

MUNICIPAL HIGH INCOME FUND INC
Form N-Q
September 29, 2006

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

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-5497

Municipal High Income Fund Inc.
(Exact name of registrant as specified in charter)

125 Broad Street, New York, NY
(Address of principal executive offices)

10004
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

300 First Stamford Place

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

Registrant's telephone number, including area code: 1-800-725-6666

Date of fiscal year end: October 31

Date of reporting period: July 31, 2006

Municipal High Income Fund Inc.

**FORM N-Q
JULY 31, 2006**

ITEM 1. SCHEDULE OF INVESTMENTS

Municipal High Income Fund Inc.

Schedule of Investments (unaudited)

July 31, 2006

| Face Amount | Rating | Security | Value |
|------------------------------|--------|--|------------------|
| MUNICIPAL BONDS 94.8% | | | |
| Alabama 0.7% | | | |
| \$ 615,000 | NR | Capstone Improvement District of Brookwood, AL, Series A, 7.700% due 8/15/23 (a) | \$ 86,100 |
| 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 (b) | 1,033,690 |
| | | Total Alabama | 1,119,790 |
| Alaska 1.7% | | | |
| 1,055,000 | NR | Alaska Industrial Development & Export Authority Revenue, Williams Lynxs Alaska Cargoport, 8.125% due 5/1/31 (c) | 1,126,645 |
| 1,650,000 | AAA | Alaska State Housing Financial Corp., General Housing, Series B, MBIA-Insured, 5.250% due 12/1/30 | 1,736,773 |
| | | Total Alaska | 2,863,418 |
| Arizona 3.7% | | | |
| 2,000,000 | AA | Arizona Agriculture Improvement & Power District, Electric Systems Revenue, Salt River Project, Series A, 5.000% due 1/1/37 | 2,079,060 |
| 1,500,000 | NR | Casa Grande, AZ, IDA, Hospital Revenue, Casa Grande Regional Medical Center, Series A, 7.625% due 12/1/29 | 1,657,380 |
| 1,780,000 | NR | Phoenix, AZ, IDA, MFH Revenue, Ventana Palms Apartments Project, Series B, 8.000% due 10/1/34 | 1,515,083 |
| 1,000,000 | AAA | Yuma & La Paz Counties, Arizona Community College District, Arizona Western College, FSA-Insured, 5.000% due 7/1/24 | 1,035,590 |
| | | Total Arizona | 6,287,113 |
| Arkansas 1.0% | | | |
| 1,000,000 | BBB | Arkansas State Development Financing Authority: Hospital Revenue, Washington Regional Medical Center, Call 2/1/10 @ 100, 7.375% due 2/1/29 (b) | 1,113,530 |
| 600,000 | BB | Industrial Facilities Revenue, Potlatch Corp. Projects, Series A, 7.750% due 8/1/25 (c) | 676,674 |
| | | Total Arkansas | 1,790,204 |
| California 10.5% | | | |
| 1,500,000 | NR | Barona, CA, Band of Mission Indians, GO, 8.250% due 12/1/20 (d) | 1,554,495 |
| 2,000,000 | A3(e) | California Health Facilities Financing Authority Revenue, Refunding, Cedars-Sinai Medical Center, 5.000% due 11/15/27 | 2,037,040 |
| 5,000,000 | AAA | California State Department of Water Resources & Power Supply Revenue, Series A: MBIA-IBC-Insured, Call 5/1/12 @ 101, 5.375% due 5/1/21 (b)(f) | 5,461,900 |
| 1,500,000 | AAA | XLCA-Insured, Call 5/1/12 @ 101, 5.375% due 5/1/17 (b) | 1,638,570 |
| 1,500,000 | NR | California Statewide CDA Revenue, East Valley Tourist Project, Series A, 9.250% due 10/1/20 | 1,644,870 |
| | | Golden State Tobacco Securitization Corp., California Tobacco Settlement Revenue: | |

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|-----------------|-------------|--------|---|------------|
| | 2,000,000 | BBB | Asset Backed, Series A-4, 7.800% due 6/1/42 | 2,406,260 |
| | 1,000,000 | AAA | Enhanced Asset Backed, Series B, Call 6/1/13 @ 100, 5.625% due 6/1/38 (b) | 1,103,730 |
| | 1,865,000 | Ba2(e) | Vallejo, CA, COP, Touro University, 7.375% due 6/1/29 | 1,947,116 |
| | | | Total California | 17,793,981 |
| Colorado | 3.4% | | | |
| | 500,000 | NR | Beacon Point Metropolitan District, GO, Series A, 6.250% due 12/1/35 | 521,105 |
| | | | Colorado Educational & Cultural Facilities Authority Revenue: Charter School: | |
| | 1,230,000 | AAA | Bromley School Project, Refunding, XLCA-Insured, 5.125% due 9/15/25 | 1,292,546 |
| | 805,000 | AAA | Peak to Peak Project, Call 8/15/11 @ 100, 7.500% due 8/15/21 (b) | 908,193 |

See Notes to Schedule of Investments.

