a)	1,963,700
	Massachusetts State DFA Revenue:	
500,000	Curry College, ACA, 6.000% due 3/1/20	415,410
370,000	VOA Concord, GNMA-Collateralized, 6.700% due 10/20/21(c)	436,345

See Notes to Financial Statements.

Schedule of investments *continued*

December 31, 2008

WESTERN ASSET INTERMEDIATE MUNI FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Massachusetts 6.0% <i>continued</i>	
	Massachusetts State HEFA Revenue:	
	Caritas Christi Obligation:	
\$ 2,000,000	6.500% due 7/1/12	\$ 1,916,080
835,000	6.750% due 7/1/16	718,334
1,000,000	Milford-Whitinsville Regional Hospital, 6.500% due 7/15/23(c)	1,163,230
960,000	Winchester Hospital, 6.750% due 7/1/30(c)	1,027,737
880,000	Massachusetts State Industrial Finance Agency Assisted Living Facility Revenue, Arbors at Amherst Project, GNMA-Collateralized, 5.750% due 6/20/17(a)	887,533
	<i>Total Massachusetts</i>	<i>9,969,756</i>
	Michigan 2.7%	
1,000,000	Jenison, MI, Public Schools GO, Building and Site, FGIC, 5.500% due 5/1/20	1,038,880
	Michigan State, Hospital Finance Authority Revenue:	
1,000,000	Oakwood Obligated Group, 5.500% due 11/1/18	906,730
	Refunding, Hospital Sparrow Obligated:	
500,000	5.000% due 11/15/12	476,400
1,190,000	5.000% due 11/15/14	1,093,860
1,000,000	Walled Lake, MI, Consolidated School District, MBIA, 5.000% due 5/1/22	1,016,170
	<i>Total Michigan</i>	<i>4,532,040</i>
	Missouri 3.1%	
1,000,000	Hazelwood, MO, School District, Missouri Direct Deposit Program, FGIC, 5.000% due 3/1/23	1,007,310
405,000	Lees Summit, MO, IDA Health Facilities Revenue, John Knox Village, 5.750% due 8/15/11(b)	446,229
	Missouri State Environmental Improvement & Energy Resources Authority:	
2,500,000	KC Power & Light Co. Project, 4.900% due 7/1/13(a)(d)(g)	2,411,250
1,000,000	Water Pollution Control, State Revolving Funds Program, 5.250% due 7/1/18	1,138,490
160,000	Nevada, MO, Waterworks Systems Revenue, AMBAC, 10.000% due 10/1/10(b)	171,350
	<i>Total Missouri</i>	<i>5,174,629</i>
	Nebraska 1.1%	
	NebHELP Inc. Nebraska Revenue, MBIA:	
900,000	6.200% due 6/1/13(a)	899,775
1,000,000	6.450% due 6/1/18(a)	937,590
	<i>Total Nebraska</i>	<i>1,837,365</i>
	Nevada 0.2%	
275,000	Henderson, NV, Health Care Facilities Revenue, Unrefunded Balance, Catholic West, 6.200% due 7/1/09(b)	282,123

See Notes to Financial Statements.

WESTERN ASSET INTERMEDIATE MUNI FUND INC.

FACE AMOUNT	SECURITY	VALUE
	New Hampshire 3.5%	
	New Hampshire HEFA Revenue:	
	Covenant Health:	
\$ 445,000	6.500% due 7/1/17(c)	\$ 503,348
265,000	Unrefunded Balance, 6.500% due 7/1/17	272,836
6,400,000	Healthcare Systems Covenant Health, 5.000% due 7/1/28	4,937,856
	<i>Total New Hampshire</i>	<i>5,714,040</i>
	New Jersey 1.9%	
295,000	New Jersey EDA Revenue, Cigarette Tax, 5.625% due 6/15/17	267,966
3,000,000	New Jersey State, Higher Education Assistance Authority, Student Loan Revenue, Student Loan, 5.875% due 6/1/21(a)	2,780,880
110,000	Ringwood Borough, NJ, Sewer Authority Special Obligation, 9.875% due 7/1/13(b)	129,504
	<i>Total New Jersey</i>	<i>3,178,350</i>
	New Mexico 1.7%	
1,100,000	Bernalillo County, NM, Gross Receipts Tax Revenue, AMBAC, 5.250% due 10/1/18	1,244,034
1,415,000	New Mexico Finance Authority Revenue, Subordinated Lien, Public Project Revolving Fund, MBIA, 5.000% due 6/15/19	1,495,938
	<i>Total New Mexico</i>	<i>2,739,972</i>
	New York 3.2%	
395,000	New York City, NY, IDA, Civic Facilities Revenue, Community Hospital Brooklyn, 6.875% due 11/1/10	389,245
3,025,000	New York State Dormitory Authority, New York & Presbyterian Hospital, FSA, 5.250% due 2/15/24	2,938,818
2,000,000	New York State Thruway Authority, Highway & Bridge, Trust Fund Revenue, AMBAC, 5.000% due 4/1/21	2,021,500
	<i>Total New York</i>	<i>5,349,563</i>
	North Carolina 0.8%	
1,000,000	North Carolina Eastern Municipal Power Agency, Power System Revenue, 6.450% due 1/1/14	1,023,200
335,000	North Carolina Municipal Power Agency No. 1, Catawba Electricity Revenue, 10.500% due 1/1/10(b)	349,067
	<i>Total North Carolina</i>	<i>1,372,267</i>
	Ohio 4.2%	
2,000,000	American Municipal Power-Ohio Inc., Electricity Purchase Revenue, 5.000% due 2/1/13	1,802,280
345,000	Cuyahoga County, OH, Hospital Facilities Revenue, Canton Inc. Project, 6.750% due 1/1/10	350,768
1,000,000	Kettering, OH, City School District, School Improvement, FSA, 5.000% due 12/1/19	1,057,460
	Lake County, OH, Hospital Improvement Revenue:	
60,000	Lake County Memorial Hospital Project, 8.625% due 11/1/09(b)	61,294
45,000	Ridgecliff Hospital Project, 8.000% due 10/1/09(b)	45,703

See Notes to Financial Statements.

