

MUNICIPAL HIGH INCOME FUND INC

Form N-Q

April 03, 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 10004

(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

300 First Stamford Place, 4<sup>th</sup> Floor

Stamford, CT 06902

(Name and address of agent for service)

Registrant's telephone number, including area code: 1-888-735-6507

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

Date of reporting period: **January 31, 2006**

**MUNICIPAL HIGH INCOME FUND INC.**

FORM N-Q

JANUARY 31, 2006

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ITEM 1. SCHEDULE OF INVESTMENTS  
MUNICIPAL HIGH INCOME FUND INC.

Schedule of Investments (unaudited)

January 31, 2006

FACE

| AMOUNT                       | RATING | SECURITY   | VALUE             |
|------------------------------|--------|--|-------------------|
| <b>MUNICIPAL BONDS 93.1%</b> |        |  |                   |
| <b>Alabama 0.7%</b>          |        |  |                   |
| \$ 615,000                   | NR     | Capstone Improvement District of Brookwood, AL, Series A, 7.700% due 8/15/23 (a)   | \$ 153,750        |
| 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)                  | 1,058,320         |
| <b>Total Alabama</b>         |        |  | <b>1,212,070</b>  |
| <b>Alaska 2.9%</b>           |        |  |                   |
| 1,055,000                    | NR     | Alaska Industrial Development & Export Authority Revenue, Williams Lynxs Alaska Cargoport, 8.125% due 5/1/31 (c)                               | 1,056,983         |
| 2,000,000                    | AAA    | Alaska State Housing Financial Corp., General Housing: Series A, FGIC-Insured, 5.000% due 12/1/26 (d)  | 2,088,360         |
| 1,650,000                    | AAA    | Series B, MBIA-Insured, 5.250% due 12/1/30   | 1,756,244         |
| <b>Total Alaska</b>          |        |  | <b>4,901,587</b>  |
| <b>Arizona 3.1%</b>          |        |  |                   |
| 1,500,000                    | NR     | Casa Grande, AZ, IDA, Hospital Revenue, Casa Grande Regional Medical Center, Series A, 7.625% due 12/1/29                                      | 1,663,200         |
| 935,000                      | NR     | Maricopa County, AZ, IDA, MFH Revenue, Gran Victoria Housing LLC Project, Series B, 10.000% due 5/1/31 (e)                                     | 941,489           |
| 1,780,000                    | NR     | Phoenix, AZ, IDA, MFH Revenue, Ventana Palms Apartments Project, Series B, 8.000% due 10/1/34  | 1,527,881         |
| 1,000,000                    | AAA    | Yuma & La Paz Counties, Arizonal Community College District, Arizona Western College, FSA-Insured, 5.000% due 7/1/24                           | 1,048,150         |
| <b>Total Arizona</b>         |        |  | <b>5,180,720</b>  |
| <b>Arkansas 1.1%</b>         |        |  |                   |
| 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) | 1,142,080         |
| 600,000                      | BB     | Industrial Facilities Revenue, Potlatch Corp. Projects, Series A, 7.750% due 8/1/25 (c)  | 676,872           |
| <b>Total Arkansas</b>        |        |  | <b>1,818,952</b>  |
| <b>California 10.7%</b>      |        |  |                   |
| 1,500,000                    | NR     | Barona, CA, Band of Mission Indians, GO, 8.250% due 1/1/20 (e)   | 1,565,115         |
| 2,000,000                    | A3(f)  | California Health Facilities Financing Authority Revenue, Refunding, Cedars-Sinai Medical Center, 5.000% due 11/15/27                          | 2,038,620         |
| 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)(d) | 5,558,800         |
| 1,500,000                    | AAA    | XLCA-Insured, Call 5/1/12 @ 101, 5.375% due 5/1/17 (b)   | 1,667,640         |
| 1,500,000                    | Aa3(f) | California Statewide CDA Revenue, East Valley Tourist Project, Series A, 9.250% due 10/1/20  | 1,656,060         |
| 2,000,000                    | BBB    | Golden State Tobacco Securitization Corp., California Tobacco Settlement Revenue: Asset Backed, Series A-4, 7.800% due 6/1/42 (d)              | 2,388,620         |
| 1,000,000                    | AAA    | Enhanced Asset Backed, Series B, Call 6/1/13 @ 100, 5.625% due 6/1/38 (b)  | 1,119,790         |
| 1,865,000                    | Ba2(f) | Vallejo, CA, COP, Touro University, 7.375% due 6/1/29  | 1,959,611         |
| <b>Total California</b>      |        |  | <b>17,954,256</b> |

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**Colorado 4.6%**

|           |     |   |           |
|-----------|-----|---|-----------|
| 500,000   | NR  | Beacon Point Metropolitan District, GO, Series A, 6.250% due 12/1/35  | 502,605   |
| 1,000,000 | AAA | Colorado Educational & Cultural Facilities Authority, Refunding, University of Denver Project, Series B,<br>FGIC-Insured, 5.250% due 3/1/23 | 1,091,530 |

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**See Notes to Schedule of Investments.**

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## MUNICIPAL HIGH INCOME FUND INC.

