

NEW AMERICA HIGH INCOME FUND INC  
Form N-CSR  
March 08, 2004

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act File No. 811-5399  
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THE NEW AMERICA HIGH INCOME FUND, INC.  
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(Exact Name of Registrant as Specified in Charter)

33 Broad Street, Boston, MA 02109  
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(Address of Principal Executive Offices) (Zip Code)

Richard E. Floor, Secretary  
The New America High Income Fund, Inc.  
33 Broad Street  
Boston, MA 02109

Registrant's telephone number, including area code: (617) 263-6400

Date of fiscal year end: December 31

Date of reporting period: July 1, 2003 to December 31, 2003

ITEM 1. REPORTS TO STOCKHOLDERS.

THE NEW  
AMERICA  
HIGH INCOME  
FUND, INC.

[NEW AMERICA HIGH INCOME FUND LOGO]

ANNUAL  
REPORT  
DECEMBER 31, 2003

February 6, 2003

DEAR FELLOW SHAREHOLDER,

What a difference a year makes to the Fund's shareholders:

- The Fund's total return, based on net asset value plus dividends, was 28.6% for the year.
- The Fund's total return, based upon market price plus dividends, was 19.2%

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for the year.

- The Fund's net asset value per share increased 15.9%, from \$1.89 to \$2.19, during 2003. The price of the Fund's shares rose from \$2.01 to \$2.16 over the period.
- Shareholders who bought shares in the August 2003 rights offering had a 13.1% total return on the shares purchased in the offering from the date the new shares were issued through year-end.
- Dividends of \$.0175 were paid each month, which is also the current target for dividends going forward (subject to market conditions and portfolio performance). At year-end, the annualized dividend, based on a market price of \$2.16 and the current monthly dividend of \$.0175, was 9.7%.

These results reflect a series of major changes which occurred during the year, some of which were under the Board of Directors' control and others which were not. We are unable to control the high yield bond market, which for the first year since 1999 had a positive total return. During the period 1998 - 2002, high yield bond investors suffered the longest (four out of five years) bear market in the history of the high yield bond market. The condition of the high yield bond market improved dramatically in 2003, as discussed in detail below. However, the Board does have some control over the Fund's capital structure. We offered shareholders an opportunity to take advantage of the strong high yield market by issuing rights to subscribe for additional shares at an attractive price and raised an additional \$41 million in equity.

Subsequently, the Fund issued \$30 million of additional Auction Term Preferred Stock (the "ATP") with the aim of restoring the Fund's leverage to its approximate level prior to the rights offering. As our shareholders know, the leverage is an important contributor to the Fund's dividend stream. The leverage also exaggerates the impact of the market's price movements on the Fund's net asset value. The Fund benefited from the leverage in 2003, a year in which the high yield market performed very well. This was a welcome change from the negative impact of the leverage on the Fund's shares in recent years when the high yield market performed poorly.

The Fund's new portfolio manager, T. Rowe Price Associates (the "Adviser"), completed the restructuring of the Fund's portfolio discussed in prior reports and invested the new funds from the 2003 offerings without reducing the Fund's common dividend. The Adviser has worked to diversify the Fund's portfolio, which we hope will make its performance somewhat more stable throughout the high yield market cycle.

We believe that as a result of the rights offering and other measures it has undertaken, the Fund should have a lower expense ratio going forward than it did in 2003. The portfolio is currently earning enough income to maintain the monthly dividend at its recent level of \$.0175 per share. While the Board has currently targeted a monthly dividend of \$.0175 per share, market conditions and actual portfolio results will determine what is paid.

Like you, the Board has read with a sense of shock the news reports about unethical and illegal activities at some mutual fund companies. During this time of scandal in the mutual fund industry it is important to remember that as a closed end fund, our shares are traded on a stock exchange, so the Fund cannot have the problem of shareholders trading after a 4 p.m. pricing deadline. Shareholders who attempt to profit by rapid-fire trading of the Fund's shares have no direct impact on the Fund's portfolio management because their trades are with other

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market participants, not the Fund. In addition, each member of the Board of Directors is a shareholder of the Fund. The Fund enjoys a degree of independence from the Adviser that is extremely unusual in the industry because the entire Board is completely financially independent of the Fund's Adviser. The Adviser has no representation whatsoever on the Board. The Board's independence from the Fund's investment adviser was demonstrated by the Board's action to change the Fund's investment adviser in December 2002.

T. Rowe Price's discussion of the condition of the high yield bond market and its strategy are below.

### HIGH YIELD MARKET UPDATE

The high yield market ended its second best year ever with impressive fourth quarter returns. The intensity of the year-long rally left the asset class with the lowest yield in its history, tempting managers to continue dipping lower in credit quality to preserve their income streams. Cautious optimism has been replaced by a general sense of euphoria, and risk taking is back in vogue again. In spite of valuations that grew increasingly rich, investors continued to bid up the prices of non-investment grade bonds to record levels. As a result, the high yield market in 2003 generated more return from capital appreciation than income.

Our increasingly cautious outlook on the market's absolute valuation is tempered by what we believe is an ideal macro environment for high yield companies and the relative appeal of high yield bonds against other fixed income sectors. The credit cycle continues to improve significantly, and defaults should not be a major problem for the asset class in 2004. We see productivity gains, the overall corporate profit outlook, a healthier stock market, low interest rates and fiscal stimulus as all positive factors for highly indebted companies. High yield bond market cycles tend to last longer than one year, implying that the first half of 2004 should remain constructive. We also base this outlook on the assumption that interest rates may remain low in the near term because of the weak employment picture in the United States.

### STRATEGY REVIEW

Our belief that there is a low probability of significant capital appreciation in the high yield market in 2004 necessitated a shift in overall strategy from a year ago. We anticipate that coupon clipping will be the primary driver of total return and that reinvestment risk of callable debt will challenge high yield managers. The overall yield of the high yield bond market at year-end stood at approximately 7.5% as measured by the J.P. Morgan Global High Yield Bond Index, and is lower already because of a strong January effect. Higher quality BB-rated bonds have dropped to a 5.8% average yield and carry significant interest rate risk. Meanwhile, most lower-rated companies in the portfolio have continued to exhibit improving operating fundamentals, and their bonds still offer low double-digit income. These factors lead us to maintain healthy weightings in the lower middle (B) and bottom credit tiers (CCC) of the market, subject to the Fund's portfolio investment restrictions related to maintaining the AAA rating on the Fund's ATP. We also expect meaningful upgrade activity in this lower rated basket of the portfolio throughout the year.

Sector themes are currently much harder to discern, with most of our industries trading at yields tightly clustered around the market average. We continued to increase our exposure in utilities in the last three months of the year because we see more balance sheet repair on the horizon. Telecommunications looks attractive for the same reason, but we have reached our maximum targeted exposures in both sectors. Both industries include a number of rising stars which should regain investment grade status during the next two years. For example, Nextel remains one of our largest positions, but its bonds now yield 5.5%. In our last report, we lamented Nextel's 7% yield.

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We also note that with the high yield bond market yielding approximately 7.3%, as measured by the J.P. Morgan Global High Yield Bond Index, and prices at record levels, credit mistakes will hurt performance much more than in 2003. Traditional credit disciplines mattered less last year than in the bear market of 1998 to 2002. This trend will not continue indefinitely, because the market already is witnessing the underwriting of speculative transactions at a disturbing pace. We are gratified by the performance achieved last year, but we remain committed to preserving those gains when the high yield market eventually turns south.

Thank you for your continued interest in the Fund.

Sincerely,

/s/ Robert F. Birch  
 Robert F. Birch  
 President  
 The New America High Income Fund, Inc.

/s/ Mark Vaselkiv  
 Mark Vaselkiv  
 Vice President  
 T. Rowe Price Associates, Inc.

THE VIEWS EXPRESSED IN THIS UPDATE ARE AS OF THE DATE OF THIS LETTER. THESE VIEWS ARE SUBJECT TO CHANGE AT ANY TIME BASED ON MARKET OR OTHER CONDITIONS. THE FUND AND THE ADVISER DISCLAIM ANY DUTY TO UPDATE THESE VIEWS, WHICH MAY NOT BE RELIED UPON AS INVESTMENT ADVICE. IN ADDITION, REFERENCES TO SPECIFIC COMPANY SECURITIES SHOULD NOT BE REGARDED AS INVESTMENT RECOMMENDATIONS.

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The New America High Income Fund, Inc.

SCHEDULE OF INVESTMENTS -- DECEMBER 31, 2003 (Dollar Amounts in Thousands)

| PRINCIPAL<br>AMOUNT/UNITS                | MOODY'S<br>RATING<br>(UNAUDITED)                                    | VALUE<br>(NOTE 1(a))    |
|--|---|-------------------------|
| -----                                    |   |                         |
| CORPORATE DEBT SECURITIES -- 155.26% (d) |   |                         |
| AEROSPACE AND DEFENSE -- 3.67%           |   |                         |
| \$ 850                                   | Aviall, Inc., Senior Notes,<br>7.625%, 07/01/11                     | \$ 884                  |
| 2,500                                    | GenCorp, Inc.,<br>Senior Subordinated Notes,<br>9.50%, 08/15/13 (g) | 2,600                   |
| 600                                      | Sequa Corporation, Senior Notes,<br>9%, 08/01/09                    | 660                     |
| 650                                      | Transdigm, Inc., Senior<br>Subordinated Notes,<br>8.375%, 07/15/11  | 657                     |
| 2,650                                    | Vought Aircraft Industries, Inc.,<br>Senior Notes, 8%, 07/15/11 (g) | 2,703                   |
|  |   | -----<br>7,504<br>----- |

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AUTOMOBILE -- 3.06%

|       |   |      |       |
|-------|---|------|-------|
| 125   | Accuride Corporation,<br>Senior Subordinated Notes,<br>9.25%, 02/01/08            | Caa1 | 129   |
| 700   | Ashbury Automotive Group, Inc.,<br>Senior Subordinated<br>Notes, 8%, 03/15/14 (g) | B3   | 704   |
| 365   | Cummins, Inc., Senior Notes,<br>10.25%, 12/01/10 (g)                              | Ba2  | 421   |
| 50    | Dana Corporation,<br>Notes, 7%, 03/15/28  | Ba3  | 50    |
| 420   | Dana Corporation,<br>Notes, 7%, 03/01/29  | Ba3  | 416   |
| 50    | Dana Corporation, Senior<br>Notes, 9%, 08/15/11                                   | Ba3  | 60    |
| 175   | Dura Operating Corporation,<br>Senior Subordinated<br>Notes, 9%, 05/01/09         | B2   | 175   |
| 850   | HLI Operating Company Inc.,<br>Senior Notes, 10.50%, 06/15/10                     | B1   | 977   |
| 1,325 | TRW Automotive Inc.,<br>Senior Notes, 9.375%, 02/15/13                            | B1   | 1,517 |
| 1,525 | TRW Automotive Inc.,<br>Senior Subordinated Notes,<br>11%, 02/15/13               | B2   | 1,807 |
|       |   |      | ----- |
|       |   |      | 6,256 |
|       |   |      | ----- |