Schedule of investments *continued*

December 31, 2008

WESTERN ASSET INTERMEDIATE MUNI FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Ohio 4.2% <i>continued</i>	
	Ohio State:	
\$ 3,010,000	GO, Conservation Project, 5.250% due 9/1/13	\$ 3,182,985
	Water Development Authority Revenue:	
440,000	Refunding, Safe Water Service, 9.375% due 12/1/10(b)(f)	459,219
45,000	Safe Water, 9.000% due 12/1/10(b)	46,696
	<i>Total Ohio</i>	<i>7,006,405</i>
	Oregon 0.5%	
855,000	Wasco County, OR, Solid Waste Disposal Revenue, Waste Connections Inc. Project, 7.000% due 3/1/12(a)	852,888
	Pennsylvania 6.0%	
495,000	Conneaut, PA, School District GO, AMBAC, 9.500% due 5/1/12(b)	543,748
1,000,000	Harrisburg, PA, Parking Authority Parking Revenue, FSA, 5.500% due 5/15/20(c)	1,121,420
1,365,000	Northampton County, PA, IDA Revenue, Mortgage Moravian Hall Square Project, Radian, 5.500% due 7/1/19	1,351,077
1,000,000	Pennsylvania State IDA Revenue, Economic Development, AMBAC, 5.500% due 7/1/21 Philadelphia, PA:	1,034,870
1,000,000	Gas Works Revenue, 7th General Ordinance, AMBAC, 5.000% due 10/1/17	995,730
1,000,000	School District, FSA, 5.500% due 2/1/23(c)	1,108,100
2,000,000	Water & Wastewater, FGIC, 5.250% due 11/1/14	2,137,300
1,350,000	Pittsburgh, PA, School District GO, FSA, 5.375% due 9/1/16	1,553,782
	<i>Total Pennsylvania</i>	<i>9,846,027</i>
	Rhode Island 0.6%	
1,000,000	Central Falls, RI, GO, Radian, 5.875% due 5/15/15	1,022,070
	South Carolina 4.4%	
1,445,000	Charleston, SC, Waterworks & Sewer Revenue, 5.250% due 1/1/16	1,518,839
1,100,000	Greenville County, SC, School District Installment Purchase, Revenue, Refunding, Building Equity, 6.000% due 12/1/21(c)	1,272,304
5,030,000	South Carolina Transportation Infrastructure Bank Revenue, AMBAC, 5.000% due 10/1/29	4,441,138
	<i>Total South Carolina</i>	<i>7,232,281</i>
	South Dakota 1.5%	
2,400,000	Minnehaha County, SD, GO, Limited Tax Certificates, 5.625% due 12/1/20(c)	2,464,896
	Tennessee 3.5%	
300,000	Jackson, TN, Water & Sewer Revenue, 7.200% due 7/1/12(b)	325,260
	Tennessee Energy Acquisition Corp., Gas Revenue:	
2,500,000	5.250% due 9/1/20	1,915,025
5,000,000	5.250% due 9/1/23	3,596,950
	<i>Total Tennessee</i>	<i>5,837,235</i>

See Notes to Financial Statements.

WESTERN ASSET INTERMEDIATE MUNI FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Texas 11.5%	
\$ 5,140,000	Austin Texas Electric Utility System Revenue, Refunding, AMBAC, 5.000% due 11/15/19	\$ 5,322,007
1,600,000	Brazos River, TX, Harbor Navigation District, BASF Corp. Project, 6.750% due 2/1/10	1,678,944
1,000,000	Dallas-Fort Worth, TX, International Airport Revenue, Refunding, FSA, 5.500% due 11/1/20(a)	911,320
	El Paso County, TX, Housing Finance Corp.:	
260,000	La Plaza Apartments, Subordinated, 8.000% due 7/1/30	203,869
360,000	MFH Revenue, American Village Communities, 6.250% due 12/1/24	329,033
	El Paso, TX, Water & Sewer Revenue, Refunding & Improvement, FSA:	
955,000	6.000% due 3/1/15(c)	1,078,634
45,000	Unrefunded Balance, 6.000% due 3/1/15	49,257
2,000,000	Fort Worth, TX, Water & Sewer Revenue, 5.625% due 2/15/17(c)	2,229,560
1,000,000	Harris County, TX, Hospital District Revenue, MBIA, 6.000% due 2/15/15(c)	1,064,950
2,000,000	North Texas Tollway Authority Revenue, MBIA, 5.125% due 1/1/28	1,843,840
3,000,000	Sabine River Authority, Texas PCR, Southwestern Electric Power Co., MBIA, 4.950% due 3/1/18	2,900,820
1,000,000	Southwest Higher Education Authority Inc., Southern Methodist University Project, AMBAC, 5.500% due 10/1/19(c)	1,125,360
125,000	Tarrant County, TX, Hospital Authority Revenue, Adventist Health System-Sunbelt, 10.250% due 10/1/10(b)	132,994
175,000	Texas State Department Housing Community Affairs Home Mortgage Revenue, RIBS, GNMA/FNMA/FHLMC-Collateralized, 10.925% due 1/29/09(a)(d)(h)	153,542
	<i>Total Texas</i>	<i>19,024,130</i>
	Utah 0.9%	
	Spanish Fork City, UT, Water Revenue, FSA:	
1,135,000	Unrefunded Balance, 5.500% due 6/1/16	1,155,339
350,000	5.500% due 6/1/16(c)	393,043
	<i>Total Utah</i>	<i>1,548,382</i>
	Virginia 2.6%	
	Pittsylvania County, VA, GO:	
540,000	5.500% due 2/1/22	564,613
1,030,000	5.500% due 2/1/23	1,068,666
2,490,000	5.600% due 2/1/24	2,583,027
	<i>Total Virginia</i>	<i>4,216,306</i>
	Washington 1.3%	
2,000,000	Energy Northwest Washington Electric Revenue, Project No. 3, FSA, 5.500% due 7/1/18	2,095,220

See Notes to Financial Statements.

Schedule of investments *continued*

December 31, 2008

WESTERN ASSET INTERMEDIATE MUNI FUND INC.

