

MUNICIPAL HIGH INCOME FUND INC
Form N-30B-2
September 27, 2002

[CLIP ART]

[CLIP ART]

Municipal
High Income
Fund Inc.

Quarterly
Report

[CLIP ART]

July 31,
2002

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

Municipal High Income Fund Inc.

Dear Shareholder:

Enclosed herein is the quarterly report for the Municipal High Income Fund Inc. ("Fund") for the nine months ended July 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 useful and informative.

Performance Update

During the nine months ended July 31, 2002, the Fund distributed income dividends to shareholders totaling \$0.43 per share. The table below details the annualized distribution rate and the nine-month total return for the Fund based on its July 31, 2002 net asset value ("NAV") per share and the New York Stock Exchange ("NYSE") closing price.(1)

Price Per Share	Annualized Distribution Rate(2)	Nine-Month Total Return(2)
-----	-----	-----
\$8.44 (NAV)	6.61%	2.59%
\$8.16 (NYSE)	6.84%	(0.47)%

-
- (1) The 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 results (total net assets) by the total number of shares outstanding. The NAV fluctuates with changes in the value of the securities in which the Fund has invested. However, the price at which the investor may buy or sell shares of the Fund is at their market (NYSE) price as determined by supply and demand.
 - (2) 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 rate is the Fund's current monthly income dividend rate,

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

annualized, and then divided by the NAV or the market price noted in this report. The annualized distribution rate assumes a current monthly income dividend rate of \$0.0465 for 12 months. This rate is as of July 31, 2002 and is subject to change. The important difference between a total return and an annualized distribution rate 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 Fund. Accordingly, since an annualized distribution rate 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. Past performance is not indicative of future results.

1

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

During the nine months ended July 31, 2002, the Fund generated a total return based on NAV of 2.59%. In comparison, the Fund's Lipper Inc. ("Lipper") peer group of high-yield municipal debt closed-end funds returned 2.94% based on NAV for the same period.(3)

Investment Strategy

The Fund seeks to maximize current income exempt from federal income tax(4) by investing, under normal market conditions, at least 80% of the value of its net assets, plus any borrowings for investment purposes, in intermediate-term and long-term municipal securities.(5)

Economic and Market Overview

The U.S. campaign against terrorism, mixed economic signals as well as a multitude of high profile U.S. corporate scandals resulted in heightened investor apprehension and extended stock market volatility. As a result, the U.S. Treasury market directly benefited from this volatility as investors sought a "safe haven." Municipal bond prices also fared well in this environment. However, total returns for municipal bonds lagged U.S. Treasuries during the second half of 2001 as a heavy calendar of tax-exempt new issues prevented municipal prices from keeping pace with their taxable counterparts. State and local governments combined to issue large amounts of municipal debt to fund new projects and refinance outstanding issues during the period.

Total returns in the high yield segment of the municipal market were also significantly below those on better quality paper as the "flight to quality" placed a great deal of emphasis on high grade debt with shorter maturities. This trend caused the yield curve(6) to steepen (yields on short-term paper declined far more dramatically than yields on long-term bonds) and credit quality spreads (the difference in yield between higher quality and lower quality bonds) to widen. One part of the market that was particularly hard hit, as a direct result of the September 11th terrorist attacks was special airport facilities financings for airlines. However, our expectation of a

-
- (3) Source: Lipper Inc. Average annual total returns are based on nine-month period as of July 31, 2002, calculated among 12 funds in the closed-end high-yield municipal debt fund category, as defined by Lipper Inc., with reinvestment of dividends and capital gains, excluding sales charges.
 - (4) Certain investors may be subject to the Federal Alternative Minimum Tax ("AMT"), and state and local taxes may apply. Capital gains, if any, are

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

fully taxable.

- (5) The Fund's investments are subject to interest rate and credit risks. Portfolio holdings may include lower-quality securities that present greater risk of loss of principal and interest than higher-rated securities. Investments in high-yield securities commonly known as "junk bonds" involve a greater risk of loss than an investment in investment-grade securities and are considered speculative.
- (6) The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credits quality but different maturities.

2

=====

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

gradually improving economy may alleviate credit quality concerns, which we anticipate may enhance the relative performance prospects of high yield municipals.

The new calendar year commenced with a decline in short-term rates due to seasonal technical factors arising from the "January effect." The January effect describes a temporary increase in the demand for money-market instruments caused by an influx of cash from maturing bonds and coupon interest chasing a dearth of supply.

A significant rise in yields occurred during March, as a shift in monetary-policy sentiment coupled with positive economic data roiled the money markets. However at the conclusion of the March, May and June Federal Open Market Committee ("FOMC") (7) meetings, the U.S. Federal Reserve Board ("Fed") held the federal funds rate ("fed funds rate") (8) steady. As the bond market continued its rise, tax-free instruments continued to look attractive.

Treasury yields were lower at the end of the reporting period than they were at the end of the first quarter due to continued weakness in the U.S. equities market as well as geopolitical concerns. The equities market stabilized during the first quarter of 2002 as the result of positive growth in Gross Domestic Product ("GDP"), (9) but subsequently suffered through one of the worst quarters in recent history during the second quarter. The U.S. Treasury market continued to experience large inflows as a result of equity market uncertainty.

