

MUNICIPAL HIGH INCOME FUND INC
Form N-Q
September 29, 2004

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 811-5497

Municipal High Income Fund, Inc.

(Exact name of registrant as specified in charter)

125 Broad Street, New York, NY 10004

(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.

Smith Barney Fund Management LLC

300 First Stamford Place

Stamford, CT 06902

(Name and address of agent for service)

Registrant's telephone number, including area code: 1-800-451-2010

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Date of fiscal year end: October 31

Date of reporting period: July 31, 2004

ITEM 1. SCHEDULE OF INVESTMENTS

MUNICIPAL HIGH INCOME FUND INC.

FORM N-Q

JULY 31, 2004

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Municipal High Income Fund Inc.

Schedule of Investments (unaudited)

July 31, 2004

| FACE AMOUNT | RATING (a) | SECURITY | VALUE |
|----------------------------------|------------|--|--------------|
| Municipal Bonds 100.0% | | | |
| Alabama 4.0% | | | |
| \$4,000,000 | BB+ | Butler, AL IDB, Solid Waste Disposal Revenue, (James River Corp. Project), 8.000% due 9/1/28 (b)(c) | \$ 4,085,200 |
| 615,000 | NR | Capstone Improvement District of Brookwood, AL, Series A, 7.700% due 8/15/23 (d) | 153,750 |
| 11,765 | D | Mobile, AL IDB, Solid Waste Disposal Revenue, (Mobile Energy Services Co. Project), 6.950% due 1/1/20 (d) | 74 |
| 1,000,000 | NR | Rainbow City, AL Special Health Care Facility Financing Authority, Series A, 8.250% due 1/1/31 | 1,038,480 |
| 1,000,000 | AAA | West Jefferson, AL Amusement & Public Park Authority Revenue, (Visionland Project), (Call 12/1/06 @ 102), 8.000% due 12/1/26 (e) | 1,150,210 |
| | | | 6,427,714 |
| Alaska 0.7% | | | |
| 1,055,000 | NR | Alaska Industrial Development & Export Authority Revenue, Williams Lynxs Alaska Cargoport, 8.125% due 5/1/31 (b) | 1,092,442 |
| Arizona 3.1% | | | |
| 1,500,000 | NR | Casa Grande, AZ IDA, Hospital Revenue, Casa Grande Regional Medical Center, Series A, 7.625% due 12/1/29 | 1,555,110 |
| 1,000,000 | CCC+ | Gila County, AZ IDA Revenue, ASARCO Inc., 5.550% due 1/1/27 (c) | 728,680 |
| 935,000 | NR | Maricopa, AZ IDA, MFH Revenue, (Gran Victoria Housing LLC Project), Series B, 10.000% due 5/1/31 (c) | 934,720 |
| 1,810,000 | NR | Phoenix, AZ IDA, MFH Revenue, (Ventana Palms Apartments Project), Series B, 8.000% due 10/1/34 | 1,765,510 |
| | | | 4,984,020 |
| Arkansas 1.1% | | | |
| | | Arkansas State Development Finance Authority: | |
| 1,000,000 | BBB | Hospital Revenue, (Washington Regional Medical Center Project), 7.375% due 2/1/29 | 1,097,750 |
| 600,000 | BB+ | Industrial Facilities Revenue, (Potlatch Corp. Project), Series A, 7.750% due 8/1/25 (b) | 641,250 |
| | | | 1,739,000 |
| California 6.7% | | | |
| 1,500,000 | NR | Barona, CA Band of Mission Indians, GO, 8.250% due 1/1/20 (c) | 1,602,495 |
| | | California State Department of Water Resources, Power Supply Revenue: | |
| 1,500,000 | AAA | MBIA-Insured, RITES, 9.189% due 5/1/11 (c)(f) | 1,705,650 |
| 750,000 | NR | XLCA-Insured, RITES, 9.189% due 5/1/10 (c)(f) | 880,380 |
| 1,500,000 | NR | California Statewide Communities Development Authority Revenue, (East Valley Tourist Project), Series A, 9.250% due 10/1/20 (c) | 1,567,890 |
| | | Golden State Tobacco Securitization Corp., Tobacco Settlement Revenue: | |
| 1,000,000 | Baa1* | 5.625% due 6/1/38 (c) | 1,011,350 |
| 2,000,000 | BBB | 7.800% due 6/1/42 (c) | 2,034,040 |
| 1,865,000 | Ba2* | Vallejo, CA COP, Touro University, 7.375% due 6/1/29 | 1,912,408 |
| | | | 10,714,213 |
| Colorado 2.2% | | | |
| | | Colorado Education and Cultural Facilities Authority Revenue: | |
| 2,000,000 | A- | (Colorado Lutheran High School Project), Series A, 7.625% due 6/1/34 | 1,973,040 |
| 910,000 | AAA | (Peak to Peak Project), 7.500% due 8/15/21 | 1,082,281 |
| 999,000 | NR | Highline Business Improvement District, Littleton, CO GO, Series B, 8.750% due 12/15/19 (c)(d) | 449,550 |
| | | | 3,504,871 |
| District of Columbia 1.3% | | | |
| 1,895,000 | AAA | District of Columbia COP, AMBAC-Insured, 5.500% due 1/1/20 (c) | 2,057,136 |
| Florida 14.0% | | | |
| 1,000,000 | NR | Beacon Lakes Community Development District, Special Assessment, Series A, 6.900% due 5/1/35 (c) | 1,013,590 |
| 1,500,000 | NR | Bonnet Creek Resort Community Development District, FL Special Assessment, 7.500% due 5/1/34 | 1,575,165 |

