

Western Asset Income Fund
Form N-CSR
February 25, 2011

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

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-02351

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

55 Water Street, New York, NY
(Address of principal executive offices)

10041
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place,

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

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

Date of fiscal year end: December 31

Date of reporting period: December 31, 2010

ITEM 1. REPORT TO STOCKHOLDERS.

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

December 31, 2010

Annual Report

Western Asset Income Fund

(PAI)

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

II Western Asset Income Fund

Fund objectives

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

What's inside

Letter from the president	II
Investment commentary	III
Fund overview	1
Fund at a glance	6
Spread duration	7
Effective duration	8
Schedule of investments	9
Statement of assets and liabilities	21
Statement of operations	22
Statements of changes in net assets	23
Financial highlights	24
Notes to financial statements	25
Report of independent registered public accounting firm	34
Board approval of management and subadvisory agreements	35
Additional information	38
Annual principal executive officer and principal financial and accounting officer certifications	43
Dividend reinvestment plan	44

Letter from the president

Dear Shareholder,

We are pleased to provide the annual report of Western Asset Income Fund for the twelve-month reporting period ended December 31, 2010. Please read on for a detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

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

- Fund prices and performance,
- Market insights and commentaries from our portfolio managers, and
- A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

R. Jay Gerken, CFA

President

February 9, 2011

Investment commentary**Economic review**

Despite continued headwinds from high unemployment and issues in the housing market, the U.S. economy continued to expand over the twelve months ended December 31, 2010. Toward the end of the reporting period, fears regarding moderating economic growth were replaced with optimism for a strengthening economy in 2011. With investor sentiment improving, U.S. equities moved sharply higher in the fourth quarter, while rising interest rates negatively impacted some sectors of the fixed-income market. All told, during 2010, investors who took on additional risk in their portfolios were generally rewarded.

In September 2010, the National Bureau of Economic Research (NBER), the organization charged with determining when recessions start and end, announced that the recession that began in December 2007 had concluded in June 2009. However, the NBER said, In determining that a trough occurred in June 2009, the committee did not conclude that economic conditions since that month have been favorable or that the economy has returned to operating at normal capacity. The NBER s point is well-taken given continued areas of weakness in the U.S. economy.

Although the U.S. Department of Commerce continued to report positive U.S. gross domestic product (GDP)i growth, the expansion has moderated since peaking at 5.0% in the fourth quarter of 2009. A slower drawdown in business inventories and renewed consumer spending were contributing factors spurring the economy s solid growth at the end of 2009. However, the economy grew at a more modest pace in 2010. According to the Commerce Department, GDP growth was 3.7%, 1.7% and 2.6% during the first, second and third quarters of 2010, respectively. The initial estimate for fourth quarter GDP was a 3.2% expansion.

Turning to the job market, while the unemployment rate moved lower in December 2010, it remained elevated throughout the reporting period. While 384,000 new jobs were created during the fourth quarter and the unemployment rate fell from 9.8% in November to 9.4% in December 2010, there continued to be some disturbing trends in the labor market. The unemployment rate has now exceeded 9.0% for twenty consecutive months, the longest period since the government began tracking this data in 1949. In addition, the U.S. Department of Labor reported in December that a total of 14.5 million Americans looking for work have yet to find a job, and 44% of these individuals have been out of work for more than six months.

There was mixed news in the housing market during the period. According to the National Association of Realtors (NAR), existing-home sales increased 7.0% and 8.0% in March and April, respectively, after sales had fallen for the period from December 2009 through February 2010. The rebound was largely attributed to people rushing to take advantage of the government s \$8,000 tax credit for first-time home buyers that expired at the end of April. However, with the end of the tax credit, existing-home sales then declined from May through July. Sales then generally rose from August through the end of

IV Western Asset Income Fund

Investment commentary (continued)

the year. In total, existing-home sales volume in 2010 was 4.9 million, the lowest amount since 1997. Looking at home prices, the NAR reported that the median existing-home price for all housing types rose a tepid 0.3% in 2010. The inventory of unsold homes was an 8.1 month supply in December at the current sales level, versus a 9.5 month supply in November.

The manufacturing sector was one area of the economy that remained relatively strong during 2010. Based on the Institute for Supply Management's PMIⁱⁱ, the manufacturing sector has grown seventeen consecutive months since it began expanding in August 2009. After reaching a six-year peak of 60.4 in April 2010 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion), PMI data indicated somewhat more modest growth through the remainder of the year. However, in December, the manufacturing sector expanded at its fastest pace in seven months, with a reading of 57.0 versus 56.6 in November.

Financial market overview

The financial markets experienced several periods of volatility during the reporting period that tested the resolve of novice and experienced investors alike. During most of the first four months of the reporting period, the financial markets were largely characterized by healthy investor risk appetite and solid results by stocks and lower-quality bonds. The market then experienced sharp sell-offs in late April and in May, and again beginning in mid-November. During those periods, investors tended to favor the relative safety of U.S. Treasury securities. However, these setbacks proved to be only temporary and, in each case, risk aversion was replaced with solid demand for riskier assets.

Due to signs that certain areas of the economy were moderating in the second half of the reporting period, the Federal Reserve Board (the Fed)ⁱⁱⁱ took further actions to spur the economy. At its August 10th meeting, the Fed announced an ongoing program that calls for using the proceeds from expiring agency debt and agency mortgage-backed securities to purchase longer-dated Treasury securities.

In addition, the Fed remained cautious throughout the reporting period given pockets of weakness in the economy. At its meeting in September 2010, the Fed said, "The Committee will continue to monitor the economic outlook and financial developments and is prepared to provide additional accommodation if needed to support the economic recovery. . . . This led to speculation that the Fed may again move to purchase large amounts of agency and Treasury securities in an attempt to avoid a double-dip recession and ward off deflation.

The Fed then took additional action in early November. Citing that "the pace of recovery in output and employment continues to be slow," the Fed announced another round of quantitative easing to help stimulate the economy, entailing the purchase of \$600 billion of long-term U.S. Treasury securities by the end of the second quarter of 2011. This, coupled with the Fed's previously announced program to use the proceeds of expiring securities to purchase Treasuries, means it

could buy a total of \$850 billion to \$900 billion of Treasury securities by the end of June 2011. At its final meeting of the year in December, the Fed said it will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability.

Fixed-income market review

Continuing the trend that began in the second quarter of 2009, nearly every spread sector (non-Treasury) outperformed equal-duration Treasury securities during most of the first four months of the reporting period. Over that time, investor confidence was high given encouraging economic data, continued low interest rates, benign inflation and rebounding corporate profits. Robust investor appetite was then replaced with heightened risk aversion toward the end of April and during the month of May. This was due to the escalating sovereign debt crisis in Europe, uncertainties regarding new financial reforms in the U.S. and some worse-than-expected economic data. Most spread sectors then produced positive absolute returns in June and July, as investor demand for these securities again increased. There was another bout of risk aversion in August, given fears that the economy may slip back into a recession. However, with the Fed indicating the possibility of another round of quantitative easing, most spread sectors rallied in September and October. The spread sectors started to weaken again toward the middle of November as financial troubles in Ireland resulted in a re-emergence of the European sovereign debt crisis. While several spread sectors regained their footing in December, others remained weak given ongoing uncertainties in Europe and concerns regarding economic growth in China and its potential impact on the global economy.

