

Western Asset Income Fund  
Form N-Q  
November 26, 2012

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-02351

Western Asset Income Fund  
(Exact name of registrant as specified in charter)

620 Eighth Avenue, 49th Floor, New York, NY  
(Address of principal executive offices)

10018  
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

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

Registrant's telephone number, including area code: 1-888-777-0102

Date of fiscal year end: December 31

Date of reporting period: September 30, 2012

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ITEM 1.

SCHEDULE OF INVESTMENTS.

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**WESTERN ASSET INCOME FUND**

**FORM N-Q**

**SEPTEMBER 30, 2012**

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WESTERN ASSET INCOME FUND

Schedule of investments (unaudited)

September 30, 2012

| SECURITY  | RATE    | MATURITY DATE | FACE AMOUNT  | VALUE            |
|---|---------|---------------|--------------|------------------|
| CORPORATE BONDS & NOTES                               | 92.0%   |               |              |                  |
| CONSUMER DISCRETIONARY                                | 8.9%    |               |              |                  |
| <b>Automobiles 1.2%</b>                               |         |               |              |                  |
| Escrow GCB General Motors                             |         |               | \$ 2,710,000 | \$ 0*(a)(b)(c)   |
| Ford Motor Credit Co., LLC, Senior Notes              | 7.000%  | 4/15/15       | 610,000      | 683,200          |
| Ford Motor Credit Co., LLC, Senior Notes              | 8.125%  | 1/15/20       | 410,000      | 515,111          |
| Ford Motor Credit Co., LLC, Senior Notes              | 4.250%  | 9/20/22       | 220,000      | 225,447          |
| Hyundai Capital America, Senior Notes                 | 1.625%  | 10/2/15       | 290,000      | 290,144(d)       |
| <i>Total Automobiles</i>                              |         |               |              | <i>1,713,902</i> |
| <b>Hotels, Restaurants &amp; Leisure 0.2%</b>         |         |               |              |                  |
| NCL Corp. Ltd., Senior Secured Notes                  | 11.750% | 11/15/16      | 180,000      | 207,450          |
| <b>Household Durables 0.3%</b>                        |         |               |              |                  |
| Leggett & Platt Inc., Senior Notes                    | 3.400%  | 8/15/22       | 330,000      | 342,720          |
| NVR Inc., Senior Notes                                | 3.950%  | 9/15/22       | 50,000       | 51,270           |
| <i>Total Household Durables</i>                       |         |               |              | <i>393,990</i>   |
| <b>Media 5.7%</b>                                     |         |               |              |                  |
| Comcast Corp., Bonds                                  | 6.400%  | 5/15/38       | 950,000      | 1,216,591        |
| Comcast Corp., Notes                                  | 6.450%  | 3/15/37       | 220,000      | 283,366          |
| Comcast Corp., Senior Notes                           | 6.950%  | 8/15/37       | 160,000      | 217,818          |
| Comcast Corp., Senior Notes                           | 4.650%  | 7/15/42       | 200,000      | 213,922          |
| NBCUniversal Media LLC, Senior Notes                  | 4.450%  | 1/15/43       | 710,000      | 707,579          |
| News America Inc., Senior Notes                       | 6.550%  | 3/15/33       | 545,000      | 639,537          |
| News America Inc., Senior Notes                       | 7.750%  | 12/1/45       | 130,000      | 174,220          |
| Nielsen Finance LLC/Nielsen Finance Co., Senior Notes | 11.500% | 5/1/16        | 100,000      | 111,750          |
| TCI Communications Inc.                               | 8.750%  | 8/1/15        | 160,000      | 193,443          |
| Time Warner Cable Inc., Senior Notes                  | 8.750%  | 2/14/19       | 520,000      | 708,001          |
| Time Warner Entertainment Co., LP, Senior Notes       | 8.375%  | 7/15/33       | 530,000      | 770,520          |
| Time Warner Inc., Senior Debentures                   | 7.700%  | 5/1/32        | 595,000      | 835,587          |
| Time Warner Inc., Senior Notes                        | 4.900%  | 6/15/42       | 150,000      | 164,577          |
| United Business Media Ltd., Notes                     | 5.750%  | 11/3/20       | 640,000      | 669,963(d)       |
| WPP Finance 2010, Senior Notes                        | 4.750%  | 11/21/21      | 840,000      | 920,275          |
| WPP Finance UK, Senior Notes                          | 8.000%  | 9/15/14       | 180,000      | 202,065          |
| <i>Total Media</i>                                    |         |               |              | <i>8,029,214</i> |
| <b>Multiline Retail 0.5%</b>                          |         |               |              |                  |
| Macy's Retail Holdings Inc., Notes                    | 5.750%  | 7/15/14       | 400,000      | 433,568          |
| Target Corp., Senior Notes                            | 4.000%  | 7/1/42        | 270,000      | 276,348          |
| <i>Total Multiline Retail</i>                         |         |               |              | <i>709,916</i>   |
| <b>Specialty Retail 1.0%</b>                          |         |               |              |                  |
| American Greetings Corp., Senior Notes                | 7.375%  | 12/1/21       | 160,000      | 164,800          |
| Gap Inc., Senior Notes                                | 5.950%  | 4/12/21       | 730,000      | 813,161          |
| QVC Inc., Senior Secured Notes                        | 5.125%  | 7/2/22        | 440,000      | 465,966(d)       |
| <i>Total Specialty Retail</i>                         |         |               |              | <i>1,443,927</i> |
| TOTAL CONSUMER DISCRETIONARY                          |         |               |              | 12,498,399       |

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CONSUMER STAPLES 3.7%

**Beverages 1.4%**

|   |        |         |         |                  |
|---|--------|---------|---------|------------------|
| Anheuser-Busch InBev Worldwide Inc., Senior Notes | 5.375% | 1/15/20 | 260,000 | 322,835          |
| Anheuser-Busch InBev Worldwide Inc., Senior Notes | 2.500% | 7/15/22 | 170,000 | 172,408          |
| Anheuser-Busch InBev Worldwide Inc., Senior Notes | 3.750% | 7/15/42 | 120,000 | 120,295          |
| Pernod-Ricard SA, Senior Bonds                    | 5.750% | 4/7/21  | 530,000 | 630,562(d)       |
| Pernod-Ricard SA, Senior Notes                    | 5.500% | 1/15/42 | 670,000 | 764,538(d)       |
| <i>Total Beverages</i>                            |        |         |         | <i>2,010,638</i> |
| <b>Food Products 0.5%</b>                         |        |         |         |                  |
| Kraft Foods Group Inc., Senior Notes              | 5.375% | 2/10/20 | 78,000  | 92,703(d)        |
| Kraft Foods Group Inc., Senior Notes              | 3.500% | 6/6/22  | 320,000 | 338,109(d)       |

*See Notes to Schedule of Investments.*

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WESTERN ASSET INCOME FUND

Schedule of investments (unaudited) (cont d)

