

Pendrell Corp  
Form 10-Q  
August 01, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2014**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 001-33008**

**PENDRELL CORPORATION**

**(Exact name of registrant as specified in its charter)**

**Washington**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**2300 Carillon Point, Kirkland, Washington 98033**  
**(Address of principal executive offices including zip code)**  
**(425) 278-7100**  
**(Registrant's telephone number, including area code)**

**98-0221142**  
**(IRS Employer**  
**Identification No.)**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒  
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐  
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒.

As of July 25, 2014, the registrant had 212,753,123 shares of Class A common stock and 53,660,000 shares of Class B convertible common stock outstanding.

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**PENDRELL CORPORATION**

**FORM 10-Q**

**For the three and six months ended June 30, 2014**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Pendrell Corporation****Condensed Consolidated Balance Sheets****(In thousands, except share data, unaudited)**

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 186,140	\$ 184,567
Accounts receivable	595	402
Other receivables net of reserve \$2,750 in both periods	107	38
Prepaid expenses and other current assets	1,014	1,722
Total current assets	187,856	186,729
Property in service net of accumulated depreciation of \$983 and \$722, respectively	3,578	3,778
Other assets	54	75
Intangible assets net of accumulated amortization of \$38,806 and \$31,272, respectively	129,791	139,687
Goodwill	21,725	21,725
Total	\$ 343,004	\$ 351,994
<b>LIABILITIES, SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS</b>		
Current liabilities:		
Accounts payable	\$ 284	\$ 166
Accrued expenses	5,737	5,671
Other liabilities	6,395	2,669
Total current liabilities	12,416	8,506
Deferred tax liability	1,488	1,488
Other non-current liabilities		5,207
Total liabilities	13,904	15,201
Commitments and contingencies (Note 7)		
Shareholders' equity and noncontrolling interests:		

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Preferred stock, \$0.01 par value, 75,000,000 shares authorized, no shares issued or outstanding

Class A common stock, \$0.01 par value, 900,000,000 shares authorized, 270,261,784 and 270,220,116 shares issued, and 212,492,892 and 212,451,224 shares outstanding	2,127	2,126
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Class B convertible common stock, \$0.01 par value, 150,000,000 shares authorized, 84,663,382 shares issued and 53,660,000 shares outstanding for both periods

	537	537
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Additional paid-in capital	1,946,960	1,941,818
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Accumulated deficit	(1,630,921)	(1,619,993)
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Total Pendrell shareholders equity	318,703	324,488
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Noncontrolling interests	10,397	12,305
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Total shareholders equity and noncontrolling interests	329,100	336,793
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Total	\$ 343,004	\$ 351,994
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The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents****Pendrell Corporation****Condensed Consolidated Statements of Operations****(In thousands, except share and per share data, unaudited)**

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenue	\$ 2,935	\$ 802	\$ 41,070	\$ 11,794
Operating expenses:				
Cost of revenues	70	93	13,866	7,758
Patent administration and related costs	1,650	1,050	3,048	2,099
Patent litigation	1,931	1,304	3,969	2,091
General and administrative	6,985	7,427	14,834	14,805
Stock-based compensation	1,871	3,648	3,752	7,118
Amortization of intangible assets	3,991	4,019	8,030	7,715
Total operating expenses	16,498	17,541	47,499	41,586
Operating loss	(13,563)	(16,739)	(6,429)	(29,792)
Interest income	24	37	44	80
Interest expense	(42)	(66)	(106)	(66)
Other expense	(7)	(15)	(12)	(45)
Loss before income taxes	(13,588)	(16,783)	(6,503)	(29,823)
Income tax expense			(6,270)	
Net loss	(13,588)	(16,783)	(12,773)	(29,823)
Net loss attributable to noncontrolling interest	(993)	(961)	(1,908)	(1,635)
Net loss attributable to Pendrell	\$ (12,595)	\$ (15,822)	\$ (10,865)	\$ (28,188)
Basic and diluted loss per share attributable to Pendrell	\$ (0.05)	\$ (0.06)	\$ (0.04)	\$ (0.11)

Weighted average shares outstanding  
used to compute basic and diluted loss  
per share

264,103,862      261,381,754      263,937,195      260,964,329

The accompanying notes are an integral part of these condensed consolidated financial statement

Table of Contents**Pendrell Corporation****Condensed Consolidated Statements Changes in Shareholders' Equity**

(In thousands, except share data, unaudited)

	<b>Class A shares</b>	<b>Common stock Class B shares</b>	<b>Amount</b>	<b>Additional paid-in capital</b>	<b>Accumulated deficit</b>	<b>Shareholders' equity</b>	<b>Noncontrolling interests</b>	<b>Total</b>
Balance, December 31, 2012	211,682,074	53,660,000	\$ 2,655	\$ 1,929,526	\$ (1,563,999)	\$ 368,182	\$ 7,678	\$ 375,860
Vesting of Class A common stock issued for Ovidian acquisition				574		574		574
Issuance of Class A common stock from exercise of stock options	96,250		1	102		103		103
Class A common stock withheld at vesting to cover statutory tax obligations	(564,972)		(6)	(1,504)	(782)	(2,292)		(2,292)
Stock-based compensation and issuance of restricted stock, net of forfeitures	776,276		7	7,018		7,025		7,025
Noncontrolling interest in Provitro							7,545	7,545
Net loss					(28,188)	(28,188)	(1,635)	(29,823)
Balance, June 30, 2013	211,989,628	53,660,000	\$ 2,657	\$ 1,935,716	\$ (1,592,969)	\$ 345,404	\$ 13,588	\$ 358,992
Balance, December 31,	212,451,224	53,660,000	\$ 2,663	\$ 1,941,818	\$ (1,619,993)	\$ 324,488	\$ 12,305	\$ 336,793

2013									
Vesting of Class A common stock issued for Ovidian acquisition				1,486		1,486			1,486
Issuance of Class A common stock from exercise of stock options	242,206		2	276		278			278
Class A common stock withheld at vesting to cover statutory tax obligations	(128,295)		(1)	(190)		(63)	(254)		(254)
Stock-based compensation and issuance of restricted stock, net of forfeitures	(72,243)			3,570		3,570			3,570
Net loss					(10,865)	(10,865)	(1,908)		(12,773)
Balance, June 30, 2014	212,492,892	53,660,000	\$ 2,664	\$ 1,946,960	\$ (1,630,921)	\$ 318,703	\$ 10,397		\$ 329,100

The accompanying notes are an integral part of these condensed consolidated financial statements



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**Pendrell Corporation**  
**Condensed Consolidated Statements of Cash Flows**  
**(In thousands, unaudited)**

	<b>Six months ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Operating activities:		
Net loss including noncontrolling interests	\$ (12,773)	\$ (29,823)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation	3,752	7,118
Amortization of prepaid compensation from Ovidian Group acquisition	1,382	1,382
Amortization of intangible assets	8,030	7,715
Depreciation	263	214
Unrealized foreign exchange losses	1	13
Non-cash cost of patents monetized	579	187
Loss associated with the abandonment and/or disposition of patents	1,288	29
Other	106	67
Other changes in certain assets and liabilities, net of acquisitions:		
Accounts receivable	(193)	8,158
Prepaid expenses and other current/non-current assets	660	622
Accounts payable	118	(132)
Accrued expenses and other current/non-current liabilities	399	2,051
Net cash provided by (used in) operating activities	3,612	(2,399)
Investing activities:		
Purchases of property and intangible assets	(63)	(2,166)
Acquisition of Provitro, net of cash acquired		(9,204)
Net cash used in investing activities	(63)	(11,370)
Financing activities:		
Proceeds from exercise of stock options	278	103
Payment of statutory taxes for stock awards	(254)	(2,292)
Payment of accrued obligations for purchase intangible assets	(2,000)	
Net cash used in financing activities	(1,976)	(2,189)
Net increase (decrease) in cash and cash equivalents	1,573	(15,958)
Cash and cash equivalents beginning of period	184,567	213,753
Cash and cash equivalents end of period	\$ 186,140	\$ 197,795

Supplemental disclosures:

Income taxes received	\$	\$	745
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Supplemental disclosures of non-cash investing and financing activities:

Accrued obligations for purchases of property and intangible assets	5,573
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Pendrell Corporation**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**1. Nature of Business**

These condensed consolidated financial statements include the accounts of Pendrell Corporation ( Pendrell ) and its consolidated subsidiaries (collectively referred to as the Company ). The Company s strategy, through its consolidated subsidiaries, is to invest in, acquire and develop businesses with unique technologies that are often protected by intellectual property ( IP ) rights, and that present the opportunity to address large, global markets. The Company s subsidiaries focus on licensing the IP rights they hold to third parties and pursuing relevant product opportunities. The Company regularly evaluates its existing investments to determine whether retention or disposition is appropriate, and frequently investigates new investment and business acquisition opportunities. The Company also advises its clients on various IP strategies and transactions.

**2. Basis of Presentation**

**Interim Financial Statements** The financial information included in the accompanying condensed consolidated financial statements is unaudited and includes all adjustments, consisting of normal recurring adjustments and accruals, considered necessary for a fair presentation in accordance with accounting principles generally accepted in the United States of America ( GAAP ). Certain information and footnote disclosures have been condensed or omitted. The financial information as of December 31, 2013 is derived from the Company s audited consolidated financial statements and notes included in Item 8 in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 ( 2013 Form 10-K ), filed with the U.S. Securities and Exchange Commission on March 11, 2014. The financial information included in this quarterly report should be read in conjunction with management s discussion and analysis of financial condition and results of operations and the consolidated financial statements and notes included in the 2013 Form 10-K. Operating results and cash flows for the interim periods presented are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2014 or any other interim period.

**Principles of Consolidation** The consolidated financial statements of the Company include the assets and liabilities of its wholly-owned subsidiaries and subsidiaries it controls or in which it has a controlling financial interest. Noncontrolling interests on the consolidated balance sheets include third-party investments in entities that the Company consolidates, but does not wholly own. Noncontrolling interests are classified as part of equity and the Company allocates net income (loss) and other equity transactions to its noncontrolling interests in accordance with their applicable ownership percentages. All intercompany transactions and balances have been eliminated in consolidation. All information in these financial statements is in U.S. dollars.

**Segment Information** The Company operates in and reports on one segment (IP management). Operating segments are based upon the Company s internal organization structure, the manner in which its operations are managed, and the criteria used by its Chief Operating Decision Maker. Substantially all of the Company s revenue is generated by operations located within the United States, and the Company does not have any long-lived assets located in foreign countries.

**Use of Estimates** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets

and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

On an ongoing basis, the Company evaluates its estimates, including among others, those related to the fair value of acquired intangible assets and goodwill, the useful lives and potential impairment of intangible assets and property and equipment, the value of stock awards for the purpose of determining stock-based compensation expense, accrued liabilities (including bonus accruals), valuation allowances related to the ability to realize deferred tax assets, allowances for doubtful receivables and certain tax liabilities. Estimates are based on historical experience and other factors, including the current economic environment as deemed appropriate under the circumstances. Estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Any changes in estimates used to prepare these financial statements will be reflected in the financial statements in future periods.

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***Reclassifications*** Certain prior period amounts have been reclassified to conform to current year presentation. Such reclassifications relate to the Company's current presentation of expenses in its condensed consolidated statements of operations, including the presentation of cost of revenues and patent litigation as separate captions; as such costs were previously included in patent administration, litigation and related costs. The reclassifications had no effect on previously reported net loss of the Company or the noncontrolling interest holder.

***Accounting Policies*** There have been no material changes or updates in the Company's existing accounting policies from the disclosures included in its 2013 Form 10-K. The following is a summary of the key components of the Company's condensed consolidated statements of operations:

***Revenue*** The Company derives its operating revenue from IP monetization activities, including patent licensing and patent sales, and from IP consulting services, or a combination thereof. Although revenue may occur in different forms, the Company regards its IP monetization activities as integrated and not separate revenue streams. For example, a third party relationship could include consulting and licensing activities, or the acquisition of a patent portfolio could lead to licensing, consulting and patent sales revenue. As a result of the unpredictable nature, form and frequency of its transactions, the Company's revenue may fluctuate substantially from period to period.

***Cost of revenue*** Cost of revenue consists of certain costs that are variable in nature and are directly attributable to the Company's revenue generating activities including (i) payments to third parties to whom the Company has an obligation to share revenue, (ii) commissions, and (iii) success fees. Additionally, in periods when patent sales occur, these costs include the net book value and other related costs associated with the sold patents. Depending on the patents being monetized, revenue share payments as a percentage of revenues may vary significantly.

***Patent administration and related costs*** Patent administration and related costs are comprised of (i) patent-related maintenance and prosecution costs incurred to maintain the Company's patents, (ii) other costs that support its patent monetization efforts, and (iii) costs associated with the abandonment of patents, including the write-off of any remaining net book value.

***Patent litigation*** Patent litigation costs consist of costs and expenses incurred in connection with the Company's patent-related enforcement and litigation activities. These may include non-contingent or contingent fee obligations to external counsel.

***General and administrative*** General and administrative expenses are primarily comprised of (i) personnel costs, (ii) general legal fees, (iii) professional fees, (iv) acquisition investigation costs, and (v) general office related costs.

***Stock-based compensation*** Stock-based compensation expense includes expense associated with the granting of stock options, stock appreciation rights, restricted stock awards, restricted stock units and other stock awards issued to employees, directors, consultants and/or advisors based on the estimated fair value on the date of grant and expensed over the requisite service period for awards expected to vest.

***Amortization of intangible assets*** Amortization of intangible assets reflects the expensing of the cost to acquire intangible assets which are capitalized and amortized ratably over their estimated useful lives. Estimating the economic useful lives of the Company's intangible assets depends on various factors including the remaining statutory life of the underlying assets as well as their expected period of benefit.

***New Accounting Pronouncements*** In June 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-12, *Compensation-Stock Compensation (Topic 718)-Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the*

*Requisite Service Period (a consensus of the FASB Emerging Issues Task Force).* ASU No. 2014-12 requires that a performance target that affects vesting and could be achieved after the requisite service period shall be treated as a performance condition. The adoption of this statement on January 1, 2014 did not have a material impact on the Company's financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue (Topic 606): Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five

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step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein. Early adoption is not permitted. The Company is currently assessing the impact, if any, of implementing this guidance on its consolidated financial position and results of operations.

**3. Business Combinations**

On February 21, 2013, the Company acquired a 68.75% interest in Provitro Biosciences LLC ( Provitro ). Accordingly, the activities of Provitro from the acquisition date through June 30, 2013 have been included in the Company's condensed consolidated statement of operations for the three and six months ended June 30, 2013. Acquisition-related costs, including advisory, legal, accounting, valuation and other costs associated with the acquisition of Provitro of \$0.4 million, are included in general and administrative expenses for the three and six months ended June 30, 2013.

The Company has yet to generate revenue from the activities of Provitro, but has continued to (i) advance the Provitro technology and related laboratory processes, (ii) assess potential markets for timber bamboo, and (iii) engage with third parties regarding the commercialization of the Provitro technology. Provitro incurred operating expenses of \$1.0 million and \$1.4 million during the three months ended June 30, 2014 and 2013, respectively and \$1.7 million and \$1.8 million during the six months ended June 30, 2014 and 2013, respectively. These operating expenses are included in general and administrative expenses. The acquisition of Provitro was not material to the Company's results of operations or cash flows.

**4. Intangible Assets**

The Company has used, and may continue to use, different structures and forms of consideration for its acquisitions. Acquisitions may be consummated through the use of cash, equity, seller financing, third party debt, earn-out obligations, revenue sharing, profit sharing or some combination of these types of consideration. Consequently, the acquisition values reflected in the Company's investing activities may represent lower amounts than would be reflected, for example, in a situation where cash alone was utilized to complete the acquisition.

During the six months ended June 30, 2013, the Company expanded its patent holdings through the acquisition of additional patents covering memory and storage technologies for electronic devices. Although no patents were acquired during the six months ended June 30, 2014, the Company was issued sixteen additional patents.

During the three and six months ended June 30, 2014 and 2013, the Company sold certain patents and has included the gross proceeds in revenue. Costs associated with the patents sold, including any remaining net book value, are included in cost of revenues. Certain of the patents sold, as well as certain of those licensed, were subject to obligations to pay a substantial portion of the net proceeds to third parties. These costs are also included in cost of revenues. In future periods, these third party payments as a percentage of revenues may vary significantly based on the structure utilized for any given acquisition.

During the three and six months ended June 30, 2014, the Company abandoned certain patents that were not part of existing licensing programs or for which the Company determined that it would no longer allocate resources to their maintenance and enforcement. Losses on the abandonment of patents for the three and six months ended June 30, 2014 were \$0.9 million and \$1.3 million, respectively. For the three and six months ended June 30, 2013, patents with a combined book value of less than \$0.1 million were abandoned. Costs associated with the abandonment of patents, including any remaining net book value, are included in patent administration and related costs.

As of June 30, 2014, the Company, through its subsidiaries, continues to hold more than 1,600 issued patents worldwide, with additional patent applications pending.

## 5. Accrued expenses

The following table summarizes accrued expenses (in thousands):

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Accrued payroll and related expenses	\$ 2,804	\$ 2,242
Accrued legal, professional and other expenses	2,933	3,429
	<b>\$ 5,737</b>	<b>\$ 5,671</b>



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From time to time the Company agrees to make contingent and non-contingent future payments in connection with acquisition transactions. The Company recognizes the contingent portion of these future payment obligations as liabilities when they are estimable and it is probable that they will be paid. At June 30, 2014, other current liabilities include an installment payment obligation of \$4.0 million due in 2015 related to the 2013 acquisition of the Company's memory and storage technologies portfolio. Additionally, other current liabilities include approximately \$1.8 million of expense related to restricted stock awards.

At December 31, 2013, installment payment obligations included in current and non-current liabilities were \$2.0 million and \$4.0 million, respectively. Additionally, other non-current liabilities include approximately \$1.4 million of expense related to restricted stock awards.

**7. Commitments and Contingencies**

***Purchase and Lease Commitments*** The Company's contractual obligations include installment payment obligations arising from the 2013 acquisition of the Company's memory and storage technologies portfolio of which \$4.0 million is due in 2015. Additionally, the Company has contractual obligations under operating lease agreements for its main office in Kirkland, Washington, and offices in California, Texas, Washington, D.C. and Finland.

***Litigation*** In the opinion of management, except for those matters described below and elsewhere in this report, to the extent so described, litigation, contingent liabilities and claims against the Company in the normal course of business are not expected to involve any judgments or settlements that would be material to the Company's financial condition, results of operations or cash flows.

***Enforcement Action against Amazon et. al.*** On December 18, 2013, the Company's ContentGuard subsidiary filed a patent infringement lawsuit against Amazon.com, Inc., Apple Inc., Blackberry Corporation (fka Research in Motion Corporation), Huawei Device USA, Inc. and Motorola Mobility LLC in the Eastern District of Texas, in which ContentGuard alleged that the defendants have infringed and continue to infringe nine of its patents by making, using, selling or offering for sale certain mobile communication and computing devices (the Amazon Litigation). On January 17, 2014, ContentGuard filed an amended complaint in the Amazon Litigation adding certain affiliates of the original defendants, along with HTC Corporation, HTC America Inc., Samsung Electronics Co., Ltd., Samsung Electronics America, Inc. and Samsung Telecommunications America, LLC. The Company is unable to anticipate the timing or outcome of the Amazon Litigation.

***Google Actions*** On January 31, 2014, Google Inc. (Google) filed a declaratory judgment suit in the Northern District of California alleging that Google does not infringe the nine patents asserted in the Amazon Litigation. On February 5, 2014, ContentGuard filed a patent infringement action in the Eastern District of Texas against Google, in which ContentGuard alleges that Google has infringed and continues to infringe the same nine patents. In April 2014, the presiding judge in the Eastern District of Texas, with the endorsement of the presiding judge in the Northern District of California, ruled that all claims by and against Google will be resolved in the Eastern District of Texas, and not in the Northern District of California. The presiding judge also declined to consolidate the Google actions with the Amazon Litigation. The Company is unable to anticipate the timing or outcome of the actions by and against Google.

***ZTE Enforcement Actions*** In early 2012, ContentGuard and its subsidiaries filed lawsuits in United States and German courts, alleging that ZTE Corporation, ZTE (USA) Inc. and ZTE Deutschland GmbH (collectively ZTE) infringed and continue to infringe ContentGuard patents by making, using, selling or offering for sale certain mobile communication and computing devices. ZTE subsequently filed with the United States Patent and Trademark Office petitions for inter

partes review ( IPR ), challenging the validity of six U.S. patents asserted by ContentGuard against ZTE. In August 2013 and November 2013, the Patent Trial and Appeal Board ( PTAB ), which hears all IPR challenges, terminated the proceedings with respect to two patents, both of which emerged with valid patent claims. In June 2014 and July 2014, following trials in February 2014, the PTAB rejected ZTE s remaining challenges, confirming the validity of all claims in the four remaining patents. Meanwhile, in response to the claims filed in Germany, in which ContentGuard GmbH alleged infringement of three German patents, ZTE filed a nullity action against two of the patents and an opposition proceeding against the third patent. The infringement and nullity proceedings in Germany, along with all U.S. court actions, were put to rest or stayed as the result of a standstill agreement signed by ContentGuard and ZTE in December 2013, while the opposition proceeding in Germany is continuing. The Company is unable to anticipate the timing or outcome of the opposition proceedings.

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**J&J Collection** In November 2012, the Company obtained an arbitration judgment in the U.K. against Jay and Jayendra (Pty), a South African corporation ( J&J Group ) for approximately \$4.0 million. J&J Group submitted multiple appeals to the U.K. courts, the last of which was rejected in July 2013. The Company has commenced a collection action in South Africa (where J&J Group is domiciled), but due to the uncertainty of collection, it has not recognized the gain associated with the judgment. The Company is unable to anticipate the timing or outcome of the collection proceedings against J&J Group.

**8. Stock-based Compensation**

The Company records stock-based compensation on stock options, stock appreciation rights, restricted stock awards, restricted stock units and other stock awards issued to employees, directors, consultants and/or advisors based on the estimated fair value on the date of grant and recognizes compensation cost over the requisite service period for awards expected to vest.

Stock-based compensation expense included in the condensed consolidated statements of operations for the three and six months ended June 30, 2014 and 2013 was as follows (in thousands):

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Stock options	\$ 1,145	\$ 1,507	\$ 2,449	\$ 2,961
Restricted stock awards (1)	726	2,141	1,303	4,157
<b>Total stock-based compensation expense</b>	<b>\$ 1,871</b>	<b>\$ 3,648</b>	<b>\$ 3,752</b>	<b>\$ 7,118</b>

- (1) Stock-based compensation expense for both the three and six months ended June 30, 2014 and 2013, includes \$0.2 million and \$0.4 million of expense, respectively, related to 250,000 Class A common stock restricted stock awards that are required to be treated as a liability. As of June 30, 2014 and December 31, 2013, \$1.8 million and \$1.4 million, respectively, were accrued for such awards.

