

WESTERN ASSET INTERMEDIATE MUNI FUND INC.
Form N-CSR
January 27, 2014

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, 2013

ITEM 1. REPORT TO STOCKHOLDERS.

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

Annual Report

November 30, 2013

WESTERN ASSET
INTERMEDIATE MUNI
FUND INC. (SBI)

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

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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.

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, 2013. 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.

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

Fund prices and performance,

Market insights and commentaries from our portfolio managers, and

A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

Kenneth D. Fuller

Chairman, President and Chief Executive Officer

December 27, 2013

II Western Asset Intermediate Muni Fund Inc.

Investment commentary

Economic review

The U.S. economy continued to grow over the twelve months ended November 30, 2013 (the reporting period). Looking back, U.S. gross domestic product (GDP) growth, as reported by the U.S. Department of Commerce, was an anemic 0.1% during the fourth quarter of 2012. This weakness was partially driven by moderating private inventory investment and federal government spending. Economic growth then accelerated, as first quarter 2013 GDP growth was 1.1%, supported by strengthening consumer spending. GDP growth in the second quarter further improved to 2.5%. This was partially due to increases in exports and non-residential fixed investments, along with a smaller decline in federal government spending versus the previous quarter. The U.S. Department of Commerce's final reading for third quarter 2013 GDP growth, released after the reporting period ended, was 4.1%. Stronger growth was driven, in part, by an increase in private inventory investment, a deceleration in imports and accelerating state and local government spending.

The U.S. job market improved during the reporting period, although unemployment remained elevated from a historical perspective. When the period began, unemployment, as reported by the U.S. Department of Labor, was 7.8%. Unemployment fell to 7.7% in February 2013 and edged lower over much of the next seven months to reach 7.2% in September 2013. After rising to 7.3% in October, unemployment then fell to 7.0% in November, its lowest reading since November 2008. Falling unemployment during the period was partially due to a decline in the workforce participation rate, which was 63% in November, close to its lowest level since 1978.

While sales of existing-homes have declined in recent months given rising mortgage rates, home prices continued to move higher. According to the National Association of Realtors (NAR), existing-home sales fell 4.3% on a seasonally adjusted basis in November 2013 versus the previous month and were 1.2% lower than in November 2012. However, the NAR reported that the median existing-home price for all housing types was \$196,300 in November 2013, up 9.4% from November 2012. The inventory of homes available for sale in November 2013 was 0.9% lower than the previous month at a 5.1 month supply at the current sales pace and was 5.0% higher than in November 2012.

The manufacturing sector expanded during the majority of the reporting period, although it experienced a temporary soft patch. Based on the Institute for Supply Management's Purchasing Managers' Index (PMI), manufacturing expanded during the first five months of the reporting period. It then contracted in May 2013, with a PMI of 49.0 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). This represented the PMI's lowest reading since June 2009. However, this was a short-term setback, as the PMI rose over the next six months and was 57.3 in November, the best reading since April 2011.

The Federal Reserve Board (Fed) took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As has been the case since December 2008, the Fed kept the federal funds rate^{iv} at a historically low

Investment commentary (cont d)

range between zero and 0.25%. At its meeting in December 2012, the Fed announced that it would continue purchasing \$40 billion per month of agency mortgage-backed securities (MBS), as well as initially purchasing \$45 billion per month of longer-term Treasuries. At its meeting that ended on June 19, 2013, the Fed did not make any material changes to its official policy statement. However, in a press conference following the meeting, Fed Chairman Bernanke said the Committee currently anticipates that it would be appropriate to moderate the monthly pace of purchases later this year; and if the subsequent data remain broadly aligned with our current expectations for the economy, we would continue to reduce the pace of purchases in measured steps through the first half of next year, ending purchases around midyear. In a surprise to many investors, at its meeting that ended on September 18, 2013, the Fed did not taper its asset purchase program and said that it decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. Fed Chairman Bernanke also brought up the potential for a partial government shutdown on October 1 and the debt ceiling debate as reasons for maintaining its current policy. As expected, at its meeting that concluded on October 30, 2013, the Fed maintained its asset purchase program. Finally, at the Fed's meeting that concluded on December 18, 2013, after the reporting period ended, the Fed announced that it would begin reducing its monthly asset purchases, saying In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions, the Committee decided to modestly reduce the pace of its asset purchases. Beginning in January, the Committee will add to its holdings of agency mortgage-backed securities at a pace of \$35 billion per month rather than \$40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of \$40 billion per month rather than \$45 billion per month.

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

Sincerely,

Kenneth D. Fuller

Chairman, President and Chief Executive Officer

December 27, 2013

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

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

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

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 by an NRSRO or, if unrated, of equivalent quality as determined by the investment manager.

At Western Asset Management Company (Western Asset), the Fund's subadviser, we utilize a fixed-income team approach, with decisions derived from interaction among various investment management sector specialists. The sector teams are comprised of Western Asset's senior portfolio 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 Stephen A. Walsh, Robert E. Amodeo, David T. Fare and Dennis J. McNamara. It is anticipated that Mr. Walsh will step down as a member of the Fund's portfolio management team effective on or about March 31, 2014 and that S. Kenneth Leech will join the Fund's portfolio management team at that time. Mr. Leech has been employed by Western Asset as an investment professional for more than 20 years.

