

MUNICIPAL HIGH INCOME FUND INC

Form N-CSR

January 07, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number **811-5497**

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: (800) 725-6666

Date of fiscal year end: **October 31**

Date of reporting period: **October 31, 2004**

ITEM 1. REPORT TO STOCKHOLDERS.

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

Municipal High Income Fund Inc.

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Municipal High Income Fund Inc.

LETTER FROM THE CHAIRMAN

R. JAY GERKEN, CFA

*Chairman, President and
Chief Executive Officer*

Dear Shareholder,

For the first time in four years, the Federal Reserve Board (Fed pushed short-term interest rates higher during the 12 months ended October 31, 2004. The Fed raised its target for the closely watched federal funds rateⁱⁱ by 0.25% on several occasions, increasing it from a four-decade low of 1.00% in June to 1.75% in September, and then again to 2.00% on November 10th after the fund s reporting period had ended. Higher rates can help slow a potential acceleration of economic growth and thereby help maintain a balance between that growth and the inflation that can generally accompany it.

Although inflation picked up earlier this year, recently reported figures were benign. The U.S. economy grew at a moderate rateⁱⁱⁱ over the period. Labor market growth^{iv} picked up significantly in the spring, tapered off over the summer but has recently exceeded consensus expectations. Given the mixed economic results and conflicting signals to investors during the period, the bond market fluctuated significantly.

As the portfolio manager notes in the accompanying letter, isolated issue- and sector-specific factors influenced the fund s performance. The manager also maintained a focus on seeking higher-coupon issues that offered potential values on a risk/reward basis. Although the fund s lower-duration strategy limited the fund s ability to completely participate in the market s upside moves, this more defensive approach to interest rate risk resulted in a smoother ride for investors who held the fund over the period in comparison to longer-duration portfolios. While rising interest rates are generally troublesome for longer-term fixed income securities, since bond prices decline as rates are expected to rise, rising rates result in higher levels of income on new bonds issued in the future.

Please read on for a more detailed look at prevailing economic and market conditions during the fund s fiscal year and to learn how those conditions have affected fund performance.

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Information About Your Fund

As you may be aware, several issues in the mutual fund industry have come under the scrutiny of federal and state regulators. The fund s Adviser and some of its affiliates have received requests for information from various government regulators regarding market timing, late trading, fees, and other mutual fund issues in connection with various investigations. The fund has been informed that the Adviser and its affiliates are responding to those information requests, but are not in a position to predict the outcome of these requests and investigations.

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In November 2003, Citigroup Asset Management (CAM) disclosed an investigation by the Securities and Exchange Commission (SEC) and the U.S. Attorney relating to CAM 's entry into the transfer agency business during 1997-1999. Citigroup has disclosed that the Staff of the SEC is considering recommending a civil injunctive action and/or an administrative proceeding against certain advisory and transfer agent entities affiliated with Citigroup, the former CEO of CAM, two former employees and a current employee of CAM, relating to the creation, operation and fees of its internal transfer agent unit that serves various CAM-managed funds. This internal transfer agent did not provide services to the fund. Citigroup is cooperating with the SEC and will seek to resolve this matter in discussion with the SEC Staff. Although there can be no assurance, Citigroup does not believe that this matter will have a material adverse effect on the fund.

As always, thank you for your confidence in our stewardship of your assets. We look forward to helping you continue to meet your financial goals.

Sincerely,

R. Jay Gerken, CFA
Chairman, President and Chief Executive Officer

November 22, 2004

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Municipal High Income Fund Inc.

MANAGER OVERVIEW

PETER M. COFFEY
*Vice President and
Investment Officer*

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Municipal bonds traded in a fairly narrow range during the first quarter of the 12 months ended October 31, 2004. During this time, the economy grew at a more robust pace versus early 2003.ⁱⁱⁱ Although labor market growth^{vi} languished throughout 2003 into the first quarter of this year, it rose significantly and remained strong in the early spring, and inflation picked up as well.^{vii}

After an extended period of monetary easing, the Fed's monetary policymaking committee raised its federal funds rateⁱⁱ target from a four-decade low of 1.00% to 1.25% at the end of June—the Fed's first hike in four years. The increase marked a significant reversal from the Fed's monetary policy position from June 2003, when it last slashed its rate target following a long series of accommodative rate cuts. The rate hike was widely anticipated due to comments from the Fed regarding the momentum behind the economy and signals that it was prepared to push rates higher from their near-historic lows. As a result, bond prices declined and yields rose sharply in April before prices stabilized somewhat in the early summer.

FUND PERFORMANCE AS OF OCTOBER 31, 2004

	Price Per Share	30-Day SEC Yield	12-Month Total Return
\$	7.84(NAV)	7.05%	6.32%
\$	7.39(NYSE)	7.49%	3.76%

All figures represent past performance and are not a guarantee of future results. The fund's yields will vary.

Total returns are based on changes in NAV or market price, respectively. Total returns assume the reinvestment of all dividends and/or capital gains distributions, if any, in additional shares. The SEC yield is a return figure often quoted by bond and other fixed-income mutual funds. This quotation is based on the most recent 30-day (or one-month) period covered by the fund's filings with the SEC. The yield figure reflects the dividends and interest earned during the period after deduction of the fund's expenses for the period. This yield is as of October 31, 2004 and is subject to change.