FACE AMOUNT	SECURITY	VALUE
\$ 45,000	West Virginia 0.0% Cabell Putnam & Wayne Counties, WV, Single - Family Residence Mortgage Revenue, FGIC, 7.375% due 4/1/10(b)	\$ 46,227
2,000,000	Wisconsin 1.2% La Crosse, WI, Resource Recovery Revenue, Refunding Bonds, Northern States Power Co. Project, 6.000% due 11/1/21(a)	1,905,800
	TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS (Cost \$172,013,124)	164,163,797
SHORT-TERM INVESTMENTS 0.7%	Florida 0.6% Orange County, FL, School Board, COP, LOC-Wachovia Bank N.A., 0.900%, 1/2/09(i)	900,000
200,000	Oregon 0.1% Multnomah County, OR, Hospital Facilities Authority Revenue, Holladay Park Plaza Project, LOC-Allied Irish Bank PLC, 1.200%, 1/2/09(i)	200,000
	TOTAL SHORT-TERM INVESTMENTS (Cost \$1,100,000)	1,100,000
	TOTAL INVESTMENTS 100.0% (Cost \$173,113,124#)	\$ 165,263,797

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

(b) 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.

(c) 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.

(d) Variable rate security. Interest rate disclosed is that which is in effect at December 31, 2008.

(e) Security is currently in default.

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

(g) Maturity date shown represents the mandatory tender date.

(h) Residual interest bonds coupon varies inversely with level of short-term tax-exempt interest rates.

(i) Variable rate demand obligations have a demand feature under which the Fund can tender them back to the issuer on no more than 7 days notice. Date shown is the date of the next interest rate change.

Aggregate cost for federal income tax purposes is \$173,094,858.

See Notes to Financial Statements.

WESTERN ASSET INTERMEDIATE MUNI FUND INC.

Abbreviations used in this schedule:

ACA	American Capital Assurance	Insured Bonds
AMBAC	Ambac Assurance Corporation	Insured Bonds
CDA	Community Development Authority	
COP	Certificate of Participation	
DFA	Development Finance Agency	
EDA	Economic Development Authority	
EFA	Educational Facilities Authority	
FGIC	Financial Guaranty Insurance Company	Insured Bonds
FHLMC	Federal Home Loan Mortgage Corporation	
FNMA	Federal National Mortgage Association	
FSA	Financial Security Assurance	Insured Bonds
GNMA	Government National Mortgage Association	
GO	General Obligation	
HEFA	Health & Educational Facilities Authority	
IDA	Industrial Development Authority	
INDLC	Industrial Indemnity Company	Insured Bonds
LOC	Letter of Credit	
MBIA	Municipal Bond Investors Assurance Corporation	Insured Bonds
MFH	Multi-Family Housing	
PCR	Pollution Control Revenue	
RIBS	Residual Interest Bonds	
Radian	Radian Asset Assurance	
XLCA	XL Capital Assurance Inc.	Insured Bonds

SUMMARY OF INVESTMENTS BY SECTOR* (unaudited)

Pre-refunded/escrowed to maturity	22.0%
Hospitals	13.8
Electric	13.0
Industrial development	11.0
Local general obligation	10.2
Transportation	8.1
Education	7.4
Water & sewer	3.6
Leasing	3.2
Resource recovery	2.5
State general obligation	1.9
Other revenue	1.7
Special tax	1.2
Housing	0.4
	100.0%

* As a percentage of total investments. Please note that Fund holdings are as of December 31, 2008 and are subject to change.

See Notes to Financial Statements.

Schedule of investments *continued*

December 31, 2008

WESTERN ASSET INTERMEDIATE MUNI FUND INC.

RATINGS TABLE (unaudited)

S&P/Moody s/Fitch	
AAA/Aaa	24.1%
AA/ Aa	27.7
A	29.6
BBB/Baa	10.4
BB/Ba	1.6
A-1/VMIG1	0.6
NR	6.0
	100.0%

As a percentage of total investments.

S&P primary rating; Moody s secondary; then Fitch.

See pages 17 and 18 for definitions of ratings.

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 can be visualized as most unlikely to impair the fundamentally strong position of such issues.
Aa	Bonds rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.
A	Bonds rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment some time in the future.
Baa	Bonds rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.
Ba	Bonds rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and therefore not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

Bond ratings (unaudited) *continued*

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.
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.

Short-term security ratings

NR	Indicates that the bond is not rated by Standard & Poor s, Moody s or Fitch.
SP-1	Standard & Poor s highest rating indicating very strong or strong capacity to pay principal and interest; those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign.
A-1	Standard & Poor s highest commercial paper and variable-rate demand obligation (VRDO) rating indicating that the degree of safety regarding timely payment is either overwhelming or very strong; those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign.
VMIG 1	Moody s highest rating for issues having a demand feature VRDO.
MIG1	Moody s highest rating for short-term municipal obligations.
P-1	Moody s highest rating for commercial paper and for VRDO prior to the advent of the VMIG 1 rating.
F1	Fitch s highest rating indicating the strongest capacity for timely payment of financial commitments; those issues determined to possess overwhelming strong credit feature are denoted with a plus (+) sign.

Statement of assets and liabilities**December 31, 2008****ASSETS:**

Investments, at value (Cost \$173,113,124)	\$ 165,263,797
Interest receivable	2,915,397
Receivable for securities sold	1,055,000
Receivable from broker variation margin on open futures contracts	533,672
Prepaid expenses	18,099
<i>Total Assets</i>	<i>169,785,965</i>

LIABILITIES:

Investment management fee payable	78,048
Due to custodian	21,470
Directors fees payable	12,646
Distributions payable to auction rate cumulative preferred stockholders	4,801
Accrued expenses	80,370
<i>Total Liabilities</i>	<i>197,335</i>

Series M Municipal Auction Rate Cumulative Preferred Stock (2,000 shares authorized and issued at \$25,000 per share) (Note 4)	50,000,000
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TOTAL NET ASSETS	\$ 119,588,630
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NET ASSETS:

Par value (\$0.001 par value; 14,032,784 shares issued and outstanding, 100,000,000 shares authorized)	\$ 14,033
Paid-in capital in excess of par value	141,521,690
Undistributed net investment income	291,873
Accumulated net realized loss on investments and futures contracts	(12,547,729)
Net unrealized depreciation on investments and futures contracts	(9,691,237)

TOTAL NET ASSETS	\$ 119,588,630
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Shares Outstanding	14,032,784
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Net Asset Value	\$8.52
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See Notes to Financial Statements.

