WESTERN ASSET INTERMEDIATE MUNI FUND INC.
Form N-CSRS
August 29, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM N-CSR

## CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-6506

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

125 Broad Street, New York, NY 10004
(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

300 First Stamford Place, 4th Floor

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

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

Date of fiscal year end: December 31

Date of reporting period: June 30, 2007

ITEM 1. REPORT TO STOCKHOLDERS.

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

**Western Asset Intermediate Muni Fund Inc.**
**(SBI)**

**SEMI-ANNUAL REPORT**

JUNE 30, 2007

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

**Western Asset Intermediate Muni Fund Inc.**

Semi-Annual Report June 30, 2007

**What s Inside**


| | |
|---|---|
| Letter from the Chairman | I |
| Fund at a Glance | 1 |
| Schedule of Investments | 2 |
| Statement of Assets and Liabilities | 15 |
| Statement of Operations | 16 |
| Statements of Changes in Net Assets | 17 |
| Financial Highlights | 18 |
| Notes to Financial Statements | 19 |
| Financial Data | 24 |
| Additional Shareholder Information | 25 |
| Dividend Reinvestment Plan | 26 |


**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.

**Letter from the Chairman**

Dear Shareholder,

The U.S. economy weakened during the six-month reporting period ended June 30, 2007. U.S. gross domestic product (GDP[i]) expanded 2.5% in the fourth quarter of 2006. In the first quarter of 2007, GDP growth was a tepid 0.6%, according to the U.S. Commerce Department. This is the lowest growth rate since the fourth quarter of 2002. While consumer spending remained fairly solid, ongoing troubles in the housing market continued to negatively impact the economy. The advance estimate for second quarter 2007 GDP growth was a solid 3.4%, its fastest rate since the first quarter of 2006. While consumer spending slowed, this was offset by a sharp increase in business spending and exports.

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

After increasing the federal funds rate[ii] to 5.25% in June 2006 the 17th consecutive rate hike the Federal Reserve Board (Fed[iii]) held rates steady at its last eight meetings. In its statement accompanying the June 2007 meeting, the Fed stated: The economy seems likely to continue to expand at a moderate pace over coming quarters....Readings on core inflation have improved modestly in recent months. However, a sustained moderation in inflation pressures has yet to be convincingly demonstrated....In these circumstances, the Committee s predominant policy concern remains the risk that inflation will fail to moderate as expected.

During the six-month reporting period, both short- and long-term Treasury yields experienced periods of volatility. After falling during the first three months of the year, yields moved steadily higher over much of the second quarter of 2007. This was due, in part, to inflationary fears, a solid job market and mounting expectations that the Fed would not be cutting short-term rates in the foreseeable future. Two-year Treasury yields spiked to 5.10% on June 14th, versus 4.58% when the second quarter began. Ten-year Treasury yields moved up even more dramatically, cresting at 5.26% on June 12th their highest rate in five years. In contrast, the yield on the 10-year Treasury was 4.65% at the end of March 2007. After their highs in mid-June, yields then trended somewhat lower during the reporting period, as

concerns regarding the subprime mortgage market triggered a flight to quality. As of June 30, 2007, the yields on two- and 10-year Treasuries were 4.87% and 5.03%, respectively.

The municipal bond market lagged its taxable bond counterparts over the six months ended June 30, 2007. Over that period, the Lehman Brothers Municipal Bond Index[iv] and the Lehman Brothers U.S. Aggregate Index[v] returned 0.14% and 0.98%, respectively.

**Performance Review**

For the six months ended June 30, 2007, the Western Asset Intermediate Muni Fund Inc. returned 0.44% based on its net asset value ( NAV[vi] ) and 1.75% based on its American Stock Exchange ( AMEX ) market price per share. In comparison, the Fund s unmanaged benchmark, the Lehman Brothers Municipal Bond Index, returned 0.14% for the same time frame. The Lipper Intermediate Municipal Debt Closed-End Funds Category Average[vii] decreased 0.57%. Please note that Lipper performance returns are based on each fund s NAV per share.

During the six-month period, the Fund made distributions to shareholders totaling $0.21 per share. The performance table shows the Fund s six-month total return based on its NAV and market price as of June 30, 2007. **Past performance is no guarantee of future results.**

Since the close of the reporting period, the U.S. fixed-income markets have experienced a period of extreme volatility which has negatively impacted market liquidity conditions. Initially, the concern on the part of market participants was limited to the subprime segment of the mortgage-backed market. However, these concerns have since broadened to include a wide range of financial institutions and markets. As a result, other fixed income instruments have experienced increased price volatility.

**Performance Snapshot as of June 30, 2007 (unaudited)**

| Price Per Share | Six-Month Total Return |
|---|---|
| $9.58 (NAV) | 0.44% |
| $8.95 (Market Price) | 1.75% |

**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.

**Special Shareholder Notices**

On May 17, 2007, the Board of Directors of the Fund approved changes to the non-fundamental investment policies relating to the Fund s ability to invest in derivative instruments. Effective June 1, 2007, the Fund may use a variety of derivative instruments for investment purposes as well as for hedging or risk-management purposes. Previously, the Fund had been limited to the use of derivative instruments for hedging and risk-management purposes only. The use of derivative instruments for investment as well as hedging purposes is intended to provide Legg Mason Partners Fund Advisor, LLC ( LMPFA ), the Fund s investment manager, and Western Asset Management Company ( Western Asset ), the Fund s subadviser, greater flexibility in making investment decisions and opportunity to seek to achieve the Fund s investment objectives.

**Information About Your Fund**

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.

Prior to October 9, 2006, the Fund was known as Intermediate Muni Fund, Inc.

**Looking for Additional Information?**

The Fund is traded under the symbol SBI and its closing market price is available in most newspapers under the AMEX 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/InvestorServices.

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 6:00 p.m. Eastern Time, for the Fund s current NAV, market price and other information.

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

*July 27, 2007*

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

RISKS: 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 Fund s share price. 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.

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

i Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.

ii The federal funds rate is the 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.

iii The Federal Reserve Board ( Fed ) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

iv The Lehman Brothers Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more.

v The Lehman Brothers U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.

vi NAV is calculated by subtracting total liabilities and outstanding preferred stock 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 common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is at the Fund s market price, as determined by supply of and demand for the Fund s shares.

vii Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the six-month period ended June 30, 2007, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 8 funds in the Fund s Lipper category.

**Fund at a Glance (unaudited)**

**Investment Breakdown**

**As a Percent of Total Investments**

* A 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, interest and any call premium, either to a call date (in the case of a prerefunded bond), or to maturity (in the case of an escrowed to maturity bond). This is accomplished with the proceeds of a refunding issue. Once refunded, a bond takes on the credit quality of the securities held in the escrow. Bonds are commonly refunded to achieve savings when interest rates decline, though sometimes issuers refund a bond to relieve themselves of legal covenants in the refunded issue which they feel have become too restrictive.

**Schedule of Investments (June 30, 2007) (unaudited)**

**WESTERN ASSET INTERMEDIATE MUNI FUND INC.**

| Face Amount | Security | Value |
|---|---|---|
| **MUNICIPAL BONDS 97.3%** | | |
| **Alabama 3.0%** | | |
| $ 3,000,000 | Alabama State Public School & College Authority, FSA-Insured, 5.125% due 11/1/15 | $ 3,085,590 |
| 1,225,000 | Baldwin County, AL, Board of Education, Capital Outlay School Warrants, AMBAC-Insured, 5.000% due 6/1/20 | 1,274,233 |
| 94,127 | Birmingham, AL, Medical Clinic Board Revenue, Baptist Medical Center, 8.300% due 7/1/08 (a) | 96,061 |
| 1,000,000 | Saraland, AL, GO, MBIA-Insured, 5.250% due 1/1/15 | 1,050,700 |
| | **Total Alabama** | 5,506,584 |
| **Alaska 1.6%** | | |
| 1,000,000 | Alaska Industrial Development & Export Authority Revenue, Williams Lynxs Alaska Cargo Port LLC, 8.000% due 5/1/23 (b) | 1,065,670 |
| 500,000 | Anchorage, AK, GO, Refunding, FGIC-Insured, 6.000% due 10/1/14 | 559,945 |
| 1,250,000 | North Slope Boro, AK, Refunding, Series A, MBIA-Insured, 5.000% due 6/30/15 | 1,324,200 |
| | **Total Alaska** | 2,949,815 |
| **Arizona 0.3%** | | |
| | Maricopa County, AZ, Hospital Revenue: | |
| 15,000 | Samaritan Health Service, 7.625% due 1/1/08 (a) | 15,280 |
| 444,000 | St. Lukes Medical Center, 8.750% due 2/1/10 (a) | 475,213 |
| | **Total Arizona** | 490,493 |
| **Arkansas 1.5%** | | |
| 1,500,000 | Arkansas State Development Finance Authority Hospital Revenue, Washington Regional Medical Center, Call 2/1/10 @ 100, 7.000% due 2/1/15 (c) | 1,610,415 |
| 1,000,000 | Warren County, AR, Solid Waste Disposal Revenue, Potlatch Corp. Project, 7.000% due 4/1/12 (b) | 1,067,720 |
| | **Total Arkansas** | 2,678,135 |
| **California 4.8%** | | |
| 1,500,000 | Barona, CA, Band of Mission Indians, GO, 8.250% due 12/1/20 | 1,544,190 |
| 3,000,000 | California State Economic Recovery, GO, Series A, 5.000% due 7/1/17 | 3,108,480 |
| 10,000 | Loma Linda, CA, Community Hospital Corp. Revenue, First Mortgage, 8.000% due 12/1/08 (a) | 10,548 |
| | Los Angeles, CA: | |
| 905,000 | COP, Hollywood Presbyterian Medical Center, INDLC-Insured, 9.625% due 7/1/13 (a) | 1,050,090 |

