

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

MUNICIPAL HIGH INCOME FUND INC

Form N-30D

January 03, 2003

[CLIP ART]

Municipal
High Income
Fund Inc.

[GRAPHIC OMITTED]

Annual
Report

[CLIP ART]

October 31,
2002

===== [CLIP ART] =====

Municipal High Income Fund Inc.

Dear Shareholder:

We are pleased to provide the annual report for Municipal High Income Fund Inc. ("Fund") for the year ended October 31, 2002. In this report, we summarize what we believe to be the period's prevailing economic and market conditions and outline our investment strategy. A detailed summary of the Fund's performance can be found in the appropriate sections that follow. We hope you find this report to be useful and informative.

Special Notice to Shareholders

Please note that R. Jay Gerken, a managing director of Salomon Smith Barney, Inc., has been elected Chairman of the Board and Chief Executive Officer of the Fund replacing Heath B. McLendon, who has been appointed Chairman of Salomon Smith Barney Inc.'s new Equity Research Policy Committee. On behalf of all our shareholders and the Fund's Board of Directors, I would like to extend my deepest gratitude to Heath for his dedication to keeping our shareholders' needs as the firm's top priority. Previously, Jay managed the Smith Barney Growth and Income Fund for six years; developed and managed the Smith Barney Allocation Series Inc. from inception in 1996 through the end of 2001; and was responsible for the investment design and implementation of Citigroup Asset Management's college savings programs with the states of Illinois and Colorado.

Performance Review(1)

During the past twelve months, the Fund distributed income dividends to shareholders totaling \$0.57 per share. The table on page 2 details the annualized distribution yield and the twelve-month total return for the Fund based on its October 31, 2002 net asset value ("NAV") per share and the New York Stock Exchange ("NYSE") closing price.(2)

(1) Past performance is not indicative of future results.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

- (2) NAV is calculated by subtracting total liabilities 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 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 at the Fund's market (NYSE) price as determined by supply of and demand for the Fund's shares.

1

===== [CLIP ART] =====

Price Per Share	Annualized Distribution Yield(3)	Twelve-Month Total Return(3)
-----	-----	-----
\$8.16 (NAV)	6.84%	0.91%
\$7.68 (NYSE)	7.27%	(4.70)%

The Fund's Lipper Inc. ("Lipper") (4) peer group of high-yield municipal debt closed-end funds returned 1.81% based on NAV for the year ended October 31, 2002.

Investment Strategy

The Fund's investment objective is to maximize current income exempt from federal income tax(5) by investing, under normal circumstances, at least 80% of the value of its net assets, plus any borrowings for investment purposes, in intermediate-term and long-term municipal securities.

Portfolio Manager Market Review and Outlook

The past year has been characterized by slow economic growth, disappointing corporate earnings and increased corporate governance concerns. Weaker economic reports in the latter part of the period raised fears of a "double-dip" recession, with many market participants calling for the U.S. Federal Reserve Board ("Fed") to further reduce short-term interest rates in order to add more stimulus to the economy. Heightened geo-political risk and the potential for war in Iraq also weighed on the markets. Against this backdrop, equity markets plummeted, while the fixed-income markets staged a strong move that drove U.S. Treasury and municipal yields to four decade lows. After rallying for six months, municipal and other fixed income markets sold off sharply during October in response to a rebound in equity prices. After exhibiting extraordinary volatility for a couple of weeks in the middle of the month, the municipal debt market began showing signs of stabilizing at the new higher yield levels by the end of the reporting period.

-
- (3) Total returns are based on changes in NAV or the market price, respectively. Total returns assume the reinvestment of all dividends and/or capital gains distributions in additional shares. Annualized distribution yield is the Fund's current monthly income dividend rate, annualized, and then divided by the NAV or the market price noted in this report. The annualized distribution yield assumes a current monthly income dividend rate of \$0.0465 for 12 months. This rate is as of October 31, 2002 and is subject to change. The important difference between a total return and an annualized distribution yield is that the total return takes into consideration a number of factors including the fluctuation of the NAV or the market price during the period reported. The NAV fluctuation includes the effects of unrealized appreciation or depreciation in the

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

Fund. Accordingly, since an annualized distribution yield only reflects the current monthly income dividend rate annualized, it should not be used as the sole indicator to judge the return you receive from your Fund investment.

- (4) Lipper is an independent mutual fund tracking organization. Average annual returns are based on the twelve-month period ended October 31, 2002, calculated among 12 funds in the high-yield municipal debt closed-end funds category.
- (5) Please note a portion of the Fund's income may be subject to the Alternative Minimum Tax ("AMT"). Capital gains, if any, are fully taxable. Please consult your personal tax adviser.

=====

2

===== [CLIP ART] =====

In our opinion, due to different supply and demand characteristics, municipal securities did not quite keep up with U.S. Treasury returns. U.S. Treasury markets not only benefited from core reallocation trends out of equities by large institutional investors, but also from very strong demand from mortgage market investors who needed to lengthen the duration(6) of their holdings to offset the acceleration in prepayments as rates declined.

In the municipal market, lower rates fueled record high year-to-date new issue volume as many issuers took advantage of this opportunity to refinance. The municipal market also saw a sizeable increase in the volume of tobacco settlement asset securitization deals as many states and counties resorted to this form of financing to plug budget gaps arising from the weak economy. Despite strong demand, we believe this abundance of supply left many municipal securities at or near record cheap levels relative to U.S. Treasuries. Specifically, at the end of the period, we saw that municipal security yields(7) were over 90% of the yield available on comparable maturity U.S. Treasuries across the yield curve(8) and by one measure, the Bond Buyer 25-Revenue Bond Index, (9) yields on long-term municipal securities were actually greater than the yield on 30-year U.S. Treasuries. Normally, the added value of tax-exemption allows municipals to trade at lower levels than comparable maturity treasuries. The decline in rates also steepened the yield curve drastically. The yield on tax-free money funds was, in our opinion, exceptionally low, forcing investors who wanted a reasonable return to extend into longer maturities. Most of this demand was concentrated in the intermediate maturity range.

The high yield segment of the municipal market did not participate in the rally enjoyed by higher rated issues. In our view, credit spreads(10) widened dramatically as the weak economy heightened concerns over the creditworthiness of these issues, more than offsetting the overall decline in yields on investment grade bonds. In October, the Lehman Brothers Non-Investment

-
- (6) Duration is a common gauge of the price sensitivity of a fixed income asset or portfolio to a change in interest rates.
 - (7) Municipal security yields as defined by the Bond Buyer's Municipal Bond Index, an index of yields for AA-rated and A-rated municipal bonds that is widely used by dealers to evaluate yields on new municipal bond issues. The index is published in The Bond Buyer, a daily publication specializing in fixed-income securities.
 - (8) The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.
 - (9) The Bond Buyer 25-Revenue Bond Index is the average yield on 25 revenue bonds rated "A1" by Moody's Investors Service, which is a nationally

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

recognized agency. The Bond Buyer is a daily publication specializing in fixed-income securities. Please note that an investor cannot invest directly in an index.

- (10) A credit spread is the difference in yield between securities of different credit quality within the same asset class and maturity range.