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

A. The spread sectors (non-Treasuries) experienced several periods of heightened risk aversion and generated mixed results versus equal-duration Treasuries over the twelve months ended November 30, 2013. Risk aversion was prevalent at times given shifting economic data, geopolitical issues, signs of shifting monetary policy by the Federal Reserve Board (Fed) and the U.S government's sixteen-day partial shutdown which ended on October 16, 2013.

Both short- and long-term Treasury yields moved higher during the twelve months ended November 30, 2013. Two-year Treasury yields rose from 0.25% at the beginning of the period to 0.28% at the end of the period. Their peak of 0.52% occurred on September 5, 2013 and they were as low as 0.20% in early May 2013. Ten-year Treasury yields were 1.62% at the beginning of the period and 2.75% at the end of the period. Their peak of 2.98% also occurred on September 5, 2013 and their low of 1.59% took place on December 6, 2012.

The municipal bond market underperformed its taxable bond counterpart during the twelve months ended November 30, 2013. Over that period, the Barclays Municipal Bond Indexⁱⁱ and the Barclays U.S. Aggregate

Fund overview (cont d)

Indexⁱⁱⁱ fell 3.51% and 1.60%, respectively. The municipal bond market lagged the taxable bond market during seven of the twelve months covered by this report. In addition to the negative impact of higher interest rates, investor sentiment for municipal bonds was weak at times given a number of well publicized events.

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

A. There were several changes to the Fund during the reporting period. We pared the Fund's allocation to Puerto Rico in order to reduce its overall risk exposure. During the reporting period, we utilized leverage in the Fund. This detracted from results given the municipal market's weak results. We ended the period with leverage from preferred shares as a percentage of gross assets of roughly 27%. The Fund opportunistically employed the use of short U.S. Treasury futures on several occasions during the reporting period to manage duration.^{iv} This strategy contributed to the Fund's performance.

Performance review

For the twelve months ended November 30, 2013, Western Asset Intermediate Muni Fund Inc. returned -4.08% based on its net asset value (NAV) and -14.98% 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 -1.85% for the same period. The Lipper Intermediate Municipal Debt Closed-End Funds Category Average^{vii} returned -4.84% 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, 2013. **Past performance is no guarantee of future results.**

Performance Snapshot as of November 30, 2013

Price Per Share	12-Month Total Return**
\$9.77 (NAV)	-4.08%
\$8.89 (Market Price)	-14.98%

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.

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

* Distributions paid by the Fund may be comprised of income, capital gains and/or return of capital. For the character of distributions paid during the fiscal year ended November 30, 2013, please refer to page 18 of this report.

Q. What were the leading contributors to performance?

A. The largest contributor to the Fund's relative performance during the reporting period was its use of Treasury futures, as they helped to reduce the portfolio's duration amid the rising interest rate environment.

The Fund's underweight to holdings in Puerto Rico was positive for results as Commonwealth bonds underperformed the benchmark during the reporting period (interest from bonds issued in certain territories, such as Puerto Rico, are tax-exempt in all states).

Elsewhere, an overweight to the Industrial Revenue sector and an overweight to municipal securities with an A rating contributed to performance.

Q. What were the leading detractors from performance?

A. The largest detractor from relative performance during the reporting period was the Fund's duration positioning. In particular, having a duration that was longer than that of the benchmark was not rewarded as rates moved higher during the reporting period.

Having an underweight to Pre-refunded^{viii} securities detracted from results as these higher rated securities outperformed the benchmark.

Also detracting from performance during the reporting period were some of the Fund's quality biases. In particular, the Fund's overweight exposure to lower rated investment grade municipal bonds and its underweight to AAA-rated municipal bonds were negative for results as lower rated securities underperformed their higher rated counterparts.

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 13, 2013

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 bond, 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

Fund overview (cont d)

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

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

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

ⁱⁱⁱ 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.

^{iv} 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.

^v 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 investments) 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, 2013, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 9 funds in the Fund's Lipper category.

^{viii} A pre-refunded bond is a bond in which the original security has been replaced by an escrow, usually consisting of treasuries or agencies, which has been structured to pay principal and interest and any call premium, either to a call date (in the case of a pre-refunded bond), or to maturity (in the case of an escrowed to maturity bond).

Fund at a glance (unaudited)

Investment breakdown (%) as a percent of total investments

The bar graph above represents the composition of the Fund's investments as of November 30, 2013 and November 30, 2012 and does not include derivatives such as futures contracts. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

Spread duration (unaudited)

Economic Exposure November 30, 2013

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 1-15 Year Municipal Bond Index
SBI Western Asset Intermediate Muni Fund Inc.

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Effective duration (unaudited)

Interest Rate Exposure November 30, 2013

Total Effective Duration

SBI 5.95 years

Benchmark 5.85 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 1-15 Year Municipal Bond Index
SBI Western Asset Intermediate Muni Fund Inc.