**See Notes to Financial Statements.**

**Schedule of Investments (June 30, 2007) (unaudited) (continued)**

| Face Amount | Security | Value |
|---|---|---|
| **California 4.8% (continued)** | | |
| $ 1,000,000 | Union School District, Series A, MBIA-Insured, Call 7/1/13 @ 100, 5.375% due 7/1/18 (c) | $ 1,075,340 |
| 1,450,000 | Morgan Hill, CA, USD, FGIC-Insured, Call 8/1/10 @ 101, 5.750% due 8/1/17 (c) | 1,544,569 |
| 290,000 | San Francisco, CA, Airport Improvement Corp. Lease Revenue, United Airlines, Inc., 8.000% due 7/1/13 (a) | 322,970 |
| 90,000 | San Leandro, CA, Hospital Revenue, Vesper Memorial Hospital, 11.500% due 5/1/11 (a) | 105,242 |
| | **Total California** | 8,761,429 |
| **Colorado 5.3%** | | |
| 1,860,000 | Broomfield, CO, COP, Open Space Park & Recreation Facilities, AMBAC-Insured, 5.500% due 12/1/20 | 1,941,301 |
| | Colorado Educational & Cultural Facilities Authority Revenue Charter School: | |
| 1,000,000 | Bromley East Project, Series A, Call 9/15/11 @ 100, 7.000% due 9/15/20 (c) | 1,112,670 |
| 1,155,000 | Bromley School Project, XLCA-Insured, 5.125% due 9/15/20 | 1,222,602 |
| 1,350,000 | Refunding & Improvement, University Lab School, XLCA-Insured, 5.250% due 6/1/24 | 1,431,662 |
| 500,000 | University Lab School Project, Call 6/1/11 @ 100, 6.125% due 6/1/21 (c) | 538,980 |
| 710,000 | Denver, CO, Health & Hospital Authority, Series A, Call 12/01/11 @ 100, 6.250% due 12/1/16 (c) | 772,416 |
| 1,765,000 | Pueblo, CO, Bridge Waterworks Water Revenue, Improvement Series A, FSA-Insured, Call 11/1/10 @ 100, 6.000% due 11/1/14 (c) | 1,879,901 |
| 750,000 | SBC Metropolitan District, CO, GO, ACA-Insured, 5.000% due 12/1/25 | 758,175 |
| | **Total Colorado** | 9,657,707 |
| **Connecticut 2.3%** | | |
| 2,000,000 | Connecticut State HEFA Revenue, Bristol Hospital, Series B, 5.500% due 7/1/21 | 2,128,460 |
| 1,855,000 | Connecticut State Special Obligation Parking Revenue, Bradley International Airport, Series A, ACA-Insured, 6.375% due 7/1/12 (b) | 1,974,443 |
| | **Total Connecticut** | 4,102,903 |
| **Florida 4.1%** | | |
| 150,000 | Lee County, FL, Southwest Florida Regional Airport Revenue, MBIA-Insured, 8.625% due 10/1/09 (a) | 158,168 |
| 3,250,000 | Lee, FL, Memorial Health System, Hospital Revenue, Series A, FSA-Insured, 5.750% due 4/1/14 (d) | 3,471,390 |
| 1,305,000 | Old Palm Community Development District, FL, Palm Beach Gardens, Series B, 5.375% due 5/1/14 | 1,302,468 |
| | Orange County, FL, Health Facilities Authority Revenue: | |
| 505,000 | First Mortgage Healthcare Facilities, 8.750% due 7/1/11 | 534,295 |
| 1,500,000 | Hospital Adventist Health Systems, Call 11/15/12 @ 100, 6.250% due 11/15/24 (c) | 1,654,470 |
| 360,000 | Southern Adventist Hospital, Adventist Health Systems, 8.750% due 10/1/09 (a) | 380,160 |
| | **Total Florida** | 7,500,951 |

**See Notes to Financial Statements.**

**Schedule of Investments (June 30, 2007) (unaudited) (continued)**

| Face Amount | Security | Value |
|---|---|---|
| **Georgia 6.3%** | | |
| $ 970,000 | Athens, GA, Housing Authority Student Housing Lease Revenue, University of Georgia East Campus, AMBAC-Insured, 5.250% due 12/1/23 | $ 1,018,277 |
| 650,000 | Chatham County, GA, Hospital Authority Revenue, Hospital Memorial Health Medical Center, Series A, 6.000% due 1/1/17 | 685,321 |
| | Fulton County, GA, Development Authority Revenue, Morehouse College Project, AMBAC-Insured: | |
| 340,000 | 5.000% due 12/1/18 | 362,134 |
| 560,000 | 5.000% due 12/1/19 | 594,518 |
| 635,000 | 5.000% due 12/1/20 | 672,497 |
| 1,000,000 | Gainesville, GA, Water & Sewer Revenue, FSA-Insured, Call 11/15/11 @ 100, 5.375% due 11/15/20 (c) | 1,057,350 |
| | Georgia Municipal Electric Authority: | |
| 3,000,000 | Power Revenue, Refunding, Series A, FSA-Insured, 5.000% due 1/1/18 (d) | 3,113,580 |
| 500,000 | Power System Revenue, Series X, 6.500% due 1/1/12 | 526,135 |
| 1,000,000 | Griffin, GA, Combined Public Utilities Revenue, Refunding & Improvement, AMBAC-Insured, 5.000% due 1/1/21 | 1,043,110 |
| 2,120,000 | Metropolitan Atlanta Rapid Transit Georgia Sales Tax Revenue, Series E, 7.000% due 7/1/11 (a) | 2,305,797 |
| | **Total Georgia** | 11,378,719 |
| **Illinois 4.1%** | | |
| 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-Insured, 5.750% due 1/1/19 (b) | 1,611,480 |
| 1,000,000 | Cicero, IL, Tax Increment, Series A, XLCA-Insured, 5.250% due 1/1/21 | 1,055,030 |
| 970,000 | Glendale Heights, IL, Hospital Revenue, Refunding, Glendale Heights Project, Series B, 7.100% due 12/1/15 (a) | 1,091,657 |
| 700,000 | Harvey, IL, GO, Radian-Insured, 6.700% due 2/1/09 | 701,456 |
| 430,000 | Illinois Development Finance Authority, Chicago Charter School Foundation Project A, 5.250% due 12/1/12 (a) | 446,976 |
| 355,000 | Illinois Health Facilities Authority Revenue, Methodist Medical Center of Illinois Project, 9.000% due 10/1/10 (a) | 382,172 |
| 1,310,000 | Kane County, IL, GO, FGIC-Insured, 5.500% due 1/1/14 | 1,386,557 |
| 270,000 | Mount Veron, IL, Elderly Housing Corp., First Lien Revenue, 7.875% due 4/1/08 | 270,826 |
| 1,000,000 | Will County, IL, GO, School District North 122 New Lenox, Capital Appreciation Refunding School, Series D, FSA-Insured, zero coupon bond to yield 5.188% due 11/1/24 | 443,440 |
| | **Total Illinois** | 7,400,294 |
| **Indiana 0.6%** | | |
| 800,000 | Ball State University, Indiana University Revenue, Student Fee, Series K, FGIC-Insured, 5.750% due 7/1/20 | 851,592 |
| 185,000 | Madison County, IN, Hospital Authority Facilities Revenue, Community Hospital of Anderson Project, 9.250% due 1/1/10 (a) | 198,536 |
| | **Total Indiana** | 1,050,128 |