Both short- and long-term Treasury yields fluctuated but, overall, moved lower during the twelve months ended December 31, 2010. When the period began, two- and ten-year Treasury yields were 1.14% and 3.85%, respectively. On April 5, 2010, two- and ten-year Treasury yields peaked at 1.18% and 4.01%, respectively. Subsequent to hitting their highs for the period, yields largely declined during much of the next six months, with two-year Treasuries hitting their low for the year of 0.33% on November 4, 2010. Ten-year Treasuries reached their 2010 trough of 2.41% in early October. Yields then moved sharply higher given expectations for stronger growth in 2011 and the potential for rising inflation. When the period ended on December 31, 2010, two-year Treasury yields were 0.61% and ten-year Treasury yields were 3.30%. For the twelve months ended December 31, 2010, the Barclays Capital U.S. Aggregate Index returned 6.54%.

The U.S. high-yield bond market produced strong results during the reporting period. The asset class posted positive returns during each month, except for May and November 2010 when risk aversion rose sharply. The high-yield market was supported by better-than-expected corporate profits and overall strong investor demand. All told, the

VI Western Asset Income Fund

Investment commentary (continued)

Barclays Capital U.S. High Yield 2% Issuer Cap Index^{vi} returned 14.94% for the twelve months ended December 31, 2010.

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

Sincerely,

R. Jay Gerken, CFA

President

January 28, 2011

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

- i Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.
- ii The Institute for Supply Management's PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.
- iii The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- iv Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.
- v The Barclays Capital U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.
- vi The Barclays Capital U.S. High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays Capital U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.

Fund overview

Q. What is the Fund's investment strategy?

A. The Fund seeks a high level of current income, consistent with prudent investment risk, through investment in a diversified portfolio of debt securities. To a lesser extent, the Fund may also invest in privately placed debt securities and in certain equity securities. Capital appreciation is a secondary investment objective.

The Fund's investment policies provide that its portfolio be invested as follows: at least 75% in debt securities rated within the four highest grades, and in government securities, bank debt, commercial paper, cash or cash equivalents; up to 25% in other fixed-income securities, convertible bonds, convertible preferred and preferred stock; and not more than 25% in securities restricted as to resale.

At Western Asset Management Company (Western Asset), the Fund's adviser, we utilize a fixed-income team approach, with decisions derived from interaction among various investment management sector specialists. The sector teams are comprised of Western Asset's senior portfolio managers, research analysts and an in-house economist. Under this team approach, management of client fixed-income portfolios will reflect a consensus of interdisciplinary views within the Western Asset organization. The portfolio managers responsible for development of investment strategy, day-to-day portfolio management, oversight and coordination of the Fund are Stephen A. Walsh, S. Kenneth Leech and Ryan K. Brist.

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

A. During the twelve months ended December 31, 2010, the riskier segments of the fixed-income market produced strong results and outperformed U.S. Treasuries. This was due, in part, to improving economic conditions following the lengthy downturn from mid-2008 through mid-2009. Also supporting the spread sectors (non-U.S. Treasuries) was overall solid demand from investors seeking incremental yields given the low rates available from short-term fixed-income securities.

The spread sectors rallied during most of the reporting period, with notable exceptions being in late April and May 2010, as well as August and November 2010. Starting toward the end of April, there was a flight to quality, triggered by concerns regarding the escalating sovereign debt crisis in Europe. In addition, investor sentiment was negatively impacted by uncertainties surrounding financial reform legislation in the U.S. and signs that economic growth was moderating. Collectively, this caused investors to flock to the relative safety of Treasury securities, driving their yields lower and prices higher.

Robust investor risk appetite largely resumed during June and July, and again in September and October. These turnarounds occurred as the situation in Europe appeared to stabilize, the financial reform bill was signed into law and the Federal Reserve Board (Fed) continued to indicate that it would keep short-term rates low for an extended period. Investor risk aversion briefly returned in November when

Fund overview (cont d)

fears regarding the European debt crisis re-emerged. However, investor sentiment improved in December, given expectations for strengthening economic conditions in 2011.

The yields on two- and ten-year Treasuries began the fiscal year at 1.14% and 3.85%, respectively. Treasury yields fluctuated during the twelve-month reporting period given mixed signals regarding the economy and uncertainties regarding Fed monetary policy. Yields moved sharply lower in October 2010 in anticipation of additional quantitative easing (QE2) by the Fed. Yields then reversed course toward the end of the period as certain economic data were stronger than expected and there were concerns regarding future inflation. During the fiscal year, two-year Treasury yields moved as high as 1.18% and as low as 0.33%, while ten-year Treasuries rose as high as 4.01% and fell as low as 2.41%. On December 31, 2010, yields on two- and ten-year Treasuries were 0.61% and 3.30%, respectively.

The overall credit market, as represented by the Barclays Capital U.S. Credit Indexii (the Index), returned 8.47% over the same period. Comparatively, riskier fixed-income securities, including high-yield bonds, produced stronger results. Over the fiscal year, the Barclays Capital U.S. High Yield 2% Issuer Cap Indexiii returned 14.94%. During this period, as measured by the Index, lower-quality BBB-rated bonds outperformed high-quality AAA-rated securities, returning 10.03% and 5.13%, respectively.

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

A. A number of adjustments were made to the Fund's portfolio during the reporting period. The Fund maintained its lower-quality bias versus the Index, but we pared our exposure to certain BBB-rated and non-investment grade securities to capture profits and reduce our overall risk exposure. While we maintained an overweight to Financials, we decreased our exposure during the fiscal year, especially in the banking industry given its strong results. Our allocation to the Utilities sector was reduced due to our concerns for potential increases in capital expenditures to meet new Clean Air Act legislation requirements. Our allocation to the Transportation1 sector was increased based on signs that the U.S. economy was strengthening. We also added to our exposure to the Energy sector, as we felt valuations for certain securities had become attractive in the wake of the oil spill in the Gulf of Mexico. Finally, we raised the Fund's cash position to have added flexibility to invest in attractive opportunities in the future.

The Fund employed U.S. Treasury futures during the reporting period to manage its durationiv and yield curvev positioning. Overall, the use of these derivative instruments detracted from performance during the twelve-month reporting period.

Performance review

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For the twelve months ended December 31, 2010, Western Asset Income Fund returned 10.86% based on its net asset value (NAV)^{vi} and 7.28% based on its New York Stock Exchange (NYSE) market price per

1 Transportation consists of the following industries: Airlines, Railroads and other transportation-related services.

share. The Fund's unmanaged benchmarks, the Barclays Capital U.S. Corporate High Yield Index^{vii} and the Barclays Capital U.S. Credit Index, returned 15.12% and 8.47%, respectively, over the same time frame. The Lipper Corporate Debt Closed-End Funds BBB-Rated Category Average^{viii} returned 12.90% for the same period. Please note that Lipper performance returns are based on each fund's NAV.

During the twelve-month period, the Fund made distributions to shareholders totaling \$0.79 per share. The performance table shows the Fund's twelve-month total return based on its NAV and market price as of December 31, 2010. **Past performance is no guarantee of future results.**

Performance Snapshot as of December 31, 2010

Price Per Share	12-Month Total Return*
\$13.82 (NAV)	10.86%
\$12.89 (Market Price)	7.28%

All figures represent past performance and are not a guarantee of future results.

* Total returns are based on changes in NAV or market price, respectively. Total returns assume the reinvestment of all distributions in additional shares.

Q. What were the leading contributors to performance?

A. Relative to the Index, the largest contributor to the Fund's performance during the reporting period was an overweight to high-yield corporate bonds. High yield was among the best-performing fixed-income sectors during the reporting period given declining default rates and solid demand from investors looking to generate incremental yield. Among the Fund's strongest high-yield holdings were overweight positions in **GMAC Inc.**, **HCA Inc.** and **Sprint Capital Corp.**

A number of individual holdings also significantly contributed to results. In particular, overweights in subordinated Financials issued by **American International Group Inc.** and **Bank of America Corp.** were among our best performers during the reporting period. Overall, these bonds rallied as confidence in the banking system improved and it became apparent that banks would be able to continue paying their coupons. In addition, the fundamentals in the banking industry were better, as capital reserves increased and corporate earnings were often better-than-expected.