=====

3

=====

===== [CLIP ART] =====

Grade (High Yield) Municipal Index ("Lehman High Yield Index") (11) recorded its worst monthly return (negative 3.16%) since its inception in January of 1996. This index has underperformed the broad based investment-grade Lehman Brothers Municipal Bond Index (12) for seven consecutive months and the spread between the two indices increased to its highest recorded level of 435 basis points. (13) According to Lehman, (14) the performance of the Lehman High Yield Index was particularly hard hit by plummeting prices of special airport facilities bonds issued by airlines. After US Airways Group, Inc. filed for bankruptcy protection and the other major airlines continued reporting mounting losses in the wake of greatly reduced air travel and extraordinary security costs, the market reflected fears that some or all of the other airlines might also be forced into bankruptcy. According to Lehman, municipal bonds backed by airlines experienced price declines in a range of 7% to as much as 44%. The future will continue to be difficult for the airlines as they take draconian cost cutting measures in an attempt to stay out of bankruptcy court. Ultimately, we expect most, if not all of them, to remain viable, albeit with the help of government loan guarantees and possible government assumption of greatly increased security costs. Other market sectors that came under pressure in the weak economic environment included industrial development, life care retirement communities and toll roads. These sectors have experienced higher incidences of severe credit quality deterioration or default resulting in substantial price declines.

Looking ahead, we expect economic growth to remain sluggish over at least the next few months. On November 6th, the Fed surprised most market participants with a 50 basis point cut in the federal funds rate ("fed funds rate") (15) instead of a widely expected 25 basis point reduction. This gave rise to worries that the Fed may be concerned about something more than the "soft spot" in the economy and possible conflicts with Iraq cited in their post-meeting statement. The markets responded with more turmoil as bonds and equities faltered.

We think the Fed is likely to continue holding short-term interest rates at current low levels until there is solid evidence the economy is on sound footing for sustainable growth. In the long run, we feel the additional stimulus provided by the Fed and the Republican victory at the polls may be beneficial to the business climate and the economy. We also feel an improving economy

-
- (11) The Lehman High Yield Index includes issues which have a maximum credit rating of BA1, are issued as part of a deal of at least \$20 million, have an amount outstanding of at least \$3 million, have a maturity of at least one year, and have been issued after December 31, 1990. Please note that an investor cannot invest directly in an index.
- (12) The Lehman Brothers Municipal Bond Index is a broad measure of the municipal bond market with maturities of at least one year. Please note that an investor cannot invest directly in an index.
- (13) A basis point is one one-hundredth (1/100 or 0.01) of one percent.
- (14) Lehman Brothers Municipal Market Commentary, November 2002.
- (15) The fed funds rate is the interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

loans. The fed funds rate often points to the direction of U.S. interest rates.

4

[CLIP ART]

should provide a better operating environment for high yield issuers. Performance, however, will rest on the merits of the credits we hold and select for new commitments. We intend to increase our efforts to exercise care in credit selection. We believe that the high yield municipal market can continue to provide after tax income streams well above other market alternatives.

Looking for more information?

Municipal High Income Fund Inc. is traded on the New York Stock Exchange under the symbol "MHF." Daily closing prices are available online under symbol "MHF" and in most newspapers under the New York Stock Exchange listings. Barron's and The Wall Street Journal's Monday editions carry closed-end fund tables that provide weekly net asset value per share information. In addition, the Fund issues a quarterly allocation press release that can be found on most major financial web sites.

Thank you for investing in Municipal High Income Fund Inc. We look forward to continuing to help you meet your investment objectives.

Sincerely,

/s/ R. Jay Gerken

/s/ Peter M. Coffey

R. Jay Gerken
Chairman

Peter M. Coffey
Vice President and
Investment Officer

November 25, 2002

The information provided in this letter by the portfolio manager represents the opinion of the portfolio manager and is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed are those of the portfolio manager and may differ from those of other portfolio managers or of the firm as a whole. Furthermore, there is no assurance that certain securities will remain in or out of the Fund or that the percentage of the Fund's assets in various sectors will remain the same. Please refer to pages 7 through 15 for a list and percentage breakdown of the Fund's holdings. Also, please note that any discussion of the Fund's holdings, the Fund's performance and the portfolio manager's views are as of October 31, 2002 and are subject to change.

5

[CLIP ART]

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

Take Advantage of the Fund's Dividend Reinvestment Plan!

Did you know that Fund investors may reinvest their dividends in an effort to take advantage of what can be one of the most effective wealth-building tools available today? When the Fund achieves its objectives, systematic investments by shareholders put time to work for them through the strength of compounding.

As an investor in the Fund, you can participate in its Dividend Reinvestment Plan ("Plan"), a convenient, simple and efficient way to reinvest your dividends and capital gains, if any, in additional shares of the Fund. A more complete description of the Plan begins on page 32. Below is a short summary of how the Plan works.

Plan Summary

If you are a Plan participant who has not elected to receive your dividends in the form of a cash payment, then your dividend and capital gain distributions will be reinvested automatically in additional shares of the Fund.

The number of common stock shares in the Fund you will receive in lieu of a cash dividend is determined in the following manner. If the market price of the common stock is equal to or higher than 98% of the net asset value ("NAV") per share on the date of valuation, you will be issued shares for the equivalent of either 98% of the most recently determined NAV per share or 95% of the market price, whichever is greater.

If 98% of the NAV per share at the time of valuation is greater than the market price of the common stock, the Fund will buy common stock for your account in the open market or on the New York Stock Exchange.

If the Fund begins to purchase additional shares in the open market and the market price of the shares subsequently rises above 98% of the NAV before the purchases are completed, the Fund will attempt to cancel any remaining orders and issue the remaining dividend or distribution in shares at 98% of the Fund's NAV per share. In that case, the number of Fund shares you receive will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares.

To find out more detailed information about the Plan and about how you can participate, please call PFPC Global Fund Services at 1 (800) 331-1710.

6

Municipal High Income Fund Inc.
Schedule of Investments
October 31, 2002

[CLIP ART]

FACE AMOUNT	RATING (a)	SECURITY	VALUE
Alabama -- 3.8%			
\$ 4,000,000	BB+	Butler, AL IDB, Solid Waste Disposal Revenue, (James River Corp. Project), 8.000% due 9/1/28 (b) (c)	\$ 3,600,

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

615,000	NR	Capstone Improvement District of Brookwood, AL Series A, 7.700% due 8/15/23	369,
1,000,000	CCC	Mobile, AL IDB, Solid Waste Disposal Revenue, (Mobile Energy Services Co. Project), 6.950% due 1/1/20 (d)	10,
1,000,000	NR	Rainbow City, AL Special Health Care Facility Financing Authority, Series A, 8.250% due 1/1/31	1,019,
1,000,000	AAA	West Jefferson, AL Amusement & Public Park Authority Revenue, (Visionland Project), (Pre-Refunded -- Escrowed with U.S. government securities to 12/1/06 Call @ 102), 8.000% due 12/1/26	1,225,

			6,224,

Alaska -- 0.7%			
1,055,000	NR	Alaska Industrial Development & Export Authority Revenue, Williams Lynxs Alaska Cargoport, 8.125% due 5/1/31 (b)	1,091,

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	1,402,
1,750,000	Ca*	Gila County, AZ IDA Revenue, ASARCO Inc., 5.550% due 1/1/27	437,
Maricopa, AZ IDA, MFH Revenue:			
490,000	NR	Avalon Apartments Project, Series C, 10.000% due 4/1/30	487,
1,000,000	NR	Gran Victoria Housing LLC Project, Series B, 10.000% due 5/1/31	1,021,
1,820,000	A3*	Phoenix, AZ IDA, MFH Revenue, (Ventana Palms Apartments Project), Series B, 8.000% due 10/1/34	1,837,

			5,185,

California -- 2.1%			
1,500,000	NR	Barona, CA Band of Mission Indians, GO, 8.250% due 1/1/20	1,599,
1,865,000	Ba3*	Vallejo, CA COP, Touro University, 7.375% due 6/1/29	1,919,

			3,518,

Colorado -- 0.6%			
1,000,000	NR	Highline Business Improvement District, Littleton, CO GO, Series B, 8.750% due 12/15/19	988,

See Notes to Financial Statements.