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Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2006

| Face Amount | Rating | Security | Value |
|----------------------------------|--------|---|-------------------|
| Colorado 3.4% (continued) | | | |
| \$ 785,000 | NR | Elbert County Charter, 7.375% due 3/1/35 | \$ 837,116 |
| 1,000,000 | AAA | Refunding, University of Denver Project, Series B, FGIC-Insured, 5.250% due 3/1/23 | 1,079,610 |
| 500,000 | NR | High Plains, CO, Metropolitan District, Series A, GO, 6.250% due 12/1/35 | 524,800 |
| 500,000 | NR | Southlands, CO, Metropolitan District Number 1, GO, 7.125% due 12/1/34 | 540,880 |
| | | Total Colorado | 5,704,250 |
| District of Columbia 1.2% | | | |
| 1,895,000 | AAA | District of Columbia COP, District Public Safety & Emergency, AMBAC-Insured, 5.500% due 1/1/20 | 2,029,242 |
| Florida 11.0% | | | |
| 985,000 | NR | Beacon Lakes, FL, Community Development District, Special Assessment, Series A, 6.900% due 5/1/35 | 1,068,646 |
| 1,500,000 | NR | Bonnet Creek Resort Community Development District, Special Assessment, 7.500% due 5/1/34 | 1,636,755 |
| 2,000,000 | NR | Capital Projects Finance Authority of Florida, Student Housing Revenue, Capital Projects Loan Program, Florida University, Series A, Call 8/15/10 @ 103, 7.850% due 8/15/31 (b) | 2,345,980 |
| 2,000,000 | NR | Capital Projects Finance Authority, FL, Continuing Care Retirement Glenridge on Palmer Ranch, Series A, 8.000% due 6/1/32 | 2,226,560 |
| 965,000 | NR | Century Parc Community Development District, Special Assessment, 7.000% due 11/1/31 | 1,014,234 |
| 1,000,000 | A+ | Highlands County, FL, Health Facilities Authority Revenue, Adventist Health Systems, Series D, 6.000% due 11/15/25 | 1,076,130 |
| 2,000,000 | BB+ | Martin County, FL, IDA Revenue, Indiantown Cogeneration Project, Series A, 7.875% due 12/15/25 (c) | 2,030,300 |
| 1,000,000 | NR | Orange County, FL, Health Facilities Authority Revenue, First Mortgage, GF, Orlando Inc. Project, 9.000% due 7/1/31 | 1,102,870 |
| 450,000 | AAA | Palm Beach County, FL, Health Facilities Authority Revenue, John F. Kennedy Memorial Hospital Inc. Project, 9.500% due 8/1/13 (g) | 533,354 |
| 2,000,000 | NR | Reunion East Community Development District, Special Assessment, Series A, 7.375% due 5/1/33 | 2,196,980 |
| 1,000,000 | B- | Santa Rosa, FL, Bay Bridge Authority Revenue, 6.250% due 7/1/28 | 1,015,830 |
| 1,000,000 | AAA | University of Central Florida, COP, Series A, FGIC-Insured, 5.000% due 10/1/25 | 1,028,810 |
| 1,485,000 | NR | Waterlefe, FL, Community Development District, Golf Course Revenue, 8.125% due 10/1/25 | 1,492,217 |
| | | Total Florida | 18,768,666 |
| Georgia 4.1% | | | |
| 1,000,000 | AAA | Atlanta, GA, Airport Revenue: Series B, FGIC-Insured, 5.625% due 1/1/30 (c) | 1,043,760 |
| 1,000,000 | AAA | Series G, FSA-Insured, 5.000% due 1/1/26 | 1,030,410 |
| 2,500,000 | NR | Atlanta, GA, Tax Allocation, Atlantic Station Project, 7.900% due 12/1/24 (f) | 2,757,025 |
| 1,000,000 | A-(h) | Gainesville & Hall County, GA, Development Authority Revenue, Senior Living Facilities, Lanier Village Estates, Series C, 7.250% due 11/15/29 | 1,088,710 |
| 1,005,000 | NR | Walton County, GA, IDA Revenue, Walton Manufacturing Co. Project, 8.500% due 9/1/07 | 1,018,839 |
| | | Total Georgia | 6,938,744 |
| Illinois 1.2% | | | |
| 2,000,000 | AAA | Chicago, IL, GO, Neighborhoods Alive 21 Program, FGIC-Insured, Call 1/1/11 @ 100, 5.500% due 1/1/31 (b) | 2,137,660 |
| Indiana 1.1% | | | |