## Schedule of Investments (unaudited) (continued)

January 31, 2006

## FACE

| AMOUNT                           | RATING | SECURITY   | VALUE             |
|----------------------------------|--------|--|-------------------|
| <b>Colorado 4.6% (continued)</b> |        |  |                   |
|                                  |        | Colorado Educational & Cultural Facilities Authority Revenue:<br>Charter School:   |                   |
| \$ 1,230,000                     | AAA    | Bromley School Project, Refunding, XLCA-Insured, 5.125% due 9/15/25  | \$ 1,308,179      |
| 845,000                          | AAA    | Peak to Peak Project, Call 8/15/11 @100, 7.500% due 8/15/21 (b)  | 978,105           |
| 2,000,000                        | NR     | Colorado Lutheran High School Association Project, Series A, 7.625% due 6/1/34   | 2,005,160         |
| 785,000                          | NR     | Elbert County Charter, 7.375% due 3/1/35   | 789,427           |
| 500,000                          | NR     | High Plains, CO, Metropolitan District, Series A, 6.250% due 12/1/35   | 502,860           |
| 500,000                          | NR     | Southlands, CO, Metropolitan District Number 1, GO, 7.125% due 12/1/34   | 546,005           |
| <b>Total Colorado</b>            |        |  | <b>7,723,871</b>  |
| <b>District of Columbia 1.2%</b> |        |  |                   |
| 1,895,000                        | AAA    | District of Columbia COP, District Public Safety & Emergency, AMBAC-Insured, 5.500% due 1/1/20 (d)   | 2,084,727         |
| <b>Florida 12.4%</b>             |        |  |                   |
| 1,000,000                        | NR     | Beacon Lakes, FL, Community Development District, Special Assessment, Series A, 6.900% due 5/1/35  | 1,093,220         |
| 1,500,000                        | NR     | Bonnet Creek Resort Community Development District, Special Assessment, 7.500% due 5/1/34  | 1,649,730         |
| 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)(d) | 2,407,360         |
| 2,000,000                        | NR     | Capital Projects Finance Authority, FL, Continuing Care Retirement Glenridge on Palmer Ranch, Series A, 8.000% due 6/1/32 (d)  | 2,223,000         |
| 965,000                          | NR     | Century Parc Community Development District, Special Assessment, 7.000% due 11/1/31  | 1,019,224         |
| 1,000,000                        | A+     | Highlands County, FL, Health Facilities Authority Revenue, Adventist Health Systems, Series D, 6.000% due 11/15/25   | 1,088,600         |
| 1,000,000                        | Aaa(f) | Hollywood, FL, FGIC-Insured, 5.000% due 6/1/26   | 1,054,050         |
| 830,000                          | NR     | Homestead, FL, IDR, Community Rehabilitation Providers Program, Series A, 7.950% due 11/1/18   | 833,519           |
| 2,000,000                        | BB+    | Martin County, FL, IDA Revenue, Indiantown Cogeneration Project, Series A, 7.875% due 12/15/25 (c)(d)  | 2,065,840         |
| 1,000,000                        | NR     | Orange County, FL, Health Facilities Authority Revenue, First Mortgage, GF, Orlando Inc. Project, 9.000% due 7/1/31  | 1,074,870         |
| 495,000                          | AAA    | Palm Beach County, FL, Health Facilities Authority Revenue, John F. Kennedy Memorial Hospital Inc. Project, 9.500% due 8/1/13 (g)  | 605,053           |
| 2,000,000                        | NR     | Reunion East Community Development District, Special Assessment, Series A, 7.375% due 5/1/33 (d)   | 2,195,500         |
| 1,000,000                        | B-     | Santa Rosa, FL, Bay Bridge Authority Revenue, 6.250% due 7/1/28  | 1,008,990         |
| 1,000,000                        | AAA    | University of Central Florida, COP, Series A, FGIC-Insured, 5.000% due 10/1/25   | 1,041,150         |
| 1,485,000                        | NR     | Waterlefe, FL, Community Development District, Golf Course Revenue, 8.125% due 10/1/25   | 1,496,806         |
| <b>Total Florida</b>             |        |  | <b>20,856,912</b> |
| <b>Georgia 4.1%</b>              |        |  |                   |
|                                  |        | Atlanta, GA, Airport Revenue:  |                   |
| 1,000,000                        | AAA    | Series B, FGIC-Insured, 5.625% due 1/1/30 (c)  | 1,049,390         |
| 1,000,000                        | AAA    | Series G, FSA-Insured, 5.000% due 1/1/26   | 1,044,550         |
| 2,500,000                        | NR     | Atlanta, GA, Tax Allocation, Atlantic Station Project, 7.900% due 12/1/24 (d)  | 2,737,800         |
| 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                                      | 1,099,730         |
| 1,005,000                        | NR     | Walton County, GA, IDA Revenue, Walton Manufacturing Co. Project, 8.500% due 9/1/07  | 1,027,512         |
| <b>Total Georgia</b>             |        |  | <b>6,958,982</b>  |