**See Notes to Financial Statements.**

**Schedule of Investments (June 30, 2007) (unaudited) (continued)**

| Face Amount | Security | Value |
|---|---|---|
| **Iowa 1.1%** | | |
| $ 1,000,000 | Iowa Finance Authority, Health Care Facilities Revenue, Genesis Medical Center, 6.250% due 7/1/20 | $ 1,053,570 |
| 835,000 | Muscatine, IA, Electric Revenue, 9.700% due 1/1/13 (a) | 967,047 |
| | **Total Iowa** | 2,020,617 |
| **Kansas 1.8%** | | |
| 1,000,000 | Burlington, KS, Environmental Improvement Revenue, Kansas City Power & Light Project, Refunding, 4.750% due 10/1/07 (g)(f) | 1,001,010 |
| 2,245,000 | Johnson County, KS, Union School District, Series A, Call 10/1/09 @ 100, 5.125% due 10/1/20 (c) | 2,307,164 |
| | **Total Kansas** | 3,308,174 |
| **Louisiana 1.2%** | | |
| 245,000 | Louisiana Public Facilities Authority Hospital Revenue, Southern Baptist Hospital Inc. Project, Aetna-Insured, 8.000% due 5/15/12 (a) | 270,149 |
| 1,690,000 | Monroe, LA, Sales & Use Tax Revenue, FGIC-Insured, Call 7/1/12 @ 102, 5.625% due 7/1/25 (c) | 1,819,285 |
| | **Total Louisiana** | 2,089,434 |
| **Maryland 1.8%** | | |
| 1,000,000 | Maryland State Health & Higher EFA Revenue, Refunding, Mercy Medical Center, FSA-Insured, 6.500% due 7/1/13 | 1,077,800 |
| 2,000,000 | Montgomery County, MD, GO, 5.250% due 10/1/14 | 2,119,000 |
| | **Total Maryland** | 3,196,800 |
| **Massachusetts 4.9%** | | |
| 485,000 | Boston, MA, Water & Sewer Commission Revenue, 10.875% due 1/1/09 (a) | 516,370 |
| 1,130,000 | Lancaster, MA, GO, AMBAC-Insured, 5.375% due 4/15/17 | 1,203,710 |
| | Massachusetts State DFA Revenue: | |
| 500,000 | Curry College, Series A, ACA-Insured, 6.000% due 3/1/20 | 518,800 |
| 370,000 | VOA Concord, Series A, GNMA-Collateralized, Call 10/20/11 @ 105, 6.700% due 10/20/21 (c) | 425,740 |
| | Massachusetts State HEFA Revenue: | |
| | Caritas Christi Obligation, Series B: | |
| 2,000,000 | 6.500% due 7/1/12 | 2,158,060 |
| 835,000 | 6.750% due 7/1/16 | 924,011 |
| 1,000,000 | Milford-Whitinsville Regional Hospital, Series D, Call 7/15/12 @ 101, 6.500% due 7/15/23 (c) | 1,118,120 |
| 980,000 | Winchester Hospital, Series E, Call 7/1/10 @ 101, 6.750% due 7/1/30 (c) | 1,054,196 |
| 995,000 | Massachusetts State Industrial Finance Agency Assisted Living Facility Revenue, Arbors at Amherst Project, GNMA-Collateralized, 5.750% due 6/20/17 (b) | 1,022,333 |
| | **Total Massachusetts** | 8,941,340 |

**See Notes to Financial Statements.**

**Schedule of Investments (June 30, 2007) (unaudited) (continued)**

| Face Amount | Security | Value |
|---|---|---|
| **Michigan 4.3%** | | |
| $ 1,775,000 | Carrier Creek, MI, Drain District No. 326, AMBAC-Insured, 5.000% due 6/1/24 | $ 1,842,983 |
| 1,000,000 | Jenison, MI, Public Schools GO, Building and Site, FGIC-Insured, 5.500% due 5/1/20 | 1,063,780 |
| 1,000,000 | Memphis, MI, Community Schools GO, Call 5/1/09 @ 100, 5.150% due 5/1/19 (c) | 1,022,610 |
| 1,000,000 | Michigan State Hospital Finance Authority Revenue, Oakwood Obligated Group, 5.500% due 11/1/18 | 1,051,060 |
| | Michigan State, Hospital Finance Authority Revenue, Refunding, Hospital Sparrow Obligated: | |
| 500,000 | 5.000% due 11/15/12 | 516,815 |
| 1,190,000 | 5.000% due 11/15/14 | 1,233,661 |
| 1,000,000 | Walled Lake, MI, Consolidated School District, MBIA-Insured, 5.000% due 5/1/22 | 1,034,600 |
| | **Total Michigan** | 7,765,509 |
| **Missouri 1.6%** | | |
| 1,000,000 | Hazelwood, MO, School District, Missouri Direct Deposit Program, Series A, FGIC-Insured, 5.000% due 3/1/23 | 1,037,270 |
| 405,000 | Lees Summit, MO, IDA Health Facilities Revenue, John Knox Village, 5.750% due 8/15/11 (a) | 430,025 |
| 1,000,000 | Missouri State Environmental Improvement & Energy Resource Authority, Water Pollution Control, State Revolving Funds Program, Series C, 5.250% due 7/1/18 | 1,091,660 |
| 25,000 | Missouri State Housing Development Community Mortgage Revenue, Series C, GNMA/FNMA-Collateralized, 7.450% due 9/1/27 (b) | 25,372 |
| 290,000 | Nevada, MO, Waterworks Systems Revenue, AMBAC-Insured, 10.000% due 10/1/10 (a) | 321,497 |
| | **Total Missouri** | 2,905,824 |
| **Nebraska 1.2%** | | |
| | NebHELP Inc., Nebraska Revenue: | |
| 1,200,000 | Series A-5A, MBIA-Insured, 6.200% due 6/1/13 (b) | 1,215,288 |
| 1,000,000 | Series A-6, MBIA-Insured, 6.450% due 6/1/18 (b) | 1,045,950 |
| | **Total Nebraska** | 2,261,238 |
| **Nevada 0.3%** | | |
| 535,000 | Henderson, NV, Health Care Facilities Revenue, Unrefunded Balance, Catholic West, Series A, 6.200% due 7/1/09 | 551,451 |
| **New Hampshire 0.5%** | | |
| 815,000 | New Hampshire HEFA, Covenant Healthcare System, 6.500% due 7/1/17 | 887,258 |
| **New Jersey 0.1%** | | |
| 130,000 | Ringwood Borough, NJ, Sewer Authority Special Obligation, 9.875% due 7/1/13 (a) | 150,203 |

**See Notes to Financial Statements.**

**Schedule of Investments (June 30, 2007) (unaudited) (continued)**

| | Face Amount | Security | Value |
|---|---|---|---|
| **New Mexico 1.5%** | | | |
| $ | 1,100,000 | Bernalillo County, NM, Gross Receipts Tax Revenue, AMBAC-Insured, 5.250% due 10/1/18 | $ 1,195,359 |
| | 1,415,000 | New Mexico Finance Authority Revenue, Subordinated Lien, Public Project Revolving Fund, Series A, MBIA-Insured, 5.000% due 6/15/19 | 1,485,722 |
| | | **Total New Mexico** | 2,681,081 |
| **New York 3.7%** | | | |
| | 730,000 | New York City, NY, IDA, Civic Facilities Revenue, Community Hospital Brooklyn, 6.875% due 11/1/10 | 742,337 |
| | 1,760,000 | New York State Dormitory Authority Revenue, Mental Health Services Facilities, 5.000% due 2/15/18 | 1,841,506 |
| | 2,000,000 | New York State Thruway Authority, Highway & Bridge, Trust Fund Revenue, Series B, AMBAC-Insured, 5.000% due 4/1/21 | 2,094,720 |
| | 2,000,000 | Tobacco Settlement Financing Corp., New York, Asset-Backed, Series C-1, 5.500% due 6/1/14 | 2,052,960 |
| | | **Total New York** | 6,731,523 |
| **North Carolina 1.2%** | | | |
| | 9,000 | Charlotte North Carolina Mortgage Revenue, Refunding, Double Oaks Apartments, Series A, FNMA-Collateralized, 7.300% due 11/15/07 | 8,992 |
| | 1,000,000 | North Carolina Eastern Municipal Power Agency, Power System Revenue, Series D, 6.450% due 1/1/14 | 1,062,390 |
| | 925,000 | North Carolina Municipal Power Agency No. 1, Catawba Electricity Revenue, 10.500% due 1/1/10 (a) | 1,010,211 |
| | | **Total North Carolina** | 2,081,593 |
| **Ohio 6.6%** | | | |
| | 1,370,000 | Cleveland, OH, Waterworks Revenue, Series K, Call 1/1/12 @ 100, 5.250% due 1/1/21 (c) | 1,440,295 |
| | 970,000 | Cuyahoga County, OH, Hospital Facilities Revenue, Canton Inc. Project, 6.750% due 1/1/10 | 1,001,186 |
| | 1,855,000 | Highland, OH, Local School District, School Improvement, FSA-Insured, Call 12/1/11 @ 100, 5.750% due 12/1/19 (c) | 1,990,285 |
| | 1,000,000 | Kettering, OH, City School District, School Improvement, FSA-Insured, 5.000% due 12/1/19 | 1,045,890 |
| | | Lake County, OH, Hospital Improvement Revenue: | |
| | 165,000 | Lake County Memorial Hospital Project, 8.625% due 11/1/09 (a) | 174,426 |
| | 95,000 | Ridgecliff Hospital Project, 8.000% due 10/1/09 (a) | 99,425 |
| | | Ohio State: | |
| | 1,500,000 | Air Quality Development Authority Revenue, Cleveland Pollution Control, Series A, 6.000% due 12/1/13 | 1,526,295 |
| | 3,010,000 | GO, Conservation Project, Series A, 5.250% due 9/1/13 (d) | 3,142,861 |
| | | Water Development Authority Revenue: | |
| | 1,280,000 | Refunding, Safe Water Service, 9.375% due 12/1/10 (a)(h) | 1,373,466 |
| | 175,000 | Safe Water, Series 3, 9.000% due 12/1/10 (a) | 186,069 |
| | | **Total Ohio** | 11,980,198 |