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The Fed again raised its federal funds target by 0.25% in August and in September to a 1.75% rate. Given that bond prices had already factored in rate hikes to a significant extent, and coupling this with a lack of inflationary pressures, bond prices held up and actually rose over the third quarter. In September and October, the bond market benefited from falling stock and rising oil prices, which encouraged investors to reallocate capital into fixed-income securities.

After the period ended, yields on bonds rose as their prices dropped in reaction to an employment report issued in November that yielded surprisingly robust labor market results for October.^{vi} Non-farm payrolls rose by 337,000 jobs versus a projected increase of 175,000 for the month.

The Fed subsequently raised its federal funds rate target to 2.00% on November 10th after the end of the fund's reporting period. In its statement, the Fed said, "Output appears to be growing at a moderate pace despite the rise in energy prices, and labor market conditions have improved. Inflation and longer-term inflation expectations remain well contained. The monetary policymaking committee retained wording from its previous statements stating its stance that future rate increases will continue at a pace that is likely to be measured."

Although this is a closed-end fund, approximately \$1.16 billion of new capital was invested into open-end high-yield/non-investment-grade municipal bond funds in the third quarter, versus \$1.56 billion of outflows for their investment-grade counterparts.^{viii} This reflected an inflow of funds into investments that participate in the high-yield municipal

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bond market during the quarter. As of the end of the period, the yield-to-worst^{ix} on the Lehman Brothers High-Yield Municipal Bond Index was 6.61% (a taxable equivalent yield (TEY) of 10.16% for an investor in the 35% federal income tax bracket) versus a stated market yield of 3.56% (TEY of 5.47% for an investor in the same tax bracket) for the broader-based municipal bond index.^x As of the period's close, approximately 70% of the portfolio was invested in high-yield issues; 30% of the fund was invested in investment-grade holdings. Over the 12-month period, compelling taxable equivalent yields for investors in middle- and higher-federal income tax brackets and low default rates continued to attract investors to municipal bond funds, although they experienced net outflows over the year. Nonetheless, municipal bonds outperformed U.S. Treasuries over the 12 months.^{xi}

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Performance Review

For the 12 months ended October 31, 2004, the Municipal High Income Fund returned 3.76%, based on its New York Stock Exchange (NYSE) market price and 6.32% based on its net asset value (NAV) per share. In comparison, the fund's unmanaged benchmark, the Lehman Brothers Municipal Bond Index,^{xiii} returned 6.03% and the Lipper high yield municipal debt closed-end funds category average^{xiv} was 8.57% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During the 12-month period, the fund made distributions to shareholders totaling \$0.5385 per share. The performance table on page 3 shows the fund's 30-day SEC yields as well as its 12-month total returns based on its NAV and market price as of October 31, 2004. **Past performance is no guarantee of future results. The fund's yields will vary.**

During the period, the portfolio remained defensively positioned to hold up better in a rising-rate environment. Although this approach limited the fund's ability to participate as fully when bond prices rose, the fund held up better than longer-duration portfolios when bond prices sharply dropped, such as in April. In the recent market and rate environment, we believe that our cautious approach to managing interest rate risk is more prudent than a longer-duration strategy. Securities in the education, industrial development, pollution control, and transportation sectors positively contributed to the fund's performance. The performance of certain holdings was negatively impacted in isolated industry and issue-specific circumstances, which detracted from the fund's performance. Conversely, while most of the fund's holdings in the hospital sector enhanced results, three securities detracted from performance. Similarly, the majority of the fund's life care holdings boosted returns, although two holdings hurt results. Although it reduced volatility, our hedge position in long bond futures detracted from performance, as long-term treasury yields declined during the period. Finally, in the multi-family housing sector, the low income housing market continued to struggle with competitive pressures, causing several securities to decline during the fiscal year.

Over the period, we maintained a focus on targeting issues with competitive coupons that we perceived as offering favorable prospects on a risk/reward basis. As of October's close, the fund's average coupon was 7.04%, while its average market yield was 6.89%. The average life and average maturity of holdings in the portfolio were 10.76 and 21.36 years, respectively, at the end of the period. We have continued to target bonds in a diverse cross-section of market segments.

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Looking for Additional Information?

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

In a continuing effort to provide information concerning the fund, shareholders may call 1-888-735-6507, Monday through Friday from 8:00 a.m. to 6:00 p.m. Eastern Time, for the fund's current net asset value, market price, and other information.

Thank you for your investment in the Municipal High Income Fund Inc. As ever, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the fund's investment goals.

Sincerely,

Peter M. Coffey
Vice President and Investment Officer

November 22, 2004

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

RISKS: The fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on fund performance. High yield bonds involve greater credit and liquidity risks than investment grade bonds. Certain investors may be subject to the Federal Alternative Minimum Tax (AMT), and state and local taxes may apply. Capital gains, if any, are fully taxable.