Market and Economic Outlook

Although the economy may struggle for another quarter or so, we believe it is on the road to recovery and should gain momentum by late 2002. We also expect inflation to remain subdued. Therefore, we believe the FOMC will not raise the fed funds rate through the end of the calendar year. While we have some concerns about an improving economy putting pressure on bonds, we anticipate that fixed income markets should perform well as long as geopolitical risk is high and corporate malaise continues.

We feel one obstacle to this recovery could be lingering skepticism among some investors about truthfulness in corporate accounting practices. However, we also feel corporate profits could improve enough by late 2002 and early 2003 to exceed investor expectations.

- (7) The FOMC is a policy-making body of the Federal Reserve System 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.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

- (8) 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 loans. The fed funds rate often points to the direction of U.S. interest rates.
- (9) GDP is a market value of goods and services produced by labor and property in a given country.

=====

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

Municipal-bond market pundits are predicting a record year for new-issue financing, as state and local governments are expected to take advantage of a renewed low interest-rate environment. This large amount of supply may keep price levels low, a point which could help municipal bonds offer competitive returns versus many other securities in the fixed-income market.

We continue to pay close attention to credit quality, as many states and municipalities face future budget challenges caused by a depressed stock market and shrinking tax revenues. In our opinion this weaker revenue picture may have credit rating implications for many states, especially states that rely heavily on capital gains taxes as a source of income.

In closing, thank you for investing in the Municipal High Income Fund Inc. We look forward to continuing to help you meet your investment objectives.

Sincerely,

/s/ Heath B. McLendon

/s/ Peter M. Coffey

Heath B. McLendon
Chairman

Peter M. Coffey
Vice President and
Investment Officer

August 27, 2002

The information provided in this letter represents the opinion of the manager and is not intended to be a forecast of future events, a guarantee of future results nor investment advice. Further, there is no assurance that certain securities will remain in or out of the Fund. Please refer to pages 6 through 14 for a list and percentage breakdown of the Fund's holdings. Also, please note any discussion of the Fund's holdings is as of July 31, 2002 and is subject to change.

=====

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

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

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

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 27. 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, or if the Fund declares a dividend or capital gains distribution payable only in cash, 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 (800) 331-1710.

[CLIP ART]

Municipal High Income Fund Inc.
Schedule of Investments (unaudited)
July 31, 2002

FACE AMOUNT	RATING (a)	SECURITY	VALUE
Alabama -- 4.0%			
\$ 4,000,000	BBB-	Butler, AL IDB, Solid Waste Disposal Revenue, (James River Corp. Project), 8.000% due 9/1/28 (b)	\$ 4,190,680
615,000	NR	Capstone Improvement District of Brookwood, AL, Series A, 7.700% due 8/15/23	586,163
1,000,000	CCC	Mobile, AL IDB, Solid Waste Disposal Revenue, (Mobile Energy Services Co. Project), 6.950% due 1/1/20 (c)	10,000

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

1,000,000	NR	Rainbow City, AL Special Health Care Facility Financing Authority, Series A, 8.250% due 1/1/31	1,026,540
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	1,227,520
			----- 7,040,903 -----
Alaska -- 0.6%			
1,055,000	NR	Alaska Industrial Development & Export Authority Revenue, Williams Lynxs Alaska Cargoport, 8.125% due 5/1/31 (b)	1,105,672

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	1,578,360
1,750,000	CCC	Gila County, AZ IDA Revenue, ASARCO Inc., 5.550% due 1/1/27	437,500
		Maricopa, AZ IDA, MFH Revenue:	
490,000	NR	Avalon Apartments Project, Series C, 10.000% due 4/1/30 ...	489,990
1,000,000	NR	Gran Victoria Housing LLC Project, Series B, 10.000% due 5/1/31	1,040,370
1,830,000	NR	Phoenix, AZ IDA, MFH Revenue, (Ventana Palms Apartments Project), Series B, 8.000% due 10/1/34	1,855,712
			----- 5,401,932 -----
California -- 2.0%			
1,500,000	NR	Barona, CA Band of Mission Indians, GO, 8.250% due 12/1/20 ..	1,604,985
1,865,000	Ba3*	Vallejo, CA COP, Touro University, 7.375% due 6/1/29	1,917,108
			----- 3,522,093 -----
Colorado -- 0.6%			
1,000,000	NR	Highline Business Improvement District, Littleton CO, GO, Series B, 8.750% due 12/15/19	1,066,460

Connecticut -- 1.9%			
		Connecticut State Development Authority:	
1,735,000	NR	Aquarium Project Revenue, (Mystic Marinelifelife Aquarium Project), Series A, 7.000% due 12/1/27	1,766,924

See Notes to Financial Statements.

