

WESTERN ASSET INTERMEDIATE MUNI FUND INC.

Form N-CSR

January 25, 2016

[Table of Contents](#)

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 811-06506

Western Asset Intermediate Muni Fund Inc.

(Exact name of registrant as specified in charter)

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

(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

Stamford, CT 06902

(Name and address of agent for service)

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

Date of fiscal year end: November 30

Date of reporting period: November 30, 2015

Table of Contents

ITEM 1. REPORT TO STOCKHOLDERS.

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

Table of Contents

Annual Report

November 30, 2015

WESTERN ASSET
INTERMEDIATE MUNI
FUND INC. (SBI)

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

Table of Contents

What's inside	
Letter from the chairman	II
Investment commentary	III
Fund overview	1
Fund at a glance	5
Spread duration	6
Effective duration	7
Schedule of investments	8
Statement of assets and liabilities	15
Statement of operations	16
Statements of changes in net assets	17
Statement of cash flows	18
Financial highlights	19
Notes to financial statements	21
Report of independent registered public accounting firm	32
Board approval of management and subadvisory agreements	33
Additional information	39
Annual chief executive officer and principal financial officer certifications	45
Other shareholder communications regarding accounting matters	46
Dividend reinvestment plan	47
Important tax information	49
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.

Under normal market conditions, the Fund will invest at least 80% of its total assets in municipal obligations that are, at the time of investment, rated investment grade by a nationally recognized statistical rating organization or, if unrated, of equivalent quality as determined by the investment manager. The Fund also maintains a dollar-weighted average effective maturity of between three and ten years.

Letter from the chairman

Dear Shareholder,

We are pleased to provide the annual report of Western Asset Intermediate Muni Fund Inc. for the twelve-month reporting period ended November 30, 2015. Please read on for a detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

I am pleased to introduce myself as the new Chairman, President and Chief Executive Officer of the Fund, succeeding Kenneth D. Fuller. I am honored to have been appointed to my new role. During my 27 year career with Legg Mason, I have seen the investment management industry evolve and expand. Throughout these changes, maintaining an unwavering focus on our shareholders and their needs has remained paramount.

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

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Fund prices and performance,

Market insights and commentaries from our portfolio managers, and

A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

December 31, 2015

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

II Western Asset Intermediate Muni Fund Inc.

Table of Contents

Investment commentary

Economic review

The pace of U.S. economic activity was mixed during the twelve months ended November 30, 2015 (the reporting period). Looking back, the U.S. Department of Commerce's revised figures showed that fourth quarter 2014 U.S. gross domestic product (GDP) growth was 2.1%. First quarter 2015 GDP growth then moderated to 0.6%. This was attributed to a number of factors, including a deceleration in personal consumption expenditures (PCE), along with negative contributions from exports, nonresidential fixed investment, and state and local government spending. Economic activity then accelerated, as second quarter 2015 GDP growth was 3.9%. The upturn was driven by increasing exports, accelerating PCE, declining imports, expanding state and local government spending, and rising nonresidential fixed investment. The U.S. Department of Commerce's final reading for third quarter 2015 GDP growth released after the reporting period ended was 2.0%. Decelerating growth was primarily due to a downturn in private inventory investment and decelerations in exports, PCE, nonresidential fixed investment, state and local government spending, and residential fixed investment.

The labor market significantly improved and was a tailwind for the economy during the reporting period. When the period began, unemployment was 5.6%, as reported by the U.S. Department of Labor. By November 2015, unemployment was 5.0%, equaling its lowest level since April 2008.

The Federal Reserve Board (Fed) maintained the federal funds rateⁱⁱⁱ at a historically low range between zero and 0.25% during the twelve months ended November 30, 2015. However, at its meeting that ended on December 16, 2015, after the reporting period ended, the Fed raised the federal funds rate for the first time since 2006. In particular, the U.S. central bank raised the federal funds rate to a range between 0.25% and 0.50%. At its meeting that concluded on October 28, 2015, the Fed said, "In determining whether it will be appropriate to raise the target range at its next meeting, the Committee will assess progress both realized and expected toward its objectives of maximum employment and 2 percent inflation." However, in its official statement after the December meeting, the Fed said, "The stance of monetary policy remains accommodative after this increase, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation." The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.

As always, thank you for your confidence in our stewardship of your assets.

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

December 31, 2015

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results.

Table of Contents

Investment commentary (cont d)

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

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

ⁱⁱⁱ The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

IV Western Asset Intermediate Muni Fund Inc.

Table of Contents

Fund overview

Q. What is the Fund's investment strategy?

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

At Western Asset Management Company (Western Asset), the Fund's subadviser, we utilize a fixed-income team approach, with decisions derived from interaction among various investment management sector specialists. The sector teams are comprised of Western Asset's senior portfolio management personnel, research analysts and an in-house economist. Under this team approach, management of client fixed-income portfolios will reflect a consensus of interdisciplinary views within the Western Asset organization. The individuals responsible for development of investment strategy, day-to-day portfolio management, oversight and coordination of the Fund are S. Kenneth Leech, Robert E. Amodeo, David T. Fare and Dennis J. McNamara.

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

A. Most spread sectors (non-Treasuries) posted positive returns, but generated mixed results versus equal-durationⁱ Treasuries over the twelve months ended November 30, 2015. The fixed income market was volatile at times given fluctuating global economic data, uncertainties regarding future Federal Reserve Board (Fed) monetary policy and a number of geopolitical issues. Assuming greater risk was generally not rewarded during the reporting period.

Both short- and long-term Treasury yields moved higher during the twelve months ended November 30, 2015. Two-year Treasury yields rose from 0.47% at the beginning of the period to 0.94% at the end of the period. Their peak of 0.94% occurred on November 23 and on November 30, 2015, and they were as low as 0.44% on January 15, 2015. Ten-year Treasury yields were 2.18% at the beginning of the period and ended the period at 2.21%. Their peak of 2.50% was on June 10, 2015 and their low of 1.68% occurred at the end of January and early February 2015.