The portfolio's quality biases were also additive to performance. Relative to the Index, our overweight to BBB and below-rated securities benefited from improved demand, as investors looked to receive high incremental yield given the low interest rate environment.

Our sector positioning was, overall, a positive for performance. In particular, an overweight to Financials was beneficial. During the twelve months ended December 31, 2010, Financials was the best-performing sector in the Index. Having an underweight to non-corporate bonds was also rewarded, as this portion of the Index returned 6.36% during the reporting period, whereas corporate bonds in the Index gained 9.00%.

Q. What were the leading detractors from performance?

A. Relative to the Index, the largest detractor from the Fund's performance for the period was our overweight to the relatively poor-performing Energy sector. The Energy sector lagged the

4 Western Asset Income Fund 2010 Annual Report

Fund overview (cont d)

overall Index given continued volatility in natural gas and oil prices, coupled with fears that relatively modest economic growth would reduce global demand for energy going forward.

A number of individual holdings also detracted from the Fund's results during the reporting period. In particular, overweights to European telecommunication companies **Telecom Italia Capital** and **Telefonica Emisiones SAU** were the largest detractors. Both companies were negatively impacted by the ongoing sovereign debt crisis in Europe.

Looking for additional information?

The Fund is traded under the symbol PAI and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XPAIX on most financial websites. *Barron's* and the *Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as www.leggmason.com/cef.

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

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

Sincerely,

Western Asset Management Company

January 18, 2011

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RISKS: Bonds are subject to a variety of risks, including interest rate, credit and inflation risks. As interest rates rise, bond prices fall, reducing the value of a fixed-income investment's price. The Fund may invest in high-yield bonds, which are rated below investment grade and carry more risk than higher-rated securities. To the extent that the Fund invests in asset-backed, mortgage-backed or mortgage-related securities, its exposure to prepayment and extension risks may be greater than investments in other fixed-income securities. Leverage may result in greater volatility of NAV and the market price of common shares and increases a shareholder's risk of loss. The Fund may invest, to a limited extent, in foreign securities, including emerging markets, which are subject to additional risks. The Fund may make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.

Portfolio holdings and breakdowns are as of December 31, 2010 and are subject to change and may not be representative of the portfolio managers' current or future investments. Please refer to pages 9 through 20 for a list and percentage breakdown of the Fund's holdings.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. The Fund's top five

sector holdings (as a percentage of net assets) as of December 31, 2010 were: Corporate Bonds & Notes (93.3%), Short-Term Investments (1.5%), Preferred Stocks (1.1%), Sovereign Bonds (0.9%) and Asset-Backed Securities (0.8%). The Fund's portfolio composition is subject to change at any time.

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

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

- i The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- ii The Barclays Capital U.S. Credit Index is an index composed of corporate and non-corporate debt issues that are investment grade (rated Baa3/BBB- or higher).
- iii The Barclays Capital U.S. High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays Capital U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.
- iv Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.
- v The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.
- vi Net asset value (NAV) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.
- vii The Barclays Capital U.S. Corporate High Yield Index covers the universe of fixed-rate, non-investment grade debt, including corporate and non-corporate sectors. Pay-in-kind (PIK) bonds, Eurobonds and debt issues from countries designated as emerging markets are excluded, but Canadian and global bonds (SEC registered) of issuers in non-emerging market countries are included. Original issue zero coupon bonds, step-up coupon structures and 144-As are also included.
- viii Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended December 31, 2010, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 26 funds in the Fund's Lipper category.

6 Western Asset Income Fund 2010 Annual Report

Fund at a glance (unaudited)

Investment breakdown (%) as a percent of total investments

The bar graph above represents the Fund's portfolio as of December 31, 2010, and does not include derivatives such as futures contracts. The Fund's portfolio is actively managed. As a result, the composition of its portfolio holdings and sectors is subject to change at any time.

Spread duration (unaudited)**Economic Exposure December 31, 2010**

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

ABS	Asset Backed Securities
BCI	Barclays Capital U.S. Credit Index
EM	Emerging Markets
HY	High Yield
IG Credit	Investment Grade Credit
MBS	Mortgage Backed Securities
PAI	Western Asset Income Fund

8 Western Asset Income Fund 2010 Annual Report

Effective duration (unaudited)

Interest Rate Exposure December 31, 2010

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

ABS	Asset Backed Securities
BCI	Barclays Capital U.S. Credit Index
EM	Emerging Markets
HY	High Yield
IG Credit	Investment Grade Credit
MBS	Mortgage Backed Securities
PAI	Western Asset Income Fund

Schedule of investments

December 31, 2010

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Corporate Bonds & Notes 93.3%				
Consumer Discretionary 6.8%				
Auto Components 0.1%				
BorgWarner Inc., Senior Notes	4.625%	9/15/20	\$ 130,000	\$ 128,345
Automobiles 0.7%				
Motors Liquidation Co., Senior Debentures	8.250%	7/15/23	2,710,000	941,725(a)
Hotels, Restaurants & Leisure 0.2%				
NCL Corp. Ltd., Senior Secured Notes	11.750%	11/15/16	180,000	209,925
Household Durables 0.4%				
Stanley Black & Decker Inc., Senior Notes	5.200%	9/1/40	580,000	544,991
Internet & Catalog Retail 0.2%				
QVC Inc., Senior Secured Notes	7.375%	10/15/20	300,000	314,250(b)
Media 4.5%				
Comcast Cable Holdings LLC	9.800%	2/1/12	375,000	408,162
Comcast Corp., Bonds	6.400%	5/15/38	950,000	1,015,232
Comcast Corp., Notes	6.450%	3/15/37	120,000	128,216
Comcast Corp., Senior Notes	6.950%	8/15/37	160,000	180,971
News America Inc., Senior Notes	6.550%	3/15/33	545,000	579,401
Omnicom Group Inc., Notes	6.250%	7/15/19	370,000	410,720
TCI Communications Inc.	8.750%	8/1/15	160,000	196,942
Time Warner Cable Inc., Senior Notes	8.750%	2/14/19	520,000	661,683
Time Warner Entertainment Co., LP, Senior Notes	8.375%	7/15/33	530,000	668,848
Time Warner Inc., Senior Debentures	7.700%	5/1/32	595,000	726,311
United Business Media Ltd., Notes	5.750%	11/3/20	640,000	614,438(b)
WPP Finance UK, Senior Notes	8.000%	9/15/14	180,000	207,081
Total Media				5,798,005
Multiline Retail 0.7%				
Macy's Retail Holdings Inc.	5.350%	3/15/12	270,000	278,775
Macy's Retail Holdings Inc., Debentures	6.650%	7/15/24	180,000	178,200
Macy's Retail Holdings Inc., Notes	5.750%	7/15/14	400,000	423,000
Total Multiline Retail				879,975
Total Consumer Discretionary				8,817,216
Consumer Staples 3.8%				
Beverages 0.3%				
Anheuser-Busch InBev Worldwide Inc., Senior Notes	5.375%	1/15/20	370,000	400,928
Food & Staples Retailing 1.1%				
Delhaize Group, Senior Notes	6.500%	6/15/17	290,000	328,765
Safeway Inc., Senior Notes	3.950%	8/15/20	690,000	653,396
Wal-Mart Stores Inc., Senior Notes	6.500%	8/15/37	380,000	446,442
Total Food & Staples Retailing				1,428,603

See Notes to Financial Statements.