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See Notes to Schedule of Investments.

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## MUNICIPAL HIGH INCOME FUND INC.

## Schedule of Investments (unaudited) (continued)

January 31, 2006

## FACE

| AMOUNT                     | RATING | SECURITY  | VALUE             |
|----------------------------|--------|---|-------------------|
| <b>Illinois 1.3%</b>       |        |   |                   |
| \$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)(d)                            | \$2,177,100       |
| <b>Indiana 0.6%</b>        |        |   |                   |
| 1,000,000                  | BBB-   | Indiana State Development Finance Authority, PCR, Inland Steel Co. Project Number 13, 7.250% due 11/1/11 (c)                          | 1,028,870         |
| <b>Louisiana 0.6%</b>      |        |   |                   |
| 1,000,000                  | NR     | Epps, LA, COP, 8.000% due 6/1/18  | 1,032,950         |
| <b>Maryland 0.9%</b>       |        |   |                   |
| 1,500,000                  | NR     | Maryland State Economic Development Corp. Revenue, Chesapeake Bay, Series A, 7.730% due 12/1/27                                       | 1,581,390         |
| <b>Massachusetts 4.1%</b>  |        |   |                   |
| 955,000                    | NR     | Boston, MA, Industrial Development Financing Authority Revenue, Roundhouse Hospitality LLC Project, 7.875% due 3/1/25 (c)             | 961,064           |
| 1,000,000                  | NR     | Massachusetts State DFA Revenue, Briarwood, Series B, Call 12/1/10 @ 101, 8.250% due 12/1/30 (b)                                      | 1,209,750         |
| 1,000,000                  | BBB    | Massachusetts State HEFA Revenue, Caritas Christi Obligation, Series B, 6.750% due 7/1/16   | 1,119,130         |
| 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)(d) | 2,039,647         |
| 425,000                    | AAA    | Massachusetts State Port Authority Revenue, 13.000% due 7/1/13 (g)  | 582,662           |
| 1,000,000                  | AAA    | Massachusetts State, School Building Authority, Dedicated Sales Tax Revenue, Series A, FSA-Insured, 5.000% due 8/15/20                | 1,069,600         |
| <b>Total Massachusetts</b> |        |   | <b>6,981,853</b>  |
| <b>Michigan 6.9%</b>       |        |   |                   |
| 2,130,000                  | NR     | Allen Academy, COP, 7.500% due 6/1/23 (d)   | 2,121,501         |
|                            |        | Cesar Chavez Academy, COP:  |                   |
| 1,000,000                  | BBB-   | 8.000% due 2/1/33   | 1,143,400         |
| 1,000,000                  | BBB-   | 7.250% due 2/1/33   | 1,054,230         |
| 1,645,000                  | Ba1(f) | Garden City, MI, HFA, Hospital Revenue, Garden City Hospital Obligation Group, Series A, 5.625% due 9/1/10                            | 1,666,665         |
| 1,000,000                  | NR     | Gaudior Academy, COP, 7.250% due 4/1/34   | 1,013,480         |
| 1,750,000                  | NR     | Kalamazoo Advantage Academy, COP, 8.000% due 12/1/33  | 1,838,340         |
| 1,000,000                  | NR     | Merritt Academy, COP, 7.250% due 12/1/24  | 1,005,060         |
| 1,000,000                  | NR     | Star International Academy, COP, 7.000% due 3/1/33  | 1,014,660         |
| 700,000                    | NR     | William C. Abney Academy, COP, 6.750% due 7/1/19  | 693,259           |
| <b>Total Michigan</b>      |        |   | <b>11,550,595</b> |
| <b>Mississippi 0.9%</b>    |        |   |                   |
| 1,480,000                  | Aaa(f) | Jackson, MS, Public School District, FSA-Insured, 5.000% due 10/1/20  | 1,573,817         |
| <b>Montana 1.5%</b>        |        |   |                   |
| 2,505,000                  | NR     | Montana State Board of Investment, Resource Recovery Revenue, Yellowstone Energy LP Project, 7.000% due 12/31/19 (c)(d)               | 2,504,549         |
| <b>New Hampshire 1.0%</b>  |        |   |                   |