September 30, 2012

| SECURITY  | RATE   | MATURITY<br>DATE | FACE<br>AMOUNT | VALUE         |
|---|--------|------------------|----------------|---------------|
| <b>Food Products continued</b>                  |        |                  |                |               |
| Kraft Foods Group Inc., Senior Notes            | 5.000% | 6/4/42           | \$ 200,000     | \$ 223,116(d) |
| Kraft Foods Inc., Senior Notes                  | 5.375% | 2/10/20          | 72,000         | 86,858        |
| <i>Total Food Products</i>                      |        |                  |                | 740,786       |
| <b>Tobacco 1.8%</b>                             |        |                  |                |               |
| Altria Group Inc., Senior Notes                 | 9.700% | 11/10/18         | 160,000        | 229,168       |
| Altria Group Inc., Senior Notes                 | 9.250% | 8/6/19           | 40,000         | 56,796        |
| Altria Group Inc., Senior Notes                 | 4.750% | 5/5/21           | 70,000         | 80,085        |
| Altria Group Inc., Senior Notes                 | 2.850% | 8/9/22           | 210,000        | 209,512       |
| Lorillard Tobacco Co., Senior Notes             | 8.125% | 6/23/19          | 300,000        | 386,878       |
| Lorillard Tobacco Co., Senior Notes             | 8.125% | 5/1/40           | 270,000        | 355,116       |
| Lorillard Tobacco Co., Senior Notes             | 7.000% | 8/4/41           | 320,000        | 385,481       |
| Philip Morris International Inc., Senior Notes  | 6.875% | 3/17/14          | 490,000        | 535,320       |
| Philip Morris International Inc., Senior Notes  | 4.500% | 3/20/42          | 260,000        | 286,403       |
| <i>Total Tobacco</i>                            |        |                  |                | 2,524,759     |
| <b>TOTAL CONSUMER STAPLES</b>                   |        |                  |                | 5,276,183     |
| <b>ENERGY 15.5%</b>                             |        |                  |                |               |
| <b>Energy Equipment &amp; Services 0.8%</b>     |        |                  |                |               |
| Baker Hughes Inc., Senior Notes                 | 7.500% | 11/15/18         | 370,000        | 498,453       |
| Baker Hughes Inc., Senior Notes                 | 5.125% | 9/15/40          | 240,000        | 294,173       |
| Schlumberger Investment SA, Senior Notes        | 2.400% | 8/1/22           | 260,000        | 257,361(d)    |
| <i>Total Energy Equipment &amp; Services</i>    |        |                  |                | 1,049,987     |
| <b>Oil, Gas &amp; Consumable Fuels 14.7%</b>    |        |                  |                |               |
| Anadarko Finance Co., Senior Notes              | 7.500% | 5/1/31           | 465,000        | 622,612       |
| Anadarko Petroleum Corp., Senior Notes          | 6.375% | 9/15/17          | 35,000         | 42,197        |
| Apache Corp.                                    | 6.900% | 9/15/18          | 100,000        | 128,705       |
| Apache Corp., Senior Notes                      | 6.000% | 1/15/37          | 190,000        | 252,753       |
| Apache Corp., Senior Notes                      | 5.100% | 9/1/40           | 80,000         | 95,991        |
| Apache Corp., Senior Notes                      | 5.250% | 2/1/42           | 90,000         | 110,461       |
| Arch Coal Inc., Senior Notes                    | 7.000% | 6/15/19          | 260,000        | 218,400       |
| ConocoPhillips, Notes                           | 6.500% | 2/1/39           | 810,000        | 1,165,603     |
| ConocoPhillips, Senior Notes                    | 6.000% | 1/15/20          | 310,000        | 397,591       |
| Devon Energy Corp., Senior Notes                | 5.600% | 7/15/41          | 320,000        | 379,667       |
| Devon Financing Corp. ULC, Debentures           | 7.875% | 9/30/31          | 380,000        | 552,189       |
| Duke Capital LLC, Senior Notes                  | 6.250% | 2/15/13          | 800,000        | 816,155       |
| El Paso Corp., Medium-Term Notes                | 7.800% | 8/1/31           | 2,000,000      | 2,323,910     |
| Enbridge Energy Partners LP                     | 9.875% | 3/1/19           | 120,000        | 163,445       |
| Energy Transfer Partners LP, Senior Notes       | 9.700% | 3/15/19          | 170,000        | 224,639       |
| Enterprise Products Operating LLC, Senior Notes | 6.125% | 10/15/39         | 320,000        | 384,593       |
| EOG Resources Inc., Senior Notes                | 5.875% | 9/15/17          | 540,000        | 657,715       |
| Hess Corp., Notes                               | 7.875% | 10/1/29          | 1,180,000      | 1,632,932     |
| Hess Corp., Senior Bonds                        | 6.000% | 1/15/40          | 300,000        | 364,025       |
| Kerr-McGee Corp., Notes                         | 6.950% | 7/1/24           | 1,080,000      | 1,394,203     |
| LUKOIL International Finance BV, Bonds          | 6.356% | 6/7/17           | 310,000        | 354,150(d)    |
| Noble Energy Inc., Senior Notes                 | 6.000% | 3/1/41           | 390,000        | 472,111       |

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|  |        |          |           |                   |
|--|--------|----------|-----------|-------------------|
| Occidental Petroleum Corp., Senior Notes             | 2.700% | 2/15/23  | 340,000   | 349,503           |
| Pemex Project Funding Master Trust, Senior Bonds     | 6.625% | 6/15/35  | 2,635,000 | 3,306,925         |
| Petrobras International Finance Co., Global Notes    | 5.875% | 3/1/18   | 879,000   | 1,001,411         |
| Petrobras International Finance Co., Senior Notes    | 6.750% | 1/27/41  | 780,000   | 968,092           |
| Phillips 66, Senior Notes                            | 5.875% | 5/1/42   | 160,000   | 189,981(d)        |
| Shell International Finance BV, Senior Notes         | 6.375% | 12/15/38 | 250,000   | 360,050           |
| Transcontinental Gas Pipe Line Co. LLC, Senior Notes | 5.400% | 8/15/41  | 310,000   | 371,521           |
| Transcontinental Gas Pipe Line Co. LLC, Senior Notes | 4.450% | 8/1/42   | 450,000   | 460,024(d)        |
| Williams Cos. Inc., Debentures                       | 7.500% | 1/15/31  | 47,000    | 58,905            |
| Williams Cos. Inc., Senior Notes                     | 7.750% | 6/15/31  | 37,000    | 47,327            |
| Williams Cos. Inc., Senior Notes                     | 8.750% | 3/15/32  | 610,000   | 846,232           |
| <i>Total Oil, Gas &amp; Consumable Fuels</i>         |        |          |           | <i>20,714,018</i> |
| <b>TOTAL ENERGY</b>                                  |        |          |           | <b>21,764,005</b> |

*See Notes to Schedule of Investments.*

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WESTERN ASSET INCOME FUND

Schedule of investments (unaudited) (cont d)