**See Notes to Financial Statements.**

**Schedule of Investments (June 30, 2007) (unaudited) (continued)**

| Face Amount | Security | Value |
|---|---|---|
| **Oklahoma 0.7%** | | |
| $ 165,000 | Tulsa, OK, Housing Assistance Corp. MFH Revenue, 7.250% due 10/1/07 (b) | $ 165,488 |
| | Tulsa, OK, Municipal Airport Trust Revenue, Refunding, American Airlines, Series B: | |
| 500,000 | 5.650% due 12/1/08 (b)(f)(g) | 504,670 |
| 500,000 | 6.000% due 12/1/08 (b)(f)(g) | 507,965 |
| | **Total Oklahoma** | 1,178,123 |
| **Oregon 1.0%** | | |
| 645,000 | Klamath Falls, OR, International Community Hospital Authority Revenue, Merle West Medical Center Project, 8.000% due 9/1/08 (a) | 660,757 |
| 1,035,000 | Wasco County, OR, Solid Waste Disposal Revenue, Waste Connections Inc. Project, 7.000% due 3/1/12 (b) | 1,069,290 |
| | **Total Oregon** | 1,730,047 |
| **Pennsylvania 5.5%** | | |
| 630,000 | Conneaut, PA, School District GO, AMBAC-Insured, 9.500% due 5/1/12 (a) | 706,936 |
| 1,000,000 | Harrisburg, PA, Parking Authority Parking Revenue, FSA-Insured, 5.500% due 5/15/20 | 1,059,270 |
| 1,365,000 | Northampton County, PA, IDA Revenue, Mortgage Moravian Hall Square Project, Radian-Insured, 5.500% due 7/1/19 | 1,434,724 |
| 1,000,000 | Pennsylvania State IDA Revenue, Economic Development, AMBAC-Insured, 5.500% due 7/1/21 | 1,071,220 |
| 1,000,000 | Philadelphia, PA, Gas Works Revenue, 7th Series-1998, General Ordinance, AMBAC-Insured, 5.000% due 10/1/17 | 1,064,240 |
| 30,000 | Philadelphia, PA, Hospital Authority Revenue, Thomas Jefferson University Hospital, 7.000% due 7/1/08 (a) | 30,428 |
| 1,000,000 | Philadelphia, PA, School District, Series A, FSA-Insured, Call 2/1/12 @ 100, 5.500% due 2/1/23 (c) | 1,062,510 |
| 2,000,000 | Philadelphia, PA, Water & Wastewater, Series B, FGIC-Insured, 5.250% due 11/1/14 | 2,119,640 |
| 1,350,000 | Pittsburgh, PA, School District GO, FSA-Insured, 5.375% due 9/1/16 | 1,478,061 |
| | **Total Pennsylvania** | 10,027,029 |
| **Rhode Island 0.6%** | | |
| 1,000,000 | Central Falls, RI, GO, Radian-Insured, 5.875% due 5/15/15 | 1,049,800 |
| **South Carolina 3.3%** | | |
| 50,000 | Anderson County, SC, Hospital Facilities Revenue, 7.125% due 8/1/07 (a) | 50,120 |
| 1,445,000 | Charleston, SC, Waterworks & Sewer Revenue, 5.250% due 1/1/16 | 1,515,848 |
| | Greenville County, SC, School District Installment Purchase, Revenue, Building Equity Sooner for Tomorrow, Call 12/1/12 @ 101: | |
| 2,000,000 | 5.875% due 12/1/19 (c) | 2,195,720 |
| 2,000,000 | 6.000% due 12/1/21 (c) | 2,207,760 |
| | **Total South Carolina** | 5,969,448 |

**See Notes to Financial Statements.**

**Schedule of Investments (June 30, 2007) (unaudited) (continued)**

| Face Amount | Security | Value |
|---|---|---|
| **South Dakota 1.4%** | | |
| $ 2,400,000 | Minnehana County, SD, GO, Limited Tax Certificates, Call 12/1/10 @ 100, 5.625% due 12/1/20 (c) | $ 2,518,248 |
| **Tennessee 0.4%** | | |
| 385,000 | Jackson, TN, Water & Sewer Revenue, 7.200% due 7/1/12 (a) | 410,518 |
| 260,000 | McMinnville, TN, Housing Authority Revenue, Refunding First Mortgage Beersheba Heights, 6.000% due 10/1/09 | 264,022 |
| | **Total Tennessee** | 674,540 |
| **Texas 13.2%** | | |
| 5,140,000 | Austin Texas Electric Utility System Revenue, Refunding, Series A, AMBAC-Insured, 5.000% due 11/15/19 (d) | 5,406,509 |
| 2,000,000 | Brazos River, TX, Harbor Navigation District, BASF Corp. Project, 6.750% due 2/1/10 | 2,135,120 |
| 2,000,000 | Dallas, TX, Area Rapid Transit Sales Tax Revenue, Senior Lien, AMBAC-Insured, Call 12/1/11 @ 100, 5.375% due 12/1/16 (c) | 2,113,300 |
| | Dallas-Fort Worth, TX: | |
| 1,500,000 | International Airport Facility, Improvement Corp. Revenue, Refunding, American Airlines, Series C, 6.150% due 11/1/07 (b)(e)(f) | 1,507,005 |
| 1,000,000 | International Airport Revenue, Refunding, Series B, FSA-Insured, 5.500% due 11/1/20 (b) | 1,061,090 |
| | El Paso County, TX, Housing Finance Corp.: | |
| 265,000 | La Plaza Apartments, Subordinated Series C, 8.000% due 7/1/30 | 273,975 |
| 360,000 | MFH Revenue, Series A, American Village Communities, 6.250% due 12/1/24 | 375,700 |
| | El Paso, TX, Water & Sewer Revenue, Refunding & Improvement, Series A, FSA-Insured: | |
| 45,000 | 6.000% due 3/1/15 | 48,686 |
| 955,000 | Call 3/1/12 @ 100, 6.000% due 3/1/15 (c) | 1,034,504 |
| 2,000,000 | Fort Worth, TX, Water & Sewer Revenue, Call 2/15/12 @ 100, 5.625% due 2/15/17 (c) | 2,132,060 |
| 1,000,000 | Harris County, TX, Hospital District Revenue, MBIA-Insured, 6.000% due 2/15/15 | 1,056,110 |
| 5,000,000 | Houston, TX Independent School District, GO, Refunding Ltd., Tax Series A, PSF-GTD, 5.000% due 8/15/17 (d) | 5,305,400 |
| 1,000,000 | Southwest Higher Education Authority Inc., Southern Methodist University Project, AMBAC-Insured, Call 10/1/12 @ 100, 5.500% due 10/1/19 (c) | 1,069,220 |
| 230,000 | Tarrant County, TX, Hospital Authority Revenue, Adventist Health System-Sunbelt, 10.250% due 10/1/10 (a) | 253,941 |
| 175,000 | Texas State Department Housing Community Affairs Home Mortgage Revenue, RIBS Series C-2, GNMA/FNMA/FHLMC-Collateralized, 9.612% due 7/19/07 (b)(i) | 177,243 |
| | **Total Texas** | 23,949,863 |

**See Notes to Financial Statements.**

**Schedule of Investments (June 30, 2007) (unaudited) (continued)**

| Face Amount | Security | Value |
|---|---|---|
| **Utah 1.8%** | | |
| $ 1,580,000 | Salt Lake & Sandy, UT, Metropolitan Water District Revenue, Series A, AMBAC-Insured, 5.000% due 7/1/24 | $ 1,646,502 |
| | Spanish Fork City, UT, Water Revenue, FSA-Insured: | |
| 1,135,000 | 5.500% due 6/1/16 | 1,209,070 |
| 350,000 | Call 6/1/12 @ 100, 5.500% due 6/1/16 (c) | 373,321 |
| | **Total Utah** | 3,228,893 |
| **Washington 2.5%** | | |
| 1,000,000 | Clark County, WA, School District No. 117 Camas, GO, FSA-Insured, 5.000% due 12/1/18 | 1,060,780 |
| 1,250,000 | Cowlitz County, WA, School District, No. 122 Longview, FSA-Insured, Call 12/1/11 @ 100, 5.500% due 12/1/19 (c) | 1,327,075 |
| 2,000,000 | Energy Northwest Washington Electric Revenue, Project No. 3, Series A, FSA-Insured, 5.500% due 7/1/18 | 2,118,320 |
| | **Total Washington** | 4,506,175 |
| **West Virginia 0.0%** | | |
| 70,000 | Cabell Putnam & Wayne Counties, WV, Single - Family Residence Mortgage Revenue, FGIC-Insured, 7.375% due 4/1/10 (a) | 73,175 |
| **Wisconsin 1.2%** | | |
| 2,000,000 | La Crosse, WI, Resource Recovery Revenue, Refunding Bonds, Northern States Power Co. Project, Series A, 6.000% due 11/1/21 (b) | 2,104,140 |
| | **TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS** (Cost $173,102,316) | **176,038,882** |
| **SHORT-TERM INVESTMENTS 2.7%** | | |
| **Colorado 0.6%** | | |
| | Colorado Educational & Cultural Facilities Authority Revenue, National Jewish Federation Bond Program: | |
| 900,000 | Series A-7, LOC-Bank of America, 3.860%, 7/2/07 (j) | 900,000 |
| 200,000 | Series D-1, LOC-JPMorgan Chase, 3.860%, 7/2/07 (j) | 200,000 |
| | **Total Colorado** | 1,100,000 |
| **Massachusetts 0.2%** | | |
| 400,000 | Massachusetts State, GO, Consolidated Loan, Series A, SPA-Dexia Credit Local, 3.900%, 7/2/07 (j) | 400,000 |
| **Texas 0.9%** | | |
| | Harris County, TX, Health Facilities Development Corp. Revenue: | |
| 1,300,000 | Refunding, Methodist Hospital Systems, Series A, 3.850%, 7/2/07 (j) | 1,300,000 |
| 300,000 | St. Luke s Episcopal Hospital, Series B, SPA-Northern Trust, Bayerische Landesbank, Bank of America, JPMorgan Chase, 3.850%, 7/2/07 (j) | 300,000 |
| | **Total Texas** | 1,600,000 |

**See Notes to Financial Statements.**

**Schedule of Investments (June 30, 2007) (unaudited) (continued)**

| | Face Amount | Security | Value |
|---|---|---|---|
| **Oregon 1.0%** | | | |
| $ | 1,700,000 | Oregon State GO, Series 73F, SPA-Bayerische Landesbank, 3.740%, 7/4/07 (j) | $ 1,700,000 |
| | | **TOTAL SHORT-TERM INVESTMENTS** (Cost $4,800,000) | **4,800,000** |
| | | **TOTAL INVESTMENTS 100.0%** (Cost $177,902,316#) | **$ 180,838,882** |

(a) 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.
(b) Income from this issue is considered a preference item for purposes of calculating the alternative minimum tax ( AMT ).
(c) Pre-Refunded bonds are escrowed with government obligations and/or government agency securities and are considered by the manager to be triple-A rated even if issuer has not applied for new ratings.
(d) All or a portion of this security is segregated for open futures contracts.
(e) Security is currently in default.
(f) Variable rate security. Interest rate disclosed is that which is in effect at June 30, 2007.
(g) Maturity date shown represents the mandatory tender date.
(h) All or a portion of this security is held at the broker as collateral for open futures contracts.
(i) Residual interest bonds coupon varies inversely with level of short-term tax-exempt interest rates.
(j) 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 substantially the same.