See Notes to Schedule of Investments.

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Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2004

| FACE AMOUNT | RATING (a) | SECURITY | VALUE |
|--|------------|--|--------------|
| Florida 14.0% (continued) | | | |
| Capital Projects Finance Authority, FL.: | | | |
| \$2,000,000 | NR | Continuing Care Retirement, Glenridge on Palmer Ranch, Series A, 8.000% due 6/1/32 (c) | \$ 1,999,640 |
| 2,000,000 | NR | Student Housing Revenue, Florida University, Series A, 7.850% due 8/15/31 (c) | 1,971,260 |
| 1,000,000 | NR | Capital Trust Agency Revenue, Seminole Tribe Convention Center, Series A, 10.000% due 10/1/33 (c) | 1,209,630 |
| 995,000 | NR | Century Parc Community Development District, Special Assessment, 7.000% due 11/1/31 | 1,030,094 |
| 2,000,000 | A | Highlands County, FL, Health Facilities Authority Revenue, Adventist Health Systems, 6.000% due 11/15/25 (c) | 2,103,620 |
| 2,750,000 | NR | Hillsborough County, FL IDA Revenue, (Lake Shore Villas Project), Series A, 6.750% due 7/1/29 | 2,341,928 |
| 875,000 | NR | Homestead, FL IDR, Community Rehabilitation Providers Program, Series A, 7.950% due 11/1/18 | 887,556 |
| 2,000,000 | BBB- | Martin County, FL IDA Revenue, (Indiantown Cogeneration Project), Series A, 7.875% due 12/15/25 (b) | 2,049,980 |
| 1,000,000 | NR | Orange County, FL Health Facilities Authority Revenue, First Mortgage, (GF/Orlando, Inc. Project), 9.000% due 7/1/31 | 1,018,190 |
| 535,000 | AAA | Palm Beach County, FL, Health Facilities Authority Revenue, (John F. Kennedy Memorial Hospital Inc. Project), 9.500% due 8/1/13 (g) | 685,025 |
| 2,000,000 | NR | Reunion East Community Development District, Special Assessment, Series A, 7.375% due 5/1/33 | 2,128,740 |
| 1,000,000 | BB | Santa Rosa Bay Bridge Authority, FL Revenue, 6.250% due 7/1/28 | 831,220 |
| 1,475,000 | NR | Waterlefe Community Development District, Golf Course Revenue, 8.125% due 10/1/25 | 1,530,268 |
| | | | 22,375,906 |
| Georgia 4.6% | | | |
| 1,000,000 | AAA | Atlanta, GA Airport Passenger Facility Charge Revenue, Sub Lien, Series C, 5.000%, due 1/1/33 | 996,940 |
| 1,000,000 | AAA | Atlanta, GA Airport Revenue, Series B, FGIC-Insured, 5.625% due 1/1/30 (b) | 1,032,000 |
| 2,500,000 | NR | Atlanta, GA Tax Allocation, (Atlantic Station Project), 7.900% due 12/1/24 (c) | 2,609,350 |
| 1,000,000 | NR | Atlanta, GA Urban Residential Finance Authority, MFH Revenue, Park Place Apartments, Series A, 6.750% due 3/1/31 (c) | 793,960 |
| 1,000,000 | BBB+ | Gainesville & Hall County, GA Development Authority Revenue, Senior Living Facility, Lanier Village Estates, Series C, 7.250% due 11/15/29 (c) | 1,066,620 |
| 1,005,000 | NR | Walton County, GA IDA Revenue, (Walton Manufacturing Co. Project), 8.500% due 9/1/07 | 955,956 |
| | | | 7,454,826 |
| Illinois 1.3% | | | |
| 2,000,000 | AAA | Chicago, IL GO, Neighborhoods Alive 21 Program, FGIC-Insured, 5.500% due 1/1/31 | 2,078,580 |
| Indiana 2.3% | | | |
| 2,500,000 | B- | East Chicago, IN PCR, (Inland Steel Co. Project No. 10), 6.800% due 6/1/13 (c) | 2,403,850 |
| 1,000,000 | CCC | Indiana State Development Finance Authority, PCR, (Inland Steel Co. Project No. 13), 7.250% due 11/1/11 (b) | 916,580 |
| 975,000 | NR | Indianapolis, IN MFH Revenue, (Lake Nora Fox Club Project), Series B, 7.500% due 10/1/29 (d) | 380,250 |
| | | | 3,700,680 |
| Kentucky 0.3% | | | |
| 475,000 | Aaa* | Scott County, KY School District Finance Corp., School Building Revenue, 2nd Series, FSA-Insured, 5.000% due 6/1/24 | 486,457 |
| Louisiana 2.1% | | | |
| 960,000 | NR | Epps, LA COP, 8.000% due 6/1/18 (c) | 972,999 |
| 2,000,000 | NR | Louisiana Local Government Environmental Facilities, Community Development Authority Revenue, St. James Place, Series A, 8.000% due 11/1/25 | 1,305,080 |
| 1,000,000 | BB- | Port of New Orleans, LA IDR, Continental Grain Co. Project, 7.500% due 7/1/13 | 1,022,340 |
| | | | 3,300,419 |