10 Western Asset Income Fund 2010 Annual Report

Schedule of investments (cont d)

December 31, 2010

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Food Products 0.3%				
Kraft Foods Inc., Senior Notes	5.375%	2/10/20	\$ 340,000	\$ 365,931
Tobacco 2.1%				
Lorillard Tobacco Co., Senior Notes	8.125%	6/23/19	340,000	378,328
Lorillard Tobacco Co., Senior Notes	8.125%	5/1/40	390,000	399,891
Philip Morris International Inc., Senior Notes	6.875%	3/17/14	490,000	564,634
Reynolds American Inc., Senior Notes	7.250%	6/1/12	1,360,000	1,454,309
Total Tobacco				2,797,162
Total Consumer Staples 4,992,624				
Energy 13.5%				
Energy Equipment & Services 0.5%				
Baker Hughes Inc., Senior Notes	7.500%	11/15/18	370,000	463,960
Baker Hughes Inc., Senior Notes	5.125%	9/15/40	240,000	234,428
Total Energy Equipment & Services				698,388
Oil, Gas & Consumable Fuels 13.0%				
Anadarko Finance Co., Senior Notes	7.500%	5/1/31	465,000	514,173
Anadarko Petroleum Corp., Senior Notes	6.375%	9/15/17	35,000	38,126
Apache Corp.	6.900%	9/15/18	100,000	122,098
Apache Corp., Senior Notes	6.000%	1/15/37	190,000	208,945
BP Capital Markets PLC, Senior Notes	3.125%	10/1/15	740,000	739,492
ConocoPhillips, Notes	6.500%	2/1/39	810,000	963,173
ConocoPhillips, Senior Notes	6.000%	1/15/20	360,000	419,131
Devon Financing Corp. ULC, Debentures	7.875%	9/30/31	380,000	501,006
Duke Capital LLC, Senior Notes	6.250%	2/15/13	800,000	867,602
El Paso Corp., Medium-Term Notes	7.800%	8/1/31	2,000,000	1,989,486
Enbridge Energy Partners LP	9.875%	3/1/19	120,000	157,799
Energy Transfer Partners LP, Senior Notes	9.700%	3/15/19	170,000	219,718
Enterprise Products Operating LLC, Senior Notes	6.125%	10/15/39	320,000	333,059
EOG Resources Inc., Senior Notes	5.875%	9/15/17	540,000	612,370
Hess Corp., Notes	7.875%	10/1/29	1,180,000	1,480,924
Hess Corp., Senior Bonds	6.000%	1/15/40	300,000	314,449
Kerr-McGee Corp., Notes	6.950%	7/1/24	300,000	326,094
Kinder Morgan Energy Partners LP, Senior Notes	7.125%	3/15/12	530,000	565,401
LUKOIL International Finance BV, Bonds	6.356%	6/7/17	310,000	323,950(b)
Newfield Exploration Co., Senior Notes	6.625%	4/15/16	560,000	575,400
Pemex Project Funding Master Trust, Senior Bonds	6.625%	6/15/35	2,635,000	2,681,097
Petrobras International Finance Co., Global Notes	5.875%	3/1/18	879,000	935,975
Petroplus Finance Ltd., Senior Notes	7.000%	5/1/17	600,000	531,000(b)
Shell International Finance BV, Senior Notes	6.375%	12/15/38	250,000	296,307
Williams Cos. Inc., Debentures	7.500%	1/15/31	76,000	85,352

See Notes to Financial Statements.

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Oil, Gas & Consumable Fuels continued				
Williams Cos. Inc., Senior Notes	8.750%	3/15/32	\$ 926,000	\$ 1,132,903
Total Oil, Gas & Consumable Fuels				16,935,030
Total Energy				
Financials 35.0%				
Capital Markets 4.9%				
Credit Suisse AG, Subordinated Notes	5.400%	1/14/20	480,000	490,212
Goldman Sachs Capital I, Capital Securities	6.345%	2/15/34	555,000	528,832
Goldman Sachs Capital II, Junior Subordinated Bonds	5.793%	6/1/12	880,000	745,800(c)(d)
Goldman Sachs Group Inc., Senior Notes	6.000%	5/1/14	40,000	44,066
Goldman Sachs Group Inc., Senior Notes	5.375%	3/15/20	270,000	279,007
Goldman Sachs Group Inc., Subordinated Notes	6.750%	10/1/37	640,000	654,333
Kaupthing Bank HF, Senior Notes	5.750%	10/4/11	480,000	128,400(a)(b)(e)
Kaupthing Bank HF, Senior Notes	7.625%	2/28/15	620,000	165,850(a)(b)(e)
Kaupthing Bank HF, Subordinated Notes	7.125%	5/19/16	1,250,000	0(a)(b)(e)(f)(g)
Lehman Brothers Holdings Capital Trust VII, Medium-Term Notes	5.857%	5/31/12	1,745,000	175(a)(c)(d)
Lehman Brothers Holdings Inc.	5.750%	5/17/13	350,000	80,937(a)
Lehman Brothers Holdings Inc., Subordinated Notes	6.500%	7/19/17	110,000	11(a)
Merrill Lynch & Co. Inc., Senior Notes	6.400%	8/28/17	300,000	317,181
Merrill Lynch & Co. Inc., Senior Notes, Medium-Term Notes	6.050%	8/15/12	400,000	423,560
Merrill Lynch & Co. Inc., Subordinated Notes	5.700%	5/2/17	1,000,000	1,003,361
Merrill Lynch & Co. Inc., Subordinated Notes	6.110%	1/29/37	320,000	288,856
Morgan Stanley, Medium-Term Notes	6.625%	4/1/18	100,000	108,477
Morgan Stanley, Senior Notes	6.000%	5/13/14	860,000	929,213
Morgan Stanley, Senior Notes	5.500%	7/24/20	100,000	101,027
Morgan Stanley, Subordinated Notes	4.750%	4/1/14	60,000	61,442
Total Capital Markets				6,350,740
Commercial Banks 8.5%				
BAC Capital Trust XIV, Junior Subordinated Notes	5.630%	3/15/12	585,000	415,467(c)(d)
Banco Mercantil del Norte SA, Subordinated Bonds	6.135%	10/13/16	750,000	770,623(b)(c)
BankAmerica Capital III, Junior Subordinated Notes	0.859%	1/15/27	215,000	152,845(c)
BankAmerica Institutional Capital A, Junior Subordinated Bonds	8.070%	12/31/26	130,000	130,813(b)
BankAmerica Institutional Capital B, Junior Subordinated Bonds	7.700%	12/31/26	480,000	480,000(b)
Barclays Bank PLC, Subordinated Notes	10.179%	6/12/21	240,000	298,862(b)

See Notes to Financial Statements.

12 Western Asset Income Fund 2010 Annual Report

Schedule of investments (cont d)