Statement of operations

For the Year Ended December 31, 2008

INVESTMENT INCOME:	
Interest	\$ 9,195,757
EXPENSES:	
Investment management fee (Note 2)	996,592
Auction participation fees (Note 4)	125,000
Legal fees	101,434
Shareholder reports	73,639
Audit and tax	46,200
Directors fees	42,269
Stock exchange listing fees	38,141
Transfer agent fees	19,743
Custody fees	7,060
Insurance	4,064
Interest expense (Note 1)	240
Miscellaneous expenses	11,592
<i>Total Expenses</i>	<i>1,465,974</i>
NET INVESTMENT INCOME	7,729,783
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FUTURES CONTRACTS (NOTES 1 AND 3):	
Net Realized Gain (Loss) From:	
Investment transactions	639,612
Futures contracts	(2,931,804)
<i>Net Realized Loss</i>	<i>(2,292,192)</i>
Change in Net Unrealized Appreciation/Depreciation From:	
Investments	(12,401,970)
Futures contracts	(1,841,910)
<i>Change in Net Unrealized Appreciation/Depreciation</i>	<i>(14,243,880)</i>
NET LOSS ON INVESTMENTS AND FUTURES CONTRACTS	(16,536,072)
Distributions Paid to Auction Rate Cumulative Preferred Stockholders From Net Investment Income (Notes 1 and 4)	(1,703,574)
DECREASE IN NET ASSETS FROM OPERATIONS	\$ (10,509,863)

See Notes to Financial Statements.

Statements of changes in net assets

FOR THE YEARS ENDED DECEMBER 31,	2008	2007
OPERATIONS:		
Net investment income	\$ 7,729,783	\$ 7,702,790
Net realized gain (loss)	(2,292,192)	869,584
Change in net unrealized appreciation/depreciation	(14,243,880)	(1,896,922)
Distributions paid to auction rate cumulative preferred stockholders from net investment income	(1,703,574)	(1,898,597)
<i>Increase (Decrease) in Net Assets From Operations</i>	<i>(10,509,863)</i>	<i>4,776,855</i>
DISTRIBUTIONS TO SHAREHOLDERS FROM (NOTE 1):		
Net investment income	(5,725,376)	(5,879,737)
<i>Decrease in Net Assets From Distributions Paid to Common Stock Shareholders</i>	<i>(5,725,376)</i>	<i>(5,879,737)</i>
DECREASE IN NET ASSETS	(16,235,239)	(1,102,882)
NET ASSETS:		
Beginning of year	135,823,869	136,926,751
End of year*	\$ 119,588,630	\$ 135,823,869
* Includes undistributed and (overdistributed) net investment income, respectively of:	\$291,873	\$(5,122)

See Notes to Financial Statements.

Financial highlights**FOR A SHARE OF CAPITAL STOCK OUTSTANDING THROUGHOUT EACH YEAR ENDED DECEMBER 31:**

	2008	2007	2006	2005	2004
NET ASSET VALUE, BEGINNING OF YEAR	\$9.68	\$9.76	\$9.66	\$10.02	\$10.26
INCOME (LOSS) FROM OPERATIONS:					
Net investment income	0.55	0.55	0.56	0.56	0.64
Net realized and unrealized gain (loss)	(1.18)	(0.07)	0.10	(0.27)	(0.23)
Distributions paid to auction rate cumulative preferred stockholders from net investment income	(0.12)	(0.14)	(0.12)	(0.09)	(0.04)
<i>Total income (loss) from operations</i>	<i>(0.75)</i>	<i>0.34</i>	<i>0.54</i>	<i>0.20</i>	<i>0.37</i>
DISTRIBUTIONS PAID TO COMMON STOCK SHAREHOLDERS FROM:					
Net investment income	(0.41)	(0.42)	(0.44)	(0.56)	(0.61)
<i>Total distributions</i>	<i>(0.41)</i>	<i>(0.42)</i>	<i>(0.44)</i>	<i>(0.56)</i>	<i>(0.61)</i>
NET ASSET VALUE, END OF YEAR	\$8.52	\$9.68	\$9.76	\$9.66	\$10.02
MARKET PRICE, END OF YEAR	\$7.55	\$8.66	\$9.00	\$8.60	\$9.36
<i>Total return, based on NAV^{1,2}</i>	<i>(7.56)%</i>	<i>3.89%</i>	<i>6.17%</i>	<i>2.41%</i>	<i>3.99%</i>
<i>Total return, based on Market Price²</i>	<i>(8.44)%</i>	<i>0.79%</i>	<i>9.97%</i>	<i>(2.40)%</i>	<i>(2.19)%</i>
NET ASSETS, END OF YEAR (millions)	\$120	\$136	\$137	\$136	\$141
<i>RATIOS TO AVERAGE NET ASSETS:³</i>					
Net expenses	1.12%	1.02%	1.14% ⁴	1.23% ⁵	1.14% ⁵
Net expenses, excluding interest expense	1.12	1.02	1.034	1.12	1.07
Net investment income	5.89	5.67	5.82	5.89	6.34
PORTFOLIO TURNOVER RATE	19%	26%	7%	18%	32%
<i>AUCTION RATE CUMULATIVE PREFERRED STOCK:⁶</i>					
Total Amount Outstanding (000s)	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Asset Coverage Per Share	84,794	92,912	93,463	92,776	95,272
Involuntary Liquidating Preference Per Share ⁷	25,000	25,000	25,000	25,000	25,000

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

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

³ Calculated on the basis of average net assets of common stock shareholders. Ratios do not reflect the effect of dividend payments to preferred stockholders.

⁴ Reflects fee waivers and/or expense reimbursements. Without these fee waivers and/or expense reimbursements the ratio for gross expenses and net expenses, excluding interest would have been 1.15% and 1.03%, respectively.