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

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- i Source: U.S. Federal Reserve Board. The Fed is responsible for the formulation of a policy designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- ii The federal funds rate is the interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans.
- iii Source: Commerce Department (Bureau of Economic Analysis). Refers to quarterly growth of Gross Domestic Product (GDP). Gross domestic product is a market value of goods and services produced by labor and property in a given country.
- iv Source: Bureau of Labor Statistics.
- v Duration is a common gauge of the price sensitivity of a fixed-income asset or portfolio to a change in interest rates.
- vi Source: Bureau of Labor Statistics based upon the growth of non-farm payroll jobs
- vii Sources: Lehman Brothers. Inflation data based upon Consumer Price Index/deflation data.
- viii Sources: Investment Company Institute and Lehman Brothers.
- ix Yield to worst is the lowest quoted yield for a bond or fund. It is the lowest of all yield to calls or the yield to maturity.
- x The Lehman Brothers High-Yield Municipal Bond Index is a broad measure of the high-yield/non-investment-grade municipal bond market with maturities of at least one year. The index includes lower-rated securities, which present greater risk of loss of principal and interest than higher-rated securities. The Lehman Brothers Municipal Bond Index is a broad measure of the municipal bond market with an overall average maturity of approximately three years.
- xi Source: Lehman Brothers. Municipal bonds are direct debt obligations issued and backed by the full faith and credit of those municipalities issuing the bonds, whereas, U.S. Treasuries are direct debt obligations issued and backed by the full faith and credit of the U.S. government. The principal face value amount and interest payments on debt obligations are guaranteed by the issuer when the securities are held to maturity. Market prices and yields will fluctuate. Performance of bond categories are based upon Lehman Brothers index data representative of the total returns of a universe of securities in each respective class of fixed-income securities over the 12 months ended October 31, 2004.
- xii 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 the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the fund has invested. However, the price at which an investor may buy or sell shares of the fund is at the fund's market price as determined by supply of and demand for the fund's shares.
- xiii The Lehman Brothers Municipal Bond Index is a broad measure of the municipal bond market with maturities of at least one year.
- xiv Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the 12-month period ended October 31, 2004, calculated among the 14 funds in the fund's Lipper category, including the reinvestment of dividends and capital gains, if any.

Take Advantage of the Fund's Dividend Reinvestment Plan!

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 39. 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 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 shares 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

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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 shares 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 Inc. at 1 (800) 331-1710.

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Municipal High Income Fund Inc.
Fund at a Glance (unaudited)

Investment Breakdown

Municipal High Income Fund Inc.
Schedule of Investments
October 31, 2004

RATING(a)

SECURITY

VALUE

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FACE
AMOUNT

MUNICIPAL BONDS		99.1%	
Alabama 3.7%			
\$ 4,000,000	BB+	Butler, AL IDB, Solid Waste Disposal Revenue, (James River Corp. Project), 8.000% due 9/1/28 (b)(c)	\$ 4,108,480
615,000	NR	Capstone Improvement District of Brookwood, AL, Series A, 7.700% due 8/15/23 (d)	73,800
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	860,080
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)	1,139,570
			<hr/>
			6,182,004
			<hr/>
Alaska 0.7%			
1,055,000	NR	Alaska Industrial Development & Export Authority Revenue, Williams Lynxs Alaska Cargoport, 8.125% due 5/1/31 (b)	1,108,710
			<hr/>
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	1,587,810
1,000,000	B-	Gila County, AZ IDA Revenue, ASARCO Inc., 5.550% due 1/1/27	834,020
935,000	NR	Maricopa, AZ IDA, MFH Revenue, (Gran Victoria Housing LLC Project), Series B, 10.000% due 5/1/31 (c)	939,834
1,795,000	NR	Phoenix, AZ IDA, MFH Revenue, (Ventana Palms Apartments Project), Series B, 8.000% due 10/1/34	1,772,706
			<hr/>
			5,134,370
			<hr/>
Arkansas 1.1%			
1,000,000	BBB-	Arkansas State Development Finance Authority: Hospital Revenue, (Washington Regional Medical Center Project), 7.375% due 2/1/29	1,107,780
600,000	BB+	Industrial Facilities Revenue, (Potlatch Corp. Project), Series A, 7.750% due 8/1/25 (b)	654,858
			<hr/>
			1,762,638
			<hr/>
California 6.7%			
1,500,000	NR	Barona, CA Band of Mission Indians, GO, 8.250% due 1/1/20 (c)	1,612,650
1,500,000	AAA	California State Department of Water Resources, Power Supply Revenue: MBIA-Insured, RITES, 8.409% due 5/1/11 (f)	1,803,510
750,000	NR	XLCA-Insured, RITES, 7.879% due 5/1/10 (f)	931,860

See Notes to Financial Statements.

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Municipal High Income Fund Inc.
Schedule of Investments (continued)
October 31, 2004