6

[CLIP ART]

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

=====

FACE			
AMOUNT	RATING (a)	SECURITY	VALUE

=====

Connecticut -- 1.9% (continued)
\$ 1,435,000 NR Health Care Revenue, (Independent Living Project),

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

		(Pre-Refunded -- Escrowed with state & local government securities to 7/1/03 Call @ 102), Series B, 8.000% due 7/1/17	\$ 1,539,425

			3,306,349

Delaware -- 0.5%			
1,000,000	NR	Sussex County, DE Assisted Living Facilities Revenue, (Heritage at Milford Project), 7.250% due 7/1/29	851,880

District of Columbia -- 0.6%			
1,000,000	AA	District of Columbia, Tobacco Settlement Financing Corp., Asset-Backed Bonds, 6.750% due 5/15/40	1,019,200

Florida -- 7.6%			
		Capital Projects Finance Authority, FL:	
2,000,000	NR	Continuing Care Retirement, Glenridge on Palmer Ranch, Series A, 8.000% due 6/1/32	1,994,000
2,000,000	NR	Student Housing Revenue, Florida University, Series A, 7.850% due 8/15/31	2,045,800
1,000,000	NR	Century Parc Community Development District, FL Special Assessment, 7.000% due 11/1/31	1,012,770
2,750,000	NR	Hillsborough County, FL IDA Revenue, (Lakeshore Villas Project), Series A, 6.750% due 7/1/29	2,293,748
875,000	NR	Homestead, FL IDR, Community Rehabilitation Providers Program, Series A, 7.950% due 11/1/18	907,419
2,000,000	BBB++	Martin County, FL IDA, IDR, (Indiantown Cogeneration Project), Series A, 7.875% due 12/15/25 (b)	2,068,320
1,000,000	NR	Orange County, FL Health Facilities Authority Revenue, First Mortgage, (GF/Orlando Inc. Project), 9.000% due 7/1/31	1,023,540
2,000,000	NR	Reunion East Community Development District, FL Special Assessment, Series A, 7.375% due 5/1/33	1,999,660

			13,345,257

Georgia -- 4.9%			
		Atlanta, GA:	
1,000,000	AAA	Airport Revenue, Series B, 5.625% due 1/1/30 (b)	1,030,500
2,500,000	NR	Tax Allocation, (Atlantic Station Project), 7.900% due 12/1/24	2,507,725
1,000,000	NR	Urban Residential Finance Authority, MFH Revenue, Park Place Apartments, Series A, 6.750% due 3/1/31	950,450
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 (c)	440,000

See Notes to Financial Statements.

[CLIP ART]

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

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

AMOUNT	RATING (a)	SECURITY	VALUE
Georgia -- 4.9% (continued)			
\$ 500,000	NR	Fulton County, GA Residential Care Facilities, Senior Lien, Series A, 7.000% due 7/1/29	\$ 452,115
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	1,019,430
1,435,000	NR	Savannah, GA EDA Revenue, Marshview Inn, Series A, 7.125% due 7/1/29	1,007,198
1,000,000	NR	Walton County, GA IDA, IDR, (Walton Manufacturing Co. Project), 8.500% due 9/1/07	1,090,570
			8,497,988
Illinois -- 2.1%			
2,000,000	AAA	Chicago, IL GO, Neighborhoods Alive 21 Program, FGIC-Insured, 5.500% due 1/1/31	2,065,080
2,500,000	AAA	Illinois Sports Facilities Authority Revenue, 5.539% due 6/15/30	1,638,175
			3,703,255
Indiana -- 1.6%			
2,500,000	B-	East Chicago, IN PCR, (Inland Steel Co. Project No. 10) 6.800% due 6/1/13	1,500,000
1,000,000	CCC	Indiana State Development Finance Authority, PCR, (Inland Steel Co. Project No. 13), 7.250% due 11/1/11 (b)	380,000
975,000	NR	Indianapolis, IN MFH Revenue, (Lake Nora Fox Club Project), Series B, 7.500% due 10/1/29	956,036
			2,836,036
Kentucky -- 0.8%			
1,500,000	BB	Kenton County, KY Airport Board Revenue, (Delta Airlines Project), Series A, 7.500% due 2/1/20 (b)	1,377,375
Louisiana -- 6.2%			
1,200,000	A3*	Lake Charles, LA Harbor & Terminal District, Port Facilities Revenue, (Trunkline LNG Co. Project), 7.750% due 8/15/22 ..	1,244,220
2,000,000	NR	Louisiana Local Government Environmental Facilities, Community Development Authority Revenue, St. James Place, Series A, 8.000% due 11/1/25	2,083,000
3,000,000	NR	Louisiana Public Facilities Authority Hospital Revenue, (Lake Charles Memorial Hospital Project), 8.625% due 12/1/30	2,697,450
		Port of New Orleans, LA IDR: Avondale Industries, Inc. Project:	
645,000	NR	8.250% due 6/1/04	677,901
2,845,000	NR	8.500% due 6/1/14	3,059,769
1,000,000	BB-	Continental Grain Co. Project, 7.500% due 7/1/13	1,034,240
			10,796,580

See Notes to Financial Statements.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

[CLIP ART]