**Stock Options and Stock Appreciation Rights** The Company's stock option and SARs activity for the six months ended June 30, 2014 is summarized as follows:

	<b>Number of shares of Class A common stock underlying options and SARs</b>	<b>Weighted average exercise price</b>
Outstanding December 31, 2013	28,496,463	\$ 2.17
Granted (1)	3,836,500	\$ 1.53
Exercised	(260,000)	\$ 1.18
Forfeited	(3,625,111)	\$ 3.12

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Outstanding	June 30, 2014	28,447,852	\$	1.97
Exercisable	June 30, 2014	12,138,815	\$	2.04
Vested and expected to vest	June 30, 2014	27,701,817	\$	1.98

- (1) The stock options granted during the six months ended June 30, 2014 have a grant date fair value of \$3.1 million and vest at a rate of 25% per year over four years.

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**Restricted Stock** The Company's restricted stock activity for six months ended June 30, 2014 is summarized as follows:

		Number of shares of Class A common stock underlying restricted stock awards	Weighted average fair value per share
Unvested	December 31, 2013	5,912,116	\$ 1.62
Granted (1)		122,004	\$ 1.93
Vested		(691,129)	\$ 2.71
Forfeited		(714,813)	\$ 1.17
Unvested	June 30, 2014	4,628,178	\$ 1.53

(1) Represents shares issued to the Company's Board of Directors as compensation for service. These awards have a grant date fair value of \$0.2 million and vest upon issuance.

**9. Income Taxes**

The Company anticipates it will not have a U.S. federal income tax liability for fiscal 2014 and, therefore, has recorded no tax expense for the three months ended June 30, 2014. For the six months ended June 30, 2014, the Company recorded a tax provision of \$6.3 million related to foreign taxes withheld on revenue related to a license agreement executed during the first quarter with a third party licensee domiciled in a foreign jurisdiction. In general, foreign taxes withheld may be claimed as a deduction on future U.S. corporate income tax returns, or as a credit against future U.S. income tax liabilities, subject to certain limitations. At June 30, 2014, the Company had established a full valuation allowance against the deferred tax assets generated due to uncertainty regarding future realizability.

The Company had no foreign taxes withheld and no U.S. federal income tax liability for fiscal 2013.

**Certain Taxes Payable Irrespective of NOLs** Under the Internal Revenue Code and related Treasury Regulations, the Company may carry forward its net operating losses (NOLs) in certain circumstances to offset current and future income and thus reduce its federal income tax liability, subject to certain restrictions. To the extent that the NOLs do not otherwise become limited, the Company believes that it will be able to carry forward a significant amount of NOLs. However, these NOLs will not impact all taxes to which the Company may be subject. For instance, state or foreign income taxes and/or revenue based taxes may be payable if the Company's income or revenue is attributed to jurisdictions that impose such taxes; the Company's NOLs do not entirely offset its income for alternative minimum tax; and Pendrell or one or more of its corporate subsidiaries may incur federal personal holding company tax liability. This is not an exhaustive list, but merely illustrative of the types of taxes to which the Company's NOLs are not applicable.

**Personal Holding Company Determination** A personal holding company is a corporation with five or fewer individual shareholders whose ownership exceeds 50% of the corporation's outstanding shares, measured by share

value ( Concentrated Ownership ), and which generates personal holding company income (which includes certain licensing revenue and other types of passive revenues) ( PHCI ) that constitutes 60% or more of its adjusted ordinary gross income. For a corporate subsidiary, Concentrated Ownership is determined by reference to ownership of the parent corporation(s), and the subsidiary's income is subject to additional tests to determine whether the income renders the subsidiary a personal holding company. Due to the realization of PHCI in any given year, Pendrell, its consolidated subsidiary ContentGuard Holdings, Inc. ( ContentGuard ), or both, may be a personal holding company. The Company does not anticipate any resulting personal holding company tax liability for current or prior years because Pendrell may use its prior year loss to offset PHCI while its subsidiary, ContentGuard, may pay a dividend to its shareholders (including the Company which is a 90.1% shareholder), rather than incur personal holding company tax. If either company is determined to be a personal holding company, generating net PHCI, and does not distribute to its shareholders a proportionate dividend in the amount of such income, then the net PHCI will be taxed (at 20% under current law). During the second quarter of 2014, Pendrell determined that ContentGuard was a personal holding company in 2012 and 2013, and intends to seek reasonable cause relief to extend the time period for ContentGuard to pay a dividend to its shareholders to address any personal holding company tax that would otherwise be payable for 2012. As there was no PHCI in 2013 for ContentGuard, there is no tax liability.

***Tax Benefits Preservation Plan*** Effective January 29, 2010, the Board of Directors adopted the Tax Benefits Preservation Plan to help the Company preserve its ability to utilize fully its NOLs, to help preserve potential future NOLs, and to thereby reduce potential future federal income tax obligations. If the Company experiences an ownership change, as defined in Section 382 of the Internal Revenue Code, the Company's ability to use the NOLs could be significantly limited.

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The Tax Benefits Preservation Plan is intended to act as a deterrent to any person or group acquiring, without the approval of the Company's Board of Directors, beneficial ownership of 4.9% or more of the Company's securities, defined to include: (i) shares of its Class A common stock and Class B common stock, (ii) shares of its preferred stock, (iii) warrants, rights, or options to purchase its securities, and (iv) any interest that would be treated as stock of the Company for purposes of Section 382 or pursuant to Treasury Regulation § 1.382-2T(f)(18). Specifically, if a shareholder acquires more than 4.9% of Pendrell's outstanding capital stock without an exemption from our Board of Directors, all other shareholders receive rights to acquire additional shares at a significant discount to market price, thereby diluting the value of the capital stock acquired by the acquiring shareholder.

Holders of 4.9% or more of the Company's securities outstanding as of the close of business on January 29, 2010 will not trigger the Tax Benefits Preservation Plan so long as they do not (i) acquire additional securities constituting one-half of one percent (0.5%) or more of the Company's securities outstanding as of the date of the Tax Benefits Preservation Plan (as adjusted to reflect any stock splits, subdivisions and the like), or (ii) fall under 4.9% ownership of the Company's securities and then re-acquire securities that increase their ownership to 4.9% or more of the Company's securities. The Board of Directors may exempt certain persons whose acquisition of securities is determined by the Board of Directors not to jeopardize the Company's tax benefits or to otherwise be in the best interest of the Company and its shareholders. The Board of Directors may also exempt certain transactions.

**10. Loss per Share**

Basic loss per share is calculated based on the weighted average number of Class A common stock and Class B common stock (the Common Shares) outstanding during the period. Diluted loss per share is calculated by dividing the loss allocable to common shareholders by the weighted average Common Shares outstanding plus potential dilutive Common Shares. Prior to the satisfaction of vesting conditions, unvested restricted stock awards are considered contingently issuable and are excluded from weighted average Common Shares outstanding used for computation of basic loss per share.

Potential dilutive Common Shares consist of the incremental Class A common stock issuable upon the exercise of outstanding stock options (both vested and non-vested), stock appreciation rights, and unvested restricted stock awards and units, calculated using the treasury stock method. The calculation of dilutive shares outstanding excludes out-of-the-money stock options (i.e., such options' exercise prices were greater than the average market price of the Company's Class A common shares for the period) because their inclusion would have been anti-dilutive.

The following table sets forth the computation of basic and diluted loss per share (in thousands, except share and per share data):

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net loss attributable to Pendrell	\$ (12,595)	\$ (15,822)	\$ (10,865)	\$ (28,188)
Weighted average common shares outstanding	266,048,476	265,490,902	266,038,413	265,423,396
Less: weighted average unvested restricted stock	(1,944,614)	(4,109,148)	(2,101,218)	(4,459,067)

## awards

Shares used for computation of basic loss per share	264,103,862	261,381,754	263,937,195	260,964,329
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Add back: weighted average unvested restricted stock awards and units				
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Add back: dilutive stock options and stock appreciation rights				
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Shares used for computation of diluted loss per share(1)	264,103,862	261,381,754	263,937,195	260,964,329
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Basic and diluted loss per share attributable to Pendrell	\$	(0.05)	\$	(0.06)	\$	(0.04)	\$	(0.11)
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- (1) Stock options, stock appreciation rights, restricted stock awards and units totaling 33,076,030 for the three and six months ended June 30, 2014, and 36,243,461 for the three and six months ended June 30, 2013, were excluded from the calculation of diluted loss per share as their inclusion was anti-dilutive.



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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and accompanying notes included elsewhere in this quarterly report and the audited consolidated financial statements and notes included in our 2013 Form 10-K.

### **Special Note Regarding Forward-Looking Statements**

With the exception of historical facts, the statements contained in this management's discussion and analysis are forward-looking statements. All of these forward-looking statements are subject to risks and uncertainties that could cause the actual results of Pendrell Corporation (Pendrell, together with its consolidated subsidiaries, us or we) to differ materially from those contemplated by the relevant forward-looking statements. Factors that might cause or contribute to such a difference include, but are not limited to, those discussed in the section entitled Risk Factors (Part II, Item 1A of this Form 10-Q) and elsewhere in this quarterly report. The forward-looking statements included in this document are made only as of the date of this report, and we undertake no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.

### **Overview**

Through our consolidated subsidiaries, we have invested in, acquired and developed businesses with unique technologies that are often protected by intellectual property (IP) rights, and that present the opportunity to address large, global markets. Our subsidiaries create value from our innovations, both by making our IP available for use by third parties and by developing and bringing to market products using our IP. We regularly evaluate our existing investments to determine whether retention or disposition is appropriate, and frequently investigate new investment and business acquisition opportunities. We also advise clients on various IP strategies and transactions.

During the first six months of 2014, certain of our subsidiaries entered into agreements to license patents covering memory and storage technologies, from which we received upfront payments and future royalty rights. During the six months ended June 30, 2013 we did not enter into any new material license agreements.

Until 2012, we had never initiated litigation to protect our IP rights. Since then, our majority owned subsidiary, ContentGuard, has filed suit for patent infringement against Amazon, Apple, Blackberry, Google, Huawei, HTC, Motorola Mobility, Samsung and ZTE after negotiations with these companies failed to yield negotiated license agreements.

ContentGuard's claims against ZTE prompted ZTE to challenge six of ContentGuard's digital rights management (DRM) patents through *inter partes review* (IPR) proceedings at the United States Patent and Trademark Office (USPTO). In August 2013 and November 2013, the USPTO's Patent Trial and Appeal Board (PTAB) terminated the proceedings with respect to two patents, both of which emerged with valid patent claims. The other four patents were the subject of PTAB trials held in February 2014, following which PTAB issued written opinions in late June and early July 2014 rejecting ZTE's remaining challenges, confirming the validity of all claims in the four remaining patents.

In May 2014, our ContentGuard subsidiary released an enhanced version of the ContentGuard® mobile digital content protection application that was initially launched in December 2013. During the three months ended June 30, 2014, ContentGuard continued the development of a second generation application designed for social media and messaging users, which is targeted for release in the third quarter of 2014. These mobile applications, based on technologies developed by ContentGuard over the past fifteen years, are designed to address consumer demand for enhanced Internet privacy through solutions that restrict access to and limit the life of content. Our continuing development of

these ephemeral content protection solutions reflects our commitment to continued innovation, including the development of products to commercialize our IP rights.

While we continue to pursue our IP licensing and litigation initiatives, we also continue to advise some of the most respected technology companies in the world on a variety of IP-related matters. We also continue to evaluate acquisition opportunities, some of which are unrelated to our historical IP monetization activities.

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**Critical Accounting Policies**

Critical accounting policies require difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The judgments and uncertainties affecting the application of these policies include significant estimates and assumptions made by us using information available at the time the estimates are made. Actual results could differ materially from those estimates. Our critical accounting policies involve judgments associated with our accounting for the fair value of financial instruments, asset impairment, valuation of goodwill and intangible assets, contract settlements, revenue recognition, stock-based compensation, income taxes, contingencies and business combinations. There have been no significant changes to our critical accounting policies disclosed in our 2013 Form 10-K.

**Key Components of Results of Operations**

**Revenue** We derive our operating revenue from IP monetization activities, including patent licensing and patent sales, and from IP consulting services, or a combination thereof. Although our revenue may occur in different forms, we regard our IP monetization activities as integrated and not separate revenue streams. For example, a third party relationship could include consulting and licensing activities, or the acquisition of a patent portfolio could lead to licensing, consulting and patent sales revenue. As a result of the unpredictable nature, form and frequency of our transactions, our revenue may fluctuate substantially from period to period.

**Cost of revenue** Cost of revenue consists of certain costs that are variable in nature and are directly attributable to our revenue generating activities including (i) payments to third parties to whom we have an obligation to share revenue, (ii) commissions, and (iii) success fees. Additionally, in periods when patent sales occur, these costs include the net book value and other related costs associated with the sold patents. Depending on the patents being monetized, revenue share payments as a percentage of revenues may vary significantly.

**Patent administration and related costs** Patent administration and related costs are comprised of (i) patent-related maintenance and prosecution costs incurred to maintain our patents, (ii) other costs that support our patent monetization efforts, and (iii) costs associated with the abandonment of patents, including the write-off of any remaining net book value.

**Patent litigation** Patent litigation costs consist of costs and expenses incurred in connection with our patent-related enforcement and litigation activities. These may include non-contingent or contingent fee obligations to external counsel.

**General and administrative** General and administrative expenses are primarily comprised of (i) personnel costs, (ii) general legal fees, (iii) professional fees, (iv) acquisition investigation costs, and (v) general office related costs.

**Stock-based compensation** Stock-based compensation expense includes expense associated with the granting of stock options, stock appreciation rights, restricted stock awards, restricted stock units and other stock awards issued to employees, directors, consultants and/or advisors based on the estimated fair value on the date of grant and expensed over the requisite service period for awards expected to vest.

**Amortization of intangible assets** Amortization of intangible assets reflects the expensing of the cost to acquire intangible assets which are capitalized and amortized ratably over their estimated useful lives. Estimating the economic useful lives of our intangible assets depends on various factors including the remaining statutory life of the underlying assets as well as their expected period of benefit.

## **New Accounting Pronouncements**

In June 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-12, *Compensation-Stock Compensation (Topic 718)-Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)*. ASU No. 2014-12 requires that a performance target that affects vesting and could be achieved after the requisite service period shall be treated as a performance condition. The adoption of this statement on January 1, 2014 did not have a material impact on our financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue (Topic 606): Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that

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reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein. Early adoption is not permitted. We are currently assessing the impact, if any, of implementing this guidance on our consolidated financial position and results of operations.

**Results of Operations**

In February 2013, we acquired a 68.75% interest in Provitro Biosciences LLC, developer of the Provitro proprietary micro-propagation technology designed to facilitate the commercial-scale production of certain plants. Additionally, in March 2013, we acquired from Nokia Corporation 125 patents and patent applications worldwide, 81 of which Nokia declared essential to standards applicable to memory and storage technologies used in electronic devices. Expenses associated with these acquisitions from their respective acquisition dates have been included in our condensed consolidated statement of operations for the three and six months ended June 30, 2014 and 2013.

The following table is provided to facilitate the discussion of our results of operations for the three and six months ended June 30, 2014 and 2013 (in thousands):

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenue	\$ 2,935	\$ 802	\$ 41,070	\$ 11,794
Cost of revenues	70	93	13,866	7,758
Patent administration and related costs	1,650	1,050	3,048	2,099
Patent litigation	1,931	1,304	3,969	2,091
General and administrative	6,985	7,427	14,834	14,805
Stock-based compensation	1,871	3,648	3,752	7,118
Amortization of intangible assets	3,991	4,019	8,030	7,715
Interest income	24	37	44	80
Interest expense	42	66	106	66
Other expense	7	15	12	45
Income tax expense			6,270	

*Revenue.* Revenue of \$2.9 million for the three months ended June 30, 2014 increased by \$2.1 million, or more than 200%, as compared to \$0.8 million for the three months ended June 30, 2013. The increase was primarily due to a June 2014 license agreement covering memory and storage technologies and the absence of any material licensing revenue earned during the second quarter of 2013.

Revenue of \$41.1 million for the six months ended June 30, 2014 increased by \$29.3 million, or more than 200%, as compared to \$11.8 million for the six months ended June 30, 2013. The increase was primarily due to license agreements covering memory and storage technologies entered into during the six months ended June 30, 2014 and the absence of licensing revenue during the six months ended June 30, 2013, partially offset by sales of certain patent portfolios in the first quarter of 2013.

*Cost of revenues.* Cost of revenues of \$0.1 million for the three months ended June 30, 2014 were substantially the same as the \$0.1 million cost of revenues for the three months ended June 30, 2013. Although we signed a license

agreement during the three months ended June 30, 2014, the costs associated with this revenue were minimal.

Cost of revenues of \$13.9 million for the six months ended June 30, 2014 increased by \$6.1 million, or 79%, as compared to \$7.8 million for the six months ended June 30, 2013. This increase was primarily due to costs associated with our March 2014 license agreement with Samsung, including payments to third parties to whom we have an obligation to share revenue, partially offset by \$7.5 million of costs related to certain patents sold in the first quarter of 2013.

*Patent administration and related costs.* Patent administration and related costs of \$1.7 million for the three months ended June 30, 2014 increased by \$0.6 million, or 57%, as compared to \$1.1 million for the three months ended June 30, 2013. Patent administration and related costs of \$3.0 million for the six months ended June 30, 2014 increased by \$0.9 million, or 45%, as compared to \$2.1 million for the six months ended June 30, 2013. The increases in patent administration and related costs were primarily due to write-offs of the net book value of patents abandoned in 2014, partially offset by a reduction in patent maintenance and prosecution costs.

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*Patent litigation.* Patent litigation expenses of \$1.9 million for the three months ended June 30, 2014 increased by \$0.6 million, or 48%, as compared to \$1.3 million for the three months ended June 30, 2013. Patent litigation expenses of \$4.0 million for the six months ended June 30, 2014 increased by \$1.9 million, or 90%, as compared to \$2.1 million for the six months ended June 30, 2013. The increases in patent litigation expenses were primarily due to costs incurred by our subsidiary, ContentGuard, in its litigation efforts against Amazon, Apple, Blackberry, Google, HTC, Huawei, Motorola Mobility and Samsung.

*General and administrative.* General and administrative expenses of \$7.0 million for the three months ended June 30, 2014 decreased by \$0.4 million, or 6%, as compared to \$7.4 million for the three months ended June 30, 2013. The decrease was primarily due to \$0.8 million reduction in employment expenses resulting from a lower headcount partially offset by \$0.3 million incurred to develop enhanced features and functionality for the ContentGuard digital content protection application.

General and administrative expenses of \$14.8 million for the six months ended June 30, 2014 were substantially the same as the \$14.8 million general and administrative expenses for the six months ended June 30, 2013, as the decrease of \$0.7 million in employment expenses, primarily due to lower headcount, was offset by \$0.6 million incurred to develop enhanced features and functionality for the ContentGuard digital content protection application and \$0.1 million increase in other professional fees.

*Stock-based compensation.* Stock-based compensation of \$1.9 million for the three months ended June 30, 2014 decreased by \$1.7 million, or 49%, as compared to \$3.6 million for the three months ended June 30, 2013. Stock-based compensation of \$3.8 million for the six months ended June 30, 2014 decreased by \$3.5 million, or 47%, as compared to \$7.1 million for the six months ended June 30, 2013. The decrease in stock-based compensation expense was primarily due to the vesting of awards in June 2013 for which no further expense is being incurred and the recapture of expense related to terminated employees.

*Amortization of intangible assets.* Amortization of intangible assets of \$4.0 million for the three months ended June 30, 2014 was substantially the same as the \$4.0 million amortization of intangible assets for the three months ended June 30, 2013, as the increase in amortization from the March 2013 acquisition of a portfolio of memory and storage technology patents was offset by a decrease in amortization expense due to the abandonment and sales of certain patents during the second quarter of 2014.

Amortization of intangible assets of \$8.0 million for the six months ended June 30, 2014 increased by \$0.3 million, or 4%, as compared to \$7.7 million for the six months ended June 30, 2013, primarily due to the March 2013 acquisition of a portfolio of memory and storage technology patents, partially offset by the abandonment of certain patents in 2014.

*Interest income.* Interest income for the three and six months ended June 30, 2014 and 2013 was nominal and primarily related to interest earned on money market funds.

*Interest expense.* Interest expense for the three and six months ended June 30, 2014 and 2013 consisted of interest expense resulting from installment payment obligations associated with intangible assets acquired during 2013.

*Other expense.* Other expense for the three and six months ended June 30, 2014 and 2013 was due to losses on foreign currency transactions.

*Income tax expense.* We anticipate that we will not have a U.S. federal income tax liability for fiscal 2014 and, therefore, we recorded no tax expense in the three months ended June 30, 2014. We recorded a tax provision of \$6.3

million for the six months ended June 30, 2014 related to foreign taxes withheld on revenue related to a license agreement executed during the first quarter with a third party licensee domiciled in a foreign jurisdiction. In general, foreign taxes withheld may be claimed as a deduction on future U.S. corporate income tax returns, or as a credit against future U.S. income tax liabilities, subject to certain limitations. At June 30, 2014, we had established a full valuation allowance against the deferred tax assets generated due to uncertainty regarding future realizability. We had no foreign taxes withheld and no U.S. federal income tax liability for fiscal 2013.

### **Liquidity and Capital Resources**

*Overview.* As of June 30, 2014, we had cash and cash equivalents of \$186.1 million. Our primary expected cash needs for the next twelve months include ongoing operating costs associated with commercialization of our IP assets, product development costs, expenses in connection with legal proceedings, and other general corporate purposes. We also expect to use our cash, and may incur debt or issue equity, to acquire or invest in other businesses or assets.



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We believe our current balances of cash and cash equivalents and cash flows from operations will be adequate to meet our liquidity needs for the foreseeable future. Cash and cash equivalents in excess of our immediate needs are held in interest bearing accounts with financial institutions.

*Cash Flows.* The following table is provided to facilitate the discussion of our liquidity and capital resources for the six months ended June 30, 2014 and 2013 (in thousands).