See Notes to Schedule of Investments.

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Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2004

| FACE AMOUNT | RATING (a) | SECURITY | VALUE |
|--|------------|--|--------------|
| Maryland 1.8% | | | |
| \$3,000,000 | NR | Maryland State Economic Development Corp. Revenue, Chesapeake Bay, Series A, 7.730% due 12/1/27 | \$ 2,945,520 |
| Massachusetts 4.5% | | | |
| Boston, MA IDA Financing Revenue: | | | |
| 750,000 | NR | Crosstown Center Project, 8.000% due 9/1/35 (b) | 742,290 |
| 970,000 | NR | Roundhouse Hospitality LLC Project, 7.875% due 3/1/25 (b) | 956,808 |
| 1,000,000 | BBB | Caritas Christi Obligation, Series B, 6.750% due 7/1/16 | 1,088,420 |
| 1,000,000 | NR | Massachusetts State Development Finance Agency Revenue Briarwood, Series B, 8.250% due 12/1/30 | 1,070,900 |
| 1,000,000 | AAA | Massachusetts State Health & Education Facilities Authority Revenue, Beth Israel Deaconess Medical Center, Series G-4, AMBAC-Insured, INFLOS, 10.296% due 7/1/25 (f) | 1,005,840 |
| 395,000 | AA | Massachusetts State HFA, Single-Family Housing Revenue, Series 38, 7.200% due 12/1/26 (b) | 404,365 |
| 1,940,000 | NR | Massachusetts State Industrial Finance Agency Revenue, Assisted Living Facility, (Marina Bay LLC Project), 7.500% due 12/1/27 (b) | 1,956,160 |
| | | | 7,224,783 |
| Michigan 5.9% | | | |
| 2,130,000 | NR | Allen Academy, COP, 7.500% due 6/1/23 | 2,046,888 |
| 1,000,000 | NR | Cesar Chavez Academy, COP, 8.000% due 2/1/33 | 1,013,430 |
| 2,000,000 | Ba2* | Garden City, MI Hospital Finance Authority, Hospital Revenue, Garden City Hospital Obligation Group, Series A, 5.625% due 9/1/10 (c) | 1,937,500 |
| 1,000,000 | NR | Gaudior Academy Michigan Certificates, 7.250% due 4/1/34 (c) | 981,940 |
| 1,750,000 | NR | Kalamazoo Advantage Academy, COP, 8.000% due 12/1/33 | 1,716,750 |
| 2,000,000 | NR | Michigan State Strategic Fund, Resource Recovery Limited Obligation Revenue, Central Wayne Energy Recovery L.P., Series A, 6.900% due 7/1/19 (b)(d) | 100,000 |
| 1,000,000 | NR | Star International Academy, MI COP, 7.000% due 3/1/33 (c) | 985,350 |
| 700,000 | NR | William C. Abney Academy, MI COP, 6.750% due 7/1/19 | 685,804 |
| | | | 9,467,662 |
| Minnesota 0.5% | | | |
| 1,000,000 | NR | Minneapolis & St. Paul, MN Metropolitan Airports Community Special Facility Revenue, (Northwest Airlines Project), Series A, 7.000% due 4/1/25 (b) | 834,760 |
| Missouri 0.2% | | | |
| 250,000 | NR | St. Joseph, MO IDA, (Living Community of St. Joseph Project), 7.000% due 8/15/32 | 256,508 |
| Montana 2.0% | | | |
| 4,515,000 | NR | Montana State Board of Investment, Resource Recovery Revenue, (Yellowstone Energy L.P. Project), 7.000% due 12/31/19 (b) | 3,229,399 |
| New Jersey 5.2% | | | |
| 1,000,000 | NR | New Jersey EDA, Series A, Retirement Community Revenue, 8.250% due 11/15/30 | 1,068,450 |
| 3,000,000 | BBB- | New Jersey Health Care Facilities Financing Authority Revenue, Trinitas Hospital Obligation Group, 7.500% due 7/1/30 | 3,349,650 |
| 2,000,000 | AAA | New Jersey State Turnpike Authority, Turnpike Revenue, AMBAC-Insured, 5.000% due 1/1/30 | 2,008,480 |
| Tobacco Settlement Financing Corp. Revenue: | | | |
| 1,000,000 | BBB | 6.750% due 6/1/39 | 898,570 |
| 1,215,000 | BBB | 6.125% due 6/1/42 | 976,884 |
| | | | 8,302,034 |
| New Mexico 0.9% | | | |
| Albuquerque, NM Hospital Revenue, Southwest Community Health Services: | | | |
| 220,000 | AAA | (Call 8/1/08 @ 100) 10.000% due 8/1/12 (e) | 265,806 |
| 115,000 | AAA | (Call 8/1/08 @ 100) 10.125% due 8/1/12 (e) | 139,377 |
| 1,000,000 | NR | Sandoval County, NM Project Revenue, (Santa Ana Pueblo Project), 7.750% due 7/1/15 | 1,015,410 |
| | | | 1,420,593 |
| New York 5.2% | | | |
| 700,000 | NR | Brookhaven, NY IDA, Civic Facility Revenue, Memorial Hospital Medical Center, Series A, 8.250% due 11/15/30 | 739,529 |