Abbreviations used in this schedule:

ACA American Capital Assurance

AMBAC Ambac Assurance Corporation

COP Certificate of Participation

DFA Development Finance Agency

EFA Educational Facilities Authority

FGIC Financial Guaranty Insurance Company

FHLMC Federal Home Loan Mortgage Corporation

FNMA Federal National Mortgage Association

FSA Financial Security Assurance

GNMA Government National Mortgage Association

GO General Obligation

GTD Guaranteed

HEFA Health & Educational Facilities Authority

IDA Industrial Development Authority

INDLC Industrial Indemnity Company

LOC Letter of Credit

MBIA Municipal Bond Investors Assurance Corporation

MFH Multi-Family Housing

PSF Permanent School Fund

RIBS Residual Interest Bonds

Radian Radian Assets Assurance

SPA Standby Bond Purchase Agreement

USD Unified School District

XLCA XL Capital Assurance Inc.

**See Notes to Financial Statements.**

**Schedule of Investments (June 30, 2007) (unaudited) (continued)**

**Summary of Investments by Industry***

| | |
|---|---|
| Pre-Refunded | 20.6% |
| General Obligation | 16.3 |
| Hospitals | 12.6 |
| Utilities | 10.4 |
| Escrowed to Maturity | 7.9 |
| Education | 7.9 |
| Transportation | 5.7 |
| Pollution Control | 4.4 |
| Water & Sewer | 2.7 |
| Life Care Systems | 2.0 |
| Industrial Development | 1.4 |
| Tax Allocation | 1.3 |
| Public Facilities | 1.2 |
| Tobacco | 1.1 |
| Housing: Multi-Family | 0.7 |
| Solid Waste | 0.6 |
| Miscellanous | 3.2 |
| | 100.0% |

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

**Ratings Table (unaudited)****

| **S&P/Moodys** | |
|---|---|
| AAA/Aaa | 58.7% |
| AA/Aa | 15.8 |
| A | 5.3 |
| BBB/Baa | 8.6 |
| BB/Ba | 1.3 |
| B/B | 0.6 |
| CCC/Caa | 0.8 |
| CC/Ca | 0.0 |
| C | 0.0 |
| D | 0.0 |
| A-1/VMIG1 | 2.6 |
| NR | 6.3 |
| | 100.0% |

** As a percentage of total investments.

See pages 13 and 14 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 predominant 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 Aa to Caa, where 1 is the highest and 3 the lowest ranking within its generic category.

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

**Bond Ratings (unaudited) (continued)**

| | |
|---|---|
| Ca | Bonds rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked short-comings. |
| C | Bonds rated C are the lowest class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing. |

*Fitch Ratings Service ( Fitch )* Ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standings within the major rating categories.

| | |
|---|---|
| AAA | Bonds rated AAA have the highest rating assigned by Fitch. Capacity to pay interest and repay principal is extremely strong. |
| AA | Bonds rated AA have a very strong capacity to pay interest and repay principal and differ from the highest rated issues only in a small degree. |
| A | Bonds rated A have a strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories. |
| BBB | Bonds rated BBB are regarded as having an adequate capacity to pay interest and repay principal. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for bonds in this category than in higher rated categories. |
| BB, B, CCC and CC | Bonds rated BB , B , CCC and CC are regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB represents a lower degree of speculation than B , and CC the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions. |
| NR | Indicates that the bond is not rated by Standard & Poor s, Moody s or Fitch. |

**Short-Term Security Ratings (unaudited)**

| | |
|---|---|
| SP-1 | Standard & Poor s highest rating indicating very strong or strong capacity to pay principal and interest; those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign. |
| A-1 | Standard & Poor s highest commercial paper and variable-rate demand obligation (VRDO) rating indicating that the degree of safety regarding timely payment is either overwhelming or very strong; those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign. |
| VMIG 1 | Moody s highest rating for issues having a demand feature VRDO. |
| 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 (June 30, 2007) (unaudited)**

| | | |
|---|---|---|
| **ASSETS:** | | |
| Investments, at value (Cost $177,902,316) | $ | 180,838,882 |
| Interest receivable | | 2,894,123 |
| Receivable for securities sold | | 730,000 |
| Receivable from broker variation margin on open futures contracts | | 94,999 |
| Prepaid expenses | | 35,673 |
| **Total Assets** | | **184,593,677** |
| **LIABILITIES:** | | |
| Investment management fee payable | | 83,320 |
| Distributions payable to auction rate cumulative preferred stockholders | | 27,247 |
| Deferred compensation payable | | 17,218 |
| Due to custodian | | 11,141 |
| Directors fees payable | | 3,480 |
| Accrued expenses | | 38,214 |
| **Total Liabilities** | | **180,620** |
| **Series M Municipal Auction Rate Cumulative Preferred Stock (2,000 shares authorized and issued at $25,000 per share) (Note 4)** | | **50,000,000** |
| **Total Net Assets** | **$** | **134,413,057** |
| | | |
| **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 | | 67,884 |
| Accumulated net realized loss on investments and futures contracts | | (10,340,062) |
| Net unrealized appreciation on investments and futures contracts | | 3,149,512 |
| **Total Net Assets** | **$** | **134,413,057** |
| | | |
| **Shares Outstanding** | | **14,032,784** |
| **Net Asset Value** | | **$9.58** |

**See Notes to Financial Statements.**

**Statement of Operations (For the six months ended June 30, 2007) (unaudited)**

| | | |
|---|---|---|
| **INVESTMENT INCOME:** | | |
| Interest | **$** | **4,530,261** |
| | | |
| **EXPENSES:** | | |
| Investment management fee (Note 2) | | 507,895 |
| Auction participation fees (Note 4) | | 61,167 |
| Shareholder reports | | 28,740 |
| Legal fees | | 17,002 |
| Audit and tax | | 15,701 |
| Transfer agent fees | | 12,304 |
| Directors fees | | 10,256 |
| Custody fees | | 2,730 |
| Stock exchange listing fees | | 2,407 |
| Insurance | | 2,231 |
| Miscellaneous expenses | | 5,647 |
| **Total Expenses** | | **666,080** |
| **Net Investment Income** | | **3,864,181** |
| | | |
| **REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FUTURES CONTRACTS (NOTES 1 AND 3):** | | |
| Net Realized Gain From: | | |
| Investment transactions | | 74,460 |
| Futures contracts | | 715,780 |
| **Net Realized Gain** | | **790,240** |
| Change in Net Unrealized Appreciation/Depreciation From: | | |
| Investments | | (3,276,583) |
| Futures contracts | | (23,470) |
| **Change in Net Unrealized Appreciation/Depreciation** | | **(3,300,053)** |
| **Net Loss on Investments and Futures Contracts** | | **(2,509,813)** |
| **Distributions Paid to Auction Rate Cumulative Preferred Stockholders From Net Investment Income (Notes 1 and 4)** | | **(921,177)** |
| **Increase in Net Assets From Operations** | **$** | **433,191** |

**See Notes to Financial Statements.**

**Statements of Changes in Net Assets**

**For the six months ended June 30, 2007 (unaudited)**
**and the year ended December 31, 2006**

| | | 2007 | | 2006 |
|---|---|---|---|---|
| **OPERATIONS:** | | | | |
| Net investment income | $ | 3,864,181 | $ | 7,924,126 |
| Net realized gain | | 790,240 | | 644,747 |
| Change in net unrealized appreciation/depreciation | | (3,300,053) | | 696,064 |
| Distributions paid to auction rate cumulative preferred stockholders from net investment income | | (921,177) | | (1,743,031) |
| **Increase in Net Assets From Operations** | | **433,191** | | **7,521,906** |
| **DISTRIBUTIONS PAID TO COMMON SHAREHOLDERS FROM (NOTE 1):** | | | | |
| Net investment income | | (2,946,885) | | (6,146,360) |
| **Decrease in Net Assets From Distributions Paid to Common Stock Shareholders** | | **(2,946,885)** | | **(6,146,360)** |
| **Increase (Decrease) in Net Assets** | | **(2,513,694)** | | **1,375,546** |
| **NET ASSETS:** | | | | |
| Beginning of period | | 136,926,751 | | 135,551,205 |
| **End of period*** | **$** | **134,413,057** | **$** | **136,926,751** |
| * Includes undistributed net investment income of: | | $67,884 | | $71,765 |