Municipal High Income Fund Inc.
Schedule of Investments (continued)
October 31, 2002

[CLIP ART]

FACE AMOUNT	RATING (a)	SECURITY	VALUE
=====	=====	=====	=====

Connecticut -- 2.0%

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

		Connecticut State Development Authority:		
\$ 1,735,000	NR	Aquarium Project Revenue, (Mystic Marinelife Aquarium Project), Series A, 7.000% due 12/1/27		\$ 1,763,
1,435,000		NR Health Care Revenue, (Independent Living Project), Series B, (Pre-Refunded -- Escrowed with state & local government securities to 7/1/03 Call @ 102), 8.000% due 7/1/17		1,518,

				3,281,

Delaware -- 0.5%				
1,000,000	NR	Sussex County, DE Assisted Living Facilities Revenue, (Heritage at Milford Project), 7.250% due 7/1/29		830,

District of Columbia -- 0.6%				
1,000,000	A1*	District of Columbia, Tobacco Settlement Financing Corp., Asset-Backed Bonds, 6.750% due 5/15/40		1,016,

Florida -- 8.9%				
		Capital Projects Finance Authority, FL:		
2,000,000	NR	Continuing Care Retirement, Glenridge on Palmer Ranch, Series A, 8.000% due 6/1/32		1,910,
2,000,000	NR	Student Housing Revenue, Florida University, Series A, 7.850% due 8/15/31		2,034,
1,000,000	NR	Century Parc Community Development District, FL Special Assessment, 7.000% due 11/1/31		1,009,
2,750,000	NR	Hillsborough County, FL IDA Revenue, (Lakeshore Villas Project), Series A, 6.750% due 7/1/29		2,235,
875,000	NR	Homestead, FL IDR, Community Rehabilitation Providers Program, Series A, 7.950% due 11/1/18		904,
2,000,000	BBB++	Martin County, FL IDA, IDR, (Indiantown Cogeneration Project), Series A, 7.875% due 12/15/25 (b)		2,057,
1,000,000	NR	Orange County, FL Health Facilities Authority Revenue, First Mortgage, (GF/Orlando, Inc. Project), 9.000% due 7/1/31		1,007,
2,000,000	NR	Reunion East Community Development District, FL Special Assessment, Series A, 7.375% due 5/1/33		2,009,
1,500,000	NR	Waterlefe Community Development District, FL Golf Course Revenue, 8.125% due 10/1/25		1,526,

				14,694,

Georgia -- 5.0%				
1,000,000	AAA	Atlanta, GA Airport Revenue, Series B, FGIC-Insured, 5.625% due 1/1/30 (b)		1,032,
2,500,000	NR	Atlanta, GA Tax Allocation, (Atlantic Station Project), 7.900% due 12/1/24		2,504,

See Notes to Financial Statements.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

AMOUNT	RATING (a)	SECURITY	VALUE
=====			
Georgia -- 5.0% (continued)			
\$ 1,000,000	NR	Atlanta, GA Urban Residential Finance Authority, MFH Revenue, Park Place Apartments, Series A, 6.750% due 3/1/31	\$ 942,
2,000,000	NR	Clayton County, GA Development Authority Revenue, First Mortgage, Senior Care Group Inc., (Bayberry Project), Series A, 6.750% due 7/1/29 (d)	440,
500,000	NR	Fulton County, GA Residential Care Facilities, Senior Lien, Series A, 7.000% due 7/1/29	440,
1,000,000	NR	Gainesville & Hall County, GA Development Authority Revenue, Senior Living Facility, Lanier Village Estates, Series C, 7.250% due 11/15/29	1,013,
1,435,000	NR	Savannah, GA EDA Revenue, Marshview Inn, Series A, 7.125% due 7/1/29	985,
1,000,000	NR	Walton County, GA IDA, IDR, (Walton Manufacturing Co. Project), 8.500% due 9/1/07	894,

			8,252,

Illinois -- 1.3%			
2,000,000	AAA	Chicago, IL GO, Neighborhoods Alive 21 Program, FGIC-Insured, 5.500% due 1/1/31	2,089,

Indiana -- 1.7%			
2,500,000	B-	East Chicago, IN PCR, (Inland Steel Co. Project No. 10), 6.800% due 6/1/13	1,500,
1,000,000	CCC	Indiana State Development Finance Authority, PCR, (Inland Steel Co. Project No. 13), 7.250% due 11/1/11 (b)	350,
975,000	NR	Indianapolis, IN MFH Revenue, (Lake Nora Fox Club Project), Series B, 7.500% due 10/1/29	949,

			2,799,

Kentucky -- 0.7%			
1,500,000	BB	Kenton County, KY Airport Board Revenue, (Delta Airlines Project), Series A, 7.500% due 2/1/20 (b)	1,150,

Louisiana -- 6.6%			
1,200,000	A3*	Lake Charles, LA Harbor & Terminal District, Port Facilities Revenue, (Trunkline LNG Co. Project), 7.750% due 8/15/22	1,241,
2,000,000	NR	Louisiana Local Government Environmental Facilities, Community Development Authority Revenue, St. James Place, Series A, 8.000% due 11/1/25 (c)	2,069,
3,000,000	NR	Louisiana Public Facilities Authority Hospital Revenue, (Lake Charles Memorial Hospital Project), 8.625% due 12/1/30 (c) ..	2,674,

See Notes to Financial Statements.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

FACE AMOUNT	RATING (a)	SECURITY	VALUE
=====			
Louisiana -- 6.6% (continued)			
		Port of New Orleans, LA IDR:	
		Avondale Industries, Inc. Project:	
\$ 645,000	NR	ETM with U.S. government securities, 8.250% due 6/1/04 (e)	\$ 687,
2,845,000	NR	Pre-Refunded -- Escrowed with U.S. government securities to 6/1/01 Call @ 103, 8.500% due 6/1/14 (e)	3,190,
1,000,000	BB-	Continental Grain Co. Project, 7.500% due 7/1/13	1,030,

			10,894,

Maine -- 0.0%			
15,000	AA+	Maine State Housing Authority, Mortgage Purchase Revenue, Series C-2, 7.000% due 11/15/32 (b)	15,

Maryland -- 1.8%			
3,000,000	NR	Maryland State Economic Development Corp. Revenue, Chesapeake Bay, Series A, 7.730% due 12/1/27	2,973,

Massachusetts -- 5.7%			
		Boston, MA IDA Financing Revenue:	
750,000	NR	Crosstown Center Project, 8.000% due 9/1/35 (b)	735,
970,000	NR	Roundhouse Hospitality LLC Project, 7.875% due 3/1/25 (b)	973,
		Massachusetts State Development Finance Agency Revenue:	
1,000,000	NR	Alliance Health Care Facility, Series A, 7.100% due 7/1/32 ..	999,
1,000,000	NR	Briarwood, Series B, 8.250% due 12/1/30	1,038,
		Massachusetts State Health & Education Facilities Authority Revenue:	
1,000,000	AAA	Beth Israel Deaconess Medical Center, Series G-4, AMBAC-Insured, Variable Rate INFLOS, 10.540% due 7/1/25 (f)	1,043,
1,000,000	BBB	Caritas Christi Obligation, Series B, 6.750% due 7/1/16 ...	1,088,
400,000	Ba2*	Saint Memorial Medical Center, Series A, 6.000% due 10/1/23	351,
1,145,000	AA	Massachusetts State HFA, Single-Family Housing Revenue, Series 38, 7.200% due 12/1/26 (b)	1,194,
2,000,000	NR	Massachusetts State Industrial Finance Agency Revenue, Assisted Living Facility, (Marina Bay LLC Project), 7.500% due 12/1/27 (b)	2,023,

			9,449,

See Notes to Financial Statements.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