Schedule of investments

November 30, 2013

Western Asset Intermediate Muni Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Municipal Bonds 133.6%				
<i>Alabama 1.1%</i>				
Jefferson County, AL, Sewer Revenue, Subordinated Lien Warrants	5.000%	10/1/21	\$ 1,500,000	\$ 1,563,990 ^(a)
<i>Alaska 0.4%</i>				
Anchorage, AK, GO, Refunding, FGIC	6.000%	10/1/14	500,000	523,675
<i>Arizona 3.1%</i>				
Pinal County, AZ, Electric District No. 3	4.000%	7/1/23	1,000,000	1,013,030
Pinal County, AZ, Electric District No. 3	5.000%	7/1/24	1,760,000	1,908,685
Pinal County, AZ, Electric District No. 3	5.000%	7/1/25	1,280,000	1,376,755
<i>Total Arizona</i>				<i>4,298,470</i>
<i>California 16.5%</i>				
Bay Area Toll Authority, CA, Toll Bridge Revenue, San Francisco Bay Area	1.160%	4/1/24	2,000,000	1,999,920 ^{(b)(c)}
California State PCFA, Water Furnishing Revenue	5.000%	7/1/27	2,000,000	1,870,620 ^{(d)(e)}
California State, GO	0.818%	12/1/17	1,500,000	1,502,505 ^{(b)(c)}
California Statewide CDA Revenue, Lodi Memorial Hospital, CMI	5.000%	12/1/22	2,000,000	2,131,580
California Statewide CDA, Student Housing Revenue, Provident Group-Pomona Properties LLC	5.600%	1/15/36	565,000	482,250
Long Beach, CA, Bond Finance Authority Lease Revenue	5.000%	8/1/31	1,855,000	1,928,885
Los Angeles County, CA, Public Works Financing Authority, Lease Revenue: Multiple Capital Project II	5.000%	8/1/21	1,000,000	1,161,880
Multiple Capital Project II	5.000%	8/1/22	1,000,000	1,156,420
M-S-R Energy Authority, CA, Gas Revenue	6.125%	11/1/29	3,000,000	3,406,200
Modesto, CA, Irrigation District Electric Revenue	5.000%	7/1/24	4,130,000	4,579,550
Modesto, CA, Irrigation District Electric Revenue	5.000%	7/1/25	2,000,000	2,202,240
Riverside County, CA, Transportation Commission Sales Tax Revenue, Limited Tax	5.250%	6/1/26	300,000	350,001
<i>Total California</i>				<i>22,772,051</i>
<i>Colorado 5.6%</i>				
Colorado Educational & Cultural Facilities Authority Revenue Charter School: Bromley School Project, SCA	5.125%	9/15/20	1,155,000	1,182,443
Refunding & Improvement, University Lab School, SCA	5.250%	6/1/24	1,350,000	1,361,799
E-470 Public Highway Authority Revenue, CO	5.250%	9/1/25	2,000,000	2,052,320
Public Authority for Colorado Energy, Natural Gas Purchase Revenue	6.125%	11/15/23	2,000,000	2,291,080
SBC Metropolitan District, CO, GO, ACA	5.000%	12/1/25	750,000	755,505
<i>Total Colorado</i>				<i>7,643,147</i>

See Notes to Financial Statements.

Western Asset Intermediate Muni Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Connecticut 1.2%</i>				
Connecticut State HEFA Revenue, Bristol Hospital	5.500%	7/1/21	\$ 1,680,000	\$ 1,685,006
<i>Florida 10.8%</i>				
Citizens Property Insurance Corp., FL	5.000%	6/1/16	5,000,000	5,502,700
Jacksonville, FL, Sales Tax Revenue, Better Jacksonville	5.000%	10/1/30	1,500,000	1,554,030
Miami-Dade County, FL, Aviation Revenue	5.000%	10/1/31	4,000,000	3,990,360 ^(d)
Miami-Dade County, FL, Aviation Revenue	5.000%	10/1/32	1,000,000	996,310 ^(d)
Miami-Dade County, FL, School Board, COP	5.000%	2/1/24	2,000,000	2,172,820
Old Palm Community Development District, FL, Palm Beach Gardens	5.375%	5/1/14	650,000	648,167
<i>Total Florida</i>				<i>14,864,387</i>
<i>Georgia 4.7%</i>				
Atlanta, GA, Water & Wastewater Revenue	6.000%	11/1/23	2,000,000	2,346,220
Burke County, GA, Development Authority Revenue, Oglethorpe Power Corp. Vogtle Project	2.400%	4/1/20	1,000,000	955,050 ^{(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	2,090,880 ^(f)
DeKalb, Newton & Gwinnett Counties, GA, Joint Development Authority Revenue, GGC Foundation LLC Project	6.000%	7/1/29	1,000,000	1,083,440
<i>Total Georgia</i>				<i>6,475,590</i>
<i>Illinois 2.6%</i>				
Chicago, IL, O'Hare International Airport Revenue, Refunding Bonds, Lien A-2, AGM	5.750%	1/1/19	1,500,000	1,506,060 ^{(d)(g)}
Glendale Heights, IL, Hospital Revenue, Refunding Glendale Heights Project	7.100%	12/1/15	310,000	330,457 ^(h)
Illinois Finance Authority Revenue, Memorial Health System	5.250%	4/1/29	1,670,000	1,740,658
<i>Total Illinois</i>				<i>3,577,175</i>
<i>Indiana 7.4%</i>				
Indiana State Finance Authority, Environmental Revenue, U.S. Steel Corp.	6.000%	12/1/19	1,000,000	1,015,550
Indianapolis, IN, Gas Utility Revenue, Second Lien	5.250%	8/15/29	4,000,000	4,269,040
Indianapolis, IN, Thermal Energy System, Multi-Mode	5.000%	10/1/23	4,000,000	4,398,240
Valparaiso, IN, Exempt Facilities Revenue, Pratt Paper LLC Project	5.875%	1/1/24	500,000	504,705 ^(d)
<i>Total Indiana</i>				<i>10,187,535</i>
<i>Iowa 1.4%</i>				
Iowa State Finance Authority Midwestern Disaster Area Revenue:				
Iowa Fertilizer Co. Project	5.000%	12/1/19	1,020,000	986,687
Iowa Fertilizer Co. Project	5.250%	12/1/25	1,010,000	907,515
<i>Total Iowa</i>				<i>1,894,202</i>