FACE AMOUNT	RATING(a)	SECURITY	VALUE
California 6.7% (continued)			
\$ 1,500,000	NR	California Statewide Communities Development Authority Revenue, (East Valley Tourist Project), Series A, 9.250% due 10/1/20	\$ 1,598,295
		Golden State Tobacco Securitization Corp., Tobacco Settlement Revenue:	
1,000,000	A-	5.625% due 6/1/38	1,061,020
2,000,000	BBB	7.800% due 6/1/42 (c)	2,142,960
1,865,000	Ba2*	Vallejo, CA COP, Touro University, 7.375% due 6/1/29	1,935,049
			11,085,344
Colorado 2.5%			
		Colorado Education and Cultural Facilities Authority Revenue:	
2,000,000	NR	Colorado Lutheran High School Project, Series A, 7.625% due 6/1/34 (c)	2,013,960
910,000	AAA	Peak to Peak Project, (Escrowed with state & local government securities to 8/15/11 Call @ 100), 7.500% due 8/15/21	1,119,546
999,000	NR	Highline Business Improvement District, Littleton, CO GO, Series B, 8.750% due 12/15/19 (d)	449,550
500,000	NR	Southlands Medical District, CO, 7.125% due 12/1/34	506,225
			4,089,281
District of Columbia 1.3%			
1,895,000	AAA	District of Columbia COP, AMBAC-Insured, 5.500% due 1/1/20 (c)	2,139,038
Florida 13.8%			
1,000,000	NR	Beacon Lakes Community Development District, Special Assessment, Series A, 6.900% due 5/1/35	1,029,070
1,500,000	NR	Bonnet Creek Resort Community Development District, FL	

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		Special Assessment, 7.500% due 5/1/34	1,597,740
		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)	2,033,180
2,000,000	NR	Student Housing Revenue, Florida University, Series A, 7.850% due 8/15/31 (c)	1,995,180
1,000,000	NR	Capital Trust Agency Revenue, Seminole Tribe Convention Center, Series A, 10.000% due 10/1/33	1,233,870
985,000	NR	Century Parc Community Development District, Special Assessment, 7.000% due 11/1/31	1,036,151
2,500,000	A-1+	Collier County, FL Health Facilities Authority, Hospital Revenue, Cleveland Clinic Health Center, Series 1, 1.740% due 1/1/35 (g)	2,500,000
1,000,000	NR	Hammock Bay Community Development District, Special Assessment, Series A, 6.125% due 5/1/35	1,000,570

See Notes to Financial Statements.

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Municipal High Income Fund Inc.
Schedule of Investments (continued)
October 31, 2004

FACE AMOUNT	RATING(a)	SECURITY	VALUE
Florida 13.8% (continued)			
\$ 1,000,000	A	Highlands County, FL Health Facilities Authority Revenue, Adventist Health Systems, 6.000% due 11/15/25	\$ 1,101,590
875,000	NR	Homestead, FL IDR, Community Rehabilitation Providers Program, Series A, 7.950% due 11/1/18	892,867
2,000,000	BBB-	Martin County, FL IDA Revenue, (Indiantown Cogeneration Project), Series A, 7.875% due 12/15/25 (b)(c)	2,043,720
1,000,000	NR	Orange County, FL Health Facilities Authority Revenue, First Mortgage, (GF/ Orlando, Inc. Project), 9.000% due 7/1/31	1,022,040
535,000	AAA	Palm Beach County, FL Health Facilities Authority Revenue, (John F. Kennedy Memorial Hospital Inc. Project), 9.500% due 8/1/13 (h)	700,090
2,000,000	NR	Reunion East Community Development District, Special Assessment, Series A, 7.375% due 5/1/33	2,156,800
1,000,000	B-	Santa Rosa Bay Bridge Authority, FL Revenue, 6.250% due 7/1/28	886,500
1,450,000	NR	Waterlefe Community Development District, Golf Course Revenue, 8.125% due 10/1/25	1,541,582

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			22,770,950
<hr/>			
Georgia	5.2%		
1,000,000	AAA	Atlanta, GA Airport Passenger Facility Charge Revenue, Sub Lien, Series C, FSA-Insured, 5.000%, due 1/1/33	1,030,860
1,000,000	AAA	Atlanta, GA Airport Revenue, Series B, FGIC-Insured, 5.625% due 1/1/30 (b)	1,050,690
2,500,000	NR	Atlanta, GA Tax Allocation, (Atlantic Station Project), 7.900% due 12/1/24 (c)	2,644,725
1,000,000	NR	Atlanta, GA Urban Residential Finance Authority, MFH Revenue, Park Place Apartments, Series A, 6.750% due 3/1/31	795,240
1,000,000	NR	Brunswick & Glynn County, GA Development Authority Revenue, First Mortgage, Coastal Community Retirement, Series A, 7.250% due 1/1/35	993,680
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	1,076,120
1,005,000	NR	Walton County, GA IDA Revenue, (Walton Manufacturing Co. Project), 8.500% due 9/1/07	1,043,170
			<hr/>
			8,634,485
			<hr/>
Illinois	1.3%		
2,000,000	AAA	Chicago, IL GO, Neighborhoods Alive 21 Program, FGIC-Insured, 5.500% due 1/1/31 (c)	2,146,460
			<hr/>

See Notes to Financial Statements.