FACE AMOUNT	RATING (a)	SECURITY	VALUE
=====			
Michigan -- 2.0%			
		Garden City, MI Hospital Finance Authority, Hospital Revenue, Garden City Hospital Obligation Group, Series A:	
\$ 2,000,000	B1*	5.625% due 9/1/10	\$ 1,635,
1,000,000	B1*	5.750% due 9/1/17	707,
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)	1,000,

			3,342,

Minnesota -- 2.5%			
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)	669,
2,000,000	NR	Sartell, MN Health Care & Housing Facilities Revenue, (Foundation for Healthcare Project), Series A, 6.500% due 9/1/16	1,878,
1,935,000	Ba2*	St. Paul, MN Housing & Redevelopment Authority Hospital Revenue, (Healtheast Project), Series A, 6.625% due 11/1/17	1,658,

			4,206,

Missouri -- 0.1%			
250,000	NR	St. Joseph, MO IDA, (Living Community of St. Joseph Project), 7.000% due 8/15/32	243,

Montana -- 2.4%			
4,525,000	NR	Montana State Board of Investment Resource Recovery Revenue, (Yellowstone Energy L.P. Project), 7.000% due 12/31/19 (b)	3,900,

New Jersey -- 6.1%			
3,000,000	Ba3*	Camden County, NJ Improvement Authority Revenue, (Health Care Redevelopment Project - Cooper Health System), 5.875% due 2/15/15 (c)	2,442,

			New Jersey EDA, Series A:
1,000,000	NR	Healthcare Facility Revenue, (Sayreville Senior Living Project), 6.375% due 4/1/29 (d)	420,
850,000	NR	Presbyterian Home at Montgomery Inc., First Mortgage, Series A, 6.375% due 11/1/31	850,
1,000,000	NR	Retirement Community Revenue, 8.250% due 11/15/30	1,074,

			New Jersey Health Care Facilities Financing Authority Revenue:
2,000,000	NR	Raritan Bay Medical Center, 7.250% due 7/1/27	2,021,
3,000,000	BBB-	Trinitas Hospital Obligation Group, 7.500% due 7/1/30 (c) ...	3,262,

			10,071,

See Notes to Financial Statements.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

Schedule of Investments (continued)

[CLIP ART]

October 31, 2002

=====

FACE AMOUNT	RATING (a)	SECURITY	VALUE
=====			
New Mexico -- 0.1%			
\$ 240,000	AAA	New Mexico Mortgage Finance Authority, Single-Family Mortgage Program, Series B, FHA-Insured, 8.300% due 3/1/20 (b)	\$ 248,-----
New York -- 5.3%			
700,000	NR	Brookhaven, NY IDA, Civic Facility Revenue, Memorial Hospital Medical Center, Series A, 8.250% due 11/15/30	739,-----
		Monroe County, NY IDA:	
1,900,000	NR	Empire Sports Project, Series A, 6.250% due 3/1/28	1,145,-----
1,000,000	NR	Woodland Village Project, 8.550% due 11/15/32	1,050,-----
		New York City, NY IDA, Civic Facility Revenue:	
1,380,000	NR	Community Residence for the Developmentally Disabled, 7.500% due 8/1/26	1,435,-----
1,335,000	NR	Special Needs Facility Pooled Program, Series A-1, 8.125% due 7/1/19	1,414,-----
		Suffolk County, NY IDA Civic Facility Revenue, Southampton Hospital Association:	
		Series A:	
1,000,000	NR	7.250% due 1/1/20	997,-----
1,000,000	NR	7.750% due 1/1/22	986,-----
1,000,000	NR	Series B, 7.625% due 1/1/30	1,016,-----
			8,786,-----
North Carolina -- 1.5%			
1,000,000	NR	Charlotte, NC Special Facilities Revenue, Charlotte/Douglas International Airport, 5.600% due 7/1/27 (b)	391,-----
		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	1,092,-----
1,000,000	NR	7.625% due 11/1/29	1,013,-----
			2,497,-----
Ohio -- 3.3%			
1,500,000	BBB	Cuyahoga County, OH Hospital Facilities Revenue, (Canton Inc. Project), 7.500% due 1/1/30	1,646,-----
		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	Pre-Refunded, 8.100% due 7/1/18	1,257,-----
420,000	AAA	Unrefunded Balance, 8.100% due 7/1/18	486,-----

See Notes to Financial Statements.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

Municipal High Income Fund Inc.
Schedule of Investments (continued)
October 31, 2002

[CLIP ART]

=====

FACE AMOUNT	RATING (a)	SECURITY	VALUE
=====			
Ohio -- 3.3% (continued)			
\$ 2,000,000	BBB-	Ohio State Air Quality Development Authority Revenue Refunding, Cleveland Pollution Control, Series A, 6.000% due 12/1/13	\$ 2,018,2
1,250,000	NR	Ohio State Solid Waste Revenue, Republic Engineered Steels Inc., 9.000% due 6/1/21 (b) (d)	5,409,

Oklahoma -- 0.9%			
2,000,000	B2*	Oklahoma Development Finance Authority Revenue, Hillcrest Healthcare System, Series A, 5.625% due 8/15/29	1,426,

Pennsylvania -- 11.6%			
2,200,000	CCC-	Allegheny County, PA IDA, Airport Special Facilities Revenue, (USAir, Inc. Project), Series B, 8.500% due 3/1/21 (b) (d) ...	910,
1,500,000	BBB	Beaver County, PA IDA, PCR: Cleveland Electric Illuminating Co. Project, 7.625% due 5/1/25	1,593,
2,000,000	BBB	Toledo Edison Co. Project, 7.625% due 5/1/20	2,124,
3,000,000	NR	Dauphin County, PA General Authority Revenue, Hotel & Conference Center - Hyatt Regency, 6.200% due 1/1/29	2,453,
2,500,000	A3*	Luzerne County, PA IDA, Exempt Facilities Revenue, (Pennsylvania Gas & Water Co. Project), Series B, 7.125% due 12/1/22 (b) (c)	2,555,
2,640,000	NR	Montgomery County, PA Higher Education & Health Authority Revenue, Temple Continuing Care Center, 6.625% due 7/1/19	2,067,
135,000	NR	Northumberland County, PA IDA, IDR, (Beverly Enterprises Inc. Project), 6.875% due 2/1/03	135,
1,000,000	NR	Philadelphia, PA Authority for IDR, (Host Marriott L.P. Project), Remarketed 10/31/95, 7.750% due 12/1/17	1,037,
500,000	BB+++	Scranton-Lackawanna, PA Health & Welfare Authority Revenue: Allied Services Rehabilitation Hospital, Series A, 7.600% due 7/15/20	504,
1,190,000	BB+	Moses Taylor Hospital Project: 6.150% due 7/1/14	1,091,
3,050,000	BB+	6.250% due 7/1/20	2,645,
2,000,000	NR	Westmoreland County, PA IDA, Healthcare Facilities, Redstone Highlands Health, Series B, 8.125% due 11/15/30	2,078,

19,196,			

South Carolina -- 3.1%			
Connector 2000 Association Inc., SC Toll Road Revenue:			
Capital Appreciation, Series B:			
3,100,000	BBB-	Zero coupon bond to yield 8.920% due 1/1/27	243,
7,750,000	BBB-	Zero coupon bond to yield 10.380% due 1/1/34	290,
2,000,000	BBB-	Southern Connector Project, Series A, 5.375% due 1/1/38	1,063,

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

See Notes to Financial Statements.