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|---------|----|---|---------|
| 285,000 | NR | County of St Joseph, IN, EDR, Holy Cross Village Notre Dame Project, Series A: 6.000% due 5/15/26 | 298,258 |
|---------|----|---|---------|

See Notes to Schedule of Investments

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Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2006

| Face Amount | Rating | Security | Value |
|---------------------------------|--------|--|------------|
| Indiana 1.1% (continued) | | | |
| \$ 550,000 | NR | 6.000% due 5/15/38 | \$ 571,357 |
| 1,000,000 | BBB- | Indiana State Development Finance Authority, PCR, Inland Steel Co. Project Number 13, 7.250% due 11/1/11 (c) | 1,021,330 |
| | | Total Indiana | 1,890,945 |
| Kansas 0.7% | | | |
| 1,150,000 | A-1(e) | Salina, KS, Hospital Revenue, Refunding & Improvement Salina Regional Health, 5.000% due 10/1/22 | 1,180,969 |
| Louisiana 0.6% | | | |
| 1,000,000 | NR | Epps, LA, COP, 8.000% due 6/1/18 | 1,026,510 |
| Maryland 1.5% | | | |
| 1,500,000 | NR | Maryland State Economic Development Corp. Revenue, Chesapeake Bay, Series A, 7.730% due 12/1/27 | 1,612,815 |
| 1,000,000 | NR | Maryland State Health & Higher EFA Revenue, Refunding, Edenwald, Series A, 5.400% due 1/1/31 | 1,017,610 |
| | | Total Maryland | 2,630,425 |
| Massachusetts 4.0% | | | |
| 935,000 | NR | Boston, MA, Industrial Development Financing Authority Revenue, Roundhouse Hospitality LLC Project, 7.875% due 3/1/25 (c) | 937,197 |
| 1,000,000 | NR | Massachusetts State DFA Revenue, Briarwood, Series B, Call 12/1/10 @ 101, 8.250% due 12/1/30 (b) | 1,179,190 |
| 1,000,000 | BBB | Massachusetts State HEFA Revenue, Caritas Christi Obligation, Series B, 6.750% due 7/1/16 | 1,109,550 |
| 1,870,000 | AAA | Massachusetts State IFA Revenue, Assisted Living Facilities, Marina Bay LLC Project, Call 12/1/07 @ 103, 7.500% due 12/1/27 (b)(c) | 2,001,667 |
| 390,000 | AAA | Massachusetts State Port Authority Revenue, 13.000% due 7/1/13 (g) | 525,225 |
| 1,000,000 | AAA | Massachusetts State, School Building Authority, Dedicated Sales Tax Revenue, Series A, FSA-Insured, 5.000% due 8/15/20 | 1,053,460 |
| | | Total Massachusetts | 6,806,289 |
| Michigan 6.2% | | | |
| 2,130,000 | NR | Allen Academy, COP, 7.500% due 6/1/23 | 2,101,692 |
| | | Cesar Chavez Academy, COP: | |
| 1,000,000 | BBB- | 6.500% due 2/1/33 | 1,045,980 |
| 1,000,000 | BBB- | 8.000% due 2/1/33 | 1,130,860 |
| 1,645,000 | Ba1(e) | Garden City, MI, HFA, Hospital Revenue, Garden City Hospital Obligation Group, Series A, 5.625% due 9/1/10 | 1,659,920 |
| 1,000,000 | NR | Gaudior Academy, COP, 7.250% due 4/1/34 | 1,006,750 |
| 1,750,000 | NR | Kalamazoo Advantage Academy, COP, 8.000% due 12/1/33 | 1,897,140 |
| 1,000,000 | NR | Star International Academy, COP, 7.000% due 3/1/33 | 1,008,240 |
| 700,000 | NR | William C. Abney Academy, COP, 6.750% due 7/1/19 | 686,385 |
| | | Total Michigan | 10,536,967 |
| Mississippi 0.9% | | | |
| 1,480,000 | Aaa(e) | Jackson, MS, Public School District, FSA-Insured, 5.000% due 10/1/20 | 1,548,716 |
| Montana 1.5% | | | |
| 2,490,000 | NR | Montana State Board of Investment, Resource Recovery Revenue, Yellowstone Energy LP Project, 7.000% due 12/31/19 (c) | 2,481,235 |
| New Hampshire 1.0% | | | |
| 1,600,000 | A | | 1,664,384 |