	<b>Six months ended June,</b>	
	<b>2014</b>	<b>2013</b>
Net cash provided by (used in):		
Operating activities	\$ 3,612	\$ (2,399)
Investing activities	(63)	(11,370)
Financing activities	(1,976)	(2,189)
Net increase (decrease) in cash and cash equivalents	1,573	(15,958)
Cash and cash equivalents beginning of period	184,567	213,753
Cash and cash equivalents end of period	\$ 186,140	\$ 197,795

The increase in cash and cash equivalents for the six months ended June 30, 2014 of \$1.6 million was primarily due to revenue generated by operations of \$41.1 million partially offset by \$37.5 million of general corporate expenditures and a \$2.0 million payment of an accrued obligation associated with the 2013 acquisition of our memory and storage technologies portfolio. The decrease in cash and cash equivalents for the six months ended June 30, 2013 of \$16.0 million was primarily due to the acquisition of our memory and storage technologies portfolio and the acquisition of a controlling interest in Provistro.

For the six months ended June 30, 2014, the \$3.6 million of cash provided by operating activities consisted primarily of revenue generated by operations of \$41.1 million, partially offset by foreign taxes paid of \$6.3 million and operating expenses of \$47.5 million adjusted for various non-cash items, including (i) \$8.0 million of amortization expense associated with patents and other intangible assets, (ii) \$3.8 million of stock-based compensation expense, (iii) \$1.9 million of non-cash loss associated with the abandonment and/or sale of patents, (iv) \$1.4 million of amortized prepaid compensation expense associated with the acquisition of Ovidian Group in June 2011, (v) \$0.7 million increase in prepaid expenses, and (vi) \$0.5 million increase in accounts payable and accrued expenses.

For the six months ended June 30, 2013, the \$2.4 million of cash used in operating activities consisted primarily of our net loss of \$29.8 million adjusted for various non-cash items, including (i) \$7.7 million of amortization expense associated with patents and other intangible assets, (ii) \$7.1 million of stock-based compensation expense, and (iii) \$1.4 million of amortized prepaid compensation expense associated with the acquisition of Ovidian Group in June 2011, partially offset by \$9.0 million of cash collected from various receivables and a \$2.0 million increase in accrued expenses.

For the six months ended June 30, 2014, the \$63,000 of cash used in investing activities was primarily due to the acquisition of property and intangible assets. For the six months ended June 30, 2013, the \$11.4 million of cash used in investing activities was primarily due to \$9.2 million used for our acquisition of Provistro and \$2.2 million used for the acquisition of property and intangible assets.

For the six months ended June 30, 2014, the \$2.0 million of cash used in financing activities consisted of a \$2.0 million payment of an accrued obligation associated with the 2013 purchase of property and intangible assets and \$0.3 million utilized to pay statutory taxes related to vesting of restricted stock awards, offset by \$0.3 million in proceeds from the exercise of stock options. For the six months ended June 30, 2013, the \$2.2 million of cash used in financing activities consisted of the payment of statutory taxes related to vesting of restricted stock awards, partially offset by proceeds from the exercise of stock options.

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*Contractual Obligations.* Our primary contractual obligations relate to the installment purchase of the memory and storage technologies portfolio in 2013 as well as operating lease agreements for our main office location in Kirkland, Washington, and other offices in California, Texas, Washington, D.C. and Finland. Our contractual obligations as of June 30, 2014 were as follows (in millions):

	Years ending December 31,				2019 and thereafter
	Total		2014	2015-2016	2017-2018
Purchase obligations	\$ 4.0		\$	\$ 4.0	
<b>Media 7.8%</b>					
Allbritton Communications Co., Senior Notes	8.000%	5/15/18	420,000	399,000(a)	
CCH II LLC/CCH II Capital Corp., Senior Notes	13.500%	11/30/16	611,752	698,162(a)	
CCO Holdings LLC/CCO Holdings Capital Corp., Senior Notes	7.875%	4/30/18	2,820,000	2,781,225(a)	
CCO Holdings LLC/CCO Holdings Capital Corp., Senior Notes	8.125%	4/30/20	2,180,000	2,169,100(a)	
Cengage Learning Acquisitions Inc., Senior Notes	10.500%	1/15/15	1,570,000	1,432,625(a)	
Charter Communications Operating LLC/Charter Communications Operating Capital	8.000%	4/30/12	250,000	262,188(a)	
Charter Communications Operating LLC/Charter Communications Operating Capital, Senior Secured Notes	10.875%	9/15/14	1,150,000	1,262,125(a)	
Clear Channel Communications Inc., Senior Notes	6.250%	3/15/11	200,000	193,500	
CMP Susquehanna Corp.	3.531%	5/15/14	46,000	13,800(a)(d)(e)(f)	
Comcast Corp.	5.700%	5/15/18	1,120,000	1,213,008	
CSC Holdings Inc., Senior Debentures	7.875%	2/15/18	1,500,000	1,537,500	
CSC Holdings Inc., Senior Notes	6.750%	4/15/12	575,000	598,000	
DISH DBS Corp., Senior Notes	7.750%	5/31/15	3,060,000	3,090,600	
DISH DBS Corp., Senior Notes	7.875%	9/1/19	4,000,000	4,060,000	
Grupo Televisa SA, Senior Bonds	6.625%	1/15/40	1,730,000	1,740,494	
Grupo Televisa SA, Senior Notes	6.625%	3/18/25	1,810,000	1,871,024	
ITV PLC, Senior Notes	10.000%	6/30/14	2,000,000EUR	2,778,218	
Live Nation Entertainment Inc., Senior Notes	8.125%	5/15/18	230,000	228,850(a)	
NET Servicos de Comunicacao SA, Bonds	7.500%	1/27/20	900,000	909,000(a)	
Seat Pagine Gialle SpA, Senior Secured Notes	10.500%	1/31/17	661,000EUR	771,939(a)	
Sun Media Corp., Senior Notes	7.625%	2/15/13	315,000	313,819	
Time Warner Cable Inc., Senior Notes	8.750%	2/14/19	200,000	249,494	
Time Warner Inc.	6.500%	11/15/36	160,000	166,259	
Univision Communications Inc., Senior Secured Notes	12.000%	7/1/14	1,810,000	1,954,800(a)	
UPC Holding BV, Senior Notes	9.875%	4/15/18	330,000	334,950(a)	
Virgin Media Finance PLC, Senior Bonds	9.500%	8/15/16	955,000	983,650	
Virgin Media Finance PLC, Senior Notes	9.125%	8/15/16	2,030,000	2,062,987	
Ziggo Bond Co. BV, Senior Notes	8.000%	5/15/18	1,450,000EUR	1,733,467(a)	
<b>Total Media</b>				<b>35,809,784</b>	
<b>Multiline Retail 0.5%</b>					
Neiman Marcus Group Inc., Senior Notes	9.000%	10/15/15	121,662	119,381(b)	
Neiman Marcus Group Inc., Senior Secured Notes	7.125%	6/1/28	2,490,000	2,216,100	
<b>Total Multiline Retail</b>				<b>2,335,481</b>	

See Notes to Financial Statements.

## Western Asset Global High Income Fund Inc. 2010 Annual Report

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## Schedule of investments (cont d)

May 31, 2010

## Western Asset Global High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<b>Specialty Retail 0.7%</b>				
American Greetings Corp., Senior Notes	7.375%	6/1/16	250,000	\$ 253,750
Blockbuster Inc., Senior Secured Notes	11.750%	10/1/14	286,000	170,170(a)
Michaels Stores Inc., Senior Notes	10.000%	11/1/14	860,000	886,875
Michaels Stores Inc., Senior Subordinated Notes, step bond	0.000%	11/1/16	2,270,000	2,020,300
<b>Total Specialty Retail</b>				<b>3,331,095</b>
<b>Textiles, Apparel &amp; Luxury Goods 0.4%</b>				
Oxford Industries Inc., Senior Secured Notes	11.375%	7/15/15	1,115,000	1,220,925
Phillips-Van Heusen Corp., Senior Notes	7.375%	5/15/20	470,000	474,700
<b>Total Textiles, Apparel &amp; Luxury Goods</b>				<b>1,695,625</b>
<b>Total Consumer Discretionary</b>				<b>73,280,184</b>
<b>Consumer Staples 1.0%</b>				
<b>Beverages 0.4%</b>				
Constellation Brands Inc., Senior Notes	8.375%	12/15/14	785,000	820,325
Dr. Pepper Snapple Group Inc., Senior Notes	6.820%	5/1/18	340,000	398,007
PepsiCo Inc., Senior Notes	7.900%	11/1/18	390,000	500,392
<b>Total Beverages</b>				<b>1,718,724</b>
<b>Food &amp; Staples Retailing 0.2%</b>				
CVS Pass-Through Trust, Secured Notes	5.298%	1/11/27	158,185	152,023(a)(f)
CVS Pass-Through Trust, Secured Notes	5.880%	1/10/28	98,018	99,760
CVS Pass-Through Trust, Secured Notes	6.036%	12/10/28	605,170	614,129
<b>Total Food &amp; Staples Retailing</b>				<b>865,912</b>
<b>Food Products 0.2%</b>				
Campofrio Food Group SA, Senior Notes	8.250%	10/31/16	750,000EUR	886,389(a)
<b>Household Products 0.1%</b>				
Reynolds Group DL Escrow Inc./Reynolds Group Escrow LLC, Senior Secured Notes	7.750%	10/15/16	640,000	636,800(a)
<b>Tobacco 0.1%</b>				
Alliance One International Inc., Senior Notes	10.000%	7/15/16	710,000	727,750(a)
<b>Total Consumer Staples</b>				<b>4,835,575</b>
<b>Energy 15.0%</b>				
<b>Energy Equipment &amp; Services 0.7%</b>				
Baker Hughes Inc., Senior Notes	7.500%	11/15/18	210,000	254,282
Complete Production Services Inc., Senior Notes	8.000%	12/15/16	560,000	554,400
Hercules Offshore LLC, Senior Secured Notes	10.500%	10/15/17	655,000	612,425(a)
Key Energy Services Inc., Senior Notes	8.375%	12/1/14	750,000	750,000
Parker Drilling Co., Senior Notes	9.125%	4/1/18	720,000	687,600(a)
Pride International Inc., Senior Notes	7.375%	7/15/14	270,000	276,750
Transocean Inc., Senior Notes	5.250%	3/15/13	390,000	398,907
<b>Total Energy Equipment &amp; Services</b>				<b>3,534,364</b>

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### ***Oil, Gas & Consumable Fuels*** 14.3%

Anadarko Petroleum Corp., Senior Notes	6.450%	9/15/36	800,000	759,736
Apache Corp., Senior Notes	6.000%	1/15/37	280,000	302,518
Belden & Blake Corp., Secured Notes	8.750%	7/15/12	1,405,000	1,313,675
Berry Petroleum Co., Senior Notes	10.250%	6/1/14	670,000	716,900

See Notes to Financial Statements.

## Western Asset Global High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value	
<i>Oil, Gas &amp; Consumable Fuels continued</i>					
Chesapeake Energy Corp., Senior Notes	6.375%	6/15/15	1,350,000	\$	1,353,375
Chesapeake Energy Corp., Senior Notes	6.625%	1/15/16	270,000		272,025
Chesapeake Energy Corp., Senior Notes	7.250%	12/15/18	2,535,000		2,573,025
Colorado Interstate Gas Co., Senior Notes	6.800%	11/15/15	160,000		182,129
Compagnie Generale de Geophysique SA, Senior Notes	7.500%	5/15/15	245,000		238,875
Compagnie Generale de Geophysique SA, Senior Notes	7.750%	5/15/17	155,000		148,025
CONSOL Energy Inc., Senior Notes	8.250%	4/1/20	880,000		903,100 <sup>(a)</sup>
Corral Petroleum Holdings AB, Senior Bonds	5.251%	9/18/11	353,472		318,125 <sup>(a)(e)</sup>
Devon Energy Corp., Debentures	7.950%	4/15/32	230,000		293,688
Dolphin Energy Ltd., Senior Secured Bonds	5.888%	6/15/19	821,700		839,594 <sup>(a)</sup>
Ecopetrol SA, Senior Notes	7.625%	7/23/19	1,900,000		2,123,250
El Paso Corp., Medium-Term Notes	7.375%	12/15/12	2,050,000		2,157,330
El Paso Corp., Medium-Term Notes	7.750%	1/15/32	1,260,000		1,190,069
El Paso Corp., Notes	7.875%	6/15/12	125,000		131,626
El Paso Natural Gas Co., Bonds	8.375%	6/15/32	70,000		82,327
Energy Transfer Partners LP, Senior Notes	6.700%	7/1/18	480,000		514,710
Enterprise Products Operating LLP, Junior Subordinated Notes	8.375%	8/1/66	980,000		966,441
Enterprise Products Operating LLP, Senior Bonds	6.300%	9/15/17	550,000		602,209
Enterprise Products Operating LLP, Subordinated Notes	7.034%	1/15/68	3,000,000		2,756,427
Infinis PLC, Senior Notes	9.125%	12/15/14	655,000	GBP	965,824 <sup>(a)</sup>
International Coal Group Inc., Senior Secured Notes	9.125%	4/1/18	1,160,000		1,165,800
KazMunaiGaz Finance Sub B.V., Senior Notes	8.375%	7/2/13	2,990,000		3,184,350 <sup>(a)</sup>
Kinder Morgan Energy Partners LP, Medium-Term Notes	6.950%	1/15/38	330,000		338,809
Linn Energy LLC/Linn Energy Finance Corp., Senior Notes	8.625%	4/15/20	690,000		686,550 <sup>(a)</sup>
LUKOIL International Finance BV, Bonds	6.356%	6/7/17	2,680,000		2,666,600 <sup>(a)</sup>
LUKOIL International Finance BV, Bonds	6.656%	6/7/22	946,000		879,780 <sup>(a)</sup>
Occidental Petroleum Corp., Senior Notes	7.000%	11/1/13	330,000		383,603
OPTI Canada Inc., Senior Secured Notes	7.875%	12/15/14	550,000		470,250
OPTI Canada Inc., Senior Secured Notes	8.250%	12/15/14	445,000		382,700
Overseas Shipholding Group Inc., Senior Notes	8.125%	3/30/18	860,000		853,550
Pan American Energy LLC, Senior Notes	7.875%	5/7/21	850,000		837,250 <sup>(a)</sup>
Peabody Energy Corp., Senior Notes	7.375%	11/1/16	390,000		406,575
Peabody Energy Corp., Senior Notes	7.875%	11/1/26	800,000		836,000
Pemex Project Funding Master Trust, Senior Bonds	6.625%	6/15/35	4,237,000		4,173,432
Penn Virginia Resource Partners LP/Penn Virginia Resource Finance Corp., Senior Notes	8.250%	4/15/18	550,000		541,750
Petrobras International Finance Co., Senior Notes	6.875%	1/20/40	1,620,000		1,633,848
Petrohawk Energy Corp., Senior Notes	9.125%	7/15/13	510,000		525,300
Petroleos de Venezuela SA, Senior Notes	5.250%	4/12/17	2,210,000		1,221,025

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Petroleos Mexicanos, Notes		8.000	%	5/3/19		2,150,000		2,488,625	
Petroleum Co. of Trinidad & Tobago Ltd., Senior Notes		9.750	%	8/14/19		870,000		957,000	(a)
Petronas Capital Ltd.		5.250	%	8/12/19		5,560,000		5,680,330	(a)
Petronas Capital Ltd., Senior Notes		5.250	%	8/12/19		700,000		715,102	(a)
Petroplus Finance Ltd., Senior Notes		7.000	%	5/1/17		410,000		346,450	(a)

See Notes to Financial Statements.



## Western Asset Global High Income Fund Inc. 2010 Annual Report

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## Schedule of investments (cont d)

May 31, 2010

## Western Asset Global High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value	
<b>Oil, Gas &amp; Consumable Fuels continued</b>					
Plains Exploration & Production Co., Senior Notes	10.000%	3/1/16	585,000	\$ 609,862	
Plains Exploration & Production Co., Senior Notes	8.625%	10/15/19	515,000	507,275	
Quicksilver Resources Inc., Senior Notes	11.750%	1/1/16	1,335,000	1,461,825	
Ras Laffan Liquefied Natural Gas Co., Ltd. III, Senior Secured Bonds	6.750%	9/30/19	1,007,000	1,095,752	(a)
Ras Laffan Liquefied Natural Gas Co., Ltd. III, Senior Secured Notes	5.500%	9/30/14	1,150,000	1,234,588	(a)
SandRidge Energy Inc., Senior Notes	9.875%	5/15/16	675,000	668,250	(a)
SandRidge Energy Inc., Senior Toggle Notes	8.625%	4/1/15	1,000,000	935,000	(b)
Teekay Corp., Senior Notes	8.500%	1/15/20	1,280,000	1,299,200	
TNK-BP Finance SA	6.625%	3/20/17	550,000	529,375	(a)
TNK-BP Finance SA, Senior Notes	7.500%	7/18/16	1,390,000	1,432,075	(a)
TNK-BP Finance SA, Senior Notes	7.875%	3/13/18	1,490,000	1,512,350	(a)
Whiting Petroleum Corp., Senior Subordinated Notes	7.000%	2/1/14	60,000	60,675	
Williams Cos. Inc., Senior Notes	8.750%	3/15/32	785,000	937,560	
XTO Energy Inc., Senior Notes	5.500%	6/15/18	250,000	275,815	
<b>Total Oil, Gas &amp; Consumable Fuels</b>				<b>65,639,284</b>	
<b>Total Energy</b>				<b>69,173,648</b>	
<b>Financials 12.4%</b>					
<b>Capital Markets 1.7%</b>					
Bear Stearns Cos. LLC, Senior Notes	7.250%	2/1/18	820,000	936,191	
Goldman Sachs Group Inc., Senior Notes	6.150%	4/1/18	330,000	337,632	
Goldman Sachs Group Inc., Senior Notes	7.500%	2/15/19	1,430,000	1,581,337	
Goldman Sachs Group Inc., Subordinated Notes	6.750%	10/1/37	2,500,000	2,347,650	
Merrill Lynch & Co. Inc., Notes	6.875%	4/25/18	390,000	402,306	
Morgan Stanley, Medium-Term Notes	6.625%	4/1/18	470,000	483,368	
UBS AG Stamford CT, Senior Notes	3.875%	1/15/15	1,520,000	1,514,459	
<b>Total Capital Markets</b>				<b>7,602,943</b>	
<b>Commercial Banks 1.8%</b>					
Banco Mercantil del Norte SA, Subordinated Bonds	6.135%	10/13/16	1,050,000	1,033,273	(a)(e)
Credit Agricole SA, Subordinated Notes	8.375%	10/13/19	1,250,000	1,187,500	(a)(g)
ICICI Bank Ltd., Subordinated Bonds	6.375%	4/30/22	2,294,000	2,090,926	(a)(e)
Lloyds TSB Bank PLC, Notes	5.800%	1/13/20	1,530,000	1,439,839	(a)
Matalan Finance Ltd., Senior Notes	9.625%	3/31/17	164,000	242,420	(a)

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Royal Bank of Scotland Group PLC, Senior Notes		6.400%	10/21/19		910,000		903,096	
Wachovia Corp., Senior Notes		5.750%	2/1/18		1,350,000		1,445,822	
<b>Total Commercial Banks</b>							<b>8,342,876</b>	
<b>Consumer Finance 2.5%</b>								
American Express Co., Notes		7.000%	3/19/18		260,000		296,430	
GMAC Inc., Senior Notes		6.875%	8/28/12		978,000		970,665	
GMAC Inc., Senior Notes		7.500%	12/31/13		30,000		29,550	
GMAC Inc., Senior Notes		8.000%	3/15/20		2,095,000		2,037,387	(a)
GMAC Inc., Senior Notes		8.000%	11/1/31		1,957,000		1,790,655	
GMAC Inc., Subordinated Notes		8.000%	12/31/18		36,000		34,200	
GMAC LLC, Senior Bonds		0.000%	12/1/12		1,330,000		1,097,160	

See Notes to Financial Statements.