September 30, 2012

| SECURITY   | RATE    | MATURITY DATE | FACE AMOUNT | VALUE            |
|--|---------|---------------|-------------|------------------|
| <b>FINANCIALS 34.4%</b>  |         |               |             |                  |
| <b>Capital Markets 6.2%</b>                                      |         |               |             |                  |
| GFI Group Inc., Senior Notes                                     | 8.625%  | 7/19/18       | \$ 180,000  | \$ 157,950       |
| Goldman Sachs Capital I, Capital Securities                      | 6.345%  | 2/15/34       | 555,000     | 557,617          |
| Goldman Sachs Capital II, Junior Subordinated Bonds              | 5.793%  | 6/1/43        | 880,000     | 662,781(e)       |
| Goldman Sachs Group Inc., Senior Notes                           | 6.000%  | 5/1/14        | 40,000      | 42,939           |
| Goldman Sachs Group Inc., Senior Notes                           | 5.375%  | 3/15/20       | 270,000     | 301,311          |
| Goldman Sachs Group Inc., Senior Notes                           | 5.250%  | 7/27/21       | 510,000     | 562,242          |
| Goldman Sachs Group Inc., Senior Notes                           | 6.250%  | 2/1/41        | 570,000     | 659,472          |
| Goldman Sachs Group Inc., Subordinated Notes                     | 6.750%  | 10/1/37       | 640,000     | 685,620          |
| Merrill Lynch & Co. Inc., Senior Notes                           | 6.400%  | 8/28/17       | 300,000     | 349,009          |
| Merrill Lynch & Co. Inc., Subordinated Notes                     | 5.700%  | 5/2/17        | 1,000,000   | 1,094,016        |
| Merrill Lynch & Co. Inc., Subordinated Notes                     | 6.110%  | 1/29/37       | 320,000     | 339,478          |
| Morgan Stanley, Medium-Term Notes                                | 6.625%  | 4/1/18        | 100,000     | 114,894          |
| Morgan Stanley, Senior Notes                                     | 6.000%  | 5/13/14       | 860,000     | 911,568          |
| Morgan Stanley, Senior Notes                                     | 5.500%  | 7/24/20       | 100,000     | 107,971          |
| Morgan Stanley, Senior Notes                                     | 6.375%  | 7/24/42       | 90,000      | 99,123           |
| State Street Corp., Junior Subordinated Notes                    | 4.956%  | 3/15/18       | 480,000     | 530,518          |
| UBS AG Stamford CT, Subordinated Notes                           | 7.625%  | 8/17/22       | 1,180,000   | 1,233,761        |
| Vesey Street Investment Trust I, Senior Notes                    | 4.404%  | 9/1/16        | 310,000     | 331,713          |
| <i>Total Capital Markets</i>                                     |         |               |             | 8,741,983        |
| <b>Commercial Banks 8.6%</b>                                     |         |               |             |                  |
| BankAmerica Institutional Capital B, Junior Subordinated Bonds   | 7.700%  | 12/31/26      | 480,000     | 487,200(d)       |
| Barclays Bank PLC, Subordinated Notes                            | 10.179% | 6/12/21       | 240,000     | 311,791(d)       |
| BBVA US Senior SAU, Senior Notes                                 | 3.250%  | 5/16/14       | 340,000     | 337,389          |
| BNP Paribas SA, Senior Notes                                     | 2.375%  | 9/14/17       | 240,000     | 241,037          |
| CIT Group Inc., Secured Notes                                    | 5.250%  | 4/1/14        | 370,000     | 385,725(d)       |
| Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, Senior Notes | 5.250%  | 5/24/41       | 570,000     | 662,200          |
| Credit Agricole SA, Subordinated Notes                           | 8.375%  | 10/13/19      | 560,000     | 544,600(d)(e)(f) |
| HSBC Finance Capital Trust IX, Junior Subordinated Notes         | 5.911%  | 11/30/35      | 1,350,000   | 1,328,063(e)     |
| ING Bank NV, Notes   | 2.000%  | 9/25/15       | 420,000     | 420,628(d)       |
| Intesa Sanpaolo SpA, Senior Notes                                | 3.625%  | 8/12/15       | 1,240,000   | 1,215,200(d)     |
| Mizuho Financial Group Cayman Ltd.                               | 5.790%  | 4/15/14       | 550,000     | 582,694(d)       |
| Nordea Bank AB, Subordinated Notes                               | 4.875%  | 5/13/21       | 510,000     | 535,622(d)       |
| Oversea-Chinese Banking Corp. Ltd., Subordinated Notes           | 3.150%  | 3/11/23       | 390,000     | 391,702(d)(e)    |
| Rabobank Nederland NV, Junior Subordinated Notes                 | 11.000% | 6/30/19       | 708,000     | 930,135(d)(e)(f) |
| Royal Bank of Scotland Group PLC, Junior Subordinated Bonds      | 7.648%  | 9/30/31       | 1,140,000   | 1,105,800(e)(f)  |



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|   |        |          |           |                   |
|---|--------|----------|-----------|-------------------|
| Royal Bank of Scotland Group PLC, Senior Notes        | 2.550% | 9/18/15  | 250,000   | 253,008           |
| Royal Bank of Scotland Group PLC, Subordinated Notes  | 5.000% | 10/1/14  | 580,000   | 597,296           |
| Royal Bank of Scotland Group PLC, Subordinated Notes  | 5.050% | 1/8/15   | 170,000   | 176,354           |
| Wachovia Capital Trust III, Junior Subordinated Bonds | 5.570% | 11/15/12 | 1,120,000 | 1,107,400(e)(f)   |
| Wells Fargo Capital X, Capital Securities             | 5.950% | 12/1/36  | 450,000   | 456,750           |
| <i>Total Commercial Banks</i>                         |        |          |           | <i>12,070,594</i> |
| <b>Consumer Finance 3.9%</b>                          |        |          |           |                   |
| Ally Financial Inc., Senior Notes                     | 7.500% | 12/31/13 | 1,551,000 | 1,636,305         |
| Ally Financial Inc., Subordinated Notes               | 8.000% | 12/31/18 | 201,000   | 226,125           |
| American Express Co., Senior Notes                    | 8.125% | 5/20/19  | 220,000   | 297,624           |
| American Express Co., Subordinated Debentures         | 6.800% | 9/1/66   | 370,000   | 395,900(e)        |
| Capital One Financial Corp., Senior Notes             | 6.750% | 9/15/17  | 230,000   | 281,704           |
| HSBC Finance Corp., Senior Notes                      | 6.676% | 1/15/21  | 1,300,000 | 1,507,633         |
| SLM Corp., Senior Notes                               | 3.875% | 9/10/15  | 240,000   | 247,330           |

*See Notes to Schedule of Investments.*

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WESTERN ASSET INCOME FUND

Schedule of investments (unaudited) (cont d)

