

HIGH YIELD INCOME FUND INC
Form N-CSR
November 08, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES

Investment Company Act file number:	811-05296
Exact name of registrant as specified in charter:	The 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:	8/31/2005
Date of reporting period:	8/31/2005

Item 1 Reports to Stockholders

ANNUAL REPORT

AUGUST 31, 2005

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 8/31/05

	Total Return 12 Months	NAV 8/31/05	Market Price 8/31/05
High Yield Income Fund ¹	9.95%	\$ 5.61	\$ 5.43
Lehman Brothers U.S. Corporate High Yield Index ²	9.35	N/A	N/A
Lehman Brothers U.S. Corporate High Yield 2% Issuer Capped Index ²	9.10	N/A	N/A
Lipper Closed-End High Current Yield Funds Avg ³	11.92	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 (9/1/04) through the end (8/31/05) 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. Beginning in September 2005, the Fund's performance will be compared to the Lehman Brothers U.S. Corporate High Yield 2% Issuer Capped Index in place of the Lehman Brothers U.S. Corporate High Yield Index as one of the Fund's benchmarks. The Lehman Brothers U.S. Corporate High Yield 2% Issuer Capped Index better represents the composition of the Fund. In particular, the Fund generally maintains positions of 2% or less per issuer (although the Fund may hold positions greater than that amount). The Lehman Brothers U.S. Corporate High Yield 2% Issuer Capped Index is an unmanaged index of fixed-rate, noninvestment-grade debt securities with at least one year remaining to maturity. However, the representation of any single bond issuer is restricted to a maximum of 2% of the total index. 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 8/31/05

**Total Monthly Dividends
Paid per Share
12 Months**
\$0.495

Yield at Market Price
9.12%

Investment Adviser's Report

Prudential Investment Management, Inc.

U.S. high yield bond market resilient in a challenging year

The U.S. high yield bond market coped well with the challenges that arose during the 12-month period that began September 1, 2004. The high yield market returned 9.35% for the year ended August 31, 2005, according to the Lehman Brothers U.S. Corporate High Yield Index (the Index). The Fund exceeded the Index by returning 9.95% for the period, but lagged the 11.92% return of the Lipper Closed-End High Current Yield Funds Average (the Lipper Average).

Several favorable characteristics contributed to the resiliency of the high yield market. Investors searching for attractive yields often looked to high yield bonds amid a lack of alternative investment opportunities. The default rate on high yield bonds remained low, reflecting corporate earnings growth and a generally declining level of debt on corporate balance sheets. Many companies also generated free cash flow, which improved their liquidity. These factors helped draw investors back to the high yield market after it sold off in the spring of 2005 due to trouble in the U.S. automotive industry and to fear that the Federal Reserve (the Fed) might speed up its measured pace of short-term interest-rate hikes to curb inflationary pressures.

Limited exposure to automotive sector aided Fund

The situation in the U.S. auto industry took a turn for the worse in mid-March 2005. General Motors Corp. (GM) slashed its earnings forecast, reflecting its declining share of the North American auto market. Initially this news weighed heavily on prices of auto bonds and other high yield bonds because the debt securities of GM, one of the largest issuers of corporate bonds, would pour into the high yield market if they were downgraded to below investment grade. As it turned out, the credit ratings of both GM and Ford Motor Co. (Ford) were cut to high yield status. Nevertheless, beginning in mid-May 2005, it became increasingly clear that the process of absorbing these auto manufacturers' bonds into the high yield market would proceed more smoothly than expected. In addition, economic data released during that time suggested that the Fed would not have to raise short-term rates more aggressively as inflationary pressures were surprisingly tame. These favorable developments encouraged bargain hunting in the high yield market, which helped bond prices generally improve for much of the remainder of the Fund's reporting period.

With that said, the Fund still benefited from having an underweight exposure to auto bonds relative to the Index. This was particularly true in the case of auto parts suppliers, which face a tough operating environment due to production cutbacks at GM and Ford. We sold bonds of auto parts supplier Collins & Aikman Products Co. in early 2005 long before it filed to reorganize under Chapter 11 of the U.S. Bankruptcy Code in May 2005. The Fund had a very limited exposure to Delphi Corp., another auto parts supplier that filed for bankruptcy protection on October 8, 2005, which was after the reporting period ended. As noted previously, the Fund's relative

performance benefited from an underweight exposure to auto bonds like Delphi's. We expect, however, Delphi's bankruptcy to detract slightly from the Fund's return in the next reporting period.