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|                   |             |  |           |
|-------------------|-------------|--|-----------|
| 1,600,000         | A           | New Hampshire HEFA Revenue, Covenant Health System, 5.500% due 7/1/34  | 1,672,176 |
| <hr/>             |             |  |           |
| <b>New Jersey</b> | <b>4.7%</b> |  |           |
| 1,500,000         | AAA         | Casino Reinvestment Development Authority Revenue, Series A, MBIA-Insured, 5.250% due 6/1/20                             | 1,615,635 |
| 1,000,000         | NR          | New Jersey EDA, Retirement Community Revenue, SeaBrook Village Inc., Series A, 8.250% due 11/15/30                       | 1,109,420 |
| 3,000,000         | BBB-        | New Jersey Health Care Facilities Financing Authority Revenue, Trinitas Hospital Obligation Group, 7.500% due 7/1/30 (d) | 3,332,640 |

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See Notes to Schedule of Investments.

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## MUNICIPAL HIGH INCOME FUND INC.

## Schedule of Investments (unaudited) (continued)

January 31, 2006

| FACE                               |        |   |                   |
|------------------------------------|--------|---|-------------------|
| AMOUNT                             | RATING | SECURITY  | VALUE             |
| <b>New Jersey 4.7% (continued)</b> |        |   |                   |
| \$ 1,750,000                       | BBB    | Tobacco Settlement Financing Corp., 6.750% due 6/1/39   | \$ 1,953,997      |
| <b>Total New Jersey</b>            |        |   | <b>8,011,692</b>  |
| <b>New Mexico 2.0%</b>             |        |   |                   |
| 200,000                            | AAA    | Albuquerque, NM, Hospital Revenue, Southwest Community Health Services, Call 8/1/08 @100:<br>10.000% due 8/1/12 (b)                               | 225,582           |
| 105,000                            | AAA    | 10.125% due 8/1/12 (b)  | 118,700           |
| 1,000,000                          | NR     | Otero County, NM, Jail Project Revenue, 7.500% due 12/1/24<br>Sandoval County, NM:  | 1,045,300         |
| 1,000,000                          | A+     | Incentive Payment Revenue, Refunding, 5.000% due 6/1/20   | 1,052,480         |
| 940,000                            | NR     | Project Revenue, Santa Ana Pueblo Project, 7.750% due 7/1/15  | 965,258           |
| <b>Total New Mexico</b>            |        |   | <b>3,407,320</b>  |
| <b>New York 7.2%</b>               |        |   |                   |
| 700,000                            | NR     | Brookhaven, NY, IDA Civic Facilities Revenue, Memorial Hospital Medical Center Inc., Series A, 8.250%<br>due 11/15/30                             | 752,927           |
| 500,000                            | Aaa(f) | Herkimer County, NY, IDA, Folts Adult Home, Series A, FHA-Insured, GNMA-Collateralized, 5.500% due<br>3/20/40                                     | 542,205           |
| 2,000,000                          | AAA    | Metropolitan Transportation Authority of New York, Series A, AMBAC-Insured, 5.000%<br>due 7/1/30 (d)  | 2,068,580         |
| 1,000,000                          | NR     | Monroe County, NY, IDA, Civic Facilities Revenue, Woodland Village Project, 8.550%<br>due 11/15/32  | 1,120,490         |
| 1,340,000                          | NR     | New York City, NY, IDA, Civic Facilities Revenue:<br>Community Residence for the Developmentally Disabled Project, 7.500% due 8/1/26              | 1,392,461         |
| 1,000,000                          | NR     | Special Needs Facilities Pooled Program, Series A-1, 8.125% due 7/1/19  | 1,077,650         |
| 1,000,000                          | AAA    | New York City, NY, Municipal Water Finance Authority, Water & Sewer System Revenue, Series C,<br>MBIA-Insured, 5.000% due 6/15/27                 | 1,051,880         |
| 1,500,000                          | AAA    | New York State Dormitory Authority Revenue:<br>Mental Health Services Facilities Improvement, Series B, AMBAC-Insured, 5.000%<br>due 2/15/35      | 1,556,265         |
| 1,450,000                          | AAA    | Montefiore Hospital, FGIC/FHA-Insured, 5.000% due 8/1/29  | 1,511,857         |
| 940,000                            | NR     | Suffolk County, NY, IDA, Civic Facilities Revenue, Eastern Long Island Hospital Association, Series A,<br>7.750% due 1/1/22                       | 997,152           |
| <b>Total New York</b>              |        |   | <b>12,071,467</b> |
| <b>North Carolina 0.6%</b>         |        |   |                   |
| 950,000                            | NR     | North Carolina Medical Care Community, Health Care Facilities Revenue, First Mortgage, DePaul<br>Community Facilities Project, 7.625% due 11/1/29 | 996,712           |
| <b>Ohio 3.5%</b>                   |        |   |                   |
| 1,500,000                          | BBB    | Cuyahoga County, OH, Hospital Facilities Revenue, Canton Inc. Project, 7.500% due 1/1/30  | 1,666,320         |
| 260,000                            | BBB    | Montgomery County, OH, Health Systems Revenue:<br>Prefunded Balance, Series B-1, Call 7/1/06 @ 102, 8.100% due 7/1/18 (b)                         | 269,082           |
| 1,035,000                          | BBB    | Series B-1, Call 7/1/06 @ 102, 8.100% due 7/1/18 (b)  | 1,075,696         |
| 1,500,000                          | BBB-   | Ohio State Air Quality Development Authority Revenue, Cleveland Pollution Control, Series A, 6.000% due<br>12/1/13                                | 1,566,765         |
| 1,260,000                          | AA+    | Riversouth Authority Ohio, Revenue, Riversouth Area Redevelopment, Series A, 5.000%<br>due 12/1/25  | 1,323,832         |