See Notes to Schedule of Investments.

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Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2004

| FACE AMOUNT | RATING (a) | SECURITY | VALUE |
|----------------------------------|------------|--|--------------|
| New York 5.2% (continued) | | | |
| \$2,000,000 | AAA | Metropolitan Transportation Authority, NY, Series A, 5.000% due 7/1/30 | \$ 2,002,500 |
| 1,000,000 | NR | Monroe County, NY IDA, Woodland Village Project, 8.550% due 11/15/32 | 1,065,620 |
| | | New York City, NY IDA, Civic Facility Revenue: | |
| 1,360,000 | NR | Community Residence for the Developmentally Disabled, 7.500% due 8/1/26 | 1,437,887 |
| 1,120,000 | NR | Special Needs Facility Pooled Program, Series A-1, 8.125% due 7/1/19 | 1,200,550 |
| 1,000,000 | AA+ | New York City, NY Municipal Water Finance Authority, Water and Sewer System Revenue, Series 2005-A, 5.000% due 6/15/39 | 985,320 |
| 980,000 | NR | Suffolk County, NY IDA, Civic Facility Revenue, Southampton Hospital Association, Series A, 7.750% due 1/1/22 | 993,759 |
| | | | 8,425,165 |
| North Carolina 2.4% | | | |
| 1,000,000 | NR | Charlotte, NC Special Facilities Revenue, Charlotte/Douglas International Airport, 5.600% due 7/1/27 (b)(d) | 526,390 |
| | | North Carolina Medical Care Commission, Health Care Facilities Revenue, First Mortgage, (De Paul Community Facilities Project): | |
| 1,240,000 | NR | 6.125% due 1/1/28 | 1,141,184 |
| 980,000 | NR | 7.625% due 11/1/29 | 1,007,469 |
| 1,000,000 | AAA | North Carolina Municipal Power Agency, Catawba Electric Revenue, MBIA-Insured, TICS, 10.927% due 1/1/11 (f) | 1,210,120 |
| | | | 3,885,163 |
| Ohio 3.3% | | | |
| 1,500,000 | BBB | Cuyahoga County, OH Hospital Facilities Revenue, (Canton Inc. Project), 7.500% due 1/1/30 | 1,642,125 |
| | | Montgomery County, OH Health Systems Revenue, Series B-1, (Escrowed with state & local government securities to 7/1/06 Call @ 102): | |
| 1,035,000 | AAA | 8.100% due 7/1/18 | 1,172,748 |
| 315,000 | AAA | Unrefunded Balance, 8.100% due 7/1/18 | 348,582 |
| 2,000,000 | Baa3* | Ohio State Air Quality Development Authority Revenue, Cleveland Pollution Control, Series A, 6.000% due 12/1/13 | 2,061,260 |
| 1,250,000 | NR | Ohio State Solid Waste Revenue, Republic Engineered Steels Inc., 9.000% due 6/1/21 (b)(d) | 0 |
| | | | 5,224,715 |
| Pennsylvania 6.0% | | | |
| 2,200,000 | NR | Allegheny County, PA IDA, Airport Special Facilities Revenue, (USAir Inc. Project), Series B, 8.500% due 3/1/21 (b)(d) | 46,750 |
| | | Beaver County, PA IDA, PCR: | |
| 1,500,000 | Baa2* | Cleveland Electric Illuminating Co. Project, 7.625% due 5/1/25 (c) | 1,585,620 |
| 2,000,000 | Baa2* | Toledo Edison Co. Project, 7.625% due 5/1/20 (c) | 2,114,620 |
| 1,000,000 | NR | Cumberland County, PA Municipal Authority Retirement Community Revenue, (Wesley Affiliated Services Inc. Project), Series A, 7.250% due 1/1/35 | 1,013,490 |
| 2,640,000 | NR | Montgomery County, PA Higher Education & Health Authority Revenue, Temple Continuing Care Center, 6.625% due 7/1/19 (d) | 739,200 |
| 1,000,000 | NR | Northumberland County, PA IDA, (NHS Youth Services Inc. Project), Series A, 7.500% due 2/15/29 | 983,460 |
| 1,000,000 | NR | Philadelphia, PA Authority for IDR, (Host Marriott L.P. Project), Remarketed 10/31/95, 7.750% due 12/1/17 | 1,012,070 |
| 2,000,000 | NR | Westmoreland County, PA IDA, Healthcare Facilities, Redstone Highlands Health, Series B, 8.125% due 11/15/30 | 2,151,760 |
| | | | 9,646,970 |
| Rhode Island 1.3% | | | |
| 2,500,000 | NR | Tobacco Settlement Financing Corp. Revenue, RITES, 9.728% due 6/1/08 (f) | 2,053,600 |
| South Carolina 2.7% | | | |
| | | Connector 2000 Association Inc., SC Toll Road Revenue: | |
| | | Capital Appreciation, Series B: | |
| 3,100,000 | B- | Zero coupon bond to yield 8.580%, due 1/1/27 | 331,452 |
| 7,750,000 | B- | Zero coupon bond to yield 9.770%, due 1/1/34 | 535,680 |

See Notes to Schedule of Investments.

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Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2004