See Notes to Financial Statements.

Schedule of investments (cont d)

November 30, 2013

Western Asset Intermediate Muni Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Massachusetts 0.3%</i>				
Massachusetts State DFA Revenue, Curry College, ACA	6.000%	3/1/20	\$ 355,000	\$ 355,472
<i>Michigan 11.2%</i>				
Detroit, MI, Water Supply System Revenue, Senior Lien	5.250%	7/1/26	5,000,000	4,869,700
Michigan State Housing Development Authority Rental Housing Revenue	5.250%	10/1/24	2,640,000	2,715,742
Michigan State, Hospital Finance Authority Revenue, Refunding, Hospital Sparrow Obligated	5.000%	11/15/14	1,190,000	1,236,029
Walled Lake, MI, Consolidated School District, NATL	5.000%	5/1/22	1,000,000	1,041,010
Wayne County, MI, Airport Authority Revenue, Detroit Metropolitan Airport	5.000%	12/1/16	5,000,000	5,572,350 ^(d)
<i>Total Michigan</i>				<i>15,434,831</i>
<i>Nevada 3.1%</i>				
Humboldt County, NV, PCR, Idaho Power Co. Project	5.150%	12/1/24	4,000,000	4,217,920
<i>New Hampshire 4.7%</i>				
New Hampshire HEFA Revenue, Healthcare Systems Covenant Health	5.000%	7/1/28	6,400,000	6,536,064
<i>New Jersey 15.1%</i>				
New Jersey State EDA Revenue:				
Continental Airlines Inc. Project	4.875%	9/15/19	1,765,000	1,715,103 ^(d)
School Facilities Construction	5.000%	3/1/29	5,000,000	5,295,600
New Jersey State EFA Revenue, University of Medicine & Dentistry	7.125%	12/1/23	2,000,000	2,593,380 ^(g)
New Jersey State Higher Education Assistance Authority, Student Loan Revenue	5.375%	6/1/24	4,000,000	4,248,520
New Jersey State Higher Education Assistance Authority, Student Loan Revenue, AGC	5.875%	6/1/21	345,000	354,022 ^(d)
New Jersey State Transportation Trust Fund Authority Revenue	5.250%	6/15/23	4,000,000	4,527,680
New Jersey State Turnpike Authority Revenue	0.580%	1/1/16	2,000,000	1,991,280 ^{(b)(c)}
<i>Total New Jersey</i>				<i>20,725,585</i>
<i>New Mexico 2.1%</i>				
Bernalillo County, NM, Gross Receipts Tax Revenue, AMBAC	5.250%	10/1/18	1,100,000	1,294,084
New Mexico Finance Authority Revenue, Subordinated Lien, Public Project Revolving Fund, NATL	5.000%	6/15/19	1,415,000	1,538,997
<i>Total New Mexico</i>				<i>2,833,081</i>
<i>New York 8.2%</i>				
New York State Dormitory Authority, New York & Presbyterian Hospital, AGM	5.250%	2/15/24	2,975,000	3,080,047 ^(g)
New York State Thruway Authority Highway & Bridge Trust Fund Revenue, AMBAC	5.000%	4/1/21	2,000,000	2,158,700

See Notes to Financial Statements.