The municipal bond market outperformed its taxable bond counterpart during the twelve-month reporting period. Over that time, the Barclays Municipal Bond Indexⁱⁱⁱ and the Barclays U.S. Aggregate Index^{iv} returned 3.10% and 0.97%, respectively. The overall

Table of Contents**Fund overview (cont d)**

creditworthiness of the municipal bond market has improved as the U.S. economy continues to expand, resulting in a better labor market and higher consumer confidence levels. After lagging the overall taxable bond market during five of the first six months of the reporting period, the municipal market outperformed over the final six months of the period.

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

A. There were several changes to the Fund during the reporting period. We reduced the Fund's overall risk exposure by opportunistically selling securities that we believe were fully valued, replacing them with ones that offered better upside potential. In addition, we had a portion of the Fund's portfolio pre-refunded. This acts to dampen the Fund's overall sensitivity to interest rates. The Fund employed the use of short U.S. Treasury futures during the reporting period to manage duration. This strategy slightly detracted from the Fund's performance.

During the reporting period, we utilized leverage in the Fund. This contributed to performance given the municipal market's positive results. We ended the period with leverage from preferred shares as a percentage of gross assets of roughly 25%.

Performance review

For the twelve months ended November 30, 2015, Western Asset Intermediate Muni Fund Inc. returned 6.52% based on its net asset value (NAV) and 7.73% based on its New York Stock Exchange Amex (NYSE Amex) market price per share. The Fund's unmanaged benchmark, the Barclays 1-15 Year Municipal Bond Index^{vi}, returned 2.56% for the same period. The Lipper Intermediate Municipal Debt Closed-End Funds Category Average^{vii} returned 3.91% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

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

During the twelve-month period, the Fund made distributions to common stock shareholders totaling \$0.48 per share.* The performance table shows the Fund's twelve-month total return based on its NAV and market price as of November 30, 2015. **Past performance is no guarantee of future results.**

Performance Snapshot as of November 30, 2015

Price Per Share	12-Month Total Return
\$10.47 (NAV)	6.52% **
\$10.06 (Market Price)	7.73%

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. Returns reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.

Total return assumes the reinvestment of all distributions at NAV.

*For the tax character of distributions paid during the fiscal year ended November 30, 2015, please refer to page 30 of this report.

**The total return based on NAV reflects the impact of the tender and repurchase by the Fund of a portion of its Auction Rate Cumulative Preferred Stock at 90% of the per share liquidation preference. Absent this transaction, the total return based on NAV would have been 3.17%.

Table of Contents

Total return assumes the reinvestment of all distributions in additional shares in accordance with the Fund's Dividend Reinvestment Plan.

Q. What were the leading contributors to performance?

A. The Fund outperformed the benchmark during the reporting period. The largest contributor to the Fund's relative performance was its tender and repurchase of approximately 95% of the Fund's outstanding Auction Rate Cumulative Preferred Stock at 90% of the per share liquidation preference.

The Fund's duration and yield curveⁱⁱⁱ positioning were positive for performance. Having a duration that was longer than that of the benchmark was rewarded. From a yield curve perspective, overweights to the ten to twenty year portions of the municipal yield curve were beneficial for performance.

From a sector perspective, overweights and security selection in the Industrial Revenue and Health Care sectors were additive for results. Security selection in the Power sector, coupled with an underweight to Pre-Refunded bonds, also enhanced the Fund's performance.

Q. What were the leading detractors from performance?

A. The largest detractor from the Fund's relative performance during the reporting period was its Treasury futures position. Elsewhere, security selection in the Transportation, Education and Special Tax Obligation sectors modestly detracted from performance.

Looking for additional information?

The Fund is traded under the symbol SBI and its closing market price is available in most newspapers under the NYSE 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.lmcef.com.

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

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

Sincerely,

Western Asset Management Company

December 21, 2015

***RISKS:** The Fund's investments are subject to interest rate and credit risks. As interest rates rise, bond prices fall, reducing the value of the fixed-income securities held by the Fund. Lower-rated, higher-yielding bonds, known as junk bonds, are subject to greater credit risk, including the risk of default, than higher-rated obligations. Municipal securities purchased by the Fund may be adversely affected by changes in the financial condition of municipal issuers and insurers, regulatory and political developments, uncertainties and public perceptions, and other factors. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately*

Table of Contents

Fund overview (cont d)

increase losses, and have a potentially large impact on Fund performance.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. Portfolio holdings are subject to change at any time and may not be representative of the portfolio managers' current or future investments. The Fund's portfolio composition is subject to change at any time.

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

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

- ⁱ Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.

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

- ⁱⁱⁱ The Barclays Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more.

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

- ^v Net asset value (NAV) is calculated by subtracting total liabilities, including liabilities associated with financial leverage (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.

- ^{vi} The Barclays 1-15 Year Municipal Bond Index is a market value weighted index of investment grade (Baa3/BBB- or higher) fixed-rate municipal bonds with maturities of one to fifteen years.

- ^{vii} Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended November 30, 2015, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 10 funds in the Fund's Lipper category.

- ^{viii} The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.

Table of Contents

Fund at a glance (unaudited)

Investment breakdown (%) as a percent of total investments

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

Table of Contents

Spread duration (unaudited)

Economic exposure November 30, 2015

Total Spread Duration

SBI 5.16 years

Benchmark 4.79 years

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

Benchmark Barclays Municipal 1-15 Year Bond Index

SBI Western Asset Intermediate Muni Fund Inc.

6 Western Asset Intermediate Muni Fund Inc. 2015 Annual Report

Table of Contents

Effective duration (unaudited)

Interest rate exposure November 30, 2015

Total Effective Duration

SBI 5.00 years

Benchmark 4.87 years

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

Benchmark Barclays Municipal 1-15 Year Bond Index

SBI Western Asset Intermediate Muni Fund Inc.