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| | | | | |
|-------------------|-------------|-----|---|-----------|
| New Jersey | 5.7% | | New Hampshire HEFA Revenue, Covenant Health System, 5.500% due 7/1/34 | |
| | 1,500,000 | AAA | Casino Reinvestment Development Authority Revenue, Series A, MBIA-Insured, 5.250% due 6/1/20 | 1,602,525 |

See Notes to Schedule of Investments

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Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2006

| Face Amount | Rating | Security | Value |
|------------------------------------|--------|--|------------------|
| New Jersey 5.7% (continued) | | | |
| \$ 1,000,000 | NR | New Jersey EDA, Retirement Community Revenue, SeaBrook Village Inc., Series A, 8.250% due 11/15/30 New Jersey Health Care Facilities Financing Authority Revenue: | \$ 1,108,650 |
| 1,750,000 | BBB | Holy Name Hospital, 5.000% due 7/1/36 | 1,755,355 |
| 3,000,000 | BBB- | Trinitas Hospital Obligation Group, 7.500% due 7/1/30 (f) | 3,296,970 |
| 1,750,000 | BBB | Tobacco Settlement Financing Corp., 6.750% due 6/1/39 | 1,951,915 |
| | | Total New Jersey | 9,715,415 |
| New Mexico 1.4% | | | |
| 180,000 | AAA | Albuquerque, NM, Hospital Revenue, Southwest Community Health Services, Call 8/1/08 @100: 10.000% due 8/1/12 (b) | 196,707 |
| 95,000 | AAA | 10.125% due 8/1/12 (b) | 104,007 |
| 1,000,000 | NR | Otero County, NM, Jail Project Revenue, 7.500% due 12/1/24 | 1,038,310 |
| 1,000,000 | A+ | Sandoval County, NM, Incentive Payment Revenue, Refunding, 5.000% due 6/1/20 | 1,038,990 |
| | | Total New Mexico | 2,378,014 |
| New York 8.9% | | | |
| 700,000 | NR | Brookhaven, NY, IDA Civic Facilities Revenue, Memorial Hospital Medical Center Inc., Series A, 8.250% due 11/15/30 | 752,899 |
| 500,000 | Aaa(e) | Herkimer County, NY, IDA, Folts Adult Home, Series A, FHA-Insured, GNMA-Collateralized, 5.500% due 3/20/40 | 539,945 |
| 2,000,000 | AAA | Metropolitan Transportation Authority of New York, Series A, AMBAC-Insured, 5.000% due 7/1/30 | 2,056,540 |
| 1,000,000 | NR | Monroe County, NY, IDA, Civic Facilities Revenue, Woodland Village Project, Call 11/15/10@102, 8.550% due 11/15/32 (a)(b) | 1,109,640 |
| 1,315,000 | NR | New York City, NY, IDA, Civic Facilities Revenue: Community Residence for the Developmentally Disabled Project, 7.500% due 8/1/26 | 1,357,659 |
| 930,000 | NR | Special Needs Facilities Pooled Program, Series A-1, Call 7/1/10@102, 8.125% due 7/1/19 (b) | 994,858 |
| 1,000,000 | AAA | New York City, NY, Municipal Water Finance Authority, Water & Sewer System Revenue, Series C, MBIA-Insured, 5.000% due 6/15/27 | 1,041,370 |
| 2,090,000 | AA+ | New York State Dormitory Authority Revenue: Cornell University, Series A, 5.000% due 7/1/21 | 2,206,977 |
| 1,500,000 | AAA | Mental Health Services Facilities Improvement, Series B, AMBAC-Insured, 5.000% due 2/15/35 | 1,550,490 |
| 1,450,000 | AAA | Montefiore Hospital, FGIC/FHA-Insured, 5.000% due 8/1/29 | 1,498,648 |
| 940,000 | NR | Suffolk County, NY, IDA, Civic Facilities Revenue, Eastern Long Island Hospital Association, Series A, 7.750% due 1/1/22 | 991,164 |
| 1,000,000 | BBB- | Suffolk County, NY, Industrial Development Agency, Continuing Care Retirement Revenue, Refunding, Jeffersons Ferry Project, 5.000% due 11/1/28 | 1,006,380 |