## Western Asset Global High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value	
<b>Consumer Finance continued</b>					
SLM Corp., Senior Notes	8.000%	3/25/20	6,000,000	\$	5,345,640
<b>Total Consumer Finance</b>					<b>11,601,687</b>
<b>Diversified Financial Services 4.9%</b>					
Bank of America Corp., Senior Notes	5.650%	5/1/18	490,000		493,599
Bank of America Corp., Senior Notes	7.625%	6/1/19	1,480,000		1,683,188
CIT Group Inc., Senior Secured Bonds	7.000%	5/1/16	4,980,000		4,544,250
Citigroup Inc., Senior Notes	6.125%	11/21/17	490,000		500,489
Citigroup Inc., Senior Notes	8.500%	5/22/19	2,000,000		2,347,170
Citigroup Inc., Senior Notes	6.875%	3/5/38	290,000		294,661
General Electric Capital Corp., Senior Notes	5.625%	5/1/18	650,000		675,866
General Electric Capital Corp., Senior Notes	5.500%	1/8/20	2,090,000		2,147,983
International Lease Finance Corp., Senior Notes	8.750%	3/15/17	5,000,000		4,587,500 (a)
ISS Financing PLC, Senior Secured Bonds	11.000%	6/15/14	2,000,000	EUR	2,575,384 (a)
LBI Escrow Corp., Senior Secured Notes	8.000%	11/1/17	986,000	EUR	1,209,060 (a)
LBI Escrow Corp., Senior Secured Notes	8.000%	11/1/17	830,000		846,600 (a)
Leucadia National Corp., Senior Notes	7.750%	8/15/13	340,000		351,475
New Communications Holdings Inc., Senior Notes	8.750%	4/15/22	190,000		187,625 (a)
<b>Total Diversified Financial Services</b>					<b>22,444,850</b>
<b>Insurance 0.9%</b>					
American International Group Inc., Senior Notes	8.250%	8/15/18	4,000,000		3,920,000
<b>Real Estate Investment Trusts (REITs) 0.3%</b>					
WEA Finance LLC/WT Finance Aust Pty. Ltd., Senior Notes	6.750%	9/2/19	1,360,000		1,506,952 (a)
<b>Real Estate Management &amp; Development 0.3%</b>					
Castle HoldCo 4 Ltd., Senior Secured Notes	10.000%	5/8/18	530,000	GBP	785,356 (a)
Kaisa Group Holdings Ltd., Senior Notes	13.500%	4/28/15	790,000		694,213 (a)
<b>Total Real Estate Management &amp; Development</b>					<b>1,479,569</b>
<b>Total Financials</b>					<b>56,898,877</b>
<b>Health Care 4.3%</b>					
<b>Health Care Providers &amp; Services 4.2%</b>					
American Renal Holdings, Senior Secured Notes	8.375%	5/15/18	670,000		654,925 (a)
Community Health Systems Inc., Senior Notes	8.875%	7/15/15	620,000		636,275
HCA Inc., Notes	6.375%	1/15/15	1,360,000		1,254,600
HCA Inc., Senior Notes	6.300%	10/1/12	2,635,000		2,602,062
Humana Inc., Senior Notes	7.200%	6/15/18	2,000,000		2,221,768
IASIS Healthcare LLC/IASIS Capital Corp., Senior Subordinated Notes	8.750%	6/15/14	2,158,000		2,168,790
Omnicare Inc., Senior Subordinated Notes	7.750%	6/1/20	490,000		493,675
Tenet Healthcare Corp., Senior Notes	7.375%	2/1/13	1,030,000		1,035,150
Tenet Healthcare Corp., Senior Notes	10.000%	5/1/18	215,000		236,769 (a)
Tenet Healthcare Corp., Senior Secured Notes	8.875%	7/1/19	1,968,000		2,073,780 (a)

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Universal Hospital Services Inc., Senior Secured Notes		3.859%	6/1/15		720,000		601,200	(e)
Universal Hospital Services Inc., Senior Secured Notes		8.500%	6/1/15		135,000		130,275	(b)
US Oncology Holdings Inc., Senior Notes		6.643%	3/15/12		3,618,000		3,337,605	(b)(e)
Vanguard Health Holdings Co., II LLC, Senior Notes		8.000%	2/1/18		820,000		783,100	

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## Western Asset Global High Income Fund Inc. 2010 Annual Report

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## Schedule of investments (cont d)

May 31, 2010

## Western Asset Global High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<b>Health Care Providers &amp; Services continued</b>				
Ventas Realty LP/Ventas Capital Corp., Senior Notes	6.500%	6/1/16	175,000	\$175,214
Ventas Realty LP/Ventas Capital Corp., Senior Notes	6.750%	4/1/17	690,000	692,603
WellPoint Inc., Notes	5.875%	6/15/17	240,000	261,954
<b>Total Health Care Providers &amp; Services</b>				<b>19,359,745</b>
<b>Pharmaceuticals 0.1%</b>				
Wyeth, Notes	5.950%	4/1/37	260,000	281,087
<b>Total Health Care</b>				<b>19,640,832</b>
<b>Industrials 7.0%</b>				
<b>Aerospace &amp; Defense 0.7%</b>				
Freedom Group Inc., Senior Secured Notes	10.250%	8/1/15	955,000	988,425(a)
Kratos Defense & Security Solutions Inc., Senior Secured Notes	10.000%	6/1/17	600,000	597,000(a)
L-3 Communications Corp., Senior Subordinated Notes	6.375%	10/15/15	325,000	326,625
Wyle Services Corp., Senior Subordinated Notes	10.500%	4/1/18	1,220,000	1,201,700(a)
<b>Total Aerospace &amp; Defense</b>				<b>3,113,750</b>
<b>Airlines 1.4%</b>				
Continental Airlines Inc., Pass-Through Certificates	8.312%	4/2/11	275,530	275,530
Continental Airlines Inc., Pass-Through Certificates	7.339%	4/19/14	805,416	740,983
Continental Airlines Inc., Pass-Through Certificates	7.373%	12/15/15	372,645	360,534
DAE Aviation Holdings Inc., Senior Notes	11.250%	8/1/15	2,290,000	2,307,175(a)
Delta Air Lines Inc., Pass-Through Certificates	7.711%	9/18/11	620,000	613,800
Delta Air Lines Inc., Secured Notes	8.021%	8/10/22	848,941	802,249
Delta Air Lines Inc., Senior Secured Notes	9.500%	9/15/14	320,000	329,600(a)
United Air Lines Inc., Senior Secured Notes	9.875%	8/1/13	1,180,000	1,212,450(a)
<b>Total Airlines</b>				<b>6,642,321</b>
<b>Building Products 0.3%</b>				
Ashton Woods USA LLC/Ashton Woods Finance Co., Senior Subordinated Notes, step bond	0.000%	6/30/15	169,000	92,105(a)(d)
GTL Trade Finance Inc., Senior Notes	7.250%	10/20/17	836,000	867,350(a)
Rearden G Holdings EINS GmbH, Senior Notes	7.875%	3/30/20	360,000	352,800(a)
<b>Total Building Products</b>				<b>1,312,255</b>
<b>Commercial Services &amp; Supplies 1.0%</b>				
AAC Group Holding Corp., Senior Discount Notes	10.250%	10/1/12	350,000	345,625(a)
ACCO Brands Corp., Senior Secured Notes	10.625%	3/15/15	890,000	967,875
Altegrity Inc., Senior Subordinated Notes	10.500%	11/1/15	2,510,000	2,397,050(a)(d)
RSC Equipment Rental Inc./RSC Holdings III LLC, Senior Secured Notes	10.000%	7/15/17	735,000	794,719(a)
<b>Total Commercial Services &amp; Supplies</b>				<b>4,505,269</b>
<b>Construction &amp; Engineering 1.6%</b>				
Odebrecht Finance Ltd., Senior Notes	7.500%	10/18/17	6,577,000	6,757,867(a)

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Odebrecht Finance Ltd., Senior Notes	7.000%	4/21/20	600,000	594,000(a)
<b>Total Construction &amp; Engineering</b>				<b>7,351,867</b>
<b>Industrial Conglomerates 0.1%</b>				
Leucadia National Corp., Senior Notes	8.125%	9/15/15	540,000	<b>554,850</b>

See Notes to Financial Statements.

**Western Asset Global High Income Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b><i>Machinery 0.1%</i></b>				
John Deere Capital Corp., Senior Notes	4.900%	9/9/13	220,000	\$ 239,776
<b><i>Marine 0.3%</i></b>				
Trico Shipping AS, Senior Secured Notes	11.875%	11/1/14	1,540,000	1,443,750(a)
<b><i>Road &amp; Rail 1.0%</i></b>				
Kansas City Southern de Mexico, Senior Notes	9.375%	5/1/12	248,000	254,200
Kansas City Southern de Mexico, Senior Notes	7.625%	12/1/13	2,080,000	2,069,600
Kansas City Southern de Mexico, Senior Notes	12.500%	4/1/16	615,000	713,400
Kansas City Southern de Mexico, Senior Notes	8.000%	2/1/18	390,000	391,463(a)
RailAmerica Inc., Senior Secured Notes	9.250%	7/1/17	1,017,000	1,062,765
<b><i>Total Road &amp; Rail</i></b>				<b>4,491,428</b>
<b><i>Trading Companies &amp; Distributors 0.3%</i></b>				
Ashtead Capital Inc., Notes	9.000%	8/15/16	595,000	595,000(a)
H&E Equipment Services Inc., Senior Notes	8.375%	7/15/16	1,020,000	990,675
<b><i>Total Trading Companies &amp; Distributors</i></b>				<b>1,585,675</b>
<b><i>Transportation 0.2%</i></b>				
Syncreon Global Ireland Ltd./Syncreon Global Finance US Inc., Senior Notes	9.500%	5/1/18	970,000	936,050(a)
<b><i>Total Industrials</i></b>				<b>32,176,991</b>
<b><i>Information Technology 1.9%</i></b>				
<b><i>Electronic Equipment, Instruments &amp; Components 0.2%</i></b>				
KEMET Corp., Senior Secured Notes	10.500%	5/1/18	970,000	920,288(a)
<b><i>IT Services 1.3%</i></b>				
Ceridian Corp., Senior Notes	12.250%	11/15/15	553,800	531,648(b)
First Data Corp., Senior Notes	9.875%	9/24/15	1,240,000	1,016,800
GXS Worldwide Inc., Senior Secured Notes	9.750%	6/15/15	4,860,000	4,580,550(a)
<b><i>Total IT Services</i></b>				<b>6,128,998</b>
<b><i>Semiconductors &amp; Semiconductor Equipment 0.3%</i></b>				
Freescall Semiconductor Inc., Senior Notes	8.875%	12/15/14	70,000	63,525
Freescall Semiconductor Inc., Senior Secured Notes	9.250%	4/15/18	1,140,000	1,137,150(a)
<b><i>Total Semiconductors &amp; Semiconductor Equipment</i></b>				<b>1,200,675</b>
<b><i>Software 0.1%</i></b>				
Aspect Software Inc., Senior Secured Notes	10.625%	5/15/17	605,000	602,731(a)
<b><i>Total Information Technology</i></b>				<b>8,852,692</b>
<b><i>Materials 9.4%</i></b>				
<b><i>Chemicals 0.7%</i></b>				
CF Industries Inc., Senior Notes	7.125%	5/1/20	610,000	616,862
Cognis Deutschland GmbH & Co. KG, Senior Notes	9.500%	5/15/14	710,000EUR	890,259(a)
Ineos Finance PLC, Senior Secured Notes	9.000%	5/15/15	670,000	670,000(a)
Kerling PLC, Senior Secured Notes	10.625%	1/28/17	792,000EUR	969,955(a)
Westlake Chemical Corp., Senior Notes	6.625%	1/15/16	220,000	211,200
<b><i>Total Chemicals</i></b>				<b>3,358,276</b>
<b><i>Construction Materials 0.2%</i></b>				
HeidelbergCement AG, Senior Notes	8.500%	10/31/19	720,000EUR	874,032

See Notes to Financial Statements.

## Western Asset Global High Income Fund Inc. 2010 Annual Report

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## Schedule of investments (cont d)

May 31, 2010

## Western Asset Global High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<b>Containers &amp; Packaging 1.2%</b>				
Ardagh Glass Finance PLC, Senior Secured Notes	9.250%	7/1/16	650,000EUR \$	850,983(a)
Ball Corp., Senior Notes	6.625%	3/15/18	180,000	176,400
Berry Plastics Corp., Senior Secured Notes	9.500%	5/15/18	1,020,000	918,000(a)
Radnor Holdings Inc., Senior Notes	11.000%	3/15/11	575,000	0(c)(d)(f)
Reynolds Group Issuer Inc., Senior Notes	9.500%	6/15/17	2,000,000EUR	2,397,135(a)
Viskase Cos. Inc., Senior Secured Notes	9.875%	1/15/18	1,080,000	1,096,200(a)
<b>Total Containers &amp; Packaging</b>				<b>5,438,718</b>
<b>Metals &amp; Mining 5.1%</b>				
Codelco Inc., Notes	5.500%	10/15/13	1,050,000	1,137,599(a)
Evraz Group SA, Notes	8.875%	4/24/13	1,610,000	1,613,675(a)
FMG Finance Pty Ltd., Senior Secured Bonds	9.750%	9/1/13	2,000,000EUR	2,532,358(a)
Freeport-McMoRan Copper & Gold Inc., Senior Notes	8.375%	4/1/17	1,950,000	2,123,402
Gerdau Holdings Inc., Senior Notes	7.000%	1/20/20	440,000	447,700(a)
Metals USA Inc., Senior Secured Notes	11.125%	12/1/15	2,000,000	2,045,000
New World Resources NV, Senior Secured Bonds	7.875%	5/1/18	456,000EUR	529,730(a)
Novelis Inc., Senior Notes	7.250%	2/15/15	160,000	150,768
Ryerson Inc., Senior Secured Notes	12.000%	11/1/15	713,000	729,043
Southern Copper Corp., Senior Notes	5.375%	4/16/20	360,000	359,112
Steel Dynamics Inc., Senior Notes	7.375%	11/1/12	250,000	256,875
Teck Resources Ltd., Senior Secured Notes	9.750%	5/15/14	490,000	576,484
Teck Resources Ltd., Senior Secured Notes	10.250%	5/15/16	410,000	482,300
Teck Resources Ltd., Senior Secured Notes	10.750%	5/15/19	810,000	977,521
Vale Overseas Ltd., Notes	8.250%	1/17/34	4,043,000	4,565,343
Vale Overseas Ltd., Notes	6.875%	11/21/36	1,900,000	1,898,482
Vedanta Resources PLC, Senior Notes	8.750%	1/15/14	2,820,000	2,862,300(a)
Vedanta Resources PLC, Senior Notes	9.500%	7/18/18	160,000	164,000(a)
<b>Total Metals &amp; Mining</b>				<b>23,451,692</b>
<b>Paper &amp; Forest Products 2.2%</b>				
Abitibi-Consolidated Co. of Canada, Senior Secured Notes	13.750%	4/1/11	778,454	803,443(a)(c)
Appleton Papers Inc., Senior Secured Notes	11.250%	12/15/15	914,000	747,195(a)
Celulosa Arauco y Constitucion SA, Senior Notes	7.250%	7/29/19	967,000	1,068,815
NewPage Corp., Senior Secured Notes	11.375%	12/31/14	2,130,000	2,002,200
PE Paper Escrow GmbH, Senior Secured Notes	11.750%	8/1/14	2,000,000EUR	2,698,314(a)
PE Paper Escrow GmbH, Senior Secured Notes	12.000%	8/1/14	270,000	296,136(a)
Sino-Forest Corp., Senior Bonds	10.250%	7/28/14	1,370,000	1,459,050(a)
Smurfit Kappa Acquisitions, Senior Secured Notes	7.750%	11/15/19	769,000EUR	945,332(a)
<b>Total Paper &amp; Forest Products</b>				<b>10,020,485</b>
<b>Total Materials</b>				<b>43,143,203</b>
<b>Telecommunication Services 11.2%</b>				



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### ***Diversified Telecommunication Services***    **6.9%**

AT&T Inc., Global Notes	5.600%	5/15/18	630,000	687,831
AT&T Inc., Senior Notes	6.400%	5/15/38	720,000	762,116
Axtel SAB de CV, Senior Notes	7.625%	2/1/17	4,490,000	3,790,040(a)
Axtel SAB de CV, Senior Notes	9.000%	9/22/19	94,000	80,370(a)

See Notes to Financial Statements.

**Western Asset Global High Income Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b><i>Diversified Telecommunication Services continued</i></b>				
British Telecommunications PLC, Bonds	9.625%	12/15/30	240,000	\$ 300,654
CC Holdings GS V LLC, Senior Secured Notes	7.750%	5/1/17	479,000	510,135(a)
Cincinnati Bell Inc., Senior Notes	8.250%	10/15/17	1,945,000	1,842,888
Cincinnati Bell Telephone Co., Senior Debentures	6.300%	12/1/28	120,000	85,800
GCI Inc., Senior Notes	8.625%	11/15/19	1,900,000	1,852,500(a)
Hawaiian Telcom Communications Inc., Senior Subordinated Notes	12.500%	5/1/15	535,000	54(c)(d)
Inmarsat Finance PLC, Senior Notes	7.375%	12/1/17	1,000,000	1,002,500(a)
Intelsat Intermediate Holding Co., Ltd., Senior Discount Notes	9.500%	2/1/15	900,000	918,000
Intelsat Jackson Holdings Ltd., Senior Notes	9.500%	6/15/16	210,000	217,350
Intelsat Jackson Holdings Ltd., Senior Notes	11.250%	6/15/16	3,505,000	3,715,300
Intelsat Jackson Holdings Ltd., Senior Notes	8.500%	11/1/19	1,920,000	1,920,000(a)
Koninklijke KPN NV, Senior Notes	8.375%	10/1/30	350,000	442,146
Level 3 Financing Inc., Senior Notes	9.250%	11/1/14	1,105,000	1,011,075
Nordic Telephone Co. Holdings, Senior Secured Bonds	8.875%	5/1/16	380,000	391,400(a)
Qwest Communications International Inc., Senior Notes	7.500%	2/15/14	235,000	232,650
Telefonica Emisones SAU, Senior Notes	6.221%	7/3/17	450,000	485,808
UBS Luxembourg SA for OJSC Vimpel Communications, Loan Participation Notes	8.250%	5/23/16	828,000	850,770(a)
Unitymedia GmbH, Senior Secured Bonds	8.125%	12/1/17	1,000,000EUR	1,226,227(a)
Unitymedia GmbH, Senior Subordinated Notes	9.625%	12/1/19	913,000EUR	1,144,798(a)
Verizon Communications Inc., Senior Notes	5.500%	2/15/18	510,000	549,791
Verizon Communications Inc., Senior Notes	6.400%	2/15/38	560,000	594,972
Vimpel Communications, Loan Participation Notes	8.375%	4/30/13	430,000	450,425(a)
VIP Finance Ireland Ltd. for OJSC Vimpel Communications, Loan Participation Notes, Secured Notes	8.375%	4/30/13	1,535,000	1,612,465(a)
Wind Acquisition Holdings Finance SpA, Senior Notes	12.250%	7/15/17	2,000,000EUR	2,311,084(a)(b)
Wind Acquisition Holdings Finance SpA, Senior Notes	12.250%	7/15/17	1,000,000	945,000(a)(b)
Windstream Corp., Senior Notes	8.625%	8/1/16	1,925,000	1,915,375
<b><i>Total Diversified Telecommunication Services</i></b>				<b>31,849,524</b>
<b><i>Wireless Telecommunication Services 4.3%</i></b>				
America Movil SAB de CV, Senior Notes	5.625%	11/15/17	844,000	902,079
Cricket Communications Inc., Senior Secured Notes	7.750%	5/15/16	2,800,000	2,856,000
Rogers Cable Inc., Senior Secured Notes	7.875%	5/1/12	1,100,000	1,222,004
Sprint Capital Corp., Global Notes	6.900%	5/1/19	60,000	54,525
Sprint Capital Corp., Senior Notes	8.375%	3/15/12	320,000	331,200
Sprint Capital Corp., Senior Notes	6.875%	11/15/28	1,000,000	836,250
Sprint Capital Corp., Senior Notes	8.750%	3/15/32	7,500,000	7,181,250
True Move Co., Ltd., Notes	10.750%	12/16/13	6,510,000	6,412,350(a)
<b><i>Total Wireless Telecommunication Services</i></b>				<b>19,795,658</b>
<b><i>Total Telecommunication Services</i></b>				<b>51,645,182</b>
<b><i>Utilities 4.7%</i></b>				
<b><i>Electric Utilities 2.6%</i></b>				
AES Ironwood LLC, Secured Notes	8.857%	11/30/25	327,059	318,882
Centrais Eletricas Brasileiras SA, Senior Notes	6.875%	7/30/19	1,557,000	1,658,205(a)

See Notes to Financial Statements.



## Western Asset Global High Income Fund Inc. 2010 Annual Report

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## Schedule of investments (cont d)

May 31, 2010

## Western Asset Global High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<b><i>Electric Utilities continued</i></b>				
EEB International Ltd., Senior Bonds	8.750%	10/31/14	2,050,000	\$ 2,178,125(a)
FirstEnergy Corp., Notes	7.375%	11/15/31	270,000	279,707
Pacific Gas & Electric Co., First Mortgage Bonds	6.050%	3/1/34	290,000	303,204
Reliant Energy Mid-Atlantic Power Holdings LLC, Senior Notes	9.681%	7/2/26	1,040,000	1,088,100
Texas Competitive Electric Holdings Co. LLC, Senior Notes	10.250%	11/1/15	9,000,000	6,075,000
<b>Total Electric Utilities</b>				<b>11,901,223</b>
<b><i>Gas Utilities 0.1%</i></b>				
El Paso Performance-Linked Trust Certificates, Senior Notes	7.750%	7/15/11	290,000	<b>301,100(a)</b>
<b><i>Independent Power Producers &amp; Energy Traders 1.9%</i></b>				
AES Corp., Senior Notes	7.750%	10/15/15	1,500,000	1,496,250
Colbun SA, Senior Notes	6.000%	1/21/20	750,000	747,605(a)
Dynegy Holdings Inc., Senior Notes	7.750%	6/1/19	480,000	349,200
Edison Mission Energy, Senior Notes	7.750%	6/15/16	1,890,000	1,379,700
Edison Mission Energy, Senior Notes	7.625%	5/15/27	365,000	231,775
Mirant Americas Generation LLC, Senior Notes	9.125%	5/1/31	1,980,000	1,801,800
NRG Energy Inc., Senior Notes	7.250%	2/1/14	2,195,000	2,173,050
NRG Energy Inc., Senior Notes	7.375%	2/1/16	605,000	586,850
<b>Total Independent Power Producers &amp; Energy Traders</b>				<b>8,766,230</b>
<b><i>Multi-Utilities 0.1%</i></b>				
Empresas Publicas de Medellin ESP, Senior Notes	7.625%	7/29/19	410,000	<b>453,050(a)</b>
<b>Total Utilities</b>				<b>21,421,603</b>
<b>Total Corporate Bonds &amp; Notes (Cost \$384,579,612)</b>				<b>381,068,787</b>
<b><i>Asset-Backed Securities 0.0%</i></b>				
<b><i>Financials 0.0%</i></b>				
<b><i>Home Equity 0.0%</i></b>				
Finance America Net Interest Margin Trust, 2004-1 A	5.250%	6/27/34	110,125	53(a)(c)(d)
Sail Net Interest Margin Notes, 2003-6A A	7.000%	7/27/33	14,101	7(a)(c)(d)
Sail Net Interest Margin Notes, 2003-7A A	7.000%	7/27/33	42,974	20(a)(c)(d)
<b>Total Asset-Backed Securities (Cost \$166,869)</b>				<b>80</b>
<b><i>Collateralized Mortgage Obligation 0.3%</i></b>				
Federal National Mortgage Association (FNMA) STRIPS, IO, 338 2 (Cost \$2,244,046)	5.500%	6/1/33	6,290,483	<b>1,220,708(d)</b>
<b><i>Collateralized Senior Loans 0.9%</i></b>				
<b><i>Consumer Discretionary 0.4%</i></b>				
<b><i>Media 0.4%</i></b>				
Newsday LLC, Term Loan	10.500%	8/1/13	2,000,000	<b>2,115,000(h)</b>
<b><i>Financials 0.5%</i></b>				
<b><i>Real Estate Management &amp; Development 0.5%</i></b>				

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Realogy Corp., Term Loan	13.500%	10/15/17	2,000,000	<b>2,116,666</b> (h)
<b>Total Collateralized Senior Loans (Cost \$4,067,500)</b>				<b>4,231,666</b>
<b>Convertible Bonds &amp; Notes 0.0%</b>				
<b>Materials 0.0%</b>				
Cemex SAB de CV, Subordinated Notes (Cost \$100,000)	4.875%	3/15/15	100,000	<b>105,125</b> (a)

See Notes to Financial Statements.

