

SENIOR HIGH INCOME PORTFOLIO INC

Form N-CSRS

October 29, 2004

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

FORM N-CSRS

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT  
COMPANIES

Investment Company Act file number 811-7456

Name of Fund: Senior High Income Portfolio, Inc.

Fund Address: P.O. Box 9011  
Princeton, NJ 08543-9011

Name and address of agent for service: Terry K. Glenn, President,  
Senior High Income Portfolio, Inc., 800 Scudders Mill Road,  
Plainsboro, NJ, 08536. Mailing address: P.O. Box 9011,  
Princeton, NJ, 08543-9011

Registrant's telephone number, including area code: (609) 282-2800

Date of fiscal year end: 02/29/04

Date of reporting period: 03/01/04 - 08/31/04

Item 1 - Report to Stockholders

(BULL LOGO)  
Merrill Lynch Investment Managers

[www.mlim.ml.com](http://www.mlim.ml.com)

Senior High  
Income  
Portfolio, Inc.

Semi-Annual Report  
August 31, 2004

Senior High Income Portfolio, Inc. seeks to provide shareholders with as high a level of current income as is consistent with its investment policies and prudent investment management by investing principally in senior debt obligations of companies, including corporate loans made by banks and other financial institutions and both privately placed and publicly offered corporate bonds and notes. The Fund invests primarily in debt obligations that are rated in the lower rating categories of the established rating services (Baa or lower by Moody's Investors Service, Inc. or BBB or lower by

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

Standard & Poor's) or unrated debt investments of comparable quality.

This report, including the financial information herein, is transmitted to shareholders of Senior High Income Portfolio, Inc. for their information. It is not a prospectus. Past performance results shown in this report should not be considered a representation of future performance. The Fund leverages its Common Stock to provide Common Stock shareholders with a potentially higher rate of return. Leverage creates risk for Common Stock shareholders, including the likelihood of greater volatility of net asset value and market price of Common Stock shares, and the risk that fluctuations in short-term interest rates may reduce the Common Stock's yield. Statements and other information herein are as dated and are subject to change.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available (1) without charge, upon request, by calling toll-free 1-800-MER-FUND (1-800-637-3863); (2) at [www.mutualfunds.ml.com](http://www.mutualfunds.ml.com); and (3) on the Securities and Exchange Commission's Web site at <http://www.sec.gov>. Information about how the Fund voted proxies relating to securities held in the Fund's portfolio during the most recent 12-month period ended June 30 is available (1) at [www.mutualfunds.ml.com](http://www.mutualfunds.ml.com) and (2) on the Securities and Exchange Commission's Web site at <http://www.sec.gov>.

Senior High Income Portfolio, Inc.  
Box 9011  
Princeton, NJ  
08543-9011

(GO PAPERLESS LOGO)  
It's Fast, Convenient, & Timely!  
To sign up today, go to [www.icsdelivery.com/live](http://www.icsdelivery.com/live).

Senior High Income Portfolio, Inc.

### The Benefits and Risks of Leveraging

Senior High Income Portfolio, Inc. (the "Fund") utilizes leverage through borrowings or issuance of short-term debt securities or shares of Preferred Stock. The concept of leveraging is based on the premise that the cost of assets to be obtained from leverage will be based on short-term interest rates, which normally will be lower than the income earned by the Fund on its longer-term portfolio investments. To the extent that the total assets of the Fund (including the assets obtained from leverage) are invested in higher-yielding portfolio investments, the Fund's Common Stock shareholders will be the beneficiaries of the incremental yield.

Leverage creates risks for holders of Common Stock including the likelihood of greater net asset value and market price volatility.

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

In addition, there is the risk that fluctuations in interest rates on borrowings (or in the dividend rates on any Preferred Stock, if the Fund were to issue the Preferred Stock) may reduce the Common Stock's yield and negatively impact its net asset value and market price. If the income derived from securities purchased with assets received from leverage exceeds the cost of leverage, the Fund's net income will be greater than if leverage had not been used. Conversely, if the income from the securities purchased is not sufficient to cover the cost of leverage, the Fund's net income will be less than if leverage had not been used, and therefore the amount available for distribution to Common Stock shareholders will be reduced.

### Electronic Delivery

The Fund offers electronic delivery of communications to its shareholders. In order to receive this service, you must register your account and provide us with e-mail information. To sign up for this service, simply access this website <http://www.icsdelivery.com/live> and follow the instructions. When you visit this site, you will obtain a personal identification number (PIN). You will need this PIN should you wish to update your e-mail address, choose to discontinue this service and/or make any other changes to the service. This service is not available for certain retirement accounts at this time.

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

### A Letter From the President

Dear Shareholder

In recent months, the Federal Reserve Board (the Fed) has taken center stage as it shifts away from its long-accommodative monetary stance. The Fed raised the Federal Funds rate 75 basis points (.75%) in three separate moves since June, bringing the target short-term interest rate to 1.75% - still low by historical standards. The Fed has been deliberate in telegraphing its intention to take a "measured" approach to interest rate increases in order to avoid upsetting the economy or the financial markets, while still leaving room to move more aggressively if inflation and economic growth accelerate more than anticipated. The forward curve currently projects further increases in short-term interest rates before year-end. In addition to the Fed policy change, the financial markets recently have had to grapple with a tense geopolitical environment, higher oil prices and the worry and anticipation that accompanies a presidential election.

The transition to higher rates can cause concern among equity and fixed income investors alike. For bond investors, rising interest rates means the value of older issues declines because they bear the former lower interest rates. In addition, increasing inflation erodes the purchasing power of fixed income securities. Nevertheless, for the six-month and 12-month periods ended August 31, 2004, fixed income markets provided positive results. For

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

example, the Lehman Brothers Aggregate Bond Index returned +1.15% and +6.13%; the Credit Suisse First Boston High Yield Index returned +3.42% and +14.68%; and the Citigroup Mortgage Index returned +1.79% and +6.07% for the six-month and 12-month periods, respectively.

As always, our investment professionals are closely monitoring the markets, the economy and the overall environment in an effort to make well-informed decisions for the portfolios they manage. Our goal is to provide shareholders with competitive returns, while always keeping one eye on managing the unavoidable risk inherent in investing.

We thank you for trusting Merrill Lynch Investment Managers with your investment assets, and we look forward to serving you in the months and years ahead.

Sincerely,

(Terry K. Glenn)  
Terry K. Glenn  
President and Director

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

### A Discussion With Your Portfolio Manager

The Portfolio provided positive returns for the period, outperforming its blended benchmark due to an overweight position in high yield bonds and our ample use of leverage.

How did the Portfolio perform during the period in light of the existing market conditions?

For the six-month period ended August 31, 2004, the Common Stock of Senior High Income Portfolio, Inc. had net annualized yields of 8.88% and 9.23%, based on a period-end per share net asset value of \$6.10 and a per share market price of \$5.87, respectively, and \$0.273 per share income dividends. Over the same period, the total investment return on the Portfolio's Common Stock was +4.84%, based on a beginning and ending net asset value of \$6.10, and assuming reinvestment of \$0.276 per share ordinary income dividends. The Portfolio's benchmark, which is an equal blend of the Credit Suisse First Boston (CSFB) High Yield Index and the CSFB Leveraged Loan Index, returned +2.85% for the same period.