BEVERAGE, FOOD AND TOBACCO -- 4.23%

|          |  |     |          |
|----------|--|-----|----------|
| 281      | Agrilink Foods, Inc.,<br>Senior Subordinated Notes,<br>11.875%, 11/01/08                 | B3  | 296      |
| 1,200    | B&G Foods, Inc.,<br>Senior Subordinated Notes,<br>9.625%, 08/01/07                       | B3  | 1,242    |
| \$ 1,125 | DIMON Incorporated, Senior Notes,<br>9.625%, 10/15/11                                    | Ba3 | \$ 1,257 |
| 400      | Dole Food Company, Inc.,<br>Senior Notes, 8.625%, 05/01/09                               | B2  | 439      |
| 1,175    | Dole Food Company, Inc.,<br>Senior Notes, 8.875%, 03/15/11                               | B2  | 1,284    |
| 150      | Domino's, Inc.,<br>Senior Subordinated Notes,<br>8.25%, 07/01/11 (g)                     | B3  | 162      |
| 1,975    | Le-Nature's, Inc.,<br>Senior Subordinated Notes,<br>9.50%, 06/15/13 (g)                  | B3  | 2,064    |
| 575      | Luigino's Inc.,<br>Senior Subordinated Notes,<br>10%, 02/01/06                           | B3  | 594      |
| 775      | Pinnacle Foods Holding Corporation,<br>Senior Subordinated Notes,<br>8.25%, 12/01/13 (g) | B3  | 790      |
| 525      | Premium Standard Farms, Inc.,<br>Senior Notes, 9.25%, 06/15/11                           | B1  | 530      |
|          |  |     | -----    |
|          |  |     | 8,658    |
|          |  |     | -----    |

BROADCASTING AND ENTERTAINMENT -- 11.62%

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|       |   |      |       |
|-------|---|------|-------|
| 1,450 | CCO Holdings, LLC, Senior Notes, 8.75%, 11/15/13 (g)                  | B3   | 1,475 |
| 1,675 | Charter Communications Holdings II, 10.25%, 09/15/10 (g)              | Caa1 | 1,755 |
| 100   | Charter Communications Holdings, LLC, Senior Notes, 10%, 04/01/09     | Ca   | 89    |
| 100   | Charter Communications Holdings, LLC, Senior Notes, 10.75%, 10/01/09  | Ca   | 92    |
| 1,875 | Charter Communications Holdings, LLC, Senior Notes, 11.125%, 01/15/11 | Ca   | 1,716 |
| 2,500 | Comcast Cable Communications, Inc., Notes, 6.75%, 01/30/11            | Baa3 | 2,779 |
| 2,550 | CSC Holdings, Inc., Senior Notes, 7.625%, 04/01/11                    | B1   | 2,677 |
| 50    | CSC Holdings, Inc., Senior Notes, 7.875%, 12/15/07                    | B1   | 53    |
| 750   | DIRECTV Holdings LLC, Senior Notes, 8.375%, 03/15/13                  | B1   | 870   |
| 644   | Echostar DBS Corporation, Senior Notes, 9.125%, 01/15/09              | Ba3  | 720   |

The accompanying notes are an integral part of these financial statements.

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| PRINCIPAL AMOUNT/UNITS                 |  | MOODY'S RATING (UNAUDITED) | VALUE (NOTE 1(a)) |
|--|--|----------------------------|-------------------|
| -----                                  |  |                            |                   |
| CORPORATE DEBT SECURITIES -- CONTINUED |  |                            |                   |
| \$ 375                                 | Echostar DBS Corporation, Senior Notes, 10.375%, 10/01/07                      | Ba3                        | \$ 412            |
| 350                                    | Granite Broadcasting Corporation, Senior Secured Notes, 9.75%, 12/01/10 (g)    | B3                         | 347               |
| 375                                    | Insight Midwest, L.P., Senior Notes, 9.75%, 10/01/09                           | B2                         | 396               |
| 750                                    | Insight Midwest, L.P., Senior Notes, 10.50%, 11/01/10                          | B2                         | 814               |
| 1,025                                  | Mediacom Broadband LLC, Senior Notes, 11%, 07/15/13                            | B2                         | 1,148             |
| 475                                    | Paxson Communications Corp. Senior Subordinated Notes, 10.75%, 07/15/08        | Caa1                       | 513               |
| 2,350                                  | Quebecor Media Inc., Senior Notes, 11.125%, 07/15/11                           | B2                         | 2,720             |
| 500                                    | Spanish Broadcasting System, Inc., Senior Subordinated Notes, 9.625%, 11/01/09 | Caa1                       | 534               |
| 1,915                                  | Vivendi Universal, S.A., Senior Notes, 9.25%, 04/15/10 (g)                     | B1                         | 2,260             |

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|   |   |      |        |
|---|---|------|--------|
| 800                                     | XM Satellite Radio Inc.,<br>Senior Secured Notes,<br>12%, 06/15/10                      | Caa1 | 906    |
| 1,400                                   | Young Broadcasting, Inc.,<br>Senior Subordinated Notes,<br>10%, 03/01/11                | Caa1 | 1,505  |
|   |   |      | -----  |
|   |   |      | 23,781 |
|   |   |      | -----  |
| BUILDING AND REAL ESTATE -- 7.03%       |   |      |        |
| 1,550                                   | Associated Materials, Inc.,<br>Senior Subordinated Notes,<br>9.75%, 04/15/12            | B3   | 1,697  |
| 1,050                                   | Collins & Aikman Floorcoverings,<br>Inc., Senior Subordinated Notes,<br>9.75%, 02/15/10 | B2   | 1,124  |
| 50                                      | D.R. Horton, Inc., Senior Notes,<br>8.50%, 04/15/12                                     | Ba1  | 57     |
| 775                                     | Interface, Incorporated,<br>Senior Notes, 7.30%, 04/01/08                               | Caa1 | 740    |
| 750                                     | LNR Property Corporation,<br>Senior Notes,<br>7.25%, 10/15/13 (g)                       | Ba3  | 763    |
| 425                                     | LNR Property Corporation,<br>Senior Subordinated Notes,<br>7.625%, 07/15/13             | Ba3  | 446    |
| \$ 775                                  | Mobile Mini, Inc., Senior Notes,<br>9.50%, 07/01/13                                     | B2   | \$ 854 |
| 850                                     | Norcroft Companies, L.P.,<br>Senior Subordinated<br>Notes, 9%, 11/01/11 (g)             | B3   | 910    |
| 1,600                                   | Shaw Group, Inc., Senior Notes,<br>10.75%, 03/15/10 (g)                                 | Ba2  | 1,696  |
| 2,000                                   | Standard Pacific Corp.,<br>Senior Notes, 8%, 02/15/08                                   | Ba2  | 2,055  |
| 725                                     | Texas Industries, Inc.,<br>Senior Notes, 10.25%, 06/15/11                               | B1   | 814    |
| 400                                     | Wackenhut Corrections Corporation,<br>Senior Notes, 8.25%, 07/15/13                     | B1   | 426    |
| 675                                     | WCI Communities, Inc.,<br>Senior Subordinated<br>Notes, 9.125%, 05/01/12                | Ba3  | 744    |
| 975                                     | WCI Communities, Inc.,<br>Senior Subordinated<br>Notes, 10.625%, 02/15/11               | Ba3  | 1,099  |
| 250                                     | Williams Scotsman, Inc.,<br>Senior Notes,<br>9.875%, 06/01/07                           | B3   | 252    |
| 650                                     | Williams Scotsman, Inc.,<br>Senior Secured Notes,<br>10%, 08/15/08                      | B2   | 718    |
|   |   |      | -----  |
|   |   |      | 14,395 |
|   |   |      | -----  |
| CHEMICALS, PLASTICS AND RUBBER -- 6.92% |   |      |        |
| 975                                     | ARCO Chemical Company,<br>Debentures, 9.80%, 02/01/20                                   | B1   | 980    |
| 1,850                                   | Avecia Group plc, Senior Notes,<br>11%, 07/01/09  | Caa1 | 1,665  |
| 1,650                                   | Compass Minerals Group, Inc.,   |      |        |

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|       |  |    |       |
|-------|--|----|-------|
|       | Senior Subordinated Notes,<br>10%, 08/15/11                                    | B3 | 1,848 |
| 300   | Equistar Chemicals, LP,<br>Senior Notes,<br>10.625%, 05/01/11                  | B2 | 330   |
| 1,125 | Ethyl Corporation, Senior Notes,<br>8.875%, 05/01/10                           | B2 | 1,204 |
| 625   | Huntsman Advanced Materials LLC,<br>Senior Secured Notes,<br>11%, 07/15/10 (g) | B2 | 691   |
| 600   | Huntsman International LLC,<br>Senior Notes, 9.875%, 03/01/09                  | B3 | 657   |

The accompanying notes are an integral part of these financial statements.