Table of Contents**Schedule of investments**

November 30, 2015

Western Asset Intermediate Muni Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Municipal Bonds 131.9%				
<i>Alabama 1.1%</i>				
Jefferson County, AL, Sewer Revenue, Subordinated Lien Warrants	5.000%	10/1/21	\$ 1,500,000	\$ 1,644,120
<i>Arizona 4.1%</i>				
Navajo Nation, AZ, Revenue	5.000%	12/1/25	250,000	270,643 (a)
Phoenix, AZ, Civic Improvement Corp., Wastewater System Revenue, Junior Lien	5.000%	7/1/27	1,000,000	1,202,180
Pinal County, AZ, Electric District No. 3 Revenue	4.000%	7/1/23	1,000,000	1,094,540
Pinal County, AZ, Electric District No. 3 Revenue	5.000%	7/1/24	1,760,000	2,024,299
Pinal County, AZ, Electric District No. 3 Revenue	5.000%	7/1/25	1,280,000	1,470,758
<i>Total Arizona</i>				<i>6,062,420</i>
<i>California 18.3%</i>				
Anaheim, CA, Public Financing Authority Lease Revenue	5.000%	5/1/26	2,000,000	2,373,780
Bay Area Toll Authority, CA, Toll Bridge Revenue, San Francisco Bay Area	1.110%	4/1/24	2,000,000	1,980,780 (b)(c)
California State PCFA, Water Furnishing Revenue	5.000%	7/1/27	2,000,000	2,210,720 (a)(d)
California State, GO	0.834%	12/1/17	1,500,000	1,502,775 (b)(c)
California Statewide CDA Revenue, Lodi Memorial Hospital, CMI	5.000%	12/1/22	2,000,000	2,159,240
California Statewide CDA, Student Housing Revenue, Provident Group-Pomona Properties LLC	5.600%	1/15/36	565,000	568,254
Long Beach, CA, Bond Finance Authority Lease Revenue	5.000%	8/1/31	1,855,000	2,047,957
Los Angeles County, CA, Public Works Financing Authority, Lease Revenue:				
Multiple Capital Project II	5.000%	8/1/21	1,000,000	1,184,490
Multiple Capital Project II	5.000%	8/1/22	1,000,000	1,202,090
M-S-R Energy Authority, CA, Gas Revenue	6.125%	11/1/29	3,000,000	3,872,910
Modesto, CA, Irrigation District Electric Revenue	5.000%	7/1/24	4,130,000	4,754,910
Modesto, CA, Irrigation District Electric Revenue	5.000%	7/1/25	2,000,000	2,296,940
River Islands, CA, Public Financing Authority Special Tax, Community Facilities District No. 2003-1	5.250%	9/1/34	430,000	448,959
Riverside County, CA, Transportation Commission Sales Tax Revenue, Limited Tax	5.250%	6/1/26	300,000	368,247
<i>Total California</i>				<i>26,972,052</i>
<i>Colorado 5.3%</i>				
E-470 Public Highway Authority Revenue, CO	5.250%	9/1/25	2,000,000	2,235,040
Public Authority for Colorado Energy, Natural Gas Purchase Revenue	6.125%	11/15/23	3,940,000	4,886,900
SBC Metropolitan District, CO, GO, ACA	5.000%	12/1/25	750,000	750,743
<i>Total Colorado</i>				<i>7,872,683</i>

See Notes to Financial Statements.

Table of Contents**Western Asset Intermediate Muni Fund Inc.**

Security	Rate	Maturity Date	Face Amount	Value
<i>Connecticut 0.9%</i>				
Connecticut State HEFA Revenue, Bristol Hospital, AGC	5.500%	7/1/21	\$ 1,320,000	\$ 1,324,145
<i>Florida 11.6%</i>				
Citizens Property Insurance Corp., FL, Revenue	5.000%	6/1/16	5,000,000	5,113,750 ^(e)
Florida State Development Finance Corp., Educational Facilities Revenue, Renaissance Charter School Inc. Project	6.000%	6/15/35	150,000	151,513 ^(a)
Florida State Mid-Bay Bridge Authority Revenue	5.000%	10/1/27	545,000	623,186
Jacksonville, FL, Sales Tax Revenue, Better Jacksonville	5.000%	10/1/30	1,500,000	1,703,745
Miami-Dade County, FL, Aviation Revenue	5.000%	10/1/31	4,000,000	4,415,080 ^(d)
Miami-Dade County, FL, Aviation Revenue	5.000%	10/1/32	1,000,000	1,099,910 ^(d)
Miami-Dade County, FL, Expressway Authority Toll System Revenue	5.000%	7/1/26	1,500,000	1,775,160
Miami-Dade County, FL, School Board, COP, AGC	5.000%	2/1/24	2,000,000	2,248,960
<i>Total Florida</i>				<i>17,131,304</i>
<i>Georgia 5.0%</i>				
Atlanta, GA, Water & Wastewater Revenue	6.000%	11/1/23	2,000,000	2,374,140 ^(f)
Burke County, GA, Development Authority Revenue, Oglethorpe Power Corp. Vogtle Project	2.400%	4/1/20	1,000,000	1,018,580 ^{(b)(c)}
DeKalb Private Hospital Authority Revenue, GA, Anticipation CTFs, Children's Health Care of Atlanta Inc.	5.000%	11/15/29	2,000,000	2,252,720
DeKalb, Newton & Gwinnett Counties, GA, Joint Development Authority Revenue, GGC Foundation LLC Project	6.000%	7/1/29	1,000,000	1,149,010
Private Colleges & Universities Authority, GA, Revenue, Savannah College of Art & Design Inc. Project	5.000%	4/1/28	500,000	566,880
<i>Total Georgia</i>				<i>7,361,330</i>
<i>Illinois 6.4%</i>				
Chicago, IL, GO	5.500%	1/1/30	1,000,000	1,067,670
Chicago, IL, Metropolitan Water Reclamation District Greater Chicago, GO, Green Bond	5.000%	12/1/29	850,000	992,630
Chicago, IL, O'Hare International Airport Revenue	5.000%	1/1/31	1,750,000	1,948,275 ^(d)
Glendale Heights, IL, Hospital Revenue, Refunding Glendale Heights Project	7.100%	12/1/15	165,000	165,000 ^(g)
Illinois State Finance Authority Revenue, Memorial Health System	5.250%	4/1/29	1,670,000	1,850,677
Illinois State Sports Facilities Authority Revenue, State Tax Supported, AGM	5.250%	6/15/30	3,000,000	3,346,860
<i>Total Illinois</i>				<i>9,371,112</i>
<i>Indiana 7.1%</i>				
Indiana State Finance Authority, Environmental Revenue, U.S. Steel Corp.	6.000%	12/1/19	1,000,000	780,970
Indianapolis, IN, Gas Utility Revenue, Second Lien	5.250%	8/15/29	4,000,000	4,653,320