December 31, 2010

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Commercial Banks continued				
BB&T Capital Trust II, Junior Subordinated Notes	6.750%	6/7/36	\$ 230,000	\$ 228,134
BPCE SA, Subordinated Bonds	12.500%	9/30/19	361,000	414,912(b)(c)(d)
Commonwealth Bank of Australia, Senior Notes	5.000%	10/15/19	60,000	62,803(b)
Credit Agricole SA, Subordinated Notes	8.375%	10/13/19	1,050,000	1,078,875(b)(c)(d)
First Union Capital I, Junior Subordinated Notes	7.935%	1/15/27	420,000	432,070
Glitnir Banki HF, Notes	6.330%	7/28/11	400,000	119,000(a)(b)(e)
Glitnir Banki HF, Subordinated Bonds	7.451%	9/14/16	210,000	0(a)(b)(d)(e)(f)(g)
Glitnir Banki HF, Subordinated Notes	6.693%	6/15/16	680,000	0(a)(b)(e)(f)(g)
HBOS Capital Funding LP, Tier 1 Notes, Perpetual Bonds	6.071%	6/30/14	560,000	456,400(b)(c)(d)
HSBC Finance Capital Trust IX, Junior Subordinated Notes	5.911%	11/30/35	1,350,000	1,242,000(c)
ICICI Bank Ltd., Subordinated Bonds	6.375%	4/30/22	200,000	200,512(b)(c)
Landsbanki Islands HF	7.431%	10/19/17	730,000	0(a)(b)(d)(e)(f)(g)
Rabobank Nederland NV, Junior Subordinated Notes	11.000%	6/30/19	858,000	1,108,965(b)(c)(d)
Resona Preferred Global Securities Cayman Ltd., Junior Subordinated Bonds	7.191%	7/30/15	1,095,000	1,086,798(b)(c)(d)
Royal Bank of Scotland Group PLC, Junior Subordinated Notes, Medium-Term Notes	7.640%	9/29/17	100,000	66,500*(d)
Royal Bank of Scotland Group PLC, Senior Notes	6.400%	10/21/19	220,000	221,398
Royal Bank of Scotland Group PLC, Senior Subordinated Notes	6.375%	2/1/11	150,000	150,484
Royal Bank of Scotland Group PLC, Subordinated Notes	5.000%	11/12/13	70,000	69,128
Royal Bank of Scotland Group PLC, Subordinated Notes	5.000%	10/1/14	510,000	490,608
SunTrust Capital, Trust Preferred Securities	6.100%	12/15/36	520,000	475,800(c)
Wachovia Capital Trust III, Junior Subordinated Bonds	5.800%	3/15/11	630,000	546,525(c)(d)
Wells Fargo Capital X, Capital Securities	5.950%	12/15/36	450,000	434,369

See Notes to Financial Statements.

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Consumer Finance continued				
HSBC Finance Corp., Senior Subordinated Notes	6.676%	1/15/21	\$ 1,000,000	\$ 1,010,281(b)
SLM Corp., Medium-Term Notes	8.000%	3/25/20	210,000	212,920
SLM Corp., Medium-Term Notes, Senior Notes	5.050%	11/14/14	130,000	124,239
SLM Corp., Medium-Term Notes, Senior Notes	5.625%	8/1/33	180,000	141,237
Total Consumer Finance				6,116,685
Diversified Financial Services 12.0%				
AES El Salvador Trust, Senior Notes	6.750%	2/1/16	750,000	725,560(b)
AIG SunAmerica Global Financing VI, Senior Secured Notes	6.300%	5/10/11	880,000	893,200(b)
Bank of America Corp., Notes, Preferred Securities	8.000%	1/30/18	150,000	151,170(c)(d)
Bank of America Corp., Senior Notes	7.625%	6/1/19	70,000	80,600
Bank of America Corp., Senior Notes	5.625%	7/1/20	60,000	61,170
Beaver Valley Funding Corp., Senior Secured Bonds	9.000%	6/1/17	199,000	216,379
Capital One Bank USA N.A., Senior Subordinated Notes	6.500%	6/13/13	330,000	361,337
Capital One Capital VI	8.875%	5/15/40	190,000	197,838
Citigroup Inc., Senior Notes	6.375%	8/12/14	620,000	685,228
Citigroup Inc., Senior Notes	5.500%	10/15/14	270,000	290,911
Citigroup Inc., Senior Notes	6.010%	1/15/15	210,000	230,375
Citigroup Inc., Senior Notes	8.500%	5/22/19	1,280,000	1,589,037
Citigroup Inc., Senior Notes	8.125%	7/15/39	450,000	572,462
Citigroup Inc., Subordinated Notes	6.125%	8/25/36	550,000	527,014
General Electric Capital Corp., Senior Notes	5.900%	5/13/14	1,000,000	1,106,759
General Electric Capital Corp., Senior Notes	6.000%	8/7/19	1,120,000	1,246,102
General Electric Capital Corp., Senior Notes	4.375%	9/16/20	1,060,000	1,043,206
General Electric Capital Corp., Subordinated Debentures	6.375%	11/15/67	600,000	594,000(c)
ILFC E-Capital Trust II, Bonds	6.250%	12/21/65	790,000	616,200(b)(c)
International Lease Finance Corp., Senior Notes	8.750%	3/15/17	190,000	203,775(b)
International Lease Finance Corp., Senior Notes	8.875%	9/1/17	470,000	507,013
International Lease Finance Corp., Senior Secured Notes	6.500%	9/1/14	80,000	84,800(b)
JPMorgan Chase & Co., Subordinated Notes	6.125%	6/27/17	720,000	789,936
JPMorgan Chase Capital XXV, Junior Subordinated Notes	6.800%	10/1/37	1,000,000	1,031,091
UFJ Finance Aruba AEC	6.750%	7/15/13	355,000	395,862
ZFS Finance USA Trust II, Bonds	6.450%	12/15/65	1,440,000	1,416,600(b)(c)
Total Diversified Financial Services				15,617,625

See Notes to Financial Statements.

14 Western Asset Income Fund 2010 Annual Report

Schedule of investments (cont d)

December 31, 2010

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Insurance 3.7%				
Allstate Corp., Junior Subordinated Debentures	6.500%	5/15/57	\$ 480,000	\$ 481,200(c)
American International Group Inc., Junior Subordinated Debentures	6.250%	3/15/37	80,000	70,748
American International Group Inc., Senior Notes	6.400%	12/15/20	90,000	94,429
ASIF Global Financing XIX	4.900%	1/17/13	30,000	30,900(b)
AXA SA, Subordinated Bonds	8.600%	12/15/30	200,000	224,105
CNA Financial Corp., Senior Notes	5.875%	8/15/20	260,000	258,875
Delphi Financial Group Inc., Senior Notes	7.875%	1/31/20	170,000	181,612
Liberty Mutual Group, Junior Subordinated Bonds	7.800%	3/15/37	300,000	295,500(b)
Liberty Mutual Group, Senior Notes	5.750%	3/15/14	270,000	280,828(b)
MetLife Inc., Junior Subordinated Debentures	6.400%	12/15/36	1,160,000	1,090,400
Prudential Financial Inc., Junior Subordinated Debentures	8.875%	6/15/38	340,000	395,250(c)
Prudential Holdings LLC, Bonds, FSA-Insured	7.245%	12/18/23	260,000	290,134(b)
Teachers Insurance & Annuity Association of America College Retirement Equity Fund, Notes	6.850%	12/16/39	400,000	468,001(b)
Travelers Cos. Inc., Senior Notes	5.350%	11/1/40	500,000	492,630
Willis North America Inc., Senior Notes	5.625%	7/15/15	230,000	241,681
Total Insurance				4,896,293
Real Estate Investment Trusts (REITs) 0.1%				
Digital Realty Trust LP, Senior Notes	5.875%	2/1/20	20,000	20,347
Health Care REIT Inc., Senior Notes	5.875%	5/15/15	130,000	141,677
Total Real Estate Investment Trusts (REITs)				162,024
Thriffs & Mortgage Finance 1.1%				
Countrywide Financial Corp., Medium-Term Notes	5.800%	6/7/12	850,000	894,282
Countrywide Financial Corp., Subordinated Notes	6.250%	5/15/16	500,000	512,743
Total Thriffs & Mortgage Finance				1,407,025
Total Financials 45,684,283				
Health Care 5.6%				
Health Care Equipment & Supplies 0.4%				
Boston Scientific Corp., Senior Notes	6.000%	1/15/20	340,000	354,415
Hospira Inc., Senior Notes	6.050%	3/30/17	210,000	235,269
Total Health Care Equipment & Supplies				589,684
Health Care Providers & Services 4.5%				
Aetna Inc., Senior Notes	6.500%	9/15/18	240,000	276,442
Aetna Inc., Senior Notes	3.950%	9/1/20	200,000	192,207
HCA Inc., Senior Notes	7.875%	2/1/11	250,000	250,625
HCA Inc., Senior Notes	6.300%	10/1/12	180,000	184,050
HCA Inc., Senior Notes	6.250%	2/15/13	930,000	948,600
HCA Inc., Senior Notes	5.750%	3/15/14	65,000	64,025

See Notes to Financial Statements.