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|                   |  |  |                  |
|-------------------|--|--|------------------|
| <b>Total Ohio</b> |  |  | <b>5,901,695</b> |
|-------------------|--|--|------------------|

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|                     |             |  |         |
|---------------------|-------------|--|---------|
| <b>Pennsylvania</b> | <b>4.3%</b> |  |         |
| 2,200,000           | D           | Allegheny County, PA, IDA, Airport Special Facilities Revenue, USAir, Inc. Project, Series B, 8.500% due 3/1/21 (a)(c)                           | 110,000 |
| 280,000             | NR          | Cumberland County, PA, Municipal Authority Retirement Community Revenue, Wesley Affiliate Services Inc. Project, Series A: 7.250% due 1/1/35 (d) | 300,124 |

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See Notes to Schedule of Investments.

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## MUNICIPAL HIGH INCOME FUND INC.

## Schedule of Investments (unaudited) (continued)

January 31, 2006

| FACE                                 |        |  |                   |
|--------------------------------------|--------|--|-------------------|
| AMOUNT                               | RATING | SECURITY   | VALUE             |
| <b>Pennsylvania 4.3% (continued)</b> |        |  |                   |
| \$ 720,000                           | NR     | Call 1/1/13 @ 101, 7.250% due 1/1/35 (b)   | \$ 875,743        |
| 1,000,000                            | BBB+   | Lebanon County, PA, Health Facilities Authority Revenue, Good Samaritan Hospital Project, 6.000% due 11/15/35                                      | 1,071,740         |
| 2,640,000                            | NR     | Montgomery County, PA, Higher Education & Health Authority Revenue, Temple Continuing Care Center, 6.625% due 7/1/19 (a)                           | 475,200           |
| 990,000                              | NR     | Northumberland County, PA, IDA Facilities Revenue, NHS Youth Services Inc. Project, Series A, 7.500% due 2/15/29                                   | 1,018,690         |
| 1,000,000                            | NR     | Philadelphia, PA, Authority for IDR, Host Marriot LP Project, Remarketed 10/31/95, 7.750% due 12/1/17  | 1,010,420         |
| 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)(d) | 2,400,360         |
| <b>Total Pennsylvania</b>            |        |  | <b>7,262,277</b>  |
| <b>South Carolina 0.4%</b>           |        |  |                   |
| 225,000                              | NR     | Florence County, SC, IDR, Stone Container Corp., 7.375% due 2/1/07   | 226,778           |
| 385,000                              | NR     | McCormick County, SC, COP, 9.750% due 7/1/09   | 388,715           |
| <b>Total South Carolina</b>          |        |  | <b>615,493</b>    |
| <b>Texas 9.2%</b>                    |        |  |                   |
| 1,155,000                            | Ba3(f) | Bexar County, TX, Housing Finance Corp., MFH Revenue, Nob Hill Apartments, Series B, 8.500% due 6/1/31   | 1,067,474         |
| 570,000                              | NR     | Bexar County, TX, Housing Financial Corp., MFH Revenue, Continental Lady Ester, Series A, 6.875% due 6/1/29  | 534,928           |
| 1,000,000                            | BBB    | Garza County Public Facility Corp., 5.500% due 10/1/18   | 1,045,060         |
| 2,000,000                            | BBB-   | Gulf Coast of Texas, IDA, Solid Waste Disposal Revenue, CITGO Petroleum Corp. Project, 7.500% due 10/1/12 (c)(d)(i)                                | 2,233,260         |
| 2,750,000                            | B-     | Houston, TX, Airport Systems Revenue, Special Facilities, Continental Airlines Inc. Project, Series C, 6.125% due 7/15/27 (c)(d)                   | 2,465,100         |
| 1,000,000                            | AAA    | Laredo, TX, ISD Public Facility Corp. Lease Revenue, Series A, AMBAC-Insured, 5.000% due 8/1/29  | 1,027,530         |
| 1,000,000                            | NR     | Midlothian, TX, Development Authority, Tax Increment Contract Revenue, 6.200% due 11/15/29   | 1,009,090         |
| 1,000,000                            | AAA    | North Texas Throughway Authority, Dallas North Tollway Systems Revenue, Series A, FSA-Insured, 5.000% due 1/1/35                                   | 1,035,590         |
| 1,000,000                            | BBB-   | Port Corpus Christi, TX, Industrial Development Corp., CITGO Petroleum Corp. Project, 8.250% due 11/1/31 (c)                                       | 1,054,550         |
| 1,865,000                            | NR     | West Texas Detention Facility Corp. Revenue, 8.000% due 2/1/25   | 1,914,795         |
|                                      |        | Willacy County, TX, PFC Project Revenue:   |                   |
| 1,000,000                            | NR     | County Jail, 7.500% due 11/1/25  | 1,014,810         |
| 1,000,000                            | NR     | Series A-1, 8.250% due 12/1/23   | 1,037,830         |
| <b>Total Texas</b>                   |        |  | <b>15,440,017</b> |
| <b>Virginia 1.6%</b>                 |        |  |                   |
| 460,000                              | NR     | Alexandria, VA, Redevelopment & Housing Authority, MFH Revenue, Parkwood Court Apartments Project, Series C, 8.125% due 4/1/30                     | 463,533           |
| 1,000,000                            | NR     | Broad Street CDA Revenue, 7.500% due 6/1/33  | 1,096,980         |
| 1,000,000                            | BBB    | Fairfax County, VA, EDA Revenue, Retirement Community, Greenspring Village, Inc., Series A, 7.500% due 10/1/29                                     | 1,088,060         |
| <b>Total Virginia</b>                |        |  | <b>2,648,573</b>  |

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Wisconsin 1.0%

1,000,000 BBB+

Wisconsin State HEFA Revenue:  
Aurora Health Care, 6.400% due 4/15/33

1,103,380

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See Notes to Schedule of Investments.

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## MUNICIPAL HIGH INCOME FUND INC.