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| PRINCIPAL<br>AMOUNT/UNITS                 |   | MOODY'S<br>RATING<br>(UNAUDITED) | VALUE<br>(NOTE 1(a)) |
|---|---|----------------------------------|----------------------|
| -----                                     |   |                                  |                      |
| CORPORATE DEBT SECURITIES -- CONTINUED    |   |                                  |                      |
| \$ 250                                    | Huntsman International LLC,<br>Senior Subordinated Notes,<br>10.125%, 07/01/09            | Caa1                             | \$ 259               |
| 1,050                                     | Koppers Inc., Senior Secured<br>Notes, 9.875%, 10/15/13 (g)                               | B2                               | 1,160                |
| 500                                       | Lyondell Chemical Company,<br>Senior Notes, 9.50%, 12/15/08                               | B1                               | 527                  |
| 500                                       | Nalco Company, Senior Notes,<br>7.75%, 11/15/11 (g)                                       | B2                               | 535                  |
| 625                                       | Omnova Solutions, Inc., Senior<br>Notes, 11.25%, 06/01/10 (g)                             | B2                               | 694                  |
| 525                                       | PolyOne Corporation, Senior<br>Notes, 10.625%, 05/15/10                                   | B3                               | 528                  |
| 820                                       | Resolution Performance Products,<br>LLC, Senior Secured Notes,<br>9.50%, 04/15/10         | B3                               | 838                  |
| 1,500                                     | Rhodia S.A., Senior Subordinated<br>Notes, 8.875%, 06/01/11 (g)                           | B3                               | 1,380                |
| 775                                       | Rockwood Specialities Group, Inc.,<br>Senior Subordinated Notes,<br>10.625%, 05/15/11 (g) | B3                               | 862                  |
|   |   |                                  | -----                |
|   |   |                                  | 14,158               |
|   |   |                                  | -----                |
| CONTAINERS, PACKAGING AND GLASS -- 13.07% |   |                                  |                      |
| 700                                       | AEP Industries, Inc., Senior<br>Subordinated Notes,<br>9.875%, 11/15/07                   | B3                               | 703                  |
| 2,150                                     | Ainsworth Lumber Co. Ltd.,<br>Senior Secured Notes,<br>12.50%, 07/15/07                   | B3                               | 2,505                |
| 350                                       | Boise Cascade Corporation,  |                                  |                      |



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|        |   |      |    |       |
|--------|---|------|----|-------|
|        | Senior Notes, 7%, 11/01/13  | Ba2  |    | 366   |
| 1,200  | Bway Corporation,<br>Senior Subordinated Notes,<br>10%, 10/15/10                      | B3   |    | 1,308 |
| 575    | Constar International, Inc.<br>Senior Subordinated Notes,<br>11%, 12/01/12            | Caa1 |    | 471   |
| 1,250  | Crown Cork & Seal Company, Inc.<br>Euroco, Senior Secured Notes,<br>9.50%, 03/01/11   | B1   |    | 1,412 |
| 1,725  | Crown Cork & Seal Company, Inc.<br>Euroco, Senior Secured Notes,<br>10.875%, 03/01/13 | B2   |    | 2,018 |
| \$ 500 | Georgia-Pacific Corporation, Senior<br>Debentures, 9.875%, 11/01/21                   | Ba3  | \$ | 522   |
| 500    | Georgia-Pacific Corporation, Senior<br>Notes, 8.875%, 02/01/10                        | Ba2  |    | 573   |
| 1,975  | Georgia-Pacific Corporation, Senior<br>Notes, 9.375%, 02/01/13                        | Ba2  |    | 2,271 |
| 450    | Graphic Packaging International, Inc.,<br>Senior Notes, 8.50%, 08/15/11 (g)           | B2   |    | 497   |
| 350    | Greif Brothers Corporation,<br>Senior Subordinated Notes,<br>8.875%, 08/1/12          | B2   |    | 383   |
| 750    | Jefferson Smurfit Corporation,<br>Senior Notes, 7.50%, 06/01/13                       | B2   |    | 784   |
| 1,425  | Longview Fibre Company,<br>Senior Subordinated Notes,<br>10%, 01/15/09                | B2   |    | 1,568 |
| 1,535  | MDP Acquisitions PLC, Senior<br>Notes, 9.625%, 10/01/12                               | B2   |    | 1,719 |
| 350    | MDP Acquisitions PLC,<br>Subordinated Notes,<br>15.50%, 10/01/13 (i)                  | B3   |    | 406   |
| 550    | Owens-Brockway<br>Glass Container, Inc.,<br>Senior Notes, 8.25%, 05/15/13             | B2   |    | 590   |
| 350    | Owens-Brockway Glass<br>Container, Inc., Senior Secured<br>Notes, 7.75%, 05/15/11     | B1   |    | 375   |
| 175    | Owens-Brockway<br>Glass Container, Inc.,<br>Senior Secured Notes,<br>8.75%, 11/15/12  | B1   |    | 195   |
| 2,000  | Owens-Brockway Glass<br>Container, Inc., Senior Secured<br>Notes, 8.875%, 02/15/09    | B1   |    | 2,185 |
| 1,700  | Plastipak Holdings, Inc.,<br>Senior Notes, 10.75%, 09/01/11                           | B3   |    | 1,887 |
| 1,600  | Potlatch Corporation,<br>Senior Subordinated Notes,<br>10%, 07/15/11                  | Ba1  |    | 1,792 |
| 375    | Silgan Holdings, Inc.,<br>Senior Subordinated Notes,<br>6.75%, 11/15/13 (g)           | B1   |    | 375   |
| 550    | Smurfit Capital, Guaranteed Notes,<br>6.75%, 11/20/05                                 | Ba3  |    | 569   |
| 100    | Stone Container Corporation,<br>Senior Notes, 9.75%, 02/01/11                         | B2   |    | 110   |

The accompanying notes are an integral

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part of these financial statements.

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| PRINCIPAL<br>AMOUNT/UNITS                       |   | MOODY'S<br>RATING<br>(UNAUDITED) | VALUE<br>(NOTE 1(a)) |
|---|---|----------------------------------|----------------------|
| -----   |   |                                  |                      |
| CORPORATE DEBT SECURITIES -- CONTINUED          |   |                                  |                      |
| \$ 350  | Stone Container Finance<br>Company of Canada, Senior<br>Notes, 11.50%, 08/15/06 (g) | B2                               | \$ 371               |
| 775   | Tekni-Plex, Inc., Senior Notes,<br>8.75%, 11/15/13 (g)                              | B2                               | 806                  |
|   |   |                                  | -----                |
|   |   |                                  | 26,761               |
|   |   |                                  | -----                |
| DIVERSIFIED/CONGLOMERATE MANUFACTURING -- 4.02% |   |                                  |                      |
| 875   | Actuant Financial Corporation,<br>Senior Subordinated Notes,<br>13%, 05/01/09       | B2                               | 1,138                |
| 275   | AGCO Corporation, Senior Notes,<br>9.50%, 05/01/08                                  | Ba3                              | 300                  |
| 650   | Case New Holland, Inc., Senior<br>Notes, 9.25%, 08/01/11 (g)                        | Ba3                              | 728                  |
| 500   | Columbus McKinnon Corporation,<br>Senior Subordinated Notes,<br>8.50%, 04/01/08     | Caa1                             | 468                  |
| 600   | General Cable Corporation,<br>Senior Notes, 9.50%, 11/15/10 (g)                     | B2                               | 641                  |
| 550   | Manitowoc, Incorporated,<br>Senior Notes, 7.125%, 11/01/13                          | B1                               | 567                  |
| 1,150   | National Waterworks, Inc.,<br>Senior Subordinated Notes,<br>10.50%, 12/01/12        | B3                               | 1,285                |
| 1,350   | Rexnord Corp., Senior Subordinated<br>Notes, 10.125%, 12/15/12                      | B3                               | 1,485                |
| 1,550   | Trimas Corp., Senior Subordinated<br>Notes, 9.875%, 06/15/12                        | B3                               | 1,620                |
|   |   |                                  | -----                |
|   |   |                                  | 8,232                |
|   |   |                                  | -----                |
| DIVERSIFIED/CONGLOMERATE SERVICE -- 1.86%       |   |                                  |                      |
| 975   | Brand Services, Inc., Senior<br>Subordinated Notes,<br>12%, 10/15/12                | B3                               | 1,126                |
| 1,225   | Brickman Group LTD, Senior<br>Subordinated Notes,<br>11.75%, 12/15/09               | B2                               | 1,427                |
| 1,150   | Coinmach Corporation, Senior<br>Notes, 9%, 02/01/10                                 | B2                               | 1,248                |
|   |   |                                  | -----                |
|   |   |                                  | 3,801                |
|   |   |                                  | -----                |

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|                      |       |   |                         |
|----------------------|-------|---|-------------------------|
| ECOLOGICAL -- 2.23%  |       |   |                         |
|                      | 550   | Allied Waste North America, Inc.,<br>Senior Secured Notes,<br>7.875%, 04/15/13          | Ba3 595                 |
| \$                   | 1,225 | Casella Waste Systems, Inc.,<br>Senior Subordinated<br>Notes, 9.75%, 02/01/13           | B3 \$ 1,372             |
|                      | 825   | IESI Corporation, Senior<br>Subordinated Notes,<br>10.25%, 06/15/12                     | B3 916                  |
|                      | 1,550 | Synagro Technologies, Inc.,<br>Senior Subordinated<br>Notes, 9.50%, 04/01/09            | B3 1,693                |
|                      |       |   | -----<br>4,576<br>----- |
| ELECTRONICS -- 3.84% |       |   |                         |
|                      | 325   | AMI Semiconductor, Inc., Senior<br>Subordinated Notes,<br>10.75%, 02/01/13              | B3 387                  |
|                      | 825   | Amkor Technology, Inc.,<br>Senior Notes,<br>7.75%, 05/15/13                             | B1 883                  |
|                      | 825   | Avaya Inc., Senior Secured Notes,<br>11.125%, 04/01/09                                  | B2 957                  |
|                      | 750   | Chippac International Ltd.,<br>Senior Subordinated Notes,<br>Series B, 12.75%, 08/01/09 | B3 827                  |
|                      | 875   | Fairchild Semiconductor Corp.,<br>Senior Subordinated Notes,<br>10.50%, 02/01/09        | B2 976                  |
|                      | 375   | Lucent Technologies, Inc.,<br>Senior Notes, 5.50%, 11/15/08                             | Caa1 347                |
|                      | 1,350 | ON Semiconductor Corporation,<br>Senior Secured Notes,<br>12%, 03/15/10                 | B3 1,606                |
|                      | 575   | ON Semiconductor Corporation,<br>Senior Secured Notes,<br>13%, 05/15/08                 | Caa1 667                |
|                      | 600   | Sanmina Scientific Corporation,<br>Senior Secured Notes,<br>10.375%, 01/15/10           | Ba2 702                 |
|                      | 250   | Stratus Technologies, Inc., Senior<br>Notes, 10.375%, 12/01/08 (g)                      | B3 265                  |
|                      | 225   | Telex Communications, Inc.,<br>Senior Notes, 11.50%, 10/15/08 (g)                       | B3 239                  |
|                      |       |   | -----<br>7,856<br>----- |
| FINANCE -- 4.06%     |       |   |                         |
|                      | 2,500 | Ford Motor Credit Company,<br>Senior Notes, 7.375%, 02/01/11                            | A3 2,711                |

The accompanying notes are an integral part of these financial statements.