⁵ Ratios for 2004 through 2005 were changed to reflect a correction of an immaterial amount.

⁶ On January 28, 2002, the Fund issued 2,000 shares of Series M Municipal Auction Rate Cumulative Preferred Stock at \$25,000 per share.

⁷ Excludes accumulated and unpaid distributions.

See Notes to Financial Statements.

Notes to financial statements

1. Organization and significant accounting policies

Western Asset Intermediate Muni Fund Inc. (the Fund) was incorporated in Maryland on December 19, 1991 and is registered as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Board of Directors authorized 100 million shares of \$0.001 par value common stock. The Fund's investment objective is to provide common shareholders a high level of current income exempt from regular federal income taxes consistent with prudent investing.

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 last quoted bid and asked prices provided by an independent pricing service that are based on transactions in municipal obligations, quotations from municipal bond dealers, market transactions in comparable securities and various other relationships between securities. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. When prices are not readily available, or are determined not to reflect fair value, the Fund may value these securities at fair value as determined in accordance with the procedures approved by the Fund's Board of Directors. Short-term obligations with maturities of 60 days or less are valued at amortized cost, which approximates fair value.

Effective January 1, 2008, the Fund adopted Statement of Financial Accounting Standards No. 157 (FAS 157). FAS 157 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)

Notes to financial statements *continued*

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

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

	DECEMBER 31, 2008	QUOTED PRICES (LEVEL 1)	OTHER SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Investments in securities	\$165,263,797		\$165,263,797	
Other financial instruments*	(1,841,910)	\$(1,841,910)		
Total	\$163,421,887	\$(1,841,910)	\$165,263,797	

* Other financial instruments include futures contracts.

(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, equal in value to a certain percentage of the contract amount (initial margin deposit). 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 fluctuations in the value of the underlying financial instruments. For foreign currency denominated futures contracts, variation margins are not settled daily. The Fund recognizes an unrealized gain or loss equal to the fluctuation in the value. 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 financial instruments. In addition, investing in financial futures contracts involves the risk that the Fund could lose more than the initial 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) Net asset value. The net asset value (NAV) of the Fund's common stock is determined no less frequently than the close of business on the last business day of each week (generally Friday) and on the last business day of the month. It is determined by dividing the value of the net assets available to common stock by the total number of shares of common stock outstanding. For the purpose of determining the NAV per share of the common stock, the value of the Fund's net assets shall be deemed to equal the value of the Fund's total assets less (1) the Fund's liabilities, and (2) the aggregate liquidation value (i.e., \$25,000 per outstanding share) of the Municipal Auction Rate Cumulative Preferred Stock (Preferred Stock).

24 Western Asset Intermediate Muni Fund Inc. 2008 Annual Report

(d) Concentration of credit risk. Since the Fund invests a portion of its assets in obligations of issuers within a single state, it may be subject to possible concentration risks associated with economic, political, or legal developments or industrial or regional matters specifically affecting that state.

(e) Security transactions and investment income. Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults on an expected interest payment, the Fund's policy is to generally halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default.

(f) 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.

In addition, the holders of Preferred Stock shall be entitled to receive dividends in accordance with an auction that will normally be held weekly and out of the funds legally available to shareholders.

(g) Fees paid indirectly. The Fund's custody fees are reduced according to a fee arrangement, which provides for a reduction based on the level of cash deposited with the custodian by the Fund. The amount is shown as a reduction of expenses on the Statement of Operations. Interest expense, if any, paid to the custodian related to cash overdrafts is included in Interest expense in the Statement of Operations.

(h) 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 taxable income and net realized gains, if any, to shareholders each year. Therefore, no federal income tax provision is required in the Fund's financial statements.

Management has analyzed the Fund's tax positions taken on federal income tax returns for all open tax years and has concluded that as of December 31, 2008, no provision for income tax would be required in the Fund's financial statements. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

Notes to financial statements *continued*

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

	UNDISTRIBUTED NET INVESTMENT INCOME	ACCUMULATED NET REALIZED LOSS
(a)	\$(3,838)	\$3,838

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

2. Investment management agreement and other transactions with affiliates

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

LMPFA provides administrative and certain oversight services to the Fund. 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. For the purposes of calculating the investment management fee, the aggregate liquidation value of the Preferred Stock is not deducted in determining the Fund's average daily net assets.

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

The Fund had adopted an unfunded, non-qualified deferred compensation plan (the Plan) which allowed non-interested directors (Independent Directors) to defer the receipt of all or a portion of the directors' fees earned until a later date specified by the Independent Directors. The deferred balances are reported in the Statement of Operations under Directors' fees and are considered a general obligation of the Fund and any payments made pursuant to the Plan will be made from the Fund's general assets. The Plan was terminated effective January 1, 2007. This change will have no effect on fees previously deferred. As of December 31, 2008, the Fund had accrued \$11,138 as deferred compensation payable.

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

3. Investments

During the year ended December 31, 2008, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were as follows:

Purchases	\$33,750,594
Sales	36,772,377

At December 31, 2008, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

Gross unrealized appreciation	\$ 3,744,870
Gross unrealized depreciation	(11,575,931)
Net unrealized depreciation	\$ (7,831,061)

At December 31, 2008, the Fund had the following open futures contracts:

	NUMBER OF CONTRACTS	EXPIRATION DATE	BASIS VALUE	MARKET VALUE	UNREALIZED LOSS
Contracts to Sell:					
U.S. Treasury 10-Year Notes	345	3/09	\$41,541,840	\$43,383,750	\$(1,841,910)

4. Municipal auction rate cumulative preferred stock

On January 28, 2002, the Fund issued 2,000 shares of Series M Municipal Auction Rate Cumulative Preferred Stock (ARCPS). The ARCPS dividends are cumulative at a rate determined at an auction and the dividend period is typically 7 days. The dividend rate cannot exceed a certain maximum rate, including in the event of a failed auction, unless the Board of Directors of the Fund authorizes an increased maximum rate. To the extent capital gains and other taxable income are allocated to holders of Preferred Shares for tax purposes, the Fund will likely have to pay higher dividends to holders of Preferred Shares to compensate them for the increased tax liability to them resulting from such allocation. Due to failed auctions experienced by the Fund's ARCPS starting on February 14, 2008, the Fund paid the applicable maximum rate, which was calculated as 110% of the prevailing, 30-day AA Financial Composite Commercial Paper Rate. The Fund may pay higher maximum rates if the rating of the Fund's ARCPS were to be lowered by the rating agencies. The dividend rates ranged from 1.142% to 11.347% during the year ended December 31, 2008. The weighted average dividend rate for the year ended December 31, 2008 was 3.499%. At December 31, 2008, the dividend rate was 1.432%.