| FACE | | | |
|--|------------|--|--------------------|
| AMOUNT | RATING (a) | SECURITY | VALUE |
| South Carolina 2.7% (continued) | | | |
| \$2,000,000 | B- | Southern Connector Project, Series A, 5.375% due 1/1/38 | \$ 1,301,520 |
| 225,000 | NR | Florence County, SC IDR, Stone Container Corp., 7.375% due 2/1/07 | 228,769 |
| 460,000 | NR | McCormick County, SC COP, 9.750% due 7/1/09 | 464,881 |
| 2,000,000 | NR | Tobacco Settlement Revenue Management Authority, RITES, 10.805% due 11/15/09 (f) | 1,460,160 |
| | | | 4,322,462 |
| Tennessee 1.1% | | | |
| 1,915,000 | NR | Shelby County, TN Health, Educational & Housing Facilities Board Revenue, MFH, (Hedgerow Apartments Project), 6.875% due 7/1/36 | 1,753,297 |
| Texas 8.2% | | | |
| | | Bexar County, TX Housing Financial Corp, MFH: | |
| 980,000 | NR | Continental Lady Ester, Series A, 6.875% due 6/1/29 (c) | 899,718 |
| 1,165,000 | Baa3* | Nob Hill Apartments, Series B, 8.500% due 6/1/31 (c) | 1,109,523 |
| 240,000 | Baa3* | Waters at Northern Hills, Series C, 7.750% due 8/1/36 | 225,780 |
| 1,000,000 | NR | Grand Prairie, TX Housing Finance Corp., Independent Senior Living Center Revenue, 7.750% due 1/1/34 (c) | 967,370 |
| 2,000,000 | Ba3* | Gulf Coast, TX IDA, Solid Waste Disposal Revenue, (CITGO Petroleum Corp. Project), 7.500% due 5/1/25 (b)(c) | 2,091,360 |
| 2,750,000 | B- | Houston, TX Airport Systems Revenue, Special Facilities, Continental Airlines Inc., Series C, 6.125% due 7/15/27 (b) | 1,965,425 |
| 1,000,000 | BB | Port Corpus Christi, TX Industrial Development Corp., (CITGO Petroleum Corp. Project), 8.250% due 11/1/31 (b) | 1,048,030 |
| 975,000 | Ba1* | Texas State Affordable Housing Corp., MFH Revenue, HIC Arborstone Baybrook, Series C, 7.250% due 11/1/31 | 930,452 |
| 1,865,000 | NR | West Texas Detention Facility Corp. Revenue, 8.000% due 2/1/25 | 1,859,405 |
| 1,000,000 | NR | Willacy County, TX, (Public Facility Corp. Project): | |
| 1,000,000 | NR | Series A-1, 8.250% due 12/1/23 | 1,012,960 |
| 1,000,000 | NR | 7.500% due 11/1/25 | 987,290 |
| | | | 13,097,313 |
| Utah 1.2% | | | |
| 1,975,000 | NR | Utah State HFA Revenue, (RHA Community Services of Utah Inc. Project), Series A, 6.875% due 7/1/27 | 1,922,722 |
| Virginia 2.9% | | | |
| 510,000 | NR | Alexandria, VA Redevelopment & Housing Authority, MFH Revenue, (Parkwood Court Apartments Project), Series C, 8.125% due 4/1/30 | 509,638 |