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Health Care Providers & Services continued				
HCA Inc., Senior Secured Notes	9.125%	11/15/14	\$ 400,000	\$ 419,500
HCA Inc., Senior Secured Notes	9.250%	11/15/16	500,000	533,438
Humana Inc.	8.150%	6/15/38	190,000	212,694
Humana Inc., Senior Notes	6.450%	6/1/16	220,000	240,658
Tenet Healthcare Corp., Senior Secured Notes	9.000%	5/1/15	732,000	812,520
Tenet Healthcare Corp., Senior Secured Notes	10.000%	5/1/18	732,000	852,780
UnitedHealth Group Inc., Senior Notes	6.000%	11/15/17	31,000	34,508
WellPoint Inc., Notes	5.875%	6/15/17	540,000	603,613
WellPoint Inc., Senior Notes	4.350%	8/15/20	240,000	238,130
Total Health Care Providers & Services				5,863,790
Life Sciences Tools & Services 0.3%				
Life Technologies Corp., Senior Notes	6.000%	3/1/20	380,000	407,031
Pharmaceuticals 0.4%				
Pfizer Inc., Senior Notes	6.200%	3/15/19	270,000	316,267
Wyeth, Notes	5.950%	4/1/37	170,000	188,127
Total Pharmaceuticals				504,394
Total Health Care				7,364,899
Industrials 5.4%				
Aerospace & Defense 1.3%				
Esterline Technologies Corp., Senior Notes	7.000%	8/1/20	750,000	772,500(b)
L-3 Communications Corp., Senior Subordinated Notes	6.375%	10/15/15	660,000	679,800
Systems 2001 Asset Trust	6.664%	9/15/13	261,883	287,312(b)
Total Aerospace & Defense				1,739,612
Airlines 1.4%				
Continental Airlines Inc., Pass-Through Certificates	9.250%	5/10/17	47,493	52,539
Continental Airlines Inc., Pass-Through Certificates	6.545%	2/2/19	104,454	110,721
Continental Airlines Inc., Pass-Through Certificates, Senior Secured Notes	7.250%	11/10/19	213,922	238,524
Continental Airlines Inc., Senior Secured Notes	7.256%	3/15/20	182,552	198,069
Delta Air Lines, Pass-Through Trust, Senior Secured Notes	7.750%	12/17/19	302,624	335,156
Delta Air Lines, Secured Notes	4.950%	5/23/19	380,000	381,425
Delta Air Lines Inc., Pass-Through Certificates	7.111%	9/18/11	290,000	299,425
Delta Air Lines Inc., Pass-Through Certificates	7.711%	9/18/11	110,000	112,750
United Airlines, Pass-Through Certificates, Pass-Through Trust, Secured Notes	9.750%	1/15/17	133,242	153,228
Total Airlines				1,881,837
Commercial Banks 0.7%				
Mizuho Financial Group Cayman Ltd.	5.790%	4/15/14	800,000	879,080(b)

See Notes to Financial Statements.

16 Western Asset Income Fund 2010 Annual Report

Schedule of investments (cont d)

December 31, 2010

Western Asset Income Fund

	Rate	Maturity Date	Face Amount	Value
Security				
Commercial Services & Supplies 0.4%				
Republic Services Inc., Senior Notes	5.500%	9/15/19	\$ 130,000	\$ 141,770
Republic Services Inc., Senior Notes	5.250%	11/15/21	330,000	347,781
Total Commercial Services & Supplies				489,551
Diversified Financial Services 0.1%				
International Lease Finance Corp., Senior Notes	8.250%	12/15/20	190,000	195,700
Industrial Conglomerates 0.3%				
United Technologies Corp., Senior Notes	6.125%	2/1/19	300,000	350,820
Machinery 0.5%				
Valmont Industries Inc., Senior Notes	6.625%	4/20/20	680,000	707,394
Road & Rail 0.7%				
Asciano Finance Ltd., Senior Notes	3.125%	9/23/15	490,000	471,084(b)
Asciano Finance Ltd., Senior Notes	4.625%	9/23/20	420,000	389,509(b)
Total Road & Rail				860,593
Total Industrials				7,104,587
Information Technology 1.7%				
Electronic Equipment, Instruments & Components 0.3%				
Corning Inc., Senior Notes	5.750%	8/15/40	360,000	360,994
IT Services 1.1%				
Electronic Data Systems Corp., Notes	7.450%	10/15/29	420,000	539,497
Fiserv Inc., Senior Notes	4.625%	10/1/20	630,000	611,909
Mantech International Corp., Senior Notes	7.250%	4/15/18	320,000	334,400
Total IT Services				1,485,806
Semiconductors & Semiconductor Equipment 0.3%				
KLA-Tencor Corp., Senior Notes	6.900%	5/1/18	210,000	231,001
National Semiconductor Corp., Senior Notes	6.600%	6/15/17	110,000	121,523
Total Semiconductors & Semiconductor Equipment				352,524
Total Information Technology				2,199,324
Materials 5.2%				
Chemicals 1.0%				
Dow Chemical Co., Debentures	7.375%	11/1/29	800,000	961,697
Lubrizol Corp., Senior Notes	8.875%	2/1/19	280,000	352,368
Total Chemicals				1,314,065
Containers & Packaging 0.1%				
Ball Corp., Senior Notes	6.625%	3/15/18	110,000	112,200
Metals & Mining 3.4%				
Barrick Gold Financeco LLC, Senior Notes	6.125%	9/15/13	250,000	279,800
	8.375%	4/1/17	1,730,000	1,913,813

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Freeport-McMoRan Copper & Gold Inc., Senior
Notes

Rio Tinto Finance USA Ltd., Senior Notes

9.000%

5/1/19

660,000

886,410

Southern Copper Corp., Senior Notes

5.375%

4/16/20

150,000

151,647

See Notes to Financial Statements.

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Metals & Mining continued				
Vale Overseas Ltd., Notes	6.875%	11/21/36	\$ 1,148,000	\$ 1,262,779
Total Metals & Mining				4,494,449
Paper & Forest Products 0.7%				
Georgia-Pacific Corp.	7.375%	12/1/25	250,000	270,000
Georgia-Pacific Corp., Debentures	9.500%	12/1/11	325,000	347,750
Georgia-Pacific LLC, Senior Notes	5.400%	11/1/20	270,000	266,944(b)
Total Paper & Forest Products				884,694
Total Materials				6,805,408
Telecommunication Services 8.7%				
Diversified Telecommunication Services 7.0%				
AT&T Corp., Senior Notes	8.000%	11/15/31	9,000	11,312
AT&T Inc., Global Notes	6.550%	2/15/39	1,230,000	1,338,798
AT&T Inc., Senior Notes	5.350%	9/1/40	1,103,000	1,037,334(b)
British Telecommunications PLC, Bonds	9.875%	12/15/30	330,000	439,834
Deutsche Telekom International Finance BV, Bonds	8.750%	6/15/30	580,000	779,490
Deutsche Telekom International Finance BV, Senior Notes	5.750%	3/23/16	160,000	179,198
Embarq Corp., Notes	7.082%	6/1/16	330,000	364,950
Koninklijke KPN NV, Senior Notes	8.375%	10/1/30	240,000	312,013
Qwest Corp., Debentures	6.875%	9/15/33	1,000,000	982,500
Telecom Italia Capital SA, Senior Notes	7.721%	6/4/38	390,000	386,451
Telecom Italia Capital SpA, Senior Notes	7.200%	7/18/36	760,000	713,687
Telefonica Emisiones SAU, Senior Notes	5.877%	7/15/19	220,000	224,786
Telefonica Emisiones SAU, Senior Notes	5.134%	4/27/20	650,000	625,782
Telefonica Emisiones SAU, Senior Notes	7.045%	6/20/36	100,000	102,317
Verizon Communications Inc., Senior Notes	8.950%	3/1/39	720,000	1,026,064
Verizon Global Funding Corp., Senior Notes	5.850%	9/15/35	570,000	589,585
Total Diversified Telecommunication Services				9,114,101
Wireless Telecommunication Services 1.7%				
America Movil SAB de CV, Senior Notes	5.625%	11/15/17	190,000	207,130
Crown Castle Towers LLC, Senior Secured Notes	4.883%	8/15/20	90,000	86,497(b)
Rogers Cable Inc., Senior Secured Second Priority Notes	6.250%	6/15/13	250,000	277,916
Rogers Wireless Inc., Secured Notes	6.375%	3/1/14	300,000	337,081
Sprint Capital Corp., Global Notes	6.900%	5/1/19	330,000	325,875
Sprint Capital Corp., Senior Notes	8.750%	3/15/32	940,000	949,400
Total Wireless Telecommunication Services				2,183,899
Total Telecommunication Services				11,298,000