## Schedule of Investments (unaudited) (continued)

January 31, 2006

| FACE AMOUNT  | RATING   | SECURITY   | VALUE              |
|--|----------|--|--------------------|
| <b>Wisconsin 1.0% (continued)</b>  |          |  |                    |
| \$1,745,000  | NR       | Benchmark Healthcare of Green Bay, Inc. Project, Series A, 7.750% due 5/1/27 (a)   | \$523,500          |
| <b>Total Wisconsin</b>   |          |  | <b>1,626,880</b>   |
| <b>TOTAL MUNICIPAL BONDS</b><br>(Cost \$154,808,542)                           |          |  | <b>156,777,503</b> |
| <b>SHARES</b>  |          |  |                    |
| <b>COMMON STOCK 0.0%</b>   |          |  |                    |
| <b>ENERGY 0.0%</b>   |          |  |                    |
| <b>Oil, Gas &amp; Consumable Fuels 0.0%</b>                                    |          |  |                    |
| 3,180  |          | Mobile Energy Services LLC, Restricted (j)(k)<br>(Cost \$988,235)  | 0                  |
| <b>TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS</b><br>(Cost \$155,796,777) |          |  | <b>156,777,503</b> |
| <b>FACE AMOUNT</b>   |          |  |                    |
| <b>SHORT-TERM INVESTMENTS (l) 5.6%</b>   |          |  |                    |
| <b>Florida 0.2%</b>  |          |  |                    |
| \$360,000  | VMIG1(f) | Brevard County, FL, HFA, Health Facilities Revenue, Refunding Bonds, Health First Inc. Project, LOC-SunTrust Bank, 3.080%, 2/1/06                                | 360,000            |
| <b>Illinois 1.7%</b>   |          |  |                    |
| 700,000  | A-1+     | Illinois Health Facilities Authority Revenue:<br>Order of Saint Francis Healthcare Systems, LOC-Fifth Third Bank, 3.050%, 2/1/06                                 | 700,000            |
| 800,000  | A-1+     | University Chicago Hospitals, MBIA-Insured, SPA-Bank One Illinois N.A., 3.070%, 2/1/06   | 800,000            |
| 1,300,000  | A-1+     | University of Chicago Hospital Project, Series C, MBIA-Insured, LIQ-JPMorgan Chase, 3.070%, 2/1/06   | 1,300,000          |
| <b>Total Illinois</b>  |          |  | <b>2,800,000</b>   |
| <b>Missouri 0.5%</b>   |          |  |                    |
| 900,000  | A-1+     | University of Missouri, University Revenues, System Facilities, Series B, 3.050%, 2/1/06   | 900,000            |
| <b>Pennsylvania 0.3%</b>   |          |  |                    |
| 200,000  | A-1+     | Pennsylvania State Higher EFA, Carnegie Mellon University, Series B, SPA-Morgan Guaranty Trust, 3.050%, 2/1/06   | 200,000            |
| 300,000  | A-1+     | Philadelphia, PA, Hospitals & Higher Education Facilities Authority, Hospital Revenue, Children's Hospital Project, Series A, SPA-JPMorgan Chase, 3.050%, 2/1/06 | 300,000            |
| <b>Total Pennsylvania</b>  |          |  | <b>500,000</b>     |
| <b>Tennessee 0.6%</b>  |          |  |                    |
| 1,000,000  | VMIG1(f) | Sevier County, TN, Public Building Authority, Local Government Improvement, Series IV-E-3, AMBAC-Insured, SPA-JPMorgan Chase, 3.070%, 2/1/06                     | 1,000,000          |