See Notes to Financial Statements.

Table of Contents**Schedule of investments (cont d)**

November 30, 2015

Western Asset Intermediate Muni Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Indiana continued</i>				
Indianapolis, IN, Thermal Energy System Revenue, Multi-Mode, AGC	5.000%	10/1/23	\$ 4,000,000	\$ 4,411,880
Valparaiso, IN, Exempt Facilities Revenue, Pratt Paper LLC Project	5.875%	1/1/24	500,000	579,100 ^(d)
<i>Total Indiana</i>				<i>10,425,270</i>
<i>Iowa 1.5%</i>				
Iowa State Finance Authority Midwestern Disaster Area Revenue:				
Iowa Fertilizer Co. Project	5.000%	12/1/19	1,020,000	1,075,406
Iowa Fertilizer Co. Project	5.250%	12/1/25	1,010,000	1,097,820
<i>Total Iowa</i>				<i>2,173,226</i>
<i>Louisiana 3.1%</i>				
New Orleans, LA, Aviation Board Revenue	5.000%	1/1/29	2,000,000	2,266,460 ^(d)
New Orleans, LA, Aviation Board Revenue	5.000%	1/1/30	2,000,000	2,253,080 ^(d)
<i>Total Louisiana</i>				<i>4,519,540</i>
<i>Massachusetts 0.9%</i>				
Massachusetts State, GO	5.000%	7/1/26	1,000,000	1,252,210
<i>Michigan 6.7%</i>				
Michigan State Finance Authority Limited Obligation Revenue, Higher Education, Thomas M Cooley Law School Project	6.250%	7/1/29	600,000	621,702 ^(a)
Michigan State Finance Authority Revenue, Local Government Loan Program, Detroit Water & Sewer, AGM	5.000%	7/1/24	1,000,000	1,169,200
Michigan State Housing Development Authority, Rental Housing Revenue	5.250%	10/1/24	2,640,000	2,812,339
Wayne County, MI, Airport Authority Revenue, Detroit Metropolitan Airport	5.000%	12/1/16	5,000,000	5,198,450 ^(d)
<i>Total Michigan</i>				<i>9,801,691</i>
<i>Nevada 3.0%</i>				
Humboldt County, NV, PCR, Idaho Power Co. Project	5.150%	12/1/24	4,000,000	4,400,440
<i>New Hampshire 4.7%</i>				
New Hampshire HEFA Revenue, Healthcare Systems Covenant Health	5.000%	7/1/28	6,400,000	6,918,592
<i>New Jersey 13.6%</i>				
Casino Reinvestment Development Authority, NJ, Luxury Tax Revenue, AGM	5.000%	11/1/28	1,000,000	1,088,380
New Jersey State EDA Revenue:				
Continental Airlines Inc. Project	4.875%	9/15/19	1,250,000	1,316,688 ^(d)
School Facilities Construction	5.000%	3/1/29	5,000,000	5,266,450
New Jersey State EFA Revenue, University of Medicine & Dentistry	7.125%	12/1/23	2,000,000	2,408,160 ^(f)

See Notes to Financial Statements.