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|-----------------------|-------------|--|------------|
| | | Total New York | 15,106,570 |
| North Carolina | 0.6% | | |
| 950,000 | NR | North Carolina Medical Care Community, Health Care Facilities Revenue, First Mortgage, DePaul Community Facilities Project, 7.625% due 11/1/29 | 995,087 |
| | | | |
| Ohio | 4.8% | | |
| 1,000,000 | NR | Cleveland-Cuyahoga County, OH, Port Authority Revenue: Senior Housing St. Clarence, Series A, 6.000% due 5/1/21 | 1,004,190 |
| 1,000,000 | NR | Senior Housing St. Clarence, Series A, 6.250% due 5/1/38 | 1,004,140 |
| 1,500,000 | BBB | Cuyahoga County, OH, Hospital Facilities Revenue, Canton Inc. Project, 7.500% due 1/1/30 | 1,668,840 |
| 1,500,000 | A- | Miami County, OH, Hospital Facilities Revenue, Refunding And Improvement Upper Valley Medical Center, 5.250% due 5/15/21 | 1,558,035 |

See Notes to Schedule of Investments

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Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2006

| Face Amount | Rating | Security | Value |
|------------------------------|--------|---|------------------|
| Ohio 4.8% (continued) | | | |
| \$ 60,000 | AAA | Montgomery County, OH, Health Systems Revenue, Unrefunded Balance, Series B-1, 8.100% due 7/1/18 | \$ 60,933 |
| 1,500,000 | BBB- | Ohio State Air Quality Development Authority Revenue, Cleveland Pollution Control, Series A, 6.000% due 12/1/13 | 1,547,430 |
| 1,260,000 | AA+ | Riversouth Authority Ohio, Revenue, Riversouth Area Redevelopment, Series A, 5.000% due 12/1/25 | 1,307,477 |
| | | Total Ohio | 8,151,045 |
| Pennsylvania 4.0% | | | |
| 2,200,000 | NR | Allegheny County, PA, IDA, Airport Special Facilities Revenue, USAir, Inc. Project, Series B, 8.500% due 3/1/21 (a)(c) | 220 |
| | | Cumberland County, PA, Municipal Authority Retirement Community Revenue, Wesley Affiliate Services Inc. Project, Series A: | |
| 280,000 | NR | 7.250% due 1/1/35 | 299,989 |
| 720,000 | NR | Call 1/1/13 @ 101, 7.250% due 1/1/35 (b) | 857,628 |
| 1,000,000 | BBB | Lebanon County, PA, Health Facilities Authority Revenue, Good Samaritan Hospital Project, 6.000% due 11/15/35 | 1,065,610 |
| 2,640,000 | NR | Montgomery County, PA, Higher Education & Health Authority Revenue, Temple Continuing Care Center, 6.625% due 7/1/19 (a) | 132,000 |
| 980,000 | NR | Northumberland County, PA, IDA Facilities Revenue, NHS Youth Services Inc. Project, Series A, 7.500% due 2/15/29 | 1,026,021 |
| 1,000,000 | NR | Philadelphia, PA, Authority for IDR, Host Marriot LP Project, Remarketed 10/31/95, 7.750% due 12/1/17 | 1,003,800 |
| 2,000,000 | NR | Westmoreland County, PA, IDA Revenue, Health Care Facilities, Redstone Highlands Health, Series B, Call 11/15/10 @ 101, 8.125% due 11/15/30 (b) | 2,336,780 |
| | | Total Pennsylvania | 6,722,048 |
| South Carolina 0.3% | | | |
| 225,000 | NR | Florence County, SC, IDR, Stone Container Corp., 7.375% due 2/1/07 | 227,061 |
| 300,000 | NR | McCormick County, SC, COP, 9.750% due 7/1/09 | 302,613 |
| | | Total South Carolina | 529,674 |
| Tennessee 2.1% | | | |
| 1,000,000 | A+ | Clarksville, TN, Natural Gas Acquisition Corp. Gas Revenue, 5.000% due 12/15/21 | 1,051,570 |
| 2,500,000 | NR | Shelby County, TN, Health Educational & Housing Facilities Board Revenue, Trezevant Manor Project, Series A, 5.750% due 9/1/37 | 2,504,600 |
| | | Total Tennessee | 3,556,170 |
| Texas 8.6% | | | |
| 560,000 | NR | Bexar County, TX, Housing Financial Corp., MFH Revenue, Continental Lady Ester, Series A, 6.875% due 6/1/29 | 533,070 |
| 1,000,000 | BBB | Garza County Public Facility Corp., 5.500% due 10/1/18 | 1,037,560 |
| 2,000,000 | BBB- | Gulf Coast of Texas, IDA, Solid Waste Disposal Revenue, CITGO Petroleum Corp. Project, 7.500% due 10/1/12 (c)(i)(j) | 2,238,440 |
| 2,750,000 | B- | Houston, TX, Airport Systems Revenue, Special Facilities, Continental Airlines Inc. Project, Series C, 6.125% due 7/15/27 (c) | 2,751,017 |
| 1,000,000 | AAA | Laredo, TX, ISD Public Facility Corp. Lease Revenue, Series A, AMBAC-Insured, 5.000% due 8/1/29 | 1,021,690 |
| 1,000,000 | NR | Midlothian, TX, Development Authority, Tax Increment Contract Revenue, 6.200% due 11/15/29 | 1,003,370 |
| 1,000,000 | AAA | North Texas Tollway Authority, Dallas North Tollway Systems Revenue, Series A, FSA-Insured, 5.000% due 1/1/35 | 1,026,200 |
| 1,000,000 | BBB- | Port Corpus Christi, TX, Industrial Development Corp., CITGO Petroleum Corp. Project, 8.250% due 11/1/31 (c) | 1,042,090 |