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

FACE AMOUNT	RATING (a)	SECURITY	VALUE
Maine -- 0.0%			
\$ 15,000	AA+	Maine State Housing Authority, Mortgage Purchase Revenue, Series C-2, 7.000% due 11/15/32 (b)	\$ 15,648
Maryland -- 1.7%			
3,000,000	NR	Maryland State Economic Development Corp. Revenue, Chesapeake Bay, Series A, 7.730% due 12/1/27	3,013,320
Massachusetts -- 5.4%			
970,000	NR	Boston, MA IDA Financing Revenue, (Roundhouse Hospitality LLC Project), 7.875% due 3/1/25 (b)	976,053
1,000,000	NR	Massachusetts State Development Finance Agency Revenue: Alliance Health Care Facility, Series A, 7.100% due 7/1/32	1,005,790
1,000,000	NR	Briarwood, Series B, 8.250% due 12/1/30	1,044,750
1,000,000	AAA	Massachusetts State Health & Education Facilities Authority Revenue: Beth Israel Deaconess Medical Center, Series G-4, AMBAC-Insured, Variable Rate INFLOS, 10.977% due 7/1/25 (d)	1,043,020
1,000,000	BBB	Caritas Christi Obligation, Series B, 6.750% due 7/1/16	1,083,490
1,060,000	Ba2*	Saint Memorial Medical Center, Series A, 6.000% due 10/1/23	959,989
1,145,000	AA	Massachusetts State HFA, Single-Family Housing Revenue, Series 38, 7.200% due 12/1/26 (b)	1,197,063
2,000,000	NR	Massachusetts State Industrial Finance Agency Revenue, Assisted Living Facility, (Marina Bay LLC Project), 7.500% due 12/1/27 (b)	2,054,380
			9,364,535
Michigan -- 1.9%			
2,000,000	B1*	Garden City, MI Hospital Finance Authority, Hospital Revenue, Garden City Hospital Obligation Group, Series A: 5.625% due 9/1/10	1,648,420
1,000,000	B1*	5.750% due 9/1/17	718,370
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)	1,000,000
			3,366,790
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)	895,990

See Notes to Financial Statements.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

[CLIP ART]

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

=====

FACE AMOUNT	RATING (a)	SECURITY	VALUE
Minnesota -- 2.5% (continued)			
\$ 2,000,000	NR	Sartell, MN Health Care & Housing Facilities Revenue, (Foundation for Healthcare Project), Series A, 6.500% due 9/1/16	\$ 1,892,460
1,935,000	Ba2*	St. Paul, MN Housing & Redevelopment Authority Hospital Revenue, (Healtheast Project), Series A, 6.625% due 11/1/17	1,635,152

			4,423,602
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)	4,178,928

New Jersey -- 5.7%			
3,000,000	B1*	Camden County, NJ Improvement Authority Revenue, (Health Care Redevelopment Project - Cooper Health System), 5.875% due 2/15/15	2,355,000
1,000,000	NR	New Jersey EDA, Series A: Healthcare Facility Revenue, (Sayreville Senior Living Project), 6.375% due 4/1/29	420,000
850,000	NR	Presbyterian Home at Montgomery Inc., First Mortgage, Series A, 6.375% due 11/1/31	856,562
1,000,000	NR	Retirement Community Revenue, 8.250% due 11/15/30	1,081,710
2,000,000	NR	New Jersey Health Care Facilities Financing Authority Revenue: Raritan Bay Medical Center, 7.250% due 7/1/27	2,028,880
3,000,000	BBB-	Trinitas Hospital Obligation Group, 7.500% due 7/1/30	3,286,650

			10,028,802
New Mexico -- 0.2%			
300,000	AAA	New Mexico Mortgage Finance Authority, Single-Family Mortgage Program, Series B, FHA-Insured, 8.300% due 3/1/20 (b)	310,890

New York -- 5.1%			
700,000	NR	Brookhaven, NY IDA, Civic Facility Revenue, Memorial Hospital Medical Center, Series A, 8.250% due 11/15/30	744,065
1,900,000	NR	Monroe County, NY IDA: Empire Sports Project, Series A, 6.250% due 3/1/28	1,147,885
1,000,000	NR	Woodland Village Project, 8.550% due 11/15/32	1,057,960
1,380,000	NR	New York City, NY IDA, Civic Facility Revenue: Community Residence for the Developmentally Disabled, 7.500% due 8/1/26	1,443,922
1,335,000	NR	Special Needs Facility Pooled Program, Series A-1,	

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

8.125% due 7/1/19 1,425,153

See Notes to Financial Statements.

10

[CLIP ART] Municipal High Income Fund Inc.
Schedule of Investments (unaudited) (continued)
July 31, 2002

FACE AMOUNT	RATING (a)	SECURITY	VALUE
New York -- 5.1% (continued)			
		Suffolk County, NY IDA Civic Facility Revenue, Southampton Hospital Association:	
\$ 1,000,000	NR	Series A, 7.250% due 1/1/20	\$ 1,004,630
1,000,000	NR	Series A, 7.750% due 1/1/22	994,930
1,000,000	NR	Series B, 7.625% due 1/1/30	1,023,100

			8,841,645
North Carolina -- 1.5%			
1,000,000	NR	Charlotte, NC Special Facilities Revenue, Charlotte/Douglas International Airport, 5.600% due 7/1/27 (b)	482,520
		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	1,103,860
1,000,000	NR	7.625% due 11/1/29	1,019,380