Table of Contents**Western Asset Intermediate Muni Fund Inc.**

Security	Rate	Maturity Date	Face Amount	Value
<i>Security</i>				
<i>New Jersey continued</i>				
New Jersey State Higher Education Assistance Authority, Student Loan Revenue	5.375%	6/1/24	\$ 3,385,000	\$ 3,690,936
New Jersey State Transportation Trust Fund Authority Revenue	5.250%	6/15/23	4,000,000	4,307,600
New Jersey State Turnpike Authority Revenue	0.540%	1/1/16	2,000,000	1,999,380 ^{(b)(c)}
<i>Total New Jersey</i>				<i>20,077,594</i>
<i>New Mexico 1.8%</i>				
Bernalillo County, NM, Gross Receipts Tax Revenue, AMBAC	5.250%	10/1/18	1,100,000	1,228,051
New Mexico Finance Authority Revenue, Subordinated Lien, Public Project Revolving Fund, NATL	5.000%	6/15/19	1,415,000	1,450,573
<i>Total New Mexico</i>				<i>2,678,624</i>
<i>New York 5.9%</i>				
New York City, NY, Industrial Development Agency, Special Facility Revenue, JFK International Airport Project, American Airlines Group	2.000%	8/1/16	750,000	751,418 ^{(b)(c)(d)}
New York State Thruway Authority, State Personal Income Tax Revenue, Transportation	5.000%	3/15/26	200,000	238,678
New York, NY, GO	5.000%	8/1/21	4,000,000	4,737,960
Port Authority of New York & New Jersey Revenue	5.000%	10/15/30	1,500,000	1,737,855 ^(d)
Utility Debt Securitization Authority, NY, Revenue, Restructuring	5.000%	12/15/27	1,000,000	1,214,160
<i>Total New York</i>				<i>8,680,071</i>
<i>North Carolina 1.3%</i>				
North Carolina Eastern Municipal Power Agency, Power System Revenue	5.000%	1/1/26	1,750,000	1,965,040 ^(f)
<i>Ohio 0.7%</i>				
Ohio State Air Quality Development Authority Revenue, FirstEnergy Generation Corp.	5.625%	6/1/18	1,000,000	1,065,610
<i>Oklahoma 1.9%</i>				
Grand River Dam Authority, OK, Revenue	5.000%	6/1/30	2,500,000	2,868,375
<i>Oregon 0.4%</i>				
Portland, OR, River District Urban Renewal & Redevelopment	5.000%	6/15/28	570,000	656,509
<i>Pennsylvania 3.6%</i>				
Cumberland County, PA, Municipal Authority Revenue, Diakon Lutheran Social Ministries Project	5.000%	1/1/27	500,000	549,715
Montgomery County, PA, IDA Revenue, New Regional Medical Center Project, FHA	5.000%	8/1/24	1,925,000	2,248,939 ^(f)
Philadelphia, PA, Gas Works Revenue, 7th General Ordinance, AMBAC	5.000%	10/1/17	1,000,000	1,072,060
Pittsburgh, PA, School District GO, AGM	5.375%	9/1/16	1,350,000	1,398,830
<i>Total Pennsylvania</i>				<i>5,269,544</i>

See Notes to Financial Statements.

Table of Contents**Schedule of investments (cont d)**

November 30, 2015

Western Asset Intermediate Muni Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Tennessee 5.5%</i>				
Tennessee Energy Acquisition Corp., Gas Revenue	5.250%	9/1/20	\$ 2,030,000	\$ 2,330,115
Tennessee Energy Acquisition Corp., Gas Revenue	5.250%	9/1/23	4,940,000	5,845,107
<i>Total Tennessee</i>				<i>8,175,222</i>
<i>Texas 8.3%</i>				
Austin, TX, Airport Systems Revenue	5.000%	11/15/27	1,000,000	1,163,620 ^(d)
Harris County, TX, Houston Sports Authority Revenue, Senior Lien, AGM	5.000%	11/15/25	1,000,000	1,193,170
New Hope Cultural Education Facilities Finance Corp., TX, Student Housing Revenue, NCCD-College Station Properties LLC	5.000%	7/1/30	500,000	536,560
North Texas Tollway Authority Revenue	5.000%	1/1/34	1,300,000	1,467,752
North Texas Tollway Authority Revenue, NATL	5.125%	1/1/28	2,000,000	2,144,340
Sabine River Authority, Texas PCR, Southwestern Electric Power Co., NATL	4.950%	3/1/18	3,000,000	3,206,190
Texas State Department Housing Community Affairs Home Mortgage Revenue, RIBS, GNMA/FNMA/FHLMC-Collateralized	13.365%	7/2/24	125,000	125,467 ^{(b)(d)}
Texas State Municipal Gas Acquisition & Supply Corp. III, Gas Supply Revenue	5.000%	12/15/22	2,000,000	2,327,640
<i>Total Texas</i>				<i>12,164,739</i>
<i>Virginia 4.6%</i>				
Pittsylvania County, VA, GO	5.500%	2/1/22	540,000	615,600 ^(f)
Pittsylvania County, VA, GO	5.500%	2/1/23	1,030,000	1,174,200 ^(f)
Pittsylvania County, VA, GO	5.600%	2/1/24	2,490,000	2,846,344 ^(f)
Virginia State Small Business Financing Authority Revenue, Elizabeth River Crossings OpCo LLC Project	5.000%	1/1/27	2,000,000	2,151,720 ^(d)
<i>Total Virginia</i>				<i>6,787,864</i>
<i>Washington 1.4%</i>				
Washington State Health Care Facilities Authority Revenue, Multicare Health System, AGC	5.750%	8/15/29	1,000,000	1,164,170 ^(f)
Washington State HFC Revenue, Heron's Key	5.500%	1/1/24	875,000	889,184 ^(a)
<i>Total Washington</i>				<i>2,053,354</i>

See Notes to Financial Statements.

Table of Contents

Western Asset Intermediate Muni Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Wisconsin 3.2%</i>				
Central Brown County, WI, Water Authority System Revenue	5.000%	11/1/35	\$ 2,105,000	\$ 2,379,260
La Crosse, WI, Resource Recovery Revenue, Refunding Bonds, Northern States Power Co. Project	6.000%	11/1/21	2,000,000	2,409,220 ^(d)
<i>Total Wisconsin</i>				<i>4,788,480</i>
Total Municipal Bonds (Cost \$181,141,759)				194,461,161
Total Investments 131.9% (Cost \$181,141,759#)				194,461,161
Auction Rate Cumulative Preferred Stock, at Liquidation Value (1.8)%				(2,600,000)
Variable Rate Demand Preferred Stock, at Liquidation Value (32.1)%				(47,400,000)
Other Assets in Excess of Liabilities 2.0%				2,983,222
Total Net Assets Applicable to Common Shareholders 100.0%				\$ 147,444,383

(a) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors, unless otherwise noted.

(b) Variable rate security. Interest rate disclosed is as of the most recent information available.

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

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

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

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

(g) 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.

Aggregate cost for federal income tax purposes is \$180,990,918.

