

HIGH YIELD INCOME FUND INC
Form N-CSR
November 04, 2004

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES

Investment Company Act file number:	811- 05296
Exact name of registrant as specified in charter:	High Yield Income Fund, Inc.
Address of principal executive offices:	Gateway Center 3, 100 Mulberry Street, Newark, New Jersey 07102
Name and address of agent for service:	Deborah A. Docs Gateway Center 3, 100 Mulberry Street, Newark, New Jersey 07102
Registrant's telephone number, including area code:	973-367-7521
Date of fiscal year end:	8/31/2004

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Date of reporting period:

8/31/2004

Item 1 Reports to Stockholders [INSERT REPORT]

ANNUAL REPORT

AUGUST 31, 2004

THE HIGH YIELD INCOME FUND, INC.

This report is for stockholder information. This is not a prospectus intended for use in the purchase or sale of fund shares.

The views expressed in this report and information about the Fund's holdings are for the period covered by this report and are subject to change thereafter.

Your Fund's Performance

Fund Objective

The primary investment objective of **The High Yield Income Fund, Inc.** (the Fund) is to maximize current income to shareholders. As a secondary investment objective, the Fund will seek capital appreciation, but only when consistent with its primary objective. The Fund will seek to achieve its objectives by investing primarily in corporate bonds rated below investment grade by independent rating agencies. Bonds rated below investment grade are commonly known as "junk" bonds and are subject to greater risk of default and higher volatility than investment-grade bonds. Furthermore, these bonds tend to be less liquid than higher-quality bonds. The Fund is diversified, and we carefully research companies to find those with attractive yields and improving credit quality. There can be no assurance that the Fund will achieve its investment objectives.

Performance as of 8/31/04

	Total Return 12 Months	NAV 8/31/04	Market Price 8/31/04
High Yield Income Fund ¹	17.40%	\$ 5.57	\$ 5.93
Lehman Brothers U.S. Corporate High Yield Index ²	13.98	N/A	N/A
Lipper Closed-End High Current Yield Funds Avg ³	21.05	N/A	N/A

Past performance does not guarantee future results and current performance may be lower or higher than the past performance data quoted. The investment return and principal value will fluctuate and shares when sold may be worth more or less than the original cost. For the most recent month-end performance call (800) 451-6788. There are no sales charges

¹Source: Prudential Investments LLC. Total return of the Fund represents the change in net asset value from the beginning of the period (9/1/03) through the end (8/31/04), and assumes the reinvestment of dividends and distributions. Shares of the Fund are traded on the New York Stock Exchange, Inc. using the symbol HYI. Past performance is not indicative of future results.

²Source: Lipper Inc. The Lehman Brothers U.S. Corporate High Yield Index is an unmanaged index of fixed-rate, noninvestment-grade debt securities with at least one year remaining to maturity. Investors cannot invest directly in an index.

³Source: Lipper Inc. These are the average returns of 28 funds in the Closed-End High Current Yield Funds category for 12 months.

Yield and Dividend as of 8/31/04

Total Monthly Dividends

Paid per Share

12 Months

\$0.57

Yield at Market Price

9.61%

The High Yield Income Fund, Inc. 1

Investment Adviser's Report

Prudential Investment Management, Inc.

A solid year for U.S. high yield corporate bonds

Despite volatile market conditions during the Fund's fiscal year that began September 1, 2003, U.S. high yield corporate bonds, commonly called junk bonds, performed impressively. The sector returned 13.98% for the reporting period, based on the Lehman Brothers U.S. Corporate High Yield Index (the Index). The Fund exceeded the Index by returning 17.40% but lagged the Lipper Closed-End High Current Yield Funds Average (the Lipper Average), which returned 21.05%.

A firm underpinning to the U.S. high yield market

Favorable credit fundamentals helped fuel gains among high yield bonds. Amid an economic recovery in the United States, some firms that issue high yield bonds reported better earnings and improved levels of free cash flow during the reporting period. Some firms reduced their indebtedness, enhancing the security of their remaining high yield bonds. In addition, interest rates were low for much of the reporting period, so investors bought high yield bonds for the extra yield.

Rate hike fears temporarily hurt U.S. high yield bond market

The Federal Reserve (the Fed) had left short-term interest rates at historically low levels to help support the economic expansion that was failing to create many new jobs. However, in the spring of 2004, data indicated that the job market was strengthening. This news and higher inflation led financial markets to anticipate that the Fed would soon begin increasing short-term rates to lessen monetary stimulus in the economy. This hurt debt securities, including high yield bonds, because bond prices move inversely to interest rates.

U.S. high yield bonds staged a late rebound

The federal funds rate—the rate banks charge each other for overnight loans—was raised from 1.00% to 1.25% in late June 2004 and from 1.25% to 1.50% in August 2004. The Fed reiterated that further rate hikes would likely occur at a measured pace, but warned it would respond to changing economic prospects as needed to maintain price stability. Meanwhile, economic growth had already begun to slow as high oil prices seemed to hurt consumer spending. Moderating growth and a possible gradual rise in rates soothed concerns about investing in bonds. Thus the high yield rally resumed late in the reporting period.

Leverage among key factors in Fund performance

The Fund employs leverage, which refers to the practice of taking out a relatively low-interest loan against a percentage of assets in the portfolio and using that money to purchase other investments. It can materially enhance a portfolio's return when the underlying bonds rally, or it can detract from a portfolio's return when the underlying

bonds decline in value. For the reporting period ended August 31, 2004, we believe the Fund's use of leverage was one of the factors that helped it perform better than its benchmark Index. On the other hand, some portfolios included in the Lipper Average employ leverage more aggressively than the Fund and have a larger exposure to lower-quality high yield bonds and even equities. We believe the Fund's more moderate use of leverage and smaller exposure to lower-quality high yield bonds were major reasons that the Fund lagged its Lipper Average for the reporting period.

Research-driven security selection benefited the Fund

Our bottom-up analysis of corporate cash flows, earnings, management trends, and other factors enabled good security selection in certain industries that enhanced the Fund's return for the reporting period. We had positioned the Fund to benefit from an anticipated surge in commodity prices partially because of demand from China. Therefore, the Fund had a larger exposure than the Index to metals & mining as well as chemicals. Among its holdings were notes of A.K. Steel Corp. that performed well amid continued strong demand for steel, and notes of Huntsman LLC that gained in value as improved pricing power allowed the firm to pass along higher raw materials costs to its customers.

Relatively light exposure to telecommunications and airlines

The Fund had a lower exposure than its benchmark Index to some of the worst-performing bonds in the troubled wireline telecommunications industry (Level 3 Communications and Qwest Communications International) and the airline industry (Delta Air Lines, Inc. and United Airlines). Wireline telecom continues to suffer from increased competition, particularly for business customers, and lingering overcapacity in fiber-optic networks. These were built in the late 1990s when there was much capital available to finance their construction. Meanwhile, the airline industry faces high fuel prices, increased competition from low-cost carriers, and the impact of the Internet, which enables consumers to easily compare ticket prices at various airlines.

Troubled supermarket chain detracted from Fund return

Among the holdings that detracted from the Fund's return were bonds of Winn-Dixie Stores, Inc., which have since been sold. The supermarket chain's debt securities declined in value as it faces increasing competitive pressures and growing concern that the firm may file for bankruptcy.

Fund held too few bonds of consumer products firms

Because we expected consumer spending to slow in coming months, the Fund had smaller exposures than the Index to the debt securities of several consumer-related companies, including Levi Strauss & Co. and Revlon Inc. However, this strategy hurt

Investment Adviser's Report (continued)

the Fund's return relative to the Index because debt securities of both companies gained in value during the reporting period. Levi Strauss has lowered costs by shutting down a North American plant and moving production overseas, cutting jobs, and improving sales at some retailers. Revlon Chairman Ronald O. Perelman announced plans to cut the makeup manufacturer's debt by taking steps such as swapping debt for equity. The Fund remains underweight in the bonds of both companies because we still expect consumer spending to slow.

Portfolio of Investments

as of August 31, 2004

Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
LONG-TERM INVESTMENTS 131.2%					
CORPORATE BONDS 127.8%					
Aerospace/Defense 3.1%					
Alliant Techsystems, Inc., Sr. Sub. Notes	B2	8.50%	5/15/11	\$ 200(a)	\$ 217,500
Argo-Tech Corp., Sr. Notes	B3	9.25	6/1/11	55	58,025
BE Aerospace, Inc., Sr. Sub. Notes, Ser. B	Caa3	8.00	3/1/08	50(a)	48,687
Sr. Sub. Notes, Ser. B	Caa3	8.875	5/1/11	235(a)	229,125
Dunlop Standard Aerospace Holdings PLC, Sr. Notes (United Kingdom)	B3	11.875	5/15/09	140(a)(d)	148,400
Esterline Technologies Corp., Sr. Sub. Notes	B1	7.75	6/15/13	300(a)	318,750
K & F Industries, Inc., Sr. Sub. Notes, Ser. B	B3	9.25	10/15/07	274	279,822
L-3 Communications Corp., Sr. Sub. Notes	Ba3	7.625	6/15/12	300(a)	324,750
Sequa Corp., Sr. Notes, Ser. B	B1	8.875	4/1/08	200	215,500
Standard Aero Holdings, Inc., Sr. Sub. Notes	Caa1	8.25	9/1/14	125	128,438
					1,968,997
Airlines 0.4%					
AMR Corp., Deb. Notes, Ser. B	Caa2	10.00	4/15/21	125(a)	74,375
Delta Air Lines, Inc., Notes	NR	10.40	3/10/11	100(a)	60,500
Sr. Notes	Ca	8.30	12/15/29	360(a)	100,800
	CC(f)	10.00	8/15/08	15	5,475
					241,150
Automobiles 0.3%					
Navistar International Corp., Sr. Notes	Ba3	7.50	6/15/11	120(a)	126,000
Visteon Corp., Sr. Notes	Ba1	7.00	3/10/14	75	73,125
					199,125
Automotive 1.3%					
ArvinMeritor, Inc., Notes	Ba1	8.75	3/1/12	425	467,500
Asbury Automotive Group, Inc., Sr. Sub. Notes	B3	8.00	3/15/14	100	97,500

See Notes to Financial Statements.

Portfolio of Investments

as of August 31, 2004 Cont d.

Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
Collins & Aikman Products Co., Sr. Notes	B2	10.75%	12/31/11	\$ 75	\$ 77,250
Sr. Sub. Notes	B3	12.875	8/15/12	30	29,925
TRW Automotive, Inc., Sr. Notes	B1	9.375	2/15/13	156(a)	179,790
					851,965
Building Materials 2.3%					
Ainsworth Lumber Co. Ltd., Sr. Notes (Canada)	B1	6.75	3/15/14	300(d)	294,000
American Standard, Inc., Sr. Unsec d. Gtd. Notes	Ba2	7.375	4/15/05	275	282,906
Beazer Homes USA, Inc., Sr. Notes	Ba1	8.625	5/15/11	110(a)	119,350
D.R. Horton, Inc., Notes	Ba1	8.00	2/1/09	375(a)	425,625
KB HOME, Sr. Sub. Notes	Ba2	8.625	12/15/08	160(a)	178,800
THL Buildco, Inc., Sr. Sub. Notes	B3	8.50	9/1/14	200	208,500
					1,509,181
Business Services 3.1%					
Dex Media East LLC, Sr. Sub. Notes	B2	12.125	11/15/12	211(a)	260,057
Dex Media West LLC, Sr. Sub. Notes	B2	9.875	8/15/13	610(a)	701,500
Dex Media, Inc., Notes	B3	8.00	11/15/13	165(a)	171,188
Iron Mountain, Inc., Sr. Notes	B3	8.625	4/1/13	175(a)	189,000
RH Donnelley Finance Corp., Sr. Sub. Notes	B2	10.875	12/15/12	200(a)	236,500
Unisys Corp., Sr. Notes	Ba1	8.125	6/1/06	400(a)	424,000
					1,982,245
Cable 6.0%					
Callahan Nordrhein-Westfalen, Sr. Disc. Notes, (Zero Coupon until 7/15/05) (Germany)	NR	Zero	7/15/10	500(a)(b)(d)	22,500
Charter Communications Holdings II, Sr. Notes	Caa1	10.25	9/15/10	175	180,250
Charter Communications Holdings LLC, Sr. Disc. Notes, Zero Coupon (until 5/15/06)	Ca	Zero	5/15/11	500(a)	317,500

See Notes to Financial Statements.

Description	Moody s Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
Sr. Notes	Ca	10.75%	10/1/09	\$ 100	\$ 84,000
Sr. Notes	Ca	9.625	11/15/09	250	201,875
Sr. Notes	Ca	10.25	1/15/10	400	329,000
Sr. Notes	Ca	11.125	1/15/11	400	334,000
Sr. Notes	Ca	10.00	5/15/11	600	474,000
Charter Communications Operating LLC, Sr. Notes	B2	8.00	4/30/12	100(a)	99,250
CSC Holdings, Inc., Sr. Notes	B1	7.875	12/15/07	275	292,187
Sr. Notes, Ser. B	B1	8.125	7/15/09	50	53,625
DirectTV Holdings LLC, Sr. Notes	B1	8.375	3/15/13	225(a)	255,938
EchoStar DBS Corp., Sr. Notes	Ba3	10.375	10/1/07	240(a)	253,800
Sr. Notes	Ba3	9.125	1/15/09	192(a)	211,200
Kabel Deutschland GmbH, Sr. Notes (Germany)	B3	10.625	7/1/14	250(a)(d)	256,250
Rogers Cablesystems, Inc., Sr. Notes, Ser. B (Canada)	Ba2	10.00	3/15/05	500(a)(d)	517,304
					3,882,679
Chemicals 8.2%					
Equistar Chemicals Funding LP, Notes	B+(f)	6.50	2/15/06	140(a)	143,675
Sr. Notes	B2	10.125	9/1/08	100	111,250
Sr. Notes	B2	10.625	5/1/11	85(a)	95,625
Hercules, Inc., Deb.	Ba1	6.60	8/1/27	325(a)	328,250
Sr. Notes	Ba2	11.125	11/15/07	125(a)	146,875
Sr. Sub. Notes	Ba3	6.75	10/15/29	100(a)	99,250
HMP Equity Holdings Corp., Sr. Disc. Notes	CCC+(f)	Zero	5/15/08	75	44,250
Huntsman ICI Chemicals LLC, Sr. Sub. Notes	Caa1	10.125	7/1/09	305(a)	314,150
Huntsman LLC, Sr. Notes	B3	11.50	7/15/12	340(a)	348,500
Sr. Sec d. Notes	B2	11.00	7/15/10	95(a)	108,300
Sr. Sec d. Notes	B2	11.625	10/15/10	200(a)	224,000
IMC Global, Inc., Debs.	B2	6.875	7/15/07	300(a)	318,000
Gtd. Notes, Ser. B	B1	11.25	6/1/11	100(a)	117,500
Notes, Ser. B	B1	10.875	6/1/08	100(a)	121,000
Innophos, Inc., Sr. Sub. Notes	B3	8.875	8/15/14	175(a)	182,000

See Notes to Financial Statements.

The High Yield Income Fund, Inc. 7

Portfolio of Investments

as of August 31, 2004 Cont d.

Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
ISP Chemco, Inc., Notes, Ser. B	B1	10.25%	7/1/11	\$ 285(a)	\$ 317,062
Johnsondiversey Holdings, Inc., Sr. Notes	B3	Zero	5/15/13	175(a)	142,188
Lyondell Chemical Co., Sec d., Ser. B	B1	9.875	5/1/07	250(a)	263,437
Nalco Co., Sr. Sub. Notes	Caa1	8.875	11/15/13	375(a)	404,531
OM Group, Inc., Sr. Sub. Notes	Caa1	9.25	12/15/11	395(a)	406,850
Rhodia SA, Sr. Notes (France)	B3	10.25	6/1/10	350(a)(d)	357,000
Sr. Sub. Notes (France)	Caa1	8.875	6/1/11	350(d)	295,750
Rockwood Specialties, Inc., Sr. Sub. Notes	B3	10.625	5/15/11	150	163,500
Westlake Chemical Corp., Sr. Notes	Ba3	8.75	7/15/11	225(a)	250,313
					5,303,256
Containers 5.0%					
Anchor Glass Container Corp., Sr. Sec d. Notes	B2	11.00	2/15/13	200(a)	228,000
Berry Plastics Corp., Sr. Sub. Notes	B3	10.75	7/15/12	275(a)	308,000
Crown Cork & Seal Finance PLC, (United Kingdom)	B3	7.00	12/15/06	650(a)(d)	667,875
Graham Packaging Holdings Co., Sr. Disc. Notes, Ser. B	Caa2	10.75	1/15/09	650	675,187
Greif Bros. Corp., Sr. Sub. Notes	B2	8.875	8/1/12	455	500,500
Owens-Brockway Glass Container, Gtd. Sr. Sec d. Notes	B2	7.75	5/15/11	45(a)	47,700
Sr. Sec d. Notes	B2	8.75	11/15/12	485(a)	538,350
Silgan Holdings, Inc., Sr. Sub. Notes	B1	6.75	11/15/13	125(a)	124,375
Stone Container Finance Co., Sr. Notes (Canada)	B2	7.375	7/15/14	150(d)	154,875
					3,244,862
Diversified Manufacturing Operations 4.3%					
Amscan Holdings, Inc., Sr. Sub. Notes	B3	8.75	5/1/14	225(a)	224,156
AMSTED Industries, Inc., Sr. Notes	B3	10.25	10/15/11	175(a)	189,000

See Notes to Financial Statements.

Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
Blount, Inc., Sr. Sub. Notes	Caa1	8.875%	8/1/12	\$ 300	\$ 313,500
Invensys PLC, Sr. Notes (United Kingdom)	B3	9.875	3/15/11	400(a)(d)	406,000
Koppers, Inc., Sr. Sec d. Notes	B2	9.875	10/15/13	120	132,000
Lazydays RV Center, Inc., Sr. Notes	B3	11.75	5/15/12	275(a)	290,812
Mueller Group, Inc., Sr. Sub. Notes	Caa1	10.00	5/1/12	115(a)	123,913
Noteco Ltd. (United Kingdom)	NR	7.02	6/22/25	GBP 28(b)	46,719
Rayovac Corp., Sr. Sub. Notes	B3	8.50	10/1/13	\$ 275(a)	294,250
Sensus Metering Systems, Inc., Sr. Sub. Notes	Caa1	8.625	12/15/13	250	245,000
SPX Corp., Sr. Notes	Ba3	7.50	1/1/13	170(a)	177,650
TransDigm, Inc., Sr. Sub. Notes	B3	8.375	7/15/11	180(a)	190,350
Tyco Int l. Group S.A., Gtd. Notes (Luxembourg)	Baa3	6.125	11/1/08	50(d)	54,192
Gtd. Notes (Luxembourg)	Baa3	6.75	2/15/11	100(d)	111,751

2,799,293

Education 0.3%

Kindercare Learning Center, Inc., Sr. Sub. Notes, Ser. B	B3	9.50	2/15/09	192	194,880
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Electric Utilities 10.0%

AES Corp., Sr. Notes	B2	9.50	6/1/09	75(a)	83,437
Sr. Notes	B2	9.375	9/15/10	700	778,750
Sr. Sec d. Notes	B1	8.75	5/15/13	230	255,875
AES Eastern Energy LP, Pass-Through Cert., Ser 99-A	Ba1	9.00	1/2/17	215(a)	241,852
Aquila, Inc., Sr. Notes	B2	9.95	2/1/11	285(a)	310,650
Calpine Corp., Sr. Notes	Caa1	8.50	2/15/11	595(a)	367,412
Sr. Sec d. Notes	B(f)	8.75	7/15/13	415(a)	323,700
CMS Energy Corp., Sr. Notes	B3	7.50	1/15/09	25	26,125
Edison Mission Energy, Sr. Notes	B1	7.73	6/15/09	275(a)	288,063
Empresa Nacional de Electricidad, Notes (Chile)	Ba2	8.35	8/1/13	670(a)(d)	745,310
Homer City Funding LLC, Gtd. Notes	Ba2	8.137	10/1/19	149(a)	159,638
Midland Funding Corp., Deb., Ser. A	Ba3	11.75	7/23/05	136(a)	145,091
Deb., Ser. B	Ba3	13.25	7/23/06	305(a)	347,621

See Notes to Financial Statements.

The High Yield Income Fund, Inc. 9

Portfolio of Investments

as of August 31, 2004 Cont d.

Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
Midwest Generation LLC, Pass-thru Certs., Ser. A	B1	8.30%	7/2/09	\$ 100(a)	\$ 102,500
Sr. Sec d. Notes	B1	8.75	5/1/34	325	345,312
Mirant Americas Generation LLC, Sr. Notes	NR	7.20	10/1/08	60(a)(b)	49,950
Mirant Corp., Sr. Notes	NR	7.40	7/15/49	75(b)	46,500
Mission Energy Holding Co., Sr. Sec d. Notes	B3	13.50	7/15/08	145(a)	182,338
Nevada Power Co., Gen. Ref. Mtge.	Ba2	6.50	4/15/12	130(a)	130,000
Gen. Ref. Mtge., Ser. E	Ba2	10.875	10/15/09	15	17,325
Orion Power Holdings, Inc., Sr. Notes	B2	12.00	5/1/10	370(a)	462,500
Sierra Pacific Resources, Notes	B2	8.75	5/15/05	500(a)	512,500
Sr. Notes	B2	8.625	3/15/14	95(a)	99,750
TECO Energy, Inc., Sr. Notes	Ba2	7.50	6/15/10	400(a)	428,500
					6,450,699
Electronic Components 1.9%					
Amkor Technology, Inc., Sr. Notes	B1	7.125	3/15/11	100	83,000
Sr. Sub. Notes	B3	10.50	5/1/09	50(a)	45,250
Fairchild Semiconductor Corp., Sr. Sub. Notes	B2	10.50	2/1/09	500(a)	540,000
Flextronics International Ltd., Sr. Sub. Notes (Singapore)	Ba2	6.50	5/15/13	200(a)(d)	200,000
Freescale Semiconductor, Inc., Sr. Notes	Ba2	7.125	7/15/14	135(a)	137,194
ON Semiconductor Corp., Gtd. Notes	Caa1	13.00	5/15/08	65(a)	73,125
Sanmina-SCI Corp., Sr. Sec d. Notes	Ba2	10.375	1/15/10	125(a)	141,875
					1,220,444
Energy 2.7%					
Allegheny Energy Supply Co., LLC, Notes	B3	8.25	4/15/12	260(a)	275,600
Arch Western Finance LLC, Sr. Notes	Ba2	7.50	7/1/13	100	103,500
El Paso Corp., Sr. Notes	Caa1	7.00	5/15/11	365(a)	341,275

See Notes to Financial Statements.

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Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
Gemstone Investors Ltd.	Caa1	7.71%	10/31/04	\$ 210(a)	\$ 211,050
NRG Energy, Inc., Sr. Sec d. Notes	B2	8.00	12/15/13	420(a)	441,000
Pacific Energy, Sr. Notes	Ba2	7.125	6/15/14	100	105,750
Reliant Resources, Inc., Sr. Sec d. Notes	B1	9.50	7/15/13	225	248,625
					1,726,800
Environmental Services 1.3%					
Allied Waste North America, Inc., Sec d. Notes	Ba3	5.75	2/15/11	450(a)	432,000
Sr. Notes	Ba3	8.50	12/1/08	135(a)	148,163
Sr. Sec d. Notes, Ser B.	Ba3	9.25	9/1/12	250(a)	280,625
					860,788
Financial Services 1.9%					
Alamosa Delaware, Inc., Sr. Notes	Caa1	11.00	7/31/10	150	164,250
Sr. Notes	Caa1	8.50	1/31/12	225	223,875
BCP Caylux Holdings SCA, Sr. Sub. Notes (Luxembourg)	B3	9.625	6/15/14	145(a)(d)	155,694
Borden U.S. Finance Corp., Sr. Sec d. Notes	B3	6.43	7/15/10	500(a)	505,000
Sovereign Bancorp, Inc., Sr. Notes	Baa3	10.50	11/15/06	165(a)	191,622
					1,240,441
Foods 1.7%					
Agrilink Foods, Inc., Sr. Sub. Notes	B3	11.875	11/1/08	21(a)	22,024
Del Monte Corp., Sr. Sub. Notes	B2	8.625	12/15/12	250(a)	278,125
Dole Foods Co., Inc., Gtd. Notes	B2	7.25	6/15/10	225(a)	226,125
Sr. Notes	B2	8.625	5/1/09	150(a)	159,750
Sr. Notes	B2	8.875	3/15/11	115(a)	123,050
Dominos, Inc., Sr. Sub. Notes	B2	8.25	7/1/11	73(a)	78,110
Smithfield Foods, Inc., Notes	Ba2	7.75	5/15/13	200(a)	213,000
					1,100,184

See Notes to Financial Statements.

The High Yield Income Fund, Inc. 11

Portfolio of Investments

as of August 31, 2004 Cont d.

Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
Funeral Services 0.7%					
Alderwoods Group, Inc., Sr. Notes	B2	7.75%	9/15/12	\$ 200(a)	\$ 208,000
Service Corp. International, Notes	B1	6.50	3/15/08	25	25,813
Sr. Notes	B1	6.00	12/15/05	235(a)	240,875
					474,688
Gaming 4.4%					
Argosy Gaming Co., Sr. Sub. Notes	Ba3	9.00	9/1/11	75(a)	83,625
Boyd Gaming Corp., Sr. Sub. Notes	B1	8.75	4/15/12	200(a)	220,000
Isle of Capri Casinos, Inc., Sr. Sub. Notes	B2	9.00	3/15/12	110(a)	121,550
Sr. Sub. Notes	B2	7.00	3/1/14	25	24,750
Mandalay Resort Group, Sr. Notes	Ba2	9.50	8/1/08	250(a)	285,000
Mohegan Tribal Gaming Authority, Sr. Sub. Notes	Ba3	6.375	7/15/09	150(a)	152,625
Sr. Sub. Notes	Ba3	8.00	4/1/12	100	109,750
Sr. Sub. Notes	Ba3	7.125	8/15/14	50	51,375
Park Place Entertainment Corp., Sr. Notes	Ba1	7.50	9/1/09	610(a)	675,575
Sr. Sub. Notes	Ba2	8.125	5/15/11	85	96,262
Station Casinos, Inc., Sr. Notes	Ba3	6.00	4/1/12	200(a)	200,500
Venetian Casino Resort LLC, Second Mtge.	B2	11.00	6/15/10	465	529,519
Wynn Las Vegas LLC, Second Mtge.	B3	12.00	11/1/10	234	287,820
					2,838,351
Gas Pipelines 4.1%					
Dynegy Holdings, Inc., Deb.	Caa2	7.125	5/15/18	50	41,500
Deb.	Caa2	7.625	10/15/26	75	61,875
Sec d. Notes	B3	10.125	7/15/13	410(a)	461,250
Sr. Notes	Caa2	6.875	4/1/11	75	69,750
El Paso Production Holding Co., Sr. Notes	B3	7.75	6/1/13	300(a)	294,750

See Notes to Financial Statements.

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Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
GulfTerra Energy Partnership LP, Sr. Notes	Ba3	6.25%	6/1/10	\$ 225	\$ 247,781
Plains All American Pipeline, Notes	Ba1	7.75	10/15/12	45	52,096
Southern Natural Gas Co., Sr. Notes	B1	8.875	3/15/10	250(a)	281,250
Tennessee Gas Pipeline Co., Deb.	B1	7.00	3/15/27	215(a)	223,600
Deb.	B1	7.00	10/15/28	25(a)	23,406
Deb.	B1	7.625	4/1/37	295(a)	288,732
Williams Cos., Inc., Notes	B3	7.125	9/1/11	200(a)	218,000
Notes	B3	8.125	3/15/12	300(a)	345,000
					2,608,990
Health Care 7.5%					
Alliance Imaging, Inc., Sr. Sub. Notes	B3	10.375	4/15/11	300(a)	321,750
Concentra Operating Corp., Sr. Sub. Notes	B3	9.50	8/15/10	175(a)	189,000
Coventry Health Care, Inc., Sr. Notes	Ba1	8.125	2/15/12	150(a)	165,750
HCA, Inc., Deb.	Ba1	8.36	4/15/24	100	110,504
Deb.	Ba1	7.50	11/15/95	150(a)	144,395
HEALTHSOUTH Corp., Sr. Notes	NR	6.875	6/15/05	100(a)	101,125
Sr. Notes	NR	8.50	2/1/08	275	275,000
Sr. Sub. Notes	NR	10.75	10/1/08	150	155,250
Inverness Medical Innovations, Inc., Sr. Sub. Notes	Caa1	8.75	2/15/12	195(a)	187,200
Magellan Health Services, Inc., Sr. Notes	B3	9.375	11/15/08	731(a)	789,352
Mariner Health Care, Inc., Sr. Sub. Notes	B3	8.25	12/15/13	270(a)	286,200
Medco Health Solutions, Inc., Sr. Notes	Ba1	7.25	8/15/13	70(a)	77,212
Medical Device Manufacturing, Inc., Sr. Sub. Notes	Caa1	10.00	7/15/12	225	237,375
MedQuest, Inc., Gtd. Notes, Ser. B	B3	11.875	8/15/12	275(a)	310,750
Res-Care, Inc., Sr. Notes	B2	10.625	11/15/08	300(a)	321,000

See Notes to Financial Statements.

The High Yield Income Fund, Inc. 13

Portfolio of Investments

as of August 31, 2004 Cont d.

Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
Select Medical Corp., Sr. Sub. Notes	B2	9.50%	6/15/09	\$ 160(a)	\$ 174,000
Senior Housing Properties Trust, Sr. Notes	Ba2	8.625	1/15/12	150(a)	166,500
Tenet Healthcare Corp., Sr. Notes	B3	5.375	11/15/06	125	125,937
Sr. Notes	B3	6.375	12/1/11	75(a)	66,563
Sr. Notes	B3	6.50	6/1/12	185(a)	163,725
Ventas Realty LP, Sr. Notes	Ba3	8.75	5/1/09	280	305,200
Sr. Notes	Ba3	9.00	5/1/12	145(a)	161,675
					4,835,463
Industrials 1.6%					
Coinmach Corp., Sr. Notes	B2	9.00	2/1/10	305(a)	308,813
Manitowoc Co., Inc., Sr. Sub. Notes	B2	10.50	8/1/12	325(a)	370,500
Motors & Gears, Inc., Sr. Notes, Ser. D	Caa1	10.75	11/15/06	90(a)	82,800
United Rentals North America, Inc., Sr. Sub. Notes	B2	7.75	11/15/13	275(a)	255,750
					1,017,863
Leisure 2.2%					
AMC Entertainment, Inc., Sr. Notes	B2	8.625	8/15/12	275(a)	287,375
Sr. Sub. Notes	B3	8.00	3/1/14	100	93,250
K2, Inc., Sr. Notes	Ba3	7.375	7/1/14	150(a)	155,250
LCE Acquisition Corp., Sr. Sub. Notes	B3	9.00	8/1/14	100	101,500
Royal Caribbean Cruises Ltd., Sr. Notes (Liberia)	Ba2	8.00	5/15/10	350(a)(d)	388,937
Sr. Notes (Liberia)	Ba2	6.875	12/1/13	75(a)(d)	77,813
Six Flags, Inc., Sr. Notes	B3	9.625	6/1/14	175(a)	162,312
Vail Resorts, Inc., Sr. Sub. Notes	B2	6.75	2/15/14	150	148,125
					1,414,562
Lodging 7.4%					
Felcor Suites LP, Gtd. Notes	B1	7.625	10/1/07	125(a)	130,313
Felcore Lodging LP, Sr. Notes	B1	10.00	9/15/08	128	134,560
Sr. Notes	B1	5.84	6/1/11	125	125,625
Sr. Notes	B1	9.00	6/1/11	150(a)	163,500

See Notes to Financial Statements.

Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
Hilton Hotels Corp., Notes	Ba1	7.625%	12/1/12	\$ 200(a)	\$ 228,500
HMH Properties, Inc., Sr. Notes, Ser. B	Ba3	7.875	8/1/08	300	309,000
Host Marriott LP, Gtd. Notes, Ser. E	Ba3	8.375	2/15/06	700(a)	743,750
Sr. Notes	Ba3	9.50	1/15/07	275(a)	306,625
Sr. Notes	Ba3	7.00	8/15/12	200(a)	203,500
ITT Corp., Notes	Ba1	6.75	11/15/05	90(a)	93,375
Notes	Ba1	7.375	11/15/15	150(a)	159,000
Kerzner International Ltd., Sr. Sub. Notes (Bahamas)	B2	8.875	8/15/11	315(d)	345,712
La Quinta Inns, Inc., Sr. Notes	Ba3	7.40	9/15/05	445(a)	461,131
La Quinta Properties, Inc., Sr. Notes	Ba3	8.875	3/15/11	100	111,000
MGM MIRAGE, Sr. Sub. Notes	Ba2	9.75	6/1/07	480(a)	531,600
Starwood Hotels & Resorts Worldwide, Inc., Notes	Ba1	7.375	5/1/07	570(a)	609,900
Notes	Ba1	7.875	5/1/12	70(a)	78,400
					4,735,491
Machinery 2.4%					
Case New Holland, Inc., Sr. Notes	Ba3	9.25	8/1/11	325(a)	359,125
Flowserve Corp., Sr. Sub. Notes	B2	12.25	8/15/10	250(a)	283,750
Rexnord Corp., Sr. Sub. Notes	B3	10.125	12/15/12	225(a)	254,250
Terex Corp., Sr. Sub. Notes	B3	9.25	7/15/11	50(a)	56,000
Sr. Sub. Notes	B3	7.375	1/15/14	150(a)	153,000
Sr. Sub. Notes, Ser. B	B3	10.375	4/1/11	240(a)	270,600
Thermadyne Holdings Corp., Sr. Sec d. Notes	Caa1	9.25	2/1/14	175	171,500
					1,548,225
Media 4.9%					
Alliance Atlantis Commerce, Inc., Sr. Sub. Notes (Canada)	B1	13.00	12/15/09	325(a)(d)	354,250
American Media Operations, Inc., Ser. B	B2	10.25	5/1/09	10	10,487

See Notes to Financial Statements.

The High Yield Income Fund, Inc. 15

Portfolio of Investments

as of August 31, 2004 Cont d.

Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
CanWest Media, Inc., Sr. Notes (Canada)	B1	7.625%	4/15/13	\$ 70(a)(d)	\$ 74,550
Sr. Sub. Notes (Canada)	B2	10.625	5/15/11	225(a)(d)	256,219
Granite Broadcasting Corp., Sr. Sec d. Notes	B3	9.75	12/1/10	250(a)	235,625
Gray Television, Inc., Sr. Sub. Notes	B2	9.25	12/15/11	285(a)	319,556
Quebecor Media, Inc., Sr. Disc. Notes, Zero Coupon (until 7/15/06) (Canada)	B2	Zero	7/15/11	400(a)(d)	380,000
Sinclair Broadcast Group, Inc., Gtd. Notes	B2	8.00	3/15/12	100(a)	103,250
Sr. Sub. Notes	B2	8.75	12/15/11	200(a)	216,250
Sun Media Corp., Gtd. Notes (Canada)	Ba3	7.625	2/15/13	400(a)(d)	426,000
Susquehanna Media Co., Sr. Sub. Notes	B1	7.375	4/15/13	300(a)	309,000
Vertis, Inc., Sec d. Notes	B2	9.75	4/1/09	300(a)	325,500
Sr. Note, Ser. B	B3	10.875	6/15/09	150(a)	162,000
					3,172,687
Metals 4.0%					
AK Steel Corp., Gtd. Notes	B3	7.875	2/15/09	50(a)	48,250
Sr. Notes	B3	7.75	6/15/12	110(a)	103,400
Century Aluminum Co., Sr. Notes	B1	7.50	8/15/14	225	231,188
Foundation Coal Co., Sr. Notes	B1	7.25	8/1/14	200	210,500
Ispat Inland ULC, Sr. Sec d. Notes	Caa1	9.75	4/1/14	630(a)	672,525
Joy Global, Inc., Sr. Sub. Notes, Ser. B	B1	8.75	3/15/12	350(a)	394,625
Oregon Steel Mills, Inc.	B2	10.00	7/15/09	75	80,250
Russel Metals, Inc., Sr. Notes (Canada)	Ba3	6.375	3/1/14	265(a)(d)	253,737
TransMontaigne, Inc., Sr. Sub. Notes	B3	9.125	6/1/10	85(a)	94,350
UCAR Finance, Inc.	B2	10.25	2/15/12	75(a)	85,125
UGS Corp., Sr. Sub. Notes	B3	10.00	6/1/12	115	125,350
United States Steel Corp., Sr. Notes	B1	10.75	8/1/08	225	263,504
UtiliCorp Finance Corp., Sr. Notes (Canada)	B2	7.75	6/15/11	40(d)	40,800
					2,603,604

See Notes to Financial Statements.

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Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
Oil & Gas Exploration/Production 6.1%					
AmeriGas Partners & Eagle, Sr. Notes	B2	8.875%	5/20/11	\$ 175(a)	\$ 190,750
Belden & Blake Corp., Sr. Sec d. Notes	B3	8.75	7/15/12	150(a)	156,375
Chesapeake Energy Corp., Sr. Notes	Ba3	7.00	8/15/14	150(a)	154,500
Sr. Notes	Ba3	6.875	1/15/16	200(a)	202,500
Encore Acquisition Co., Sr. Sub. Notes	B2	6.25	4/15/14	75	73,500
Evergreen Resources, Inc., Sr. Sub. Notes	Ba3	5.875	3/15/12	225(a)	229,500
Ferrellgas Partners LP, Sr. Notes	B2	8.75	6/15/12	100(a)	109,000
Forest Oil Corp., Sr. Notes	Ba3	8.00	6/15/08	100(a)	109,000
Hanover Compressor Co., Sr. Notes	B3	8.625	12/15/10	125(a)	133,125
Hanover Equipment Trust, Sec d. Notes, Ser. A	B2	8.50	9/1/08	105(a)	112,087
Sec d. Notes, Ser. B	B2	8.75	9/1/11	150(a)	162,000
Houston Exploration Co., Sr. Sub. Notes	B2	7.00	6/15/13	100(a)	103,000
Magnum Hunter Resources, Inc., Sr. Notes	B2	9.60	3/15/12	23(a)	25,933
Newfield Exploration Co., Sr. Sub. Notes	Ba3	8.375	8/15/12	100	110,000
Sr. Sub. Notes	Ba3	6.625	9/1/14	75	76,875
Parker Drilling Co., Sr. Notes	B2	9.625	10/1/13	450(a)	486,000
Sr. Notes, Ser. B	B2	10.125	11/15/09	500	531,250
Premcor Refining Group, Inc., Sr. Notes	Ba3	6.75	2/1/11	100	104,250
Sr. Notes	Ba3	9.50	2/1/13	235(a)	274,362
Sr. Notes	Ba3	6.75	5/1/14	85	86,063
Sr. Sub. Notes	B2	7.75	2/1/12	125	133,437
Pride International, Inc.	Ba2	7.375	7/15/14	125	133,125
Range Resources Corp., Sr. Sub. Notes	B3	7.375	7/15/13	200(a)	206,000
					3,902,632

See Notes to Financial Statements.

The High Yield Income Fund, Inc. 17

Portfolio of Investments

as of August 31, 2004 Cont d.

Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
Paper & Packaging 5.7%					
Abitibi-Consolidated, Inc., Unsecured Notes (Canada)	Ba2	8.30%	8/1/05	\$ 700(a)(d)	\$ 728,875
Caraustar Industries, Inc., Sr. Sub. Notes	Caa1	9.875	4/1/11	125	132,187
Cellular Tissue Holdings, Inc., Sr. Sec d. Notes	B2	9.75	3/15/10	350(a)	350,000
Georgia-Pacific Corp., Notes	Ba3	7.50	5/15/06	500(a)	533,750
Notes	Ba3	7.75	11/15/29	300(a)	312,000
Notes	Ba3	8.875	5/15/31	575(a)	664,125
Sr. Notes	Ba2	9.375	2/1/13	150(a)	176,625
Millar Western Forest Products Ltd., Sr. Notes (Canada)	B3	7.75	11/15/13	130(d)	135,200
Norske Skog Canada Ltd., Sr. Notes (Canada)	Ba3	7.375	3/1/14	150(a)(d)	152,625
Portola Packaging, Inc., Sr. Notes	B2	8.25	2/1/12	185	160,950
Tembec Industries, Inc., Sr. Notes (Canada)	Ba3	8.625	6/30/09	50(d)	52,125
Sr. Notes (Canada)	Ba3	7.75	3/15/12	265(a)(d)	267,650
					3,666,112
Printing & Publishing 1.0%					
American Color Graphics, Inc., Sr. Sec d. Notes	B3	10.00	6/15/10	230(a)	195,500
Medianews Group, Inc., Sr. Sub. Notes	B2	6.875	10/1/13	200(a)	201,500
Morris Publishing Group LLC, Sr. Sub. Notes	Ba3	7.00	8/1/13	65	64,350
PRIMEDIA, Inc., Sr. Notes	B3	7.086	5/15/10	200(a)	199,750
					661,100
Real Estate 1.2%					
Intrawest Corp., Sr. Notes (Canada)	B1	10.50	2/1/10	385(a)(d)	414,356
Omega Healthcare Investors, Inc., Notes	B1	6.95	8/1/07	275(a)	279,813
Sr. Notes	B1	7.00	4/1/14	100	98,000
					792,169

See Notes to Financial Statements.