			2,605,760
Ohio -- 3.1%			
1,500,000	BBB	Cuyahoga County, OH Hospital Facilities Revenue, (Canton Inc. Project), 7.500% due 1/1/30	1,633,470
		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	1,259,015
420,000	AAA	Un-Refunded, 8.100% due 7/1/18	488,813
2,000,000	BBB-	Ohio State Air Quality Development Authority, Revenue Refunding, Cleveland Pollution Control, Series A, 6.000% due 12/1/13	2,025,780
1,250,000	NR	Ohio State Solid Waste Revenue, Republic Engineered Steels Inc., 9.000% due 6/1/21 (b) (c)	15,625

			5,422,703
Oklahoma -- 0.9%			
2,000,000	B2*	Oklahoma Development Finance Authority Revenue, Hillcrest Healthcare System, Series A, 5.625% due 8/15/29	1,477,460

Pennsylvania -- 13.2%			
2,200,000	CCC+	Allegheny County, PA IDA, Airport Special Facilities	

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

		Revenue, (USAir Inc. Project), Series B, 8.500% due 3/1/21 (b)	1,199,176
		Beaver County, PA IDA, PCR:	
1,500,000	BBB	Cleveland Electric Illuminating Co. Project, 7.625% due 5/1/25	1,613,640
2,000,000	BBB	Toledo Edison Co. Project, 7.625% due 5/1/20	2,151,520
3,000,000	NR	Dauphin County, PA General Authority Revenue, Hotel & Conference Center-Hyatt Regency, 6.200% due 1/1/29	2,669,970

See Notes to Financial Statements.

[CLIP ART]

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

FACE AMOUNT	RATING (a)	SECURITY	VALUE

Pennsylvania -- 13.2% (continued)			
\$ 1,400,000	A-1+	Geisinger Authority, PA, Health System Revenue, 1.100% due 8/1/28 (e)	\$ 1,400,000
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)	2,572,575
2,640,000	NR	Montgomery County, PA Higher Education & Health Authority Revenue, Temple Continuing Care Center, 6.625% due 7/1/19	2,406,360
135,000	NR	Northumberland County, PA IDA, IDR, (Beverly Enterprises Inc. Project), 6.875% due 2/1/03	136,374
1,000,000	NR	Philadelphia, PA Authority for IDR, (Host Marriott L.P. Project), Remarketed 10/31/95, 7.750% due 12/1/17	1,040,130
500,000	BB+++	Scranton-Lackawanna, PA Health & Welfare Authority Revenue: Allied Services Rehab Hospitals Project, Series A, 7.600% due 7/15/20	506,050
1,240,000	BBB-	Moses Taylor Hospital Project: 6.150% due 7/1/14	1,141,618
3,050,000	BBB-	6.250% due 7/1/20	2,666,585
1,500,000	NR	Waterlefe Community Development District, FL Golf Course Revenue, 8.125% due 10/1/25	1,530,180
2,000,000	NR	Westmoreland County, PA IDA, Healthcare Facilities, Redstone Highlands Health, Series B, 8.125% due 11/15/30 ..	2,090,340

			23,124,518

South Carolina -- 3.4%			
		Connector 2000 Association Inc., SC Toll Road Revenue: Capital Appreciation, Series B:	
3,100,000	BBB-	Zero coupon bond to yield 9.124% due 1/1/27	346,766
7,750,000	BBB-	Zero coupon bond to yield 10.659% due 1/1/34	462,520
2,000,000	BBB-	Southern Connector Project, Series A, 5.375% due 1/1/38 ...	1,396,500
435,000	NR	Florence County, SC IDR, Stone Container Corp., 7.375% due 2/1/07	441,073
595,000	NR	McCormick County, SC COP, 9.750% due 7/1/09	598,796

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

2,650,000	NR	Tobacco Settlement Revenue Management Authority, SC, Variable Rate INFLOS, 10.293% due 5/15/28 (d)	2,637,386

			5,883,041

South Dakota -- 0.9%			
1,575,000	NR	Oglala Sioux Tribe, SD Pine Ridge County, Revenue Bonds, 7.500% due 7/1/13	1,580,749

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	1,850,330

See Notes to Financial Statements.

[CLIP ART] Municipal High Income Fund Inc.
Schedule of Investments (unaudited) (continued)
July 31, 2002

FACE AMOUNT	RATING (a)	SECURITY	VALUE
=====			
Texas -- 7.4%			
		Bexar County, TX Housing Financial Corp, MFH:	
\$ 1,000,000	NR	Continental Lady Ester, Series A, 6.875% due 6/1/29	\$ 968,400
1,185,000	Baa3*	Nob Hill Apartments, Series B, 8.500% due 6/1/31	1,180,947
250,000	Baa3*	Waters at Northern Hills, Series C, 7.750% due 8/1/36	247,337
2,000,000	Ba2*	El Paso, TX International Airport Revenue, Special Facilities, (Marriott Corp. Project), 7.750% due 3/1/12 ...	2,033,960
2,750,000	B+	Houston, TX Airport Systems Revenue, Special Facilities, Continental Airlines Inc., Series C, 6.125% due 7/15/27 (b)	2,100,670
		Houston, TX Hotel Occupancy, Tax & Special Revenue, Capital Appreciation, Series B, AMBAC-Insured:	
3,000,000	AAA	Zero coupon bond to yield 5.515% due 9/1/32	555,090
1,000,000	AAA	Zero coupon bond to yield 5.516% due 9/1/33	174,940
2,710,000	AAA	Houston, TX Water and Sewer System Revenue, Capital Appreciation, Jr. Lien, Series A, zero coupon bond to yield 5.560% due 12/1/23	839,910
1,000,000	CCC++	Northgate Crossing, TX, Municipal Utility, District No. 1, GO, 8.875% due 12/1/13	1,037,770
1,405,000	BBB-	Sam Rayburn, TX Municipal Power Agency, Series A, 6.750% due 10/1/14	1,444,747
995,000	Baa3*	Texas State Affordable Housing Corp. MFH Revenue, HIC Arborstone/Baybrook, Series C, 7.250% due 11/1/31	958,464
1,405,000	A3*	Travis County, TX Housing Finance Authority, MFH Revenue, (Lakeview Apartments Project), Series A, 6.375% due 1/1/34	1,416,788