Abbreviations used in this schedule:

ACA	American Capital Assurance Insured Bonds
AGC	Assured Guaranty Corporation Insured Bonds
AGM	Assured Guaranty Municipal Corporation Insured Bonds
AMBAC	American Municipal Bond Assurance Corporation Insured Bonds
CDA	Communities Development Authority
CMI	California Mortgage Insurance Program Insured Bonds
COP	Certificates of Participation
CTFS	Certificates

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EDA	Economic Development Authority
EFA	Educational Facilities Authority
FHA	Federal Housing Administration
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
GNMA	Government National Mortgage Association
GO	General Obligation
HEFA	Health & Educational Facilities Authority
HFC	Housing Finance Commission

[See Notes to Financial Statements.](#)

Table of Contents

Schedule of investments (cont d)

November 30, 2015

Western Asset Intermediate Muni Fund Inc.

IDA	Industrial Development Authority
NATL	National Public Finance Guarantee Corporation Insured Bonds
PCFA	Pollution Control Financing Authority
PCR	Pollution Control Revenue
RIBS	Residual Interest Bonds

Ratings table* (unaudited)

Standard & Poor s/Moody s/Fitch**

AAA/Aaa	3.0%
AA/Aa	37.5
A	47.0
BBB/Baa	7.0
BB/Ba	2.5
NR ***	3.0
	100.0%

* As a percentage of total investments.

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

*** The credit quality of unrated investments is evaluated based upon certain factors including, but not limited to, credit ratings for similar investments and financial analysis of sectors and individual investments.

[See Notes to Financial Statements.](#)

Table of Contents**Statement of assets and liabilities**

November 30, 2015

Assets:	
Investments, at value (Cost \$181,141,759)	\$ 194,461,161
Interest receivable	2,762,958
Prepaid expenses	29,341
Total Assets	197,253,460
Liabilities:	
Variable Rate Demand Preferred Stock (\$25,000 liquidation value per share; 1,896 shares issued and outstanding) (net of deferred offering costs of \$808,103) (Note 5)	46,591,897
Due to custodian	436,983
Investment management fee payable	89,146
Payable to broker - variation margin on open futures contracts	2,188
Directors' fees payable	1,697
Distributions payable to Variable Rate Demand Preferred Stockholders	388
Distributions payable to Auction Rate Cumulative Preferred Stockholders	102
Accrued expenses	86,676
Total Liabilities	47,209,077
Series M Municipal Auction Rate Cumulative Preferred Stock (104 shares authorized and issued at \$25,000 per share) (Note 6)	2,600,000
Total Net Assets Applicable to Common Shareholders	\$ 147,444,383
Net Assets Applicable to Common Shareholders:	
Common stock par value (\$0.001 par value; 14,076,914 shares issued and outstanding; 100,000,000 shares authorized)	\$ 14,077
Paid-in capital in excess of par value	138,116,105
Undistributed net investment income	2,002,565
Accumulated net realized loss on investments and futures contracts	(6,000,525)
Net unrealized appreciation on investments and futures contracts	13,312,161
Total Net Assets Applicable to Common Shareholders	\$ 147,444,383
Common Shares Outstanding	14,076,914
Net Asset Value Per Common Share	\$10.47

See Notes to Financial Statements.

Table of Contents**Statement of operations**

For the Year Ended November 30, 2015

Investment Income:	
<i>Interest</i>	\$ 7,784,754
Expenses:	
Investment management fee (Note 2)	1,084,626
Liquidity fees (Note 5)	280,610
Audit and tax fees	89,710
Legal fees	79,839
Distributions to Variable Rate Demand Preferred Stock (Notes 1 and 5)	46,517
Remarketing fees (Note 5)	36,736
Directors' fees	34,384
Rating agency fees	32,775
Transfer agent fees	31,226
Shareholder reports	28,799
Amortization of Variable Rate Demand Preferred Stock offering costs (Note 5)	21,034
Stock exchange listing fees	20,975
Fund accounting fees	14,778
Auction agent fees	13,079
Custody fees	7,526
Auction participation fees (Note 6)	6,372
Insurance	3,291
Miscellaneous expenses	24,304
<i>Total Expenses</i>	<i>1,856,581</i>
Net Investment Income	5,928,173
Realized and Unrealized Gain (Loss) on Investments and Futures Contracts (Notes 1, 3 and 4):	
Net Realized Gain (Loss) From:	
Investment transactions	108,659
Futures contracts	(327,106)
<i>Net Realized Loss</i>	<i>(218,447)</i>
Change in Net Unrealized Appreciation (Depreciation) From:	
Investments	(1,422,803)
Futures contracts	309,842
<i>Change in Net Unrealized Appreciation (Depreciation)</i>	<i>(1,112,961)</i>
Net Loss on Investments and Futures Contracts	(1,331,408)
Distributions Paid to Auction Rate Cumulative Preferred Stockholders from Net Investment Income (Notes 1 and 6)	(16,141)
Increase in Net Assets Applicable to Common Shareholders From Operations	\$ 4,580,624

See Notes to Financial Statements.

Table of Contents**Statements of changes in net assets**

For the Years Ended November 30,	2015	2014
Operations:		
Net investment income	\$ 5,928,173	\$ 6,470,157
Net realized loss	(218,447)	(789,159)
Change in net unrealized appreciation (depreciation)	(1,112,961)	8,446,242
Distributions paid to Auction Rate Cumulative Preferred Stockholders from net investment income	(16,141)	(52,660)
<i>Increase in Net Assets Applicable to Common Shareholders From Operations</i>	<i>4,580,624</i>	<i>14,074,580</i>
Distributions to Common Shareholders From (Note 1):		
Net investment income	(6,756,919)	(6,756,919)
<i>Decrease in Net Assets From Distributions to Common Stock Shareholders</i>	<i>(6,756,919)</i>	<i>(6,756,919)</i>
Fund Share Transactions:		
Net increase from tender and repurchase of Auction Rate Cumulative Preferred Shares (Note 6)	4,740,000	
<i>Increase in Net Assets From Fund Share Transactions</i>	<i>4,740,000</i>	
<i>Increase in Net Assets Applicable to Common Shareholders</i>	<i>2,563,705</i>	<i>7,317,661</i>
Net Assets Applicable to Common Shareholders:		
Beginning of year	144,880,678	137,563,017
End of year*	\$ 147,444,383	\$ 144,880,678
*Includes undistributed net investment income of:	\$2,002,565	\$2,858,300

See Notes to Financial Statements.