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| PRINCIPAL<br>AMOUNT/UNITS                                  |   | MOODY'S<br>RATING<br>(UNAUDITED) | VALUE<br>(NOTE 1(a)) |
|--|---|----------------------------------|----------------------|
| -----  |   |                                  |                      |
| CORPORATE DEBT SECURITIES -- CONTINUED                     |   |                                  |                      |
| \$ 2,500   | General Motors Acceptance Corporation, Senior Notes, 6.875%, 09/15/11           | A3                               | \$ 2,691             |
| 2,500  | Sprint Capital Corporation, Senior Notes, 8.375%, 03/15/12                      | Baa3                             | 2,912                |
|  |   |                                  | -----                |
|  |   |                                  | 8,314                |
|  |   |                                  | -----                |
| FURNISHINGS, HOUSEWARES, DURABLE CONSUMER PRODUCTS -- .32% |   |                                  |                      |
| 625  | Sealy Mattress Company, Senior Subordinated Notes, 9.875%, 12/15/07             | B3                               | 648                  |
|  |   |                                  | -----                |
| FARMING AND AGRICULTURE -- .33%                            |   |                                  |                      |
| 650  | United Agri Products, Inc., Senior Notes, 8.25%, 12/15/11 (g)                   | B3                               | 668                  |
|  |   |                                  | -----                |
| GROCERY STORES -- .83%                                     |   |                                  |                      |
| 500  | Couche-Tard, Inc., Senior Subordinated Notes, 7.50%, 12/15/13 (g)               | Ba3                              | 526                  |
| 1,125  | The Pantry Inc., Senior Subordinated Notes, 10.25%, 10/15/07                    | B3                               | 1,167                |
|  |   |                                  | -----                |
|  |   |                                  | 1,693                |
|  |   |                                  | -----                |
| HEALTHCARE, EDUCATION AND CHILDCARE -- 6.27%               |   |                                  |                      |
| 825  | Alliance Imaging, Inc., Senior Subordinated Notes, 10.375%, 04/15/11            | B3                               | 870                  |
| 825  | Alpharma, Inc., Senior Notes, 8.625%, 05/01/11 (g)                              | B3                               | 837                  |
| 900  | Ameripath, Inc. Senior Subordinated Notes, 10.50%, 04/01/13                     | B3                               | 972                  |
| 200  | AmerisourceBergen Corporation, Senior Notes, 8.125%, 09/01/08                   | Ba3                              | 226                  |
| 700  | Biovail Corporation, Senior Subordinated Notes, 7.875%, 04/01/10                | B2                               | 711                  |
| 675  | Concentra Operating Corporation, Senior Subordinated Notes, 9.50%, 08/15/10     | B3                               | 731                  |
| 750  | Concentra Operating Corporation, Senior Subordinated Notes, 9.50%, 08/15/10 (g) | B3                               | 812                  |
| \$ 550   | Concentra Operating Corporation, Senior Subordinated Notes, 13%, 08/15/09       | B3                               | \$ 613               |

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|   |   |     |                          |
|---|---|-----|--------------------------|
| 391                                       | Fisher Scientific International Inc.,<br>Senior Subordinated Notes,<br>8.125%, 05/01/12 | B2  | 419                      |
| 575                                       | Fresenius Medical Care Capital<br>Trust IV, 7.875%, 06/15/11                            | Ba2 | 615                      |
| 875                                       | Genesis Healthcare Corporation,<br>Senior Subordinated Notes,<br>8%, 10/15/13 (g)       | B3  | 906                      |
| 675                                       | InSight Health Services Corp.,<br>Senior Subordinated Notes,<br>9.875%, 11/01/11        | B3  | 722                      |
| 1,000                                     | Omnicare, Inc., Senior Subordinated<br>Notes, 8.125%, 03/15/11                          | Ba2 | 1,095                    |
| 750                                       | Quintiles Transnational Corporation,<br>Senior Subordinated Notes,<br>10%, 10/01/13 (g) | B3  | 810                      |
| 400                                       | Tenet Healthcare Corporation,<br>Senior Notes, 6.50%, 06/01/12                          | B1  | 383                      |
| 1,150                                     | Tenet Healthcare Corporation,<br>Senior Notes, 7.375%, 02/01/13                         | B1  | 1,153                    |
| 875                                       | Vicar Operating, Inc., Senior<br>Subordinated Notes,<br>9.875%, 12/01/09                | B3  | 967                      |
|   |   |     | -----<br>12,842<br>----- |
| HOTELS, MOTELS, INNS AND GAMING -- 10.64% |   |     |                          |
| 975                                       | Ameristar Casinos, Inc.,<br>Senior Subordinated Notes,<br>10.75%, 02/15/09              | B2  | 1,121                    |
| 1,125                                     | Argosy Gaming Company,<br>Senior Subordinated Notes,<br>10.75%, 06/01/09                | B2  | 1,216                    |
| 800                                       | Chukansi Economic Development,<br>Senior Notes,<br>14.50%, 06/15/09 (g)                 | (e) | 960                      |
| 575                                       | Coast Hotels and Casinos, Inc.,<br>Senior Subordinated Notes,<br>9.50%, 04/01/09        | B2  | 607                      |
| 1,675                                     | Courtyard Marriott II Ltd., Senior<br>Secured Notes, 10.75%, 02/01/08                   | B2  | 1,683                    |
| 50  | Extended Stay America, Inc., Senior<br>Subordinated Notes,<br>9.875%, 06/15/11          | B2  | 56                       |

The accompanying notes are an integral part of these financial statements.

| PRINCIPAL<br>AMOUNT/UNITS | MOODY'S<br>RATING<br>(UNAUDITED) | VALUE<br>(NOTE 1(a)) |
|---------------------------|----------------------------------|----------------------|
|---------------------------|----------------------------------|----------------------|

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CORPORATE DEBT SECURITIES -- CONTINUED

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|   |       |  |      |    |                          |
|---|-------|--|------|----|--------------------------|
| \$  | 550   | Horseshoe Gaming Holding Corp.,<br>Senior Subordinated Notes,<br>8.625%, 05/15/09          | B2   | \$ | 582                      |
|   | 740   | Host Marriott LP, Senior Notes,<br>Series I, 9.50%, 01/15/07                               | Ba3  |    | 827                      |
|   | 600   | Isle of Capri Casinos, Inc.,<br>Senior Subordinated Notes,<br>8.75%, 04/15/09              | B2   |    | 630                      |
|   | 1,475 | John Q. Hammons Hotels, LP,<br>First Mortgage Notes,<br>8.875%, 05/15/12                   | B2   |    | 1,611                    |
|   | 775   | La Quinta Properties, Inc., Senior<br>Notes, 8.875%, 03/15/11                              | Ba3  |    | 854                      |
|   | 1,125 | Majestic Star Casino, LLC,<br>Senior Notes, 9.50%, 10/15/10 (g)                            | B2   |    | 1,153                    |
|   | 1,500 | MGM Grand, Inc., Senior Notes,<br>6.875%, 02/06/08   | Ba1  |    | 1,590                    |
|   | 1,100 | Mohegan Tribal Gaming Authority,<br>Senior Subordinated Notes,<br>8%, 04/01/12             | Ba3  |    | 1,188                    |
|   | 425   | Old Evangeline Downs, LLC,<br>Senior Secured Notes,<br>13%, 03/01/10                       | (e)  |    | 455                      |
|   | 1,000 | Park Place Entertainment<br>Corp., Senior<br>Subordinated Notes,<br>9.375%, 02/15/07       | Ba2  |    | 1,132                    |
|   | 1,225 | Penn National Gaming, Inc.,<br>Senior Subordinated Notes,<br>11.125%, 03/01/08             | B3   |    | 1,380                    |
|   | 1,350 | Pinnacle Entertainment, Inc.,<br>Senior Subordinated Notes,<br>9.25%, 02/15/07             | Caa1 |    | 1,394                    |
|   | 75    | Resorts International Hotel and<br>Casino, Inc., Senior Secured Notes,<br>11.50%, 03/15/09 | B2   |    | 82                       |
|   | 1,200 | Station Casinos, Inc.,<br>Senior Subordinated Notes,<br>9.875%, 07/01/10                   | B2   |    | 1,320                    |
|   | 575   | Trump Casino Holdings, LLC,<br>Senior Notes,<br>11.625%, 03/15/10                          | B3   |    | 555                      |
|   | 1,200 | Venetian Casino Resort, LLC, 2nd<br>Mortgage Notes, 11%, 06/15/10                          | B3   |    | 1,392                    |
|   |       |  |      |    | -----<br>21,788<br>----- |
| INSURANCE -- .58%                             |       |  |      |    |                          |
| \$  | 1,125 | Willis Corroon Corporation,<br>Senior Subordinated Notes,<br>9%, 02/01/09                  | Ba2  | \$ | 1,181                    |
| -----   |       |  |      |    |                          |
| LEISURE, AMUSEMENT AND ENTERTAINMENT -- 4.20% |       |  |      |    |                          |
|   | 750   | AMF Bowling Worldwide, Inc.<br>Senior Subordinated Notes,<br>13%, 09/01/08                 | B3   |    | 848                      |
|   | 650   | Bally Total Fitness Holding<br>Corporation, Senior Notes,<br>10.50%, 07/15/11 (g)          | B2   |    | 653                      |
|   | 675   | Equinox Holdings, Inc., Senior   |      |    |                          |

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|   |   |     |       |
|---|---|-----|-------|
|   | Notes, 9%, 12/15/09 (g)   | B3  | 702   |
| 975   | The Hockey Company, Senior Secured Note Units, 11.25%, 04/15/09               | B2  | 1,116 |
| 100   | Six Flags Inc., Senior Notes, 8.875%, 02/01/10                                | B2  | 103   |
| 1,100   | Six Flags Inc., Senior Notes, 9.50%, 02/01/09                                 | B2  | 1,149 |
| 200   | Six Flags Inc., Senior Notes, 9.625%, 06/1/14 (g)                             | B2  | 209   |
| 1,400   | Six Flags Inc., Senior Notes, 9.75%, 04/15/13                                 | B2  | 1,470 |
| 800   | Town Sports International, Inc., Senior Notes, 9.625%, 04/15/11               | B2  | 856   |
| 550   | Universal City Development Partners, Ltd., Senior Notes, 11.75%, 04/01/10 (g) | B2  | 646   |
| 825   | Worldspan, L.P., Senior Notes, 9.625%, 06/15/11 (g)                           | B2  | 847   |
|   |   |     | ----- |
|   |   |     | 8,599 |
|   |   |     | ----- |
| MINING, STEEL, IRON AND NON-PRECIOUS METALS -- 10.52% |   |     |       |
| 750   | Arch Western Finance LLC, Senior Notes, 6.75%, 07/01/13 (g)                   | Ba2 | 769   |
| 2,230   | Century Aluminum Company, 1st Mortgage Notes, 11.75%, 04/15/08                | B1  | 2,486 |
| 850   | CSN Islands VIII Corporation, Senior Notes, 9.75%, 12/16/13 (g)               | B1  | 850   |
| 2,675   | Earle M. Jorgensen Company, Senior Secured Notes, 9.75%, 06/01/12             | B2  | 2,983 |

The accompanying notes are an integral part of these financial statements.