**See Notes to Financial Statements.**

**Financial Highlights**

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

| | 2007[1] | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|
| **Net Asset Value, Beginning of Period** | $9.76 | $9.66 | $10.02 | $10.26 | $10.27 | $10.21 |
| **Income (Loss) From Operations:** | | | | | | |
| Net investment income | 0.28 | 0.56 | 0.56 | 0.64 | 0.68 | 0.68 |
| Net realized and unrealized gain (loss) | (0.18) | 0.10 | (0.27) | (0.23) | (0.03) | 0.07 |
| Distributions paid to auction rate cumulative preferred stockholders from net investment income | (0.07) | (0.12) | (0.09) | (0.04) | (0.05) | (0.05) |
| Total Income From Operations | 0.03 | 0.54 | 0.20 | 0.37 | 0.60 | 0.70 |
| **Underwriting Commissions and Offering Expenses for the Issuance of Municipal Auction Rate Cumulative Preferred Stock** | | | | | | (0.06) |
| **Distributions Paid to Common Stock Shareholder From:** | | | | | | |
| Net investment income | (0.21) | (0.44) | (0.56) | (0.61) | (0.61) | (0.58) |
| Total Distributions | (0.21) | (0.44) | (0.56) | (0.61) | (0.61) | (0.58) |
| **Net Asset Value, End of Period** | $9.58 | $9.76 | $9.66 | $10.02 | $10.26 | $10.27 |
| **Market Price, End of Period** | $8.95 | $9.00 | $8.60 | $9.36 | $10.19 | $9.56 |
| **Total Return, Based on NAV[2][3]** | 0.44% | 6.17% | 2.41% | 3.99% | 6.22% | 6.73% |
| **Total Return, Based on Market Price[3]** | 1.75% | 9.97% | (2.40)% | (2.19)% | 13.33% | 4.03% |
| **Net Assets, End of Period (millions)** | $134 | $137 | $136 | $141 | $144 | $144 |
| **Ratios to Average Net Assets:[4]** | | | | | | |
| Net expenses | 0.99%[5] | 1.14%[6] | 1.23%[7] | 1.14%[7] | 1.13%[7] | 1.13%[7] |
| Net expenses, excluding interest expense | 0.99(5) | 1.03(6) | 1.12 | 1.07 | 1.07 | 1.08 |
| Net investment income | 5.72(5) | 5.82 | 5.89 | 6.34 | 6.55 | 6.59 |
| **Portfolio Turnover Rate** | 10% | 7% | 18% | 32% | 21% | 49% |
| **Auction Rate Cumulative Preferred Stock:[8]** | | | | | | |
| Total Amount Outstanding (000s) | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 |
| Asset Coverage Per Share | 92,207 | 93,463 | 92,776 | 95,272 | 96,840 | 96,942 |
| Involuntary Liquidating Preference Per Share[9] | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |
| Average Market Value Per Share[9] | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |

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

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

(3) The total return calculation assumes that all distributions, including returns of capital, if any, are reinvested in accordance with the Fund s dividend reinvestment plan. Past performance is no guarantee of future results.

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

(5) Annualized.

(6) 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.

(7) Ratios for 2002 through 2005 were changed to reflect a correction of an immaterial amount.

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

(9) Excludes accumulated and unpaid distributions.

**See Notes to Financial Statements.**

**Notes to Financial Statements (unaudited)**

**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. 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.

**(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 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. The Fund recognizes an unrealized gain or loss equal to the daily variation margin. When the financial futures contracts are closed, a realized gain or loss is recognized equal to the difference between the proceeds from (or cost of) the closing transactions and the Fund s basis in the contracts.

The risks associated with entering into financial futures contracts include the possibility that a change in the value of the contracts may not correlate with the changes in the values 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 counterparties to meet the terms of their contracts.

**(c) Security Transactions and Investment Income.** Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. The cost of investments sold is

**Notes to Financial Statements (unaudited) (continued)**

determined by use of the specific identification method. To the extent any issuer defaults on an expected interest payment, the Fund s policy is to generally halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default.

**(d) 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 the Fund s Municipal Auction Rate Cumulative Preferred Stock shall be entitled to receive distributions in accordance with an auction that will normally be held weekly and out of the funds legally available to shareholders.

**(e) 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 Fund s 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 ).

**(f) Federal and Other Taxes.** It is the Fund s policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute substantially all of its taxable income and net realized gains on investments, if any, to shareholders each year. Therefore, no federal income tax provision is required in the Fund s financial statements.

**(g) Reclassification.** GAAP requires that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset values per share.

**2. Investment Management Agreement and Other Transactions with Affiliates**

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

LMPFA provides administrative and certain oversight services to the Fund. The Fund pays an investment management fee at an annual rate of 0.55% of the Fund s average daily net assets, plus the aggregate liquidation value of the Fund s Preferred Stock.

**Notes to Financial Statements (unaudited) (continued)**

For 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. The investment management fee is calculated daily and paid monthly.

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

The Fund has adopted an unfunded, non-qualified deferred compensation plan (the Plan ) which allows 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 fees earn a return based on notional investments selected by the Independent Director. The balance of the deferred fees payable may change depending upon the investment performance. Any gains or losses incurred in the deferred balances are reported in the Statement of Operations under Directors fees. Under the Plan, deferred fees 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 June 30, 2007, the Fund had accrued $17,218 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 six months ended June 30, 2007, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were as follows:

| | |
|---|---|
| Purchases | $17,522,153 |
| Sales | 18,754,315 |

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

| | |
|---|---|
| Gross unrealized appreciation | $ 4,313,759 |
| Gross unrealized depreciation | (1,377,193) |
| Net unrealized appreciation | $ 2,936,566 |

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

| Contracts to Buy: | Number of Contracts | Expiration Date | Basis Value | Market Value | Unrealized Gain |
|---|---|---|---|---|---|
| U.S. 10 Year Treasury Notes | 190 | 9/07 | $19,870,648 | $20,083,594 | $212,946 |

**Notes to Financial Statements (unaudited) (continued)**

**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 underwriting discount of $500,000 and offering expenses of $278,731 associated with the ARCPS offering were recorded as a reduction of the capital paid in excess of par value of common stock for the year ended December 31, 2002. The ARCPS dividends are cumulative at a rate determined at an auction and the dividend period is typically 7 days. The dividend rates ranged from 3.50% to 3.98% during the six months ended June 30, 2007. At June 30, 2007, the dividend rate was 3.85%.

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.

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 the 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 six months ended June 30, 2007, CGM earned $61,167 as a participating broker/dealer.

**5. Capital Loss Carryforward**

On December 31, 2006, the Fund had a net capital loss carryforward of $10,858,660 of which $37,522 expires in 2007, $513,580 expires in 2008, $4,046,539 expires in 2010, $569,469 expires in 2011, $3,529,445 expires in 2012, and 2,162,105 expires in 2013. Theses amounts are available to offset any future taxable capital gains.

**6. Other Matters**

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

written statement disclosing the source of the dividends and distributions, and, in particular, the portion of the payments made from each of net investment income, undistributed net profits and/or paid-in capital. In connection with the contemplated proceedings, the staff may seek a cease and desist order and/or monetary damages from SBFM or SBAM.

**Notes to Financial Statements (unaudited) (continued)**

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

**7. Recent Accounting Pronouncements**

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

* * *

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

**8. Recent Developments**

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

**Financial Data (unaudited)**

*For a share of common stock outstanding throughout each period:*

| Period | AMEX Closing Price* | Net Asset Value* | Distributions Paid | Reinvestment Price |
|---|---|---|---|---|
| **Fiscal Year 2006** | | | | |
| January | $8.74 | $9.69 | $0.037 | $8.78 |
| February | 8.91 | 9.69 | 0.037 | 8.87 |
| March | 8.80 | 9.65 | 0.037 | 8.92 |
| April | 8.57 | 9.65 | 0.037 | 8.69 |
| May | 8.56 | 9.67 | 0.037 | 8.69 |
| June | 8.48 | 9.58 | 0.037 | 8.52 |
| July | 8.64 | 9.65 | 0.037 | 8.55 |
| August | 8.82 | 9.75 | 0.037 | 8.99 |
| September | 8.90 | 9.77 | 0.037 | 8.95 |
| October | 8.85 | 9.80 | 0.035 | 8.94 |
| November | 8.95 | 9.82 | 0.035 | 8.92 |
| December | 9.00 | 9.76 | 0.035 | 9.01 |
| **Fiscal Year 2007** | | | | |
| January | 9.11 | 9.69 | 0.035 | 9.11 |
| February | 9.26 | 9.79 | 0.035 | 9.23 |
| March | 9.05 | 9.74 | 0.035 | 9.15 |
| April | 9.22 | 9.72 | 0.035 | 9.27 |
| May | 9.12 | 9.65 | 0.035 | 9.08 |
| June | 8.95 | 9.58 | 0.035 | 8.93 |

*On the last business day of the month.