| 1,000,000 | NR | Broad Street Community Development Authority Revenue, 7.500% due 6/1/33 | 989,950 |
| 1,000,000 | NR | Fairfax County, VA EDA Revenue, Retirement Community, Greenspring Village Inc., Series A, 7.500% due 10/1/29 (c) | 1,050,560 |
| 23,400,000 | BBB | Pocahontas Parkway Association, VA Toll Road Revenue, Capital Appreciation, Series B, zero coupon bond to yield 8.310% due 8/15/34 | 2,112,786 |
| | | | 4,662,934 |
| Wisconsin 1.0% | | | |
| | | Wisconsin State Health & Educational Facilities Authority Revenue: | |
| 1,000,000 | A | Aurora Health Care, 6.400% due 4/15/33 | 1,047,380 |
| 1,745,000 | NR | (Benchmark Healthcare of Green Bay Inc. Project), Series A, 7.750% due 5/1/27 (d) | 575,850 |
| | | | 1,623,230 |
| TOTAL MUNICIPAL BONDS | | | |
| (Cost \$ 173,865,592) | | | 160,215,094 |

See Notes to Schedule of Investments.

Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2004

| SHARES | RATING (a) | SECURITY | VALUE |
|---------------------|-------------|------------------------------------|----------------|
| Common Stock | 0.0% | | |
| 3,180 | | Mobile Energy Services Co. LLC (h) | 0 |
| | | TOTAL COMMON STOCK | |
| | | (Cost \$ 988,235) | 0 |
| | | TOTAL INVESTMENTS 100.0% | |
| | | (Cost \$174,853,827**) | \$ 160,215,094 |

- (a) All ratings are by Standard & Poor's Rating Service, except those which are identified by an asterisk (*) are rated by Moody's Investors Service, Inc. and those which are identified by a double dagger (†), are rated by Fitch Ratings.
- (b) Income from this issue is considered a preference item for purposes of calculating the alternative minimum tax.
- (c) All or portion of this security has been segregated and/or held as collateral for open futures contracts commitments (See Note 3).
- (d) Security is currently in default.
- (e) Pre-Refunded bonds escrowed with U.S. government securities are considered by the investment adviser to be triple-A rated even if the issuer has not applied for new ratings.
- (f) Inverse floating rate security coupon varies inversely with level of short-term tax exempt interest rates.
- (g) Bonds escrowed to maturity with U.S. government securities are considered by the manager to be triple-A rated even if the issuer has not applied for new ratings.
- (h) Non-income producing security

** Aggregate cost for Federal income tax purposes is substantially the same.

See pages 8 through 10 for definitions and certain descriptions.

See Notes to Schedule of Investments.

Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

Summary of Investments by Industry*

| | |
|------------------------|--------|
| Lifecare Systems | 13.8% |
| Industrial Development | 13.5 |
| Hospitals | 11.9 |
| Education | 9.3 |
| Transportation | 9.1 |
| Pollution Control | 7.6 |
| Multi-Family Housing | 5.8 |
| Tobacco | 5.3 |
| Public Facilities | 3.5 |
| Water and Sewer | 2.2 |
| Other | 18.0 |
| | 100.0% |

* As a percentage of total investments. Please note that Fund holdings are as of July 31, 2004 and are subject to change.

Municipal High Income Fund Inc.

Bond Ratings (unaudited)

The definitions of the applicable ratings symbols are set forth below:

Standard & Poor's Ratings Service (Standard & Poor's) Ratings from AA to CCC may be modified by the addition of a plus (+) or a minus (-) sign to show relative standings within the major rating categories.

| | |
|----------------------|---|
| AAA | Bonds rated AAA have the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong. |
| AA | Bonds rated AA have a very strong capacity to pay interest and repay principal and differ from the highest rated issue only in a small degree. |
| A | Bonds rated A have a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than bonds in higher rated categories. |
| BBB | Bonds rated BBB are regarded as having an adequate capacity to pay interest and repay principal. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for bonds in this category than in higher rated categories. |
| BB, B, CCC, CC and C | Bonds rated BB, B, CCC, CC and C are regarded, on balance, as predominantly speculative and with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB represents a lower degree of speculation than B, and C the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions. |
| D | Bond rated D are in default, and payment of interest and/or repayment of principal is in arrears. |

Moody's Investors Service (Moody's) Numerical modifiers 1, 2 and 3 may be applied to each generic rating from Aaa to Caa, where 1 is the highest and 3 the lowest rating within its generic category.

| | |
|-----|---|
| Aaa | Bonds rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. |
| Aa | Bonds rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities. |
| A | Bonds rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment some time in the future. |

Municipal High Income Fund Inc.

Bond Ratings (unaudited) (continued)

| | |
|-----|---|
| Baa | Bonds rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well. |
| Ba | Bonds rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class. |
| B | Bonds rated B generally lack characteristics of desirable investments. Assurance of interest and principal payments or of maintenance of other terms of the contract over many long period of time may be small. |
| Caa | Bonds rated Caa are of poor standing. These issues may be in default, or there may be present elements of danger with respect to principal or interest. |
| Ca | Bonds rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings. |
| C | Bonds rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing. |

Fitch Ratings (Fitch) Ratings from A to CCC may be modified by the addition of a plus (+) or a minus (-) sign to show relative standings with the major ratings categories.

| | |
|----------|--|
| AAA | Bonds rated AAA by Fitch have the lowest expectation of credit risk. The obligor has an exceptionally strong capacity for timely payment of financial commitments which is highly unlikely to be adversely affected by foreseeable events. |
| A | Bonds rated A have a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings. |
| BBB | Bonds rated BBB currently have a low expectation of credit risk. The capacity for timely payment of financial commitments is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to impair this capacity. |
| BB | This is the lowest investment grade category assigned by Fitch. Bonds rated BB carry the possibility of credit risk developing, particularly as the result of adverse economic change over time. Business or financial alternatives may, however, be available to allow financial commitments to be met. Securities rated in this category are not considered by Fitch to be investment grade. |
| CCC, | Bonds rated CCC, CC and C carry the real possibility of defaulting. The capacity to meet financial commitments depends solely on a sustained, favorable business and economic environment. Default of some kind on bonds rated CC appears probable, a C rating indicates imminent default. |
| CC and C | |
| NR | Indicates that the bond is not rated by Standard & Poor's, Moody's or Fitch. |

Municipal High Income Fund Inc.

Short-Term Bond Ratings (unaudited)

| | |
|--------|--|
| A-1 | Standard & Poor's highest commercial paper and variable-rate demand obligation (VRDO) rating indicating that the degree of safety regarding timely payment is either overwhelming or very strong; those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign. |
| VMIG 1 | Moody's highest rating for issues having a demand feature VRDO. |