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| PRINCIPAL<br>AMOUNT/UNITS              |   | MOODY'S<br>RATING<br>(UNAUDITED) | VALUE<br>(NOTE 1(a)) |
|--|---|----------------------------------|----------------------|
| -----                                  |   |                                  |                      |
| CORPORATE DEBT SECURITIES -- CONTINUED |   |                                  |                      |
| \$ 700                                 | Euramax Internanational, Inc., Senior Subordinated Notes, 8.50%, 08/15/11 (g) | B2                               | \$ 746               |
| 1,750                                  | Gerdau Ameristeel Corporation, Senior Notes, 10.375%, 07/15/11 (g)            | B2                               | 1,969                |
| 150                                    | Intermet Corporation, Senior Notes, 9.75%, 06/15/09                           | B2                               | 155                  |
| 1,175                                  | IPSCO Inc., Senior Notes,   |                                  |                      |

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|                      |  |      |    |        |
|----------------------|--|------|----|--------|
|                      | 8.75%, 06/01/13  | Ba3  |    | 1,304  |
| 150                  | Joy Global Inc., Senior Subordinated<br>Notes, 8.75%, 03/15/12                 | B2   |    | 167    |
| 725                  | Luscar Coal Ltd., Senior Notes,<br>9.75%, 10/15/11                             | Ba3  |    | 819    |
| 500                  | Neenah Foundry Company,<br>Senior Notes, 11%, 09/30/10                         | B2   |    | 550    |
| 575                  | Neenah Foundry Company,<br>Senior Subordinated Notes,<br>13%, 09/30/13 (g)     | (e)  |    | 586    |
| 2,000                | Peabody Energy Corporation,<br>Senior Notes, 6.875%, 03/15/13                  | Ba3  |    | 2,110  |
| 2,400                | Russell Metals, Inc., Units,<br>Senior Notes, 10%, 06/01/09                    | B1   |    | 2,556  |
| 1,530                | Steel Dynamics, Inc., Senior Notes,<br>9.50%, 03/15/09                         | B1   |    | 1,706  |
| 1,200                | United States Steel Corporation,<br>Senior Notes, 9.75%, 05/15/10              | B1   |    | 1,362  |
| 1,100                | Weirton Steel Corporation,<br>Senior Secured Notes,<br>10%, 04/01/08 (a) (b)   | (e)  |    | 418    |
|                      |  |      |    | -----  |
|                      |  |      |    | 21,536 |
|                      |  |      |    | -----  |
| OIL AND GAS -- 9.18% |  |      |    |        |
| 1,675                | AmeriGas Partners, L.P.,<br>Senior Notes, 8.875%, 05/20/11                     | B2   |    | 1,843  |
| 225                  | ANR Pipeline Company, Senior<br>Notes, 8.875%, 03/15/10                        | B1   |    | 253    |
| 875                  | Chesapeake Energy Corporation,<br>Senior Notes, 9%, 08/15/12                   | Ba3  |    | 1,008  |
| 1,050                | Compagnie Generale de<br>Geophysique (CGG), Senior<br>Notes, 10.625%, 11/15/07 | Ba3  |    | 1,118  |
| 650                  | Dresser, Inc., Senior Notes,<br>9.375%, 04/15/11                               | B2   |    | 707    |
| 2,600                | El Paso Corporation, Senior Notes,<br>7.75%, 01/15/32                          | Caa1 |    | 2,210  |
| \$ 575               | El Paso Corporation, Senior Notes,<br>7.80%, 08/1/31                           | Caa1 | \$ | 489    |
| 125                  | El Paso Corporation, Senior Notes,<br>8.05%, 10/15/30                          | Caa1 |    | 109    |
| 150                  | Encore Acquisition Company,<br>Senior Subordinated Notes,<br>8.375%, 06/15/12  | B2   |    | 163    |
| 1,725                | Ferrellgas Partners LP, Senior Notes,<br>8.75%, 06/15/12                       | B2   |    | 1,897  |
| 880                  | Magnum Hunter Resources, Inc.,<br>Senior Notes, 9.60%, 03/15/12                | B2   |    | 999    |
| 750                  | North American Energy Partners,<br>Senior Notes, 8.75%, 12/1/11 (g)            | B2   |    | 789    |
| 200                  | Northwest Pipeline Corporation,<br>Senior Notes, 8.125%, 03/01/10              | B1   |    | 224    |
| 925                  | Petroleum Helicopters, Inc.,<br>Senior Notes, 9.375%, 05/1/09                  | B1   |    | 980    |
| 375                  | Southern Natural Gas Company,<br>Senior Notes, 8.875%, 03/15/10                | B1   |    | 421    |
| 825                  | Stone Energy Corporation,<br>Senior Subordinated Notes,<br>8.25%, 12/15/11     | B2   |    | 897    |
| 350                  | Swift Energy Company, Senior   |      |    |        |



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|   |  |     |                          |
|---|--|-----|--------------------------|
|   | Subordinated Notes,<br>10.25%, 08/01/09  | B3  | 380                      |
| 1,000   | Tom Brown, Inc., Units, Senior<br>Subordinated Notes,<br>7.25%, 09/15/13         | Ba3 | 1,057                    |
| 925   | Universal Compression, Inc., Senior<br>Notes, 7.25%, 05/15/10                    | B1  | 962                      |
| 275   | Westport Resources Corporation,<br>Senior Subordinated<br>Notes, 8.25%, 11/01/11 | Ba3 | 303                      |
| 350   | Williams Companies, Inc.,<br>Senior Notes, 7.625%, 07/15/19                      | B3  | 366                      |
| 300   | Williams Companies, Inc.,<br>Senior Notes, 7.75%, 06/15/31                       | B3  | 311                      |
| 300   | Williams Companies, Inc.,<br>Senior Notes, 8.125%, 03/15/12                      | B3  | 336                      |
| 850   | Williams Companies, Inc.,<br>Senior Notes, 8.625%, 06/1/10                       | B3  | 963                      |
|   |  |     | -----<br>18,785<br>----- |
| PERSONAL, FOOD AND MISCELLANEOUS SERVICES -- .54% |  |     |                          |
| 850   | O'Charleys, Inc., Senior<br>Subordinated Notes,<br>9%, 11/1/13 (g)               | Ba3 | 854                      |

The accompanying notes are an integral part of these financial statements.

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| PRINCIPAL<br>AMOUNT/UNITS                       |  | MOODY'S<br>RATING<br>(UNAUDITED) | VALUE<br>(NOTE 1(a))    |
|---|--|----------------------------------|-------------------------|
| -----   |  |                                  |                         |
| CORPORATE DEBT SECURITIES -- CONTINUED          |  |                                  |                         |
| \$ 250  | Perkins Family Restaurants, L.P.,<br>Senior Notes, 10.125%, 12/15/07       | B1                               | \$ 254                  |
|   |  |                                  | -----<br>1,108<br>----- |
| PERSONAL NON-DURABLE CONSUMER PRODUCTS -- 3.82% |  |                                  |                         |
| 675   | American Achievement Corporation,<br>Senior Notes, 11.625%, 01/01/07       | B1                               | 756                     |
| 1,250   | American Safety Razor Company,<br>Senior Notes, 9.875%, 08/01/05           | B3                               | 1,238                   |
| 650   | Chattem, Inc., Senior Subordinated<br>Notes, 8.875%, 04/1/08               | B2                               | 668                     |
| 575   | Commemorative Brands, Inc.,<br>Senior Subordinated Notes,<br>11%, 01/15/07 | Caa1                             | 586                     |
| 2,125   | Jostens, Inc., Senior Subordinated<br>Notes, 12.75%, 05/01/10              | B3                               | 2,444                   |
| 1,675   | Rayovac Corporation, Senior  |                                  |                         |