## Western Asset Global High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<b>Sovereign Bonds 14.8%</b>				
<b>Argentina 0.5%</b>				
Republic of Argentina	9.000%	6/20/03	1,074,000EUR \$	518,205(c)
Republic of Argentina	10.250%	1/26/07	1,100,000EUR	561,176(c)
Republic of Argentina	8.000%	2/26/08	1,729,117EUR	850,241(c)
Republic of Argentina	11.750%	11/13/26	1,550,000DEM	367,769(c)
Republic of Argentina, Medium-Term Notes	10.000%	2/22/07	522,000EUR	261,491(c)
<b>Total Argentina</b>				<b>2,558,882</b>
<b>Brazil 2.4%</b>				
Brazil Nota do Tesouro Nacional, Notes	10.000%	1/1/12	12,198,000BRL	6,490,642
Brazil Nota do Tesouro Nacional, Notes	10.000%	1/1/17	2,613,000BRL	1,278,343
Federative Republic of Brazil	7.125%	1/20/37	2,760,500	3,188,378
<b>Total Brazil</b>				<b>10,957,363</b>
<b>Colombia 1.0%</b>				
Republic of Colombia	11.750%	2/25/20	544,000	795,600
Republic of Colombia	7.375%	9/18/37	2,852,000	3,165,720
Republic of Colombia, Senior Notes	7.375%	3/18/19	498,000	576,435
<b>Total Colombia</b>				<b>4,537,755</b>
<b>Hungary 0.2%</b>				
Republic of Hungary, Senior Notes	6.250%	1/29/20	950,000	<b>948,337</b>
<b>Indonesia 1.6%</b>				
Republic of Indonesia	10.250%	7/15/22	15,399,000,000IDR	1,812,735
Republic of Indonesia	11.000%	9/15/25	25,206,000,000IDR	3,056,618
Republic of Indonesia, Bonds	9.750%	5/15/37	11,646,000,000IDR	1,225,675
Republic of Indonesia, Senior Bonds	6.875%	1/17/18	970,000	1,088,825(a)
<b>Total Indonesia</b>				<b>7,183,853</b>
<b>Mexico 0.3%</b>				
United Mexican States	11.375%	9/15/16	148,000	205,720
United Mexican States, Medium-Term Notes	5.625%	1/15/17	4,000	4,310
United Mexican States, Medium-Term Notes	6.750%	9/27/34	1,046,000	1,153,215
<b>Total Mexico</b>				<b>1,363,245</b>
<b>Panama 0.6%</b>				
Republic of Panama	7.250%	3/15/15	621,000	720,360
Republic of Panama	9.375%	4/1/29	1,275,000	1,772,250
Republic of Panama	6.700%	1/26/36	340,000	376,550
<b>Total Panama</b>				<b>2,869,160</b>
<b>Peru 0.7%</b>				
Republic of Peru	8.750%	11/21/33	1,944,583	2,581,433
Republic of Peru, Bonds	6.550%	3/14/37	703,000	761,349
Republic of Peru, Global Senior Bonds	7.350%	7/21/25	50,000	58,750
<b>Total Peru</b>				<b>3,401,532</b>
<b>Qatar 0.1%</b>				
State of Qatar, Senior Notes	4.000%	1/20/15	470,000	<b>484,100(a)</b>
<b>Russia 3.2%</b>				
RSHB Capital, Loan Participation Notes, Secured Notes	7.125%	1/14/14	3,580,000	3,754,525(a)
RSHB Capital, Loan Participation Notes, Senior Notes	6.299%	5/15/17	470,000	458,837(a)

See Notes to Financial Statements.

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**Schedule of investments (cont d)**

May 31, 2010

**Western Asset Global High Income Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b><i>Russia continued</i></b>				
RSHB Capital, Loan Participation Notes, Senior Secured Bonds	6.299%	5/15/17	1,529,000	\$ 1,498,420(a)
RSHB Capital, Loan Participation Notes, Senior Secured Notes	9.000%	6/11/14	2,230,000	2,475,300(a)
Russian Foreign Bond-Eurobond, Senior Bonds	7.500%	3/31/30	5,684,220	6,366,326(a)
<b>Total Russia</b>				<b>14,553,408</b>
<b><i>Turkey 1.6%</i></b>				
Republic of Turkey, Notes	6.750%	5/30/40	3,760,000	3,750,600
Republic of Turkey, Senior Notes	7.500%	7/14/17	3,000,000	3,435,000
<b>Total Turkey</b>				<b>7,185,600</b>
<b><i>United Arab Emirates 0.2%</i></b>				
MDC-GMTN B.V., Senior Notes	5.750%	5/6/14	750,000	800,385(a)
<b><i>Venezuela 2.4%</i></b>				
Bolivarian Republic of Venezuela	8.500%	10/8/14	365,000	275,575
Bolivarian Republic of Venezuela	5.750%	2/26/16	12,367,000	7,605,705(a)
Bolivarian Republic of Venezuela	7.650%	4/21/25	475,000	262,438
Bolivarian Republic of Venezuela, Collective Action Securities	1.307%	4/20/11	1,294,000	1,151,660(a)(e)
Bolivarian Republic of Venezuela, Collective Action Securities	9.375%	1/13/34	1,608,000	980,880
Bolivarian Republic of Venezuela, Collective Action Securities, Notes	10.750%	9/19/13	875,000	759,062
Bolivarian Republic of Venezuela, Senior Bonds	9.250%	9/15/27	240,000	158,400
<b>Total Venezuela</b>				<b>11,193,720</b>
<b>Total Sovereign Bonds (Cost \$68,771,138)</b>				<b>68,037,340</b>
<b>Shares</b>				
<b>Common Stocks 0.4%</b>				
<b>Consumer Discretionary 0.2%</b>				
<b>Media 0.2%</b>				
Charter Communications Inc., Class A Shares			17,345	624,420*
Dex One Corp.			2,411	49,377*
SuperMedia Inc.			2,490	75,011*
<b>Total Consumer Discretionary</b>				<b>748,808</b>
<b>Energy 0.0%</b>				
<b>Oil, Gas &amp; Consumable Fuels 0.0%</b>				
SemGroup Corp., Class A Shares			3,221	90,522*(f)
<b>Industrials 0.0%</b>				
<b>Building Products 0.0%</b>				



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Nortek Inc.			4,011	<b>184,995*</b>
<b>Materials</b>	<b>0.2%</b>			
<b>Chemicals</b>	<b>0.2%</b>			
Georgia Gulf Corp.			39,529	<b>687,805*</b>
<b>Total Common Stocks (Cost</b>	<b>\$5,509,291)</b>			<b>1,712,130</b>
<b>Convertible Preferred Stock</b>	<b>0.3%</b>			
<b>Financials</b>	<b>0.3%</b>			
<b>Diversified Financial Services</b>	<b>0.3%</b>			
Citigroup Inc. (Cost	\$890,000)	7.500%	12/15/12	8,900
				<b>1,064,796</b>

See Notes to Financial Statements.

**Western Asset Global High Income Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Shares</b>	<b>Value</b>
<b>Preferred Stocks 0.2%</b>			
<b>Consumer Discretionary 0.2%</b>			
<b>Automobiles 0.2%</b>			
Corts-Ford Motor Co.	7.400%	30,500	\$ 634,400
Corts-Ford Motor Co.	8.000%	1,900	44,099
Preferred Plus, Trust, Series FRD-1	7.400%	2,600	53,742
Saturns, Series F 2003-5	8.125%	9,700	225,040
<b>Total Automobiles</b>			<b>957,281</b>
<b>Media 0.0%</b>			
CMP Susquehanna Radio Holdings Corp.	0.000%	10,727	I*(a)(d)(e)(f)
<b>Total Preferred Stocks (Cost \$742,951)</b>			<b>957,282</b>
	<b>Expiration Date</b>	<b>Warrants</b>	
<b>Warrants 0.0%</b>			
Bolivarian Republic of Venezuela,			
Oil-linked payment obligations	4/15/20	2,675	71,556*
Buffets Restaurant Holdings	4/28/14	570	6*(d)(f)
Charter Communications Inc.	11/30/14	752	3,760*
CNB Capital Trust	3/23/19	12,259	12*(a)(d)(f)
Nortek Inc.	12/7/14	1,302	3,255*(f)
SemGroup Corp.	11/30/14	3,391	22,889*(f)
<b>Total Warrants (Cost \$101,364)</b>			<b>101,478</b>
<b>Total Investments before Short-Term Investment (Cost \$467,172,771)</b>			<b>458,499,392</b>
	<b>Maturity Date</b>	<b>Face Amount</b>	
<b>Short-Term Investment 0.2%</b>			
<b>Repurchase Agreement 0.2%</b>			
Morgan Stanley tri-party repurchase agreement dated 5/28/10; Proceeds at maturity \$989,020; (Fully collateralized by U.S. government agency obligations, 2.620% due 1/21/14; Market Value \$1,022,373) (Cost \$989,000)	0.180%	6/1/10	989,000
<b>Total Investments 100.0% (Cost \$468,161,771#)</b>			<b>\$459,488,392</b>

Face amount denominated in U.S. dollars, unless otherwise noted.

\* Non-income producing security.

(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) Payment-in-kind security for which part of the income earned may be paid as additional principal.

(c) The coupon payment on these securities is currently in default as of May 31, 2010.

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- (d) Illiquid security.
- (e) Variable rate security. Interest rate disclosed is that which is in effect at May 31, 2010.
- (f) Security is valued in good faith at fair value by or under the direction of the Board of Directors (See Note 1).
- (g) Security has no maturity date. The date shown represents the next call date.
- (h) Interest rates disclosed represent the effective rates on collateralized senior loans. Ranges in interest rates are attributable to multiple contracts under the same loan.
- # Aggregate cost for federal income tax purposes is \$469,097,574.

See Notes to Financial Statements.

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**Schedule of investments (cont d)**

May 31, 2010

**Western Asset Global High Income Fund Inc.**

**Abbreviations used in this schedule:**

BRL	Brazilian Real
DEM	German Mark
EUR	Euro
GBP	British Pound
IDR	Indonesian Rupiah
IO	Interest Only
OJSC	Open Joint Stock Company
STRIPS	Separate Trading of Registered Interest and Principal Securities

See Notes to Financial Statements.

**Statement of assets and liabilities**

May 31, 2010

**Assets:**

Investments, at value (Cost \$468,161,771)	\$459,488,392
Foreign currency, at value (Cost \$878,495)	881,819
Cash	893
Dividends and interest receivable	10,237,057
Receivable for securities sold	2,639,266
Unrealized appreciation on forward currency contracts	1,659,856
Principal paydown receivable	3,341
Prepaid expenses	18,560
<b>Total Assets</b>	<b>474,929,184</b>

**Liabilities:**

Loan payable (Note 5)	100,000,000
Payable for securities purchased	4,531,379
Investment management fee payable	324,750
Interest payable	55,628
Unrealized depreciation on swaps	26,424
Unrealized depreciation on forward currency contracts	24,390
Directors' fees payable	5,853
Deferred foreign capital gains tax	3,829
Accrued expenses	205,816
<b>Total Liabilities</b>	<b>105,178,069</b>
<b>Total Net Assets</b>	<b>\$369,751,115</b>

**Net Assets:**

Par value (\$0.001 par value; 30,608,381 shares issued and outstanding; 100,000,000 shares authorized)	\$30,608
Paid-in capital in excess of par value	436,387,300
Undistributed net investment income	9,560,676
Accumulated net realized loss on investments, futures contracts, swap contracts and foreign currency transactions	(69,047,162)
Net unrealized depreciation on investments, futures contracts, swap contracts and foreign currencies	(7,180,307) <sup>1</sup>
<b>Total Net Assets</b>	<b>\$369,751,115</b>

**Shares Outstanding** 30,608,381

**Net Asset Value** \$12.08

<sup>1</sup> Net of deferred foreign capital gains tax of \$3,829.

See Notes to Financial Statements.

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**Statement of operations**

For the Year Ended May 31, 2010

**Investment Income:**

Interest	\$ 38,706,434
Dividends	177,928
Less: Foreign taxes withheld	(89,345)
<b>Total Investment Income</b>	<b>38,795,017</b>

**Expenses:**

Investment management fee (Note 2)	4,106,815
Interest expense (Note 5)	1,382,879
Commitment fee (Note 5)	291,355
Transfer agent fees	131,272
Legal fees	123,941
Directors' fees	101,052
Audit and tax	59,300
Custody fees	56,082
Shareholder reports	45,815
Insurance	5,466
Stock exchange listing fees	1,911
Miscellaneous expenses	9,182
<b>Total Expenses</b>	<b>6,315,070</b>
Less: Fee waivers and/or expense reimbursements (Note 2)	(60,892)
<b>Net Expenses</b>	<b>6,254,178</b>
<b>Net Investment Income</b>	<b>32,540,839</b>

**Realized and Unrealized Gain (Loss) on Investments, Futures Contracts, Swap Contracts and Foreign Currency Transactions (Notes 1, 3 and 4):**

Net Realized Gain (Loss) From:	
Investment transactions	(7,850,827)
Futures contracts	1,552,674
Swap contracts	(13,612,062)
Foreign currency transactions	4,565,989
<b>Net Realized Loss</b>	<b>(15,344,226)</b>
Change in Net Unrealized Appreciation/Depreciation From:	
Investments	51,032,483 <sup>1</sup>
Futures contracts	(277,556)
Swap contracts	19,079,181
Foreign currencies	1,190,948
<b>Change in Net Unrealized Appreciation/Depreciation</b>	<b>71,025,056</b>
<b>Net Gain on Investments, Futures Contracts, Swap Contracts and Foreign Currency Transactions</b>	<b>55,680,830</b>
<b>Increase in Net Assets From Operations</b>	<b>\$ 88,221,669</b>

<sup>1</sup> Net of \$3,829 in deferred foreign capital gains tax.

See Notes to Financial Statements.

## Statements of changes in net assets

For the Years Ended May 31,	2010	2009
<b>Operations:</b>		
Net investment income	\$ 32,540,839	\$ 26,744,940
Net realized loss	(15,344,226)	(36,542,492)
Change in net unrealized appreciation/depreciation	71,025,056	(54,757,657)
<b><i>Increase (Decrease) in Net Assets From Operations</i></b>	<b><i>88,221,669</i></b>	<b><i>(64,555,209)</i></b>
<b>Distributions to Shareholders From (Note 1):</b>		
Net investment income	(31,679,674)	(31,220,548)
<b><i>Decrease in Net Assets From Distributions to Shareholders</i></b>	<b><i>(31,679,674)</i></b>	<b><i>(31,220,548)</i></b>
<b><i>Increase (Decrease) in Net Assets</i></b>	<b><i>56,541,995</i></b>	<b><i>(95,775,757)</i></b>
<b>Net Assets:</b>		
Beginning of year	313,209,120	408,984,877
<b>End of year*</b>	<b>\$369,751,115</b>	<b>\$313,209,120</b>
* Includes undistributed net investment income of:	\$9,560,676	\$1,315,097

See Notes to Financial Statements.

**Statement of cash flows**

For the Year Ended May 31, 2010

**Cash Flows Provided (Used) by Operating Activities:**

Interest and dividends received	\$ 34,823,835
Operating expenses paid	(4,698,501)
Interest paid	(1,382,251)
Net sales and maturities of short-term investments	22,602,253
Realized gain on futures contracts	1,552,674
Realized loss on swap contracts	(13,612,062)
Realized gain on foreign currency transactions	4,565,989
Net change in unrealized depreciation on futures contracts	(277,556)
Net change in unrealized appreciation on foreign currencies	1,190,948
Purchases of long-term investments	(916,729,856)
Proceeds from disposition of long-term investments	884,811,782
Change in premium for written swaps	1,177,312
Change in payable to broker variation margin	(333,588)
Change in receivable/payable for open forward currency contracts	(1,352,958)
Cash deposits with brokers for swap contracts and futures contracts	19,811,848
Change in deferred foreign capital gains tax	3,829
<b>Net Cash Provided By Operating Activities</b>	<b>32,153,698</b>

**Cash Flows Provided (Used) by Financing Activities:**

Cash distributions paid on Common Stock	(31,679,674)
<b>Net Cash Used By Financing Activities</b>	<b>(31,679,674)</b>
<b>Net Increase in Cash</b>	<b>474,024</b>
Cash, beginning of year	408,688
Cash, end of year	\$ 882,712

**Reconciliation of Increase in Net Assets from Operations to Net Cash Flows Provided (Used) by Operating Activities:**

<b>Increase in Net Assets From Operations</b>	<b>\$ 88,221,669</b>
Accretion of discount on investments	(3,454,074)
Amortization of premium on investments	941,655
Decrease in investments, at value	64,725,706
Decrease in unrealized depreciation of swaps	(19,079,181)
Decrease in payable for securities purchased	(117,932,691)
Increase in interest and dividends receivable	(1,458,763)
Increase in deferred foreign capital gains tax	3,829
Decrease in premium for written swaps	1,177,312
Decrease in receivable for securities sold	709,508
Decrease in payable for open forward currency contracts	(1,352,958)
Decrease in payable to broker variation margin	(333,588)
Decrease in deposits with brokers for swap contracts and futures contracts	19,811,848
Decrease in prepaid expenses	216,253
Increase in interest payable	628
Decrease in accrued expenses	(43,455)
<b>Total Adjustments</b>	<b>(56,067,971)</b>
<b>Net Cash Flows Provided by Operating Activities</b>	<b>\$ 32,153,698</b>



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See Notes to Financial Statements.

**Financial highlights**

For a share of capital stock outstanding throughout each year ended May 31:

	2010	2009	2008	2007	2006
<b>Net asset value, beginning of year</b>	\$10.23	\$13.36	\$14.67	\$14.09	\$14.76
<b>Income (loss) from operations:</b>					
Net investment income	1.06	0.87	0.89	0.83	0.95
Net realized and unrealized gain (loss)	1.83	(2.98)	(1.18)	0.80	0.00 <sup>1</sup>
<b>Total income (loss) from operations</b>	<b>2.89</b>	<b>(2.11)</b>	<b>(0.29)</b>	<b>1.63</b>	<b>0.95</b>
<b>Less distributions from:</b>					
Net investment income	(1.04)	(1.02)	(1.02)	(0.79)	(0.97)
Net realized gains				(0.26)	(0.65)
<b>Total distributions</b>	<b>(1.04)</b>	<b>(1.02)</b>	<b>(1.02)</b>	<b>(1.05)</b>	<b>(1.62)</b>
<b>Increase in net asset value due to shares issued on reinvestment of distributions</b>				0.00 <sup>1</sup>	
<b>Net asset value, end of year</b>	<b>\$12.08</b>	<b>\$10.23</b>	<b>\$13.36</b>	<b>\$14.67</b>	<b>\$14.09</b>
<b>Market price, end of year</b>	<b>\$10.73</b>	<b>\$8.83</b>	<b>\$12.12</b>	<b>\$14.17</b>	<b>\$12.42</b>
<b>Total return, based on NAV<sup>2,3</sup></b>	<b>28.83%</b>	<b>(15.05)%</b>	<b>(1.84)%</b>	<b>11.96%<sup>4</sup></b>	<b>6.57%</b>
<b>Total return, based on Market Price<sup>3</sup></b>	<b>33.89%</b>	<b>(17.37)%</b>	<b>(6.91)%</b>	<b>23.25%</b>	<b>8.46%</b>
<b>Net assets, end of year (000s)</b>	<b>\$369,751</b>	<b>\$313,209</b>	<b>\$408,985</b>	<b>\$449,123</b>	<b>\$430,325</b>
<b>Ratios to average net assets:</b>					
Gross expenses	1.74%	3.14%	2.80%	2.86%	2.63%
Gross expenses, excluding interest expense <sup>7</sup>	1.36	2.22	1.61	1.58	1.58
Net expenses	1.725	3.14	2.805	2.865	2.625
Net expenses, excluding interest expense <sup>7</sup>	1.345	2.22	1.615	1.585	1.585
Net investment income	8.96	8.56	6.50	5.77	6.43
<b>Portfolio turnover rate<sup>6</sup></b>	<b>85%</b>	<b>35%</b>	<b>63%</b>	<b>201%</b>	<b>111%</b>
<b>Supplemental data:</b>					
Loans Outstanding, End of Year (000s)	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Asset Coverage (000s)	469,751	\$413,209	\$508,985	\$549,123	\$530,325
Asset Coverage for Loan Outstanding	470%	413%	509%	549%	530%
Weighted Average Loan (000s)	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Weighted Average Interest Rate on Loans	1.36%	2.85%	4.87%	5.67%	4.71%

<sup>1</sup> Amount represents less than \$0.01 per share.<sup>2</sup>

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

- 3 The total return calculation assumes that distributions are reinvested in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results.
- 4 The prior investment manager fully reimbursed the Fund for losses incurred resulting from an investment transaction error. Without this reimbursement, total return would not have changed.
- 5 Reflects fee waivers and/or expense reimbursements.
- 6 Excluding mortgage dollar roll transactions. If mortgage dollar roll transactions had been included, the portfolio turnover rate would have been 172%, 341%, 483%, 533% and 527% for the years ended May 31, 2010, 2009, 2008, 2007 and 2006, respectively.
- 7 Ratio includes commitment fees incurred on the line of credit.

See Notes to Financial Statements.

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## Notes to financial statements

### 1. Organization and significant accounting policies

Western Asset Global High Income Fund Inc. (the Fund) was incorporated in Maryland and is registered as a non-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 primary investment objective is high current income. The Fund's secondary objective is total return.

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 issuance date of the financial statements.

**(a) Investment valuation.** Debt securities are valued at the mean between the last quoted bid and asked prices provided by an independent pricing service, which are based on transactions in debt obligations, quotations from bond dealers, market transactions in comparable securities and various other relationships between securities. Publicly traded foreign government debt securities are typically traded internationally in the over-the-counter market, and are valued at the mean between the last quoted bid and asked prices as of the close of business of that market. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. When prices are not readily available, or are determined not to reflect fair value, 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 at fair value as determined in accordance with procedures approved by the Fund's Board of Directors. Short-term obligations with maturities of 60 days or less are valued at amortized cost, which approximates fair value.

The Fund has adopted Financial Accounting Standards Board Codification Topic 820 (formerly, Statement of Financial Accounting Standards No. 157) (ASC Topic 820). ASC Topic 820 establishes a single definition of fair value, creates a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the Fund's investments, and requires additional disclosure about fair value. The hierarchy of inputs is summarized below.

- Level 1 quoted prices in active markets for identical investments
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

- Level 3 – significant unobservable inputs (including the Fund’s own assumptions in determining the fair value of investments)

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

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 the 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 convert future amounts of cash flow to a single present amount.