For a description of the Portfolio's total investment return based on a change in the per share market value of the Portfolio's Common Stock (as measured by the trading price of the Portfolio's shares on the New York Stock Exchange), and assuming reinvestment of dividends, please refer to the Financial Highlights section of the Financial Statements included in this report. As a closed-end fund, the Portfolio's shares may trade in the secondary market at a

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

premium or discount to the Portfolio's net asset value. As a result, total investment returns based on changes in the market value of the Portfolio's Common Stock can vary significantly from total investment returns based on changes in the Portfolio's net asset value.

The rate of high yield bond issuance has kept pace with that of 2003, with high yield proceeds of \$66 billion in the first half of 2004 versus \$68 billion in the first half of 2003. As in 2003, this year's issuance has consisted primarily of refinancing activity (75%), as corporate treasurers capitalized on the relatively low interest rate environment. During this period, there was a troublesome trend whereby companies were issuing zero-coupon debt at the holding company to finance dividends to equity sponsors. This activity had a "double-barreled" impact on leverage - increasing debt while decreasing equity - and often stretched credit parameters beyond reasonable limits. However, the market eventually pushed back and we have seen this trend subside. Nevertheless, the high yield market's risk appetite has been steadily increasing. The percentage of transactions rated B or lower has risen from 45% in 2001 to 54% in 2002, 63% in 2003 and 68% in the first half of 2004. This trend may persist as the forecast default rate continues to decline. Moody's Investors Service is predicting a 2004 default rate of 2.3%, compared to 4.13% in 2003.

Technicals in the leveraged bank loan market were similar to those of the high yield market. Refinancing accounted for 81% of bank loan issuance in the first half of 2004, while investor demand for bank loans soared. The resulting supply/demand imbalance prompted tighter spreads, smaller allocations and transaction upsizing. For example, the average spread on B-rated loans compressed from 350 basis points (3.5%) in September 2003 to 291 basis points in August 2004.

What were the reasons for the Portfolio's outperformance of its benchmark?

The Portfolio's outperformance was driven primarily by our overweight position in high yield bonds. We rebalanced the Portfolio toward fixed rate investments after the events of September 11, 2001, as the Federal Reserve Board (the Fed) cut the Federal Funds rate from 3.5% to 1.0% by June 2003. The interest rate cuts had dramatically reduced the yield on the LIBOR-based bank loan component of the portfolio. (LIBOR refers to the London Interbank Offer Rate. The three-month LIBOR is the base upon which nearly all our bank loans and floating rate notes are set.)

Also contributing to the Portfolio's outperformance was our ample use of the permissible leverage lines. We use commercial paper-based borrowings for leverage up to 33% of the Portfolio's total assets. The average amount of Portfolio leverage during the six-month period was 27.8%. (For a complete discussion of the benefits and risk of leverage, refer to page 2 of this report to shareholders.)

Top-performing portfolio holdings during the past six months included Mission Energy Holding Company, Highland Legacy Limited Co. and GEO Specialty Chemicals Inc. In Mission Energy, the Portfolio holds \$6.5 million in bonds with a 13.5% coupon. The bonds, which are due on July 15, 2008, appreciated in price from 103 to 123 during the period. The company is selling a portfolio of international assets and has received much higher-than-expected bids. This has led to speculation that the company will tender for

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

this issue somewhere in the high 120s range.

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

Regarding Highland Legacy, our \$4 million investment in this collateralized debt obligation continued to rally during the period from 55 to 75. This price action reflects the favorable impact of the high yield rally on the portfolio's valuation.

Our \$3.6 million bond position in GEO appreciated from 30 to 50 during the period. GEO, which filed for bankruptcy in March 2004, has a portfolio of niche businesses that supply functional chemicals to the industrial water treatment, paints and coatings, construction and electronics markets. During the past several months, all of the market segments in which the company operated benefited from a strong U.S. economy.

Investments that detracted from results during the period included Telewest Global, Inc., Advanced Accessory Systems and Calpine Corporation. Our \$7.9 million bond position in Telewest, which was priced at 64.5 on March 1, 2004, was converted into equity through a U.K. court reorganization. Our August 31, 2004 equity value equates to a price of about 47 on the bond position. We suspect that this is due to technical pressures arising from bondholders liquidating their equity positions. Telewest management continues to make significant operating progress.

The Portfolio's \$7.5 million bond investment in automotive supplier Advanced Accessory Systems declined in price from 106 to 95 during the period. The company's prospects continue to be impaired by its higher steel costs and pricing concession demands from the original equipment manufacturers.

The Portfolio owns \$4 million in bank debt and \$3 million in bonds of merchant power company Calpine. During the period, the prices of both securities were volatile, but ultimately declined about 10 points. Calpine's electrical generation capacity consists of gas turbines. The company continues to feel the impact of a low-spark spread environment (that is, high natural gas prices and soft wholesale electrical prices), coupled with the higher operating expenses associated with a larger plant fleet. As Calpine has now almost completed its expansion program, forward funding requirements will subside. In the meantime, we believe the company's liquidity is sufficient to see it through an eventual recovery in market prices.

What changes were made to the Portfolio during the period?

We continued to reposition the Portfolio during the period, shifting to an allocation of 60% fixed rate and 40% floating rate investments. This compared to a composition of 80% fixed rate and 20% floating rate last year. Given the robust demand for bank loans, allocations were usually a small percentage of our original order. To achieve our 60% fixed/40% floating rate target, we purchased \$33 million in floating rate notes during the six-month period.

We continue to believe that the downside risk associated with rising interest rates outweighs the benefits we may see from a bond rally.

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

At period-end, the Fed had already initiated two interest rate hikes of 25 basis points. There was a third quarter-point increase in September, bringing the target short-term interest rate to 1.75%. This, and the prospect of additional interest rate hikes, served to raise the three-month LIBOR rate from 1.12% at August 31, 2003, to 1.80% at August 31, 2004.

How would you characterize the Portfolio's position at the close of the period?

We would characterize our position at period-end as defensive while still focused on maintaining the Portfolio's attractive yield. We also continue to be cautious and selective in adding new positions, and intend to maintain our use of leverage within a target range of 25%-30% of total assets.

Kevin J. Booth  
Vice President and Portfolio Manager

September 22, 2004

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

### Portfolio Information

As of August 31, 2004

Ten Largest Bank Loan Holdings	Percent of Net Assets
Wellman, Inc., First Lien Term, 8.75% due 2/04/2009	2.4%
Charter Communications, Term B, 4.92% due 4/27/2011	2.3
Sealy Mattress Company, Term, 5.972% due 4/06/2013	1.8
TransWestern Publishing Company, LLC, Term B, 3.875% due 2/25/2011	1.7
The Goodyear Tire & Rubber Company, Term, 6.059% due 3/31/2006	1.5
American Safety Razor Company, Term B, 4.95% due 4/01/2011	1.5
High Voltage Engineering Corporation, Term A, 8.68% due 7/31/2006	1.5
Century Cable Holdings LLC, Term, 6.50% due 6/30/2009	1.4
Insight Midwest Holdings, LLC, Term B, 3.937% due 12/31/2009	1.2
Polymer Group, Inc., First Lien Term, 4.84% due 4/01/2010	1.2

Five Largest Industries*	Percent of Net Assets
--------------------------	-----------------------

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

Chemicals	20.3%
Cable--U.S.	13.4
Utilities	9.1
Packaging	7.8
Automotive	7.2

\*For Fund compliance purposes, "Industries" means any one or more of the industry sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Portfolio management. This definition may not apply for purposes of this report, which may combine industry sub-classifications for reporting ease.

Quality Ratings by S&P/Moody's	Percent of Total Investments
AAA/Aaa	0.1%
BB/Ba	18.9
B/B	66.9
CCC/Caa	6.7
CC/Ca	0.1
C/C	0.4
D/D	0.2
NR (Not Rated)	3.6
Other*	3.1

\*Includes portfolio holdings in common stocks, preferred stocks, other interests, warrants and short-term investments.

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

### Schedule of Investments

Industry++	S&P Ratings	Moody's Ratings	Face Amount	Corporate Debt Obligations
Aerospace & Defense--2.1%	B	B2	\$1,000,000	The Titan Corporation: 8% due 5/15/2011
	BB-	Ba3	2,992,366	Term B, due 6/30/2009++++
	B	B2	2,960,000	Vought Aircraft Industries, Inc., 8% due 7/15/2011
Airlines--0.2%	CCC-	Ca	900,000	Evergreen International Aviation, Inc., 12% due 5/15/2011
Automotive-- 7.2%	B-	B2	3,184,000	Accuride Corporation, Term B, due 6/30/2007++++
	CCC+	B3	7,550,000	Advanced Accessory Systems, 10.75% due 6/15/2011
	NR*	NR*	5,000,000	The Goodyear Tire & Rubber Company, Term, due 3/31/2011
	B	Caa1	1,800,000	Metaldyne Corporation, 11% due 6/15/2012
	B+	B1	1,436,719	NFIL Holdings Inc., Term B, due 2/27/2010++++
	B-	B1	1,350,000	Remy International, Inc., 5.60% due 4/15/2009 (d)
	B-	B3	1,875,000	Tenneco Automotive Inc.: 11.625% due 10/15/2009



Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

	B-	B2	475,000	10.25% due 7/15/2013
	B	B1	1,235,172	Tranche B, due 12/12/2010++++
	B	B1	558,621	Tranche B-1, Credit Link, due 12/12/2010++++
	NR*	NR*	3,325,000	Venture Holdings Company LLC (g): 9.50% due 7/01/2005
	NR*	NR*	700,000	12% due 6/01/2009
Broadcasting-- 0.8%	CCC	B3	3,000,000	Granite Broadcasting Corporation, 9.75% due 12/01/2010
Cable-- International-- 2.2%	B	B3	4,650,000	Kabel Deutschland GmbH, 10.625% due 7/01/2014 (b)
	B-	B3	2,350,000	NTL Cable PLC (b): 6.61% due 10/15/2012 (d)
	B-	B3	350,000	8.75% due 4/15/2014
Cable--U.S.-- 13.4%	BB-	B1	1,800,000	CSC Holdings, Inc., 7.25% due 7/15/2008
	NR*	Caa1	3,000,000	Century Cable Holdings, LLC:++++ Discretionary Term, due 12/31/2009
	NR*	NR*	5,000,000	Term, due 6/30/2009
	CCC-	Ca	1,750,000	Charter Communications Holdings, LLC: 10% due 4/01/2009
	CCC-	Ca	1,000,000	11.75%** due 1/15/2010
	CCC-	Ca	2,000,000	11.125% due 1/15/2011
	CCC-	Ca	1,500,000	9.92% due 4/01/2011
	CCC-	Ca	1,000,000	10% due 5/15/2011
	B	B2	8,000,000	Charter Communications, Term B, due 4/27/2011++++
	BB-	Ba3	2,500,000	Inmarsat Investments Limited:++++ Term B, due 1/23/2017
	NR*	NR*	2,500,000	Term C, due 1/23/2012
	BB+	Ba3	3,980,000	Insight Midwest Holdings, LLC, Term B, due 12/31/2009
	NR*	NR*	2,363,981	Mallard Cablevision LLC & Sun Tel Communications, Term B, due 9/30/2008++++ (g)
	B+	B2	3,000,000	Mediacom Broadband LLC, 11% due 7/15/2013
	D	B2	4,000,000	Olympus Cable Holdings LLC, Term B, due 9/30/2010++++
	NR*	NR*	550,040	Pegasus Media & Communications, Inc., Term, due 4/30/2009
	CCC+	B3	5,250,000	Rainbow National Services LLC, 8.75% due 9/01/2012 (g)

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

Schedule of Investments (continued)

Industry++	S&P Ratings	Moody's Ratings	Face Amount	Corporate Debt Obligations
Chemicals-- 20.3%	B+	B1	\$3,000,000	Arteva Specialties Sarl, 9.25% due 5/01/2012 (b)
	B-	B3	875,000	BCP Caylux Holdings Luxembourg SCA, 9.625% due 6/15/2010
	B-	B3	2,250,000	Compass Minerals International, Inc., 12%** due 6/01/2010
	B	B1	3,000,000	Crompton Corporation (b): 7.67% due 8/01/2010 (d)
	B	B1	3,000,000	9.875% due 8/01/2012
	D	C	3,600,000	GEO Specialty Chemicals, Inc., 10.125% due 8/01/2008

Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

				Huntsman International LLC:
B-	B3	1,000,000		9.875% due 3/01/2009
CCC+	Caa1	2,000,000		10.125% due 7/01/2009
B	B1	2,000,000		Term, due 12/31/2010++++
B+	B2	1,750,000		ISP Holdings, Inc., 10.625% due 12/15/2009
B	B3	925,000		KRATON Polymers LLC, 8.125% due 1/15/2014 (b)
B	B2	2,500,000		Koppers Inc., 9.875% due 10/15/2013
BB	Ba3	2,500,000		KoSa B/INVISTA, Term due 4/29/2011++++
B+	B1	1,650,000		Lyondell Chemical Company, 11.125% due 7/15/2012
B+	B1	1,350,000		Lyondell Chemical Worldwide, Inc., 9.80% due 2/01/2010
BB-	B1	1,200,000		Millennium America Inc., 7.625% due 11/15/2026
BB-	B2	5,350,000		Omnova Solutions Inc., 11.25% due 6/01/2010
NR*	NR*	1,671,088		Pinnacle Polymers Term, due 12/15/2006++++
NR*	NR*	2,500,000		Pioneer Companies, Inc., 5.086% due 12/31/2006 (d)
B+	B2	4,000,000		Polymer Group, Inc., First Lien Term, due 4/01/2010+
B+	B3	6,375,000		PolyOne Corporation, 10.625% due 5/15/2010
				Rockwood Specialties Group, Inc.:
B-	B3	1,825,000		10.625% due 5/15/2011
B+	B1	1,600,000		Term B, due 7/30/2012++++
				Terra Industries:
B+	B3	2,500,000		12.875% due 10/15/2008
B-	Caa1	1,250,000		11.50% due 6/01/2010
B-	B3	400,000		United Agri Products, Inc., 8.25% due 12/15/2011 (b)
BB-	B1	8,000,000		Wellman, Inc., First Lien Term, due 2/04/2009++++
Consumer Durables--2.8%	B+	B1	6,000,000	Sealy Mattress Company, Term, due 4/06/2013++++
				Simmons Company:
	B-	Caa1	450,000	7.875% due 1/15/2014
	B+	B3	3,000,000	Term B, due 6/19/2011++++
Consumer Non-Durables--4.0%	B	B2	4,987,500	American Safety Razor Company, Term B, due 4/01/2011
	B+	Ba3	1,675,000	Chattem, Inc., 4.79% due 3/01/2010 (d)
	B-	Caa1	1,000,000	General Binding Corporation, 9.375% due 6/01/2008
	B	B3	1,975,000	Hines Nurseries, Inc., 10.25% due 10/01/2011
	B+	B2	2,125,000	North Atlantic Trading Company, Inc., 9.25% due 3/01/2010
	B+	B1	1,492,500	Solo Cup Company, Term, due 2/27/2011++++
Diversified Media--2.4%	B	B3	325,000	Houghton Mifflin Company, 9.875% due 2/01/2013
				TransWestern Publishing Company, LLC:++++
	B	B2	2,000,000	Term, due 4/30/2009
	BB-	B1	5,730,000	Term B, due 2/25/2011

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

Schedule of Investments (continued)

Industry++	S&P Ratings	Moody's Ratings	Face Amount	Corporate Debt Obligations
------------	-------------	-----------------	-------------	----------------------------

Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

Energy-- Exploration & Production-- 0.9%	CCC+ B B	Caa1 B2 B2	\$1,000,000 222,222 1,777,778	Continental Resources, Inc., 10.25% due 8/01/2008 Quest Cherokee, LLC:++++ Revolving Credit, due 7/25/2010 Term B, due 7/25/2010
Energy--Other-- 3.8%	B BB- BB- NR* B-  B B	B2 Ba3 Ba3 Caa3 NR*  B3 B3	1,000,000 1,250,000 736,934 1,035,000 3,656,000  2,750,000 1,750,000	Dresser, Inc.: 9.375% due 4/15/2011 Term, due 2/25/2010++++ Term B, due 4/10/2009++++ Energy Corporation of America, 9.50% due 5/15/2007 Giant Industries, Inc., 11% due 5/15/2012 Star Gas Partners, LP: 10.25% due 2/15/2013 10.25% due 2/15/2013 (b)
Financial--2.6%	NR* D NR* B  NR* NR*	Ba3 NR* Ca B3  Ca C	4,000,000 500,000 1,138,809 3,925,000  1,500,000 1,000,000	Highland Legacy Limited Co., 7.429% due 6/01/2011 (b) Investcorp SA, 7.54%, due 10/21/2008 Pennant CBO Limited, 13.43% due 3/14/2011 (b) Refco Finance Holdings LLC, 9% due 8/01/2012 (b) SKM-Libertyview CBO I Limited (b) (g): 8.71% due 4/10/2011 11.91% due 4/10/2011
Food/Tobacco-- 6.0%	B+ B+  B- B- B+ BB- B- B+ B- B-	B2 B2  B2 B3 B2 B1 B2 B1 B3 B1	1,447,500 1,500,000  2,250,000 2,825,000 1,800,000 1,880,411 2,200,000 1,246,875 3,000,000 2,000,000	Atkins Nutritionals, Inc.:++++ First Lien, due 11/26/2009 Second Lien Term, due 11/26/2009 Commonwealth Brands, Inc. (b): 9.75% due 4/15/2008 10.625% due 9/01/2008 Dole Food Company, Inc., 8.875% due 3/15/2011 Dr Pepper Bottling, Term B, due 12/19/2010++++ Gold Kist Inc., 10.25% due 3/15/2014 (b) Luigino's, Inc., Term, due 4/02/2011++++ Merisant Company, 9.50% due 7/15/2013 (b) Pierre Foods, Inc., Term B, due 6/30/2010++++
Gaming--2.2%	B B B+ CCC+ B-	B2 B2 B2 Caa1 B2	2,000,000 925,000 1,632,046 311,000 2,000,000	Jacobs Entertainment, Inc., 11.875% due 2/01/2009 The Majestic Star Casino, LLC, 9.50% due 10/15/2010 Marina District Finance Co., Term B, due 5/31/2007+++ Pinnacle Entertainment, Inc., 9.25% due 2/15/2007 (b) Venetian Casino Resort, LLC, 11% due 6/15/2010
Health Care-- 3.9%	B+ BB- B-  B B+ CCC+	B1 Ba3 B3  B3 B1 B3	1,717,234 2,375,000 3,000,000  700,000 3,661,334 1,675,000	MedPointe Inc., Term B, due 9/30/2008++++ Orthofix International NV, Term B, due 12/15/2008++++ Tenet Healthcare Corporation, 7.375% due 2/01/2013 VWR International, Inc.: 8% due 4/15/2014 (b) Term B, due 4/07/2011++++ Vanguard Health Systems, Inc., 9.75% due 8/01/2011

# Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

## Schedule of Investments (continued)

Industry++	S&P Ratings	Moody's Ratings	Face Amount	Corporate Debt Obligations
Housing--0.9%	NR*	NR*	\$ 226,860	Formica Corporation, 7.86% due 6/10/2011
	BB	Ba1	2,000,000	Lone Star Industries Inc., 8.85% due 6/15/2005 (b)
	B-	B3	700,000	U.S. Concrete, Inc., 8.375% due 4/01/2014
Information Technology--1.9%	BB+	Ba2	2,450,000	Freescall Semiconductor, Inc., 4.38% due 7/15/2009 (b)
	B+	B1	3,875,000	VUTEk Inc., Term, due 6/25/2010++++
Leisure--5.1%	B-	B1	6,000,000	FelCor Lodging LP, 5.84% due 6/01/2011 (b) (d)
	B+	Ba3	274,000	HMH Properties, Inc., 7.875% due 8/01/2008
	B+	B1	5,050,000	Intrawest Corporation, 10.50% due 2/01/2010
				Wyndham International, Inc.:++++
		NR*	NR*	Term 1, due 6/30/2006
		NR*	NR*	Term 2, due 4/01/2006
Manufacturing--6.9%	B-	B3	275,000	Aearo Company, 8.25% due 4/15/2012
	B-	B3	3,000,000	Communications & Power Industries, Inc., 8% due 2/01/2011
	B-	B2	1,250,000	Da-Lite Screen Company, Inc., 9.50% due 5/15/2011 (b)
	B-	B3	2,000,000	EaglePicher Incorporated, 9.75% due 9/01/2013
	BB-	Ba3	5,000,000	High Voltage Engineering Corporation, Term A, due 7/01/2011
	B+	Ba3	4,989,614	Invensys International Holdings Ltd., Term, due 8/26/2011
	B-	B3	2,825,000	Invensys plc, 9.875% due 3/15/2011(b)
	B-	B3	3,500,000	MetoKote Corporation, Term, due 2/13/2011++++
	B+	B3	300,000	NMHG Holding Company, 10% due 5/15/2009
Metals--Other--1.7%	B+	B1	5,500,000	Massey Energy Company, 6.95% due 3/01/2007
Packaging--7.8%	B+	B2	5,200,000	Anchor Glass Container Corporation, 11% due 2/15/2011
	CCC	B3	1,900,000	Consolidated Container Company LLC, 10.75%** due 6/15/2011
	B	B2	2,300,000	Crown Euro Holdings SA, 10.875% due 3/01/2013
	BB-	B1	5,142,857	Owens-Illinois Inc., Term C, due 4/01/2008++++
	B-	Caa2	3,300,000	Pliant Corporation 13% due 6/01/2010
	CCC+	Caa1	1,000,000	Radnor Holdings Corporation, 11% due 3/15/2010
	B-	B2	650,000	Tekni-Plex, Inc., 8.75% due 11/15/2013 (b)
	CCC+	Caa1	5,550,000	U.S. Can Corporation, 10.875% due 7/15/2010
	B	B2	900,000	Wise Metals Group LLC, 10.25% due 5/15/2012 (b)
Paper--5.2%	BB	Ba2	3,275,000	Abitibi-Consolidated Inc., 5.02% due 6/15/2011 (b) (d)
	BB	Ba2	4,625,000	Bowater Incorporated, 4.52% due 3/15/2010 (d)
	BB+	Ba2	4,325,000	Georgia-Pacific Corporation, 9.375% due 2/01/2013

Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

	B-	B3	625,000	Graphic Packaging International Inc., 9.50% due 8/15/2010 SP Newsprint Co.:++++
	B+	B1	525,833	Tranche B, due 1/09/2010
	B+	B1	966,667	Tranche B L/C, due 1/09/2010
	B	B2	800,000	Stone Container Corporation, 8.375% due 7/01/2012
	BB-	Ba3	1,500,000	Tembec Industries, Inc., 8.625% due 6/30/2009
Retail--0.3%	B+	B1	895,500	General Nutrition Center, Inc., Term B, due 12/05/2009

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

Schedule of Investments (continued)

Industry++	S&P Ratings	Moody's Ratings	Face Amount	Corporate Debt Obligations
Services--6.9%	BB	Ba3	\$2,000,000	Allied Waste Industries, Inc., Tranche A--Credit Line Deposit, due 1/15/2010++++ Allied Waste North America, Inc.: 7.875% due 4/15/2013
	BB-	Ba3	720,000	7.375% due 4/15/2014
	B+	B2	3,125,000	Corrections Corporation of America, 9.875% due 5/01/2010
	B	B1	1,600,000	FTD, Inc., Term, due 2/28/2011++++
	B+	B1	995,000	Great Lakes Dredge & Dock Corporation, 7.75% due 12/15/2009
	CCC	Caa2	250,000	IT Group Inc., 11.25% due 4/01/2009 (g)
	NR*	NR*	3,200,000	MSW Energy Holdings LLC, 8.50% due 9/01/2010
	BB	Ba1	3,000,000	United Rentals, Inc.:++++ Initial Term, due 2/14/2011
	BB	Ba3	1,662,500	Tranche B Term Link Deposit, due 2/14/2011
	NR*	NR*	333,333	United Rentals North America, Inc., 7.75% due 11/15/2010
	B+	B2	3,750,000	Waste Services, Inc., Term B, due 3/31/2011++++
	B+	B1	3,990,000	Williams Scotsman, Inc., 9.875% due 6/01/2007
	B-	B3	2,075,000	
Telecommunications--5.9%	B-	B3	2,045,000	Cincinnati Bell Inc., 8.375% due 1/15/2014
	B+	B1	2,200,000	Consolidated Communications Acquisition of TXU, Inc. due 10/14/2011++++
	B-	Caa1	5,550,000	FairPoint Communications, Inc., 12.50% due 5/01/2010
	CCC	B3	500,000	Horizon PCS, Inc., 11.375% due 7/15/2012 (b)
	B	B3	4,000,000	Qwest Communications International Inc., 5.211% due 2/15/2009 (b) (d)
	B	B1	3,500,000	Time Warner Telecom Holdings, Inc., 5.711% due 2/15/2008
	CCC+	B3	2,500,000	Time Warner Telecom, Inc., 9.75% due 7/15/2008
Transportation--1.1%	B+	B2	1,325,000	Laidlaw International, Inc., 10.75% due 6/15/2011
	B+	Ba3	2,197,059	North American Van Lines, Inc., Term, due 10/29/2010
Utilities--9.1%	B-	B3	2,250,000	The AES Corporation, 8.50% due 11/01/2007
	CCC+	Caa1	1,500,000	Calpine Canada Energy Finance ULC, 8.50% due 5/01/2008

Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

	CCC+	Caa1	1,300,000	Calpine Corporation: 8.50% due 2/15/2011
	B+	B1	3,960,000	Term B, due 7/15/2007++++
	D	NR*	1,000,000	Mirant Americas Generation LLC, 7.625% due 5/01/2006
				Mission Energy Holding Company: 13.50% due 7/15/2008
	CCC	B3	5,300,000	Term, due 12/11/2006++++
	NR*	NR*	4,000,000	Northwest Pipeline Corporation, 6.625% due 12/01/200
	B+	B1	2,000,000	Sierra Pacific Resources: 8.75% due 5/15/2005
	NR*	B2	2,100,000	8.625% due 3/15/2014 (b)
	B-	B2	2,750,000	TNP Enterprises, Inc., Term, due 12/31/2006++++
	BB+	Ba1	792,000	Teton Power Funding LLC, Term, due 3/12/2011++++
	B+	Ba3	3,222,308	The Williams Companies, Inc., 8.625% due 6/01/2010
	B+	B3	725,000	
Wireless	CCC	Caa1	4,000,000	American Tower Systems Corporation, 9.375% due 2/01/
Communica-	B-	B2	2,985,000	Centennial Cellular, Term A, due 2/09/2011++++
tions--6.6%	CCC	B3	5,000,000	Crown Castle International Corporation., 7.50% due 1
	B-	B1	1,191,000	Dobson Cellular Systems, Inc., Term, due 3/31/2010++
	B-	B2	1,000,000	Rural Cellular Corporation, 6.02% due 3/15/2010 (b) (
	CCC+	B2	3,123,077	SBA Senior Finance, Inc., Term B, due 10/31/2008++++
	CCC+	B3	3,700,000	SpectraSite, Inc., 8.25% due 5/15/2010
	CCC+	B2	800,000	US Unwired Inc., 5.791% due 6/15/2010 (d)

Total Investments in Corporate Debt Obligations  
(Cost--\$455,860,152)--134.2%

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

Schedule of Investments (continued)

Industry++	Shares Held	Preferred Stocks
Cable--U.S.--0.0%	2,500	Adelphia Communications Corporation (c)
Diversified Media--1.1%	150,000	Newscorp Overseas Limited
		Total Investments in Preferred Stocks (Cost--\$2,925,000)--1.1%
		Common Stocks
Cable--International--1.1%	323,90	Telewest Global, Inc. (c)
Consumer--Non-durables--0.0%	1,000	Galey & Lord, Inc. (c)
Leisure--0.1%	41,866	Lodgian, Inc. (c)
Manufacturing--0.2%	62,581	High Voltage Engineering Corporation (c)

Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

Telecommunications--0.1%	14,246	IDT Corporation (c)
	17,811	IDT Corporation (Class B) (c)

Wireless Communications--0.2%	126	Microcell Telecommunications Inc. (Class A) (c)
	30,314	Microcell Telecommunications Inc. (Class B) (c)

Total Investments in Common Stocks  
(Cost--\$14,677,888)--1.7%

Beneficial Interest		Other Interests (f)
\$ 4,130,972		Cambridge Industries, Inc. (Litigation Trust Certifi
10,284		MEDIQ Incorporated (Preferred Stock Escrow due 2/01/
10,284		MEDIQ Incorporated (Preferred Stock Escrow due 4/01/
2,750,000		WilTel Communications Group, Inc. (Litigation Trust

Total Investments in Other Interests  
(Cost--\$0)--0.0%

	Shares Held	Warrants (a)
Consumer--Non-durables--0.0%	5,262	Galey & Lord, Inc., Series A
	5,538	Galey & Lord, Inc., Series B
Gaming--0.0%	27,111	Peninsula Gaming Company, LLC
Paper--0.0%	3,500	JSG Funding PLC
Wireless Communications--0.1%	600	American Tower Escrow Corporation
	5,613	Microcell Telecommunications Inc.
	9,355	Microcell Telecommunications Inc.

Total Investments in Warrants  
(Cost--\$2,422,075)--0.1%

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

Schedule of Investments (concluded)

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

Beneficial Interest	Short-Term Securities
\$ 4,332,776	Merrill Lynch Liquidity Series, LLC Cash Sweep Serie
	Total Short-Term Securities (Cost--\$4,332,776)--1.3%

Total Investments (Cost--\$480,217,891\*\*\*)--138.4%  
Liabilities in Excess of Other Assets--(38.4%)

Net Assets--100.0%

\*Not Rated.

\*\*Represents a zero coupon or step bond; the interest rate shown reflects the effective yield at the time of purchase by the Fund.

\*\*\*The cost and unrealized appreciation/depreciation of investments as of August 31, 2004, as computed for federal income tax purposes, were as follows:

Aggregate cost	\$ 479,950,867 =====
Gross unrealized appreciation	\$ 21,117,969
Gross unrealized depreciation	(30,351,360) -----
Net unrealized depreciation	\$ (9,233,391) =====

++For Fund compliance purposes, "Industry" means any one or more of the industry sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine industry sub-classifications for reporting ease. Breakdown is a percent of net assets.

+++Floating Rate Corporate Debt in which the Portfolio invests generally pays interest at rates that are periodically redetermined by reference to a base lending rate plus a premium. These base lending rates are generally (i) the lending rate offered by one or more major European banks, such as London Interbank Offered Rate ("LIBOR"), (ii) the prime rate offered by one or more major U.S. banks or (iii) the certificate of deposit rate. Corporate loans represent 50.5% of the Portfolio's net assets.

(a)Warrants entitle the Fund to purchase a predetermined number of shares of common stock and are non-income producing. The purchase price and number of shares are subject to adjustment under certain conditions until the expiration date.

(b)The security may be offered and sold to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933.

(c)Non-income producing security.

(d)Floating rate note.

(e)Investments in companies considered to be an affiliate of the



## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

Fund (such companies are defined as "Affiliated Companies" in Section 2(a)(3) of the Investment Company Act of 1940) were as follows:

Affiliate	Net Activity	Interest Income
Merrill Lynch Liquidity Series, LLC Cash Sweep Series I	\$(487,170)	\$25,939

(f) Other interests represent beneficial interest in liquidation trusts and other reorganization entities and are non-income producing.

(g) Non-income producing-issuer filed for bankruptcy or is in default of interest payments.

See Notes to Financial Statements.

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

Statement of Assets, Liabilities and Capital

As of August 31, 2004

### Assets

Investments in unaffiliated securities, at value (identified cost--\$475,885,115)	6
Investments in affiliated securities, at value (identified cost--\$4,332,776)	3
Cash	
Receivables:	
Interest (including \$150 from affiliates)	\$ 6
Securities sold	3
Principal paydowns	-----
Deferred facility fees	
Prepaid expenses	
Total assets	

### Liabilities

Loans	
Payables:	
Securities purchased	1
Dividends to shareholders	
Interest on loans	
Investment adviser	
Commitment fees	
Other affiliates	-----
Deferred income	
Accrued expenses and other liabilities	
Total liabilities	

# Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

## Net Assets

Net assets

## Capital

Common Stock, par value \$.10 per share; 200,000,000 shares authorized (55,727,331 shares issued and outstanding)	
Paid-in capital in excess of par	
Undistributed investment income--net	\$ 3
Accumulated realized capital losses--net	(151,
Unrealized depreciation--net	(9,
	-----
Total accumulated losses--net	
Total capital--Equivalent to \$6.10 net asset value per share of Common Stock (market price--\$5.87)	

See Notes to Financial Statements.

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

## Statement of Operations

For the Six Months Ended August 31, 2004

### Investment Income

Interest (including \$25,939 from affiliates)  
Dividends  
Facility and other fees

Total income

### Expenses

Investment advisory fees	\$ 1
Loan interest expense	1
Borrowing costs	
Accounting services	
Professional fees	
Transfer agent fees	
Printing and shareholder reports	
Listing fees	
Directors' fees and expenses	
Custodian fees	
Pricing services	
Other	
	-----
Total expenses	
Investment income--net	

Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

Realized & Unrealized Gain (Loss)--Net

Realized gain on investments--net	
Change in unrealized depreciation on:	
Investments--net	(8,
Foreign currency transactions--net	
	-----
Total realized and unrealized loss--net	
Net Increase in Net Assets Resulting from Operations	

See Notes to Financial Statements.

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

Statements of Changes in Net Assets

	For th Months August 20
Increase (Decrease) in Net Assets:	
Operations	
Investment income--net	\$ 16
Realized gain (loss)--net	7
Change in unrealized depreciation--net	(8,
	-----
Net increase in net assets resulting from operations	15
	-----
Dividends to Shareholders	
Dividends to shareholders from investment income--net	(15,
	-----
Capital Share Transactions	
Value of shares issued to Common Stock shareholders in reinvestment of dividends	
	-----
Net increase in net assets resulting from capital share transactions	
	-----
Net Assets	
Total increase in net assets	
Beginning of period	339
	-----
End of period*	\$ 340
	=====
*Undistributed investment income--net	\$ 3
	=====

See Notes to Financial Statements.

# Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

## Statement of Cash Flows

For the Six Months Ended August 31, 2004

### Cash Provided by Operating Activities

Net increase in net assets resulting from operations  
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:  
    Decrease in receivables  
    Increase in other assets and deferred facility fees  
    Increase in other liabilities  
    Realized and unrealized loss--net  
    Amortization of premium and discount--net  
    Proceeds from sales and paydowns of long-term investments  
    Purchases of long-term investments  
    Net proceeds from sales and maturities of short-term investments

Net cash provided by operating activities

### Cash Used for Financing Activities

Cash receipts of borrowings  
Cash payments on borrowings  
Dividends paid to shareholders

Net cash used for financing activities

### Cash

Net decrease in cash  
Cash at beginning of period

Cash at end of period

### Cash Flow Information

Cash paid for interest

### Non-Cash Financing Activities

Capital shares issued on reinvestment of dividends paid to shareholders

See Notes to Financial Statements.

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

# Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

## Financial Highlights

The following per share data and ratios have been derived from information provided in the financial statements.

	For the Six Months Ended August 31, 2004	For the Year Ended February 29, 2004	2003
Increase (Decrease) in Net Asset Value:			
Per Share Operating Performance			
Net asset value, beginning of period	\$ 6.10	\$ 4.82	\$ 5.40
Investment income--net***	.29	.62	.63
Realized and unrealized gain (loss)--net	(.01)	1.30	(.59)
Total from investment operations	.28	1.92	.04
Less dividends from investment income--net	(.28)	(.64)	(.62)
Net asset value, end of period	\$ 6.10	\$ 6.10	\$ 4.82
Market price per share, end of period	\$ 5.87	\$ 6.11	\$ 5.45
Total Investment Return**			
Based on net asset value per share	4.84%++	41.49%	1.18%
Based on market price per share	.72%++	25.34%	4.88%
Ratios to Average Net Assets			
Expenses, excluding interest expense	.65%*	.90%	.97%
Expenses	1.07%*	1.42%	1.78%
Investment income--net	6.83%*	11.23%	12.75%
Leverage			
Amount of borrowings (in thousands)	\$ 139,264	\$ 132,297	\$ 104,600
Average amount of borrowings outstanding during the period (in thousands)	\$ 137,454	\$ 112,037	\$ 110,348
Average amount of borrowings outstanding per share during the period	\$ 2.47	\$ 2.02	\$ 2.02
Supplemental Data			
Net assets, end of period (in thousands)	\$ 340,071	\$ 339,950	\$ 265,423
Portfolio turnover	35.41%	63.78%	74.70%

\*Annualized.

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

\*\*Total investment returns based on market price, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Total investment returns exclude the effects of sales charges.

\*\*\*Based on average shares outstanding.

++Aggregate total investment return.

See Notes to Financial Statements.

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

### Notes to Financial Statements

#### 1. Significant Accounting Policies:

Senior High Income Portfolio, Inc. (the "Fund") is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company. The Fund's financial statements are prepared in conformity with U.S. generally accepted accounting principles, which may require the use of management accruals and estimates. Actual results may differ from these estimates. These unaudited financial statements reflect all adjustments, which are, in the opinion of management, necessary to present a fair statement of the results for the interim period. All such adjustments are of a normal, recurring nature. The Fund determines and makes available for publication the net asset value of its Common Stock on a daily basis. The Fund's Common Stock is listed on the New York Stock Exchange ("NYSE") under the symbol ARK.

(a) Corporate debt obligations--The Fund invests principally in senior debt obligations of companies, including Corporate Loans made by banks and other financial institutions and both privately and publicly offered corporate bonds and notes. Because agents and intermediaries are primarily commercial banks or other financial institutions, the Fund's investment in Corporate Loans could be considered concentrated in financial institutions.

(b) Valuation of investments--Corporate Loans are valued in accordance with guidelines established by the Fund's Board of Directors. Corporate Loans are valued at the mean between the last available bid and asked prices from one or more brokers or dealers as obtained from Loan Pricing Corporation. For the limited number of Corporate Loans for which no reliable price quotes are available, such Corporate Loans will be valued by Loan Pricing Corporation through the use of pricing matrices to determine valuations. If the pricing service does not provide a value for a Corporate Loan, the Investment Adviser will value the Corporate Loan at fair value, which is intended to approximate market value.

Securities that are held by the Fund that are traded on stock exchanges or the Nasdaq National Market are valued at the last sale price or official close price on the exchange on which such securities are traded, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price for long positions, and at the last available ask price for short positions. In cases where securities are traded

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

on more than one exchange, the securities are valued on the exchange designated as the primary market by or under the authority of the Board of Directors of the Fund. Long positions in securities traded in the over-the-counter ("OTC") market, Nasdaq Small Cap or Bulletin Board are valued at the last available bid price or yield equivalent obtained from one or more dealers or pricing services approved by the Board of Directors of the Fund. Short positions in securities traded in the OTC market are valued at the last available ask price. Portfolio securities that are traded both in the OTC market and on a stock exchange are valued according to the broadest and most representative market. When the Fund writes an option, the amount of the premium received is recorded on the books of the Fund as an asset and an equivalent liability. The amount of the liability is subsequently valued to reflect the current market value of the option written, based on the last sale price in the case of exchange-traded options or, in the case of options traded in the OTC market, the last ask price. Options purchased by the Fund are valued at their last sale price in the case of exchange-traded options or, in the case of options traded in the OTC market, the last bid price. The value of swaps, including interest rate swaps, caps and floors, will be determined by obtaining dealer quotations. Other investments, including futures contracts and related options, are stated at market value. Obligations with remaining maturities of 60 days or less are valued at amortized cost unless the Investment Adviser believes that this method no longer produces fair valuations. Repurchase agreements will be valued at cost plus accrued interest. The Fund employs certain pricing services to provide securities prices for the Fund. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund, including valuations furnished by the pricing services retained by the Fund, which may use a matrix system for valuations. The procedures of a pricing service and its valuations are reviewed by the officers of the Fund under the general supervision of the Board of Directors. Such valuations and procedures will be reviewed periodically by the Board of Directors.

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

Notes to Financial Statements (continued)

Generally, trading in foreign securities, as well as U.S. government securities and money market instruments, is substantially completed each day at various times prior to the close of business on the NYSE. The values of such securities used in computing the net asset value of the Fund's shares are determined as of such times. Foreign currency exchange rates also are generally determined prior to the close of business on the NYSE. Occasionally, events affecting the values of such securities and such exchange rates may occur between the times at which they are determined and the close of business on the NYSE that may not be reflected in the computation of the Fund's net asset value. If events (for example, a company announcement, market volatility or a natural disaster) occur during such periods that are expected to materially affect the value of such securities, those securities may be valued at their fair value as determined in good faith by the Board of Directors or by the Investment Adviser using a pricing service and/or procedures approved by the Board of

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

Directors.

(c) Derivative financial instruments--The Fund may engage in various portfolio investment strategies both to increase the returns of the Fund and to hedge, or protect, its exposure to interest rate movements and movements in the securities markets. Losses may arise due to changes in the value of the contract or if the counterparty does not perform under the contract.

\* Financial futures contracts--The Fund may purchase or sell financial futures contracts and options on such futures contracts for the purpose of hedging the market risk on existing securities or the intended purchase of securities. Futures contracts are contracts for delayed delivery of securities at a specific future date and at a specific price or yield. Upon entering into a contract, the Fund deposits and maintains as collateral such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized gains or losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

\* Options--The Fund may write and purchase call and put options. When the Fund writes an option, an amount equal to the premium received by the Fund is reflected as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current market value of the option written. When a security is purchased or sold through an exercise of an option, the related premium paid (or received) is added to (or deducted from) the basis of the security acquired or deducted from (or added to) the proceeds of the security sold. When an option expires (or the Fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction is less than or exceeds the premiums paid or received).

Written and purchased options are non-income producing investments.

\* Swaps--The Fund may enter into swap agreements, which are OTC contracts in which the Fund and a counterparty agree to make periodic net payments on a specified notional amount. The net payments can be made for a set period of time or may be triggered by a pre-determined credit event. The net periodic payments may be based on a fixed or variable interest rate; the change in market value of a specified security, basket of securities, or index; or the return generated by a security.

(d) Income taxes--It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no federal income tax provision is required.

(e) Security transactions and investment income--Security transactions are recorded on the dates the transactions are entered into (the trade dates). Realized gains and losses on security transactions are determined on the identified cost basis. Interest income is recognized on the accrual basis. The Fund amortizes all



## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

premiums and discounts on debt securities.

(f) Dividends and distributions--Dividends from net investment income are declared and paid monthly. Distributions of capital gains are recorded on the ex-dividend dates. The Fund may at times pay out less than the entire amount of net investment income earned in any particular period and may at times pay out such accumulated undistributed income in other periods to permit the Fund to maintain a more stable level of dividends.

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

Notes to Financial Statements (continued)

(g) Securities lending--The Fund may lend securities to financial institutions that provide cash or securities issued or guaranteed by the U.S. government as collateral, which will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Fund and any additional required collateral is delivered to the Fund on the next business day. Where the Fund receives securities as collateral for the loaned securities, it collects a fee from the borrower. The Fund typically receives the income on the loaned securities but does not receive the income on the collateral. Where the Fund receives cash collateral, it may invest such collateral and retain the amount earned on such investment, net of any amount rebated to the borrower. Loans of securities are terminable at any time and the borrower, after notice, is required to return borrowed securities within five business days. The Fund may pay reasonable finder's, lending agent, administrative and custodial fees in connection with its loans. In the event that the borrower defaults on its obligation to return borrowed securities because of insolvency or for any other reason, the Fund could experience delays and costs in gaining access to the collateral. The Fund also could suffer a loss where the value of the collateral falls below the market value of the borrowed securities, in the event of borrower default or in the event of losses on investments made with cash collateral.

2. Investment Advisory Agreement and Transactions with Affiliates: The Fund has entered into an Investment Advisory Agreement with Fund Asset Management L.P. ("FAM"). The general partner of FAM is Princeton Services, Inc. ("PSI"), an indirect, wholly-owned subsidiary of Merrill Lynch & Co., Inc. ("ML & Co."), which is the limited partner.

FAM is responsible for the management of the Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of the Fund. For such services, the Fund pays a monthly fee at an annual rate of .50% of the Fund's average weekly net assets plus the proceeds of any outstanding borrowings used for leverage.

The Fund has received an exemptive order from the Securities and Exchange Commission permitting it to lend portfolio securities to Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

subsidiary of ML & Co., or its affiliates. Pursuant to that order, the Fund also has retained Merrill Lynch Investment Managers, LLC ("MLIM, LLC"), an affiliate of FAM, as the securities lending agent for a fee based on a share of the returns on investment of cash collateral. MLIM, LLC may, on behalf of the Fund, invest cash collateral received by the Fund for such loans, among other things, in a private investment company managed by MLIM, LLC or in registered money market funds advised by FAM or its affiliates.

For the six months ended August 31, 2004, the Fund reimbursed FAM \$3,586 for certain accounting services.

In addition, MLPF&S received \$1,250 in commissions on the execution of Portfolio security transactions for the Portfolio for the six months ended August 31, 2004.

Certain officers and/or directors of the Fund are officers and/or directors of FAM, PSI, and/or ML & Co.

### 3. Investments:

Purchases and sales of investments, excluding short-term securities, for the six months ended August 31, 2004 were \$174,485,311 and \$164,832,346, respectively.

### 4. Capital Share Transaction:

The Fund is authorized to issue 200,000,000 shares of capital stock par value \$.10, all of which are initially classified as Common Stock. The Board of Directors is authorized, however, to classify and reclassify any unissued shares of capital stock without approval of the holders of Common Stock.

Shares issued and outstanding during the six months ended August 31, 2004 and for the year ended February 28, 2003 increased by 42,393 and 614,404, respectively, as a result of dividend reinvestment.

### 5. Unfunded Corporate Loans:

As of August 31, 2004, the Fund had unfunded loan commitments of \$1,343,590, which would be extended at the option of the borrower, pursuant to the following loan agreements:

Borrower	Unfunded Commitment (in thousands)
SP Newsprint	\$967
SBA Communications	\$377

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

Notes to Financial Statements (concluded)

### 6. Short-Term Borrowings:

On May 26, 2004, the Fund renewed its \$151,000,000 revolving credit

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

and security agreement with Citibank, N.A. and other lenders (the "Lenders"). The Fund may borrow money through (i) a line of credit from certain Lenders at the Eurodollar rate plus .75%, or the highest of the Federal Funds rate plus .50%, a base rate as determined by Citibank, N.A. and the latest three-week moving average of secondary market morning offering rates in the U.S. for three-month certificates of deposit of major U.S. money market banks plus .50%, or (ii) the issuance of commercial paper notes by certain Lenders at rates of interest derived from the weighted average of the per annum rates paid or payable by such Lenders in respect of those commercial notes. As security for its obligations to the Lenders under the revolving credit and security agreement, the Fund has granted a security interest in substantially all of its assets to and in favor of the Lenders. The Fund also pays additional borrowing costs which includes a commitment fee for this facility at an annual rate of .10% and a program fee of .24% on the borrowings outstanding.

For the six months ended August 31, 2004, the average amount borrowed was approximately \$137,454,000 and the daily weighted average interest rate was 1.48%.

### 7. Capital Loss Carryforward:

On February 29, 2004, the Fund had a capital loss carryforward of \$151,440,900 of which \$733,844 expires in 2005; \$4,282,847 expires in 2007; \$12,755,214 expires in 2008; \$25,658,795 expires in 2009; \$54,958,583 expires in 2010; \$30,706,546 expires in 2011 and \$22,345,071 expires in 2012. This amount will be available to offset like amounts on any future taxable gains.

### 8. Subsequent Event:

The Portfolio paid an ordinary income dividend in the amount of \$.045000 per share on September 30, 2004 to shareholders of record on September 14, 2004.

## Proxy Results

During the six-month period ended August 31, 2004, Senior High Income Portfolio, Inc.'s shareholders voted on the following proposal. The proposal was approved at a shareholders' meeting on August 25, 2004. A description of the proposal and number of shares voted are as follows:

		Shares Voted For	Shares From
1. To elect the Portfolio's Board of Directors:	Terry K. Glenn	53,331,253	1,1
	Ronald W. Forbes	53,348,369	1,0
	Cynthia A. Montgomery	53,326,648	1,1
	Kevin A. Ryan	53,290,759	1,1
	Roscoe S. Suddarth	53,296,600	1,1
	Richard R. West	53,307,610	1,1
	Edward D. Zinbarg	53,304,264	1,1

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

### Officers and Directors

Terry K. Glenn, President and Director  
Ronald W. Forbes, Director  
Cynthia A. Montgomery, Director  
Jean Margo Reid, Director  
Kevin A. Ryan, Director  
Roscoe S. Suddarth, Director  
Richard R. West, Director  
Edward D. Zinbarg, Director  
Kevin J. Booth, Vice President  
Donald C. Burke, Vice President and Treasurer  
Jeffrey Hiller, Chief Compliance Officer  
Alice A. Pellegrino, Secretary

### Custodian

The Bank of New York  
100 Church Street  
New York, NY 10286

### Transfer Agent

The Bank of New York  
101 Barclay Street  
New York, NY 10286

### NYSE Symbol

ARK

### Availability of Quarterly Schedule of Investments

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's Web site at <http://www.sec.gov>. The Fund's Forms N-Q may also be reviewed and copied at the SEC'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.

SENIOR HIGH INCOME PORTFOLIO, INC., AUGUST 31, 2004

Item 2 - Code of Ethics - Not Applicable to this semi-annual report

Item 3 - Audit Committee Financial Expert - Not Applicable to this semi-annual report

Item 4 - Principal Accountant Fees and Services - Not Applicable to

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

this semi-annual report

Item 5 - Audit Committee of Listed Registrants - Not Applicable to this semi-annual report

Item 6 - Schedule of Investments - Not Applicable

Item 7 - Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies - Not Applicable to this semi-annual report

Item 8 - Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers - Not Applicable

Item 9 - Submission of Matters to a Vote of Security Holders - Not Applicable

Item 10 - Controls and Procedures

10(a) - The registrant's certifying officers have reasonably designed such disclosure controls and procedures to ensure material information relating to the registrant is made known to us by others particularly during the period in which this report is being prepared. The registrant's certifying officers have determined that the registrant's disclosure controls and procedures are effective based on our evaluation of these controls and procedures as of a date within 90 days prior to the filing date of this report.

10(b) - There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d)) that occurred during the last fiscal half-year of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 11 - Exhibits attached hereto

11(a) (1) - Code of Ethics - Not Applicable to this semi-annual report

11(a) (2) - Certifications - Attached hereto

11(a) (3) - Not Applicable

11(b) - Certifications - Attached hereto

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

Senior High Income Portfolio, Inc.

By:     /s/ Terry K. Glenn                      
Terry K. Glenn,  
President of  
Senior High Income Portfolio, Inc.

Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSRS

Date: October 18, 2004

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

By:    \_/s/ Terry K. Glenn\_\_\_\_\_

        Terry K. Glenn,  
        President of  
        Senior High Income Portfolio, Inc.

Date: October 18, 2004

By:    \_/s/ Donald C. Burke\_\_\_\_\_

        Donald C. Burke,  
        Chief Financial Officer of  
        Senior High Income Portfolio, Inc.

Date: October 18, 2004