Western Asset Intermediate Muni Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>New York continued</i>				
New York State Thruway Authority, State Personal Income Tax Revenue, Transportation	5.000%	3/15/26	\$ 200,000	\$ 226,468
New York, NY, GO	5.000%	8/1/21	5,000,000	5,832,050 ^(f)
<i>Total New York</i>				<i>11,297,265</i>
<i>North Carolina 1.4%</i>				
North Carolina Eastern Municipal Power Agency, Power Systems Revenue	5.000%	1/1/26	1,750,000	1,867,688
<i>Ohio 5.9%</i>				
JobsOhio Beverage System Statewide Liquor Profits Revenue	5.000%	1/1/23	1,700,000	1,942,199
Ohio State Air Quality Development Authority Revenue, FirstEnergy Generation Corp.	5.625%	6/1/18	1,000,000	1,084,590
Ohio State Water Development Authority, Pollution Control Facilities Revenue, FirstEnergy Nuclear Generation Corp.	3.375%	7/1/15	5,000,000	5,082,600 ^{(b)(c)}
<i>Total Ohio</i>				<i>8,109,389</i>
<i>Oklahoma 2.0%</i>				
Grand River Dam Authority, OK, Revenue	5.000%	6/1/30	2,500,000	2,695,000
<i>Oregon 0.4%</i>				
Portland, OR, River District Urban Renewal & Redevelopment	5.000%	6/15/28	570,000	605,762
<i>Pennsylvania 5.0%</i>				
Montgomery County, PA, IDA Revenue, New Regional Medical Center Project, FHA	5.000%	8/1/24	2,000,000	2,154,560
Pennsylvania State Public School Building Authority Lease Revenue, Philadelphia School District Project, AGM	5.000%	6/1/27	2,000,000	2,075,660
Philadelphia, PA, Gas Works Revenue, 7th General Ordinance, AMBAC	5.000%	10/1/17	1,000,000	1,114,600
Pittsburgh, PA, School District GO, AGM	5.375%	9/1/16	1,350,000	1,508,922
<i>Total Pennsylvania</i>				<i>6,853,742</i>
<i>Rhode Island 0.5%</i>				
Central Falls, RI, GO, Radian	5.875%	5/15/15	685,000	686,089
<i>Tennessee 5.5%</i>				
Tennessee Energy Acquisition Corp., Gas Revenue	5.250%	9/1/20	2,030,000	2,224,981
Tennessee Energy Acquisition Corp., Gas Revenue	5.250%	9/1/23	4,940,000	5,314,057
<i>Total Tennessee</i>				<i>7,539,038</i>
<i>Texas 6.3%</i>				
Dallas-Fort Worth, TX, International Airport Revenue, Refunding, AGM	5.500%	11/1/20	1,000,000	1,034,640 ^(d)
North Texas Tollway Authority Revenue, NATL	5.125%	1/1/28	2,000,000	2,120,040
Sabine River Authority, Texas PCR, Southwestern Electric Power Co., NATL	4.950%	3/1/18	3,000,000	3,217,620

See Notes to Financial Statements.

Schedule of investments (cont d)

November 30, 2013

Western Asset Intermediate Muni Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Texas continued</i>				
Texas State Department Housing Community Affairs Home Mortgage Revenue, RIBS, GNMA/FNMA/FHLMC-Collateralized	13.423%	7/2/24	\$ 125,000	\$ 130,595 ^{(b)(d)}
Texas State Municipal Gas Acquisition & Supply Corp. III, Gas Supply Revenue	5.000%	12/15/22	2,000,000	2,100,780
<i>Total Texas</i>				<i>8,603,675</i>
<i>Virginia 4.7%</i>				
Pittsylvania County, VA, GO	5.500%	2/1/22	540,000	606,523
Pittsylvania County, VA, GO	5.500%	2/1/23	1,030,000	1,149,562
Pittsylvania County, VA, GO	5.600%	2/1/24	2,490,000	2,776,997
Virginia State Small Business Financing Authority Revenue, Elizabeth River Crossings OpCo LLC Project	5.000%	1/1/27	2,000,000	1,990,440 ^(d)
<i>Total Virginia</i>				<i>6,523,522</i>
<i>Washington 0.8%</i>				
Washington State Health Care Facilities Authority Revenue, Multicare Health System	5.750%	8/15/29	1,000,000	1,078,270
<i>Wisconsin 1.6%</i>				
La Crosse, WI, Resource Recovery Revenue, Refunding Bonds, Northern States Power Co. Project	6.000%	11/1/21	2,000,000	2,265,920 ^(d)
Total Investments before Short-Term Investments (Cost \$177,750,724)				183,713,541
Short-Term Investments 1.8%				
<i>New York 1.8%</i>				
New York City, NY, Municipal Water Finance Authority, Water & Sewer System Revenue:				
SPA-Dexia Credit Local	0.370%	6/15/32	2,400,000	2,400,000 ^{(i)(j)}
SPA-Dexia Credit Local	0.390%	6/15/33	100,000	100,000 ^{(i)(j)}
Total Short-Term Investments (Cost \$2,500,000)				2,500,000
Total Investments 135.4% (Cost \$180,250,724#)				186,213,541
Auction Rate Cumulative Preferred Stock, at Liquidation Value (36.3)%				(50,000,000)
Other Assets in Excess of Liabilities 0.9%				1,349,476
Total Net Assets 100.0%				\$ 137,563,017

(a) Security is purchased on a when-issued basis.