September 30, 2012

| SECURITY  | RATE   | MATURITY DATE | FACE AMOUNT | VALUE           |
|---|--------|---------------|-------------|-----------------|
| <b>Consumer Finance continued</b>                         |        |               |             |                 |
| SLM Corp., Senior Notes                                   | 7.250% | 1/25/22       | \$ 830,000  | \$ 929,600      |
| <i>Total Consumer Finance</i>                             |        |               |             | 5,522,221       |
| <b>Diversified Financial Services 10.2%</b>               |        |               |             |                 |
| Bank of America Corp., Senior Notes                       | 6.500% | 8/1/16        | 70,000      | 80,956          |
| Bank of America Corp., Senior Notes                       | 7.625% | 6/1/19        | 70,000      | 87,411          |
| Bank of America Corp., Senior Notes                       | 5.625% | 7/1/20        | 30,000      | 34,209          |
| Bank of America Corp., Senior Notes                       | 5.875% | 2/7/42        | 530,000     | 619,522         |
| Beaver Valley Funding Corp., Senior Secured Bonds         | 9.000% | 6/1/17        | 98,000      | 100,677         |
| Capital One Capital VI                                    | 8.875% | 5/15/40       | 190,000     | 193,185         |
| Citigroup Inc., Senior Notes                              | 6.375% | 8/12/14       | 620,000     | 674,695         |
| Citigroup Inc., Senior Notes                              | 5.500% | 10/15/14      | 270,000     | 291,152         |
| Citigroup Inc., Senior Notes                              | 6.010% | 1/15/15       | 210,000     | 230,144         |
| Citigroup Inc., Senior Notes                              | 8.500% | 5/22/19       | 1,280,000   | 1,692,808       |
| Citigroup Inc., Senior Notes                              | 8.125% | 7/15/39       | 450,000     | 668,177         |
| Citigroup Inc., Senior Notes                              | 5.875% | 1/30/42       | 240,000     | 289,151         |
| Citigroup Inc., Subordinated Notes                        | 6.125% | 8/25/36       | 550,000     | 597,219         |
| General Electric Capital Corp., Junior Subordinated Bonds | 6.250% | 12/15/22      | 600,000     | 633,318(e)(f)   |
| General Electric Capital Corp., Notes                     | 5.300% | 2/11/21       | 530,000     | 608,210         |
| General Electric Capital Corp., Senior Notes              | 5.900% | 5/13/14       | 600,000     | 648,982         |
| General Electric Capital Corp., Senior Notes              | 6.875% | 1/10/39       | 280,000     | 374,109         |
| General Electric Capital Corp., Subordinated Debentures   | 6.375% | 11/15/67      | 700,000     | 738,640(e)      |
| ILFC E-Capital Trust I                                    | 4.280% | 12/21/65      | 220,000     | 149,600(d)(e)   |
| ILFC E-Capital Trust II, Bonds                            | 6.250% | 12/21/65      | 790,000     | 624,100(d)(e)   |
| International Lease Finance Corp., Senior Notes           | 8.750% | 3/15/17       | 190,000     | 222,300         |
| International Lease Finance Corp., Senior Notes           | 8.875% | 9/1/17        | 470,000     | 554,600         |
| International Lease Finance Corp., Senior Notes           | 6.250% | 5/15/19       | 130,000     | 139,750         |
| International Lease Finance Corp., Senior Notes           | 8.250% | 12/15/20      | 190,000     | 226,100         |
| International Lease Finance Corp., Senior Notes           | 5.875% | 8/15/22       | 370,000     | 382,228         |
| International Lease Finance Corp., Senior Secured Notes   | 7.125% | 9/1/18        | 600,000     | 699,000(d)      |
| JPMorgan Chase & Co., Subordinated Notes                  | 6.125% | 6/27/17       | 720,000     | 847,694         |
| UFJ Finance Aruba AEC                                     | 6.750% | 7/15/13       | 355,000     | 371,451         |
| ZFS Finance USA Trust II, Bonds                           | 6.450% | 12/15/65      | 1,440,000   | 1,526,400(d)(e) |

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|   |        |          |           |                 |
|---|--------|----------|-----------|-----------------|
| <i>Total Diversified Financial Services</i>   |        |          |           | 14,305,788      |
| <b>Insurance 4.7%</b>   |        |          |           |                 |
| Allstate Corp., Junior Subordinated<br>Debentures   | 6.500% | 5/15/57  | 480,000   | 506,400(e)      |
| American International Group Inc.,<br>Junior Subordinated Debentures                              | 6.250% | 3/15/37  | 80,000    | 80,800          |
| American International Group Inc.,<br>Senior Notes  | 6.400% | 12/15/20 | 90,000    | 109,628         |
| AXA SA, Subordinated Bonds  | 8.600% | 12/15/30 | 200,000   | 241,831         |
| Delphi Financial Group Inc., Senior<br>Notes  | 7.875% | 1/31/20  | 170,000   | 204,779         |
| ING Capital Funding Trust III, Junior<br>Subordinated Bonds                                       | 4.061% | 12/31/12 | 1,470,000 | 1,351,987(e)(f) |
| ING US Inc., Senior Notes   | 5.500% | 7/15/22  | 600,000   | 625,910(d)      |
| MetLife Inc., Junior Subordinated<br>Debentures   | 6.400% | 12/15/36 | 1,210,000 | 1,269,388       |
| MetLife Inc., Senior Notes  | 4.125% | 8/13/42  | 420,000   | 413,525         |
| Prudential Financial Inc., Junior<br>Subordinated Debentures                                      | 8.875% | 6/15/38  | 340,000   | 419,900(e)      |
| Prudential Holdings LLC, Bonds,<br>AGM-Insured  | 7.245% | 12/18/23 | 260,000   | 323,752(d)      |
| Teachers Insurance & Annuity<br>Association of America - College<br>Retirement Equity Fund, Notes | 6.850% | 12/16/39 | 400,000   | 549,273(d)      |
| Torchmark Corp., Senior Notes   | 3.800% | 9/15/22  | 210,000   | 214,776         |
| Willis North America Inc., Senior Notes   | 5.625% | 7/15/15  | 230,000   | 249,148         |
| <i>Total Insurance</i>  |        |          |           | 6,561,097       |
| <b>Real Estate Investment Trusts (REITs) 0.1%</b>   |        |          |           |                 |
| Health Care REIT Inc., Senior Notes   | 5.875% | 5/15/15  | 130,000   | 144,226         |
| <b>Thriffs &amp; Mortgage Finance 0.7%</b>  |        |          |           |                 |
| Santander Holdings USA Inc., Senior<br>Notes  | 3.000% | 9/24/15  | 830,000   | 839,727         |

*See Notes to Schedule of Investments.*

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WESTERN ASSET INCOME FUND

Schedule of investments (unaudited) (cont d)