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Municipal High Income Fund Inc.
Schedule of Investments (continued)
October 31, 2004

FACE AMOUNT	RATING (a)	SECURITY	VALUE
<hr/>			
Indiana	2.5%		
\$ 2,500,000	BB-	East Chicago, IN PCR, (Inland Steel Co. Project No. 10), 6.800% due 6/1/13 (c)	\$ 2,528,750
1,000,000	B	Indiana State Development Finance Authority, PCR, (Inland Steel Co. Project No. 13), 7.250% due 11/1/11 (b)	1,046,810
975,000	NR	Indianapolis, IN MFH Revenue, (Lake Nora Fox Club Project), Series B, 7.500% due 10/1/29 (d)	497,279

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			4,072,839
<hr/>			
Louisiana	2.1%		
1,000,000	NR	Epps, LA COP, 8.000% due 6/1/18	1,028,620
2,000,000	NR	Louisiana Local Government Environmental Facilities, Community Development Authority Revenue, St. James Place, Series A, 8.000% due 11/1/25	1,344,080
1,000,000	BB-	Port of New Orleans, LA IDR, (Continental Grain Co. Project), 7.500% due 7/1/13	1,015,360
			<hr/> 3,388,060 <hr/>
Maryland	1.9%		
3,000,000	NR	Maryland State Economic Development Corp. Revenue, Chesapeake Bay, Series A, 7.730% due 12/1/27 (c)	3,144,480
			<hr/>
Massachusetts	3.9%		
		Boston, MA IDA Financing Revenue:	
750,000	NR	Crosstown Center Project, 8.000% due 9/1/35 (b)	756,967
970,000	NR	Roundhouse Hospitality LLC Project, 7.875% due 3/1/25 (b)	974,908
1,000,000	BBB	Caritas Christi Obligation, Series B, 6.750% due 7/1/16	1,132,710
1,000,000	NR	Massachusetts State Development Finance Agency Revenue Briarwood, Series B, (Call 12/1/10 @ 101), 8.250% due 12/1/30 (e)	1,295,420
340,000	AA	Massachusetts State HFA, Single-Family Housing Revenue, Series 38, 7.200% due 12/1/26 (b)	347,143
1,940,000	NR	Massachusetts State Industrial Finance Agency Revenue, Assisted Living Facility, (Marina Bay LLC Project), 7.500% due 12/1/27 (b)(c)	1,968,072
			<hr/> 6,475,220 <hr/>
Michigan	5.8%		
2,130,000	NR	Allen Academy, COP, 7.500% due 6/1/23 (c)	2,092,192
1,000,000	NR	Cesar Chavez Academy, COP, 8.000% due 2/1/33	1,028,650
1,900,000	Ba2*	Garden City, MI Hospital Finance Authority, Hospital Revenue, Garden City Hospital Obligation Group, Series A, 5.625% due 9/1/10	1,856,110
1,000,000	NR	Gaudior Academy, MI COP, 7.250% due 4/1/34	1,005,300
1,750,000	NR	Kalamazoo Advantage Academy, COP, 8.000% due 12/1/33	1,756,178

See Notes to Financial Statements.

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FACE AMOUNT	RATING(a)	SECURITY	VALUE
Michigan 5.8% (continued)			
\$ 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	1,007,170
700,000	NR	William C. Abney Academy, MI COP, 6.750% due 7/1/19	701,400
			<hr/> 9,547,000 <hr/>
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)	827,360
Missouri 0.2%			
250,000	NR	St. Joseph, MO IDA, (Living Community of St. Joseph Project), 7.000% due 8/15/32	260,565
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)(c)	3,311,798
New Jersey 4.0%			
1,000,000	NR	New Jersey EDA, Series A, Retirement Community Revenue, 8.250% due 11/15/30	1,079,480
3,000,000	BBB-	New Jersey Health Care Facilities Financing Authority Revenue, Trinitas Hospital Obligation Group, 7.500% due 7/1/30 (c)	3,383,490
1,000,000	BBB	Tobacco Settlement Financing Corp. Revenue: 6.750% due 6/1/39	981,560
1,215,000	BBB	6.125% due 6/1/42	1,083,221
			<hr/> 6,527,751 <hr/>
New Mexico 1.5%			
		Albuquerque, NM Hospital Revenue, Southwest Community Health Services:	
220,000	AAA	(Call 8/1/08 @ 100), 10.000% due 8/1/12 (e)	268,583
115,000	AAA	(Call 8/1/08 @ 100), 10.125% due 8/1/12 (e)	140,831
1,000,000	NR	Otero County, (Detention Facility Project), COP, 7.500% due 12/1/24	988,680
1,000,000	NR	Sandoval County, NM Project Revenue, (Santa Ana Pueblo Project), 7.750% due 7/1/15	1,031,950
			<hr/> 2,430,044 <hr/>
New York 5.2%			

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700,000	NR	Brookhaven, NY IDA, Civic Facility Revenue, Memorial Hospital Medical Center, Series A, 8.250% due 11/15/30	748,832
2,000,000	AAA	Metropolitan Transportation Authority, NY, Series A, AMBAC-Insured, 5.000% due 7/1/30 (c)	2,060,160

See Notes to Financial Statements.

