WESTERN ASSET INTERMEDIATE MUNI FUND INC.
Form N-CSRS
August 04, 2010

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)

55 Water Street, New York, NY	10041
(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: May 31, 2010

ITEM 1. REPORT TO STOCKHOLDERS.

The Semi-Annual Report to Stockholders is filed herewith.

May 31, 2010

Semi-Annual Report

Western Asset Intermediate Muni Fund Inc.
(SBI)

Western Asset Intermediate Muni Fund Inc.

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Fund objective

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

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

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Letter from the chairman

Dear Shareholder,

We are pleased to provide the semi-annual report of Western Asset Intermediate Muni Fund Inc. for the six-month reporting period ended May 31, 2010.

Please read on for Fund performance information and a detailed look at prevailing economic and market conditions during the Fund s reporting period. Important information with regard to recent regulatory developments that may affect the Fund is contained in the Notes to Financial Statements included in this report.

As always, 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.leggmason.com/cef. Here you can gain immediate access to market and investment information, including:

- Fund prices and performance,

- Market insights and commentaries from our portfolio managers, and

- A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

June 25, 2010

Investment commentary

Economic review

Economic conditions in the U.S. largely improved during the six-month reporting period ended May 31, 2010. This, in turn, had significant implications for the financial markets.

Looking back, the U.S. Department of Commerce reported that U.S. gross domestic product (GDP)i contracted four consecutive quarters, beginning in the third quarter of 2008 through the second quarter of 2009. Economic conditions then began to improve in the third quarter of 2009, as GDP growth was 2.2%. A variety of factors helped the economy to regain its footing, including the government s $787 billion stimulus program, its Cash for Clunkers car rebate program, which helped spur an increase in car sales, and tax credits for first-time home buyers. Economic growth then accelerated during the fourth quarter of 2009, as GDP growth was 5.6%. The Commerce Department cited a slower drawdown in business inventories and renewed consumer spending as contributing factors spurring the economy s higher growth rate. The recovery continued during the first quarter of 2010, as GDP growth was 2.7%. The ongoing economic expansion was largely the result of increased consumer spending, which grew 3.0% during the quarter, versus a tepid 1.6% advance during the last three months of 2009.

Even before GDP growth turned positive, there were signs that the economy was on the mend. The manufacturing sector, as measured by the Institute for Supply Management s PMIii, rose to 52.8 in August 2009, the first time it surpassed 50 since January 2008 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). According to PMI data, manufacturing has now expanded ten consecutive months. May 2010 s PMI reading of 59.7 indicated that the manufacturing sector s growth was broad-based, as sixteen of the eighteen industries tracked by the Institute for Supply Management grew during the month.

There was also some positive news in the labor market. The U.S. Department of Labor reported that employers added 431,000 jobs in May, the largest monthly gain in more than ten years. However, the vast majority of jobs created during the month 411,000 were temporary government positions tied to the 2010 Census. Nevertheless, during the first five months of the calendar year, an average of nearly 200,000 new positions was created per month. In addition, the unemployment rate fell to 9.7% in May compared to 9.9% in April.

There was mixed news in the housing market during the period. According to the National Association of Realtors, after existing home sales fell from December 2009 through February 2010, sales increased 7.0% and 8.0% in March and April, respectively. The rebound was largely attributed to people rushing to take advantage of the government s $8,000 tax credit for first-time home buyers that expired at the end of April. However, with the end of the tax credit, existing home sales then declined 2.2% in May. Looking at home prices, the S&P/Case-Shiller Home Price Indexiii indicated that month-to-month U.S. home prices rose 0.8% in April. This marked the first increase following six consecutive monthly declines.

Financial market overview

Over the course of the six-month reporting period ended May 31, 2010, the financial markets were largely characterized by healthy investor risk appetite and solid results by lower-quality bonds. However, the market experienced a sharp sell-off in May 2010, triggered, in large part, by the sovereign debt crisis in Greece and uncertainties regarding new financial reforms in the U.S.