September 30, 2012

| SECURITY   | RATE    | MATURITY DATE | FACE AMOUNT | VALUE      |
|--|---------|---------------|-------------|------------|
| <b>Thriffs &amp; Mortgage Finance continued</b>      |         |               |             |            |
| Santander Holdings USA Inc., Senior Notes            | 4.625%  | 4/19/16       | \$ 160,000  | \$ 167,619 |
| <i>Total Thriffs &amp; Mortgage Finance</i>          |         |               |             | 1,007,346  |
| <b>TOTAL FINANCIALS</b>                              |         |               |             |            |
|  |         |               |             | 48,353,255 |
| <b>HEALTH CARE 4.1%</b>                              |         |               |             |            |
| <b>Biotechnology 0.8%</b>                            |         |               |             |            |
| Amgen Inc., Senior Notes                             | 5.150%  | 11/15/41      | 580,000     | 646,284    |
| Gilead Sciences Inc., Senior Notes                   | 4.400%  | 12/1/21       | 220,000     | 250,061    |
| Gilead Sciences Inc., Senior Notes                   | 5.650%  | 12/1/41       | 240,000     | 300,192    |
| <i>Total Biotechnology</i>                           |         |               |             | 1,196,537  |
| <b>Health Care Equipment &amp; Supplies 0.2%</b>     |         |               |             |            |
| Hospira Inc., Senior Notes                           | 6.050%  | 3/30/17       | 210,000     | 242,821    |
| <b>Health Care Providers &amp; Services 2.8%</b>     |         |               |             |            |
| Aetna Inc., Senior Notes                             | 6.500%  | 9/15/18       | 240,000     | 299,198    |
| HCA Inc., Senior Notes                               | 6.250%  | 2/15/13       | 930,000     | 942,787    |
| HCA Inc., Senior Notes                               | 5.750%  | 3/15/14       | 65,000      | 68,250     |
| Humana Inc.  | 8.150%  | 6/15/38       | 190,000     | 255,053    |
| Humana Inc., Senior Notes                            | 6.450%  | 6/1/16        | 220,000     | 252,190    |
| Tenet Healthcare Corp., Senior Secured Notes         | 10.000% | 5/1/18        | 732,000     | 845,460    |
| Tenet Healthcare Corp., Senior Secured Notes         | 8.875%  | 7/1/19        | 300,000     | 339,000    |
| UnitedHealth Group Inc., Senior Notes                | 6.000%  | 11/15/17      | 31,000      | 38,342     |
| WellPoint Inc., Notes                                | 5.875%  | 6/15/17       | 290,000     | 345,010    |
| WellPoint Inc., Senior Notes                         | 3.125%  | 5/15/22       | 610,000     | 608,879    |
| <i>Total Health Care Providers &amp; Services</i>    |         |               |             | 3,994,169  |
| <b>Pharmaceuticals 0.3%</b>                          |         |               |             |            |
| Watson Pharmaceuticals Inc., Senior Notes            | 3.250%  | 10/1/22       | 350,000     | 354,483    |
| <b>TOTAL HEALTH CARE</b>                             |         |               |             |            |
|  |         |               |             | 5,788,010  |
| <b>INDUSTRIALS 6.0%</b>                              |         |               |             |            |
| <b>Aerospace &amp; Defense 1.5%</b>                  |         |               |             |            |
| Esterline Technologies Corp., Senior Notes           | 7.000%  | 8/1/20        | 750,000     | 832,500    |
| Exelis Inc., Senior Notes                            | 4.250%  | 10/1/16       | 470,000     | 490,843    |
| Exelis Inc., Senior Notes                            | 5.550%  | 10/1/21       | 520,000     | 566,564    |
| L-3 Communications Corp., Senior Subordinated Notes  | 6.375%  | 10/15/15      | 154,000     | 155,771    |
| <i>Total Aerospace &amp; Defense</i>                 |         |               |             | 2,045,678  |
| <b>Airlines 1.7%</b>                                 |         |               |             |            |
| Continental Airlines Inc., Pass-Through Certificates | 9.250%  | 5/10/17       | 195,496     | 214,068    |
| Continental Airlines Inc., Pass-Through Certificates | 6.545%  | 2/2/19        | 130,144     | 142,508    |
|  | 7.250%  | 11/10/19      | 198,384     | 226,654    |

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|  |         |          |         |            |
|--|---------|----------|---------|------------|
| Continental Airlines Inc., Pass-Through<br>Certificates, Senior Secured Notes          |         |          |         |            |
| Continental Airlines Inc., Secured Notes   | 6.250%  | 4/11/20  | 170,000 | 175,950    |
| Continental Airlines Inc., Senior Secured<br>Notes                                     | 7.256%  | 3/15/20  | 171,408 | 185,549    |
| Delta Air Lines Inc., Pass-Through<br>Certificates, Secured Notes                      | 8.021%  | 8/10/22  | 102,677 | 110,891    |
| Delta Air Lines Inc., Pass-Through Trust,<br>Senior Secured Notes                      | 7.750%  | 12/17/19 | 254,600 | 290,880    |
| United Air Lines Inc., Pass-Through Trust,<br>Pass-Through Certificates, Secured Notes | 9.750%  | 1/15/17  | 111,627 | 127,812    |
| United Air Lines Inc., Senior Secured<br>Notes   | 9.875%  | 8/1/13   | 249,000 | 254,602(d) |
| United Air Lines Inc., Senior Secured<br>Notes   | 12.000% | 11/1/13  | 340,000 | 349,350(d) |
| US Airways 2012-1 Pass-Through Trust,<br>Senior Secured Bonds                          | 5.900%  | 10/1/24  | 360,000 | 380,700    |
| <i>Total Airlines</i>  |         |          |         | 2,458,964  |
| <b>Commercial Services &amp; Supplies 0.6%</b>   |         |          |         |            |
| Republic Services Inc., Senior Notes   | 5.500%  | 9/15/19  | 130,000 | 153,945    |
| Republic Services Inc., Senior Notes   | 5.250%  | 11/15/21 | 330,000 | 390,650    |

*See Notes to Schedule of Investments.*

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WESTERN ASSET INCOME FUND

Schedule of investments (unaudited) (cont d)

September 30, 2012

| SECURITY   | RATE   | MATURITY DATE | FACE AMOUNT | VALUE      |
|--|--------|---------------|-------------|------------|
| <b>Commercial Services &amp; Supplies continued</b>      |        |               |             |            |
| Waste Management Inc., Senior Notes                      | 7.750% | 5/15/32       | \$ 250,000  | \$ 357,770 |
| <i>Total Commercial Services &amp; Supplies</i>          |        |               |             | 902,365    |
| <b>Industrial Conglomerates 0.5%</b>                     |        |               |             |            |
| United Technologies Corp., Senior Notes                  | 6.125% | 2/1/19        | 200,000     | 250,191    |
| United Technologies Corp., Senior Notes                  | 4.500% | 6/1/42        | 340,000     | 381,067    |
| <i>Total Industrial Conglomerates</i>                    |        |               |             | 631,258    |
| <b>Machinery 0.7%</b>                                    |        |               |             |            |
| Valmont Industries Inc., Senior Notes                    | 6.625% | 4/20/20       | 790,000     | 940,535    |
| <b>Road &amp; Rail 1.0%</b>                              |        |               |             |            |
| Burlington Northern Santa Fe LLC, Senior Notes           | 4.400% | 3/15/42       | 1,350,000   | 1,426,289  |
| <b>TOTAL INDUSTRIALS</b>                                 |        |               |             | 8,405,089  |
| <b>INFORMATION TECHNOLOGY 0.7%</b>                       |        |               |             |            |
| <b>IT Services 0.6%</b>                                  |        |               |             |            |
| Electronic Data Systems Corp., Notes                     | 7.450% | 10/15/29      | 420,000     | 505,824    |
| Mantech International Corp., Senior Notes                | 7.250% | 4/15/18       | 320,000     | 337,600    |
| <i>Total IT Services</i>                                 |        |               |             | 843,424    |
| <b>Semiconductors &amp; Semiconductor Equipment 0.1%</b> |        |               |             |            |
| National Semiconductor Corp., Senior Notes               | 6.600% | 6/15/17       | 110,000     | 137,625    |
| <b>TOTAL INFORMATION TECHNOLOGY</b>                      |        |               |             | 981,049    |
| <b>MATERIALS 6.8%</b>                                    |        |               |             |            |
| <b>Chemicals 0.9%</b>                                    |        |               |             |            |
| Dow Chemical Co., Debentures                             | 7.375% | 11/1/29       | 800,000     | 1,059,917  |
| Ecolab Inc., Senior Notes                                | 5.500% | 12/8/41       | 140,000     | 174,112    |
| <i>Total Chemicals</i>                                   |        |               |             | 1,234,029  |
| <b>Containers &amp; Packaging 0.9%</b>                   |        |               |             |            |
| Rock-Tenn Co., Senior Notes                              | 4.450% | 3/1/19        | 470,000     | 495,762(d) |
| Rock-Tenn Co., Senior Notes                              | 3.500% | 3/1/20        | 150,000     | 152,867(d) |
| Rock-Tenn Co., Senior Notes                              | 4.900% | 3/1/22        | 460,000     | 498,305(d) |
| Rock-Tenn Co., Senior Notes                              | 4.000% | 3/1/23        | 80,000      | 81,293(d)  |
| <i>Total Containers &amp; Packaging</i>                  |        |               |             | 1,228,227  |
| <b>Metals &amp; Mining 4.8%</b>                          |        |               |             |            |
| Anglo American Capital PLC, Senior Notes                 | 2.625% | 9/27/17       | 700,000     | 702,380(d) |
| ArcelorMittal, Senior Notes                              | 4.000% | 2/25/15       | 340,000     | 339,774    |
| ArcelorMittal, Senior Notes                              | 4.000% | 8/5/15        | 340,000     | 337,851    |
| Barrick Gold Corp., Senior Notes                         | 5.250% | 4/1/42        | 560,000     | 619,792    |
| Cliffs Natural Resources Inc., Senior Notes              | 4.875% | 4/1/21        | 290,000     | 283,846    |
| FMG Resources (August 2006) Pty Ltd., Senior Notes       | 7.000% | 11/1/15       | 740,000     | 736,300(d) |
| Freeport-McMoRan Copper & Gold Inc., Senior Notes        | 3.550% | 3/1/22        | 410,000     | 410,414    |
| Rio Tinto Finance USA Ltd., Senior Notes                 | 9.000% | 5/1/19        | 660,000     | 902,487    |
| Rio Tinto Finance USA PLC, Senior Notes                  | 4.125% | 8/21/42       | 280,000     | 275,683    |
| Southern Copper Corp., Senior Notes                      | 5.375% | 4/16/20       | 150,000     | 168,624    |

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|  |        |          |           |                  |
|--|--------|----------|-----------|------------------|
| Steel Dynamics Inc., Senior Notes                  | 6.125% | 8/15/19  | 140,000   | 145,600(d)       |
| Vale Overseas Ltd., Notes                          | 6.875% | 11/21/36 | 1,148,000 | 1,329,244        |
| Xstrata Finance Canada Ltd., Senior Notes          | 6.900% | 11/15/37 | 430,000   | 492,366(d)       |
| <i>Total Metals &amp; Mining</i>                   |        |          |           | <i>6,744,361</i> |
| <b>Paper &amp; Forest Products 0.2%</b>            |        |          |           |                  |
| Georgia-Pacific Corp.                              | 7.375% | 12/1/25  | 250,000   | 330,898          |
| TOTAL MATERIALS                                    |        |          |           | 9,537,515        |
| TELECOMMUNICATION SERVICES                         |        |          |           |                  |
| 6.4%   |        |          |           |                  |
| <b>Diversified Telecommunication Services 5.0%</b> |        |          |           |                  |
| AT&T Corp., Senior Notes                           | 8.000% | 11/15/31 | 9,000     | 13,833           |
| AT&T Inc., Global Notes                            | 6.550% | 2/15/39  | 1,230,000 | 1,667,254        |
| AT&T Inc., Senior Notes                            | 5.550% | 8/15/41  | 340,000   | 423,232          |

*See Notes to Schedule of Investments.*

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WESTERN ASSET INCOME FUND

Schedule of investments (unaudited) (cont d)

September 30, 2012

| SECURITY  | RATE   | MATURITY DATE | FACE AMOUNT | VALUE      |
|---|--------|---------------|-------------|------------|
| <b>Diversified Telecommunication Services continued</b>   |        |               |             |            |
| British Telecommunications PLC, Bonds                     | 9.625% | 12/15/30      | \$ 330,000  | \$ 537,098 |
| Deutsche Telekom International Finance BV, Senior Notes   | 5.750% | 3/23/16       | 160,000     | 182,269    |
| Koninklijke KPN NV, Senior Notes                          | 8.375% | 10/1/30       | 200,000     | 267,497    |
| Qwest Corp., Debentures                                   | 6.875% | 9/15/33       | 1,000,000   | 1,012,500  |
| Telecom Italia Capital SA, Senior Notes                   | 7.721% | 6/4/38        | 390,000     | 391,950    |
| Telecom Italia Capital SpA, Senior Notes                  | 7.200% | 7/18/36       | 20,000      | 19,600     |
| Telefonica Emisiones SAU, Senior Notes                    | 3.729% | 4/27/15       | 230,000     | 228,850    |
| Telefonica Emisiones SAU, Senior Notes                    | 5.877% | 7/15/19       | 230,000     | 231,150    |
| Telefonica Emisiones SAU, Senior Notes                    | 7.045% | 6/20/36       | 120,000     | 117,000    |
| Verizon Communications Inc., Senior Notes                 | 8.950% | 3/1/39        | 720,000     | 1,254,653  |
| Verizon Global Funding Corp., Senior Notes                | 5.850% | 9/15/35       | 570,000     | 720,788    |
| <i>Total Diversified Telecommunication Services</i>       |        |               |             | 7,067,674  |
| <b>Wireless Telecommunication Services 1.4%</b>           |        |               |             |            |
| America Movil SAB de CV, Senior Notes                     | 6.125% | 3/30/40       | 850,000     | 1,105,991  |
| Rogers Wireless Inc., Secured Notes                       | 6.375% | 3/1/14        | 300,000     | 323,861    |
| Sprint Capital Corp., Global Notes                        | 6.900% | 5/1/19        | 330,000     | 342,375    |
| Telefonica Europe BV                                      | 8.250% | 9/15/30       | 230,000     | 243,800    |
| <i>Total Wireless Telecommunication Services</i>          |        |               |             | 2,016,027  |
| <b>TOTAL TELECOMMUNICATION SERVICES</b>                   |        |               |             | 9,083,701  |
| <b>UTILITIES 5.5%</b>                                     |        |               |             |            |
| <b>Electric Utilities 3.5%</b>                            |        |               |             |            |
| AES El Salvador Trust, Senior Notes                       | 6.750% | 2/1/16        | 750,000     | 753,750(d) |
| Cleveland Electric Illuminating Co., Senior Secured Bonds | 8.875% | 11/15/18      | 360,000     | 486,679    |
| Duke Energy Corp., Senior Notes                           | 6.300% | 2/1/14        | 500,000     | 536,658    |
| Enersis SA, Notes   | 7.400% | 12/1/16       | 452,000     | 534,826    |
| FirstEnergy Corp., Notes                                  | 7.375% | 11/15/31      | 110,000     | 144,085    |
| IPALCO Enterprises Inc., Senior Secured Notes             | 5.000% | 5/1/18        | 470,000     | 492,325    |
| Pacific Gas & Electric Co., First Mortgage Bonds          | 6.050% | 3/1/34        | 140,000     | 184,001    |
| PNPP II Funding Corp.                                     | 9.120% | 5/30/16       | 1,124,000   | 1,183,313  |
| Virginia Electric and Power Co., Senior Notes             | 8.875% | 11/15/38      | 390,000     | 671,406    |