(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) 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.

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

[See Notes to Financial Statements.](#)

Western Asset Intermediate Muni Fund Inc.

- (g) 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.
- (h) 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.
- (i) Variable rate demand obligations have a demand feature under which the Fund can tender them back to the issuer or liquidity provider on no more than 7 days notice.
- (j) Maturity date shown is the final maturity date. The security may be sold back to the issuer before final maturity.

Aggregate cost for federal income tax purposes is \$180,151,592.

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	
DFA	Development Finance Agency	
EDA	Economic Development Authority	
EFA	Educational Facilities Authority	
FGIC	Financial Guaranty Insurance Company	Insured Bonds
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	
IDA	Industrial Development Authority	
NATL	National Public Finance Guarantee Corporation	Insured Bonds
PCFA	Pollution Control Financing Authority	
PCR	Pollution Control Revenue	
Radian	Radian Asset Assurance	Insured Bonds
RIBS	Residual Interest Bonds	
SCA	Syncora Capital Assurance Inc.	Insured Bonds
SPA	Standby Bond Purchase Agreement	Insured Bonds

See Notes to Financial Statements.

Schedule of investments (cont d)

November 30, 2013

Western Asset Intermediate Muni Fund Inc.

Summary of Investments by Industry (unaudited)

Power	18.8%
Industrial revenue	16.0
Transportation	11.8
Health care	10.0
Local general obligation	8.0
Leasing	7.6
Education	6.1
Water & sewer	5.7
Special tax obligation	5.2
Pre-Refunded/escrowed to maturity	4.0
Other	3.1
Housing	1.5
State general obligation	0.8
Short-Term investments	1.4
	100.0%

As a percentage of total investments. Please note that Fund holdings are as of November 30, 2013 and are subject to change.

Ratings table (unaudited)*

Standard & Poor's/Moody's/Fitch**	
AAA/Aaa	1.3%
AA/Aa	31.6
A	48.6
BBB/Baa	8.5
BB/Ba	4.6
B/B	0.9
A-1/VMIG 1	1.3
NR	3.2
	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.

See Notes to Financial Statements.

Statement of assets and liabilities

November 30, 2013

Assets:	
Investments, at value (Cost \$180,250,724)	\$ 186,213,541
Cash	96,489
Interest receivable	2,825,801
Receivable for securities sold	130,000
Prepaid expenses	20,885
Total Assets	189,286,716
Liabilities:	
Payable for securities purchased	1,561,470
Investment management fee payable	84,953
Distributions payable to auction rate cumulative preferred stockholders	1,405
Directors' fees payable	15
Payable to broker - variation margin on open futures contracts	13
Accrued expenses	75,843
Total Liabilities	1,723,699
Series M Municipal Auction Rate Cumulative Preferred Stock (2,000 shares authorized and issued at \$25,000 per share) (Note 5)	50,000,000
Total Net Assets	\$ 137,563,017
Net Assets:	
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	133,397,139
Undistributed net investment income	3,227,377
Accumulated net realized loss on investments and futures contracts	(5,054,456)
Net unrealized appreciation on investments and futures contracts	5,978,880
Total Net Assets	\$ 137,563,017
Shares Outstanding	14,076,914
Net Asset Value	\$9.77

See Notes to Financial Statements.

Statement of operations

For the Year Ended November 30, 2013

Investment Income:	
<i>Interest</i>	\$ 7,963,727
Expenses:	
Investment management fee (Note 2)	1,059,778
Audit and tax	43,850
Transfer agent fees	34,025
Shareholder reports	32,242
Legal fees	28,530
Auction participation fee (Note 5)	25,028
Directors' fees	23,286
Stock exchange listing fees	19,999
Rating agency fees	15,143
Fund accounting fees	14,345
Auction agent fees	8,800
Custody fees	7,314
Insurance	4,127
Miscellaneous expenses	12,525
<i>Total Expenses</i>	<i>1,328,992</i>
Net Investment Income	6,634,735
Realized and Unrealized Gain (Loss) on Investments and Futures Contracts (Notes 1, 3 and 4):	
Net Realized Gain From:	
Investment transactions	153,304
Futures contracts	293,698
<i>Net Realized Gain</i>	<i>447,002</i>
Change in Net Unrealized Appreciation (Depreciation) From:	
Investments	(13,172,851)
Futures contracts	109,608
<i>Change in Net Unrealized Appreciation (Depreciation)</i>	<i>(13,063,243)</i>
Net Loss on Investments and Futures Contracts	(12,616,241)
Distributions Paid to Auction Rate Cumulative Preferred Stockholders from Net Investment Income (Notes 1 and 5)	(85,011)
Decrease in Net Assets from Operations	\$ (6,066,517)

See Notes to Financial Statements.