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1,865,000

NR

West Texas Detention Facility Corp. Revenue, 8.000% due 2/1/25
Willacy County, TX, PFC Project Revenue:

1,903,233

See Notes to Schedule of Investments

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Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2006

| Face Amount | Rating | Security | Value |
|---------------------------------------|----------|--|-------------------|
| Texas 8.6% (continued) | | | |
| \$ 1,000,000 | NR | County Jail, 7.500% due 11/1/25 | \$ 1,008,760 |
| 1,000,000 | NR | Series A-1, 8.250% due 12/1/23 | 1,031,320 |
| | | Total Texas | 14,596,750 |
| Virginia 1.6% | | | |
| 455,000 | NR | Alexandria, VA, Redevelopment & Housing Authority, MFH Revenue, Parkwood Court Apartments Project, Series C, 8.125% due 4/1/30 | 476,676 |
| 1,000,000 | NR | Broad Street CDA Revenue, 7.500% due 6/1/33 | 1,087,450 |
| 1,000,000 | BBB | Fairfax County, VA, EDA Revenue, Retirement Community, Greenspring Village, Inc., Series A, 7.500% due 10/1/29 | 1,089,580 |
| | | Total Virginia | 2,653,706 |
| Wisconsin 0.8% | | | |
| 1,000,000 | BBB+ | Wisconsin State HEFA Revenue: Aurora Health Care, 6.400% due 4/15/33 | 1,099,670 |
| 1,745,000 | NR | Benchmark Healthcare of Green Bay, Inc. Project, Series A, 7.750% due 5/1/27 (a) | 226,850 |
| | | Total Wisconsin | 1,326,520 |
| | | TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS | |
| | | (Cost \$160,124,901) | 160,930,507 |
| SHORT-TERM INVESTMENTS(k) 3.9% | | | |
| Colorado 0.5% | | | |
| 875,000 | VMIG1(e) | Colorado Educational & Cultural Facilities Authority, National Jewish Federal Program, Series B-3, LOC-National City Bank, 3.680%, 8/1/06 | 875,000 |
| Georgia 0.4% | | | |
| 100,000 | A-1+ | Burke County, GA, Development Authority, PCR, Oglethorpe Power Corp., Vogtle, AMBAC-Insured, SPA-JPMorgan Chase, 3.690%, 8/1/06 | 100,000 |
| 500,000 | A-1+ | Fulton County, GA, Development Authority, Residential Care Facilities, Lenbrook Square Foundation, LOC-Bank of Scotland, 3.730%, 8/1/06 | 500,000 |
| | | Total Georgia | 600,000 |
| Illinois 0.7% | | | |
| 400,000 | A-1+ | Illinois Finance Authority Revenue, Northwestern Memorial Hospital, Series B-2, SPA-UBS AG, 3.670%, 8/1/06 | 400,000 |
| 795,000 | A-1+ | Illinois Health Facilities Authority, University Chicago Hospitals, MBIA-Insured, SPA-JPMorgan Chase, 3.680%, 8/1/06 | 795,000 |
| | | Total Illinois | 1,195,000 |
| Missouri 0.2% | | | |
| 400,000 | A-1+ | Missouri State HEFA, Washington University, Series B, SPA-JPMorgan Chase, 3.680%, 8/1/06 | 400,000 |
| Tennessee 0.6% | | | |
| 980,000 | VMIG1(e) | Sevier County, TN, Public Building Authority, Local Government Improvement, Series IV-E-3, AMBAC-Insured, SPA-JPMorgan Chase, 3.670%, 8/1/06 | 980,000 |
| Texas 1.5% | | | |