13

Municipal High Income Fund Inc. Schedule of Investments (continued) October 31, 2002

[CLIP ART]

FACE AMOUNT	RATING (a)	SECURITY	VALUE
South Carolina -- 3.1% (continued)			
\$ 435,000	NR	Florence County, SC IDR, Stone Container Corp., 7.375% due 2/1/07	\$ 437,
595,000	NR	McCormick County, SC COP, 9.750% due 7/1/09	595,
2,650,000	NR	Tobacco Settlement Revenue Management Authority, SC Variable Rate INFLOS, 9.610% due 5/15/28 (f)	2,531,
			5,161,
South Dakota -- 0.9%			
1,575,000	NR	Oglala Sioux Tribe, SD Pine Ridge County, Revenue Bonds, 7.500% due 7/1/13	1,576,
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	1,833,
Texas -- 7.8%			
		Bexar County, TX Housing Financial Corp., MFH:	
1,000,000	NR	Continental Lady Ester, Series A, 6.875% due 6/1/29	956,
1,185,000	Baa3*	Nob Hill Apartments, Series B, 8.500% due 6/1/31	1,172,
245,000	Baa3*	Waters at Northern Hills, Series C, 7.750% due 8/1/36	240,
2,000,000	Ba3*	El Paso, TX International Airport Revenue, Special Facilities, (Marriott Corp. Project), 7.750% due 3/1/12	2,028,
2,000,000	Baa2*	Gulf Coast, TX IDA, Solid Waste Disposal Revenue, (CITGO Petroleum Corp. Project), 7.500% due 5/1/25 (b)	2,000,
2,750,000	B+	Houston, TX Airport Systems Revenue, Special Facilities, Continental Airlines Inc., Series C, 6.125% due 7/15/27 (b) .	1,332,
		Houston, TX Hotel Occupancy, Tax & Special Revenue, Capital Appreciation, Series B, AMBAC-Insured:	
3,000,000	AAA	Zero coupon bond to yield 5.680% due 9/1/32	576,
1,000,000	AAA	Zero coupon bond to yield 5.680% due 9/1/33	181,
1,000,000	CCC++	Northgate Crossing, TX Municipal Utility, District No. 1, GO, 8.875% due 12/1/13	1,032,
995,000	Baa3*	Texas State Affordable Housing Corp., MFH Revenue, HIC Arborstone Baybrook, Series C, 7.250% due 11/1/31	967,
1,405,000	Baa2*	Travis County, TX HFA, MFH Revenue, (Lakeview Apartments Project), Series A, 6.375% due 1/1/34	1,426,
1,000,000	NR	Willacy County, TX (Public Facility Corp. Project) Revenue, Series A-1, 8.250% due 12/1/23	974,
			12,890,
Utah -- 1.9%			

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

1,615,000 NR Hurricane, UT Health Facilities Development Revenue,
(Mission Health Services Project), 10.500% due 7/1/20 1,130,

See Notes to Financial Statements.

14

Municipal High Income Fund Inc.
Schedule of Investments (continued)
October 31, 2002

[CLIP ART]

FACE AMOUNT	RATING (a)	SECURITY	VALUE
Utah -- 1.9% (continued)			
\$ 2,000,000	NR	Utah State HFA Revenue, (RHA Community Services of Utah Inc. Project), Series A, 6.875% due 7/1/27	\$ 1,943, ----- 3,073, -----
Virginia -- 1.9%			
590,000	A3*	Alexandria, VA Redevelopment & Housing Authority, MFH Revenue, (Parkwood Court Apartments Project), Series C, 8.125% due 4/1/30	603, -----
1,000,000	NR	Fairfax County, VA EDA Revenue, Retirement Community, Greenspring Village Inc., Series A, 7.500% due 10/1/29	1,083, -----
23,400,000	BBB-	Pocahontas Parkway Association, VA Toll Road Revenue, Capital Appreciation, Series B, zero coupon bond to yield 8.740% due 8/15/34	1,392, ----- 3,079, -----
West Virginia -- 0.6%			
1,000,000	NR	West Virginia EDA, Commercial Development Revenue, (Stonewall Jackson Project), Series B, 8.000% due 4/1/30	980, -----
Wisconsin -- 1.8%			
2,000,000	NR	Badger Tobacco Asset Securitization Corp., WI Rite-PA 1046, Variable Rate INFLOS, 9.290% due 12/1/06 (f)	1,848, -----
1,770,000	NR	Wisconsin State Health & Educational Facilities Authority Revenue, (Benchmark Healthcare of Green Bay Inc. Project), Series A, 7.750% due 5/1/27	1,150, ----- 2,999, -----
TOTAL INVESTMENTS -- 100%			
(Cost -- \$184,230,899**)			\$165,381, =====

- (a) All ratings are by Standard & Poor's Ratings Service, except those which are identified by an asterisk (*), are rated by Moody's Investors Service and those which are identified by a double dagger (++), are rated by Fitch IBCA, Duff & Phelps.
- (b) Income from this issue is considered a preference item for purposes of

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

- calculating the alternative minimum tax.
- (c) Security is segregated for collateral for open futures contracts commitments.
 - (d) Security is currently in default.
 - (e) Pre-Refunded bonds escrowed with U.S. government securities and bonds escrowed to maturity with U.S. government securities are considered by the investment adviser to be triple-A rated even if issuer has not applied for new ratings.
 - (f) Inverse floating rate security-coupon varies inversely with level of short-term tax exempt interest rates.
- ** Aggregate cost for Federal income tax purposes is substantially the same.

See pages 17 through 19 for definitions of ratings and certain security descriptions.

See Notes to Financial Statements.

15

Municipal High Income Fund Inc.
Summary of Municipal Bonds by Combined Ratings
October 31, 2002 (unaudited)

[CLIP ART]

Moody's	and/or	Standard & Poor's	Percent of Total Investments
Aaa		AAA	4.9%
Aa		AA	0.7
A		A	4.4
Baa		BBB	13.7*
Ba		BB	11.1**
B		B	4.0
Caa		CCC	1.4***
Ca		CC	0.3
NR		NR	59.5

			100.0%
			=====

- * 1.2% was rated by Fitch IBCA, Duff & Phelps ("Fitch").
- ** 0.3% was rated by Fitch.
- *** 0.6% was rated by Fitch.

16

Municipal High Income Fund Inc.
Bond Ratings (unaudited)

[CLIP ART]

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

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

- 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 debt 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 debt in this category than in higher rated categories.
- BB, B, CCC and CC -- Bonds rated "BB", "B", "CCC" and "CC" 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 "CC" 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.

Moody's Investors Service ("Moody's") -- Numerical modifiers 1, 2 and 3 may be applied to each generic rating from "Aa" 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.

17

[CLIP ART] 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

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

- 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 that are 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.

Fitch IBCA, Duff & Phelps ("Fitch") -- Ratings from "BBB" to "CCC" may be modified by the addition of a plus (+) or a minus (-) sign to show relative standings with the major ratings categories.

- BBB -- Bonds rated "BBB" by Fitch 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. This is the lowest investment grade category assigned by Fitch.
- BB -- Bonds rated "BB" by Fitch 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, CC and C -- Default on bonds rated "CCC", "CC" and "C" by Fitch is a real possibility. 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.
- NR -- Indicates that the bond is not rated by Standard & Poor's, Moody's or Fitch.

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.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

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

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

Municipal High Income Fund Inc. Statement of Assets and Liabilities October 31, 2002

[CLIP ART]

ASSETS:

Investments, at value (Cost -- \$184,230,899)	\$ 165,381,570
Cash	190,728
Interest receivable	4,266,115
Receivable for securities sold	983,804

Total Assets	170,822,217

LIABILITIES:

Payable to broker -- variation margin	65,625
Investment advisory fee payable	62,099
Administration fee payable	30,789
Accrued expenses	155,663

Total Liabilities	314,176

Total Net Assets	\$ 170,508,041
	=====

NET ASSETS:

Par value of capital shares	\$ 208,831
Capital paid in excess of par value	192,384,932
Undistributed net investment income	507,327
Accumulated net realized loss from security transactions and futures contracts	(3,298,408)
Net unrealized depreciation of investments and futures contracts	(19,294,641)

Total Net Assets	\$ 170,508,041
	=====

Shares Outstanding	20,883,100

Net Asset Value	\$ 8.16

See Notes to Financial Statements.