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Description	Moody s Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
Restaurants 0.4%					
Carrols Corp., Sr. Sub. Notes	B3	9.50%	12/1/08	\$ 250(a)	\$ 256,875
Retail 5.6%					
AutoNation, Inc., Sr. Notes	Ba2	9.00	8/1/08	50(a)	57,125
Finlay Fine Jewelry Corp., Sr. Notes	B1	8.375	6/1/12	175	186,375
General Nutrition Center, Inc., Sr. Sub. Notes	B3	8.50	12/1/10	150(a)	150,000
Group 1 Automotive, Inc., Sr. Sub. Notes	B1	8.25	8/15/13	300(a)	316,500
J.C. Penney Co., Inc., Deb.	Ba3	7.125	11/15/23	175(a)	181,562
Deb.	Ba3	7.40	4/1/37	610(a)	646,600
Jean Coutu Group, Inc., Sr. Sub. Notes (Canada)	B2	7.625	8/1/12	175(d)	180,250
Sr. Sub. Notes (Canada)	B3	8.50	8/1/14	175(a)(d)	176,312
Levi Strauss & Co., Sr. Notes	Ca	12.25	12/15/12	125	129,688
Pantry, Inc., Sr. Sub. Notes	B3	7.75	2/15/14	175(a)	175,438
Rite Aid Corp., Deb.	Caa1	6.875	8/15/13	250(a)	230,000
Deb.	Caa1	7.70	2/15/27	195(a)	169,650
Sr. Sec d. Notes	B2	8.125	5/1/10	425(a)	446,250
Saks, Inc., Gtd. Notes	Ba3	7.00	12/1/13	115(a)	115,575
Sr. Notes	Ba3	7.375	2/15/19	90(a)	90,450
Sonic Automotive, Inc., Sr. Sub. Notes	B2	8.625	8/15/13	250(a)	262,500
Stater Bros. Holdings Inc., Sr. Notes	B1	8.125	6/15/12	100	104,000
					3,618,275
Structured Notes 0.2%					
Lehman Brothers, Inc., TRAINS HY-2004-1(g)	B1	8.211	8/1/15	99	105,418
Supermarkets 1.4%					
Ahold Finance USA, Inc., Notes	B1	8.25	7/15/10	75(a)	82,312
Delhaize America, Inc., Notes	Ba1	8.125	4/15/11	445(a)	506,244
Pathmark Stores, Inc., Sr. Sub. Notes	B3	8.75	2/1/12	300(a)	301,500
					890,056

See Notes to Financial Statements.

The High Yield Income Fund, Inc. 19

Portfolio of Investments

as of August 31, 2004 Cont d.

Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
Technology 0.5%					
Xerox Corp., Sr. Notes	Ba2	6.875%	8/15/11	\$ 275	\$ 284,625
Sr. Notes	Ba2	7.625	6/15/13	50	53,125
					337,750
Telecommunications 11.3%					
American Cellular Corp., Sr. Notes, Ser. B	B3	10.00	8/1/11	150(a)	121,875
AT&T Corp., Sr.Unsec d. Notes	Ba1	7.30	11/15/11	375	407,812
Sr.Unsec d. Notes	Ba1	8.00	11/15/31	125	131,250
Centennial Communications Corp., Sr. Notes	Caa1	8.125	2/1/14	225	208,688
Cincinnati Bell, Inc., Sr. Sub. Notes	B3	8.375	1/15/14	400(a)	354,000
Citizens Communications Co., Notes	Ba3	9.25	5/15/11	260(a)	280,800
Crown Castle International Corp., Sr. Notes	B3	9.375	8/1/11	73	84,315
Sr. Notes	B3	10.75	8/1/11	215(a)	241,337
Sr. Notes	B3	7.50	12/1/13	250(a)	250,000
Sr. Notes, Ser. B	B3	7.50	12/1/13	75	75,000
Eircom Funding, Sr. Sub. Notes (Ireland)	B1	8.25	8/15/13	175(a)(d)	189,000
Lucent Technologies, Inc., Notes	B2	5.50	11/15/08	155(a)	149,188
MCI, Inc., Sr. Notes	NR	6.688	5/1/09	175	164,938
Nextel Communications, Inc., Sr. Notes	Ba3	7.375	8/1/15	700(a)	731,500
Nextel Partners, Inc., Sr. Notes	Caa1	8.125	7/1/11	375(a)	390,937
Nortel Networks Ltd., Notes (Canada)	B3	6.125	2/15/06	175(a)(d)	177,625
NTL Cable PLC, Sr. Notes (United Kingdom)	B3	6.61	10/15/12	750(a)(d)	765,000
Qwest Services Corp., Notes	Caa1	14.00	12/15/10	1,477	1,717,012
Rogers Wireless, Inc., Sr. Sec d. Notes (Canada)	Ba3	6.375	3/1/14	225(a)(d)	215,437
Sr. Sec. Notes (Canada)	Ba3	9.625	5/1/11	125(a)(d)	142,813

See Notes to Financial Statements.

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Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
SBA Communications Corp., Sr. Notes, Zero Coupon (until 12/01/07)	Caa1	Zero	12/15/11	\$ 275	\$ 214,500
Triton PCS, Inc., Gtd. Sr. Notes	B2	8.50%	6/1/13	170(a)	154,275
Ubiquitel Operating Co., Sr. Notes	Caa1	9.875	3/1/11	50	51,250
US Unwired, Inc., Sr. Sec d. Notes	B2	5.791	6/15/10	75	76,125
					7,294,677
Tobacco 0.9%					
DIMON, Inc., Sr. Notes, Ser. B	Ba3	9.625	10/15/11	80(a)	82,600
North Atlantic Trading Co., Sr. Notes	B2	9.25	3/1/12	300(a)	292,500
Standard Commercial Corp., Sr. Notes	Ba3	8.00	4/15/12	200(a)	201,000
					576,100
Transportation 0.5%					
Stena AB, Sr. Notes (Sweden)	Ba3	9.625	12/1/12	100(d)	111,125
Sr. Notes (Sweden)	Ba3	7.50	11/1/13	175(a)(d)	174,344
					285,469
Total corporate bonds (cost \$79,171,139)					82,413,546
ASSET BACKED SECURITIES 0.5%					
Continental Airlines, Inc., Pass-thru Certs., Ser. 01-1	Ba1	7.373	12/15/15	85(a)	67,193
Pass-thru Certs., Ser. 96-C	B3	9.50	10/15/13	126(a)	91,017
Pass-thru Certs., Ser. 981-B	Ba2	6.748	3/15/17	97(a)	74,278
Pass-thru Certs., Ser. 991-B	Ba2	6.795	8/2/18	163(a)	129,325
Total asset backed securities (cost \$374,059)					361,813
CONVERTIBLE BONDS 0.7%					
Nortel Networks Corp. (Canada)	B3	4.25	9/1/08	135(a)(d)	130,106
Tyco Int l. Group S.A., Sr. Notes (Luxembourg)	Baa3	2.75	1/15/18	100(d)	143,750
Sr. Notes (Luxembourg)	Baa3	3.125	1/15/23	100(d)	153,500
Total convertible bonds (cost \$314,549)					427,356

See Notes to Financial Statements.

Portfolio of Investments

as of August 31, 2004 Cont d.

Description	Shares	Value (Note 1)
COMMON STOCKS 1.2%		
Gentek, Inc.	707(c)	\$ 27,396
IMPSAT Fiber Networks, Inc.	2,330(c)	11,883
NTL, Inc.	700(c)	38,017
PSF Group Holdings, Inc., Class A	279(c)(e)	418,860
Star Gas Partners, LP	308	6,471
Stellex Aerostructures, Inc.	107(c)(e)	0
Telewest Global, Inc.	14,911(c)	172,222
UnitedGlobalCom, Inc., Class A	14,226(c)	96,737
Walter Industries, Inc.	320	4,749
Total common stocks (cost \$1,308,870)		776,335
PREFERRED STOCKS 0.9%		
McLeodUSA, Inc., Ser. A	1,868(c)	3,923
Paxson Communications Corp., 14.25%, Payment in Kind	53	441,225
Primedia, Inc., Ser. D, 10.00%	1,500	136,500
Total preferred stocks (cost \$929,425)		581,648
	Units	
WARRANTS(c) 0.1%		
Gentek, Inc., expiring 10/31/08 (Canada)	710(d)	5,573
Gentek, Inc., expiring 10/31/10 (Canada)	347(d)	1,770
Intelcom Group, Inc., expiring 9/15/05 (Canada)	9,900(d)	99
McLeodUSA, Inc., expiring 4/16/07	4,141	435
Sterling Chemical Holdings, Inc., expiring 8/15/08	140	0
Telus Corp., expiring 9/15/05 (Canada)	4,049	34,497
Viasystems Group, Inc., expiring 1/31/10 (Canada)	10,871(d)(e)	1
XM Satellite Radio, Inc., expiring 3/03/10	150(e)	2
Total warrants (cost \$280,193)		42,377
Total long-term investments (cost \$82,378,235)		84,603,075

See Notes to Financial Statements.

Description	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
SHORT-TERM INVESTMENTS 5.8%					
U.S. GOVERNMENT AGENCY SECURITIES					
Federal Farm Credit Bank Discount Notes (cost \$3,709,000)	Aaa	1.47%	9/1/04	\$ 3,709	\$ 3,709,000
Total Investments 137.0%					88,312,075
(cost \$86,087,235)					(23,840,808)
Liabilities in excess of other assets (37.0%)					
Net Assets 100.0%					\$ 64,471,267

(a) Total or partial principal amount segregated as collateral for line of credit. Aggregate value of segregated securities \$56,103,191; (Note 5).

(b) Issuer in default on interest payment, non-income producing security.

(c) Non-income producing securities.

(d) US \$ Denominated Bonds-Foreign Issuers.

(e) Fair-valued security-value is determined by the Valuation Committee or Board of Directors in consultation with the investment adviser.

(f) Standard and Poor's Rating.

(g) A TRAIN (Targeted Return Index Securities Trust) is a trust established pursuant to a series trust agreement by Lehman Brothers, Inc. Each registered holder of certificates issued by the TRAIN is a beneficial owner of a fractional undivided interest in the TRAIN and is entitled to receive a pro rata share of interest and other amounts or property distributed. Rate shown reflects the weighted average rate of the underlying securities as of August 31, 2004.

NR Not rated by Moody's or Standard & Poor's.

The Fund's current Statement of Additional Information contains a description of Moody's and Standard & Poor's ratings.

See Notes to Financial Statements.