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| | | | |
|---------|------|--|---------|
| 495,000 | A-1+ | Bell County, TX, Health Facilities Development Corp. Revenue, Scott & White Memorial Hospital: Series B-1, MBIA-Insured, SPA-JPMorgan Chase, 3.680%, 8/1/06 | 495,000 |
| 595,000 | A-1+ | Series B-2, MBIA-Insured, SPA-JPMorgan Chase, 3.680%, 8/1/06 | 595,000 |
| 990,000 | A-1+ | Harris County, TX, Health Facilities Development Corp. Revenue: St. Luke s Episcopal Hospital, Series B, SPA-Northern Trust, Bayerische Landesbank, Bank of America, JPMorgan Chase, 3.680%, 8/1/06 | 990,000 |

See Notes to Schedule of Investments

Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2006

| Face Amount | Rating | Security | Value |
|-------------------------------|--------|--|----------------|
| Texas 1.5% (continued) | | | |
| \$ 400,000 | A-1+ | Texas Medical Center Project, Series B, FSA-Insured, SPA-JPMorgan Chase, 3.680%, 8/1/06 | \$ 400,000 |
| | | Total Texas | 2,480,000 |
| | | TOTAL SHORT-TERM INVESTMENTS | |
| | | (Cost \$6,530,000) | 6,530,000 |
| | | TOTAL INVESTMENTS 98.7% (Cost \$166,654,901#) | 167,460,507 |
| | | Other Assets in Excess of Liabilities 1.3% | 2,265,847 |
| | | TOTAL NET ASSETS 100.0% | \$ 169,726,354 |

All ratings are by Standard & Poor's Ratings Service, unless otherwise noted. All ratings are unaudited.

- (a) Security is currently in default.
- (b) Pre-Refunded bonds are escrowed with government obligations and/or government agency securities and are considered by the Manager to be triple-A rated even if issuer has not applied for new ratings.
- (c) Income from this issue is considered a preference item for purposes of calculating the alternative minimum tax (AMT).
- (d) All or a portion of this security is held at the broker as collateral for open futures contracts.
- (e) Rating by Moody's Investors Service.
- (f) All or a portion of this security is segregated for open futures contracts.
- (g) Bonds are escrowed to maturity by government securities and/or U.S. government agency securities and are considered by the Manager to be triple-A rated even if issuer has not applied for new ratings.
- (h) Rating by Fitch Ratings Service.
- (i) Variable rate security. Interest rate disclosed is that which is in effect at July 31, 2006.
- (j) Maturity date shown represents the mandatory tender date.
- (k) Variable rate demand obligations have a demand feature under which the Fund can tender them back to the issuer on no more than 7 days notice. Date shown is the date of the next interest rate change.
- # Aggregate cost for federal income tax purposes is substantially the same.

Abbreviations used in this schedule:

AMBAC - Ambac Assurance Corporation

CDA - Community Development Authority

COP - Certificate of Participation

DFA - Development Finance Agency

EDA - Economic Development Authority

EDR - Economic Development Revenue

EFA - Educational Facilities Authority

FGIC - Financial Guaranty Insurance Company

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FHA - Federal Housing Administration

FSA - Financial Security Assurance

GNMA - Government National Mortgage Association

GO - General Obligation

HEFA - Health & Educational Facilities Authority

HFA - Housing Finance Authority

IBC - Insured Bond Certificates

IDA - Industrial Development Authority

IDR - Industrial Development Revenue

IFA - Industrial Finance Agency

ISD - Independent School District

LOC - Letter of Credit

MBIA - Municipal Bond Investors Assurance Corporation

MFH - Multi-Family Housing

PCR - Pollution Control Revenue

PFC - Public Facilities Corporation

SPA - Standby Bond Purchase Agreement

XLCA - XL Capital Assurance Inc.