20

Municipal High Income Fund Inc. Statement of Operations For the Year Ended October 31, 2002

[CLIP ART]

INVESTMENT INCOME:

Interest	\$ 13,401,348

EXPENSES:

Investment advisory fee (Note 3)	701,628
--	---------

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

Administration fee (Note 3)	350,814
Shareholder communications	166,056
Audit and legal	55,064
Shareholder and system servicing fees	39,853
Directors' fees	39,358
Custody	38,386
Other	15,246

Total Expenses	1,406,405

Net Investment Income	11,994,943

REALIZED AND UNREALIZED LOSS ON INVESTMENTS AND FUTURES CONTRACTS (NOTES 4 AND 5):	
Realized Loss From:	
Security transactions (excluding short-term securities) ..	(112,776)
Futures contracts	(52,047)

Net Realized Loss	(164,823)

Increase in Net Unrealized Depreciation (Note 1)	(10,433,215)

Net Loss on Investments and Futures Contracts	(10,598,038)

Increase in Net Assets From Operations	\$ 1,396,905
	=====

See Notes to Financial Statements.

21

[CLIP ART]

Municipal High Income Fund Inc.
Statements of Changes in Net Assets
For the Years Ended October 31,

=====

	2002	2001
	----	----
Operations:		
Net investment income	\$ 11,994,943	\$ 12,153,225
Net realized loss	(164,823)	(733,106)
Increase in net unrealized depreciation	(10,433,215)	(3,386,185)
	-----	-----
Increase in Net Assets From Operations	1,396,905	8,033,934
	-----	-----
DISTRIBUTIONS TO SHAREHOLDERS		
FROM (NOTE 2):		
Net investment income	(11,902,496)	(11,958,713)
	-----	-----
Decrease in Net Assets From		
Distributions to Shareholders	(11,902,496)	(11,958,713)
	-----	-----
FUND SHARE TRANSACTIONS (NOTE 8):		
Net asset value of shares issued for		

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

reinvestment of dividends	1,446,084	2,166,492
	-----	-----
Increase in Net Assets From		
Fund Share Transactions	1,446,084	2,166,492
	-----	-----
Decrease in Net Assets	(9,059,507)	(1,758,287)
NET ASSETS:		
Beginning of year	179,567,548	181,325,835
	-----	-----
End of year*	\$ 170,508,041	\$ 179,567,548
	=====	=====
* Includes undistributed net investment income of:	\$ 507,327	\$ 298,182
	=====	=====

See Notes to Financial Statements.

22

[CLIP ART] Municipal High Income Fund Inc.
Notes to Financial Statements
=====

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 significant accounting policies consistently followed by the Fund are:

(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. Securities with no readily obtainable market quotations are valued at fair value as determined by an independent pricing service under the supervision of the Fund's Board of Directors; (c) securities maturing within 60 days are valued at cost plus accreted discount, or minus amortized premium, which approximates value; (d) gains or losses on the sale of securities are calculated by using the specific identification method; (e) interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis; (f) dividends and distributions to shareholders are recorded on the ex-dividend date; (g) the Fund intends to comply with the applicable provisions of the Internal Revenue Code of 1986, as amended, pertaining to regulated investment companies and to make distributions of taxable income sufficient to relieve it from substantially all Federal income and excise taxes; (h) the character of income and gains to be distributed are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America. At October 31, 2002, reclassifications were made to the Fund's capital accounts to reflect permanent book/tax differences and income and gains available for distributions under income tax regulations. Accordingly, a portion of accumulated net realized loss amounting to \$1,197,488 was reclassified to paid-in capital. Net investment income, net realized gains and net assets were not affected by this adjustment; and (i) 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.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

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.

In November 2000, the American Institute of Certified Public Accountants ("AICPA") issued a revised version of the AICPA Audit and Accounting Guide for Investment Companies ("Guide"). This Guide is effective for financial statements issued for fiscal years beginning after December 15, 2000. The revised Guide requires the Fund to amortize premium and accrete all discounts on all fixed-income securities. The Fund adopted this requirement November 1, 2001. This change does not affect the Fund's net asset value, but does change the classification of certain amounts in the

23

Municipal High Income Fund Inc.

[CLIP ART] Notes to Financial Statements (continued)

=====

statement of operations. For the year ended October 31, 2002, interest income increased by \$74,113, net realized loss increased by \$8,564 and the change in net unrealized depreciation of investments increased by \$65,549. In addition, the Fund recorded adjustments to increase the cost of securities and increase undistributed net investment income by \$125,262 to reflect the cumulative effect of this change up to the date of the adoption.

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.

Capital gains distributions, if any, are taxable to shareholders, and are declared and paid at least annually.

3. Investment Advisory Agreement, Administration Agreement and Other Transactions

Smith Barney Fund Management LLC ("SBFM"), a subsidiary of Salomon Smith Barney Holdings Inc., which, in turn, is a subsidiary of Citigroup Inc. ("Citigroup"), acts as investment adviser to the Fund. The Fund pays SBFM an advisory fee calculated at an annual rate of 0.40% of the average daily net assets. SBFM also acts as the administrator of the Fund for which it receives a fee calculated at an annual rate of 0.20% of the average daily net assets. These fees are calculated daily and paid monthly.

All officers and one Director of the Fund are employees of Citigroup or its affiliates.

4. Investments

During the year ended October 31, 2002, the aggregate cost of purchases and proceeds from sales of investments (including maturities, but excluding short-term securities) were as follows:

Purchases	\$ 57,015,012
-----------------	---------------

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

Sales	\$ 58,768,163
-------------	---------------

At October 31, 2002, the aggregate gross unrealized appreciation and depreciation of investments for Federal income tax purposes were substantially as follows:

Gross unrealized appreciation	\$ 4,028,973
Gross unrealized depreciation	(22,687,491)
Net unrealized depreciation	\$(18,658,518)

24

[CLIP ART] Municipal High Income Fund Inc.
Notes to Financial Statements (continued)

5. Futures Contracts

Initial margin deposits made upon entering into futures contracts are recognized as assets. Securities equal to the initial margin amount are segregated by the custodian in the name of the broker. 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 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 (futures contracts).

At October 31, 2002, the Fund had the following open futures contracts:

	# of Contracts	Expiration	Basis Value	Market Value	Unrealized Loss
Sold Contracts:					
U.S. Treasury 20 Year Bond	150	12/02	\$16,153,125	\$16,598,437	\$(445,312)

6. Capital Loss Carryforward

At October 31, 2002, the Fund had, for Federal income tax purposes, approximately \$3,744,000 of unused capital loss carryforwards available to offset future capital gains. To the extent that these carryforward losses are used to offset capital gains, it is probable that the gains so offset will not be distributed. The amount and year of expiration for each carryforward loss is indicated below. Expiration occurs on October 31 of the year indicated:

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

	2003	2004	2005	2007	2008	2009
	-----	-----	-----	-----	-----	-----
Carryforward amounts	\$270,000	\$205,000	\$400,000	\$786,000	\$748,000	\$733,000

7. Income Tax Information and Distributions to Shareholders At October 31, 2002, the tax basis components of distributable earnings were:

Undistributed tax exempt income	\$ 339,577
Undistributed ordinary income	--
Accumulated capital losses	(3,743,721)
Unrealized depreciation	(18,658,518)

25

[CLIP ART] Municipal High Income Fund Inc.
Notes to Financial Statements (continued)

The difference between book basis and tax basis unrealized depreciation is attributable primarily to mark to market losses and remaining AICPA accretion adjustment.