The High Yield Income Fund, Inc. 23

Portfolio of Investments

as of August 31, 2004 Cont d.

The industry classification of portfolio holdings and other assets in excess of liabilities shown as a percentage of net assets as of August 31, 2004 was as follows:

Telecommunications	11.9%
Electric Utilities	10.0
Chemicals	8.2
Health Care	7.5
Lodging	7.4
Cable	6.2
Oil & Gas Exploration/Production	6.1
U.S. Government Securities	5.8
Paper & Packaging	5.7
Retail	5.6
Media	5.6
Containers	5.0
Diversified Manufacturing Operations	4.9
Gaming	4.4
Gas Pipelines	4.1
Metals	4.0
Business Services	3.1
Aerospace/Defense	3.1
Energy	2.7
Machinery	2.4
Foods	2.3
Building Materials	2.3
Leisure	2.2
Financial Services	1.9
Electronic Components	1.9
Industrials	1.6
Supermarkets	1.4
Environmental Services	1.3
Automotive	1.3
Printing & Publishing	1.2
Real Estate	1.2
Airlines	0.9
Tobacco	0.9
Funeral Services	0.7
Technology	0.5
Transportation	0.5
Restaurants	0.4
Automobiles	0.3
Education	0.3
Structured Notes	0.2
	<hr/>
	137.0
Liabilities in excess of other assets	(37.0)
	<hr/>
	100.0%
	<hr/>

See Notes to Financial Statements.

Statement of Assets and Liabilities

as of August 31, 2004

Assets	
Investments, at value (cost \$86,087,235)	\$ 88,312,075
Foreign currency, at value (cost \$5,335)	5,098
Interest and dividend receivable	1,651,442
Receivable for investments sold	110,913
Prepaid expenses	2,680
Total assets	90,082,208
Liabilities	
Loan payable (Note 5)	25,000,000
Payable for investments purchased	338,104
Loan interest payable	87,613
Accrued expenses	68,965
Deferred directors' fees	64,009
Management fee payable	38,007
Payable to custodian	14,243
Total liabilities	25,610,941
Net Assets	\$ 64,471,267
Net assets were comprised of:	
Common stock, at par	\$ 115,790
Paid-in capital in excess of par	86,473,809
	86,589,599
Undistributed net investment income	51,420
Accumulated net realized loss on investments	(24,394,355)
Net unrealized appreciation on investments and foreign currencies	2,224,603
Net assets, August 31, 2004	\$ 64,471,267
Net asset value per share (\$64,471,267 ÷ 11,579,047 shares of common stock issued and outstanding)	\$5.57

See Notes to Financial Statements.

Statement of Operations

Year Ended August 31, 2004

Net Investment Income	
Income	
Interest	\$ 7,201,581
Dividends	37,891
	<u>7,239,472</u>
Expenses	
Management fee	448,517
Custodian's fees and expenses	210,000
Legal fees and expenses	88,000
Reports to shareholders	70,000
Transfer agent's fees and expenses	47,000
Directors' fees and expenses	25,000
Registration fees	24,000
Audit fee	22,000
Miscellaneous	7,898
	<u>942,415</u>
Total operating expenses	942,415
Loan interest expense (Note 5)	530,770
	<u>1,473,185</u>
Total expenses	1,473,185
	<u>5,766,287</u>
Net investment income	5,766,287
Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Transactions	
Net realized gain (loss) on:	
Investments	3,464,685
Foreign currencies	(3,178)
	<u>3,461,507</u>
Net change in net unrealized appreciation (depreciation) on:	
Investments	1,039,348
Foreign currencies	(237)
	<u>1,039,111</u>
	<u>4,500,618</u>
Net gain on investments and foreign currencies	4,500,618
	<u>\$ 10,266,905</u>
Net Increase in Net Assets Resulting from Operations	\$ 10,266,905

See Notes to Financial Statements.

Statement of Cash Flows

Year Ended August 31, 2004

Increase (Decrease) in Cash

Cash flows provided from (used in) operating activities:

Interest and dividends received (excluding discount and premium amortization of \$244,091)	\$ 7,073,353
Operating expenses paid	(993,902)
Loan interest paid	(566,307)
Maturities of short-term portfolio investments, net	(3,393,000)
Purchases of long-term portfolio investments	(84,217,090)
Proceeds from disposition of long-term portfolio investments	87,830,962
Prepaid expenses	(1,655)
Net cash provided from operating activities	5,732,361
Cash flows provided from (used in) financing activities:	
Cash dividends paid (excluding reinvestment of dividends of \$340,042)	(6,241,945)
Payable to custodian for temporary overdraft	14,243
Additional borrowing	500,000
Net cash used in financing activities	(5,727,702)
Net increase in cash	4,659
Cash at beginning of year	439
Cash at end of year	\$ 5,098

Reconciliation of Net Increase in Net Assets to Net Cash Provided from (used in) Operating Activities

Net increase in net assets resulting from operations	\$ 10,266,905
Increase in investments	(442,367)
Net realized gain on investment transactions	(3,461,507)
Increase in net unrealized appreciation on investments	(1,039,111)
Decrease in interest and dividends receivable	77,972
Decrease in receivable for investments sold	81,044
Increase in prepaid expenses and other assets	(1,655)
Increase in payable for investments purchased	338,104
Decrease in accrued expenses and other liabilities	(87,024)
Total adjustments	(4,534,544)
Net cash provided from operating activities	\$ 5,732,361

See Notes to Financial Statements.

Statement of Changes in Net Assets

	Year Ended August 31,	
	2004	2003
Increase (Decrease) in Net Assets		
Operations		
Net investment income	\$ 5,766,287	\$ 6,037,503
Net realized gain (loss) on investment and foreign currency transactions	3,461,507	(1,353,682)
Net change in net unrealized appreciation on investments and foreign currencies	1,039,111	9,768,007
	<u>10,266,905</u>	<u>14,451,828</u>
Net increase in net assets resulting from operations	10,266,905	14,451,828
Dividends paid to shareholders from net investment income	(6,581,949)	(6,199,416)
Net asset value of shares issued to shareholders in reinvestment of Dividends	340,042	388,051
	<u>4,024,998</u>	<u>8,640,463</u>
Total increase	4,024,998	8,640,463
Net Assets		
Beginning of year	60,446,269	51,805,806
	<u>60,446,269</u>	<u>51,805,806</u>
End of year(a)	\$ 64,471,267	\$ 60,446,269
	<u>\$ 64,471,267</u>	<u>\$ 60,446,269</u>
(a) Includes undistributed net investment income of	\$ 51,420	\$ 515,770
	<u>\$ 51,420</u>	<u>\$ 515,770</u>

See Notes to Financial Statements.

Notes to Financial Statements

The High Yield Income Fund, Inc. (the Fund) was organized in Maryland on August 21, 1987 as a diversified, closed-end management investment company. The Fund's primary investment objective is to maximize current income to shareholders through investment in a diversified portfolio of high-yield, fixed-income securities rated in the medium to lower categories by recognized rating services, or non-rated securities of comparable quality. As a secondary investment objective, the Fund will seek capital appreciation, but only when consistent with its primary objective. The ability of issuers of debt securities held by the Fund to meet their obligations may be affected by economic or political developments in a specific industry or region.

Note 1. Accounting Policies

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

Security Valuation: Portfolio securities that are actively traded in the over-the-counter market, including listed securities for which the primary market is believed to be over-the-counter, are valued at prices provided by principal market makers and pricing agents. Any security for which the primary market is on an exchange is valued at the last sales price on such exchange on the day of valuation or, if there was no sale on such day, the last bid price quoted on such day. Securities issued in private placements are valued at the bid price or the mean between the bid and asked prices, if available, provided by principal market makers. Any security for which a reliable market quotation is unavailable is valued at fair value as determined in good faith by or under the direction of the Fund's Board of Directors. Using fair value to price securities may result in a value that is different from a security's most recent closing price and from the price used by other mutual funds to calculate their net asset values.

Short-term securities which mature in sixty days or less are valued at amortized cost, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and thereafter assuming a constant amortization to maturity of the difference between the principal amount due at maturity and cost. Short-term securities which mature in more than sixty days are valued at current market quotations.

In connection with transactions in repurchase agreements with U.S. financial institutions, it is the Fund's policy that its custodian or designated subcustodians, as the case may be under triparty repurchase agreements, take possession of the

Notes to Financial Statements

Cont d

underlying collateral securities, the value of which exceeds the principal amount of the repurchase transaction including accrued interest. If the seller defaults and the value of the collateral declines, or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited. The Fund's custodian will maintain, in a segregated account of the Fund, cash, U.S. Government securities, equity securities or other liquid, unencumbered assets marked to market daily, having a value equal to or greater than the Fund's purchase commitments with respect to certain investments.

Restricted Securities: The Fund may invest up to 20% of its total assets in securities which are not readily marketable, including those which are restricted as to disposition under securities law (restricted securities).

Cash Flow Information: The Fund invests in securities and distributes dividends from net investment income which are paid in cash or are reinvested at the discretion of shareholders. These activities are reported in the Statement of Changes in Net Assets and additional information on cash receipts and cash payments is presented in the Statement of Cash Flows.

Accounting practices that do not affect reporting activities on a cash basis include carrying investments at value, accruing income on PIK (payment-in-kind) securities and accreting market discounts and amortizing premiums on debt obligations.

Foreign Currency Translation: The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars on the following basis:

(i) market value of investment securities, other assets and liabilities at the current rates of exchange.

(ii) purchases and sales of investment securities, income and expenses at the rates of exchange prevailing on the respective dates of such transactions.

Although the net assets of the Fund are presented at the foreign exchange rates and market values at the close of the period, the Fund does not isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of the securities held at the end of the period. Similarly, the Fund does not isolate the effect of changes in foreign

exchange rates from the fluctuations arising from changes in the market prices of long-term debt securities sold during the period. Accordingly, such realized foreign currency gains or losses are included in the reported net realized gains or losses on investment transactions.

Net realized gains or losses on foreign currency transactions represent net foreign exchange gains or losses from sales and maturities of short-term securities and forward currency contracts, disposition of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of interest, discount and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent amounts actually received or paid. Net currency gains or losses resulting from the valuing of foreign currency denominated assets (excluding investments) and liabilities at year-end exchange rates are reflected as a component of net unrealized appreciation or depreciation on investments and foreign currencies.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. companies as a result of, among other factors, the possibility of political or economic instability and the level of governmental supervision and regulation of foreign securities markets.