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Municipal High Income Fund Inc.
Schedule of Investments (continued)
October 31, 2004

FACE AMOUNT	RATING(a)	SECURITY	VALUE
New York 5.2% (continued)			
\$ 1,000,000	NR	Monroe County, NY IDA, Woodland Village Project, 8.550% due 11/15/32	\$ 1,077,120
1,360,000	NR	New York City, NY IDA, Civic Facility Revenue: Community Residence for the Developmentally Disabled, 7.500% due 8/1/26	1,442,022
1,120,000	NR	Special Needs Facility Pooled Program, Series A-1, 8.125% due 7/1/19	1,211,090
1,000,000	AAA	Sales Tax Asset Receivables Corp., NY, Series A, AMBAC-Insured, 5.000% due 10/15/32	1,035,670
980,000	NR	Suffolk County, NY IDA, Civic Facility Revenue, Southampton Hospital Association, Series A, 7.750% due 1/1/22	1,010,860
			<hr/> 8,585,754 <hr/>
North Carolina 1.7%			
1,000,000	NR	Charlotte, NC Special Facilities Revenue, Charlotte/Douglas International Airport, 5.600% due 7/1/27 (b)(d)	439,400
965,000	NR	North Carolina Medical Care Commission, Health Care Facilities Revenue, First Mortgage, (De Paul Community Facilities Project), 7.625% due 11/1/29	997,907
1,000,000	AAA	North Carolina Municipal Power Agency, Catawba Electric Revenue, MBIA-Insured, TICS, 9.607% due 1/1/11 (f)	1,293,790
			<hr/> 2,731,097 <hr/>
Ohio 2.9%			
1,500,000	BBB	Cuyahoga County, OH Hospital Facilities Revenue, (Canton Inc. Project), 7.500% due 1/1/30	1,667,475
		Montgomery County, OH Health Systems Revenue, Series B-1, (Escrowed with state & local government securities to 7/1/06 Call @ 102):	

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1,035,000	AAA	8.100% due 7/1/18	1,155,981
315,000	AAA	Unrefunded Balance, 8.100% due 7/1/18	345,064
1,500,000	BB+	Ohio State Air Quality Development Authority Revenue, Cleveland Pollution Control, Series A, 6.000% due 12/1/13	1,596,150
1,250,000	NR	Ohio State Solid Waste Revenue, Republic Engineered Steels Inc., 9.000% due 6/1/21 (b)(d)(i)	0
			4,764,670

Pennsylvania 5.7%

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
1,500,000	BBB-	Beaver County, PA IDA, PCR: Cleveland Electric Illuminating Co. Project, 7.625% due 5/1/25	1,569,630
2,000,000	BBB-	Toledo Edison Co. Project, 7.625% due 5/1/20 (c)	2,093,140

See Notes to Financial Statements.

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Municipal High Income Fund Inc.
Schedule of Investments (continued)
October 31, 2004

FACE AMOUNT	RATING(a)	SECURITY	VALUE
Pennsylvania 5.7% (continued)			
\$ 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	\$ 1,046,970
2,640,000	NR	Montgomery County, PA Higher Education & Health Authority Revenue, Temple Continuing Care Center, 6.625% due 7/1/19 (d)	422,400
1,000,000	NR	Northumberland County, PA IDA, (NHS Youth Services Inc. Project), Series A, 7.500% due 2/15/29	1,005,520
1,000,000	NR	Philadelphia, PA Authority for IDR, (Host Marriott L.P. Project) Remarketed 10/31/95, 7.750% due 12/1/17	1,018,620
2,000,000	NR	Westmoreland County, PA IDA, Healthcare Facilities, Redstone Highlands Health, Series B, 8.125% due 11/15/30	2,173,600
			9,376,630

Rhode Island 1.4%

2,500,000	NR	Tobacco Settlement Financing Corp. Revenue, RITES,
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8.959% due 6/1/08 (f) 2,268,500

South Carolina 3.1%

		Connector 2000 Association Inc., SC Toll Road Revenue: Capital Appreciation, Series B:	
3,100,000	B-	Zero coupon bond to yield 8.404%, due 1/1/27	448,167
7,750,000	B-	Zero coupon bond to yield 9.535%, due 1/1/34	663,322
2,000,000	B-	Southern Connector Project, Series A, 5.375% due 1/1/38	1,503,220
225,000	NR	Florence County, SC IDR, Stone Container Corp., 7.375% due 2/1/07	227,783
460,000	NR	McCormick County, SC COP, 9.750% due 7/1/09	462,038
2,000,000	NR	Tobacco Settlement Revenue Management Authority, RITES, 10.048% due 11/15/09 (f)	1,806,200
			5,110,730

Tennessee 0.9%

1,915,000	NR	Shelby County, TN Health, Educational & Housing Facilities Board Revenue, MFH, (Hedgerow Apartments Project), 6.875% due 7/1/36	1,436,250
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Texas 9.0%

		Bexar County, TX Housing Financial Corp, MFH:	
980,000	NR	Continental Lady Ester, Series A, 6.875% due 6/1/29	911,312
1,165,000	Ba1*	Nob Hill Apartments, Series B, 8.500% due 6/1/31	1,106,552
235,000	Baa3*	Waters at Northern Hills, Series C, 7.750% due 8/1/36	223,823
1,515,000	Baa2*	El Paso County, TX Housing Financial Corp., MFH, Las Lomas Apartments, Series A, 6.450% due 12/1/19	1,524,802
1,000,000	NR	Grand Prairie, TX Housing Finance Corp., Independent Senior Living Center Revenue, 7.750% due 1/1/34	995,260

See Notes to Financial Statements.