See Notes to Financial Statements.

18 Western Asset Income Fund 2010 Annual Report

Schedule of investments (cont d)

December 31, 2010

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Utilities 7.6%				
Electric Utilities 4.7%				
Commonwealth Edison Co., First Mortgage Bonds	5.800%	3/15/18	\$ 560,000	\$ 627,906
CP&L Inc., First Mortgage Secured Bonds	5.300%	1/15/19	220,000	244,204
Duke Energy Corp., Senior Notes	6.300%	2/1/14	500,000	556,922
Edison International, Senior Notes	3.750%	9/15/17	470,000	466,682
EEB International Ltd., Senior Bonds	8.750%	10/31/14	260,000	280,150(b)
Enersis SA, Notes	7.400%	12/1/16	452,000	509,533
FirstEnergy Corp., Notes	6.450%	11/15/11	3,000	3,122
FirstEnergy Corp., Notes	7.375%	11/15/31	110,000	115,958
Pacific Gas & Electric Co., First Mortgage Bonds	6.050%	3/1/34	140,000	153,286
PNPP II Funding Corp.	9.120%	5/30/16	1,520,000	1,624,986
Sithe Independence Funding, Notes	9.000%	12/30/13	943,176	978,282
Virginia Electric and Power Co., Senior Notes	8.875%	11/15/38	390,000	565,351
Total Electric Utilities				6,126,382
Gas Utilities 0.1%				
Southern Natural Gas Co., Senior Notes	5.900%	4/1/17	170,000	182,302(b)
Independent Power Producers & Energy Traders 1.3%				
Dynegy Holdings Inc., Senior Notes	8.750%	2/15/12	735,000	723,975
Energy Future Holdings Corp., Senior Notes	5.550%	11/15/14	1,500,000	911,250
Total Independent Power Producers & Energy Traders				1,635,225
Multi-Utilities 1.5%				
CenterPoint Energy Inc.	6.850%	6/1/15	1,150,000	1,314,503
Dominion Resources Inc., Senior Notes	8.875%	1/15/19	250,000	323,929
DTE Energy Co.	6.350%	6/1/16	260,000	292,368
Total Multi-Utilities				1,930,800
Total Utilities				9,874,709
Total Corporate Bonds & Notes (Cost \$120,535,767)				121,774,468
Asset-Backed Securities 0.8%				
AESOP Funding II LLC, 2010-3A A	4.640%	5/20/16	70,000	73,735(b)
Education Funding Capital Trust, 2004-1 A5	1.761%	6/15/43	300,000	278,153(c)
Hertz Vehicle Financing LLC, 2009-2A A1	4.260%	3/25/14	490,000	512,724(b)
Hertz Vehicle Financing LLC, 2009-2X A2	5.290%	3/25/16	100,000	107,563(b)
Total Asset-Backed Securities (Cost \$939,392)				972,175

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Collateralized Mortgage Obligations

0.5%				
Thornburg Mortgage Securities Trust, 2007-4 2A1	6.196%	9/25/37	307,090	285,952(c)
Thornburg Mortgage Securities Trust, 2007-4 3A1	6.180%	9/25/37	321,611	312,248(c)
Total Collateralized Mortgage Obligations (Cost	\$623,068)			598,200

See Notes to Financial Statements.

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Sovereign Bonds 0.9%				
<i>Canada 0.7%</i>				
Quebec Province	7.970%	7/22/36	\$ 650,000	\$ 897,009
<i>Mexico 0.0%</i>				
United Mexican States, Medium-Term Notes	6.750%	9/27/34	24,000	27,000
<i>Russia 0.2%</i>				
RSHB Capital, Loan Participation Notes, Secured Notes	7.125%	1/14/14	200,000	213,000(b)
Russian Foreign Bond-Eurobond, Senior Bonds	7.500%	3/31/30	48,330	55,894(b)
Total Russia				268,894
Total Sovereign Bonds (Cost \$1,016,746)				1,192,903
U.S. Government & Agency Obligations 0.5%				
<i>U.S. Government Agencies 0.5%</i>				
Federal National Mortgage Association (FNMA), Debentures	0.000%	10/9/19	350,000	220,998
Tennessee Valley Authority, Notes	5.250%	9/15/39	390,000	412,314
Total U.S. Government & Agency Obligations (Cost \$591,002)				633,312
			Shares	
Common Stocks 0.0%				
Industrials 0.0%				
<i>Building Products 0.0%</i>				
Nortek Inc. (Cost \$57,088)			1,209	43,510*
Preferred Stocks 1.1%				
Financials 1.1%				
<i>Commercial Banks 0.1%</i>				
Santander Finance Preferred SA Unipersonal	10.500%		4,500	125,370
Diversified Financial Services 0.9%				
Citigroup Capital XII	8.500%		23,150	612,549(c)
Citigroup Capital XIII	7.875%		22,900	616,239(c)
Total Diversified Financial Services				1,228,788
Thriffs & Mortgage Finance 0.1%				
Federal Home Loan Mortgage Corp. (FHLMC)	8.375%		96,825	60,903*(c)
Federal National Mortgage Association (FNMA)	8.250%		11,700	6,552*(c)
Total Thriffs & Mortgage Finance				67,455
Total Preferred Stocks (Cost \$2,756,682)				1,421,613
Total Investments before Short-Term Investments (Cost \$126,519,745)				126,636,181

See Notes to Financial Statements.

20 Western Asset Income Fund 2010 Annual Report

Schedule of investments (cont d)

December 31, 2010

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Short-Term Investments 1.5%				
<i>U.S. Government Agencies 0.2%</i>				
Federal National Mortgage Association (FNMA), Discount Notes (Cost \$220,812)	0.220 - 0.240%	5/9/11	\$ 221,000	\$ 220,899 ^{(h)(i)}
<i>Repurchase Agreements 1.3%</i>				
Deutsche Bank Securities Inc. repurchase agreement dated 12/31/10; Proceeds at maturity \$1,770,031; (Fully collateralized by U.S. government agency obligations, 3.500% due 8/17/20; Market value \$1,805,400) (Cost \$1,770,000)	0.210%	1/3/11	1,770,000	1,770,000
Total Short-Term Investments (Cost \$1,990,812)				1,990,899
Total Investments 98.6% (Cost \$128,510,557#)				128,627,080
Other Assets in Excess of Liabilities 1.4%				1,831,325
Total Net Assets 100.0%				\$130,458,405

* Non-income producing security.

(a) Securities are in default as of December 31, 2010.

(b) 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.

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

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

(e) Illiquid security.