See Notes to Schedule of Investments

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Municipal High Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2006

Summary of Investments by Industry * (unaudited)

| | | |
|-------------------------|------|--------|
| Hospitals | 21.4 | % |
| Pre-Refunded | 14.7 | |
| Education | 13.9 | |
| Industrial Development | 5.7 | |
| Public Facilities | 5.5 | |
| Transportation | 5.3 | |
| Life Care Systems | 4.8 | |
| Pollution Control | 3.3 | |
| Cogeneration Facilities | 2.7 | |
| Tobacco | 2.6 | |
| Housing: Multi-Family | 2.5 | |
| General Obligation | 1.9 | |
| Utilities | 1.9 | |
| Escrowed to Maturity | 0.6 | |
| Water and Sewer | 0.6 | |
| Tax Allocation | 0.6 | |
| Miscellaneous | 12.0 | |
| | | 100.0% |

* As a percentage of total investments. Please note that Fund holdings as of July 31, 2006 are subject to change.

Notes to Schedule of Investments (unaudited)

1. Organization and Significant Accounting Policies

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

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP).

(a) Investment Valuation. Securities are valued at the mean between the bid and asked prices provided by an independent pricing service that are based on transactions in municipal obligations, quotations from municipal bond dealers, market transactions in comparable securities and various other relationships between securities. Securities for which market quotations are not readily available or are determined not to reflect fair value, will be valued in good faith by or under the direction of the Fund's Board of Directors. Short-term obligations with maturities of 60 days or less are valued at amortized cost, which approximates market value.

(b) Financial Futures Contracts. The Fund may enter into financial futures contracts typically to hedge a portion of the portfolio. Upon entering into a financial futures contract, the Fund is required to deposit cash or securities as initial margin. Additional securities are also segregated up to the current market value of the financial futures contracts. Subsequent payments, known as variation margin, are made or received by the Fund each day, depending on the daily fluctuation in the value of the underlying financial instruments. The Fund recognizes an unrealized gain or loss equal to the daily variation margin. When the financial futures contracts are closed, a realized gain or loss is recognized equal to the difference between the proceeds from (or cost of) the closing transactions and the Fund's basis in the contracts.

The risks associated with entering into financial futures contracts include the possibility that a change in the value of the contract may not correlate with the changes in the value of the underlying instruments. In addition, investing in financial futures contracts involves the risk that the Fund could lose more than the original margin deposit and subsequent payments required for a futures transaction. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

(c) Credit and Market Risk. The Fund invests in high yield instruments that are subject to certain credit and market risks. The yields of high yield obligations reflect, among other things, perceived credit and market risks. The Fund's investment in securities rated below investment grade typically involves risks not associated with higher rated securities including, among others, greater risk related to timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading.

(d) Security Transactions. Security transactions are accounted for on a trade date basis.

2. Investments

At July 31, 2006, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

| | |
|-------------------------------|--------------|
| Gross unrealized appreciation | \$ 7,906,077 |
| Gross unrealized depreciation | (7,100,471) |
| Net unrealized appreciation | \$ 805,606 |

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At July 31, 2006, the Fund had the following open futures contracts:

| | Number of Contracts | Expiration Date | Basis Value | Market Value | Unrealized Loss |
|---------------------------|--------------------------------|----------------------------|------------------------|-------------------------|----------------------------|
| Contracts to Sell: | | | | | |
| U.S. Treasury Bond | 105 | 9/06 | \$ 11,221,154 | \$ 11,369,531 | \$ (148,377) |

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ITEM 2. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Municipal High Income Fund Inc.

By */s/ R. Jay Gerken*
R. Jay Gerken
Chief Executive Officer

Date: September 28, 2006

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

By */s/ R. Jay Gerken*
R. Jay Gerken
Chief Executive Officer

Date: September 28, 2006

By */s/ Kaprel Ozsolak*
Kaprel Ozsolak
Chief Financial Officer

Date: September 28, 2006