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|                                   |                                      |      |    |       |
|-----------------------------------|--------------------------------------|------|----|-------|
|                                   | Subordinated Notes,                  |      |    |       |
|                                   | 8.50%, 10/01/13                      | B3   |    | 1,746 |
| 350                               | Salton, Inc., Senior Subordinated    |      |    |       |
|                                   | Notes, 12.25%, 04/15/08              | B3   |    | 382   |
|                                   |                                      |      |    | ----- |
|                                   |                                      |      |    | 7,820 |
|                                   |                                      |      |    | ----- |
| PERSONAL TRANSPORTATION -- 1.56%  |                                      |      |    |       |
| 1,075                             | Laidlaw International, Incorporated, |      |    |       |
|                                   | Senior Notes, 10.75%, 06/15/11 (g)   | B2   |    | 1,209 |
| 950                               | Northwest Airlines, Inc., Senior     |      |    |       |
|                                   | Notes, 8.875%, 06/01/06              | Caa1 |    | 865   |
| 975                               | TravelCenters of America, Inc.,      |      |    |       |
|                                   | Senior Subordinated Notes,           |      |    |       |
|                                   | 12.75%, 05/01/09                     | B3   |    | 1,126 |
|                                   |                                      |      |    | ----- |
|                                   |                                      |      |    | 3,200 |
|                                   |                                      |      |    | ----- |
| PRINTING AND PUBLISHING -- 11.66% |                                      |      |    |       |
| 100                               | Advanstar Communications, Inc.,      |      |    |       |
|                                   | Senior Notes, 10.75%,                |      |    |       |
|                                   | 08/15/10 (g)                         | B3   |    | 108   |
| 325                               | Advanstar Communications, Inc.,      |      |    |       |
|                                   | Senior Subordinated Notes,           |      |    |       |
|                                   | 12%, 02/15/11                        | Caa2 |    | 342   |
| 500                               | American Media Operations, Inc.,     |      |    |       |
|                                   | Senior Subordinated Notes,           |      |    |       |
|                                   | 10.25%, 05/01/09                     | B2   |    | 535   |
| 925                               | CanWest Media, Inc.,                 |      |    |       |
|                                   | Senior Subordinated Notes,           |      |    |       |
|                                   | 10.625%, 05/15/11                    | B2   |    | 1,055 |
| \$ 150                            | CBD Media LLC, Senior                |      |    |       |
|                                   | Subordinated Notes,                  |      |    |       |
|                                   | 8.625%, 06/01/11 (g)                 | B3   | \$ | 164   |
| 575                               | Dex Media East LLC,                  |      |    |       |
|                                   | Senior Notes, 9.875%, 11/15/09       | B2   |    | 656   |
| 1,750                             | Dex Media East, LLC, Senior          |      |    |       |
|                                   | Subordinated Notes,                  |      |    |       |
|                                   | 12.125%, 11/15/12                    | B3   |    | 2,161 |
| 300                               | Dex Media, Inc., Senior Notes,       |      |    |       |
|                                   | 8%, 11/15/13 (g)                     | Caa1 |    | 317   |
| 950                               | Dex Media, Inc., Senior Discount     |      |    |       |
|                                   | Notes, 9%, 11/15/13 (g) (h)          | Caa1 |    | 667   |
| 800                               | Dex Media West LLC, Senior Notes,    |      |    |       |
|                                   | 8.50%, 08/15/10 (g)                  | B2   |    | 890   |
| 1,475                             | Dex Media West LLC, Senior Notes,    |      |    |       |
|                                   | 9.875%, 08/15/13 (g)                 | B3   |    | 1,715 |
| 2,245                             | R.H. Donnelley Inc.,                 |      |    |       |
|                                   | Senior Subordinated Notes,           |      |    |       |
|                                   | 10.875%, 12/15/12 (g)                | B2   |    | 2,666 |
| 525                               | Hollinger International Publishing,  |      |    |       |
|                                   | Inc., Senior Notes, 9%, 12/15/10     | B2   |    | 557   |
| 950                               | Hollinger Participation Trust,       |      |    |       |
|                                   | Senior Notes, 12.125%,               |      |    |       |
|                                   | 11/15/10 (g) (i)                     | B3   |    | 1,135 |
| 1,050                             | Houghton Mifflin Company,            |      |    |       |
|                                   | Senior Subordinated Notes,           |      |    |       |
|                                   | 9.875%, 02/01/13                     | B3   |    | 1,155 |
| 925                               | Liberty Group Operating, Inc.,       |      |    |       |
|                                   | Senior Subordinated Notes,           |      |    |       |

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|       |   |      |        |
|-------|---|------|--------|
|       | 9.375%, 02/01/08  | Caa1 | 934    |
| 1,610 | Mail-Well I Corp., Senior Notes,<br>9.625%, 03/15/12  | B1   | 1,787  |
| 625   | Primedia, Inc., Senior Notes,<br>7.625%, 04/1/08  | B3   | 633    |
| 1,525 | Transwestern Publishing<br>Company, L.C.C.,<br>Senior Subordinated Notes,<br>9.625%, 11/15/07 | B2   | 1,578  |
| 2,050 | Vertis, Inc., Senior Secured Notes,<br>9.75%, 04/01/09  | B2   | 2224   |
| 325   | Vertis, Inc., Senior Secured Notes,<br>13.50%, 12/7/09 (g)                                    | Caa1 | 319    |
| 2,150 | Von Hoffman Corp., Senior Notes,<br>10.25%, 03/15/09  | B2   | 2,279  |
|       |   |      | -----  |
|       |   |      | 23,877 |
|       |   |      | -----  |

The accompanying notes are an integral part of these financial statements.

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| PRINCIPAL<br>AMOUNT/UNITS              |   | MOODY'S<br>RATING<br>(UNAUDITED) | VALUE<br>(NOTE 1(a)) |
|--|---|----------------------------------|----------------------|
| -----                                  |   |                                  |                      |
| CORPORATE DEBT SECURITIES -- CONTINUED |   |                                  |                      |
| RETAIL STORES -- 1.12%                 |   |                                  |                      |
| \$ 950                                 | Barneys, Incorporated,<br>Senior Notes, 9%, 04/01/08                                  | B3                               | \$ 912               |
| 575                                    | Dillard's Inc., Senior Notes,<br>6.875%, 06/01/05                                     | B2                               | 592                  |
| 275                                    | Dollar Financial Group, Inc.,<br>Senior Notes,<br>9.75%, 11/15/11 (g)                 | B3                               | 285                  |
| 225                                    | J.Crew Intermediate, LLC,<br>Senior Discount Notes,<br>16%, 05/15/08 (h)              | (e)                              | 181                  |
| 325                                    | J. Crew Operating Corporation,<br>Senior Subordinated Notes,<br>10.375%, 10/15/07     | Caa3                             | 335                  |
|  |   |                                  | -----                |
|  |   |                                  | 2,305                |
|  |   |                                  | -----                |
| TELECOMMUNICATIONS -- 13.79%           |   |                                  |                      |
| 1,225                                  | ACC Escrow Corp.,<br>Senior Notes, 10%, 08/01/11 (g)                                  | B2                               | 1,360                |
| 1,247                                  | Alamosa (Delaware) Inc.,<br>Senior Notes, 11%, 07/31/10                               | Caa2                             | 1,347                |
| 1,050                                  | Alaska Communications System<br>Holdings, Inc., Senior Notes,<br>9.875%, 08/15/11 (g) | B2                               | 1,103                |
| 350                                    | Centennial Cellular Operating   |                                  |                      |

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|          |   |      |    |       |
|----------|---|------|----|-------|
|          | Company, L.L.C., Senior Notes,<br>10.125%, 06/15/13   | Caa1 |    | 385   |
| 800      | Cincinnati Bell, Inc.,<br>Senior Subordinated Notes,<br>8.375%, 01/15/14 (g)                              | B3   |    | 864   |
| 1,050    | Dobson Communications<br>Corporation, Senior Notes,<br>10.875%, 07/01/10                                  | B3   |    | 1,142 |
| 1,675    | Eircom Funding, plc,<br>Senior Subordinated Notes,<br>8.25%, 08/15/13                                     | B1   |    | 1,834 |
| 875      | IPC Acquisition Corporation,<br>Senior Subordinated Notes,<br>11.50%, 12/15/09                            | B3   |    | 958   |
| 900      | LCI International, Inc., Senior Notes,<br>7.25%, 06/15/07   | Caa1 |    | 882   |
| 625      | Level 3 Communications, Inc.,<br>Senior Notes, 9.125%, 05/01/08   | Caa2 |    | 572   |
| 1,400    | Nextel Communications, Inc.,<br>Senior Notes, 6.875%, 10/31/13  | B2   |    | 1,470 |
| \$ 2,600 | NEXTEL Communications, Inc.,<br>Senior Notes, 7.375%, 08/1/15   | B2   | \$ | 2,795 |
| 1,750    | NEXTEL Communications, Inc.,<br>Senior Serial Notes,<br>9.50%, 02/01/11                                   | B2   |    | 1,982 |
| 1,975    | Pegasus Satellite<br>Communications, Inc.,<br>Senior Notes,<br>11.25%, 01/15/10 (g)                       | Ca   |    | 1,817 |
| 900      | Pegasus Satellite<br>Communications, Inc., Senior<br>Notes, 12.375%, 08/01/06                             | Ca   |    | 841   |
| 150      | Pegasus Satellite<br>Communications, Inc., Senior<br>Notes, 12.50%, 08/01/07                              | Ca   |    | 140   |
| 175      | Pegasus Satellite<br>Communications, Inc., Senior<br>Subordinated Discount Notes,<br>13.50%, 03/01/07 (h) | C    |    | 149   |
| 975      | Qwest Corporation, Senior Notes,<br>9.125%, 03/15/12 (g)  | Ba3  |    | 1,116 |
| 1,872    | Qwest Services Corp., Senior<br>Subordinated Notes,<br>13.50%, 12/15/10 (g)                               | (e)  |    | 2,274 |
| 775      | Rogers Wireless Inc., Senior<br>Secured Notes, 9.375%, 06/01/08   | Ba3  |    | 810   |
| 525      | Rogers Wireless Inc.,<br>Senior Secured Notes,<br>9.625%, 05/01/11  | Ba3  |    | 623   |
| 450      | Rogers Wireless Inc.,<br>Senior Subordinated Notes,<br>8.80%, 10/01/07                                    | B2   |    | 462   |
| 200      | TSI Telecommunications Services,<br>Inc., Senior Subordinated Notes,<br>12.75%, 02/01/09                  | B3   |    | 220   |
| 1,275    | US Unwired, Inc., Senior<br>Subordinated Discount Notes,<br>13.375%, 11/01/09 (h)                         | Caa2 |    | 924   |
| 390      | US West Capital Funding Inc.,<br>Notes, 6.375%, 07/15/08  | Caa2 |    | 387   |
| 1,675    | Western Wireless Corporation,<br>Senior Notes, 9.25%, 07/15/13  | Caa1 |    | 1,767 |

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-----  
28,224  
-----

TEXTILES AND LEATHER -- .44%

|     |  |     |     |
|-----|--|-----|-----|
| 475 | Anvil Knitwear, Incorporated,<br>Senior Notes, 10.875%, 03/15/07 | (e) | 309 |
|-----|--|-----|-----|

The accompanying notes are an integral part of these financial statements.

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| PRINCIPAL<br>AMOUNT/UNITS |   | MOODY'S<br>RATING<br>(UNAUDITED) | VALUE<br>(NOTE 1(a))  |
|---------------------------|---|----------------------------------|-----------------------|
| -----                     |   |                                  |                       |
| \$ 900                    | Avondale Mills, Inc.,<br>Senior Subordinated<br>Notes, 10.25%, 07/01/13       | B3                               | \$ 594                |
|                           |   |                                  | -----<br>903<br>----- |
| UTILITIES -- 13.85%       |   |                                  |                       |
| 700                       | The AES Corporation,<br>Senior Notes,<br>8.875%, 02/15/11                     | B3                               | 763                   |
| 725                       | The AES Corporation,<br>Senior Notes,<br>9.375%, 09/15/10                     | B3                               | 804                   |
| 1,550                     | The AES Corporation,<br>Senior Secured,<br>9%, 05/15/15 (g)                   | B2                               | 1,752                 |
| 1,600                     | Allegheny Energy Supply<br>Company, LLC,<br>Senior Notes, 7.80%, 03/15/11     | B3                               | 1,506                 |
| 1,200                     | Allegheny Energy Supply<br>Company, LLC, Senior Notes,<br>8.75%, 04/15/12 (g) | B3                               | 1,151                 |
| 25                        | Aquila, Inc., Senior Notes,<br>14.875%, 07/01/12                              | Caa1                             | 34                    |
| 1,125                     | Calpine Corporation, Senior Notes,<br>8.50%, 02/15/11                         | Caa1                             | 886                   |
| 925                       | Calpine Corporation, Senior Notes,<br>8.50% 07/15/10 (g)                      | (e)                              | 897                   |
| 875                       | Calpine Corporation, Senior Notes,<br>9.875%, 12/01/11 (g)                    | (e)                              | 895                   |
| 125                       | CMS Energy Corporation, Senior<br>Notes, 8.50%, 04/15/11                      | B3                               | 135                   |
| 250                       | Dynegy Holdings, Inc., Senior<br>Notes, 7.625%, 10/15/26                      | Caa2                             | 214                   |
| 425                       | Dynegy Holdings, Inc., Senior<br>Notes, 8.75%, 02/15/12                       | Caa2                             | 427                   |
| 2,500                     | Dynegy Holdings, Inc., Senior<br>Notes, 10.125%, 07/15/13 (g)                 | B3                               | 2,881                 |
| 950                       | Edison Mission Energy, Senior   |                                  |                       |

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|        |                                 |      |         |
|--------|---------------------------------|------|---------|
|        | Notes, 9.875%, 04/15/11         | B2   | 992     |
| 125    | Edison Mission Energy, Senior   |      |         |
|        | Notes, 10%, 08/15/08            | B2   | 131     |
| 2,500  | FirstEnergy Corporation, Senior |      |         |
|        | Notes, 6.45%, 11/15/11          | Baa2 | 2,584   |
| 1,225  | Illinois Power Company, Senior  |      |         |
|        | Secured 1st Mortgage Bonds,     |      |         |
|        | 11.50%, 12/15/10                | B3   | 1,482   |
| \$ 675 | Massey Energy Company, Senior   |      |         |
|        | Notes, 6.625%, 11/15/10 (g)     | Ba3  | \$ 695  |
| 200    | NGC Corporation, Senior Notes,  |      |         |
|        | 7.125%, 05/15/18                | Caa2 | 171     |
| 1,075  | NRG Energy, Inc., Senior Notes, |      |         |
|        | 8%, 12/15/13                    | B2   | 1,130   |
| 1,650  | Orion Power Holdings, Inc.,     |      |         |
|        | Senior Notes, 12%, 05/01/10     | B2   | 2,030   |
| 1,075  | PSEG Energy Holdings, L.L.C.,   |      |         |
|        | Senior Notes, 8.50%, 06/15/11   | Ba3  | 1,192   |
| 175    | PSEG Energy Holdings, L.L.C.,   |      |         |
|        | Senior Notes, 10%, 10/01/09     | Ba3  | 205     |
| 50     | Reliant Resources, Inc., Senior |      |         |
|        | Secured Notes,                  |      |         |
|        | 9.25%, 07/15/10 (g)             | B1   | 54      |
| 1,575  | Reliant Resources, Inc., Senior |      |         |
|        | Secured Notes,                  |      |         |
|        | 9.50%, 07/15/13 (g)             | B1   | 1,685   |
| 414    | South Point Energy Center, LLC, |      |         |
|        | Senior Secured,                 |      |         |
|        | 8.40%, 05/30/12 (g)             | B2   | 396     |
| 1,450  | South Point Energy Center, LLC, |      |         |
|        | Senior Secured,                 |      |         |
|        | 9.825%, 05/30/19 (g)            | B2   | 1,334   |
| 1,375  | TNP Enterprises, Inc., Senior   |      |         |
|        | Subordinated Notes,             |      |         |
|        | 10.25%, 04/01/10                | Ba3  | 1,499   |
| 75     | Utilicorp Canada Financial      |      |         |
|        | Corp., Senior Notes,            |      |         |
|        | 7.625%, 11/15/09                | Caa1 | 74      |
| 375    | Utilicorp Canada Financial      |      |         |
|        | Corp., Senior Notes,            |      |         |
|        | 7.75%, 6/15/11                  | Caa1 | 362     |
|        |                                 |      | -----   |
|        |                                 |      | 28,361  |
|        |                                 |      | -----   |
|        | TOTAL CORPORATE DEBT SECURITIES |      |         |
|        | (Total cost of \$304,417)       |      | 317,830 |
|        |                                 |      | -----   |

SHARES

PREFERRED STOCK -- 3.73% (d)

BANKING -- 0.00%

|        |                                 |     |       |
|--------|---------------------------------|-----|-------|
| 57,935 | WestFed Holdings, Inc.,         |     |       |
|        | Cumulative, Series A, Preferred |     |       |
|        | Stock, 15.50% (a) (c) (f)       | (e) | --    |
|        |                                 |     | ----- |

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The accompanying notes are an integral part of these financial statements.

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| PRINCIPAL<br>AMOUNT/UNITS                        |  | MOODY'S<br>RATING<br>(UNAUDITED) | VALUE<br>(NOTE 1(a)) |
|--|--|----------------------------------|----------------------|
| -----  |  |                                  |                      |
| PREFERRED STOCK -- CONTINUED                     |  |                                  |                      |
| BROADCASTING AND ENTERTAINMENT -- 2.36%          |  |                                  |                      |
| 2,825  | CSC Holdings, Inc., Series H,<br>Preferred Stock, 11.75% (f)                         | B2                               | \$ 297               |
| 43,300   | CSC Holdings, Inc., Series M,<br>Preferred Stock, 11.125% (f)                        | B2                               | 4,546                |
|  |  |                                  | -----                |
|  |  |                                  | 4,843                |
|  |  |                                  | -----                |
| CHEMICALS, PLASTICS AND RUBBER -- .91%           |  |                                  |                      |
| 2,725  | Hercules Trust II, Preferred Stock<br>Unit, 6.50%.                                   | Ba3                              | 1,857                |
|  |  |                                  | -----                |
| MINING, STEEL, IRON, NON-PRECIOUS METALS -- .01% |  |                                  |                      |
| 18,000   | Weirton Steel Corp., Series C<br>Preferred Stock (a)(f)                              | (e)                              | 16                   |
|  |  |                                  | -----                |
| TELECOMMUNICATIONS -- .45%                       |  |                                  |                      |
| 1,150  | Alamosa Holdings, Inc.,<br>Cumulative Preferred Stock,<br>Series B, 7.50%            | (e)                              | 368                  |
| 200  | Dobson Communications<br>Corporation, Senior Exchangeable<br>Preferred Stock, 12.25% | (e)                              | 213                  |
| 325  | Dobson Communications<br>Corporation, Senior Exchangeable<br>Preferred Stock, 12.25% | Caa2                             | 345                  |
|  |  |                                  | -----                |
|  |  |                                  | 926                  |
|  |  |                                  | -----                |
|  | TOTAL PREFERRED STOCK<br>(Total cost of \$11,405)                                    |                                  | 7,642                |
|  |  |                                  | -----                |
| COMMON STOCK AND WARRANTS -- 0.00% (d)           |  |                                  |                      |
| 950  | Barneys, Inc., warrants<br>exp. 2/1/08 (f)(g)  |                                  | --                   |
| 4,780  | Mediq Inc.<br>Common Stock (a)(c)(f)   |                                  | --                   |
| 27,474   | WestFed Holdings, Inc.,<br>Common Stock (a)(c)(f)                                    |                                  | --                   |
| 10,052   | WKI Holdings Common Stock<br>Common Stock (c)(f)                                     |                                  | --                   |

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|                                     |                         |  |              |
|-------------------------------------|-------------------------|--|--------------|
| TOTAL COMMON STOCK                  |                         |  | -----        |
|                                     | (Total cost of \$4,890) |  | -----        |
|                                     |                         |  |              |
| SHORT-TERM INVESTMENTS -- 5.13% (d) |                         |  |              |
| \$                                  | 5,000                   | Alpine Securitization Corp.,<br>Commercial Paper, Due 01/12/04,<br>Discount of 1.09%         | P-1 \$ 4,998 |
|                                     | 500                     | Atlantic Asset Securitization Corp.,<br>Commercial Paper, Due 01/05/04,<br>Discount of 1.09% | P-1 500      |
|                                     | 5,000                   | Preferred Receivables Funding Corp.,<br>Commercial Paper, Due 01/09/04,<br>Discount of 1.08% | P-1 4,999    |
| TOTAL SHORT-TERM INVESTMENTS        |                         |  | -----        |
|                                     |                         | (Total cost of \$10,497)   | 10,497       |
| TOTAL INVESTMENTS                   |                         |  | -----        |
|                                     |                         | (Total cost of \$331,209)  | \$ 335,969   |
|                                     |                         |  | =====        |

- (a) Denotes issuer is in bankruptcy proceedings.
- (b) Non-income producing security which is on non-accrual and/or has defaulted on interest payments.
- (c) Security is valued at fair value using methods determined by the Board of Directors. The total value of these securities at December 31, 2003 was \$0.
- (d) Percentages indicated are based on total net assets to common shareholders of \$204,705.
- (e) Not rated.
- (f) Non-income producing.
- (g) Securities are exempt from registration under Rule 144A of the Securities Act of 1933. Such securities may be resold, normally to qualified institutional buyers in transactions exempt from registration. See Note 1(a) of the Notes to Financial Statements for valuation policy. Total market value of Rule 144A securities amounted to \$73,935 as of December 31, 2003.
- (h) Securities are step interest bonds. Interest on these bonds accrue based on the effective interest rate.
- (i) Security is a Pay-in-Kind bond. Income on this bond accrues based upon the effective interest rate.