Fund held too few telecommunications bonds

The Fund also had an underweight exposure to another key sector of the high yield market—telecommunications. Telecom bonds performed particularly well amid a wave of proposed mergers and acquisitions such as local telephone carrier Verizon Communications Inc.'s bid to purchase long-distance carrier MCI Inc. While the Fund held bonds of MCI, AT&T Corp., Nextel Communications, Inc., and other telecom positions that gained in value, its underweight exposure to the sector detracted from its performance relative to the Index.

Leverage remained critical factor in Fund's performance

The Fund continued to employ leverage, which refers to the practice of taking out a relatively low-interest loan against a percentage of portfolio assets and investing the money back into the high yield market. Leverage can materially enhance a portfolio's return when the underlying bonds gain in value, or it can detract from a portfolio's return when the underlying bonds decline in value. We believe the Fund's use of leverage, which declined late in the reporting period, was among the factors that helped it outperform the Index. Meanwhile, 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 the Lipper Average.

Commodity-oriented holdings aided the Fund

Credit trends remained generally positive in cyclical sectors such as chemicals, paper, and steel. We are concerned, nevertheless, that the financial health of companies in these economically sensitive industries could suffer if rising interest rates and high oil prices negatively affect their businesses. With this in mind, we trimmed the Fund's exposure to bonds of chemical company Rhodia S.A. and paper manufacturer Georgia-Pacific Corp. by taking profits on some of them. We continued to hold the bonds of several commodity producers, such as Huntsman Group Inc. (chemicals) and Mittal Steel Co. N.V. bonds, which performed well even though steel prices softened in the second quarter of 2005.

One bond that helped Fund's performance, and one that did not

Individual security selection remained critical to successful investing in the high yield arena, particularly in an investment environment characterized by rising short-term interest rates and rising energy prices. We continued to focus on bottom-up, credit-intensive security selection to identify those companies that are more likely to remain

Investment Adviser's Report (continued)

profitable even if the economy loses steam. Some of our selections worked well while others did not. The Fund held securities of Premium Standard Farms Inc. that gained in value as the company successfully completed an initial public offering of stock. In contrast, the Fund owned bonds of Anchor Glass Container Corp. that declined in value. Escalating business costs and declining demand for glass pushed the firm to file for reorganization under Chapter 11 of the U.S. Bankruptcy Code in August 2005.

Fund benefited from select emerging-market exposure

Emerging-market bonds performed particularly well during the reporting period. Rapidly expanding emerging-market economies, comparatively attractive yields, and improving credit ratings encouraged investment in these bonds. However, because the market for bonds of developing nations can be very volatile, we limited the Fund's exposure to a few issues such as the restructured sovereign bonds of the Republic of Argentina. They gained in value after the government of Argentina announced it had successfully completed the process in which investors exchanged defaulted bonds for the new restructured bonds. The restructured bonds were subsequently upgraded by Standard & Poor's Ratings Services.

Schedule of Investments

August 31, 2005

	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
LONG-TERM INVESTMENTS 131.5%					
CORPORATE BONDS 127.9%					
Aerospace/Defense 2.9%					
Alliant Techsystems, Inc., Sr. Sub. Notes	B2	8.50%	5/15/11	\$ 200	\$ 211,000
Argo-Tech Corp., Sr. Notes	B3	9.25	6/1/11	55	60,225
BE Aerospace, Inc., Sr. Sub. Notes, Ser. B	Caa2	8.00	3/1/08	50	50,000
Sr. Sub. Notes, Ser. B	Caa2	8.875	5/1/11	235	245,575
Esterline Technologies Corp., Sr. Sub. Notes	B1	7.75	6/15/13	300	318,000
K&F Acquisition, Inc., Sr. Sub. Notes	Caa1	7.75	11/15/14	150	153,375
L-3 Communications Corp., Sr. Sub. Notes	Ba3	7.625	6/15/12	325	344,500
Sequa Corp., Sr. Notes, Ser. B	B1	8.875	4/1/08	200	213,000
Standard Aerospace Holdings, Inc., Sr. Sub. Notes	Caa1	8.25	9/1/14	125(h)	125,000
TransDigm, Inc., Sr. Sub. Notes	B3	8.375	7/15/11	180	190,800
					1,911,475
Airlines 0.4%					
AMR Corp., Deb.	Caa2	10.00	4/15/21	125	81,875
M.T.N., Ser. B	CCC(d)	10.40	3/10/11	100	73,500
Delta Air Lines, Inc., Notes	Ca	8.30	12/15/29	140	23,450
Continental Airlines, Inc., Pass thru Certs., Ser. 1998-1, Class B	Ba2	6.748	3/15/17	97	83,118
Northwest Airlines Corp., Sr. Notes	Caa3	10.00	2/1/09	25	10,875
					272,818
Automotive 5.3%					
ArvinMeritor, Inc., Notes	Ba2	8.75	3/1/12	495	513,562
Delphi Corp., Notes	Ca	6.50	5/1/09	65	52,163
Ford Motor Credit Co., Notes	Baa3	7.875	6/15/10	575	578,052
General Motors Acceptance Corp., Notes	Ba1	6.125	9/15/06	350	351,353
Notes	Ba1	6.875	8/28/12	400	376,028
Notes	Ba1	6.75	12/1/14	100	91,976

See Notes to Financial Statements.

The High Yield Income Fund, Inc. 5

Schedule of Investments

August 31, 2005 Cont d.

	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
Goodyear Tire & Rubber Co., Sr. Notes	B3	9.00%	7/1/15	\$ 150(h)	\$ 150,000
Lear Corp., Sr. Notes, Ser. B	Ba2	8.11	5/15/09	155	161,538
Navistar International Corp., Sr. Notes	Ba3	7.50	6/15/11	120	121,500
Tenneco Automotive, Inc., Sr. Sub. Notes	B3	8.625	11/15/14	175	181,563
TRW Automotive, Inc., Sr. Notes	Ba3	9.375	2/15/13	276	306,360
Sr. Sub. Notes	B1	11.00	2/15/13	50	57,500
Visteon Corp., Sr. Notes	B3	8.25	8/1/10	250	242,500
Sr. Notes	B3	7.00	3/10/14	305	269,925
					3,454,020
Banking 0.7%					
Halyk Savings Bank Kazahstan, Notes (Kazahstan)	Baa2	8.125	10/7/09	100(c)(h)	106,400
Kazkommerts International BV, Gtd. Notes (Netherlands)	Baa2	8.50	4/16/13	205(c)(h)	220,888
Notes (Netherland)	Baa2	7.00	11/3/09	105(c)(h)	107,756
					435,044
Building Materials 2.4%					
Beazer Homes USA, Inc., Sr. Notes	Ba1	8.625	5/15/11	110	116,325
D.R. Horton, Inc., Sr. Notes	Ba1	8.00	2/1/09	375	406,677
KB HOME Notes	Ba1	6.375	8/15/11	150	153,415
Sr. Sub. Notes	Ba2	8.625	12/15/08	160	172,277
Nortek, Inc., Sr. Sub. Notes	Caa1	8.50	9/1/14	300	291,750
Standard Pacific Corp., Sr. Notes	Ba2	6.50	8/15/10	425	421,813
					1,562,257
Cable 3.3%					
Callahan Nordrhein-Westfalen, (Germany), Sr. Disc. Notes, (cost \$296,038; purchased 6/29/00)	NR	16.00	7/15/10	500(a)(c)(f)	45,000
Charter Communications Operating LLC, Sr. Notes	B2	8.375	4/30/14	100(h)	100,750

See Notes to Financial Statements.

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	Moody's Rating (Unaudited)	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
Charter Communications Holdings II, Sr. Notes	Caa1	10.25%	9/15/10	\$ 325	\$ 335,563
Charter Communications Holdings LLC, Sr. Disc. Notes, Zero Coupon (until 5/15/06)	Ca	Zero	5/15/11	500	338,750
Sr. Notes	Ca	10.75	10/1/09	100	85,000
Sr. Notes	Ca	10.25	1/15/10	195	158,925
Sr. Notes	Ca	11.125	1/15/11	400	307,000
Sr. Notes	Ca	10.00	5/15/11	200	149,500
CSC Holdings, Inc., Sr. Notes	B1	7.875	12/15/07	350	360,500
Sr. Notes, Ser. B	B1	8.125	7/15/09	75	76,875
Kabel Deutschland GmbH, Sr. Notes (Germany)	B2	10.625	7/1/14	200(c)(h)	223,500
					2,181,363
Capital Goods 6.2%					
ALH Finance LLC, Sr. Sub. Notes	B3	8.50	1/15/13	200	193,500
Allied Waste North America, Inc.					