**Additional Shareholder Information (unaudited)**

The Annual Meeting of Shareholders of Western Asset Intermediate Muni Fund Inc. was held on April 27, 2007, for the purpose of considering and voting upon the election of Directors. The following table provides information concerning the matter voted upon at the meeting:

| Nominees | Common Shares Votes For | Preferred Shares Votes For | Common Shares Votes Withheld | Preferred Shares Votes Against |
|---|---|---|---|---|
| Carol L. Colman | N/A | 1,973 | N/A | 4 |
| Paolo M. Cucchi | 12,837,701 | 1,973 | 554,224 | 4 |
| Leslie H. Gelb | 12,804,204 | 1,973 | 587,731 | 4 |

At June 30, 2007, in addition to Carol L. Colman, Paolo M. Cucchi and Leslie H. Gelb, the other Directors of the Fund were as follows:

Daniel P. Cronin

R. Jay Gerken

William R. Hutchinson

Dr. Riordan Roett

**Dividend Reinvestment Plan (unaudited)**

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

The number of shares of common stock distributed to participants in the Plan in lieu of a cash dividend is determined in the following manner. When the market price of the common stock is equal to or exceeds the net asset value ( NAV ) per share of the common stock on the determination date (generally, the record date for the distribution), Plan participants will be issued shares of common stock by the Fund at a price equal to the greater of NAV determined or 95% of the market price of the common stock.

If the market price of the common stock is less than the NAV of the common stock at the time of valuation (which is the close of business on the determination date), AST will buy common stock in the open market, on the AMEX or elsewhere, for the participants accounts. If following the commencement of the purchases and before AST has completed its purchases, the market price exceeds the NAV of the common stock as of the valuation time, AST will attempt to terminate purchases in the open market and cause the Fund to issue the remaining portion of the dividend or distribution in shares at a price equal to the greater of (a) NAV as of the valuation time or (b) 95% of the then current market price. In this case, the number of shares received by a Plan participant will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares. To the extent AST is unable to stop open market purchases and cause the Fund to issue the remaining shares, the average per share purchase price paid by AST may exceed the NAV of the common stock as of the valuation time, resulting in the acquisition of fewer shares than if the distribution had been paid in common stock issued by the Fund at such NAV. AST will begin to purchase common stock on the open market as soon as practicable after the determination date for distributions, but in no event shall such purchases continue later than 30 days after the payment date for such distribution, or the record date for a succeeding distribution, except when necessary to comply with applicable provisions of the federal securities laws.

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

**Dividend Reinvestment Plan (unaudited) (continued)**

Plan participants are subject to no charge for reinvesting distributions under the Plan. AST s fees for handling the reinvestment of distributions will be paid by the Fund. No brokerage charges apply with respect to shares of common stock issued directly by the Fund under the Plan. Each Plan participant will, however, bear a proportionate share of any brokerage commissions actually incurred with respect to any open market purchases made under the Plan.

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

**Western Asset Intermediate Muni Fund Inc.**

**DIRECTORS**
Carol L. Colman
Daniel P. Cronin
Paolo M. Cucchi
Leslie H. Gelb
R. Jay Gerken, CFA
*Chairman*
William R. Hutchinson
Dr. Riordan Roett

**OFFICERS**
R. Jay Gerken, CFA
President and Chief Executive Officer

Kaprel Ozsolak
Chief Financial Officer and Treasurer

Ted P. Becker
Chief Compliance Officer

Robert I. Frenkel
Secretary and Chief Legal Officer

Albert Laskaj
Controller

**WESTERN ASSET INTERMEDIATE MUNI FUND INC.**
125 Broad Street
10th Floor, MF-2
New York, New York 10004

**INVESTMENT MANAGER**
Legg Mason Partners Fund Advisor, LLC

**SUBADVISER**
Western Asset Management Company

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

**TRANSFER AGENT**
American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038

**AUCTION AGENT**
Deutsche Bank
60 Wall Street
New York, New York 10005

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**
KPMG LLP
345 Park Avenue
New York, New York 10154

**LEGAL COUNSEL**
Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017

**AMERICAN STOCK EXCHANGE SYMBOL**
SBI

This report is intended only for the shareholders of Western Asset Intermediate Muni Fund Inc. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in the report.

**Western Asset Intermediate**

**Muni Fund Inc.**

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

**www.leggmason.com/InvestorServices**

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ( SEC ) for the first and third quarters of each fiscal year on Form N-Q. The Fund s Forms N-Q are available on the SEC s website at www.sec.gov. The Fund s Forms N-Q may be reviewed and copied at the SEC s Public Reference Room in Washington, D.C., and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. To obtain information on Form N-Q from the Fund, shareholders can call Legg Mason Partners Shareholder Services at 1-800-451-2010.

American Stock Transfer &
Trust Company
59 Maiden Lane
New York, New York 10038

Information on how the Fund voted proxies relating to portfolio securities during the prior 12-month period ended June 30th of each year and a description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio transactions is available (1) without charge, upon request, by calling 1-800-451-2010, (2) on the Fund s website at www.leggmason.com/InvestorServices and (3) on the SEC s website at www.sec.gov.

WASX010074 08/07 SR07-393

ITEM 2. CODE OF ETHICS.

Not Applicable

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not Applicable

ITEM 4. Principal Accountant Fees and Services

Not Applicable

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not applicable.

ITEM 6. SCHEDULE OF INVESTMENTS.

Included herein under Item 1.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

**Proxy Voting Guidelines and Procedures**

Although individual trustees may not agree with particular policies or votes by the manager or subadvisers, the Board has delegated proxy voting discretion to the manager and/or the subadvisers, believing that the manager and/or the subadvisers should be responsible for voting because it is a matter relating to the investment decision making process. LMPFA delegates the responsibility for voting proxies for the fund to the subadvisers through its contracts with the subadvisers. The subadvisers will use their own proxy voting policies and procedures to vote proxies. Accordingly, LMPFA does not expect to have proxy-voting responsibility for the fund. Should LMPFA become responsible for voting proxies for any reason, such as the inability of a subadviser to provide investment advisory services, LMPFA shall utilize the proxy voting guidelines established by the most recent subadviser to vote proxies until a new subadviser is retained. In the case of a material conflict between the interests of LMPFA (or its affiliates if such conflict is known to persons responsible for voting at LMPFA) and the fund, the board of trustees of LMPFA shall consider how to address the conflict and/or how to vote the proxies. LMPFA shall maintain records of all proxy votes in accordance with applicable securities laws and regulations, to the extent that LMPFA votes proxies. LMPFA shall be responsible for gathering relevant documents and records related to proxy voting from the subadvisers and providing them to the fund as required for the fund to comply with applicable rules under the 1940 Act. The subadvisers Proxy Voting Policies and Procedures govern in determining how proxies relating to the fund s portfolio securities are voted and are attached as Appendix A to this SAI. Information regarding how each fund voted proxies (if any) relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge (1) by calling 888-425-6432, (2) on the fund s website at http://www.leggmason.com/ InvestorServices and (3) on the SEC s website at http://www.sec.gov.

**Background**

An investment adviser is required to adopt and implement policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940 ( Advisers Act ). The authority to vote the proxies of our clients is established through investment management agreements or comparable documents. In addition to SEC requirements governing advisers, long-standing fiduciary standards and responsibilities have been established for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the investment manager.

**Policy**

As a fixed income only manager, the occasion to vote proxies is very rare. However, the Firm has adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940 ( Advisers Act ). In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the Investment Manager.

While the guidelines included in the procedures are intended to provide a benchmark for voting standards, each vote is ultimately cast on a case-by-case basis, taking into consideration the Firm s contractual obligations to our clients and all other relevant facts and circumstances at the time of the vote (such that these guidelines may be overridden to the extent the Firm deems appropriate).

In exercising its voting authority, Western Asset will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (other than Western Asset Management Company Limited) regarding the voting of any securities owned by its clients.

**Procedure**

*Responsibility and Oversight*

The Western Asset Legal and Compliance Department ( Compliance Department ) is responsible for administering and overseeing the proxy voting process. The gathering of proxies is coordinated through the Corporate Actions area of Investment Support ( Corporate Actions ). Research analysts and portfolio managers are responsible for determining appropriate voting positions on each proxy utilizing any applicable guidelines contained in these procedures.

*Client Authority*

At account start-up, or upon amendment of an IMA, the applicable client IMA are similarly reviewed. If an agreement is silent on proxy voting, but contains an overall delegation of discretionary authority or if the account represents assets of an ERISA plan, Western Asset will assume responsibility for proxy voting. The Client Account Transition Team maintains a matrix of proxy voting authority.

*Proxy Gathering*

Registered owners of record, client custodians, client banks and trustees ( Proxy Recipients ) that receive proxy materials on behalf of clients should forward them to Corporate Actions. Proxy Recipients for new clients (or, if Western Asset becomes aware that the applicable Proxy Recipient for an existing client has changed, the Proxy Recipient for the existing client) are notified at start-up of appropriate routing to Corporate Actions of proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. If Western Asset personnel other than Corporate Actions receive proxy materials, they should promptly forward the materials to Corporate Actions.

*Proxy Voting*

Once proxy materials are received by Corporate Actions, they are forwarded to the Legal and Compliance Department for coordination and the following actions:

a. Proxies are reviewed to determine accounts impacted.

b. Impacted accounts are checked to confirm Western Asset voting authority.

c. Legal and Compliance Department staff reviews proxy issues to determine any material conflicts of interest. (See conflicts of interest section of these procedures for further information on determining material conflicts of interest.)

d. If a material conflict of interest exists, (i) to the extent reasonably practicable and permitted by

applicable law, the client is promptly notified, the conflict is disclosed and Western Asset obtains the client s proxy voting instructions, and (ii) to the extent that it is not reasonably practicable or permitted by applicable law to notify the client and obtain such instructions (e.g., the client is a mutual fund or other commingled vehicle or is an ERISA plan client), Western Asset seeks voting instructions from an independent third party.

e. Legal and Compliance Department staff provides proxy material to the appropriate research analyst or portfolio manager to obtain their recommended vote. Research analysts and portfolio managers determine votes on a case-by-case basis taking into account the voting guidelines contained in these procedures. For

avoidance of doubt, depending on the best interest of each individual client, Western Asset may vote the same proxy differently for different clients. The analyst s or portfolio manager s basis for their decision is documented and maintained by the Legal and Compliance Department.

f. Legal and Compliance Department staff votes the proxy pursuant to the instructions received in

(d) or (e) and returns the voted proxy as indicated in the proxy materials.