Municipal High Income Fund Inc.
Schedule of Investments (continued)
October 31, 2004

FACE AMOUNT	RATING(a)	SECURITY	VALUE
Texas 9.0% (continued)			
\$ 2,000,000	Ba2*	Gulf Coast, TX IDA, Solid Waste Disposal Revenue, (CITGO Petroleum Corp Project), 7.500% due 5/1/25 (b)(c)	\$ 2,178,680
2,750,000	B-	Houston, TX Airport Systems Revenue, Special Facilities,	

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		(Continental Airlines Inc Project), Series C, 6.125% due 7/15/27 (b)(c)	1,996,362
1,000,000	BB	Port Corpus Christi, TX Industrial Development Corp, (CITGO Petroleum Corp Project), 8.250% due 11/1/31 (b)	1,071,550
970,000	Ba3*	Texas State Affordable Housing Corp, MFH Revenue, HIC Arborstone Baybrook, Series C, 7.250% due 11/1/31	937,748
1,865,000	NR	West Texas Detention Facility Corp Revenue, 8.000% due 2/1/25	1,902,319
1,000,000	NR	Willacy County, TX, (Public Facility Corp Project): Series A-1, 8.250% due 12/1/23	1,027,400
1,000,000	NR	7.500% due 11/1/25	1,006,880
			<hr/>
			14,882,688
			<hr/>
Virginia	4.4%		
510,000	NR	Alexandria, VA Redevelopment & Housing Authority, MFH Revenue, (Parkwood Court Apartments Project), Series C, 8.125% due 4/1/30	512,739
1,000,000	NR	Broad Street Community Development Authority Revenue, 7.500% due 6/1/33	1,008,980
1,000,000	NR	Fairfax County, VA EDA Revenue, Retirement Community, Greenspring Village Inc, Series A, 7.500% due 10/1/29	1,062,500
		Pocahontas Parkway Association, VA Toll Road Revenue, Capital Appreciation, Series B:	
10,000,000	BB	zero coupon bond to yield 7.391% due 8/15/33	1,479,600
23,400,000	BB	zero coupon bond to yield 8.289% due 8/15/34 (c)	3,239,964
			<hr/>
			7,303,783
			<hr/>
Wisconsin	1.0%		
		Wisconsin State Health & Educational Facilities Authority Revenue:	
1,000,000	BBB+	Aurora Health Care, 6.400% due 4/15/33	1,094,050
1,745,000	NR	Benchmark Healthcare of Green Bay Inc Project, Series A, 7.750% due 5/1/27 (d)	575,850
			<hr/>
			1,669,900
			<hr/>
		TOTAL MUNICIPAL BONDS AT VALUE 99.1%	
		(Cost \$171,692,839)	163,168,399
			<hr/>

See Notes to Financial Statements.

Municipal High Income Fund Inc.
Schedule of Investments (continued)
October 31, 2004

SHARES	SECURITY	VALUE
COMMON STOCK 0.0%		
3,180	Mobile Energy Services Co LLC (i)(j)	\$ 3,180
	TOTAL COMMON STOCK AT VALUE 0.0%	
	(Cost \$ 988,235)	3,180
	TOTAL INVESTMENTS AT VALUE 99.1%	
	(Cost \$172,681,074**)	163,171,579
	Other Assets in Excess of Liabilities 0.9%	1,438,484
	TOTAL NET ASSETS 100.0%	\$ 164,610,063

- (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 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) Variable rate obligation payable at par on demand at any time no more than seven days notice.
- (h) Bonds escrowed to maturity with U.S. government securities are considered by the investment advisor to be triple-A rated even if the issuer has not applied for new ratings.
- (i) Security is valued in good faith by or under the direction of the Board of Directors.
- (j) Non-income producing security.
This security has been deemed illiquid.
- ** Aggregate cost for federal income tax purposes is \$172,392,829.

Please see pages 20 through 22 for definitions of ratings and certain abbreviations

See Notes to Financial Statements.

Hospitals	13.7%
Industrial Development	11.1
Lifecare Systems	10.7
Transportation	9.6
Education	9.0
Pollution Control	7.4
Multi-Family Housing	6.5
Tobacco	5.7
Public Facilities	3.5
Cogeneration Facilities	3.3
Other	19.5
	100.0%

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

See Notes to Financial Statements.

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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. |

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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 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.

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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 a 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.

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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. This is the lowest investment grade category assigned by Fitch.
BB	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, CC and C	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.
NR	Indicates that the bond is not rated by Standard & Poor s, Moody s or Fitch.

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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
AIG	American International Guaranty		Authority/Agency
AMBAC	Ambac Assurance Corporation	IDB	Industrial Development Board
BAN	Bond Anticipation Notes	IDR	Industrial Development Revenue
BIG	Bond Investors Guaranty	INFLOS	Inverse Floaters

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CGIC	Capital Guaranty Insurance Company	ISD	Independent School District
CHFCLI	California Health Facility	LOC	Letter of Credit
	Construction Loan Insurance	MBIA	Municipal Bond Investors
CONNIE	College Construction Loan		Assurance Corporation
LEE	Insurance Association	MFH	Multi-Family Housing
COP	Certificate of Participation	MVRICS	Municipal Variable Rate Inverse
EDA	Economic Development Authority		Coupon Security
ETM	Escrowed to Maturity	PCR	Pollution Control Revenue
FGIC	Financial Guaranty Insurance	PSFG	Permanent School Fund
	Company		Guaranty
FHA	Federal Housing Administration	RADIAN	Radian Asset Assurance
FHLMC	Federal Home Loan Mortgage	RAN	Revenue Anticipation Notes
	Corporation	RIBS	Residual Interest Bonds
FLAIRS	Floating Adjustable Interest Rate	RITES	Residual Interest
	Securities		Tax-Exempt Securities
FNMA	Federal National Mortgage	SYCC	Structured Yield Curve
	Association		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	TOB	Tender Option Bonds
	Association	TRAN	Tax and Revenue Anticipation
GO	General Obligation		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
		XLCA	XL Capital Assurance Inc.