In the fixed-income market, riskier sectors, such as high-yield bonds and emerging market debt, outperformed U.S. Treasuries during the reporting period as a whole. There were a number of factors contributing to the continued turnaround in the financial markets, including improving economic conditions, renewed investor confidence and the accommodative monetary policy by the Federal Reserve Board (Fed)iv.

While economic data often surpassed expectations during the reporting period, the Fed remained cautious. At its meeting in June 2010 (after the end of the reporting period), the Fed said it will maintain the target range for the federal funds ratev at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period.

However, the Fed did take a first step in reversing its accommodative monetary stance. On February 18, 2010, the Fed raised the discount rate, the interest rate it charges banks for temporary loans, from 1/2 to 3/4 percent. The Fed also

Western Asset Intermediate Muni Fund Inc.

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Investment commentary (cont d)

concluded its $1.25 trillion mortgage securities purchase program at the end of the first quarter of 2010. In addition, the Fed has now closed nearly all of the special liquidity facilities that it created to support the financial markets during the credit crisis.

Fixed-income market review

Continuing the trend that began in the second quarter of 2009, nearly every spread sector (non-Treasury) outperformed equal-duration[vi] Treasuries during the six months ended May 31, 2010. Overall, investor confidence was high given encouraging economic data, continued low interest rates, benign inflation and rebounding corporate profits. Despite the debt crisis in Greece and other headwinds late in the period, the spread sectors generated solid results over the period.

Both short- and long-term Treasury yields fluctuated during the period as investors analyzed incoming economic data and theorized about the Fed s future actions. When the period began, Treasury yields were relatively low, with two- and ten-year Treasury yields at 0.67% and 3.21%, respectively. Two- and ten-year Treasury yields then gyrated, rising as high as 1.18% and 4.01%, and falling as low as 0.72% and 3.18%, respectively. Short- and long-term yields declined toward the end of the reporting period given concerns regarding the escalating debt crisis in Greece. As of May 31, 2010, two- and ten-year Treasury yields were 0.76% and 3.31%, respectively. Over the six-month reporting period, Treasury yields increased across the yield curve[vii], largely the result of improving economic data and, in the case of longer-term Treasuries, due to fears of future inflation given the government s massive stimulus program.

The municipal bond market outperformed its taxable bond counterpart over the six months ended May 31, 2010. Over that period, the Barclays Capital Municipal Bond Index[viii] and the Barclays Capital U.S. Aggregate Index[ix] returned 3.60% and 2.08%, respectively. Despite falling tax receipts and budgetary challenges, the municipal market generated solid results due to strong demand from investors seeking tax-free income. The decline in new issuance of tax-free bonds also fed the market s demand.

Performance review

For the six months ended May 31, 2010, Western Asset Intermediate Muni Fund Inc. returned 4.53% based on its net asset value (NAV)[x] and 11.65% based on its New York Stock Exchange Amex (NYSE Amex) market price per share. The Fund s unmanaged benchmark, the Barclays Capital 1-15 Year Municipal Bond Index[xi], returned 2.60% for the same period. The Lipper Intermediate Municipal Debt Closed-End Funds Category Average[xii] returned 5.54% over the same time frame. Please note that Lipper performance returns are based on each fund s NAV.

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

During this six-month period, the Fund made distributions to shareholders totaling $0.23 per share, which may have included a return of capital. The performance table shows the Fund s six-month total return based on its NAV and market price as of May 31, 2010. **Past performance is no guarantee of future results.**

Performance Snapshot as of May 31, 2010 (unaudited)

Price Per Share	6-Month Total Return*
$9.76 (NAV)	4.53%
$9.88 (Market Price)	11.65%

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, including returns of capital, if any, in additional shares in accordance with the Fund s Dividend Reinvestment Plan. Performance figures for periods shorter than one year represent cumulative figures and are not annualized.**

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.leggmason.com/cef.