The ARCPS are redeemable under certain conditions by the Fund, or subject to mandatory redemption (if the Fund is in default of certain coverage requirements) at a redemption price equal to the liquidation preference, which is the sum of \$25,000 per share plus accumulated and unpaid dividends.

Notes to financial statements *continued*

The Fund is required to maintain certain asset coverages with respect to the ARCPS. If the Fund fails to maintain these coverages and does not cure any such failure within the required time period, the Fund is required to redeem a requisite number of the ARCPS in order to meet the applicable requirement. Additionally, failure to meet the foregoing asset coverage requirements would restrict the Fund's ability to pay dividends to common shareholders.

Citigroup Global Markets Inc. (CGM) currently acts as a broker/dealer in connection with the auction of ARCPS. After each auction, the auction agent will pay to each broker/dealer, from monies the Fund provides, a participation fee at the annual rate of 0.25% of the purchase price of the ARCPS that the broker/dealer places at the auction. For the year ended December 31, 2008, CGM earned \$125,000 as a participating broker/dealer.

5. Distributions subsequent to December 31, 2008

On November 17, 2008, the Fund's Board declared dividend distributions in the amount of \$0.034 per share payable on January 30, 2009 and February 27, 2009 to shareholders of record on January 23, 2009 and February 20, 2009, respectively.

6. Income tax information and distributions to shareholders

The tax character of distributions paid during the fiscal year ended December 31, 2008, were as follows:

	2008	2007
Distributions Paid From:		
Tax-exempt income to common shareholders	\$5,725,376	\$5,877,253
Tax-exempt income to taxable auction rate cumulative preferred stockholders	1,703,574	1,897,786
Ordinary income to common shareholders		2,484
Ordinary income to taxable auction rate cumulative preferred stockholders		811
<i>Total distributions paid</i>	<i>\$7,428,950</i>	<i>\$7,778,334</i>

As of December 31, 2008, the components of accumulated earnings on a tax basis were as follows:

Undistributed tax-exempt income net	\$ 341,906
Undistributed ordinary income net	5,106
Total undistributed earnings	\$ 347,012
Capital loss carryforward*	(9,445,254)
Other book/tax temporary differences(a)	(3,175,880)
Unrealized appreciation/(depreciation)(b)	(9,672,971)
Total accumulated earnings/(losses) net	\$ (21,947,093)

* During the taxable year ended December 31, 2008, the Fund utilized \$683,654 of its capital loss carryover available from prior years.

As of December 31, 2008, the Fund had the following net capital loss carryforwards remaining:

Year of Expiration	Amount
12/31/2010	\$(3,184,235)
12/31/2011	(569,469)
12/31/2012	(3,529,445)
12/31/2013	(2,162,105)
	\$(9,445,254)

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

- (a) Other book/tax temporary differences are attributable primarily to the realization for tax purposes of unrealized losses on certain future contracts, the deferral of post-October capital losses for tax purposes and book/tax differences in the timing of the deductibility of various expenses.
- (b) The difference between book-basis and tax-basis unrealized appreciation/(depreciation) is attributable primarily to the tax deferral of losses on wash sales and the difference between book & tax accretion methods for market discount on fixed income securities.

7. Recent accounting pronouncement

In March 2008, the Financial Accounting Standards Board issued the Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (FAS 161). FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. FAS 161 requires enhanced disclosures about the Fund's derivative and hedging activities, including how such activities are accounted for and their effect on the Fund's financial position, performance and cash flows. Management is currently evaluating the impact the adoption of FAS 161 will have on the Fund's financial statements and related disclosures.

Report of independent registered public accounting firm

**The Board of Directors and Shareholders
Western Asset Intermediate Muni Fund Inc.:**

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Western Asset Intermediate Muni Fund Inc. as of December 31, 2008, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2008, by correspondence with the custodian and broker. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Western Asset Intermediate Muni Fund Inc. as of December 31, 2008, and the results of its operations for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

New York, New York

February 24, 2009

Board approval of management and subadvisory agreements (unaudited)

Background

The Investment Company Act of 1940 (the 1940 Act) requires that the Board of Directors (the Board) of Western Asset Intermediate Municipal Income Fund, Inc. (the Fund), including a majority of its members that are not considered to be interested persons under the 1940 Act (the Independent Directors) voting separately, approve the continuation of the investment management contract (the Management Agreement) with the Fund's manager, Legg Mason Partners Fund Advisor, LLC (the Manager) and the sub-advisory agreement (the Sub-Advisory Agreement) with the Manager's affiliate, Western Asset Management Company (the Subadviser), on an annual basis. In response to a request by the Independent Directors, an in-person meeting of the Board was held on October 23, 2008 (the Leadership Meeting) with senior leadership of the Manager, Western Asset and their corporate parent, Legg Mason, Inc. (Legg Mason) to discuss the investment advisory and other services provided to the Fund and other Funds in the same complex under the Board's supervision (the Legg Mason Closed-end Funds). During this Leadership Meeting, information was presented to the Board regarding, among other things, the Subadviser's economic and financial markets outlook and its investment strategies given that outlook. Additionally, the Board received information regarding recent organizational changes and continuing financial and other resources available to the Legg Mason organization to support its activities in respect of the Legg Mason Closed-end Funds. At a meeting (the Contract Renewal Meeting) held in-person on November 12 and 13, 2008, the Board, including the Independent Directors, considered and approved continuation of each of the Management and Sub-Advisory Agreements for an additional one-year term. To assist in its consideration of the renewals of the Management and Sub-Advisory Agreements, the Board received and considered a variety of information about the Manager and Subadviser, as well as the management and sub-advisory arrangements for the Fund and the other Legg Mason Closed-end Funds (together with the information provided at the Leadership and Contract Renewal Meetings, the Contract Renewal Information), certain portions of which are discussed below. A presentation made by the Manager and Subadviser to the Board at the Contract Renewal Meeting in connection with its evaluations of the Management and Sub-Advisory Agreements encompassed the Fund and all other Legg Mason Closed-end Funds. In addition to the Contract Renewal Information, the Board received performance and other information throughout the year related to the respective services rendered by the Manager and the Subadviser to the Fund. The Board's evaluation took into account the information received throughout the year and also reflected the knowledge and familiarity gained as Board members of the Fund and the other Legg Mason Closed-end Funds with respect to the services provided by each of the Manager and Subadviser.