*Timing* Western Asset personnel act in such a manner to ensure that, absent special circumstances, the proxy gathering and proxy voting steps noted above can be completed before the applicable deadline for returning proxy votes.

*Recordkeeping*

Western Asset maintains records of proxies voted pursuant to Section 204-2 of the Advisers Act and ERISA DOL Bulletin 94-2. These records include:

a. A copy of Western Asset s policies and procedures.

b. Copies of proxy statements received regarding client securities.

c. A copy of any document created by Western Asset that was material to making a decision how to vote proxies.

d. Each written client request for proxy voting records and Western Asset s written response to both verbal and written client requests.

e. A proxy log including:

1. Issuer name;

2. Exchange ticker symbol of the issuer s shares to be voted;

3. Council on Uniform Securities Identification Procedures ( CUSIP ) number for the shares to be voted;

4. A brief identification of the matter voted on;

5. Whether the matter was proposed by the issuer or by a shareholder of the issuer;

6. Whether a vote was cast on the matter;

7. A record of how the vote was cast; and

8. Whether the vote was cast for or against the recommendation of the issuer s management team.

Records are maintained in an easily accessible place for five years, the first two in Western Asset s offices.

*Disclosure*

Western Asset s proxy policies are described in the firm s Part II of Form ADV. Clients will be provided a copy of these policies and procedures upon request. In addition, upon request, clients may receive reports on how their proxies have been voted.

*Conflicts of Interest*

All proxies are reviewed by the Legal and Compliance Department for material conflicts of interest. Issues to be reviewed include, but are not limited to:

1. Whether Western (or, to the extent required to be considered by applicable law, its affiliates) manages assets for the company or an employee group of the company or otherwise has an interest in the company;

2. Whether Western or an officer or director of Western or the applicable portfolio manager or analyst responsible for recommending the proxy vote (together, Voting Persons ) is a close relative of or has a personal or business relationship with an executive, director or person who is a candidate for director of the company or is a participant in a proxy contest; and

3. Whether there is any other business or personal relationship where a Voting Person has a personal interest in the outcome of the matter before shareholders.

*Voting Guidelines*

Western Asset s substantive voting decisions turn on the particular facts and circumstances of each proxy vote and are evaluated by the designated research analyst or portfolio manager. The examples outlined below are meant as guidelines to aid in the decision making process.

Guidelines are grouped according to the types of proposals generally presented to shareholders. Part I deals with proposals which have been approved and are recommended by a company s board of directors; Part II deals with

proposals submitted by shareholders for inclusion in proxy statements; Part III addresses issues relating to voting shares of investment companies; and Part IV addresses unique considerations pertaining to foreign issuers.

**I. Board Approved Proposals**

The vast majority of matters presented to shareholders for a vote involve proposals made by a company itself that have been approved and recommended by its board of directors. In view of the enhanced corporate governance practices currently being implemented in public companies, Western Asset generally votes in support of decisions reached by independent boards of directors. More specific guidelines related to certain board-approved proposals are as follows:

*1. Matters relating to the Board of Directors*

Western Asset votes proxies for the election of the company s nominees for directors and for board-approved proposals on other matters relating to the board of directors with the following exceptions:

a. Votes are withheld for the entire board of directors if the board does not have a majority of independent directors or the board does not have nominating, audit and compensation committees composed solely of independent directors.

b. Votes are withheld for any nominee for director who is considered an independent director by the company and who has received compensation from the company other than for service as a director.

c. Votes are withheld for any nominee for director who attends less than 75% of board and committee meetings without valid reasons for absences.

d. Votes are cast on a case-by-case basis in contested elections of directors.

*2. Matters relating to Executive Compensation*

Western Asset generally favors compensation programs that relate executive compensation to a company s long-term performance. Votes are cast on a case-by-case basis on board-approved proposals relating to executive compensation, except as follows:

a. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for stock option plans that will result in a minimal annual dilution.

b. Western Asset votes against stock option plans or proposals that permit replacing or repricing of underwater options.

c. Western Asset votes against stock option plans that permit issuance of options with an exercise price below the stock s current market price.

d. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for employee stock purchase plans that limit the discount for shares purchased under the plan to no more than 15% of their market value, have an offering period of 27 months or less and result in dilution of 10% or less.

*3. Matters relating to Capitalization*

The management of a company s capital structure involves a number of important issues, including cash flows, financing needs and market conditions that are unique to the circumstances of each company. As a result, Western Asset votes on a case-by-case basis on board-approved

proposals involving changes to a company s capitalization except where Western Asset is otherwise withholding votes for the entire board of directors.

a. Western Asset votes for proposals relating to the authorization of additional common stock.

b. Western Asset votes for proposals to effect stock splits (excluding reverse stock splits).

c. Western Asset votes for proposals authorizing share repurchase programs.

*4. Matters relating to Acquisitions, Mergers, Reorganizations and Other Transactions* Western Asset votes these issues on a case-by-case basis on board-approved transactions.

*5. Matters relating to Anti-Takeover Measures* Western Asset votes against board-approved proposals to adopt anti-takeover measures except as follows:

a. Western Asset votes on a case-by-case basis on proposals to ratify or approve shareholder rights plans.

b. Western Asset votes on a case-by-case basis on proposals to adopt fair price provisions.

*6. Other Business Matters*

Western Asset votes for board-approved proposals approving such routine business matters such as changing the company s name, ratifying the appointment of auditors and procedural matters relating to the shareholder meeting.

a. Western Asset votes on a case-by-case basis on proposals to amend a company s charter or bylaws.

b. Western Asset votes against authorization to transact other unidentified, substantive business at the meeting.

**II. Shareholder Proposals**

SEC regulations permit shareholders to submit proposals for inclusion in a company s proxy statement. These proposals generally seek to change some aspect of a company s corporate governance structure or to change some aspect of its business operations. Western Asset votes in accordance with the recommendation of the company s board of directors on all shareholder proposals, except as follows:

1. Western Asset votes for shareholder proposals to require shareholder approval of shareholder rights plans.

2. Western Asset votes for shareholder proposals that are consistent with Western Asset s proxy voting guidelines for board-approved proposals.

3. Western Asset votes on a case-by-case basis on other shareholder proposals where the firm is otherwise withholding votes for the entire board of directors.

**III. Voting Shares of Investment Companies**

Western Asset may utilize shares of open or closed-end investment companies to implement its investment strategies. Shareholder votes for investment companies that fall within the categories listed in Parts I and II above are voted in accordance with those guidelines.

1. Western Asset votes on a case-by-case basis on proposals relating to changes in the investment objectives of an investment company taking into account the original intent of the fund and the role the fund plays in the clients portfolios.

2. Western Asset votes on a case-by-case basis all proposals that would result in increases in expenses (e.g., proposals to adopt 12b-1 plans, alter investment advisory arrangements or approve fund mergers) taking into account comparable expenses for similar funds and the services to be provided.

**IV. Voting Shares of Foreign Issuers**

In the event Western Asset is required to vote on securities held in non-U.S. issuers i.e. issuers that are incorporated under the laws of a foreign jurisdiction and that are not listed on a U.S. securities exchange or the NASDAQ stock market, the following guidelines are used, which are premised on the existence of a sound corporate governance and disclosure framework. These guidelines, however, may not be appropriate under some circumstances for foreign issuers and therefore apply only where applicable.

1. Western Asset votes for shareholder proposals calling for a majority of the directors to be independent of management.

2. Western Asset votes for shareholder proposals seeking to increase the independence of board nominating, audit and compensation committees.

3. Western Asset votes for shareholder proposals that implement corporate governance standards similar to those established under U.S. federal law and the listing requirements of U.S. stock exchanges, and that do not otherwise violate the laws of the jurisdiction under which the company

is incorporated.

4. Western Asset votes on a case-by-case basis on proposals relating to (1) the issuance of common stock in excess of 20% of a company s outstanding common stock where shareholders do not have preemptive rights, or (2) the issuance of common stock in excess of 100% of a company s outstanding common stock where shareholders have preemptive rights.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not Applicable

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

None

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

ITEM 11. CONTROLS AND PROCEDURES.

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

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

ITEM 12. EXHIBITS.

(a) (1) Not applicable.

Exhibit 99.CODE ETH

(a) (2) Certifications pursuant to section 302 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.CERT

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.906CERT

SIGNATURES

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

**Western Asset Intermediate Muni Fund Inc.**

By: **/s/ R. Jay Gerken**
**(R. Jay Gerken)**
Chief Executive Officer of
**Western Asset Intermediate Muni Fund Inc.**

Date: August 29, 2007

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

By: **/s/ R. Jay Gerken**
**(R. Jay Gerken)**
Chief Executive Officer of
**Western Asset Intermediate Muni Fund Inc.**

Date: August 29, 2007

By: **/s/ Kaprel Ozsolak**
**(Kaprel Ozsolak)**
Chief Financial Officer of
**Western Asset Intermediate Muni Fund Inc.**

Date: August 29, 2007