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

(g) Value is less than \$1.

(h) Rate shown represents yield-to-maturity.

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

Aggregate cost for federal income tax purposes is \$128,987,964.

See Notes to Financial Statements.

Statement of assets and liabilities

December 31, 2010

Assets:

Investments, at value (Cost \$128,510,557)	\$128,627,080
Cash	771
Interest receivable	1,952,928
Deposits with brokers for open futures contracts	10,006
Prepaid expenses	9,693
Total Assets	130,600,478

Liabilities:

Investment management fee payable	56,387
Payable to broker variation margin on open futures contracts	3,859
Directors fees payable	2,676
Accrued expenses	79,151
Total Liabilities	142,073
Total Net Assets	\$130,458,405

Net Assets:

Par value (\$0.01 par value; 20,000,000 shares authorized, 9,436,904 shares issued and outstanding) (Note 5)	\$ 94,369
Paid-in capital in excess of par value	142,450,072
Overdistributed net investment income	(106,847)
Accumulated net realized loss on investments and futures contracts	(12,150,414)
Net unrealized appreciation on investments and futures contracts	171,225
Total Net Assets	\$130,458,405

Shares Outstanding	9,436,904
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Net Asset Value	\$13.82
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See Notes to Financial Statements.

22 Western Asset Income Fund 2010 Annual Report

Statement of operations

For the Year Ended December 31, 2010

Investment Income:

Interest	\$ 8,375,175
Dividends	54,760
Total Investment Income	8,429,935

Expenses:

Investment management fee (Note 2)	695,507
Transfer agent fees	63,851
Shareholder reports	52,602
Legal fees	42,213
Audit and tax	41,700
Custody fees	29,746
Taxes, other than federal income taxes	28,067
Stock exchange listing fees	21,356
Directors' fees	10,390
Miscellaneous expenses	19,079
Total Expenses	1,004,511
Less: Fee waivers and/or expense reimbursements (Note 2)	(24,000)
Net Expenses	980,511
Net Investment Income	7,449,424

Realized and Unrealized Gain (Loss) on Investments and Futures Contracts (Notes 1, 3 and 4):

Net Realized Gain (Loss) From:	
Investment transactions	1,398,813
Futures contracts	(1,233,252)
Net Realized Gain	165,561
Change in Net Unrealized Appreciation (Depreciation) From:	
Investments	5,789,952
Futures contracts	(142,706)
Change in Net Unrealized Appreciation (Depreciation)	5,647,246
Net Gain on Investments and Futures Contracts	5,812,807
Increase in Net Assets From Operations	\$13,262,231

See Notes to Financial Statements.

Statements of changes in net assets

For the Years Ended December 31,	2010	2009
Operations:		
Net investment income	\$ 7,449,424	\$ 7,799,749
Net realized gain (loss)	165,561	(8,805,566)
Change in net unrealized appreciation (depreciation)	5,647,246	33,846,317
<i>Increase in Net Assets From Operations</i>	<i>13,262,231</i>	<i>32,840,500</i>
Distributions to Shareholders From (Note 1):		
Net investment income	(7,452,250)	(8,850,758)
<i>Decrease in Net Assets From Distributions to Shareholders</i>	<i>(7,452,250)</i>	<i>(8,850,758)</i>
Fund Share Transactions:		
Reinvestment of distributions (7,337 and 40,136 shares issued, respectively)	99,506	454,278
<i>Increase in Net Assets From Fund Share Transactions</i>	<i>99,506</i>	<i>454,278</i>
<i>Increase in Net Assets</i>	<i>5,909,487</i>	<i>24,444,020</i>
Net Assets:		
Beginning of year	124,548,918	100,104,898
End of year*	\$130,458,405	\$124,548,918
* Includes overdistributed net investment income of:	\$(106,847)	\$(104,025)

See Notes to Financial Statements.

24 Western Asset Income Fund 2010 Annual Report

Financial highlights**For a share of capital stock outstanding throughout each year ended December 31:**

	2010	2009	2008	2007	2006
Net asset value, beginning of year	\$13.21	\$10.66	\$15.13	\$15.91	\$15.73
Income (loss) from operations:					
Net investment income ¹	0.79	0.83	0.98	0.95	0.91
Net realized and unrealized gain (loss)	0.61	2.66	(4.47)	(0.61)	0.21
Total income (loss) from operations	1.40	3.49	(3.49)	0.34	1.12
Less distributions from:					
Net investment income	(0.79)	(0.94)	(0.94)	(0.96)	(0.86)
Net realized gains			(0.04)	(0.16)	(0.08)
Total distributions	(0.79)	(0.94)	(0.98)	(1.12)	(0.94)
Net asset value, end of year	\$13.82	\$13.21	\$10.66	\$15.13	\$15.91
Market price, end of year	\$12.89	\$12.75	\$10.49	\$13.50	\$15.52
Total return, based on NAV²	10.86%	34.41%	(24.05)%	2.17%	7.38%
Total return, based on Market Price^{2,3}	7.28%	31.75%	(15.82)%	(6.16)%	17.02%
Net assets, end of year (000s)	\$130,458	\$124,549	\$100,105	\$142,029	\$149,406
Ratios to average net assets:					
Gross expenses	0.78%	0.89%	0.91%	0.83%	0.84%
Net expenses ^{4,5}	0.76	0.86	0.89	0.81	0.82
Net investment income	5.78	7.07	7.32	6.10	5.81
Portfolio turnover rate	42%	45%	17%	46%	51%

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

² Performance figures may reflect compensating balance arrangements, fee waivers and/or expense reimbursements. In the absence of compensating balance arrangements, fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results.

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 Reflects fee waivers and/or expense reimbursements.

⁵ The impact of compensating balance arrangements, if any, was less than 0.01%.

See Notes to Financial Statements.

Notes to financial statements

1. Organization and significant accounting policies

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

The Fund seeks high level of current income, consistent with prudent investment risk. Capital appreciation, when consistent with current income, 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). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ. Subsequent events have been evaluated through the date the financial statements were issued.

(a) Investment valuation. Debt securities are valued at the last quoted bid price provided by an independent pricing service that are based on transactions in debt obligations, quotations from bond dealers, market transactions in comparable securities and various other relationships between securities. 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 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. 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 (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)

Notes to financial statements (cont d)

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 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.

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		\$121,774,468	\$ 0*	\$121,774,468
Asset-backed securities		972,175		972,175
Collateralized mortgage obligations		598,200		598,200
Sovereign bonds		1,192,903		1,192,903
U.S. government & agency obligations		633,312		633,312
Common stocks	\$ 43,510			43,510
Preferred stocks	1,421,613			1,421,613
Total long-term investments	\$1,465,123	\$125,171,058	\$ 0*	\$126,636,181
Short-term investments		1,990,899		1,990,899
Total investments	\$1,465,123	\$127,161,957	\$ 0*	\$128,627,080
Other financial instruments:				
Futures contracts	162,281			162,281
Total	\$1,627,404	\$127,161,957	\$ 0*	\$128,789,361

Description	LIABILITIES			Total
	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Other financial instruments:				
Futures contracts	\$107,579			\$ 107,579
See Schedule of Investments for additional detailed categorizations.				

* Value is less than \$1.

The 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
Balance as of December 31, 2009	
Accrued premiums/discounts	
Realized gain (loss) ¹	
Change in unrealized appreciation (depreciation) ²	
Net purchases (sales)	
Transfers into Level 3	\$ 0*
Transfers out of Level 3	
Balance as of December 31, 2010	\$ 0*
Net change in unrealized appreciation (depreciation) for investments in securities still held at December 31, 2010²	

* Value is less than \$1.

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.

(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 to gain exposure to, or hedge against, changes in the value of interest rates. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Notes to financial statements (cont d)

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.