Statements of changes in net assets

For the Years Ended November 30,	2013	2012
Operations:		
Net investment income	\$ 6,634,735	\$ 7,260,296
Net realized gain (loss)	447,002	(75,478)
Change in net unrealized appreciation (depreciation)	(13,063,243)	10,672,605
Distributions paid to auction rate cumulative preferred stockholders from net investment income	(85,011)	(128,595)
<i>Increase (Decrease) in Net Assets From Operations</i>	<i>(6,066,517)</i>	<i>17,728,828</i>
Distributions to Shareholders From (Note 1):		
Net investment income	(6,756,227)	(6,744,387)
<i>Decrease in Net Assets From Distributions to Common Stock Shareholders</i>	<i>(6,756,227)</i>	<i>(6,744,387)</i>
Fund Share Transactions		
Reinvestment of distributions (7,102 and 25,296 shares issued, respectively)	74,659	264,017
<i>Increase in Net Assets From Fund Share Transactions</i>	<i>74,659</i>	<i>264,017</i>
<i>Increase (Decrease) in Net Assets</i>	<i>(12,748,085)</i>	<i>11,248,458</i>
Net Assets:		
Beginning of year	150,311,102	139,062,644
End of year*	\$ 137,563,017	\$ 150,311,102
* Includes undistributed net investment income of:	\$3,227,377	\$3,458,322

See Notes to Financial Statements.

Financial highlights

For a share of capital stock outstanding throughout each year ended November 30, unless otherwise noted:						
	2013 ¹	2012	2011	2010	2009 ²	2008 ³
Net asset value, beginning of year	\$10.68	\$9.90	\$9.71	\$9.57	\$8.52	\$9.68
Income (loss) from operations:						
Net investment income	0.47	0.51	0.52	0.54	0.50	0.55
Net realized and unrealized gain (loss)	(0.89)	0.76	0.16	0.08	0.95	(1.18)
Distributions paid to auction rate cumulative preferred stockholders from net investment income	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.12)
Total income (loss) from operations	(0.43)	1.26	0.67	0.61	1.43	(0.75)
Less distributions from:						
Net investment income	(0.48)	(0.48)	(0.48)	(0.47)	(0.38)	(0.41)
Total distributions	(0.48)	(0.48)	(0.48)	(0.47)	(0.38)	(0.41)
Net asset value, end of year	\$9.77	\$10.68	\$9.90	\$9.71	\$9.57	\$8.52
Market price, end of year	\$8.89	\$10.99	\$9.67	\$9.45	\$9.07	\$7.55
Total return, based on NAV^{4,5}	(4.08)%	13.02%	7.26%	6.58%	17.50%	(7.56)%
Total return, based on Market Price⁶	(14.98)%	19.09%	7.65%	9.44%	25.66%	(8.44)%
Net assets, end of year (Millions)	\$138	\$150	\$139	\$136	\$134	\$120
Ratios to average net assets:⁷						
Gross expenses	0.93%	0.92%	0.91%	0.98%	1.09% ⁸	1.12%
Net expenses ⁹	0.93	0.92	0.91	0.98	1.09 ⁸	1.12
Net investment income	4.65	5.00	5.48	5.64	5.97 ⁸	5.89
Portfolio turnover rate	15%	14%	16%	15%	16%	19%
Auction Rate Cumulative Preferred Stock:						
Total Amount Outstanding (000s)	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Asset Coverage Per Share	93,782	100,156	94,531	93,216	92,145	84,794
Involuntary Liquidating Preference Per Share ¹⁰	25,000	25,000	25,000	25,000	25,000	25,000

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

² For the period January 1, 2009 through November 30, 2009.

³ For the year ended December 31.

⁴ 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. Total returns for periods of less than one year are not annualized.

⁵ 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. Total returns for periods of less than one year are not annualized.

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. Total returns for periods of less than one year are not annualized.

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

⁸ Annualized.

⁹ The impact of compensating balance arrangements, if any, was less than 0.01%.

¹⁰ Excludes accumulated and unpaid distributions.

[See Notes to Financial Statements.](#)

18 Western Asset Intermediate Muni Fund Inc. 2013 Annual Report

Notes to financial statements

1. Organization and significant accounting policies

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

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ. 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 American Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of 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

Notes to financial statements (cont'd)

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.

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

Description	ASSETS			Total
	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Municipal bonds		\$ 183,713,541		\$ 183,713,541
Short-term investments		2,500,000		2,500,000
Total investments		\$ 186,213,541		\$ 186,213,541
Other financial instruments:				
Futures contracts	\$ 16,063			\$ 16,063
Total	\$ 16,063	\$ 186,213,541		\$ 186,229,604

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. 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) Securities traded on a when-issued basis. The Fund may trade securities on a when-issued basis. In a when-issued transaction, the securities are purchased or sold by the Fund with payment and delivery taking place in the future in order to secure what is considered to be an advantageous price and yield to the Fund at the time of entering into the transaction.

Purchasing such securities involves risk of loss if the value of the securities declines prior to settlement. These securities are subject to market fluctuations and their current value is determined in the same manner as for other securities.

(d) 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

Notes to financial statements (cont'd)

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, and (2) the aggregate liquidation value (i.e., \$25,000 per outstanding share) of the Municipal Auction Rate Cumulative Preferred Stock (Preferred Stock).