The tax character of distributions paid during the year ended October 31, 2002 was:

Tax exempt income	\$11,889,314
Ordinary income	13,182
Long term capital gains	--
Total	\$11,902,496

8. Capital Shares

At October 31, 2002, the Fund had 500,000,000 shares of capital stock authorized with a par value of \$0.01 per share. Capital stock transactions were as follows:

	Year Ended October 31, 2002		Year Ended October 31, 2001	
	Shares	Amount	Shares	Amount
Shares issued on reinvestment ..	174,992	\$1,446,084	235,025	\$2,166,492

26

[CLIP ART] Municipal High Income Fund Inc.
Financial Highlights

For a share of capital stock outstanding throughout each year ended October 31, unless otherwise noted:

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

	2002	2001	2000	1999
	----	----	----	----
Net Asset Value, Beginning of Year	\$ 8.67	\$ 8.86	\$ 9.00	\$ 9.7
	-----	-----	-----	-----
Income (Loss) From Operations:				
Net investment income(1)	0.58	0.59	0.60	0.5
Net realized and unrealized gain (loss)(1)	(0.52)	(0.20)	(0.16)	(0.7
	-----	-----	-----	-----
Total Income (Loss) From Operations	0.06	0.39	0.44	(0.1
	-----	-----	-----	-----
Less Distributions From:				
Net investment income	(0.57)	(0.58)	(0.58)	(0.5
In excess of net investment income	--	--	--	--
	-----	-----	-----	-----
Total Distributions	(0.57)	(0.58)	(0.58)	(0.5
	-----	-----	-----	-----
Net Asset Value, End of Year	\$ 8.16	\$ 8.67	\$ 8.86	\$ 9.0
	=====	=====	=====	=====
Total Return, Based on Market Value	(4.70)%	13.85%	9.39%	(15.7
	=====	=====	=====	=====
Total Return, Based on				
Net Asset Value	0.91%	4.77%	5.97%	(1.7
	=====	=====	=====	=====
Net Assets, End of Year (000s)	\$ 170,508	\$ 179,568	\$ 181,326	\$ 184,08
	=====	=====	=====	=====
Ratios to Average Net Assets:				
Expenses	0.80%	0.82%	0.71%	0.7
Net investment income(1)	6.84	6.74	6.72	6.0
Portfolio Turnover Rate	33%	15%	27%	2
Market Value, End of Year	\$ 7.680	\$ 8.640	\$ 8.125	\$ 8.00

(1) Without the adoption of the change in the accounting method discussed in Note 1 to the financial statements, for the year ended October 31, 2002, the ratio of net investment income to average net assets would have been 6.80%. Per share, ratios and supplemental data for the periods prior to November 1, 2001 have not been restated to reflect this change in presentation. In addition, the impact of this change to net investment income and net realized and unrealized loss was less than \$0.01 per share.

27

[CLIP ART] Municipal High Income Fund Inc.
Independent Auditors' Report
=====

The Shareholders and Board of Directors of
Municipal High Income Fund Inc.:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Municipal High Income Fund Inc. ("Fund") as of October 31, 2002, and the related statement of operations for the

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

year then ended, the statements of changes in net assets for each of the years in the two-year period then ended and financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 2002, by correspondence with the custodian. As to securities sold but not yet delivered, we performed other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Fund as of October 31, 2002, and the results of its operations for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and financial highlights for each of the years in the five-year period then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

New York, New York
December 11, 2002

28

Municipal High Income Fund Inc.

[CLIP ART] Financial Data Per Share of Common Stock (unaudited)

Record Date	Payable Date	NYSE Closing Price*	Net Asset Value*	Dividend Paid	Dividend Reinvestment Price
-----	-----	-----	-----	-----	-----
11/20/00	11/24/00	\$8.0600	\$8.25	\$0.0485	\$7.96
12/26/00	12/29/00	8.0625	8.81	0.0485	8.49
1/23/01	1/26/01	8.8125	8.79	0.0485	8.61
2/20/01	2/23/01	8.7400	8.77	0.0485	8.60
3/27/01	3/30/01	8.3800	8.77	0.0485	8.57
4/24/01	4/27/01	8.6800	8.67	0.0485	8.50
5/22/01	5/25/01	8.6200	8.69	0.0485	8.52
6/26/01	6/29/01	8.6300	8.71	0.0485	8.54
7/24/01	7/27/01	8.5700	8.75	0.0485	8.57
8/28/01	8/31/01	8.8900	8.83	0.0485	8.65
9/25/01	9/28/01	8.3000	8.71	0.0485	8.54
10/23/01	10/26/01	8.6300	8.70	0.0485	8.53
11/27/01	11/30/01	8.5000	8.59	0.0485	8.42
12/24/01	12/28/01	7.8900	8.42	0.0485	8.16
1/22/02	1/25/02	8.3000	8.45	0.0485	8.28
2/19/02	2/22/02	8.3500	8.40	0.0485	8.23

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

3/19/02	3/22/02	8.1600	8.34	0.0485	8.11
4/23/02	4/26/02	8.0700	8.36	0.0485	8.18
5/28/02	5/31/02	8.1200	8.36	0.0485	8.19
6/25/02	6/28/02	8.1600	8.43	0.0465	8.25
7/23/02	7/26/02	8.0700	8.46	0.0465	8.22
8/27/02	8/30/02	8.1600	8.41	0.0465	8.23
9/24/02	9/27/02	8.3100	8.40	0.0465	8.23
10/22/02	10/25/02	7.6200	8.15	0.0465	7.79

* As of record date.

29

[CLIP ART] Municipal High Income Fund Inc.
Additional Information (unaudited)
=====

Information about Directors and Officers

The business and affairs of Municipal High Income Fund Inc. ("Fund") are managed under the direction of the Board of Directors. Information pertaining to the Directors and Officers of the Fund is set forth below.

Name, Address and Age	Position(s) Held with Fund	Term of Office* and Length of Time Served	Principal Occupation(s) During Past Five Years	Num Port in Co Ove by D

Non-Interested Directors:				
Allan J. Bloostein 27 West 67th Street New York, NY 10023 Age 72	Director	Since 1998	President of Allan J. Bloostein Associates	
Dwight B. Crane Harvard Business School Soldiers Field Road Morgan Hall #375 Boston, MA 02163 Age 65	Director	Since 1998	Professor, Harvard Business School	
Paolo M. Cucchi Drew University 108 Brothers College Madison, NJ 07940 Age 61	Director	Since 2001	Vice President and Dean of College of Liberal Arts at Drew University	
Robert A. Frankel 8 John Walsh Blvd. Peekskill, NY 10566 Age 75	Director	Since 1998	Managing Partner of Robert A. Frankel Management Consultants	
Dr. Paul Hardin 12083 Morehead	Director	Since 2001	Chancellor Emeritus and Professor of Law at the	

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

Chapel Hill, NC 27514
Age 72

University of North Carolina
at Chapel Hill

William R. Hutchinson
535 N. Michigan
Chicago, IL 60611
Age 60

Director

Since
1998

President of WR Hutchinson &
Associates, Inc.; Formerly
Group Vice President of Mergers
& Acquisitions at BP Amoco

George M. Pavia
600 Madison Avenue
New York, NY 10022
Age 74

Director

Since
2001

Senior Partner of Pavia & Harcourt
Attorneys

30

[CLIP ART] Municipal High Income Fund Inc.
Additional Information (unaudited) (continued)

Name, Address and Age	Position(s) Held with Fund	Term of Office* and Length of Time Served	Principal Occupation(s) During Past Five Years	Num Port in Co Ove by D
Interested Directors:				
R. Jay Gerken SSB 399 Park Avenue 4th Floor New York, NY 10022 Age 51	Chairman, President and Chief Executive Officer	Since 2002	Managing Director of Salomon Smith Barney Inc. ("SSB"); Chairman, President and Chief Executive Officer of Smith Barney Fund Management LLC ("SBFM"), Travelers Investment Adviser, Inc. ("TIA") and Citi Fund Management Inc.	