Abbreviations* (unaudited)

| | | | |
|--------|--|--------|---|
| ABAG | Association of Bay Area Governments | IDA | Industrial Development Authority/Agency |
| AIG | American International Guaranty | IDB | Industrial Development Board |
| AMBAC | Ambac Assurance Corporation | IDR | Industrial Development Revenue |
| BAN | Bond Anticipation Notes | INFLOS | Inverse Floaters |
| BIG | Bond Investors Guaranty | ISD | Independent School District |
| CGIC | Capital Guaranty Insurance Company | LOC | Letter of Credit |
| CHFCLI | California Health Facility Construction Loan Insurance | MBIA | Municipal Bond Investors Assurance Corporation |
| CONNIE | College Construction Loan Insurance Association | MFH | Multi-Family Housing |
| LEE | | | |
| COP | Certificate of Participation | MVRICS | Municipal Variable Rate Inverse Coupon Security |
| EDA | Economic Development Authority | PCR | Pollution Control Revenue |
| ETM | Escrowed to Maturity | PSFG | Permanent School Fund Guaranty |
| FGIC | Financial Guaranty Insurance Company | RADIAN | Radian Asset Assurance |
| FHA | Federal Housing Administration | RAN | Revenue Anticipation Notes |
| FHLMC | Federal Home Loan Mortgage Corporation | RIBS | Residual Interest Bonds |
| FLAIRS | Floating Adjustable Interest Rate Securities | RITES | Residual Interest Tax-Exempt Securities |
| FNMA | Federal National Mortgage Association | SYCC | Structured Yield Curve Certificate |
| FRTC | Floating Rate Trust Certificates | TAN | Tax Anticipation Notes |
| FSA | Financing Security Assurance | TECP | Tax-Exempt Commercial Paper |
| GIC | Guaranteed Investment Contract | TICs | Tender Inverse Certificates |
| GNMA | Government National Mortgage Association | TOB | Tender Option Bonds |
| GO | General Obligation | TRAN | Tax and Revenue Anticipation Notes |
| HDC | Housing Development Corporation | VA | Veterans Administration |
| HFA | Housing Finance Authority | VRDD | Variable Rate Daily Demand |
| IBC | Insured Bond Certificates | VRWE | Variable Rate Wednesday Demand |

* Abbreviations may or may not appear in the schedule of investments.

Notes to Financial Statements (unaudited)

1. Significant Accounting Policies

Municipal High Income Fund Inc. (Fund), a Maryland corporation, is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company.

The following are significant accounting policies consistently followed by the Fund and are in conformity with generally accepted accounting principles (GAAP): (a) security transactions are accounted for on trade date; (b) securities are valued at the mean between the bid and asked prices provided by an independent pricing service that are based on transactions in municipal obligations, quotations from municipal bond dealers, market transactions in comparable securities and various relationships between securities; securities with no readily obtainable market quotations are valued in good faith at fair value by or under the direction of the Fund 's Board of Directors; (c) securities maturing within 60 days or less are valued at cost plus accreted discount, or minus amortized premium, which approximates value. In addition, the Fund invests in high-yield instruments that are subject to certain credit and market risks. The yields of high-yield debt obligations reflect, among other things, perceived credit risk. The Fund 's investment in securities rated below investment-grade typically involve risks not associated with higher rated securities including, among others, greater risk of timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading.

2. Exempt-Interest Dividends and Other Distributions

The Fund intends to satisfy conditions that will enable interest from municipal securities, which is exempt from Federal income tax, to retain such tax-exempt status when distributed to the shareholders of the Fund.

3. Futures Contracts

Securities or cash equal to the initial margin amount are either deposited with the broker or segregated by the custodian upon entering into the futures contract. Additional securities are also segregated up to the current market value of the futures contracts. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by marking-to-market on a daily basis to reflect the market value of the contract at the end of each day 's trading. Variation margin payments are received or made and recognized as assets due from or liabilities due to broker, depending upon whether unrealized gains or losses are incurred. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transactions and the Fund 's basis in the contract. The Fund enters into such contracts typically to hedge a portion of its portfolio. The Fund bears the market risk that arises from changes in the value of the financial instruments and securities indices.

At July 31, 2004, the Fund had the following open futures contracts:

| | Number of Contracts | Expiration Date | Basis Value | Market Value | Unrealized Loss |
|----------------------------|---------------------------|--------------------|----------------|-----------------|--------------------|
| Contracts to Sell: | | | | | |
| U.S. Treasury 20 Year Bond | 400 | 9/04 | \$ 41,650,000 | \$ 43,287,500 | \$ (1,637,500) |

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.

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.

Municipal High Income Fund, Inc.

By /s/ R. JAY GERKEN
 R. Jay Gerken
 Chief Executive Officer

Date September 27, 2004.

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

By /s/ R. JAY GERKEN
 R. Jay Gerken
 Chief Executive Officer

Date September 27, 2004.

By /s/ ANDREW B. SHOUP
 Andrew B. Shoup
 Chief Administrative Officer

Date September 27, 2004.