(e) Security transactions and investment income. Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. 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.

(f) Distributions to shareholders. Distributions 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 shareholders of the Fund. Distributions of net realized gains, if any, are taxable and are declared at least annually. Distributions to 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.

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

(g) 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.

(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, 2013, 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.

(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 values per share. During the current year, the following reclassifications have been made:

	Undistributed Net Investment Income	Accumulated Net Realized Loss	Paid-in Capital
(a)		\$ 1,925,752	\$ (1,925,752)
(b)	\$ (24,442)	24,442	

(a) Reclassifications are primarily due to the expiration of a capital loss carryforward.

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

2. Investment management agreement and other transactions with affiliates

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

LMPFA provides administrative and certain oversight services to the Fund. The Fund pays 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, 2013, the Fund had accrued \$974 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, 2013, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were as follows:

Purchases	\$ 31,709,971
Sales	29,053,044

Notes to financial statements (cont d)

At November 30, 2013, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

Gross unrealized appreciation	\$ 8,857,210
Gross unrealized depreciation	(2,795,261)
Net unrealized appreciation	\$ 6,061,949

At November 30, 2013, the Fund had the following open futures contracts:

	Number of Contracts	Expiration Date	Basis Value	Market Value	Unrealized Gain
Contracts to Sell:					
U.S. Treasury Ultra Long-Term Bonds	43	3/14	\$ 5,638,313	\$ 5,622,250	\$ 16,063

4. Derivative instruments and hedging activities

GAAP requires enhanced disclosure about an entity's derivative and hedging activities.

Below is a table, grouped by derivative type, that provides information about the fair value and the location of derivatives within the Statement of Assets and Liabilities at November 30, 2013.

ASSET DERIVATIVES¹

	Interest Rate Risk
Futures contracts ²	\$ 16,063

¹ Generally, the balance sheet location for asset derivatives is receivables/net unrealized appreciation (depreciation) and for liability derivatives is payables/net unrealized appreciation (depreciation).

² Includes cumulative appreciation (depreciation) of futures contracts as reported in the footnotes. Only variation margin is reported within the receivables and/or payables on the Statement of Assets and Liabilities.

The following tables provide information about the effect of derivatives and hedging activities on the Fund's Statement of Operations for the year ended November 30, 2013. The first table provides additional detail about the amounts and sources of gains (losses) realized on derivatives during the period. The second table provides additional information about the change in unrealized appreciation (depreciation) resulting from the Fund's derivatives and hedging activities during the period.

AMOUNT OF REALIZED GAIN (LOSS) ON DERIVATIVES RECOGNIZED

	Interest Rate Risk
Futures contracts	\$ 293,698

CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) ON DERIVATIVES RECOGNIZED

Interest Rate
Risk

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Futures contracts

\$ 109,608

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During the year ended November 30, 2013, the volume of derivative activity for the Fund was as follows:

	Average Market Value
Futures contracts (to sell)	\$ 4,827,839

5. Municipal auction rate cumulative preferred stock

On January 28, 2002, the Fund issued 2,000 shares of Series M Municipal Auction Rate Cumulative Preferred Stock (ARCPS). The ARCPS dividends are cumulative at a rate determined at an auction and the dividend period is typically 7 days. The dividend rate cannot exceed a certain maximum rate, including in the event of a failed auction, unless the Board of Directors of the Fund authorizes an increased maximum rate. To the extent capital gains and other taxable income are allocated to holders of Preferred Shares for tax purposes, the Fund will likely have to pay higher dividends to holders of Preferred Shares to compensate them for the increased tax liability to them resulting from such allocation. Due to failed auctions experienced by the Fund's ARCPS starting on February 14, 2008, the Fund pays the applicable maximum rate, which was calculated as 110% of the prevailing, 30-day AA Financial Composite Commercial Paper Rate. The Fund may pay higher maximum rates if the rating of the Fund's ARCPS were to be lowered by the rating agencies. The dividend rates ranged from 0.083% to 0.377% during year ended November 30, 2013. At November 30, 2013, the dividend rate was 0.122%.

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) an indirect wholly-owned subsidiary of Citigroup, acts as a broker/dealer in connection with the auction of ARCPS. For all previous periods since the ARCPS have been outstanding, the participation fee has been paid at the annual rate of 0.25% of the purchase price of the ARPCS that the broker/dealer places at the auction however, on August 3, 2009, CGM reduced its participation fee to an annual rate of 0.05% of the purchase price of the ARCPS, in the case of a failed auction. For the year ended November 30, 2013, CGM earned \$25,028 as a participating broker/dealer.

6. Distributions subsequent to November 30, 2013

On November 14, 2013, the Fund's Board of Directors declared three distributions, in the amount of \$0.0400 per share, payable on December 27, 2013, January 31, 2014, and

Notes to financial statements (cont d)

February 28, 2014 to shareholders of record on December 20, 2013, January 24, 2014 and February 21, 2014, respectively.

7. Income tax information and distributions to shareholders

The tax character of distributions paid during the fiscal years ended November 30, was as follows: