HIGH YIELD INCOME FUND INC
Form N-CSR
November 06, 2008

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:	8/31/2008
Date of reporting period:	8/31/2008

Item 1 Reports to Stockholders

ANNUAL REPORT

AUGUST 31, 2008

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 objectives

The primary investment objective of **The High Yield Income Fund, Inc.** 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 8/31/08

	Total Return 12 Months	**NAV 8/31/08**	**Market Price 8/31/08**
The High Yield Income Fund[1]	1.50%	$ 4.93	$ 4.31
Lehman Brothers U.S. Corporate High Yield 1% Issuer Capped Index[2]	0.44	N/A	N/A
Prior Index[3]	0.66	N/A	N/A
Lipper Closed-End High Current Yield Funds (Leveraged) Avg.[4]	14.03	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.

[1]Source: Prudential Investments LLC. Total return of the Fund represents the change in net asset value from the beginning of the period (9/1/07) through the end (8/31/08) 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.

[2]Source: Lehman Brothers. The Lehman Brothers U.S. Corporate High Yield 1% Issuer Capped Index (1% Issuer Capped Index) covers the universe of U.S. dollar denominated, non-convertible, fixed rate, noninvestment grade debt. Issuers are capped at 1% of the Index. Index holdings must have at least one year to final maturity, at least $150 million par amount outstanding, and be publicly issued with a rating of Ba1 or lower. Index returns do not include the effect of any sales charges, mutual fund operating expenses or taxes.

[3]Source: Lehman Brothers. The Lehman Brothers U.S. Corporate High Yield 2% Issuer Capped Index (the Prior 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.

[4]Source: Lipper Inc. These are the average returns of 31 funds in the Closed-End High Current Yield Funds (Leveraged) category for 12 months.

Your Fund s Performance (continued)

Investors cannot invest directly in an index.

Yield and Dividend as of 8/31/08

Total Monthly Dividends Paid per Share 12 Months	**Yield at Market Price[5]**
$0.4575	10.61%

[5]Yield at market price is determined by dividing total monthly dividends paid per share during the 12 months ended August 31, 2008 by the market price per share as of August 31, 2008.

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Strategy and Performance Overview

How did the Fund perform?

The Fund returned 1.50% for its 12-month reporting period ended August 31, 2008, outperforming the 0.44% decline of the Lehman Brothers U.S. Corporate High Yield 1% Issuer Capped Index (the Index) and significantly beating the 14.03% decline of the Lipper Closed-End High Current Yield Funds (Leveraged) Average.

What were conditions like in the U.S. high yield market?

Early in the reporting period, the Federal Reserve (the Fed) tried to prevent a rising tide of delinquencies and foreclosures on subprime mortgages from engulfing the broader U.S. economy. The Fed cut its target for the federal funds rate charged on overnight loans between banks to 4.75% from 5.25% in September 2007. It hoped that lower borrowing costs would encourage companies to continue expanding their businesses and consumers to spend freely for goods and services. Initially, the rate cut buoyed financial markets, and high yield bond prices gained in September and October 2007, only to turn sharply lower as the reporting period continued.

It became increasingly clear that more aggressive, inventive measures were needed to support the economy and ease stresses in the credit markets. Wall Street investment banks and commercial banks were forced to write down billions of dollars of debt securities linked to the risky mortgages. Commercial banks grew reluctant to lend money to each other, businesses, and consumers. The U.S. economy shed thousands of jobs, housing prices continued to fall, and the inventory of houses for sale climbed.

A concerned Fed acted decisively. It repeatedly eased monetary policy, pushing down its target for the federal funds rate to 2.00%. In addition, the Fed allowed Wall Street investment banks to borrow money from its discount window on much the same terms as commercial banks. It also helped facilitate JP Morgan Chase & Co. s hurried acquisition of Bear Stearns Cos. at a deep discount before the latter slid into bankruptcy. The Fed s decision to help initially cheered financial markets, helping high yield bond prices soar in April 2008. But the downturn in the high yield market soon resumed.

As the credit crisis worsened, investors grew more risk averse. Many continued to seek safe haven in U.S. Treasury securities, which are rated AAA because the federal government backs their interest and principal. Meanwhile, prices of riskier assets, including high yield bonds, repeatedly came under pressure, causing their yields to climb, as yields rise when bond prices fall. Consequently, the difference between yields on high yield bonds and 10-year U.S. Treasury notes ballooned, indicating that investors required significantly more compensation to invest in bonds rated below investment grade. Defaults on high yield bonds also edged higher as more companies failed to pay interest and/or principal on their debt securities.

Strategy and Performance Overview (continued)

Within the high yield market, the performance was mixed for the 12-month reporting period. The positive total return posted by bonds in the Ba rating category was wiped out by the sharp declines posted by bonds in the lower rating categories. Some market sectors such as healthcare, pharmaceuticals, telecommunications, and aerospace/defense finished in positive territory. In contrast, the airlines and automotive sectors, hard hit by soaring energy prices, as well as the building materials and financial institutions sectors, which were deeply affected by the credit crisis, ended the period with double-digit losses.

How was the Fund positioned during the reporting period?

Under the difficult market conditions, the Fund continued to favor shorter-term investments, whether high yield bonds or leveraged bank loans. The latter are loans made to below-investment-grade companies that have borrowed heavily to finance their businesses. Of the two, leveraged bank loans are the more conservative because, in most cases, they get paid off before high yield bonds when a company declares bankruptcy.

Commercial banks sell leveraged loans to mutual funds and other institutional investors to remove them from their balance sheets, thereby reducing the risk associated with lending. Wall Street firms also set up legal entities that purchase groups of loans and package them as collateralized loan obligations (CLOs) that are sold to institutional investors. Because there was a large amount of bank loans available and few newly issued CLOs, the Fund was able to increase its holdings of leveraged bank loans on very attractive terms.

The Fund also benefited from Prudential Fixed Income Management s sector allocation strategy that favored so-called defensive industries, that is those that tend to hold up well even when the broader economy weakens in the United States. Most notably, the Fund had a substantially larger exposure than the Index to the healthcare sector, which performed well. At the same time, the Fund had significantly smaller positions than the Index in the troubled automotive, building materials, and financial institutions sectors. Thus, the sector allocation strategy helped the Fund outperform the Index for the reporting period.

What were some of the key holdings that aided the Fund s return?

Two of the Fund s positions in the healthcare sector Accellent, Inc. and HCA, Inc. made the largest positive contribution to its return. Accellent provides design, engineering, and manufacturing services to companies that produce medical devices. HCA, a provider of healthcare services in the United States and England, owns more than 160 hospitals and more than 100 outpatient centers.

In the difficult investment environment, avoiding companies that defaulted on their bonds was just as important as selecting bonds of companies that performed well. For example, the Fund did not own bonds of SemGroup LP, an oil company included in the Index. SemGroup filed to reorganize under Chapter 11 of the U.S. Bankruptcy Code and defaulted on its bonds. Avoiding these debt securities helped the Fund outperform the Index.

What were some of the key holdings that hurt the Fund s return?

The Fund had a limited exposure to bonds that were pressured most by the malaise in the housing market. Yet it continued to have a larger exposure than the Index to debt securities of Realogy Corp., a real estate management and services firm based in New Jersey. Realogy bonds were one of the largest detractors from the Fund s return, but the Fund continues to hold them because Prudential Fixed Income Management still believes Realogy will gain market share as weaker competitors go out of business.

The Fund also owned bonds of Hawaiian Telecom Communications that tumbled in value, detracting from its return. The company suffered lingering systems problems that have weakened its competitive potential in the longer term.

How did Prudential Fixed Income Management employ leverage in the Fund?

Leverage refers to the practice of taking out a loan against a percentage of a portfolio s assets and investing the money back into the high yield market. It 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.

Shortly before the reporting period began, Prudential Fixed Income Management reduced the amount of leverage employed by the Fund because it believed valuations of high yield bonds did not accurately reflect the degree of risk in the market. However, the Fund increased borrowing during the reporting period to selectively take advantage of attractive investment opportunities created by the sell-off in the high yield market.

What is Prudential Fixed Income Management s outlook for the market?

Prudential Fixed Income Management maintains its cautious outlook for the U.S. high yield bond and leveraged bank loan markets, given that weak economic conditions are having a negative impact on companies that borrow heavily to finance their businesses. As previously mentioned, defaults on high yield bonds have already begun to edge higher. Prudential Fixed Income Management expects the default rate to rise by the end of 2008 to nearly 4.00%, its long-term average.

Strategy and Performance Overview (continued)

The high yield market is also expected to remain volatile well into 2009. That said, Prudential Fixed Income Management believes the downturn in the high yield market continues to create attractive investment opportunities. Even relatively minor disappointments in earnings have caused sharp sell-offs in the high yield bonds and bank loans of some generally solid companies. The Fund s portfolio managers and credit research analysts are working diligently to identify high yield bonds and bank loans that have become oversold and therefore represent good value.

Portfolio of Investments

as of August 31, 2008

	Moody s Rating	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
LONG-TERM INVESTMENTS 133.5%					
BANK LOANS 12.4%					
Cable 3.2%					
CSC Holdings, Bank Loan	Ba1	3.464%(h)	2/24/12	$ 1,922(f)	$ 1,827,896
Electric 1.6%					
Texas Competitive Electric Holdings Co. LLC,					
Bank Loan	Ba3	6.22(h)	10/10/14	224(f)	208,884
Bank Loan	Ba3	6.269(h)	10/10/14	746(f)	694,004
					902,888
Health Care & Pharmaceutical 1.9%					
HCA, Inc., Bank Loan	Ba3	5.306(h)	11/17/12	734(f)	685,871
Royalty Pharma Financial Trust, Bank Loan	Baa3	7.75	5/15/15	400(f)	397,500
					1,083,371
Media & Entertainment 0.9%					
Idearc, Inc., Bank Loan	Ba3	4.786(h)	11/17/14	746(f)	522,348
Paper 1.2%					
Georgia-Pacific LLC, Bank Loan	Ba2	4.466(h)	12/29/12	717(f)	677,003
Technology 2.7%					
Flextronics Intl., Bank Loan	Ba1	5.041(h)	10/01/12	995(f)	910,725
Sensata Technologies, Bank Loan	B1	4.543(h)	4/27/13	746(f)	655,251
					1,565,976
Telecommunications 0.9%					
Alltel Communications, Inc., Bank Loan	Ba3	5.314(h)	5/15/15	497(f)	491,648
Total bank loans (cost $7,167,672)					7,071,130
CORPORATE BONDS 121.1%					
Aerospace/Defense 4.5%					
BE Aerospace, Inc., Sr. Unsec d Notes	Ba3	8.50	7/01/18	300	312,750

See Notes to Financial Statements.

Portfolio of Investments

as of August 31, 2008 continued

	Moody s Rating	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
CORPORATE BONDS (Continued)					
Aerospace/Defense (cont d)					
DRS Technologies, Inc.,					
Gtd. Notes	B1	6.625%	2/01/16	$ 200	$ 206,000
Gtd. Notes	B3	7.625	2/01/18	400	421,000
Esterline Technologies Corp.,					
Sr. Sub. Notes	B1	7.75	6/15/13	300	300,000
L-3 Communications Corp.,					
Gtd. Notes	Ba3	7.625	6/15/12	400	407,000
Gtd. Notes, Ser. B	Ba3	6.375	10/15/15	300	287,250
Moog, Inc.,					
Sr. Sub. Notes	Ba3	6.25	1/15/15	300	283,500
Sr. Sub. Notes, 144A	Ba3	7.25	6/15/18	200	196,000
TransDigm, Inc., Gtd. Notes	B3	7.75	7/15/14	150	145,875
					2,559,375
Airlines 0.2%					
AMR Corp., M.T.N., Notes, Ser. B	CCC+(d)	10.40	3/10/11	100	72,000
Continental Airlines, Inc., Pass-Thru Certs., Ser. 1998-1, Class B (Sinkable, expected maturity 3/15/17)	Ba2	6.748	3/15/17	55	44,484
					116,484
Automotive 2.4%					
Ford Motor Credit Co.,					
Notes	B1	7.875	6/15/10	430	370,672
Sr. Unsec d Notes	B1	7.25	10/25/11	350	268,114
General Motors Corp.,					
Notes	Caa2	7.20	1/15/11	415	266,638
Sr. Notes	Caa2	7.125	7/15/13	50	27,000
Lear Corp., Gtd. Notes, Ser. B	B3	8.75	12/01/16	125	94,063
TRW Automotive, Inc., Gtd. Notes, 144A	Ba3	7.25	3/15/17	300	258,000
Visteon Corp., Sr. Notes	Caa2	7.00	3/10/14	135	66,825
					1,351,312
Banking 0.7%					
Halyk Savings Bank of Kazakhstan (Kazakhstan),					
Notes, 144A	Baa3	8.125	10/07/09	100(c)	101,000

See Notes to Financial Statements.

	Moody s Rating	Interest Rate	Maturity Date	Principal Amount (000)	Value (Note 1)
CORPORATE BONDS (Continued)					
Banking (cont d)					
Kazkommerts International BV (Netherlands),					
Gtd. Notes, 144A	Ba1	7.00%	11/03/09	$ 105(c)	$ 99,750
Gtd. Notes 144A	Ba1	8.50	4/16/13	205(c)	172,200
					372,950
Building Materials & Construction 1.8%					
Beazer Homes USA, Inc., Gtd. Notes	B2	8.625	5/15/11	110	86,900
D.R. Horton, Inc., Gtd. Notes	Ba2	8.00	2/01/09	750	750,000
KB Home, Notes	Ba2	6.375	8/15/11	150	138,000
Nortek, Inc., Sr. Sub. Notes	Caa1	8.50	9/01/14	100	61,000
					1,035,900
Cable 5.1%					
Charter Communications Holdings I LLC,					
Gtd. Notes	Caa3	10.00	5/15/14	99	49,005
Gtd. Notes	Caa3	11.125	1/15/14	198	99,000
Gtd. Notes	Caa3	11.75	5/15/14	500	267,500
Gtd. Notes	NR	11.00	10/01/15	4	3,050
Sec d. Notes	Caa3	11.00	10/01/15	300	230,250
CSC Holdings, Inc.,					
Debentures	B1	7.625	7/15/18	100	93,000
Debentures					