Security Transactions and Investment Income: Security transactions are recorded on the trade date. Realized and unrealized gains (losses) from securities transactions are calculated on the identified cost basis. Interest income, which is comprised of stated coupon rate, original issue discount, market discount and premium, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Expenses are recorded on the accrual basis.

Taxes: For federal income tax purposes, it is the Fund's policy to continue to meet the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable net income and capital gains, if any, to its shareholders. Therefore, no federal income tax provision is required.

Dividends and Distributions: The Fund expects to pay dividends of net investment income monthly and make distributions of net realized capital and currency gains, if any, annually. Dividends and distributions to shareholders, which are determined in accordance with United States federal income tax regulations and which may differ from generally accepted accounting principles, are recorded on the ex-dividend date. Permanent book/tax differences relating to income and gains are reclassified amongst undistributed net investment income, accumulated net realized gain or loss and paid-in capital in excess of par, as appropriate.

Notes to Financial Statements

Cont d

Estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Note 2. Agreements

The Fund has a management agreement with Prudential Investments LLC (PI). Pursuant to this agreement, PI has responsibility for all investment advisory services and supervises the subadviser s performance of such services. PI has entered into a subadvisory agreement with Prudential Investment Management, Inc. (PIM). PIM furnishes investment advisory services in connection with the management of the Fund. PI pays for the services of PIM, the compensation of officers and employees of the Fund, occupancy and certain clerical and bookkeeping costs of the Fund. The Fund bears all other costs and expenses.

The management fee paid to PI is computed weekly and payable monthly, at an annual rate of .70 of 1% of the average weekly net assets of the Fund.

PI and PIM are indirect, wholly-owned subsidiaries of The Prudential Financial, Inc. (The Prudential).

Note 3. Portfolio Securities

Purchases and sales of investment securities, other than short-term investments, for the year ended August 31, 2004 aggregated \$84,555,194 and \$86,875,687, respectively.

Note 4. Tax Information

In order to present undistributed net investment income and accumulated net realized gains (losses) on the Statement of Assets and Liabilities that more closely represent their tax character, certain adjustments have been made to undistributed net investment income and accumulated net realized gain (loss) on investments. For the year ended August 31, 2004, the adjustments were to increase undistributed net investment income by \$351,312, decrease accumulated net realized loss on investments by \$3,039,895, and decrease paid-in capital in excess of par by \$3,391,207 primarily due to the difference in the treatment of accreting market

discount between financial and tax reporting and the expiration of a capital loss carryforward in the current year. Net investment income, net realized gains and net assets were not affected by this change.

For the years ended August 31, 2004 and August 31, 2003, the tax character of total dividends paid, as reflected on the Statement of Changes in Net Assets, of \$6,581,949 and \$6,199,416, respectively, was ordinary income.

As of August 31, 2004, the accumulated undistributed earnings on a tax basis was \$54,314 of taxable ordinary income. The tax basis differs from the amount shown on the Statement of Assets and Liabilities due to the deferral of Post-October net currency losses for tax purposes.

The United States federal income tax basis of the Fund's investments and the net unrealized appreciation as of August 31, 2004, were as follows:

Tax Basis of Investments	Appreciation	Depreciation	Other Cost Basis Adjustment	Net Unrealized Appreciation
\$86,736,552	\$4,500,758	\$(2,925,235)	\$(237)	\$1,575,286

The difference between book basis and tax basis was attributable to deferred losses on wash sales and differences in the treatment of premium and market discount amortization for book and tax purposes.

For federal income tax purposes, the Fund has a capital loss carryforward as of August 31, 2004 of approximately \$23,745,100, of which \$1,361,400 expires in 2007, \$3,336,700 expires in 2008, \$5,010,500 expires in 2009, \$6,960,200 expires in 2010 and \$7,076,300 expires in 2011. As of August 31, 2004, the Fund utilized approximately \$2,178,300 of its capital loss carryforward and approximately \$3,391,200 expired. Accordingly, no capital gains distribution is expected to be paid to shareholders until net realized gains have been realized in excess of such amounts. It is uncertain whether the Fund will be able to realize the full benefit prior to the expiration date. In addition, the Fund will elect to treat net currency losses of approximately \$2,900 incurred in the period November 1, 2003 through August 31, 2004, as having accrued in the following fiscal year.

Note 5. Borrowings

The Fund has a \$25,000,000 uncommitted line of credit with State Street Bank & Trust Co. Interest on any such borrowings outstanding fluctuates daily, at one percentage point over the Federal Funds rate.

Notes to Financial Statements

Cont d

The average daily balance outstanding and the maximum face amount of borrowings outstanding at any month end for the year ended August 31, 2004 was \$24,933,060 and \$25,000,000 respectively, at a weighted average interest rate of 2.13%.

Note 6. Capital

There are 200 million shares of \$.01 par value common stock authorized. Prudential owned 11,000 shares of common stock as of August 31, 2004.

During the year ended August 31, 2004 and the year ended August 31, 2003 the Fund issued 62,514 and 80,566 shares, respectively, in connection with the reinvestment of dividends.

Note 7. Change in Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP was previously the independent registered public accounting firm for the Fund. The decision to change the independent registered public accounting firm was approved by the Audit Committee and by the Board of Directors in a meeting held on May 25, 2004, resulting in KPMG LLP's appointment as the independent registered public accounting firm of the Fund.

The reports on the financial statements of the Fund audited by PricewaterhouseCoopers LLP through the year ended August 31, 2003 did not contain an adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles. There were no disagreements between the Fund and PricewaterhouseCoopers LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures.

Note 8. Subsequent Events

On September 1 and October 1, 2004 the Board of Directors of the Fund declared dividends of \$.0425 per share payable on September 30 and October 29, 2004 respectively, to shareholders of record on September 15 and October 15, 2004, respectively.

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Financial Highlights

	Year Ended August 31, 2004
Per Share Operating Performance:	
Net Asset Value, Beginning Of Year(a)	\$ 5.25
Net investment income	.50
Net realized and unrealized gain (loss) on investments	.39
Total from investment operations	.89
Dividends paid to shareholders from net investment income	(.57)
Distributions to shareholders in excess of net investment income	
Return of capital distributions	
Total dividends and distributions	(.57)
Net asset value, at end of year(a)	\$ 5.57
Market price per share, end of year(a)	\$ 5.93
Total Investment Return(b)	25.47%
Ratios/Supplemental Data:	
Net assets, end of year (000)	\$ 64,471
Average net assets (000)	\$ 63,724
Ratio to average net assets:	
Expenses, before loan interest	1.48%
Total expenses	2.31%
Net investment income	9.05%
Portfolio turnover rate	98%
Asset coverage	358%
Total debt outstanding at year-end (000)	\$ 25,000

(a) NAV and market value are published in *The Wall Street Journal* each Monday.

(b) Total investment return is calculated assuming a purchase of common stock at the current market price on the first day and a sale at the closing market price on the last day of each year reported. Dividends are assumed, for the purpose of this calculation, to be reinvested at prices obtainable under the Fund's dividend reinvestment plan. This amount does not reflect brokerage commissions.

(c) Less than \$.005 per share.

* Effective September 1, 2001 the fund has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began accreting market discount on debt securities. The effect of this change for the year ended August 31, 2002 was to decrease net investment income per share by \$0.02 and increase net realized and unrealized gain (loss) per share by \$0.02 and decrease the ratio of net investment income from 11.40% to 11.15%. Per share amounts and ratios for the years prior to August 31, 2002 have not been restated to reflect this change in presentation.

See Notes to Financial Statements.

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	Year Ended August 31,			
2003	2002*	2001	2000	
\$ 4.53	\$ 5.42	\$ 6.07	\$ 6.62	
.52	.57	.62	.63	
.74	(.90)	(.67)	(52)	
1.26	(.33)	(.05)	.11	
(.54)	(.56)	(.60)	(64)	
			(02) ^(c)	
(.54)	(.56)	(.60)	(66)	
\$ 5.25	\$ 4.53	\$ 5.42	\$ 6.07	
\$ 5.23	\$ 4.67	\$ 5.95	\$ 5.69	
24.52%	(12.52)%	16.68%	(5.98)%	
\$ 60,446	\$ 51,806	\$ 61,519	\$ 68,660	
\$ 55,261	\$ 56,741	\$ 64,140	\$ 71,239	
1.44%	1.31%	1.23%	1.16%	
2.38%	2.33%	3.11%	2.95%	
10.93%	11.15%	11.00%	10.01%	
118%	133%	81%	88%	
347%	349%	424%	427%	
\$ 24,500	\$ 21,000	\$ 19,000	\$ 21,000	

See Notes to Financial Statements.

The High Yield Income Fund, Inc. 37

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

The High Yield Income Fund, Inc.:

We have audited the accompanying statement of assets and liabilities of The High Yield Income Fund, Inc. (the Fund), including the portfolio of investments, as of August 31, 2004, and the related statement of operations, the statement of changes in net assets, statement of cash flows, and the financial highlights for the year then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit. The statement of changes in net assets for the year ended August 31, 2003 and the financial highlights for the periods presented prior to the year ended August 31, 2004, were audited by other auditors, whose report dated, October 22, 2003, expressed an unqualified opinion thereon.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of August 31, 2004, by correspondence with the custodian. As to securities purchased or sold but not yet received or delivered, we performed other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Fund, as of August 31, 2004, and the results of its operations, the changes in its net assets, its cash flows and the financial highlights for the year then ended, in conformity with U.S. generally accepted accounting principles.

New York, New York

October 20, 2004

Tax Information

(Unaudited)

We wish to advise you as to the federal tax status of dividends paid by the Fund during its fiscal year ended August 31, 2004.

During the fiscal year ended August 31, 2004, the Fund paid dividends of ordinary income of \$0.57 per share from net investment income. Further, we wish to advise you that 1.00% of the dividends taxable as ordinary income and paid in the fiscal year ended August 31, 2004 qualified for corporate dividend received deduction available to corporate taxpayers.

For the purpose of preparing your 2004 annual federal income tax return, however, you should report the amounts as reflected on the appropriate Form 1099 DIV which will be mailed to you in January 2005.

Other Information

(Unaudited)

The Board of Directors of the Fund has delegated to the Fund's investment advisers the responsibility for voting any proxies and maintaining proxy recordkeeping with respect to the Fund. A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available without charge, upon request, by calling toll free (800) 451-6788 or by accessing the Commission's website at <http://www.sec.gov>. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30, 2004, is available on the Commission's website at <http://www.sec.gov>.