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|   |        |         |           |               |
|---|--------|---------|-----------|---------------|
| <i>Total Electric Utilities</i>                                   |        |         |           | 4,987,043     |
| <b>Gas Utilities 0.1%</b>   |        |         |           |               |
| Southern Natural Gas Co., Senior Notes                            | 5.900% | 4/1/17  | 170,000   | 199,465(d)    |
| <b>Independent Power Producers &amp; Energy Traders 0.5%</b>      |        |         |           |               |
| Exelon Generation Co., LLC, Senior Notes                          | 4.250% | 6/15/22 | 600,000   | 634,844(d)    |
| <b>Multi-Utilities 1.4%</b>                                       |        |         |           |               |
| CenterPoint Energy Inc.   | 6.850% | 6/1/15  | 1,150,000 | 1,293,546     |
| Dominion Resources Inc., Senior Notes                             | 8.875% | 1/15/19 | 250,000   | 340,608       |
| DTE Energy Co.  | 6.350% | 6/1/16  | 260,000   | 307,384       |
| <i>Total Multi-Utilities</i>                                      |        |         |           | 1,941,538     |
| <b>TOTAL UTILITIES</b>  |        |         |           | 7,762,890     |
| <b>TOTAL CORPORATE BONDS &amp; NOTES (Cost \$113,619,869)</b>     |        |         |           | 129,450,096   |
| <b>ASSET-BACKED SECURITIES 0.2%</b>                               |        |         |           |               |
| SLM Student Loan Trust, 2011-A A3 (Cost - \$330,000)              | 2.721% | 1/15/43 | 330,000   | 334,360(d)(e) |
| <b>COLLATERALIZED MORTGAGE OBLIGATIONS 0.3%</b>                   |        |         |           |               |
| Thornburg Mortgage Securities Trust, 2007-4 2A1                   | 6.159% | 9/25/37 | 202,230   | 201,783(e)    |
| Thornburg Mortgage Securities Trust, 2007-4 3A1                   | 6.145% | 9/25/37 | 189,882   | 194,640(e)    |
| <b>TOTAL COLLATERALIZED MORTGAGE OBLIGATIONS (Cost \$388,778)</b> |        |         |           | 396,423       |
| <b>SOVEREIGN BONDS 1.0%</b>                                       |        |         |           |               |
| <b>Canada 0.8%</b>  |        |         |           |               |
| Quebec Province   | 7.970% | 7/22/36 | 650,000   | 1,034,624     |

See Notes to Schedule of Investments.

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WESTERN ASSET INCOME FUND

Schedule of investments (unaudited) (cont d)

September 30, 2012

| SECURITY   | RATE   | MATURITY<br>DATE | FACE<br>AMOUNT | VALUE          |
|--|--------|------------------|----------------|----------------|
| <b>Mexico 0.0%</b>   |        |                  |                |                |
| United Mexican States, Senior Notes  | 4.750% | 3/8/44           | \$ 30,000      | \$ 33,375      |
| <b>Russia 0.2%</b>   |        |                  |                |                |
| RSHB Capital, Loan Participation Notes, Secured Notes  | 7.125% | 1/14/14          | 200,000        | 211,620(d)     |
| Russian Foreign Bond - Eurobond, Senior Bonds  | 7.500% | 3/31/30          | 43,470         | 54,881(d)      |
| <i>Total Russia</i>  |        |                  |                | <i>266,501</i> |
| TOTAL SOVEREIGN BONDS (Cost \$1,016,306)   |        |                  |                | 1,334,500      |
| <b>U.S. GOVERNMENT &amp; AGENCY OBLIGATIONS 1.5%</b>   |        |                  |                |                |
| <b>U.S. Government Obligations 1.5%</b>  |        |                  |                |                |
| U.S. Treasury Bonds  | 3.000% | 5/15/42          | 220,000        | 228,113        |
| U.S. Treasury Notes  | 0.875% | 7/31/19          | 120,000        | 118,856        |
| U.S. Treasury Notes  | 2.000% | 2/15/22          | 820,000        | 852,864        |
| U.S. Treasury Notes  | 1.750% | 5/15/22          | 20,000         | 20,281         |
| U.S. Treasury Notes  | 1.625% | 8/15/22          | 950,000        | 948,961        |
| TOTAL U.S. GOVERNMENT & AGENCY OBLIGATIONS (Cost \$2,163,010)  |        |                  |                | 2,169,075      |
| SHARES   |        |                  |                |                |
| <b>PREFERRED STOCKS 1.4%</b>   |        |                  |                |                |
| <b>FINANCIALS 1.4%</b>   |        |                  |                |                |
| <b>Consumer Finance 1.1%</b>   |        |                  |                |                |
| GMAC Capital Trust I   | 8.125% |                  | 63,250         | 1,588,207(e)   |
| <b>Diversified Financial Services 0.3%</b>   |        |                  |                |                |
| Citigroup Capital XIII   | 7.875% |                  | 15,253         | 424,796(e)     |
| <b>Thriffs &amp; Mortgage Finance 0.0%</b>   |        |                  |                |                |
| Federal National Mortgage Association (FNMA)   | 8.250% |                  | 11,700         | 10,179*(a)(e)  |
| TOTAL PREFERRED STOCKS (Cost \$2,195,589)  |        |                  |                | 2,023,182      |
| TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS (Cost \$119,713,552)   |        |                  |                | 135,707,636    |
| FACE AMOUNT  |        |                  |                |                |
| <b>SHORT-TERM INVESTMENTS 2.1%</b>   |        |                  |                |                |
| <b>Repurchase Agreements 2.1%</b>  |        |                  |                |                |
| Barclays Capital Inc. tri-party repurchase agreement dated 9/28/12; Proceeds at maturity - \$2,834,035; (Fully collateralized by U.S. government obligations, 0.875% due 1/31/17; Market value | 0.150% | 10/1/12          | \$ 2,834,000   | 2,834,000      |

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|                                    |                             |                |
|------------------------------------|-----------------------------|----------------|
| - \$2,937,463 (Cost - \$2,834,000) |                             |                |
| TOTAL INVESTMENTS                  | 98.5% (Cost \$122,547,552#) | 138,541,636    |
| Other Assets in Excess of          |                             |                |
| Liabilities                        | 1.5%                        | 2,169,510      |
| TOTAL NET ASSETS                   | 100.0%                      | \$ 140,711,146 |

\* Non-income producing security.

(a) Illiquid security.