			12,959,023

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

Utah -- 1.8%			
1,615,000	NR	Hurricane, UT Health Facilities Development Revenue, (Mission Health Services Project), 10.500% due 7/1/20	1,130,500
2,000,000	NR	Utah State HFA Revenue, (RHA Community Services of Utah Inc. Project), Series A, 6.875% due 7/1/27	1,963,620

			3,094,120

Virginia -- 1.8%			
590,000	NR	Alexandria, VA Redevelopment & Housing Authority, MFH Revenue, (Parkwood Court Apartments Project) Series C, 8.125% due 4/1/30	606,549
1,000,000	NR	Fairfax County, VA EDA Revenue, Retirement Community, Greenspring Village Inc., Series A, 7.500% due 10/1/29	1,090,660
23,400,000	BBB-	Pocahontas Parkway Association, VA Toll Road Revenue, Capital Appreciation, Series B, zero coupon bond to yield 8.822% due 8/15/34	1,469,988

			3,167,197

See Notes to Financial Statements.

13

[CLIP ART] Municipal High Income Fund Inc.
Schedule of Investments (unaudited) (continued)
July 31, 2002

FACE AMOUNT	RATING (a)	SECURITY	VALUE
=====			
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 ..	\$ 983,550

Wisconsin -- 2.9%			
2,000,000	A1*	Badger Tobacco Asset Securitization Corp., WI: Asset-Backed Bonds, 6.375% due 6/1/32.	1,961,860
2,000,000	NR	Rite-PA 1046, Variable Rate INFLOS, 9.523% due 12/1/06 (d)	1,932,280
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	1,150,500

			5,044,640

TOTAL INVESTMENTS -- 100%			
(Cost -- \$188,062,834**)			\$174,608,231
			=====

(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

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

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 calculating the alternative minimum tax.
 - (c) Security is currently in default.
 - (d) Inverse floating rate security-coupon varies inversely with level of short-term tax exempt interest rates.
 - (e) Variable rate obligation payable at par on demand at any time on no more than seven days notice.
- ** Aggregate cost for Federal income tax purposes is substantially the same.

See pages 16 through 18 for definitions of ratings and certain security descriptions.

See Notes to Financial Statements.

14

[CLIP ART]

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

Moody's	and/or	Standard & Poor's	Percent of Total Investments
Aaa		AAA	6.1%
Aa		AA	1.3
A		A	4.1
Baa		BBB	16.8*
Ba		BB	5.4**
B		B	5.6
Caa		CCC	1.8***
VMIG1		A-1	0.8
NR		NR	58.1

			100.0%
			=====

- * 0.7% was rated by Fitch IBCA, Duff & Phelps.
- ** 0.5% was rated by Fitch IBCA, Duff & Phelps.
- *** 0.3% was rated by Fitch IBCA, Duff & Phelps.

15

[CLIP ART]

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 "CC" may be modified by the addition of a plus (+) or a minus (-) sign to show relative standings within the major rating categories.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

- 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 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 "Ca," 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.