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

Description	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Long-term investments :				
Corporate bonds & notes:				
Consumer discretionary		\$ 73,266,384	\$ 13,800	\$ 73,280,184
Other corporate bonds & notes		307,788,603		307,788,603
Asset-backed securities		80		80
Collateralized mortgage obligation		1,220,708		1,220,708
Collateralized senior loans		4,231,666		4,231,666
Convertible bonds & notes		105,125		105,125
Sovereign bonds		68,037,340		68,037,340
Common stocks:				
Energy			90,522	90,522
Other common stocks	\$1,621,608			1,621,608
Convertible preferred stock	1,064,796			1,064,796
Preferred stocks:				
Consumer discretionary	957,281		1	957,282
Warrants		75,316	26,162	101,478
Total long-term investments	\$3,643,685	\$454,725,222	\$130,485	\$458,499,392
Short-term investment		989,000		989,000
<b>Total investments</b>	<b>\$3,643,685</b>	<b>\$455,714,222</b>	<b>\$130,485</b>	<b>\$459,488,392</b>
Other financial instruments:				
Forward foreign currency contracts		\$ 1,635,466		\$ 1,635,466
Interest rate swaps		(26,424)		(26,424)
<b>Total other financial instruments</b>		<b>\$ 1,609,042</b>		<b>\$ 1,609,042</b>
<b>Total</b>	<b>\$3,643,685</b>	<b>\$457,323,264</b>	<b>\$130,485</b>	<b>\$461,097,434</b>

See Schedule of Investments for additional detailed categorizations.

Values include any premiums paid or received with respect to swap contracts.

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

Investments In Securities	Corporate Bonds & Notes Consumer Discretionary	Common Stocks Consumer Discretionary	Energy	Preferred Stocks Consumer Discretionary	Warrants	Total
Balance as of May 31, 2009	\$ 1,206,667			\$ 4,559	\$ 337	\$ 1,211,563
Accrued premiums/discounts	49,083					49,083
Realized gain/(loss)1	44	\$(694,145)		0*		(694,101)

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Change in unrealized appreciation (depreciation) <sup>2</sup>	(12,290)	695,435	\$ (9,097)	(4,558)	9,227	678,717
Net purchases (sales)		(1,290)	99,619		16,598	114,927
Net transfers in and/or out of Level 3	(1,229,704)					(1,229,704)
Balance as of May 31, 2010	\$ 13,800		\$90,522	\$ 1	\$26,162	\$ 130,485
<b>Net change in unrealized appreciation (depreciation) for investments in securities still held at May 31, 2010<sup>2</sup></b>	<b>\$ (25,316)</b>		<b>\$ (9,097)</b>	<b>\$ (4,558)</b>	<b>\$ 9,227</b>	<b>\$ (29,744)</b>

\* Value is less than \$1.00.

1 This amount is included in net realized gain (loss) from investment transactions in the accompanying Statement of Operations.

2 This amount is included in the change in net unrealized appreciation (depreciation) in the accompanying Statement of Operations. Change in unrealized appreciation (depreciation) includes net unrealized appreciation (depreciation) resulting from changes in investment values during the reporting period and the reversal of previously recorded unrealized appreciation (depreciation) when gains or losses are realized.

**Notes to financial statements (cont d)**

**(b) Repurchase agreements.** The Fund may enter into repurchase agreements with institutions that its investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, a fund takes possession of an underlying debt obligation subject to an obligation of the seller to repurchase, and of the fund to resell, the obligation at an agreed-upon price and time, thereby determining the yield during a fund's holding period. When entering into repurchase agreements, it is the Fund's policy that its custodian or a third party custodian, acting on the Fund's behalf, take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction maturity exceeds one business day, the value of the collateral is marked to market and measured against the value of the agreement in an effort to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if the market value of the collateral declines during the period in which the Fund seeks to assert its rights or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

**(c) Futures contracts.** The Fund may use futures contracts to gain exposure to, or hedge against, changes in the value of equities, interest rates or foreign currencies. 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. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. 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.

**(d) Forward foreign currency contracts.** The Fund may enter into a forward foreign currency contract to hedge against foreign currency exchange rate risk on its non-U.S. dollar denominated securities or to facilitate settlement of a foreign currency denominated portfolio transaction. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price with delivery and settlement at a future date. The contract is marked-to-market daily and the change in value is recorded by the Fund as an unrealized gain or loss. When a forward foreign currency contract is closed, through either delivery or offset by entering into another forward foreign currency contract, the Fund recognizes a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it is closed.

Forward foreign currency contracts involve elements of market risk in excess of the amounts reflected on the Statement of Assets and Liabilities. The Fund bears the risk of an unfavorable change in the foreign exchange rate underlying the forward foreign currency contract. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.



**(e) Foreign currency translation.** Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from fluctuations in foreign exchange rates on investments from the fluctuations arising from changes in market prices of

securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, including gains and losses on forward foreign currency contracts, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the values of assets and liabilities, other than investments in securities, on the date of valuation, resulting from changes in exchange rates.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

**(f) Mortgage dollar rolls.** The Fund may enter into mortgage dollar rolls in which the Fund sells mortgage-backed securities for delivery in the current month, realizing a gain or loss, and simultaneously contracts to repurchase substantially similar (same type, coupon and maturity) securities to settle on a specified future date.

The Fund executes its mortgage dollar rolls entirely in the to-be-announced ( TBA ) market, whereby the Fund makes a forward commitment to purchase a security and, instead of accepting delivery, the position is offset by a sale of the security with a simultaneous agreement to repurchase at a future date. The Fund accounts for mortgage dollar rolls as purchases and sales.

The risk of entering into mortgage dollar rolls is that the market value of the securities the Fund is obligated to repurchase under the agreement may decline below the repurchase price. In the event the buyer of securities under a mortgage dollar roll files for bankruptcy or becomes insolvent, the Fund's use of the proceeds of the mortgage dollar roll may be restricted pending a determination by the counterparty, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities.

**(g) Securities traded on a to-be-announced basis.** The Fund may trade securities on a TBA basis. In a TBA transaction, the Fund commits to purchasing or selling securities which have not yet been issued by the issuer and for which specific information, such as the face amount, maturity date and underlying pool of investments in U.S. government agency mortgage pass-through securities, is not announced. Securities purchased on a TBA basis are not settled until they are delivered to the Fund. Beginning on the date the Fund enters into a TBA transaction, cash, U.S. government securities or other liquid high-grade debt obligations are segregated in an amount equal in value to the purchase price of the TBA security. These securities are subject to market fluctuations and their current value is determined in the same manner as for other securities.

**(h) Stripped securities.** The Fund may invest in Stripped Securities, a term used collectively for components, or strips, of fixed income securities. Stripped securities can be principal only securities ( PO ), which are debt obligations that have been stripped of unmatured interest coupons or, interest only securities ( IO ), which are unmatured interest coupons that have been stripped from debt obligations. The market value

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of Stripped Securities will fluctuate in response to changes in economic conditions, rates of pre-payment, interest rates and the market's perception of the securities. However, fluctuations in response to interest rates may be greater in Stripped Securities than for debt obligations of comparable maturities that pay interest currently. The amount of fluctuation may increase with a longer period of maturity.

The yield to maturity on IOs is sensitive to the rate of principal repayments (including prepayments) on the related underlying debt obligation and principal payments may have a material effect on yield to maturity. If the underlying debt obligation experiences greater than anticipated prepayments of principal, the Fund may not fully recoup its initial investment in IOs.

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## Notes to financial statements (cont d)

**(i) Inflation-indexed bonds.** Inflation-indexed bonds are fixed-income securities whose principal value or interest rate is periodically adjusted according to the rate of inflation. As the index measuring inflation changes, the principal value or interest rate of inflation-indexed bonds will be adjusted accordingly. Inflation adjustments to the principal amount of inflation-indexed bonds are reflected as an increase or decrease to investment income on the Statement of Operations. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed in the case of U.S. Treasury inflation-indexed bonds. For bonds that do not provide a similar guarantee, the adjusted principal value of the bond repaid at maturity may be less than the original principal.

**(j) Swap agreements.** The Fund may invest in swaps for the purpose of managing its exposure to interest rate, credit or market risk, or for other purposes. The use of swaps involves risks that are different from those associated with ordinary portfolio transactions.

Swap contracts are marked to market daily and changes in value are recorded as unrealized appreciation/(depreciation). Gains or losses are realized upon termination of the swap agreement. Periodic payments and premiums received or made by the Fund are recognized in the Statement of Operations as realized gains or losses, respectively. Collateral, in the form of restricted cash or securities, may be required to be held in segregated accounts with the Fund's custodian in compliance with the terms of the swap contracts. Securities held as collateral for swap contracts are identified in the Schedule of Investments and restricted cash, if any, is identified on the Statement of Assets and Liabilities. Risks may exceed amounts recorded in the Statement of Assets and Liabilities. These risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts' terms, and the possible lack of liquidity with respect to the swap agreements.

Payments received or made at the beginning of the measurement period are reflected as a premium or deposit, respectively, on the Statement of Assets and Liabilities. These upfront payments are amortized over the life of the swap and are recognized as realized gain or loss in the Statement of Operations. A liquidation payment received or made at the termination of the swap is recognized as realized gain or loss in the Statement of Operations. Net periodic payments received or paid by the Fund are recognized as realized gain or loss at the time of receipt or payment in the Statement of Operations.

### Credit default swaps

The Fund may enter into credit default swap ( CDS ) contracts for investment purposes, to manage its credit risk or to add leverage. CDS agreements involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a third party, typically corporate or sovereign issuers, on a specified obligation, or in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising a credit index. The Fund may use a CDS to provide protection against defaults of the issuers (i.e., to reduce risk where the Fund has exposure to a sovereign issuer) or to take an active long or short position with respect to the likelihood of a particular issuer's default. As a seller of protection, the Fund generally receives an upfront payment or a stream of payments throughout the term of the swap provided that there is no credit event. If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the maximum potential amount of future payments (undiscounted) that the Fund

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could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. These amounts of potential payments will be partially offset by any recovery of values from the respective referenced obligations. As a seller of protection, the Fund effectively adds leverage to its portfolio because, in addition to its total net assets, the Fund is subject to investment exposure on the notional amount of the swap. As a buyer of protection, the Fund generally receives an amount up to the notional value of the swap if a credit event occurs.

Implied spreads are the theoretical prices a lender receives for credit default protection. When spreads rise, market perceived credit risk rises and when spreads fall, market perceived credit risk falls. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to enter into the agreement. Wider credit spreads and decreasing market values, when compared to the notional amount of the swap, represent a

deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. Credit spreads utilized in determining the period end market value of credit default swap agreements on corporate or sovereign issues are disclosed in the Notes to Financial Statements and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for credit derivatives. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values, particularly in relation to the notional amount of the contract as well as the annual payment rate, serve as an indication of the current status of the payment/performance risk.

The Fund's maximum risk of loss from counterparty risk, as the protection buyer, is the fair value of the contract (this risk is mitigated by the posting of collateral by the counterparty to the Fund to cover the Fund's exposure to the counterparty). As the protection seller, the Fund's maximum risk is the notional amount of the contract. Credit default swaps are considered to have credit risk-related contingent features since they require payment by the protection seller to the protection buyer upon the occurrence of a defined credit event.

Entering into a CDS agreement involves, to varying degrees, elements of credit, market and documentation risk in excess of the related amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreement may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreement, and that there will be unfavorable changes in net interest rates.

#### Interest rate swaps

The Fund may enter into interest rate swap contracts. Interest rate swaps are agreements between two parties to exchange cash flows based on a notional principal amount. The Fund may elect to pay a fixed rate and receive a floating rate, or, receive a fixed rate and pay a floating rate on a notional principal amount. Interest rate swaps are marked to market daily based upon quotations from market makers and the change, if any, is recorded as an unrealized gain or loss in the Statement of Operations. When a swap contract is terminated early, the Fund records a realized gain or loss equal to the difference between the original cost and the settlement amount of the closing transaction.

The risks of interest rate swaps include changes in market conditions that will affect the value of the contract or changes in the present value of the future cash flow streams and the possible inability of the counterparty to fulfill its obligations under the agreement. The Fund's maximum risk of loss from counterparty credit risk is the discounted net value of the cash flows to be received from the counterparty over the contract's remaining life, to the extent that that amount is positive. This risk is mitigated by the posting of collateral by the counterparty to the Fund to cover the Fund's exposure to the counterparty.

**(k) Loan participations.** The Fund may invest in loans arranged through private negotiation between one or more financial institutions. The Fund's investment in any such loan may be in the form of a participation in or an assignment of the loan. In connection with purchasing participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement related to the loan, or any rights of off-set against the borrower and the Fund may not benefit directly from any collateral supporting the loan in which it has purchased the participation.

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The Fund assumes the credit risk of the borrower, the lender that is selling the participation and any other persons interpositioned between the Fund and the borrower. In the event of the insolvency of the lender selling the participation, the Fund may be treated as a general creditor of the lender and may not benefit from any off-set between the lender and the borrower.

**(I) 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

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## Notes to financial statements (cont'd)

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.

**(m) Security transactions and investment income.** Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Foreign dividend income is recorded on the ex-dividend date or as soon as practicable after the Fund determines the existence of a dividend declaration after exercising reasonable due diligence. 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.

**(n) Distributions to shareholders.** Distributions from net investment income for the Fund, if any, are declared and paid on a monthly basis. Distributions of net realized gains, if any, are declared at least annually. Distributions are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

**(o) 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 income tax provision is required in the Fund's financial statements. However, due to the timing of when distributions are made, the Fund may be subject to an excise tax of 4% of the amount by which 98% of the Fund's annual taxable income exceeds the distributions from such taxable income for the year.

Management has analyzed the Fund's tax positions taken on federal income tax returns for all open tax years and has concluded that as of May 31, 2010, 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 Internal Revenue Service and state departments of revenue.

Under the applicable foreign tax laws, a withholding tax may be imposed on interest, dividends and capital gains at various rates. Realized gains upon disposition of Indonesian securities held by the Fund are subject to capital gains tax in that country. As of May 31, 2010, there were \$3,829 of deferred capital gains tax liabilities accrued on unrealized gains.

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



have been made:

	<b>Undistributed Net Investment Income</b>	<b>Accumulated Net Realized Loss</b>
(a)	\$7,384,414	\$(7,384,414)

(a) Reclassifications are primarily due to foreign currency transactions treated as ordinary income for tax purposes, differences between book and tax amortization of premium on fixed income securities, losses from mortgage backed securities treated as capital losses for tax purposes and book/tax differences in the treatment of swaps.

## 2. Investment management agreement and other transactions with affiliates

Legg Mason Partners Fund Advisor, LLC ( LMPFA ) is the Fund's investment manager. Western Asset Management Company ( Western Asset ), Western Asset Management Company Limited ( Western Asset Limited ) and Western Asset Management Company Pte. Ltd. ( Western Singapore ) are the Fund's subadvisers. LMPFA, Western Asset, Western Asset Limited and Western Singapore 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 0.85% of the Fund's average daily net assets plus the proceeds of any outstanding borrowings.

LMPFA has delegated to Western Asset the day-to-day portfolio management of the Fund. Western Asset Limited and Western Singapore provide certain advisory services to the Fund relating to currency transactions and investment in non-U.S. dollar denominated securities. Western Asset Limited and Western Singapore do not receive any compensation from the Fund. For its services, LMPFA pays Western Asset 70% of the net management fee it receives from the Fund. In turn, Western Asset pays Western Asset Limited and Western Singapore a subadvisory fee of 0.30% on the assets managed by each subadviser.

During the periods in which the Fund is utilizing borrowings, the fee which is payable to the investment manager as a percentage of the Fund's assets will be higher than if the Fund did not utilize borrowings because the fee is calculated as a percentage of the Fund's net assets, including those investments purchased with borrowings. Borrowings for the purpose of the calculation of the management fee include loans from certain financial institutions, the use of mortgage dollar roll transactions and reverse repurchase agreements, if any.

During the year ended May 31, 2010, fees waived and/or expenses reimbursed amounted to \$60,892.

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 May 31, 2010, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) and U.S Government & Agency Obligations were as follows:

		<b>Investments</b>		<b>U.S. Government &amp; Agency Obligations</b>	
Purchases		\$316,588,921		\$482,208,244	
Sales		211,711,361		672,794,381	
At May 31, 2010, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:					
Gross unrealized appreciation			\$	19,015,043	
Gross unrealized depreciation				(28,624,225)	
<b>Net unrealized depreciation</b>			<b>\$</b>	<b>(9,609,182)</b>	

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At May 31, 2010, the Fund had the following open forward foreign currency contracts:								
Foreign Currency		Local Currency		Market Value		Settlement Date		Unrealized Gain(Loss)
<b>Contracts to Buy:</b>								
British Pound		1,680,000		\$ 2,441,094		8/17/2010		\$ (24,390)
<b>Contracts to Sell:</b>								
British Pound		1,683,000		2,445,453		8/17/2010		91,670
British Pound		1,190,050		1,729,182		8/17/2010		53,383
Euro		929,986		1,144,239		8/17/2010		48,766
Euro		4,190,767		5,156,247		8/17/2010		210,030
Euro		11,734,324		14,437,709		8/17/2010		472,862
Euro		10,303,208		12,676,889		8/17/2010		770,704
Euro		381,453		469,333		8/17/2010		9,179
Euro		426,025		524,174		8/17/2010		3,262
								1,659,856
<b>Net unrealized gain on open forward foreign currency contracts</b>								<b>\$ 1,635,466</b>

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**Notes to financial statements (cont d)**

At May 31, 2010, the Fund did not hold any TBA securities.

At May 31, 2010, the Fund held the following interest rate swap contracts:

Swap Counterparty	Notional Amount	Termination Date	Periodic Payments Made by the Fund	Periodic Payments Received by the Fund	Upfront Premiums Paid/ (Received)	Unrealized Depreciation
<b>Interest Rate Swaps:</b>						
Credit Suisse	\$4,271,536	1/2/12	BRL-CDI	10.510%		\$(17,525)*
Credit Suisse	2,653,585	1/2/12	BRL-CDI	10.560		(8,899)*
<b>Total</b>	<b>\$6,925,121</b>					<b>\$(26,424)</b>

Percentage shown is an annual percentage rate.

\* Security is valued in good faith at fair value by or under the direction of the Board of Trustees (See Note 1).

**4. Derivative instruments and hedging activities**

Financial Accounting Standards Board Codification Topic 815 (formerly, Statement of Financial Accounting Standards No. 161) ( ASC Topic 815 ) 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 May 31, 2010.

**ASSET DERIVATIVES<sup>1</sup>**

Interest Rate Contracts Risk	Foreign Exchange Contracts Risk	Total
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Forward foreign currency contracts

\$1,659,856

\$1,659,856

<b>LIABILITY DERIVATIVES<sup>1</sup></b>									
		<b>Interest Rate Contracts Risk</b>			<b>Foreign Exchange Contracts Risk</b>			<b>Total</b>	
Swap contracts <sup>2</sup>		\$	26,424					\$	26,424
Forward foreign currency contracts					\$	24,390			24,390
<b>Total</b>		\$	<b>26,424</b>		\$	<b>24,390</b>		\$	<b>50,814</b>

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 Values include premiums paid/(received) on swap contracts which are shown separately in 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 May 31, 2010. 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**

	<b>Interest Rate Contracts Risk</b>	<b>Foreign Exchange Contracts Risk</b>	<b>Credit Contracts Risk</b>	<b>Total</b>
Futures contracts	\$1,552,674			\$ 1,552,674
Swap contracts			\$(13,612,062)	(13,612,062)
Forward foreign currency contracts		\$(7,007)		(7,007)
<b>Total</b>	<b>\$1,552,674</b>	<b>\$(7,007)</b>	<b>\$(13,612,062)</b>	<b>\$ (12,066,395)</b>

**CHANGE IN UNREALIZED APPRECIATION/(DEPRECIATION) ON DERIVATIVES RECOGNIZED**

	<b>Interest Rate Contracts Risk</b>	<b>Foreign Exchange Contracts Risk</b>	<b>Credit Contracts Risk</b>	<b>Total</b>
Futures contracts	\$ (277,556)			\$ (277,556)
Swap contracts	(26,424)		\$ 19,105,605	19,079,181
Forward foreign currency contracts		\$ 1,352,958		1,352,958
<b>Total</b>	<b>\$ (303,980)</b>	<b>\$1,352,958</b>	<b>\$ 19,105,605</b>	<b>\$20,154,583</b>

During the year ended May 31, 2010, the volume of derivative activity for the Fund was as follows:

	<b>Average market value</b>
Futures contracts (to buy)	\$ 10,692,788
Futures contracts (to sell)	7,782,646
Forward foreign currency contracts (to buy)	5,466,048
Forward foreign currency contracts (to sell)	28,067,715
	<b>Average notional balance</b>
Interest rate swap contracts	\$ 6,392,419
Credit default swap contracts (to sell protection)	25,426,923

At May 31, 2010, there were no open positions held in this derivative.

Amounts are denominated in U.S. dollars, unless otherwise noted.

The Fund has several credit related contingent features that if triggered would allow its derivatives counterparties to close out and demand payment or additional collateral to cover their exposure from the Fund. Credit related contingent features are established between the Fund and its derivatives counterparties to reduce the risk that the Fund will not fulfill its payment obligations to its counterparties. These triggering features include, but are not limited to, a percentage decrease in the Fund's net assets and or percentage decrease in the Fund's Net Asset Value or NAV. The contingent features are established within the Fund's International Swap and Derivatives Association, Inc. master agreements which govern positions in swaps, over-the-counter options, and forward currency exchange contracts for each individual counterparty.

## 5. Loan

At of May 31, 2010, the Fund has a 364-day revolving credit agreement with a financial institution, which allows the Fund to borrow up to an aggregate amount of \$100,000,000.

Unless renewed, this agreement terminates on May 19, 2011. The Fund pays a quarterly facility fee at an annual rate of 0.20%, on the unutilized portion of the loan. The interest on the loan is calculated at a variable rate based on the LIBOR, Fed Funds or Prime Rates plus any applicable margin. Interest expense related to the loan for the year ended May 31, 2010 was \$1,382,879. For the year ended May 31, 2010, the Fund incurred a commitment fee in the amount of \$291,355. At May 31, 2010, the Fund had \$100,000,000 of borrowings outstanding per this credit agreement. Securities held by the Fund are subject to a lien, granted to the lenders, to the extent of the borrowing outstanding and any additional expenses. For the year ended May 31, 2010, based on the number of days during the reporting period that the Fund had a loan balance outstanding, the average daily loan balance was \$100,000,000 and the weighted average interest rate was 1.36%.

#### **6. Distributions subsequent to May 31, 2010**

On May 17, 2010, the Board of Directors of the Fund (the Board) declared three dividends, each in the amount of \$0.0875 per share, payable on June 25, 2010, July 30, 2010 and August 27, 2010 to shareholders of record on June 18, 2010, July 23, 2010 and August 20, 2010, respectively.