Table of Contents**Statement of cash flows**

For the Year Ended November 30, 2015

Increase (Decrease) in Cash:**Cash Provided (Used) by Operating Activities:**

Net increase in net assets applicable to common shareholders resulting from operations	\$ 4,596,765
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided (used) by operating activities:	
Purchases of portfolio securities	(19,307,524)
Sales of portfolio securities	12,026,937
Net purchases, sales and maturities of short-term investments	2,795,000
Net amortization of premium (accretion of discount)	915,493
Decrease in receivable for securities sold	145,000
Increase in interest receivable	(104,265)
Increase in prepaid expenses	(2,527)
Increase in investment management fee payable	1,071
Decrease in Directors' fees payable	(839)
Increase in distributions payable to Variable Rate Demand Preferred Stockholders	388
Increase in accrued expenses	15,778
Decrease in payable to broker - variation margin on open futures contracts	(37,812)
Net realized gain on investments	(108,659)
Change in unrealized appreciation of investments	1,422,803
Net Cash Provided by Operating Activities	2,357,609
Cash Flows from Financing Activities:	
Distributions paid on Common Stock	(6,756,919)
Proceeds from offering of Variable Rate Demand Preferred Stock	47,400,000
Repurchase of Auction Rate Cumulative Preferred Stock	(42,660,000)
Distributions paid on auction rate cumulative preferred stock	(17,554)
Deferred preferred stock offering costs	(808,103)
Increase in due to custodian	436,983
Net Cash Used in Financing Activities	(2,405,593)
Net Decrease in Cash	(47,984)
Cash at Beginning of Year	47,984
Cash at End of Year	

See Notes to Financial Statements.

Table of Contents**Financial highlights****For a common share of capital stock outstanding throughout each year ended November 30:**

	2015 ¹	2014 ¹	2013 ¹	2012	2011
Net asset value, beginning of year	\$10.29	\$9.77	\$10.68	\$9.90	\$9.71
Income (loss) from operations:					
Net investment income	0.42	0.46	0.47	0.51	0.52
Net realized and unrealized gain (loss)	(0.10)	0.54	(0.89)	0.76	0.16
Distributions paid to Auction Rate Cumulative Preferred Stockholders from net investment income	(0.00) ²	(0.00) ²	(0.01)	(0.01)	(0.01)
<i>Total income (loss) from operations</i>	<i>0.32</i>	<i>1.00</i>	<i>(0.43)</i>	<i>1.26</i>	<i>0.67</i>
Less distributions to common shareholders from:					
Net investment income	(0.48)	(0.48)	(0.48)	(0.48)	(0.48)
<i>Total distributions to common shareholders</i>	<i>(0.48)</i>	<i>(0.48)</i>	<i>(0.48)</i>	<i>(0.48)</i>	<i>(0.48)</i>
Net increase from tender and repurchase of Auction Rate Cumulative Preferred Shares	0.34				
Net asset value, end of year	\$10.47	\$10.29	\$9.77	\$10.68	\$9.90
Market price, end of year	\$10.06	\$9.80	\$8.89	\$10.99	\$9.67
<i>Total return, based on NAV^{3,4}</i>	<i>6.52%⁵</i>	<i>10.44%</i>	<i>(4.08)%</i>	<i>13.02%</i>	<i>7.26%</i>
<i>Total return, based on Market Price⁶</i>	<i>7.73%</i>	<i>15.85%</i>	<i>(14.98)%</i>	<i>19.09%</i>	<i>7.65%</i>
Net assets applicable to common shareholders, end of year (millions)	\$147	\$145	\$138	\$150	\$139
Ratios to average net assets:⁷					
Gross expenses	1.26%	0.94%	0.93%	0.92%	0.91%
Net expenses	1.26	0.94	0.93	0.92	0.91
Net investment income	4.02	4.54	4.65	5.00	5.48
Portfolio turnover rate	6%	11%	15%	14%	16%
Supplemental data:					
Auction Rate Cumulative Preferred Stock at Liquidation Value, End of Period (000s)	\$2,600	\$50,000	\$50,000	\$50,000	\$50,000
Variable Rate Demand Preferred Stock at Liquidation Value, End of Period (000s)	\$47,400				
Asset Coverage Ratio for Auction Rate Cumulative Preferred Stock and Variable Rate Demand Preferred Stock ⁸	395%	390% ⁹	375% ⁹	401% ⁹	378% ⁹
Asset Coverage, per \$25,000 Liquidation Value per Share of Auction Rate Cumulative Preferred Stock and Variable Rate Demand Preferred Stock ⁸	\$98,722	\$97,440	\$93,782	\$100,156	\$94,531

See Notes to Financial Statements.

Table of Contents

Financial highlights (cont d)

¹ Per share amounts have been calculated using the average shares method.

² Amount represents less than \$0.005 per share.

³ Performance figures may reflect compensating balance arrangements, fee waivers and/or expense reimbursements. In the absence of compensating balance arrangements, fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results.

⁴ The total return calculation assumes that distributions are reinvested at NAV. Prior to January 1, 2012, the total return calculation assumed the reinvestment of all distributions in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results.

⁵ The total return based on NAV reflects the impact of the tender and repurchase by the Fund of a portion of its Auction Rate Cumulative Preferred Shares at 90% of the per share liquidation preference. Absent this transaction, the total return based on NAV would have been 3.17%.

⁶ The total return calculation assumes that distributions are reinvested in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results.

⁷ Calculated on the basis of average net assets of common stock shareholders. Ratios do not reflect the effect of dividend payments to auction rate cumulative preferred stockholders.