The Fund files its complete schedule of portfolio holdings for the Fund's first and third quarters of each fiscal year on Form N-Q with the Securities and Exchange Commission (the Commission). The Fund's Form N-Q is available on the Commission's website at <http://www.sec.gov>. The Fund's Form N-Q may be reviewed and copied at the Commission's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Management of the Fund

(Unaudited)

Information pertaining to the Directors of the Fund is set forth below. Directors who are not deemed to be interested persons of the Fund, as defined in the Investment Company Act of 1940 are referred to as Independent Directors. Directors who are deemed to be interested persons of the Fund are referred to as Interested Directors. Fund Complex consists of the Fund and any other investment companies managed by PI.

Independent Directors⁽²⁾

David E.A. Carson (70), Director since 2003⁽³⁾ Oversees 97 portfolios in Fund complex

Principal occupations (last 5 years): Director (January 2000 to May 2000), Chairman (January 1999 to December 1999), Chairman and Chief Executive Officer (January 1998 to December 1998) and President, Chairman and Chief Executive Officer (1983-1997) of People's Bank.

Other Directorships held:⁽⁴⁾ Director of United Illuminating and UIL Holdings (utility company), since 1993.

Robert E. La Blanc (70), Director since 2003⁽³⁾ Oversees 100 portfolios in Fund complex

Principal occupations (last 5 years): President (since 1981) of Robert E. La Blanc Associates, Inc. (telecommunications); formerly General Partner at Salomon Brothers and Vice-Chairman of Continental Telecom; Trustee of Manhattan College.

Other Directorships held:⁽⁴⁾ Director of Storage Technology Corporation (technology) (since 1979), Chartered Semiconductor Manufacturing, Ltd. (since 1998); Titan Corporation (electronics) (since 1995), Computer Associates International, Inc. (software company) (since 2002); FiberNet Telecom Group, Inc. (telecom company) (since 2003); Director (since April 1999) of the High Yield Plus Fund, Inc.

Douglas H. McCorkindale (65), Director since 2003⁽³⁾ Oversees 93 portfolios in Fund complex

Principal occupations (last 5 years): Chairman (since February 2001), Chief Executive Officer (since June 2000) and President (since September 1997) of Gannett Co. Inc. (publishing and media); formerly Vice Chairman (March 1984-May 2000) of Gannett Co., Inc.

Other Directorships held:⁽⁴⁾ Director of Gannett Co. Inc., Director of Continental Airlines, Inc. (since May 1993); Director of Lockheed Martin Corp. (aerospace and defense) (since May 2001); Director of The High Yield Plus Fund, Inc. (since 1996).

Richard A. Redeker (61), Director since 1993⁽³⁾ Oversees 94 portfolios in Fund complex

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Principal occupations (last 5 years): Management Consultant; Director of Invesmart, Inc. (since 2001) and Director of Penn Tank Lines, Inc. (since 1999).

Other Directorships held:⁽⁴⁾ None.

Robin B. Smith (65), Director since 2003⁽³⁾ Oversees 99 portfolios in Fund complex

Principal occupations (last 5 years): Chairman of the Board (since January 2003) of Publishers Clearing House (direct marketing); formerly Chairman and Chief Executive Officer (August 1996-January 2003) of Publishers Clearing House.

Other Directorships held:⁽⁴⁾ Director of BellSouth Corporation (since 1992).

Stephen D. Stoneburn (61), Director since 2003⁽³⁾ Oversees 97 portfolios in Fund complex

Principal occupations (last 5 years): President and Chief Executive Officer (since June 1996) of Quadrant Media Corp. (a publishing company); formerly President (June 1995-June 1996) of Argus Integrated Media, Inc.; Senior Vice President and Managing Director (January 1993-1995) of Cowles Business Media and Senior Vice President of Fairchild Publications, Inc. (1975-1989).

Other Directorships held:⁽⁴⁾ None

Clay T. Whitehead (65), Director since 2003⁽³⁾ Oversees 98 portfolios in Fund complex

Principal occupations (last 5 years): President (since 1983) of National Exchange Inc. (new business development firm).

Other Directorships held:⁽⁴⁾ Director (since 2000) of the High Yield Plus Fund, Inc.

Interested Directors⁽¹⁾

Judy A. Rice (56), President since 2003 and Director since 2000⁽³⁾ Oversees 101 portfolios in Fund complex

Principal occupations (last 5 years): President, Chief Executive Officer, Chief Operating Officer and Officer-in-Charge (since 2003) of PI; Director, Officer-in-Charge, President, Chief Executive Officer and Chief Operating Officer (since May 2003) of American Skandia Advisory Services, Inc. and American Skandia Investment Services, Inc.; Director, Officer-in-Charge, President, Chief Executive Officer (since May 2003) of American Skandia Fund Services, Inc.; Vice President (since February 1999) of Prudential Investment Management Services LLC; President, Chief Executive Officer and Officer-in-Charge (since April 2003) of Prudential Mutual Fund Services LLC; formerly various positions to Senior Vice President (1992-1999) of Prudential Securities; and various positions to Managing Director (1975-1992) of Salomon Smith Barney; Member of Board of Governors of the Money Management Institute.

Other Directorships held:⁽⁴⁾ None

Robert F. Gunia (57), Vice President and Director since 1996⁽³⁾ Oversees 175 portfolios in Fund complex

Principal occupations (last 5 years): Chief Administrative Officer (since June 1999) of PI; Executive Vice President and Treasurer (since January 1996) of PI; President (since April 1999) of Prudential Investment Management Services LLC (PIMS); Corporate Vice President (since September 1997) of The Prudential Insurance Company of America (Prudential); Director, Executive Vice President and Chief Administrative Officer (since May 2003) of American Skandia Investment Services, Inc., American Skandia Advisory Services, Inc. and American Skandia Fund Services, Inc.; Executive Vice President (since March 1999) and Treasurer (since May 2000) of Prudential Mutual Fund Services LLC; formerly Senior Vice President (March 1987-May 1999) of Prudential Securities.

Other Directorships held:⁽⁴⁾ Vice President and Director (since May 1989) and Treasurer (since 1999) of The Asia Pacific Fund, Inc.

Information pertaining to the Officers of the Fund who are not also Directors is set forth below.

Officers⁽²⁾

William V. Healey (51), Chief Legal Officer since 2004⁽³⁾

Principal occupations (last 5 years): Vice President and Associate General Counsel (since 1998) of Prudential; Executive Vice President and Chief Legal Officer (since February 1999) of Prudential Investments LLC; Senior Vice President, Chief Legal Officer and Secretary (since December 1998) of Prudential Investment Management

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Management of the Fund

(Unaudited) Cont d.

Services LLC; Executive Vice President and Chief Legal Officer (since February 1999) of Prudential Mutual Fund Services LLC; Vice President and Secretary (since October 1998) of Prudential Investment Management, Inc., Executive Vice President and Chief Legal Officer (since May 2003) of American Skandia Investment Services, Inc., American Skandia Fund Services, Inc. and American Skandia Advisory Services, Inc.; Director (June 1999-June 2002 and June 2003-present) of ICI Mutual Insurance Company; prior to August 1998, Associate General Counsel of the Dreyfus Corporation (Dreyfus), a subsidiary of Mellon Bank, N.A. (Mellon Bank), and an officer and/or director of various affiliates of Mellon Bank and Dreyfus.

Deborah A. Docs (46), Secretary since 1999; Assistant Secretary (1997-1999)

Principal occupations (last 5 years): Vice President and Corporates Counsel (since January 2001) of Prudential; Vice President and Assistant Secretary (since December 1996) of PI; Vice President and Assistant Secretary (since May 2003) of American Skandia Investment Services, Inc.

Lee D. Augsburger (45), Chief Compliance Officer since 2004⁽³⁾

Principal occupations (last 5 years): Vice President and Chief Compliance Officer (since May 2003) of PI; Vice President and Chief Compliance Officer (since October 2000) of Prudential Investment Management, Inc.; formerly Vice President and Chief Legal Officer - Annuities (August 1999-October 2000) of Prudential Insurance Company of America; Vice President and Corporate Counsel (November 1997-August 1999) of Prudential Insurance Company of America.

Grace C. Torres (45), Treasurer and Principal Financial and Accounting Officer since 1997⁽³⁾

Principal occupations (last 5 years): Senior Vice President (since January 2000) of PI; Senior Vice President and Assistant Treasurer (since May 2003) of American Skandia Investment Services, Inc. and American Skandia Advisory Services, Inc.; formerly First Vice President (December 1996-January 2000) of PI and First Vice President (March 1993-1999) of Prudential Securities.

Jonathan D. Shain (46), Assistant Secretary since 2004⁽³⁾

Principal occupations (last 5 years): Vice President and Corporate Counsel (since August 1998) of Prudential; Vice President and Assistant Secretary (since May 2003) of American Skandia Investment Services, Inc. and American Skandia Fund Services, Inc.

The Fund Complex consists of all investment companies managed by PI. The Funds for which PI serves as manager include JennisonDryden Mutual Funds, Strategic Partners Funds, The Prudential Variable Contract Accounts 2, 10, 11, The Target Portfolio Trust, The Prudential Series Fund, Inc., American Skandia Trust, and Prudential's Gibraltar Fund.

⁽¹⁾ Interested Director, as defined in the 1940 Act, by reason of employment with the Manager (Prudential Investments LLC or PI), the Subadviser (Prudential Investment Management, Inc. or PIM) or the Distributor (Prudential Investment Management Services LLC or PIMS).

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⁽²⁾ Unless otherwise noted, the address of the Directors and Officers is c/o: Prudential Investments LLC, Gateway Center Three, 100 Mulberry Street, Newark, NJ 07102.

⁽³⁾ There is no set term of office for Directors and Officers. The Independent Directors have adopted a retirement policy, which calls for the retirement of Directors on December 31 of the year in which they reach the age of 75. The table shows the individuals length of service as Director and/or Officer.

(4) This includes only directorships of companies requested to register, or file reports with the SEC under the Securities and Exchange Act of 1934 (that is, public companies) or other investment companies registered under the 1940 Act.

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MAIL

Gateway Center Three

100 Mulberry Street

Newark, NJ 07102-4077

TELEPHONE

(800) 451-6788

DIRECTORS

David E. A. Carson Robert F. Gunia Robert E. La Blanc Douglas H. McCorkindale

Richard A. Redeker Judy A. Rice Robin B. Smith Stephen D. Stoneburn

Clay T. Whitehead

OFFICERS

Judy A. Rice, *President* Robert F. Gunia, *Vice President* Grace C. Torres, *Treasurer and Principal Financial and Accounting Officer* Deborah A. Docs, *Secretary* Jonathan D. Shain, *Assistant Secretary* William V. Healey, *Chief Legal Officer* Lee D. Augsburg, *Chief Compliance*