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 Standard 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.

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

June 29, 2010

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. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.*

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

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

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

ii The Institute for Supply Management s PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.

iii The S&P/Case-Shiller Home Price Index measures the residential housing market, tracking changes in the value of the residential real estate market in twenty metropolitan regions across the United States.

iv 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.

v 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.

vi 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.

vii The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.

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

ix The Barclays Capital 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.

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

xi The Barclays Capital 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.

xii Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the six-month period ended May 31, 2010, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 7 funds in the Fund s Lipper category.

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Fund at a glance (unaudited)

Investment breakdown (%) as a percent of total investments

The bar graph above represents the composition of the Fund s investments as of May 31, 2010 and November 30, 2009 and does not include derivatives. The Fund is actively managed. As a result, the composition of the Fund s investments is subject to change at any time.

Schedule of investments (unaudited)

May 31, 2010

Western Asset Intermediate Muni Fund Inc.

Security	**Rate**	**Maturity Date**	**Face Amount**	**Value**
Municipal Bonds 99.2%				
Alabama 0.6%				
Saraland, AL, GO, NATL	5.250%	1/1/15	$1,000,000	***$1,024,110***(a)
Alaska 1.6%				
Alaska Industrial Development & Export Authority Revenue, Williams Lynxs Alaska Cargo Port LLC	8.000%	5/1/23	1,000,000	931,600(b)
Anchorage, AK, GO, Refunding, FGIC	6.000%	10/1/14	500,000	590,245
North Slope Boro, AK, Refunding, NATL	5.000%	6/30/15	1,250,000	1,415,250
Total Alaska				***2,937,095***
Arkansas 0.6%				
Warren County, AR, Solid Waste Disposal Revenue, Potlatch Corp. Project	7.000%	4/1/12	1,000,000	***1,014,710***(b)
California 5.2%				
California Statewide CDA Revenue:				
Lodi Memorial Hospital	5.000%	12/1/22	2,000,000	2,014,900
Proposition 1A Receivables Program	5.000%	6/15/13	3,000,000	3,254,340
Los Angeles, CA, COP, Hollywood Presbyterian Medical Center, INDLC	9.625%	7/1/13	655,000	722,203(c)
M-S-R Energy Authority, CA, Gas Revenue	6.125%	11/1/29	3,000,000	3,214,350
San Francisco, CA, Airport Improvement Corp., Lease Revenue, United Airlines Inc.	8.000%	7/1/13	210,000	233,195(c)
San Leandro, CA, Hospital Revenue, Vesper Memorial Hospital	11.500%	5/1/11	25,000	27,477(c)
Total California				***9,466,465***
Colorado 6.3%				
Broomfield, CO, COP, Open Space Park & Recreation Facilities, AMBAC	5.500%	12/1/20	1,860,000	1,893,815
Colorado Educational & Cultural Facilities Authority Revenue Charter School:				
Refunding & Improvement, University Lab School, XLCA	5.250%	6/1/24	1,350,000	1,369,885
Bromley East Project	7.000%	9/15/20	1,000,000	1,083,170(a)
Bromley School Project, XLCA	5.125%	9/15/20	1,155,000	1,198,428
University Lab School Project	6.125%	6/1/21	500,000	526,370(a)
Denver, CO, Health & Hospital Authority	6.250%	12/1/16	710,000	769,590(a)
Public Authority for Colorado Energy, Natural Gas Purchase Revenue	6.125%	11/15/23	2,000,000	2,179,360
Pueblo, CO, Bridge Waterworks Water Revenue, Improvement, AGM	6.000%	11/1/14	1,765,000	1,806,442(a)
SBC Metropolitan District, CO, GO, ACA	5.000%	12/1/25	750,000	745,208
Total Colorado				***11,572,268***
Connecticut 2.1%				

Connecticut State HEFA Revenue, Bristol Hospital	5.500%	7/1/21	2,000,000	1,915,600
Connecticut State Special Obligation Parking Revenue, Bradley International Airport, ACA	6.375%	7/1/12	1,855,000	1,874,663(b)
Total Connecticut				***3,790,263***
Florida 5.6%				
Citizens Property Insurance Corp., FL	5.000%	6/1/16	5,000,000	5,258,700
Miami-Dade County, FL, School Board, COP	5.000%	2/1/24	2,000,000	2,119,520

See Notes to Financial Statements.