Western Asset Global High Income Fund Inc. 2010 Annual Report

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**Notes to financial statements (cont d)****7. Capital shares**

On October 22, 2003, the Board authorized the Fund to repurchase from time to time in the open market up to 3,000,000 shares of the Fund's common stock. The Board directed the management of the Fund to repurchase shares of the Fund's common stock at such times and in such amounts as management believes will enhance shareholder value, subject to review by the Board. Since the inception of the repurchase plan, the Fund has not repurchased any shares.

**8. Income tax information and distributions to shareholders**

The tax character of distributions paid during the fiscal years ended May 31, was as follows:

	2010	2009
<b>Distributions Paid From:</b>		
Ordinary income	\$31,679,674	\$31,220,548

As of May 31, 2010, the components of accumulated earnings on a tax basis were as follows:

Undistributed ordinary income - net	\$ 11,618,794
Capital loss carryforward*	(66,982,871)
Other book/tax temporary differences(a)	(3,186,606)
Unrealized appreciation/(depreciation)(b)	(8,116,110)
<b>Total accumulated earnings/(losses) - net</b>	<b>\$ (66,666,793)</b>

\* As of May 31, 2010, the Fund had the following net capital loss carryforward remaining:

Year of Expiration	Amount
5/31/2015	\$ (2,706,694)
5/31/2016	(928,154)



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5/31/2017		(2,785,848)
5/31/2018		(60,562,175)
		\$ (66,982,871)

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

- (a) Other book/tax temporary differences are attributable primarily to unrealized gains on certain foreign currency contracts, the deferral of post-October capital losses for tax purposes, interest accrued for tax purposes on defaulted securities and book/tax differences in the timing of the deductibility of various expenses.
- (b) The difference between book-basis and tax-basis unrealized appreciation / (depreciation) is attributable primarily to the tax deferral of losses on wash sales and the difference between book and tax amortization methods for premiums on fixed income securities.

**Report of independent registered public accounting firm**

**The Board of Directors and Shareholders  
Western Asset Global High Income Fund Inc.:**

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Western Asset Global High Income Fund Inc. as of May 31, 2010, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, the statement of cash flows for the year then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of May 31, 2010, by correspondence with the custodian and brokers or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Western Asset Global High Income Fund Inc. as of May 31, 2010, and the results of its operations for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, its cash flows for the year then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

New York, New York  
July 22, 2010

Western Asset Global High Income Fund Inc.

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## Additional information (unaudited)

### Information about Directors and Officers

The business and affairs of Western Asset Global High Income Fund Inc. (the Fund) are conducted by management under the supervision and subject to the direction of its Board of Directors. The business address of each Director is c/o R. Jay Gerken, 620 Eighth Avenue, New York, New York 10018. Information pertaining to the Directors and officers of the Fund is set forth below.

#### Independent Directors :

##### Carol L. Colman

Year of birth	1946
Position(s) held with Fund <sup>1</sup>	Director and Member of the Nominating and Audit Committees, Class I
Term of office <sup>1</sup> and length of time served	Since 2003
Principal occupation(s) during past five years	President, Colman Consulting Company (consulting)
Number of portfolios in fund complex overseen by Director (including the Fund)	22
Other board memberships held by Director	None

##### Daniel P. Cronin

Year of birth	1946
Position(s) held with Fund <sup>1</sup>	Director and Member of the Nominating and Audit Committees, Class I
Term of office <sup>1</sup> and length of time served	Since 2003
Principal occupation(s) during past five years	Retired; formerly, Associate General Counsel, Pfizer Inc. (prior to and including 2004)
Number of portfolios in fund complex overseen by Director (including the Fund)	22
Other board memberships held by Director	None

##### Paolo M. Cucchi

Year of birth	1941
Position(s) held with Fund <sup>1</sup>	Director and Member of the Nominating and Audit Committees, Class I
Term of office <sup>1</sup> and length of time served	Since 2007
Principal occupation(s) during past five years	Professor of French and Italian at Drew University; formerly, Vice President and Dean of College of Liberal Arts at Drew University (1984 to 2009)
Number of portfolios in fund complex overseen by Director (including the Fund)	22
Other board memberships held by Director	None

**Independent Directors continued****Leslie H. Gelb**

Year of birth	1937
Position(s) held with Fund	Director and Member of the Nominating and Audit Committees, Class II
Term of office <sup>1</sup> and length of time served	Since 2003
Principal occupation(s) during past five years	President Emeritus and Senior Board Fellow (since 2003), The Council on Foreign Relations; formerly, President, (prior to 2003), the Council on Foreign Relations; formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times
Number of portfolios in fund complex overseen by Director (including the Fund)	22
Other board memberships held by Director	Director of two registered investment companies advised by Blackstone Asia Advisors LLC: India Fund, Inc. and Asia Tigers Fund, Inc. (since 1994)

**William R. Hutchinson**

Year of birth	1942
Position(s) held with Fund	Director and Member of the Nominating and Audit Committees, Class II
Term of office <sup>1</sup> and length of time served	Since 2003
Principal occupation(s) during past five years	President, W.R. Hutchinson & Associates Inc. (Consulting) (since 2001)
Number of portfolios in fund complex overseen by Director (including the Fund)	22
Other board memberships held by Director	Director (Non-Executive Chairman of the Board (since December 1, 2009)), Associated Banc Corp. (banking) (since 1994)

**Riordan Roett**

Year of birth	1938
Position(s) held with Fund	Director and Member of the Nominating and Audit Committees, Class III
Term of office <sup>1</sup> and length of time served	Since 2003
Principal occupation(s) during past five years	The Sarita and Don Johnston Professor of Political Science and Director of Western Hemisphere Studies, Paul H. Nitze School of Advanced International Studies, The John Hopkins University (since 1973)
Number of portfolios in fund complex overseen by Director (including the Fund)	22
Other board memberships held by Director	None

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**Additional information (continued) (unaudited)**

**Information about Directors and Officers**

**Independent Directors continued**

**Jeswald W. Salacuse**

Year of birth	1938
Position(s) held with Fund	Director and Member of the Nominating and Audit Committees, Class III
Term of office <sup>1</sup> and length of time served	Since 2003
Principal occupation(s) during past five years	Henry J. Braker Professor of Commercial Law, The Fletcher School of Law and Diplomacy, Tufts University (since 1986); President and Member, Arbitration Tribunal, World Bank/ICSID (since 2004)
Number of portfolios in fund complex overseen by Director (including the Fund)	22
Other board memberships held by Director	Director of two registered investment companies advised by Blackstone Asia Advisors LLC; India Fund, Inc. and Asia Tigers Fund, Inc. (since 1993)

**Interested Director and Officer:**

**R. Jay Gerken, CFA<sup>2</sup>**

Year of birth	1951
Position(s) held with Fund	Director, Chairman, President and Chief Executive Officer, Class I
Term of office <sup>1</sup> and length of time served	Since 2003
Principal occupation(s) during past five years	Managing Director of Legg Mason & Co., LLC ( Legg Mason & Co. ) (since 2005); Officer and Trustee/Director of 146 funds associated with Legg Mason Partners Fund Advisor, LLC ( LMPFA ) or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); President and Chief Executive Officer ( CEO ) of LMPFA (since 2006); President and CEO of Smith Barney Fund Management LLC ( SBFM ) and Citi Fund Management Inc. ( CFM ) (formerly registered investment advisers) (since 2002); formerly, Chairman, President and CEO, Travelers Investment Adviser Inc. (prior to 2005)
Number of portfolios in fund complex overseen by Director (including the Fund)	133
Other board memberships held by Director	Former Trustee, Consulting Group Capital Markets Funds (11 funds) (prior to 2006)

**Additional Officers:**

**Ted P. Becker**

**Legg Mason**

**620 Eighth Avenue, New York, NY 10018**

Year of birth	1951
Position(s) held with Fund	Chief Compliance Officer
Term of office <sup>1</sup> and length of time served	Since 2006
Principal occupation(s) during past five years	Director of Global Compliance at Legg Mason (since 2006); Chief Compliance Officer of LMPFA (since 2006); Managing Director of Compliance of Legg Mason & Co. (since 2005); Chief Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)



**Additional Officers continued****John Chiota****Legg Mason****100 First Stamford Place, Stamford, CT 06902**

Year of birth

1968

Position(s) with Fund

Identity Theft Prevention Officer

Term of office and length of time served

Since 2008

Principal occupation(s) during past five years

Identity Theft Prevention Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2008); Chief Anti-Money Laundering Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006); Vice President of Legg Mason & Co. (since 2006) and Legg Mason & Co. predecessors (prior to 2006); formerly, Chief Anti-Money Laundering Compliance Officer of TD Waterhouse (prior to 2004)

**Robert I. Frenkel****Legg Mason****100 First Stamford Place, Stamford, CT 06902**

Year of birth

1954

Position(s) held with Fund

Secretary and Chief Legal Officer

Term of office and length of time served

Since 2003

Principal occupation(s) during past five years

Vice President and Deputy General Counsel of Legg Mason (since 2006); Managing Director and General Counsel of Global Mutual Funds for Legg Mason & Co. (since 2006) and Legg Mason & Co. predecessors (since 1994); Secretary and Chief Legal Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

**Thomas C. Mandia****Legg Mason****100 First Stamford Place, Stamford, CT 06902**

Year of birth

1962

Position(s) held with Fund

Assistant Secretary

Term of office and length of time served

Since 2006

Principal occupation(s) during past five years

Managing Director and Deputy General Counsel of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005); Secretary of LMPFA (since 2006); Assistant Secretary of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); Secretary of SBFM and CFM (since 2002)

**Kaprel Ozsolak****Legg Mason****55 Water Street, New York, NY 10041**

Year of birth

1965

Position(s) held with Fund

Chief Financial Officer

Term of office and length of time served

Since 2007

Principal occupation(s) during past five years

Director of Legg Mason & Co. (since 2005); Chief Financial Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2007) and Legg Mason & Co. predecessors (prior to 2007); formerly, Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (prior to 2010) and Legg Mason & Co. predecessors (prior to 2005); formerly, Controller of certain mutual funds associated with Legg Mason & Co. predecessors (prior to 2004)

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**Additional information (continued) (unaudited)**

**Information about Directors and Officers**

**Additional Officers continued**

**Steven Frank**

**Legg Mason**

**55 Water Street, New York, NY 10041**

Year of birth

1967

Position(s) held with Fund<sup>1</sup>

Treasurer

Term of office<sup>1</sup> and length of time served

Since 2010

Principal occupation(s) during past five years

Vice President of Legg Mason & Co. and Legg Mason & Co. predecessors (since 2008); Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2010); formerly, Controller of certain mutual funds associated with Legg Mason & Co. or its affiliates (prior to 2010); formerly, Assistant Controller of certain mutual funds associated with Legg Mason & Co. predecessors (prior to 2005)

**Jeanne M. Kelly**

**Legg Mason**

**620 Eighth Avenue, New York, NY 10018**

Year of birth

1951

Position(s) with Fund<sup>1</sup>

Senior Vice President

Term of office<sup>1</sup> and length of time served

Since 2007

Principal occupation(s) during past five years

Senior Vice President of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2007); Senior Vice President of LMPFA (since 2006); Managing Director of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005)

Directors who are not "interested persons" of the Fund within the meaning of Section (a)(19) of the 1940 Act.

<sup>1</sup> The Fund's Board of Directors is divided into three classes: Class I, Class II and Class III. The terms of office of the Class I, II and III Directors expire at the Annual Meetings of Stockholders in the year 2011, year 2012 and year 2010, respectively, or thereafter in each case when their respective successors are duly elected and qualified. The Fund's executive officers are chosen each year at the first meeting of the Fund's Board of Directors following the Annual Meeting of Stockholders, to hold office until the meeting of the Board following the next Annual Meeting of Stockholders and until their successors are duly elected and qualified.

<sup>2</sup> Mr. Gerken is an "interested person" of the Fund as defined in the 1940 Act because Mr. Gerken is an officer of LMPFA and certain of its affiliates.



**Annual chief executive officer and  
chief financial officer certifications** (unaudited)

The Fund's Chief Executive Officer ( CEO ) has submitted to the NYSE the required annual certification and the Fund also has included the certifications of the Fund's CEO and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act in the Fund's Form N-CSR filed with the SEC for the period of this report.

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**Dividend reinvestment plan** (unaudited)

Unless you elect to receive distributions in cash, all distributions, on your Common Shares will be automatically reinvested by American Stock Transfer & Trust Company (AST), as agent for the Common Shareholders (the Plan Agent), in additional Common Shares under the Dividend Reinvestment Plan (the Plan). You may elect not to participate in the Plan by contacting the Plan Agent. If you do not participate, you will receive all cash distributions paid by check mailed directly to you by AST as distribution paying agent.

If you participate in the Plan, the number of Common Shares you will receive will be determined as follows:

(1) If the market price of the Common Shares on the record date (or, if the record date is not a New York Stock Exchange trading day, the immediately preceding trading day) for determining shareholders eligible to receive the relevant distribution (the determination date) is equal to or exceeds 98% of the net asset value per share of the Common Shares, the Fund will issue new Common Shares at a price equal to the greater of (a) 98% of the net asset value per share at the close of trading on the Exchange on the determination date or (b) 95% of the market price per share of the Common Shares on the determination date.

(2) If 98% of the net asset value per share of the Common Shares exceeds the market price of the Common Shares on the determination date, the Plan Agent will receive the distribution in cash and will buy Common Shares in the open market, on the Exchange or elsewhere, for your account as soon as practicable commencing on the trading day following the determination date and terminating no later than the earlier of (a) 30 days after the distribution payment date, or (b) the record date for the next succeeding distribution to be made to the Common Shareholders; except when necessary to comply with applicable provisions of the federal securities laws. If during this period: (i) the market price rises so that it equals or exceeds 98% of the net asset value per share of the Common Shares at the close of trading on the Exchange on the determination date before the Plan Agent has completed the open market purchases or (ii) if the Plan Agent is unable to invest the full amount eligible to be reinvested in open market purchases, the Plan Agent will cease purchasing Common Shares in the open market and the Fund shall issue the remaining Common Shares at a price per share equal to the greater of (a) 98% of the net asset value per share at the close of trading on the Exchange on the determination date or (b) 95% of the then current market price per share.

The Plan Agent maintains all participants' accounts in the Plan and gives written confirmation of all transactions in the accounts, including information you may need for tax records. Common Shares in your account will be held by the Plan Agent in non-certificated form. Any proxy you receive will include all Common Shares you have received under the Plan.

You may withdraw from the Plan by notifying the Plan Agent in writing at 59 Maiden Lane, New York, New York 10038 or by calling the Plan Agent at 1-877-366-6441. Such withdrawal will be effective immediately if notice is received by the Plan Agent not less than ten business days prior to any distribution record date; otherwise such withdrawal will be effective as soon as practicable after the Plan Agent's investment of the most recently declared distribution on the Common Shares. The Plan may be terminated by the Fund upon notice in writing mailed to Common Shareholders at least 30 days prior to the record date for the payment of any distribution by the Fund for which the termination is to be effective. Upon any termination, you will be sent a certificate or certificates for the full Common Shares held for you under the Plan and cash for any fractional Common Shares. You may elect to notify the Plan Agent in advance of such termination to have the Plan Agent sell part or all of your shares on your behalf. You will be charged \$5.00 plus a \$0.05 per Common Share service charge and the Plan Agent is authorized to deduct

brokerage charges actually incurred for this transaction from the proceeds.

There is no service charge for reinvestment of your distributions in Common Shares. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases. Because all distributions will be automatically reinvested in additional Common Shares, this allows you to add to your investment through dollar cost averaging, which may lower the average cost of your Common Shares over time.

Automatically reinvesting distributions does not mean that you do not have to pay income taxes due upon receiving distributions.

The Fund reserves the right to amend or terminate the Plan if, in the judgment of the Board of Directors, the change is warranted. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. Additional information about the Plan and your account may be obtained from the Plan Agent at 1-877-366-6441.

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**Important tax information** (unaudited)

The following information is provided with respect to the distributions paid during the taxable year ended May 31, 2010:

<b>Distributions Paid:</b>	<b>06/01/09 - 12/31/09</b>	<b>01/01/2010 - 05/31/2010</b>
Interest from Federal Obligations	1.75%	.39%

The law varies in each state as to whether and what percentage of dividend income attributable to Federal obligations is exempt from state income tax. We recommend that you consult with your tax adviser to determine if any portion of the dividends you received is exempt from state income taxes.

Please retain this information for your records.

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**Western Asset**

**Global High Income Fund Inc.**

**Directors**

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

**Officers**

R. Jay Gerken, CFA  
*President and Chief Executive Officer*  
Kaprel Ozsolak  
*Chief Financial Officer*  
Ted P. Becker  
*Chief Compliance Officer*  
John Chiota  
*Identity Theft Prevention Officer*  
Robert I. Frenkel  
*Secretary and Chief Legal Officer*  
Thomas C. Mandia  
*Assistant Secretary*  
Steven Frank  
*Treasurer*  
Jeanne M. Kelly  
*Senior Vice President*

**Western Asset Global High Income Fund Inc.**

55 Water Street  
New York, NY 10041

**Investment manager**

Legg Mason Partners Fund Advisor, LLC

**Subadvisers**

Western Asset Management Company  
Western Asset Management Company Limited  
Wester Asset Management Company Pte. Ltd.

**Custodian**

State Street Bank and Trust Company  
1 Lincoln Street  
Boston, MA 02111

**Transfer agent**

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

**Independent registered public accounting firm**

KPMG LLP  
345 Park Avenue  
New York, NY 10154

**Legal counsel**

Simpson Thacher & Bartlett LLP  
425 Lexington Avenue  
New York, NY 10017-3909

**New York Stock Exchange Symbol**

EHI

## Privacy policy

We are committed to keeping nonpublic personal information about you secure and confidential. This notice is intended to help you understand how we fulfill this commitment. From time to time, we may collect a variety of personal information about you, including:

- Information we receive from you on applications and forms, via the telephone, and through our websites;
- Information about your transactions with us, our affiliates, or others (such as your purchases, sales, or account balances); and
- Information we receive from consumer reporting agencies.

We do not disclose nonpublic personal information about our customers or former customers, except to our affiliates (such as broker-dealers or investment advisers with the Legg Mason family of companies) or as is otherwise permitted by applicable law or regulation. For example, we may share this information with others in order to process your transactions or service an account. We may also provide this information to companies that perform marketing services on our behalf, such as printing and mailing, or to other financial institutions with whom we have joint marketing agreements. When we enter into such agreements, we will require these companies to protect the confidentiality of this information and to use it only to perform the services for which we hired them.

With respect to our internal security procedures, we maintain physical, electronic, and procedural safeguards to protect your nonpublic personal information, and we restrict access to this information.

If you decide at some point either to close your account(s) or become an inactive customer, we will continue to adhere to our privacy policies and practices with respect to your nonpublic personal information.

**NOT PART OF THE ANNUAL REPORT**

**Western Asset Global High Income Fund Inc.**

Western Asset Global High Income Fund Inc.  
55 Water Street  
New York, New York 10041

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

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ( SEC ) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at [www.sec.gov](http://www.sec.gov). The Fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington D.C., and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. To obtain information on Form N-Q from the Fund, shareholders can call 1-888-777-0102.

Information on how the Fund voted proxies relating to portfolio securities during the prior 12-month period ended June 30th of each year and a description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio transactions are available (1) without charge, upon request, by calling 1-888-777-0102, (2) on the Fund's website at [www.leggmason.com/cef](http://www.leggmason.com/cef) and (3) on the SEC's website at [www.sec.gov](http://www.sec.gov).

This report is transmitted to the shareholders of Western Asset Global High Income Fund Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

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

**WASX010005 7/10 SR10-1135**

ITEM 2. CODE OF ETHICS.

The registrant has adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The Board of Directors of the registrant has determined that William R. Hutchinson, the chairman of the Board's Audit Committee, possesses the attributes identified in Instruction 2(b) of Item 3 to Form N-CSR to qualify as an audit committee financial expert, and has designated Mr. Hutchinson as the audit committee financial expert. Mr. Hutchinson is an independent Director pursuant to paragraph (a)(2) of Item 3 to Form N-CSR.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

a) Audit Fees. The aggregate fees billed in the last two fiscal years ending May 31, 2009 and May 31, 2010 (the Reporting Periods) for professional services rendered by the Registrant's principal accountant (the Auditor) for the audit of the Registrant's annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were \$59,500 in 2009 and \$62,700 in 2010.

b) Audit-Related Fees. The aggregate fees billed in the Reporting Period for assurance and related services by the Auditor that are reasonably related to the performance of the Registrant's financial statements were \$14,200 in 2009 and \$0 in 2010.

In addition, there were no Audit-Related Fees billed in the Reporting Period for assurance and related services by the Auditor to the Registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the Western Asset Global High Income Fund Inc. (service affiliates), that were reasonably related to the performance of the annual audit of the service affiliates. Accordingly, there were no such fees that required pre-approval by the Audit Committee for the Reporting Periods.

(c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice and tax planning (Tax Services) were \$5,550 in 2009 and \$3,100 in 2010. These services consisted of (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments, and

(iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held.

There were no fees billed for tax services by the Auditors to service affiliates during the Reporting Periods that required pre-approval by the Audit Committee.

d) All Other Fees. There were no other fees billed in the Reporting Periods for products and services provided by the Auditor, other than the services reported in paragraphs (a) through (c) for the Item 4 for the Western Asset Global High Income Fund Inc..

All Other Fees. There were no other non-audit services rendered by the Auditor to Legg Mason Partners Fund Advisors, LLC ( LMPFA ), and any entity controlling, controlled by or under common control with LMPFA that provided ongoing services to Western Asset Global High Income Fund Inc. requiring pre-approval by the Audit Committee in the Reporting Period.

(e) Audit Committee s pre approval policies and procedures described in paragraph(c) (7) of Rule 2-01 of Regulation S-X.

(1) The Charter for the Audit Committee (the Committee ) of the Board of each registered investment company (the Fund ) advised by LMPFA or one of their affiliates (each, an Adviser ) requires that the Committee shall approve (a) all audit and permissible non-audit services to be provided to the Fund and (b) all permissible non-audit services to be provided by the Fund s independent auditors to the Adviser and any Covered Service Providers if the engagement relates directly to the operations and financial reporting of the Fund. The Committee may implements policies and procedures by which such services are approved other than by the full Committee.

The Committee shall not approve non-audit services that the Committee believes may impair the independence of the auditors. As of the date of the approval of this Audit Committee Charter, permissible non-audit services include any professional services (including tax services), that are not prohibited services as described below, provided to the Fund by the independent auditors, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services may not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund, the Adviser and

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any service providers controlling, controlled by or under common control with the Adviser that provide ongoing services to the Fund ( Covered Service Providers ) constitutes not more than 5% of the total amount of revenues paid to the independent auditors during the fiscal year in which the permissible non-audit services are provided to (a) the Fund, (b) the Adviser and (c) any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Fund during the fiscal year in which the services are provided that would have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its delegate(s)) prior to the completion of the audit.