(b) Security is valued in good faith in accordance with procedures approved by the Board of Directors (See Note 1).

(c) Value is less than \$1.

(d) 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.

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

(f) Security has no maturity date. The date shown represents the next call date.

# Aggregate cost for federal income tax purposes is substantially the same.

*See Notes to Schedule of Investments.*

**WESTERN ASSET INCOME FUND**

Schedule of investments (unaudited) (cont d)

September 30, 2012

Abbreviations used in this schedule:

AGM  
REIT

- Assured Guaranty Municipal Corp.  
- Real Estate Investment Trust

*See Notes to Schedule of Investments.*

**Notes to schedule of investments (unaudited)**

**1. Organization and significant accounting policies**

Western Asset Income Fund (the Fund) is registered under the Investment Company Act of 1940, as amended (1940 Act), as a closed-end diversified investment company.

The Fund seeks high level of current income, consistent with prudent investment risk. Capital appreciation is a secondary investment objective.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP).

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

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North American Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

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

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proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

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

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

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Notes to schedule of investments (unaudited) (continued)

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

- Level 1 quoted prices in active markets for identical investments
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

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

| DESCRIPTION                          | ASSETS                  |   |   | TOTAL          |
|--------------------------------------|-------------------------|---|---|----------------|
|                                      | QUOTED PRICES (LEVEL 1) | OTHER SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) | SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) |                |
| Long-term investments :              |                         |   |   |                |
| Corporate bonds & notes              |                         | \$ 129,450,096                                | \$ 0*                                     | \$ 129,450,096 |
| Asset-backed securities              |                         | 334,360                                       |   | 334,360        |
| Collateralized mortgage obligations  |                         | 396,423                                       |   | 396,423        |
| Sovereign bonds                      |                         | 1,334,500                                     |   | 1,334,500      |
| U.S. government & agency obligations |                         | 2,169,075                                     |   | 2,169,075      |
| Preferred stocks                     | \$ 2,023,182            |   |   | 2,023,182      |
| Total Long-term investments          | \$ 2,023,182            | \$ 133,684,454                                | \$ 0*                                     | \$ 135,707,636 |
| Short-term investments :             |                         | \$ 2,834,000                                  |   | \$ 2,834,000   |
| Total investments:                   | \$ 2,023,182            | \$ 136,518,454                                | \$ 0*                                     | \$ 138,541,636 |
| Other financial instruments:         |                         |   |   |                |
| Futures contracts                    | \$ 53,149               |   |   | \$ 53,149      |
| Total                                | \$ 2,076,331            | \$ 136,518,454                                | \$ 0*                                     | \$ 138,594,785 |

| DESCRIPTION                  | LIABILITIES             |   |   | TOTAL |
|------------------------------|-------------------------|---|---|-------|
|                              | QUOTED PRICES (LEVEL 1) | OTHER SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) | SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) |       |
| Other financial instruments: |                         |   |   |       |

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|                   |    |       |    |       |
|-------------------|----|-------|----|-------|
| Futures contracts | \$ | 4,250 | \$ | 4,250 |
|-------------------|----|-------|----|-------|

See Schedule of Investments for additional detailed categorizations.

\* Value is less than \$1.



**Notes to schedule of investments (unaudited) (continued)**

**(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, the Fund acquires a debt security subject to an obligation of the seller to repurchase, and of the Fund to resell, the security at an agreed-upon price and time, thereby determining the yield during the 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 uses futures contracts generally to gain exposure to, or hedge against, changes in interest rates or gain exposure to, or hedge against, changes in certain asset classes. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the Fund is required to deposit cash or cash equivalents with a broker in an amount equal to a certain percentage of the contract amount. This is known as the initial margin and subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract. For certain futures, including foreign denominated futures, variation margin is not settled daily, but is recorded as a net variation margin payable or receivable. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded.

Futures contracts involve, to varying degrees, risk of loss. 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) Credit and market risk.** The Fund invests in high-yield instruments that are subject to certain credit and market risks. The yields of high-yield obligations reflect, among other things, perceived credit and market risks. The Fund's investment in securities rated below investment grade typically involves risks not associated with higher rated securities including, among others, greater risk related to timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading.

**(e) Security transactions.** Security transactions are accounted for on a trade date basis.

## **2. Investments**

At September 30, 2012, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:



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Notes to schedule of investments (unaudited) (continued)

|                               |    |            |
|-------------------------------|----|------------|
| Gross unrealized appreciation | \$ | 16,775,896 |
| Gross unrealized depreciation |    | (781,812)  |
| Net unrealized appreciation   | \$ | 15,994,084 |

At September 30, 2012, the Fund had the following open futures contracts:

|  | NUMBER OF<br>CONTRACTS | EXPIRATION<br>DATE | BASIS<br>VALUE | MARKET<br>VALUE | UNREALIZED<br>GAIN (LOSS) |
|--|------------------------|--------------------|----------------|-----------------|---------------------------|
| <b>Contracts to Buy:</b>                         |                        |                    |                |                 |                           |
| U.S. Treasury 5-Year Notes                       | 113                    | 12/12              | \$ 14,053,571  | \$ 14,083,508   | \$ 29,937                 |
| U.S. Treasury 10-Year Notes                      | 9                      | 12/12              | 1,195,185      | 1,201,359       | 6,174                     |
| U.S. Treasury Ultra Long-Term<br>Bonds           | 3                      | 12/12              | 499,681        | 495,656         | (4,025)<br>32,086         |
| <b>Contracts to Sell:</b>                        |                        |                    |                |                 |                           |
| U.S. Treasury 2-Year Notes                       | 2                      | 12/12              | 440,838        | 441,063         | (225)                     |
| U.S. Treasury 30-Year Bonds                      | 118                    | 12/12              | 17,643,288     | 17,626,250      | 17,038<br>16,813          |
| Net unrealized gain on open futures<br>contracts |                        |                    |                |                 | \$ 48,899                 |

3. Derivative instruments and hedging activities

Financial Accounting Standards Board Codification Topic 815 requires enhanced disclosure about an entity's derivative and hedging activities.

The following is a summary of the Fund's derivative instruments categorized by risk exposure at September 30, 2012.

| Primary Underlying Risk<br>Disclosure | Futures Contracts          |                            | Total     |
|---------------------------------------|----------------------------|----------------------------|-----------|
|                                       | Unrealized<br>Appreciation | Unrealized<br>Depreciation |           |
| Interest Rate Risk                    | \$ 53,149                  | \$ (4,250)                 | \$ 48,899 |

During the period ended September 30, 2012, the volume of derivative activity for the Fund was as follows:

|                             | Average market<br>value |
|-----------------------------|-------------------------|
| Futures contracts (to buy)  | \$ 5,232,065            |
| Futures contracts (to sell) | 14,299,816              |



ITEM 2. CONTROLS AND PROCEDURES.

- (a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are attached hereto.

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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, thereunto duly authorized.

**Western Asset Income Fund**

By: /s/ R. Jay Gerken  
R. Jay Gerken  
President

Date: November 26, 2012

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  
President

Date: November 26, 2012

By: /s/ Richard F. Sennett  
Richard F. Sennett  
Principal Financial Officer

Date: November 26, 2012

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