Western Asset Intermediate Muni Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Florida continued				
Old Palm Community Development District, FL, Palm Beach Gardens	5.375%	5/1/14	$1,055,000	$ 966,770
Orange County, FL, Health Facilities Authority Revenue:				
First Mortgage Healthcare Facilities	8.750%	7/1/11	275,000	277,145
Hospital Adventist Health Systems	6.250%	11/15/24	1,500,000	1,676,145(a)
Total Florida				***10,298,280***
Georgia 7.4%				
Athens, GA, Housing Authority Student Housing Lease Revenue, University of Georgia East Campus, AMBAC	5.250%	12/1/23	970,000	1,077,418(a)
Atlanta, GA, Water & Wastewater Revenue	6.000%	11/1/23	2,000,000	2,223,320
Chatham County, GA, Hospital Authority Revenue, Hospital Memorial Health Medical Center	6.000%	1/1/17	650,000	661,876
DeKalb Private Hospital Authority Revenue, GA, Anticipation CTFS, Children s Health Care of Atlanta Inc.	5.000%	11/15/29	2,000,000	2,063,800
DeKalb, Newton & Gwinnett Counties, GA, Joint Development Authority Revenue, GGC Foundation LLC Project	6.000%	7/1/29	1,000,000	1,112,310
Georgia Municipal Electric Authority:				
Power Revenue, Refunding, AGM	5.000%	1/1/18	3,000,000	3,142,380
Power System Revenue	6.500%	1/1/12	215,000	229,940
Griffin, GA, Combined Public Utilities Revenue, Refunding & Improvement, AMBAC	5.000%	1/1/21	1,000,000	1,044,050
Metropolitan Atlanta Rapid Transit Georgia Sales Tax Revenue	7.000%	7/1/11	1,895,000	1,963,409(c)
Total Georgia				***13,518,503***
Illinois 2.4%				
Bourbonnais, IL, Industrial Development Revenue, Refunding Kmart Corp. Project	6.600%	10/1/10	535,000	5(d)
Chicago, IL, O Hare International Airport Revenue, Refunding Bonds, Lien A-2, AGM	5.750%	1/1/19	1,500,000	1,607,310(b)
Glendale Heights, IL, Hospital Revenue, Refunding Glendale Heights Project	7.100%	12/1/15	750,000	848,048(c)
Illinois Development Finance Authority, Chicago Charter School Foundation Project A	5.250%	12/1/12	230,000	243,841(c)
Illinois Finance Authority Revenue, Memorial Health System	5.250%	4/1/29	1,670,000	1,663,938
Illinois Health Facilities Authority Revenue, Methodist Medical Center of Illinois Project	9.000%	10/1/10	90,000	92,538(c)
Total Illinois				***4,455,680***
Indiana 2.8%				
Ball State University, Indiana University Revenue, Student Fee, FGIC	5.750%	7/1/20	800,000	864,992(a)
Indianapolis, IN, Thermal Energy System, Multi-Mode	5.000%	10/1/23	4,000,000	4,330,800(e)
Total Indiana				***5,195,792***
Iowa 0.8%				
Iowa Finance Authority Health Care Facilities Revenue, Genesis Medical Center	6.250%	7/1/20	1,000,000	1,001,690
Muscatine, IA, Electric Revenue	9.700%	1/1/13	465,000	528,784