The discussion below covers both advisory and administrative functions being rendered by the Manager, each such function being encompassed by the

Board approval of management and subadvisory agreements (unaudited) *continued*

Management Agreement, and the investment advisory function being rendered by the Subadviser.

Board approval of management agreement and sub-advisory agreement

In its deliberations regarding renewal of the Management Agreement and Sub-Advisory Agreement, the Fund's Board, including the Independent Directors, considered the factors below.

Nature, extent and quality of the services under the management agreement and sub-advisory agreement

The Board received and considered Contract Renewal Information regarding the nature, extent and quality of services provided to the Fund by the Manager and the Subadviser under the Management Agreement and the Sub-Advisory Agreement, respectively, during the past year. The Board also reviewed Contract Renewal Information regarding the Fund's compliance policies and procedures established pursuant to Rule 38a1 under the 1940 Act.

The Board reviewed the qualifications, backgrounds and responsibilities of the Fund's senior personnel and the portfolio management team primarily responsible for the day-to-day portfolio management of the Fund. The Board also considered, based on its knowledge of the Manager and its affiliates and the Contract Renewal Information, the financial resources available to the Legg Mason organization.

The Board considered the responsibilities of the Manager and the Subadviser under the Management Agreement and the Sub-Advisory Agreement, respectively, including the Manager's coordination and oversight of services provided to the Fund by the Subadviser and others.

The Board concluded that, overall, the nature, extent and quality of services provided (and expected to be provided) to the Fund under the Management Agreement and the Sub-Advisory Agreement have been satisfactory under the circumstances.

Fund performance

The Board received and considered performance information and analyses (the Lipper Performance Information) for the Fund, as well as for a group of funds (the Performance Universe) selected by Lipper, Inc. (Lipper), an independent provider of investment company data. The Board was provided with a description of the methodology Lipper used to determine the similarity of the Fund with the funds included in the Performance Universe. The Performance Universe consisted of the Fund and all leveraged closed-end intermediate municipal debt funds, as classified by Lipper, regardless of asset size. The Performance Universe consisted of seven funds, including the Fund, for the 1- and 3-year periods ended June 30, 2008 and five funds, including the Fund, for the 5-year period ended June 30, 2008. The Performance Universe for the

32 Western Asset Intermediate Muni Fund Inc.

10-year period ended June 30, 2008 did not include any funds other than the Fund. The Board noted that it had received and discussed with the Manager and Subadviser information throughout the year at periodic intervals comparing the Fund's performance against its benchmark(s) and, at the Board's request, its peer funds as selected by Lipper.

The Lipper Performance Information comparing the Fund's performance to that of the Performance Universe based on net asset value per share showed, among other things, that the Fund's performance for the 1- and 3-year periods ended June 30, 2008 in each case was ranked first among the seven funds in the Performance Universe for that period. The Lipper Information showed that the Fund's performance for the 5-year period ended June 30, 2008 was ranked fourth among the five funds in the Performance Universe for that period and was below (worse than) the median. The Board considered the Manager's explanation of the Fund's underperformance relative to the Performance Universe for the 5-year period ended June 30, 2008. Among other things, the Board noted that the Subadviser's current portfolio management team assumed responsibility in December 2005 and that the Fund's results have shown improvement since June 30, 2007 as changes implemented in the Fund's strategy by its portfolio team have taken effect. The Board also considered the Fund's performance relative to its benchmark(s) and in absolute terms.

Based on its review, which included consideration of all of the factors noted above, the Board concluded that, under the circumstances, the Fund's performance supported continuation of the Management and Sub-advisory Agreements for an additional one-year period.

Management fees and expense ratios

The Board reviewed and considered the management fee (the Management Fee) payable by the Fund to the Manager in light of the nature, extent and quality of the management and sub-advisory services provided by the Manager and the Subadviser. The Board noted that the compensation paid to the Subadviser is paid by the Manager, not the Fund, and, accordingly, that the retention of the Subadviser does not increase the fees or expenses otherwise incurred by the Fund's shareholders.

Additionally, the Board received and considered information and analyses prepared by Lipper (the Lipper Expense Information) comparing the Management Fee and the Fund's overall expenses with those of funds in an expense group (the Expense Group) selected and provided by Lipper for the 1-year period ended June 30, 2008. The Expense Group consisted of the Fund and three other closed-end leveraged intermediate municipal debt funds, as classified by Lipper. The Expense Group funds had assets ranging from \$60.9 million to \$135.9 million.

The Lipper Expense Information comparing the Management Fee as well as the Fund's actual total expenses to the Fund's Expense Group showed that the Fund's contractual Management Fee was ranked first among the four funds in the Expense Group. However, the Fund's actual Management Fee (i.e., giving

Board approval of management and subadvisory agreements (unaudited) *continued*

effect to any voluntary fee waiver implemented by the Manager with respect to the Fund and by managers of the other Expense Group Funds) measured both on the basis of common assets only and on the basis of common and leveraged assets was ranked fourth among the four funds in the Expense Group. The Fund's actual total expenses ranked second among the four funds in the Expense Group and were below (better than) the Performance Group median on the basis of common assets only but ranked fourth among the funds in the Performance Group Universe on the basis of common and leveraged assets. The Board considered the Manager's explanation of the Fund's rankings with respect to actual Management Fees and actual total expenses. The Board also noted that the small number of funds in the Expense Group and their varying size made meaningful comparisons difficult.