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

Municipal High Income Fund Inc.
Statement of Assets and Liabilities
October 31, 2004

ASSETS:

Investments, at value (Cost \$172,681,074)	\$ 163,171,579
Cash	138,817
Interest receivable	3,895,497
Receivable for securities sold	531,465

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Total Assets	167,737,358
LIABILITIES:	
Payable for securities purchased	2,522,824
Payable to broker variation margin	275,000
Dividends payable	155,419
Investment advisory fee payable	55,732
Administration fee payable	27,866
Accrued expenses	90,454
Total Liabilities	3,127,295
Total Net Assets	\$ 164,610,063
NET ASSETS:	
Par value of capital shares (\$0.01 par value, 500,000,000 shares authorized)	\$ 210,022
Capital paid in excess of par value	192,720,183
Undistributed net investment income	132,824
Accumulated net realized loss from investment transactions and futures contracts	(17,224,721)
Net unrealized depreciation of investments and futures contracts	(11,228,245)
Total Net Assets	\$ 164,610,063
Shares Outstanding	21,002,201
Net Asset Value	\$ 7.84

See Notes to Financial Statements.

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Municipal High Income Fund Inc.
Statement of Operations
For the Year Ended October 31, 2004

INVESTMENT INCOME:	
Interest	\$ 12,000,438
EXPENSES:	
Investment advisory fee (Note 2)	660,316
Administration fee (Note 2)	330,158
Audit and legal	98,040

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Directors fees	63,524
Shareholder communications	57,145
Transfer agency services	49,903
Custody	24,256
Stock exchange listing fees	21,431
Other	15,101
Total Expenses	1,319,874
Net Investment Income	10,680,564
REALIZED AND UNREALIZED LOSS ON INVESTMENTS AND FUTURES CONTRACTS (NOTES 1 AND 3):	
Realized Loss From:	
Investment transactions	(6,311,042)
Futures contracts	(3,264,584)
Net Realized Loss	(9,575,626)
Net Decrease in Unrealized Depreciation on Investments and Futures Contracts	8,470,935
Net Loss on Investments and Futures Contracts	(1,104,691)
Increase in Net Assets From Operations	\$ 9,575,873

See Notes to Financial Statements.

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Municipal High Income Fund Inc.
Statements of Changes in Net Assets
For the Years Ended October 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATIONS:		
Net investment income	\$ 10,680,564	\$ 11,870,452
Net realized loss	(9,575,626)	(4,908,356)
Net (increase) decrease in unrealized depreciation	8,470,935	(404,539)
Increase in Net Assets From Operations	9,575,873	6,557,557
DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS:		
From net investment income	(11,184,964)	(11,657,895)

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In excess of net investment income	(112,227)	
Decrease in Net Assets From Dividends to Shareholders	(11,297,191)	(11,657,895)
FUND SHARE TRANSACTIONS (NOTE 4):		
Net asset value of shares issued for reinvestment of dividends and distributions	524,962	398,716
Increase in Net Assets From Fund Share Transactions	524,962	398,716
Decrease in Net Assets	(1,196,356)	(4,701,622)
NET ASSETS:		
Beginning of year	165,806,419	170,508,041
End of year*	\$ 164,610,063	\$ 165,806,419
* Includes undistributed net investment income of:	\$ 132,824	\$ 716,587

See Notes to Financial Statements.

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Municipal High Income Fund Inc.
Financial Highlights

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

	2004	2003	2002	2001	2000
Net Asset Value, Beginning of Year	\$ 7.92	\$ 8.16	\$ 8.67	\$ 8.86	\$ 9.00
Income (Loss) From Operations:					
Net investment income	0.51	0.57	0.58 ⁽¹⁾	0.59	0.60
Net realized and unrealized loss	(0.05)	(0.25)	(0.52) ⁽¹⁾	(0.20)	(0.16)
Total Income From Operations	0.46	0.32	0.06	0.39	0.44
Less Dividends and Distributions:					
From net investment income	(0.53)	(0.56)	(0.57)	(0.58)	(0.58)

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In excess of net investment income	(0.01)				
Total Dividends	(0.54)	(0.56)	(0.57)	(0.58)	(0.58)
Net Asset Value, End of Year	\$ 7.84	\$ 7.92	\$ 8.16	\$ 8.67	\$ 8.86
Total Return, Based on Market Price	3.76%	7.17%	(4.70)%	13.85%	9.39%
Total Return, Based on Net Asset Value	6.32%	4.42%	0.91%	4.77%	5.97%
Net Assets, End of Year (millions)	\$ 165	\$ 166	\$ 171	\$ 180	\$ 181
Ratios to Average Net Assets:					
Expenses	0.80%				