⁸ Represents value of net assets plus the auction rate cumulative preferred stock and variable rate demand preferred stock, if any, at the end of the period divided by the auction rate cumulative preferred stock and variable rate demand preferred stock, if any, outstanding at the end of the period.

⁹ Added to conform to current period presentation.

[See Notes to Financial Statements.](#)

Table of Contents

Notes to financial statements

1. Organization and significant accounting policies

Western Asset Intermediate Muni Fund Inc. (the Fund) was incorporated in Maryland on December 19, 1991 and is registered as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Board of Directors authorized 100 million shares of \$0.001 par value common stock. The Fund's investment objective is to provide common shareholders a high level of current income exempt from regular federal income taxes consistent with prudent investing. Under normal market conditions, the Fund invests at least 80% of its total assets in municipal obligations.

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. Subsequent events have been evaluated through the date the financial statements were issued.

(a) Investment valuation. The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment's fair value. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund's Board of Directors.

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North Atlantic Fund Valuation Committee (formerly, Legg Mason North American Fund Valuation Committee) (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of

Table of Contents

Notes to financial statements (cont d)

Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer's financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts' research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Directors, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Directors quarterly.

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

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed below:

Level 1 quoted prices in active markets for identical investments

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)
The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

Table of Contents

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

ASSETS				
Description	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Municipal bonds		\$ 194,461,161		\$ 194,461,161
LIABILITIES				
Description	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Other financial instruments: Futures contracts	\$ 7,241			\$ 7,241

See Schedule of Investments for additional detailed categorizations.

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

Upon entering into a futures contract, the Fund is required to deposit cash or cash equivalents with a broker in an amount equal to a certain percentage of the contract amount. This is known as the initial margin and subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract. For certain futures, including foreign denominated futures, variation margin is not settled daily, but is recorded as a net variation margin payable or receivable. The daily changes in contract value are recorded as unrealized gains or losses in the Statement of Operations and the Fund recognizes a realized gain or loss when the contract is closed.

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

(c) 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 Fund's last business day of each week (generally Friday) and on the last business day of the month. It is determined by dividing the value of the net assets available to common stock by the total number of shares of common stock outstanding. For the purpose of determining the NAV per share of the common stock, the value of the Fund's net assets shall be deemed to equal the value of the Fund's assets less (1) the Fund's liabilities, including the aggregate liquidation value (i.e., \$25,000 per outstanding share) of the Variable Rate Demand Preferred Stock, and (2) the aggregate liquidation value (i.e., \$25,000 per outstanding share) of the Municipal Auction Rate Cumulative Preferred Stock.

Table of Contents

Notes to financial statements (cont d)

(d) Security transactions and investment income. Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults or a credit event occurs that impacts the issuer, the Fund may halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default or credit event.

(e) Distributions to shareholders. Distributions to common shareholders from net investment income of the Fund, if any, are declared quarterly 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 common shareholders of the Fund. Distributions to common shareholders of net realized gains, if any, are taxable and are declared at least annually. Distributions to common shareholders of the Fund are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

Distributions to holders of Municipal Auction Rate Cumulative Preferred Stock are accrued daily and paid on a weekly basis and are determined as described in Note 6. Distributions to holders of Variable Rate Demand Preferred Stock are accrued on a daily basis and paid monthly as described in Note 5 and are treated as an operating expense as required by GAAP. For tax purposes, the payments made to the holders of the Fund's Variable Rate Demand Preferred Stock are treated as dividend or distributions.

(f) Compensating balance arrangements. The Fund has an arrangement with its custodian bank whereby a portion of the custodian's fees is paid indirectly by credits earned on the Fund's cash on deposit with the bank.

(g) Cash flow information. The Fund invests in securities and distributes dividends from net investment income and net realized gains, which are paid in cash and may be reinvested at the discretion of shareholders. These activities are reported in the Statement of Changes in Net Assets and additional information on cash receipts and cash payments are presented in the Statement of Cash Flows.

(h) Federal and other taxes. It is the Fund's policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986 (the Code), as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute its taxable income and net realized gains, if any, to shareholders in accordance with timing requirements imposed by the Code. Therefore, no federal or state income tax provision is required in the Fund's financial statements.

Management has analyzed the Fund's tax positions taken on income tax returns for all open tax years and has concluded that as of November 30, 2015, no provision for income tax is required in the Fund's financial statements. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

Table of Contents

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

	Undistributed Net Investment Income	Accumulated Net Realized Loss	Paid-in Capital
(a)	\$ 21,034		\$ (21,034)
(b)	(31,882)	\$ 31,882	

(a) Reclassifications are due to non-deductible offering costs for tax purposes.

(b) Reclassifications are due to differences between book and tax accretion of market discount on fixed income securities and book/tax differences in the treatment of distributions.

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 LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.55% of the Fund's average daily net assets. For the purposes of calculating the investment management fee, the aggregate liquidation value of the Preferred Stock is not deducted in determining the Fund's average daily net assets.

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

The Fund had adopted an unfunded, non-qualified deferred compensation plan (the Plan) which allowed non-interested directors (Independent Directors) to defer the receipt of all or a portion of their fees earned until a later date specified by the Independent Directors. The deferred balances are reported in the Statement of Assets and Liabilities under Directors' fees payable and are considered a general obligation of the Fund and any payments made pursuant to the Plan will be made from the Fund's general assets. The Plan was terminated effective January 1, 2007. This change had no effect on fees previously deferred. As of November 30, 2015, the Fund had accrued \$534 as deferred compensation payable.

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

3. Investments

During the year ended November 30, 2015, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were as follows:

Purchases	\$ 19,307,524
Sales	12,026,937

Table of Contents

Notes to financial statements (cont d)

At November 30, 2015, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

Gross unrealized appreciation