* Directors are elected for a term of three years.

Officers:

Lewis E. Daidone
SSB
125 Broad Street
11th Floor
New York, NY 10004
Age 45

Senior Vice
President
and Chief
Administrative
Officer

Since
1998

Managing Director of SSB;
Director and Senior Vice
President of SBFM and TIA;
Chief Financial Officer and
Treasurer of mutual funds
affiliated with Citigroup Inc.

Richard L. Peteka
SSB
125 Broad Street
11th Floor
New York, NY 10004
Age 41

Chief Financial
Officer and
Treasurer

Since
2002

Director and Head of Internal
Control for Citigroup Asset
Management U.S. Mutual Fund
Administration from 1999-2002;
Vice President, Head of Mutual
Fund Administration and
Treasurer at Oppenheimer Capital
from 1996-1999

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

Peter M. Coffey SSB 399 Park Avenue 4th Floor New York, NY 10022 Age 58	Vice President and Investment Officer	Since 1999	Managing Director of SSB; Investment Officer of SBFM
Kaprel Ozsolak SSB 125 Broad Street 11th Floor New York, NY 10004 Age 37	Controller	Since 2002	Vice President of SSB
Christina T. Sydor SSB 300 First Stamford Place 4th Floor Stamford, CT 06902 Age 51	Secretary	Since 1998	Managing Director of SSB; General Counsel and Secretary of SBFM and TIA

31

Municipal High Income Fund Inc.
Dividend Reinvestment Plan (unaudited)

[CLIP ART]

=====

The Fund's policy, which may be changed by the Fund's Board of Directors, is generally to make monthly distributions of substantially all its net investment income (i.e., income other than net realized capital gains) to the holders of the Fund's common stock. From time to time, when the Fund makes a substantial capital gains distribution, it may do so in lieu of paying its regular monthly dividend, net income of the Fund consists of all interest income accrued on portfolio assets less all expenses of the Fund. Expenses of the Fund are accrued each day. Net realized capital gains, if any, will be distributed to the shareholders at least once a year.

Under the Fund's Dividend Reinvestment Plan ("Plan"), a shareholder whose common stock is registered in his or her own name will have all distributions reinvested automatically by PFPC Global Fund Services ("PFPC"), as purchasing agent under the Plan, unless the shareholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in "street name") will be reinvested by the broker or nominee in additional shares under the Plan, unless the service is not provided by the broker or nominee or the shareholder elects to receive distributions in cash. Investors who own common stock registered in street name should consult their broker-dealers for details regarding reinvestment. All distributions to shareholders who do not participate in the Plan will be paid by check mailed directly to the record holder by or under the direction of PFPC, as dividend-paying agent.

The number of shares of common stock distributed to participants in the Plan in lieu of a cash dividend is determined in the following manner. Whenever the market price of the common stock is equal to or exceeds 98% of net asset value ("NAV") per share on the determination date (generally, the record date for the distribution), participants will be issued shares of common stock valued at the greater of (1) 98% of the NAV or (2) 95% of the market price. To the extent that the Fund issues shares to participants in the Plan at a discount to

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

NAV, the interests of remaining shareholders (i.e., those who do not participate in the Plan) in the Fund's net assets will be proportionately diluted.

If 98% of the NAV per share of the common stock at the time of valuation (which is the close of business on the determination date) exceeds the market price of common stock, PFPC will buy common stock in the open market, on the NYSE or elsewhere, for the participants' accounts. If, following the commencement of the purchases and before PFPC has completed its purchases, the market price exceeds 98% of what the NAV per share of the common stock was at the valuation time, PFPC will attempt to terminate purchases in the open market and cause the Fund to issue the remaining portion of the dividend or distribution by issuing shares at a price equal to the greater of (1) 98% of the NAV per share as of the valuation time, or (2) 95% of the then current market price. In this case, the number of shares of common stock received by a Plan participant will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares. To the extent PFPC is unable to stop open market purchases

32

Municipal High Income Fund Inc.

[CLIP ART] Dividend Reinvestment Plan (unaudited) (continued)

=====

and cause the Fund to issue the remaining shares, the average per share price paid by PFPC may exceed 98% of the NAV per share of the common stock. PFPC will begin to purchase common stock on the open market as soon as practicable after the payment date of the dividend or capital gains distribution, but in no event shall such purchases continue later than 30 days after that date, except when necessary to comply with applicable provisions of the Federal securities laws.

PFPC maintains all shareholder accounts in the Plan and furnishes written confirmations of all transactions in each account, including information needed by a shareholder for personal and tax records. The automatic reinvestment of dividends and capital gains distributions will not relieve Plan participants of any income tax that may be payable on the dividends or capital gains distributions. Common stock in the account of each Plan participant will be held by PFPC in uncertificated form in the name of the Plan participant.

Plan participants are subject to no charge for reinvesting dividends and capital gains distributions under the Plan. PFPC's fees for handling the reinvestment of dividends and capital gains distributions will be paid by the Fund. No brokerage charges shall apply with respect to shares of common stock issued directly by the Fund under the Plan. Each Plan participant will, however, bear a pro-rata share of brokerage commissions actually incurred with respect to any open market purchases made under the Plan.

Experience under the Plan may indicate that changes to it are desirable. The Fund reserves the right to amend or terminate the Plan as applied to any dividend or capital gains distribution paid subsequent to written notice of the change sent to participants at least 30 days before the record date for the dividend or capital gains distribution. The Plan also may be amended or terminated by PFPC or the Fund on at least 30 days' written notice to Plan participants. All correspondence concerning the Plan should be directed by mail to PFPC Global Fund Services, P.O. Box 8030, Boston, Massachusetts 02266-8030 or by telephone at 1 (800) 331-1710.

Notice is hereby given in accordance with Section 23(c) of the Investment

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

Company Act of 1940, as amended, that from time to time the Fund may purchase at market prices shares of its common stock in the open market. As of October 31, 2002, the Fund has not repurchased any shares.

33

[CLIP ART] Municipal High Income Fund Inc.
Tax Information (unaudited)
=====

For Federal tax purposes, the Fund hereby designates for the fiscal year ended October 31, 2002:

- o 99.89% of the dividends paid by the Fund from net investment income as tax exempt for regular Federal income tax purposes.

34

[CLIP ART] Municipal High Income Fund Inc.
Management of the Fund
=====

Directors

Allan J. Bloostein
Dwight B. Crane
Paolo M. Cucchi
Robert A. Frankel
R. Jay Gerken, Chairman
Dr. Paul Hardin
William R. Hutchinson
George M. Pavia

Officers

R. Jay Gerken
President and
Chief Executive Officer

Lewis E. Daidone
Senior Vice President and
Chief Administrative Officer

Richard L. Peteka
Chief Financial Officer
and Treasurer

Peter M. Coffey
Vice President and
Investment Officer

Michael J. Maher
Investment Officer

Kaprel Ozsolak
Controller

Christina T. Sydor

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30D

Secretary

Investment Adviser and Administrator

Smith Barney Fund Management LLC
399 Park Avenue
New York, New York 10022

Transfer Agent

PFPC Global Fund Services
P.O. Box 8030
Boston, Massachusetts 02266-8030

Custodian

State Street Bank and Trust Company
225 Franklin Street
Boston, Massachusetts 02110

(This page intentionally left blank.)

[GRAPHIC OMITTED]

[CLIP ART]

This report is intended only for shareholders of Municipal High Income Fund Inc. It is not a Prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.

Municipal High Income Fund Inc.
125 Broad Street
10th Floor, MF-2
New York, NY 10004

FD01049 12/02
02-4158