(2) For the Western Asset Global High Income Fund Inc., the percentage of fees that were approved by the audit committee, with respect to: Audit-Related Fees were 100% and 100% for 2009 and 2010; Tax Fees were 100% and 100% for 2009 and 2010; and Other Fees were 100% and 100% for 2009 and 2010.

(f) N/A

(g) Non-audit fees billed by the Auditor for services rendered to Western Asset Global High Income Fund Inc., LMPFA and any entity controlling, controlled by, or under common control with LMPFA that provides ongoing services to Western Asset Global High Income Fund Inc. during the reporting period were \$0 in 2010.

(h) Yes. Western Asset Global High Income Fund Inc.'s Audit Committee has considered whether the provision of non-audit services that were rendered to Service Affiliates, which were not pre-approved (not requiring pre-approval), is compatible with maintaining the Accountant's independence. All services provided by the Auditor to the Western Asset Global High Income Fund Inc. or to Service Affiliates, which were required to be pre-approved, were pre-approved as required.

#### ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

a) Registrant has a separately-designated standing Audit Committee established in accordance with *Section 3(a)58(A) of the Exchange Act*. The Audit Committee consists of the following Board members:

William R. Hutchinson

Paolo M. Cucchi

Daniel P. Cronin

Carol L. Colman

Leslie H. Gelb

Dr. Riordan Roett

Jeswald W. Salacuse

b) Not applicable

ITEM 6. SCHEDULE OF INVESTMENTS.

Included herein under Item 1.

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

**Proxy Voting Guidelines and Procedures**

Legg Mason Partners Fund Advisor, LLC ( LMPFA ) delegates the responsibility for voting proxies for the fund to the subadviser through its contracts with the subadviser. The subadviser will use its own proxy voting policies and procedures to vote proxies. Accordingly, LMPFA does not expect to have proxy-voting responsibility for the fund. Should LMPFA become responsible for voting proxies for any reason, such as the inability of the subadviser to provide investment advisory services, LMPFA shall utilize the proxy voting guidelines established by the most recent subadviser to vote proxies until a new subadviser is retained.

The subadviser's Proxy Voting Policies and Procedures govern in determining how proxies relating to the fund's portfolio securities are voted and are provided below. Information regarding how each fund voted proxies (if any) relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge (1) by calling 888-425-6432, (2) on the fund's website at <http://www.leggmason.com/individualinvestors> and (3) on the SEC's website at <http://www.sec.gov>.

**Background**

Western Asset Management Company ( WA ), Western Asset Management Company Limited ( WAML ) and Western Asset Management Company Pte. Ltd. ( WAMC ) (together Western Asset ) have adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940 ( Advisers Act ). Our authority to vote the proxies of our clients is established through investment management agreements or comparable documents, and our proxy voting guidelines have been tailored to reflect these specific contractual obligations. In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the Investment Manager.

In exercising its voting authority, Western Asset will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (except that WA, WAML and WAMC may so consult and agree with each other) regarding the voting of any securities owned by its clients.

**Policy**

Western Asset's proxy voting procedures are designed and implemented in a way that is reasonably expected to ensure that proxy matters are handled in the best interest of our clients. While the guidelines included in the procedures are intended to provide a benchmark for voting standards, each vote is ultimately cast on a case-by-case basis, taking into consideration Western Asset's contractual obligations to our clients and all other relevant facts and circumstances at the time of the vote (such that these guidelines may be overridden to the extent Western Asset deems appropriate).



## Procedures

### Responsibility and Oversight

The Western Asset Compliance Department ( Compliance Department ) is responsible for administering and overseeing the proxy voting process. The gathering of proxies is coordinated through the Corporate Actions area of Investment Support ( Corporate Actions ). Research analysts and portfolio managers are

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responsible for determining appropriate voting positions on each proxy utilizing any applicable guidelines contained in these procedures.

#### Client Authority

Prior to August 1, 2003, all existing client investment management agreements ( IMAs ) will be reviewed to determine whether Western Asset has authority to vote client proxies. At account start-up, or upon amendment of an IMA, the applicable client IMA are similarly reviewed. If an agreement is silent on proxy voting, but contains an overall delegation of discretionary authority or if the account represents assets of an ERISA plan, Western Asset will assume responsibility for proxy voting. The Client Account Transition Team maintains a matrix of proxy voting authority.

#### Proxy Gathering

Registered owners of record, client custodians, client banks and trustees ( Proxy Recipients ) that receive proxy materials on behalf of clients should forward them to Corporate Actions. Prior to August 1, 2003, Proxy Recipients of existing clients will be reminded of the appropriate routing to Corporate Actions for proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. Proxy Recipients for new clients (or, if Western Asset becomes aware that the applicable Proxy Recipient for an existing client has changed, the Proxy Recipient for the existing client) are notified at start-up of appropriate routing to Corporate Actions of proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. If Western Asset personnel other than Corporate Actions receive proxy materials, they should promptly forward the materials to Corporate Actions.

#### Proxy Voting

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

- a. Proxies are reviewed to determine accounts impacted.
- b. Impacted accounts are checked to confirm Western Asset voting authority.
- c. Compliance Department staff reviews proxy issues to determine any material conflicts of interest. (See conflicts of interest section of these procedures for further information on determining material conflicts of interest.)
- d. If a material conflict of interest exists, (i) to the extent reasonably practicable and permitted by applicable law, the client is promptly notified, the conflict is disclosed and Western Asset obtains the client's proxy voting instructions, and (ii) to the extent that it is not reasonably practicable

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or permitted by applicable law to notify the client and obtain such instructions (e.g., the client is a mutual fund or other commingled vehicle or is an ERISA plan client), Western Asset seeks voting instructions from an independent third party.

e. Compliance Department staff provides proxy material to the appropriate research analyst or portfolio manager to obtain their recommended vote. Research analysts and portfolio managers determine votes on a case-by-case basis taking into account the voting guidelines contained in these procedures. For avoidance of doubt, depending on the best interest of each individual client, Western Asset may vote the same proxy differently for different clients. The analyst's or portfolio manager's basis for their decision is documented and maintained by the Compliance Department.

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f. Compliance Department staff votes the proxy pursuant to the instructions received in (d) or (e) and returns the voted proxy as indicated in the proxy materials.

#### Timing

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

#### Recordkeeping

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

- a. A copy of Western Asset's policies and procedures.
- b. Copies of proxy statements received regarding client securities.
- c. A copy of any document created by Western Asset that was material to making a decision how to vote proxies.
- d. Each written client request for proxy voting records and Western Asset's written response to both verbal and written client requests.
- e. A proxy log including:
  - 1. Issuer name;
  - 2. Exchange ticker symbol of the issuer's shares to be voted;
  - 3. Council on Uniform Securities Identification Procedures (CUSIP) number for the shares to be voted;
  - 4. A brief identification of the matter voted on;
  - 5. Whether the matter was proposed by the issuer or by a shareholder of the issuer;
  - 6. Whether a vote was cast on the matter;

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7. A record of how the vote was cast; and
8. Whether the vote was cast for or against the recommendation of the issuer's management team.

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

### Disclosure

Part II of the WA Form ADV, the WAML Form ADV and WAMC Form ADV, each, contain a description of Western Asset's proxy policies. Prior to August 1, 2003, Western Asset will deliver Part II of its revised Form ADV to all existing clients, along with a letter identifying the new disclosure. Clients will be provided a copy of these policies and procedures upon request. In addition, upon request, clients may receive reports on how their proxies have been voted.

### Conflicts of Interest

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

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1. Whether Western Asset (or, to the extent required to be considered by applicable law, its affiliates) manages assets for the company or an employee group of the company or otherwise has an interest in the company;
2. Whether Western Asset or an officer or director of Western Asset or the applicable portfolio manager or analyst responsible for recommending the proxy vote (together, "Voting Persons") is a close relative of or has a personal or business relationship with an executive, director or person who is a candidate for director of the company or is a participant in a proxy contest; and
3. Whether there is any other business or personal relationship where a Voting Person has a personal interest in the outcome of the matter before shareholders.

### **Voting Guidelines**

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

Guidelines are grouped according to the types of proposals generally presented to shareholders. Part I deals with proposals which have been approved and are recommended by a company's board of directors; Part II deals with proposals submitted by shareholders for inclusion in proxy statements; Part III addresses issues relating to voting shares of investment companies; and Part IV addresses unique considerations pertaining to foreign issuers.

#### **I. Board Approved Proposals**

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

##### **1. Matters relating to the Board of Directors**

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

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

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

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

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

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## 2. Matters relating to Executive Compensation

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

- a. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for stock option plans that will result in a minimal annual dilution.
- b. Western Asset votes against stock option plans or proposals that permit replacing or repricing of underwater options.
- c. Western Asset votes against stock option plans that permit issuance of options with an exercise price below the stock's current market price.
- d. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for employee stock purchase plans that limit the discount for shares purchased under the plan to no more than 15% of their market value, have an offering period of 27 months or less and result in dilution of 10% or less.

## 3. Matters relating to Capitalization

The management of a company's capital structure involves a number of important issues, including cash flows, financing needs and market conditions that are unique to the circumstances of each company. As a result, Western Asset votes on a case-by-case basis on board-approved proposals involving changes to a company's capitalization except where Western Asset is otherwise withholding votes for the entire board of directors.

- a. Western Asset votes for proposals relating to the authorization of additional common stock.
- b. Western Asset votes for proposals to effect stock splits (excluding reverse stock splits).
- c. Western Asset votes for proposals authorizing share repurchase programs.

## 4. Matters relating to Acquisitions, Mergers, Reorganizations and Other Transactions



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Western Asset votes these issues on a case-by-case basis on board-approved transactions.

### 5. Matters relating to Anti-Takeover Measures

Western Asset votes against board-approved proposals to adopt anti-takeover measures except as follows:

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

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

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## 6. Other Business Matters

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

- a. Western Asset votes on a case-by-case basis on proposals to amend a company's charter or bylaws.
- b. Western Asset votes against authorization to transact other unidentified, substantive business at the meeting.

## II. Shareholder Proposals

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

- 1. Western Asset votes for shareholder proposals to require shareholder approval of shareholder rights plans.
- 2. Western Asset votes for shareholder proposals that are consistent with Western Asset's proxy voting guidelines for board-approved proposals.
- 3. Western Asset votes on a case-by-case basis on other shareholder proposals where the firm is otherwise withholding votes for the entire board of directors.

## III. Voting Shares of Investment Companies

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

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

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

### IV. Voting Shares of Foreign Issuers

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

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

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

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

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

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

(a)(1):

NAME AND ADDRESS	LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
S. Kenneth Leech  Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2006	Co-portfolio manager of the fund; Chief Investment Officer of Western Asset from 1998 to 2008; Senior Advisor/Chief Investment Officer Emeritus of Western Asset.
Stephen A. Walsh  Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2006	Co-portfolio manager of the fund; Deputy Chief Investment Officer of Western Asset from 2000 to 2008; Chief Investment Officer of Western Asset since 2008.
Keith J. Gardner  Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2006	Co-portfolio manager of the fund; portfolio manager and research analyst at Western Asset since 1994.
Michael C. Buchanan	Since 2006	Co-portfolio manager of the fund; Managing Director and head of U.S. Credit

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Western Asset  
385 East Colorado Blvd.  
Pasadena, CA 91101

Products from 2003-2005 at Credit Suisse Asset Management

Ryan K. Brist

Since 2010

Co-portfolio manager of the fund; Head of U.S. Investment Grade Credit of Western Asset since 2009; Chief Investment Officer and Portfolio Manager at Logan Circle Partners, L.P. from 2007-2009; Co-Chief Investment Officer and Senior Portfolio Manager at Delaware Investment Advisors from 2000-2007

Western Asset  
385 East Colorado Blvd.  
Pasadena, CA 91101

Andres Sanchez Balcazar

Since 2010

Co-portfolio manager of the fund; portfolio manager and research analyst at Western Asset since 2005; Fund manager at Merrill Lynch Investment Managers, London from 2000 to 2004.

Western Asset  
385 East Colorado Blvd.  
Pasadena, CA 91101

### (a)(2): DATA TO BE PROVIDED BY FINANCIAL CONTROL

The following tables set forth certain additional information with respect to the fund's portfolio managers for the fund. Unless noted otherwise, all information is provided as of May 31, 2010.

#### Other Accounts Managed by Portfolio Managers

The table below identifies the number of accounts (other than the fund) for which the fund's portfolio managers have day-to-day management responsibilities and the total assets in such accounts, within each of the following categories: registered investment companies, other pooled investment vehicles, and other accounts. For each category, the number of accounts and total assets in the accounts where fees are based on performance is also indicated.

Portfolio Manager(s)	Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts
S. Kenneth Leech	106 registered investment companies with \$174.2	231 Other pooled investment vehicles	801 Other accounts with \$182.6 on in total

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	billion in total assets under management	with \$105.5 billion in assets under management*	assets under management**
Stephen A. Walsh	106 registered investment companies with \$174.2 billion in total assets under management	231 Other pooled investment vehicles with \$105.5 billion in assets under management*	801 Other accounts with \$182.6 billion in total assets under management**
Keith J. Gardner	44 registered investment companies with \$26.9 billion in total assets under management	6 Other pooled investment vehicles with \$0.6 billion in assets under management	3 Other accounts with \$0.4 billion in total assets under management
Michael C. Buchanan	52 registered investment Companies with \$30.0 billion in total assets Under management	6 Other pooled investment vehicles with \$3.0 billion in assets under management	11 Other accounts with \$1.6 billion in total assets under management
Ryan K. Brist	5 registered investment Companies with \$1.0 billion in total assets Under management	4 Other pooled investment vehicles with \$3.7 billion in assets under management***	18 Other accounts with \$4.4 billion in total assets under management****
Andres Sanchez Balcazar	6 registered investment companies with \$1.2 billion in total assets under management	17 Other pooled investment vehicles with \$1.0 billion in assets under management	15 Other accounts with \$4.4 billion in total assets under management+

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- \* Includes 6 accounts managed, totaling \$1.1 billion, for which advisory fee is performance based.  
 \*\* Includes 88 accounts managed, totaling \$24.7 billion, for which advisory fee is performance based.  
 \*\*\* Includes 1 account managed, totaling \$0.1 billion, for which advisory fee is performance based.  
 \*\*\*\* Includes 2 accounts managed, totaling \$0.2 billion, for which advisory fee is performance based.  
 + Includes 4 accounts managed, totaling \$1.6 billion, for which advisory fee is performance based.

*The numbers above reflect the overall number of portfolios managed by employees of Western Asset Management Company ( Western Asset ). Mr. Leech and Mr. Walsh are involved in the management of all the Firm 's portfolios, but they are not solely responsible for particular portfolios. Western Asset 's investment discipline emphasizes a team approach that combines the efforts of groups of specialists working in different market sectors. They are responsible for overseeing implementation of Western Asset 's overall investment ideas and coordinating the work of the various sector teams. This structure ensures that client portfolios benefit from a consensus that draws on the expertise of all team members.*

### (a)(3): Portfolio Manager Compensation

With respect to the compensation of the portfolio managers, Western Asset 's compensation system assigns each employee a total compensation range, which is derived from annual market surveys that benchmark each role with its job function and peer universe. This method is designed to reward employees with total compensation reflective of the external market value of their skills, experience, and ability to

produce desired results. Standard compensation includes competitive base salaries, generous employee benefits, and a retirement plan.

In addition, the subadviser's employees are eligible for bonuses. These are structured to closely align the interests of employees with those of the subadviser, and are determined by the professional's job function and pre-tax performance as measured by a formal review process. All bonuses are completely discretionary. The principal factor considered is a portfolio manager's investment performance versus appropriate peer groups and benchmarks (*e.g.*, a securities index and with respect to a fund, the benchmark set forth in the fund's Prospectus to which the fund's average annual total returns are compared or, if none, the benchmark set forth in the fund's annual report). Performance is reviewed on a 1, 3 and 5 year basis for compensation with 3 years having the most emphasis. The subadviser may also measure a portfolio manager's pre-tax investment performance against other benchmarks, as it determines appropriate. Because portfolio managers are generally responsible for multiple accounts (including the funds) with similar investment strategies, they are generally compensated on the performance of the aggregate group of similar accounts, rather than a specific account. Other factors that may be considered when making bonus decisions include client service, business development, length of service to the subadviser, management or supervisory responsibilities, contributions to developing business strategy and overall contributions to the subadviser's business.

Finally, in order to attract and retain top talent, all professionals are eligible for additional incentives in recognition of outstanding performance. These are determined based upon the factors described above and include Legg Mason stock options and long-term incentives that vest over a set period of time past the award date.

## Potential Conflicts of Interest

### *Conflicts of Interest*

The manager, subadvisers and portfolio managers have interests which conflict with the interests of the fund. There is no guarantee that the policies and procedures adopted by the manager, the subadvisers and the fund will be able to identify or mitigate these conflicts of interest.

Some examples of material conflicts of interest include:

*Allocation of Limited Time and Attention.* A portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. A portfolio manager may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those funds and accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. Such a portfolio manager may make general determinations across multiple funds, rather than tailoring a unique approach for each fund. The effects of this conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies.

*Allocation of Limited Investment Opportunities; Aggregation of Orders.* If a portfolio manager identifies a limited investment opportunity that may be suitable for multiple funds and/or accounts, the opportunity may be allocated among these several funds or accounts, which may limit the fund's ability to take full advantage of the investment opportunity. Additionally, a subadviser may aggregate transaction orders for multiple accounts for purpose of execution. Such aggregation may cause the price or brokerage costs to be less favorable to a particular client than if similar transactions were not being executed concurrently for other accounts. In addition, a subadviser's trade allocation policies may result in the

fund's orders not being fully executed or being delayed in execution.

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*Pursuit of Differing Strategies.* At times, a portfolio manager may determine that an investment opportunity may be appropriate for only some of the funds and/or accounts for which he or she exercises investment responsibility, or may decide that certain of the funds and/or accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and/or accounts. For example, a portfolio manager may determine that it would be in the interest of another account to sell a security that the fund holds long, potentially resulting in a decrease in the market value of the security held by the fund.

*Cross Trades.* Portfolio managers may manage funds that engage in cross trades, where one of the manager's funds or accounts sells a particular security to another fund or account managed by the same manager. Cross trades may pose conflicts of interest because of, for example, the possibility that one account sells a security to another account at a higher price than an independent third party would pay or otherwise enters into a transaction that it would not enter into with an independent party, such as the sale of a difficult-to-obtain security.

*Selection of Broker/Dealers.* Portfolio managers may select or influence the selection of the brokers and dealers that are used to execute securities transactions for the funds and/or accounts that they supervise. In addition to executing trades, some brokers and dealers provide subadvisers with brokerage and research services. These services may be taken into account in the selection of brokers and dealers whether a broker is being selected to effect a trade on an agency basis for a commission or (as is normally the case for the funds) whether a dealer is being selected to effect a trade on a principal basis. This may result in the payment of higher brokerage fees and/or execution at a less favorable price than might have otherwise been available. The services obtained may ultimately be more beneficial to certain of the manager's funds or accounts than to others (but not necessarily to the funds that pay the increased commission or incur the less favorable execution). A decision as to the selection of brokers and dealers could therefore yield disproportionate costs and benefits among the funds and/or accounts managed.

*Variation in Financial and Other Benefits.* A conflict of interest arises where the financial or other benefits available to a portfolio manager differ among the funds and/or accounts that he or she manages. If the amount or structure of the investment manager's management fee and/or a portfolio manager's compensation differs among funds and/or accounts (such as where certain funds or accounts pay higher management fees or performance-based management fees), the portfolio manager might be motivated to help certain funds and/or accounts over others. Similarly, the desire to maintain assets under management or to enhance the portfolio manager's performance record or to derive other rewards, financial or otherwise, could influence the portfolio manager in affording preferential treatment to those funds and/or accounts that could most significantly benefit the portfolio manager. A portfolio manager may, for example, have an incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor such funds and/or accounts. Also, a portfolio manager's or the manager's or a subadviser's desire to increase assets under management could influence the portfolio manager to keep a fund open for new investors without regard to potential benefits of closing the fund to new investors. Additionally, the portfolio manager might be motivated to favor funds and/or accounts in which he or she has an ownership interest or in which the investment manager and/or its affiliates have ownership interests. Conversely, if a portfolio manager does not personally hold an investment in the fund, the portfolio manager's conflicts of interest with respect to the fund may be more acute.

*Related Business Opportunities.* The investment manager or its affiliates may provide more services (such as distribution or recordkeeping) for some types of funds or accounts than for others. In such cases, a portfolio manager may benefit, either directly or indirectly, by devoting disproportionate attention to the management of funds and/or accounts that provide greater overall returns to the investment manager and its affiliates.

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**(a)(4): Portfolio Manager Securities Ownership**

The table below identifies the dollar range of securities beneficially owned by each portfolio managers as of May 31, 2010.

<b>Portfolio Manager(s)</b>	<b>Dollar Range of Portfolio Securities Beneficially Owned</b>
S. Kenneth Leech	C
Stephen A. Walsh	E
Keith J. Gardner	A
Michael C. Buchanan	D
Ryan K. Brist	A
Andres Sanchez Balcazar	A

Dollar Range ownership is as follows:

- A: none
- B: \$1 - \$10,000
- C: 10,001 - \$50,000
- D: \$50,001 - \$100,000
- E: \$100,001 - \$500,000
- F: \$500,001 - \$1 million
- G: over \$1 million

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

None.

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

Not applicable.

**ITEM 11. CONTROLS AND PROCEDURES.**

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

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

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materially affect the registrant's internal control over financial reporting.

ITEM 12. EXHIBITS.

(a) (1) Code of Ethics attached hereto.

Exhibit 99.CODE ETH

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

Exhibit 99.CERT

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

Exhibit 99.906CERT

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SIGNATURES

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

**Western Asset Global High Income Fund Inc.**

By: **/s/ R. Jay Gerken**  
**(R. Jay Gerken)**  
Chief Executive Officer of  
**Western Asset Global High Income Fund Inc.**

Date: August 4, 2010

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

By: **/s/ R. Jay Gerken**  
**(R. Jay Gerken)**  
Chief Executive Officer of  
**Western Asset Global High Income Fund Inc.**

Date: August 4, 2010

By: **/s/ Kaprel Ozsolak**  
**(Kaprel Ozsolak)**  
Chief Financial Officer of  
**Western Asset Global High Income Fund Inc.**

Date: August 4, 2010

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