16

[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

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

- bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.
- Ba -- Bonds rated "Ba" are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.
 - B -- Bonds rated "B" generally lack characteristics of desirable investments. Assurance of interest and principal payments or of maintenance of other terms of the contract over many long period of time may be small.
 - Caa -- Bonds 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 "C" may be modified by the addition of a plus (+) sign or minus (-) 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-30B-2

```

=====
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-30B-2

18

[CLIP ART] Municipal High Income Fund Inc.
Statement of Assets and Liabilities (unaudited)
July 31, 2002

=====	
ASSETS:	
Investments, at value (Cost -- \$188,062,834)	\$ 174,608,231
Interest receivable	2,644,089
Receivable for securities sold	1,877,647

Total Assets	179,129,967

LIABILITIES:	
Payable for securities purchased	2,002,868
Payable to bank	703,640
Dividends payable	159,111
Investment advisory fee payable	67,226
Administration fee payable	33,352
Accrued expenses	101,052

Total Liabilities	3,067,249

Total Net Assets	\$ 176,062,718
	=====
NET ASSETS:	
Par value of capital shares	\$ 208,582
Capital paid in excess of par value	193,377,737
Undistributed net investment income	486,911
Accumulated net realized loss from security transactions ..	(4,555,909)
Net unrealized depreciation of investments	(13,454,603)

Total Net Assets	\$ 176,062,718
	=====
Shares Outstanding	20,858,205

Net Asset Value	\$ 8.44

See Notes to Financial Statements.

19

[CLIP ART] Municipal High Income Fund Inc.
Statement of Operations (unaudited)
For the Nine Months Ended July 31, 2002

=====	
INVESTMENT INCOME:	
Interest	\$ 10,105,551

EXPENSES:	
Investment advisory fee (Note 3)	525,237
Administration fee (Note 3)	262,618
Shareholder communications	136,773

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

Audit and legal	37,947
Shareholder and system servicing fees	35,570
Directors' fees	26,754
Pricing service fees	12,285
Custody	6,552
Other	6,741

Total Expenses	1,050,477

Net Investment Income	9,055,074

REALIZED AND UNREALIZED GAIN (LOSS) ON	
INVESTMENTS (NOTE 4):	
Realized Loss From Security Transactions	
(excluding short-term securities):	
Proceeds from sales	49,204,453
Cost of securities sold	49,420,725

Net Realized Loss	(216,272)

Increase in Net Unrealized Depreciation (Note 1)	(4,593,177)

Net Loss on Investments	(4,809,449)

Increase in Net Assets From Operations	\$ 4,245,625
	=====

See Notes to Financial Statements.

20

[CLIP ART]

Municipal High Income Fund Inc.
Statements of Changes in Net Assets
For the Nine Months Ended July 31, 2002 (unaudited)
and the Year Ended October 31, 2001

	2002	2001
	----	----
Operations:		
Net investment income	\$ 9,055,074	\$ 12,153,225
Net realized loss	(216,272)	(733,106)
Increase in net unrealized depreciation	(4,593,177)	(3,386,185)
	-----	-----
Increase in Net Assets		
From Operations	4,245,625	8,033,934
	-----	-----
DISTRIBUTIONS TO SHAREHOLDERS		
FROM (NOTE 2):		
Net investment income	(8,991,607)	(11,958,713)
	-----	-----
Decrease in Net Assets From		
Distributions to Shareholders	(8,991,607)	(11,958,713)
	-----	-----

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

FUND SHARE TRANSACTIONS (NOTE 6):

Net asset value of shares issued for reinvestment of dividends	1,241,152	2,166,492
	-----	-----
Increase in Net Assets From Fund Share Transactions	1,241,152	2,166,492
	-----	-----
Decrease in Net Assets	(3,504,830)	(1,758,287)
 NET ASSETS:		
Beginning of period	179,567,548	181,325,835
	-----	-----
End of period*	\$ 176,062,718	\$ 179,567,548
	=====	=====
 * Includes undistributed net investment income of ...	 \$ 486,911	 \$ 298,182
	=====	=====

See Notes to Financial Statements.

21

[CLIP ART]

Municipal High Income Fund Inc.
Notes to Financial Statements (unaudited)

1. Significant Accounting Policies

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

The 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; 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.

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 revised version is effective for financial

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

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 statement of operations. For the nine months ended July 31, 2002, interest income increased by \$56,335, net realized loss increased by \$6,257 and the change in net unrealized depreciation of investments increased by \$50,078. 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.

22

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

=====

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. ("SSBH"), 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 two Directors of the Fund are employees of Citigroup or its affiliates.

4. Investments

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

Purchases	\$50,117,112 =====
Sales	\$49,204,453 =====

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

Gross unrealized appreciation	\$ 4,708,071
Gross unrealized depreciation	(18,162,674)

Net unrealized depreciation	\$(13,454,603)

=====

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

=====

5. Capital Loss Carryforwards

At October 31, 2001, the Fund had, for Federal income tax purposes, approximately \$4,340,000 of capital loss carryforwards available to offset future capital gains. To the extent that these capital loss carryforwards are used to offset capital gains, it is probable that the gains so offset will not be distributed. The amount and expiration of the carryforwards are indicated below. Expiration occurs on October 31 of the year indicated:

	2002	2003	2004	2005	2007	2008	2009
	-----	-----	-----	-----	-----	-----	-----
Carryforward amounts	\$1,198,000	\$270,000	\$205,000	\$400,000	\$786,000	\$748,000	\$730,000

6. Capital Shares

At July 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:

	Nine Months Ended July 31, 2002		Year Ended October 31, 2001	
	Shares	Amount	Shares	Amount
	-----	-----	-----	-----
Shares issued on reinvestment	150,097	\$1,241,152	235,025	\$2,166,492
	=====	=====	=====	=====

[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:

	2002 (1)	2001	2000	1999	1998
	-----	-----	-----	-----	-----
Net Asset Value, Beginning of Period	\$ 8.67	\$ 8.86	\$ 9.00	\$ 9.77	\$ 9.77
	-----	-----	-----	-----	-----
Income (Loss) From Operations:					

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

Net investment income(2)	0.44	0.59	0.60	0.58	0.6
Net realized and unrealized gain (loss)(2)	(0.24)	(0.20)	(0.16)	(0.76)	0.0
	-----	-----	-----	-----	-----
Total Income (Loss) From Operations	0.20	0.39	0.44	(0.18)	0.6
	-----	-----	-----	-----	-----
Less Distributions From:					
Net investment income	(0.43)	(0.58)	(0.58)	(0.59)	(0.6
In excess of net investment income	--	--	--	--	(0.0
Total Distributions	(0.43)	(0.58)	(0.58)	(0.59)	(0.6
	-----	-----	-----	-----	-----
Net Asset Value, End of Period	\$ 8.44	\$ 8.67	\$ 8.86	\$ 9.00	\$ 9.7
	=====	=====	=====	=====	=====
Total Return, Based on Market Value	(0.47)%++	13.85%	9.39%	(15.76)%	9.3
	=====	=====	=====	=====	=====
Total Return, Based on Net Asset Value	2.59%++	4.77%	5.97%	(1.79)%	6.7
	=====	=====	=====	=====	=====
Net Assets, End of Period (000s)	\$176,063	\$179,568	\$181,326	\$184,085	\$197,94
	=====	=====	=====	=====	=====
Ratios to Average Net Assets:					
Expenses	0.80%+	0.82%	0.71%	0.73%	0.7
Net investment income(2)	6.89+	6.74	6.72	6.08	6.0
Portfolio Turnover Rate	29%	15%	27%	27%	5
Market Value, End of Period	\$ 8.160	\$ 8.640	\$ 8.125	\$ 8.000	\$ 10.12

- (1) For the nine months ended July 31, 2002 (unaudited).
- (2) Without the adoption of the change in the accounting method discussed in Note 1 to the financial statements, for the nine months ended July 31, 2002, those amounts would have been \$0.43, \$0.23 and 6.85% for net investment income, net realized and unrealized loss and the annualized ratio of net investment income to average net assets, respectively. Per share, ratios and supplemental data for the periods prior to November 1, 2001 have not been restated to reflect this change in presentation.
- ++ Total return is not annualized, as it may not be representative of the total return for the year.
- + Annualized.

25

[CLIP ART]

Municipal High Income Fund Inc.
Financial Data Per Share of Common Stock (unaudited)

Record Date	Payable Date	NYSE Closing Price*	Net Asset Value*	Dividend Paid	Dividend Reinvestment Price
-----	-----	-----	-----	-----	-----
11/22/99	11/26/99	\$7.938	\$9.03	\$0.0485	\$7.74
12/27/99	12/30/99	7.313	8.86	0.0485	7.38
1/25/00	1/28/00	7.750	8.70	0.0485	7.84
2/22/00	2/25/00	7.813	8.65	0.0485	7.66

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

3/28/00	3/31/00	7.438	8.80	0.0485	7.58
4/25/00	4/28/00	7.625	8.76	0.0485	7.62
5/23/00	5/26/00	7.750	8.60	0.0485	7.75
6/27/00	6/30/00	7.563	8.74	0.0485	7.85
7/25/00	7/28/00	8.094	8.78	0.0485	8.28
8/22/00	8/25/00	8.4375	8.84	0.0485	8.51
9/26/00	9/29/00	8.1875	8.83	0.0485	8.36
10/24/00	10/27/00	8.1250	8.86	0.0485	8.10
11/20/00	11/24/00	8.060	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	8.740	8.77	0.0485	8.60
3/27/01	3/30/01	8.380	8.77	0.0485	8.57
4/24/01	4/27/01	8.680	8.67	0.0485	8.50
5/22/01	5/25/01	8.620	8.69	0.0485	8.52
6/26/01	6/29/01	8.630	8.71	0.0485	8.54
7/24/01	7/27/01	8.570	8.75	0.0485	8.57
8/28/01	8/31/01	8.890	8.83	0.0485	8.65
9/25/01	9/28/01	8.300	8.71	0.0485	8.54
10/23/01	10/26/01	8.630	8.70	0.0485	8.53
11/27/01	11/30/01	8.500	8.59	0.0485	8.42
12/24/01	12/28/01	7.890	8.42	0.0485	8.16
1/22/02	1/25/02	8.300	8.45	0.0485	8.28
2/19/02	2/22/02	8.350	8.40	0.0485	8.23
3/19/02	3/22/02	8.160	8.34	0.0485	8.11
4/23/02	4/26/02	8.070	8.36	0.0485	8.18
5/28/02	5/31/02	8.120	8.36	0.0485	8.19
6/25/02	6/28/02	8.160	8.43	0.0465	8.25
7/23/02	7/26/02	8.070	8.46	0.0465	8.22

 * As of record date.

[CLIP ART]

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

=====

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

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

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 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, or if the Fund declares a dividend or capital gains distribution payable only in cash, 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

27

[CLIP ART]

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

=====

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 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.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

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 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 July 31, 2002, the Fund has not repurchased any shares.

27

[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
Paul Hardin
William R. Hutchinson
Heath B. McLendon, Chairman
George M. Pavia

Charles F. Barber, Emeritus

Officers

Heath B. McLendon
President and
Chief Executive Officer

R. Jay Gerken
Executive Vice President

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

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-30B-2

Controller

Christina T. Sydor
Secretary

Investment Adviser and Administrator

Smith Barney Fund Management LLC
333 West 34th Street
New York, New York 10001

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

[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

FD01013 9/02 02-3772