The Board also reviewed Contract Renewal Information regarding fees charged by the Manager to other U.S. clients investing primarily in an asset class similar to that of the Fund, including, where applicable, separate accounts. The Board was advised that the fees paid by such other clients generally are lower, and may be significantly lower, than the Management Fee. The Contract Renewal Information discussed the significant differences in scope of services provided to the Fund and to these other clients, noting that the Fund is provided with administrative services, office facilities, Fund officers (including the Fund's chief executive, chief financial and chief compliance officers), and that the Manager coordinates and oversees the provision of services to the Fund by other fund service providers. The Board considered the fee comparisons in light of the differences required to manage these different types of accounts. The Contract Renewal Information included an analysis of complex-wide management fees provided by the Manager, which, among other things, set out a proposed framework of fees based on asset classes.

Taking all of the above into consideration, the Board determined that the Management Fee and the sub-advisory fee were reasonable in light of the nature, extent and quality of the services provided to the Fund under the Management Agreement and the Sub-Advisory Agreement.

Manager profitability

The Board, as part of the Contract Renewal Information, received an analysis of the profitability to the Manager and its affiliates in providing services to the Fund. The Board also received profitability information with respect to the Legg Mason fund complex as a whole. In addition, the Board received Contract Renewal Information with respect to the Manager's revenue and cost allocation methodologies used in preparing such profitability data. In 2007, the Board received a report from an outside consultant that had reviewed the Manager's methodologies and the Board was assured by the Manager that there had been no significant changes in those methodologies since the report was rendered. The profitability to the Subadviser was not considered to be a material factor in the Board's considerations since the Subadviser's fee is paid by the Manager, not the Fund. The profitability analysis presented to the Board as part of the Contract Renewal Information indicated that profitability to the Manager in

providing services to the Fund had decreased by 10% over the period covered by the analysis. Under the circumstances, the Manager's profitability was considered not excessive by the Board in light of the nature, extent and quality of the services provided to the Fund.

Economies of scale

The Board received and discussed Contract Renewal Information concerning whether the Manager realizes economies of scale if the Fund's assets grow. The Board noted that because the Fund is a closed-end Fund with no current plans to seek additional assets beyond maintaining its dividend reinvestment plan, any significant growth in its assets generally will occur through appreciation in the value of the Fund's investment portfolio, rather than sales of additional shares in the Fund. The Board determined that the management fee structure was appropriate under present circumstances.

Other benefits to the manager and the subadviser

The Board considered other benefits received by the Manager, the Subadviser and its affiliates as a result of their relationship with the Fund.

* * * * *

In light of all of the foregoing, the Board determined that, under the circumstances, continuation of the Management and Sub-Advisory Agreements would be consistent with the interests of the Fund and its shareholders and unanimously voted to continue each Agreement for a period of one additional year.

No single factor reviewed by the Board was identified by the Board as the principal factor in determining whether to approve continuation of the Management and Sub-Advisory Agreements, and each Board member attributed different weights to the various factors. The Independent Directors were advised by separate independent legal counsel throughout the process. Prior to the Contract Renewal Meeting, the Board received a memorandum discussing its responsibilities in connection with the proposed continuation of the Management and Sub-Advisory Agreements as part of the Contract Renewal Information and the Independent Directors separately received a memorandum discussing such responsibilities from their independent counsel. Prior to voting, the Independent Directors also discussed the proposed continuation of the Management Agreement and the Sub-Advisory Agreement in private sessions with their independent legal counsel at which no representatives of the Manager were present.

Additional information (unaudited)

Information about Directors and Officers

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

NON-INTERESTED DIRECTORS:

CAROL L. COLMAN

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

Birth year	1946
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class II
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past five years	President, Colman Consulting Co.
Number of portfolios in fund complex overseen by director (including the Fund)	22
Other board memberships held by Director	None

DANIEL P. CRONIN

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

Birth year	1946
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class III
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past five years	Retired; formerly, Associate General Counsel, Pfizer Inc. (prior to and including 2004)
Number of portfolios in fund complex overseen by director (including the Fund)	22
Other board memberships held by Director	None

PAOLO M. CUCCHI

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

Birth year	1941
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class II
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past five years	Professor of Italian and French languages, Drew University (since 1984); formerly, Vice President and Dean of College of Liberal Arts at Drew University (from 1984 to 2008)
Number of portfolios in fund complex overseen by director (including the Fund)	22
Other board memberships held by Director	None

36 Western Asset Intermediate Muni Fund Inc.

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LESLIE H. GELB

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

Birth year	1937
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class III
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past five years	President Emeritus and Senior Board Fellow, The Council on Foreign Relations (since 2003); formerly, President, The Council on Foreign Relations; formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times
Number of portfolios in fund complex overseen by director (including the Fund)	22
Other board memberships held by Director	Director of two registered investment companies advised by Blackstone Asia Advisors LLC (Blackstone Advisors)

WILLIAM R. HUTCHINSON

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

Birth year	1942
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class III
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past five years	President, W.R. Hutchinson & Associates Inc. (Consulting) (since 2001)
Number of portfolios in fund complex overseen by director (including the Fund)	22
Other board memberships held by Director	Director of Associated Banc-Corp.

RIORDAN ROETT

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

Birth year	1938
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class I
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past five years	The Sarita and Don Johnston Professor of Political Science and Director, of Western Hemisphere Studies, Paul H. Nitze School of Advanced International Studies, The Johns Hopkins University (since 1993)
Number of portfolios in fund complex overseen by director (including the Fund)	22
Other board memberships held by Director	None

Additional information (unaudited) continued

Information about Directors and Officers

JESWALD W. SALACUSE

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

Birth year

1938

Position(s) held with Fund¹

Director and Member of the Nominating and Audit Committees, Class II

Term of office¹ and length of time

Since 2008

served

Principal occupation(s) during past

Henry J. Braker Professor of Commercial Law, The Fletcher School of

five years

Law and Diplomacy, Tufts University (since 1986); President,

Arbitration Tribunal, World Bank/ICSID (since 2004)

Number of portfolios in fund complex

overseen by director (including the

Fund)