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**Texas 2.0%**

|           |      |  |           |
|-----------|------|--|-----------|
| 2,000,000 | A-1+ | Bell County, TX, Health Facilities Development Corp. Revenue, Scott & White Memorial Hospital, HFA, Series 2001-2, MBIA-Insured, SPA-Westdeutsche Landesbank, 3.070%, 2/1/06 | 2,000,000 |
| 1,000,000 | A-1+ | Harris County, TX, Health Facilities Development Corp. Revenue, St. Luke's Episcopal Hospital, Series B, SPA-JPMorgan Chase, 3.070%, 2/1/06                                  | 1,000,000 |
| 400,000   | A-1+ | Texas Water Development Board Revenue, Refunding, State Revolving Fund, SPA-JPMorgan Chase, 3.060%, 2/1/06   | 400,000   |

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**Total Texas**

**3,400,000**

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See Notes to Schedule of Investments.

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MUNICIPAL HIGH INCOME FUND INC.

Schedule of Investments (unaudited) (continued)

January 31, 2006

| FACE AMOUNT  | SECURITY   | VALUE                           |
|--|--|---------------------------------|
| <b>SHORT-TERM INVESTMENTS (I) (continued)</b>  |  |                                 |
| <b>Virginia 0.3%</b>   |  |                                 |
| \$500,000 A-1+   | Roanoke, VA, IDA, Hospital Revenue Carilion Health Systems, Series B, SPA-JPMorgan Chase, 3.070%, 2/1/06 (b) | \$ 500,000                      |
| <b>TOTAL SHORT-TERM INVESTMENTS</b><br>(Cost \$9,460,000)  |  | <b>9,460,000</b>                |
| <b>TOTAL INVESTMENTS 98.7%</b> (Cost \$165,256,777#)<br>Other Assets in Excess of Liabilities 1.3% |  | <b>166,237,503</b><br>2,107,139 |
| <b>TOTAL NET ASSETS 100.0%</b>   |  | <b>\$ 168,344,642</b>           |

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

Amount represents less than 0.01% of total net assets.

- (a) Security is currently in default.
  - (b) Pre-Refunded bonds are escrowed with 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.
  - (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 segregated for open futures contracts.
  - (e) All or a portion of this security is held at the broker as collateral for open futures contracts.
  - (f) Rating by Moody's Investors Service.
  - (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) Maturity date shown represents the mandatory tender date.
  - (j) Illiquid security.
  - (k) Security is valued in good faith at fair value by or under the direction of the Board of Directors (See Note 1).
  - (l) 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.  
See pages 9 through 10 for definitions of ratings.

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  
 EFA - Educational Facilities Authority  
 FGIC - Financial Guaranty Insurance Company  
 FHA - Federal Housing Administration  
 FSA - Financial Security Assurance  
 GF - General Facilities  
 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

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IFA - Industrial Finance Agency  
ISD - Independent School District  
LIQ - Liquidity Facility  
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.

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**See Notes to Schedule of Investments.**

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## MUNICIPAL HIGH INCOME FUND INC.

## Schedule of Investments (unaudited) (continued)

January 31, 2006

## Summary of Investments by Industry \*

|                         |        |
|-------------------------|--------|
| Hospitals               | 17.5 % |
| Pre-Refunded            | 14.9   |
| Education               | 14.4   |
| Lifecare Systems        | 5.7    |
| Industrial Development  | 5.7    |
| Transportation          | 5.3    |
| Public Facilities       | 4.4    |
| Pollution Control       | 3.3    |
| Cogeneration Facilities | 2.8    |
| Housing: Multi-Family   | 2.7    |
| Tobacco                 | 2.6    |
| Housing: Single-Family  | 2.3    |
| General Obligation      | 1.8    |
| Water & Sewer           | 0.9    |
| Escrowed to Maturity    | 0.7    |
| Government Facilities   | 0.6    |
| Tax Allocation          | 0.6    |
| Miscellaneous           | 13.8   |
|                         | 100.0% |

\* As a percentage of total investments. Please note that Fund holdings are subject to change.

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See Notes to Schedule of Investments.

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**Bond Ratings**

(unaudited)

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

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

- AAA Bonds rated AAA have the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.
  - AA Bonds rated AA have a very strong capacity to pay interest and repay principal and differ from the highest rated issues only in a small degree.
  - A Bonds rated A have a strong capacity to pay interest and repay principal although they are 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 bonds in this category than in higher rated categories.
  - BB, B, CCC, CC and C Bonds rated BB, B, CCC, CC and C are regarded, on balance, as predominantly speculative respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. with BB represents the lowest degree of speculation and C the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.
  - D Bonds rated D are in default and payment of interest and/or repayment of principal is in arrears.
- Moody's Investors Service (Moody's)* Numerical modifiers 1, 2 and 3 may be applied to each generic rating from Aaa to Caa, where 1 is the highest and 3 the lowest ranking 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 as 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.
- Baa Bonds rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

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- 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 and therefore not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.
- B Bonds rated B are generally lack characteristics of desirable investments. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.
- Caa Bonds rated Caa are of poor standing. These may be in default, or present elements of danger may exist 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 short-comings.
- C Bonds rated C are the lowest class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

*Fitch Ratings Service ( Fitch )* Ratings from AA to CCC may be modified by the addition of a plus (+) or minus ( ) sign to show relative standings within the major rating categories

- AAA Bonds rated AAA have the highest rating assigned by Fitch. 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 issues only in a small degree.
- A Bonds rated A have a strong capacity to pay interest and repay principal although they are 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 bonds 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 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.
- NR Indicates that the bond is not rated by Standard & Poor s, Moody s or Fitch Ratings Service.

### **Short-Term Security Ratings** (*unaudited*)

- SP-1 Standard & Poor s highest rating indicating very strong or strong capacity to pay principal and interest; those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign.
- 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.
- MIG1 Moody s highest rating for short-term municipal obligations.
- P-1 Moody s highest rating for commercial paper and for VRDO prior to the advent of the VMIG 1 rating.
- F-1 Fitch s highest rating indicating the strongest capacity for timely payment of financial commitments; those issues determined to possess overwhelming strong credit feature are denoted with a plus (+) sign.

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## 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 ask prices provided by an independent pricing service that are based on transactions in municipal obligations, quotations from municipal bond dealers, market transactions in comparable securities and various relationships between securities. Securities 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 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 risk. 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 January 31, 2006, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

|                                    |                  |
|------------------------------------|------------------|
| Gross unrealized appreciation      | \$8,479,005      |
| Gross unrealized depreciation      | (7,498,279 )     |
| <b>Net unrealized appreciation</b> | <b>\$980,726</b> |

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

|                           | <b>Number of<br/>Contracts</b> | <b>Expiration<br/>Date</b> | <b>Basis<br/>Value</b> | <b>Market<br/>Value</b> | <b>Unrealized<br/>Loss</b> |
|---------------------------|--------------------------------|----------------------------|------------------------|-------------------------|----------------------------|
| <b>Contracts to Sell:</b> |                                |                            |                        |                         |                            |
| U.S. Treasury Bonds       | 400                            | 3/06                       | \$ 44,865,625          | \$ 45,137,500           | \$ (271,875 )              |



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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: March 31, 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: March 31, 2006

By /s/ Kaprel Ozsolak

Kaprel Ozsolak

Chief Financial Officer

Date: March 31, 2006