The accompanying notes are an integral part of these financial statements.

The New America High Income Fund, Inc.



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|  |            |
|--|------------|
| ASSETS: (Dollars in thousands, except per share amounts)   |            |
| INVESTMENTS IN SECURITIES, at value (Identified cost of \$331,209 see Schedule of Investments and Notes 1 and 2)                                 | \$ 335,969 |
| RECEIVABLES:   |            |
| Investment securities sold   | 356        |
| Interest and dividends   | 7,559      |
| PREPAID EXPENSES   | 29         |
|  | -----      |
| Total assets   | \$ 343,913 |
|  | -----      |
| LIABILITIES:   |            |
| PAYABLES:  |            |
| Investment securities purchased  | \$ 1,375   |
| Dividend on common stock   | 1,826      |
| Dividend on preferred stock  | 55         |
| Swap settlement payable  | 287        |
| INTEREST RATE SWAP, at fair value (Note 6)   | 5,340      |
| ACCRUED EXPENSES (Note 3)  | 261        |
| OTHER PAYABLE  | 64         |
|  | -----      |
| Total liabilities  | \$ 9,208   |
|  | -----      |
| AUCTION TERM PREFERRED STOCK:  |            |
| \$1.00 par value, 1,000,000 shares authorized, 5,200 shares issued and outstanding, liquidation preference of \$25,000 per share (Notes 4 and 5) | \$ 130,000 |
|  | -----      |
| NET ASSETS   | \$ 204,705 |
|  | =====      |
| REPRESENTED BY:  |            |
| COMMON STOCK:  |            |
| \$0.01 par value, 200,000,000 shares authorized, 93,528,394 shares issued and outstanding  | \$ 935     |
| CAPITAL IN EXCESS OF PAR VALUE   | 380,989    |
| UNDISTRIBUTED NET INVESTMENT INCOME (Note 2)   | 570        |
| ACCUMULATED NET REALIZED LOSS FROM SECURITIES TRANSACTIONS (Note 2)  | (177,209)  |
| NET UNREALIZED DEPRECIATION ON INVESTMENTS AND INTEREST RATE SWAPS   | (580)      |
|  | -----      |
| NET ASSETS APPLICABLE TO COMMON STOCK (Equivalent to \$2.19 per share, based on 93,528,394 shares outstanding)                                   | \$ 204,705 |
|  | =====      |
| STATEMENT OF OPERATIONS  |            |
| FOR THE PERIOD ENDED   |            |
| DECEMBER 31, 2003  |            |
| INVESTMENT INCOME: (Note 1) (Dollars in thousands)   |            |
| Interest income  | \$ 23,593  |
| Other income   | 178        |
| Dividend income  | 163        |

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|  |            |
|--|------------|
| Total investment income  | \$ 23,934  |
| -----  |            |
| EXPENSES:  |            |
| Cost of leverage:  |            |
| Preferred and auction fees (Note 5)  | \$ 268     |
| -----  |            |
| Total cost of leverage   | \$ 268     |
| -----  |            |
| Professional services expenses:  |            |
| Management fees (Note 3)   | \$ 935     |
| Legal fees (Note 8)  | 355        |
| Custodian and transfer agent fees  | 282        |
| Audit fees   | 84         |
| -----  |            |
| Total professional services expenses   | \$ 1,656   |
| -----  |            |
| Administrative expenses:   |            |
| General administrative fees  | \$ 440     |
| Directors' fees  | 192        |
| Shareholder meeting expenses   | 147        |
| NYSE fees  | 64         |
| Shareholder communications expense   | 51         |
| Miscellaneous expenses   | 22         |
| -----  |            |
| Total administrative expenses  | \$ 916     |
| -----  |            |
| Total expenses   | \$ 2,840   |
| -----  |            |
| Net investment income  | \$ 21,094  |
| -----  |            |
| REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENT ACTIVITIES:                        |            |
| Realized loss on investments   | \$ (122)   |
| -----  |            |
| Net swap settlement disbursements (Note 6)   | \$ (3,316) |
| -----  |            |
| Change in net unrealized depreciation<br>on investments                              | \$ 31,146  |
| Change in unrealized depreciation<br>on interest rate swap agreement                 | 1,428      |
| -----  |            |
| Total change in net unrealized depreciation<br>on investments and interest rate swap | \$ 32,574  |
| -----  |            |
| Net gain on investments and interest rate swap                                       | \$ 29,136  |
| -----  |            |
| COST OF PREFERRED LEVERAGE   |            |
| Distributions to preferred stockholders  | \$ (1,330) |
| -----  |            |
| Net increase in net assets resulting<br>from operations                              | \$ 48,900  |
| =====  |            |

The accompanying notes are an integral part of these financial statements.

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FOR

FROM OPERATIONS: (Dollars in thousands, except per share amounts)

Net investment income  
 Realized loss on investments, net  
 Net swap settlement disbursements  
 Change in net unrealized depreciation on investments and other  
 financial instruments

Distributions from net investment income related to preferred stock

Dividends to preferred stockholders (\$313 and \$488 per preferred share in 2003 and  
 2002, respectively)

Net increase (decrease) in net assets resulting from operations

FROM FUND SHARE AND AUCTION TERM PREFERRED STOCK TRANSACTIONS:

Proceeds from rights offering (23,397,095 shares), net of \$817 of offering costs (Note 9)  
 Offering costs and sales load from sale of Auction Term Preferred Stock Series C (Note 4)  
 Net asset value of 583,146 shares and 1,215,044 shares issued to common  
 stockholders for reinvestment of dividends in 2003 and 2002, respectively

Increase in net assets resulting from fund share transactions

DISTRIBUTIONS TO COMMON STOCKHOLDERS:

From net investment income (\$.22 and \$.29 per share in 2003 and 2002,  
 respectively)

Total net increase (decrease) in net assets

NET ASSETS APPLICABLE TO COMMON STOCK:

Beginning of period

End of period (Including \$570 and \$351 of undistributed net investment  
 income at December 31, 2003 and December 31, 2002, respectively)

The accompanying notes are an integral  
 part of these financial statements.

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The New America High Income Fund, Inc.

FINANCIAL HIGHLIGHTS

SELECTED PER SHARE DATA AND RATIOS

FOR EACH SHARE OF COMMON STOCK OUTSTANDING THROUGHOUT THE PERIOD

|                       | FOR THE YEARS ENDED DECEMBER 31 |         |          |         |
|-----------------------|---------------------------------|---------|----------|---------|
|                       | 2003 (b)                        | 2002    | 2001 (c) | 2000    |
|                       | -----                           | -----   | -----    | -----   |
| NET ASSET VALUE:      |                                 |         |          |         |
| Beginning of period   | \$ 1.89                         | \$ 2.61 | \$ 2.85  | \$ 3.86 |
|                       | -----                           | -----   | -----    | -----   |
| NET INVESTMENT INCOME | .26#                            | .37     | .48      | .60     |

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|  |         |          |         |         |
|--|---------|----------|---------|---------|
| NET REALIZED AND UNREALIZED GAIN<br>(LOSS) ON INVESTMENTS AND<br>OTHER FINANCIAL INSTRUMENTS                         | .34     | (.72)    | (.24)   | (1.00)  |
| DISTRIBUTIONS FROM NET INVESTMENT INCOME<br>RELATED TO PREFERRED STOCK:  | (.06)   | (.08)    | (.12)   | (.18)   |
| TOTAL FROM INVESTMENT OPERATIONS   | .54     | (.43)    | .12     | (.58)   |
| DISTRIBUTIONS TO COMMON SHAREHOLDERS:<br>From net investment income  | (.22)   | (.29)    | (.36)   | (.43)   |
| TOTAL DISTRIBUTIONS  | (.22)   | (.29)    | (.36)   | (.43)   |
| Effect of rights offering and related expenses;<br>and Auction Term Preferred Stock offering<br>costs and sales load | (.02)   | --       | --      | --      |
| NET ASSET VALUE:<br>End of period  | \$ 2.19 | \$ 1.89  | \$ 2.61 | \$ 2.85 |
| PER SHARE MARKET VALUE:<br>End of period   | \$ 2.16 | \$ 2.01  | \$ 2.64 | \$ 2.63 |
| TOTAL INVESTMENT RETURN+   | 19.23%  | (12.97)% | 13.97%  | (3.84)% |

The accompanying notes are an integral part of these financial statements.

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|  | 2003 (b)   | 2002       | 2001 (c)   | 2000       |
|--|------------|------------|------------|------------|
| NET ASSETS, END OF PERIOD, APPLICABLE<br>TO COMMON STOCK (a)                       | \$ 204,705 | \$ 131,170 | \$ 178,231 | \$ 191,928 |
| NET ASSETS, END OF PERIOD, APPLICABLE<br>TO PREFERRED STOCK (a)                    | \$ 130,000 | \$ 100,000 | \$ 150,000 | \$ 160,000 |
| TOTAL NET ASSETS APPLICABLE<br>TO COMMON AND PREFERRED STOCK,<br>END OF PERIOD (a) | \$ 334,705 | \$ 231,170 | \$ 328,231 | \$ 351,928 |
| EXPENSE RATIOS:  |            |            |            |            |
| Ratio of preferred and other leverage<br>expenses to average net assets*           | .16%       | .18%       | .17%       | .19%       |
| Ratio of operating expenses to average<br>net assets*                              | 1.56%      | 1.46%      | 1.11%      | .99%       |
| RATIO OF TOTAL EXPENSES TO AVERAGE<br>NET ASSETS*                                  | 1.72%      | 1.64%      | 1.28%      | 1.18%      |
| RATIO OF NET INVESTMENT INCOME TO<br>AVERAGE NET ASSETS*                           | 12.81%     | 16.48%     | 16.70%     | 17.46%     |
| RATIO OF TOTAL EXPENSES TO AVERAGE<br>NET ASSETS APPLICABLE TO COMMON              |            |            |            |            |

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|   |         |        |        |        |
|---|---------|--------|--------|--------|
| AND PREFERRED STOCK   | 1.05%   | .89%   | .71%   | .64%   |
| RATIO OF NET INVESTMENT INCOME TO<br>AVERAGE NET ASSETS APPLICABLE TO<br>COMMON AND PREFERRED STOCK | 7.79%   | 8.91%  | 9.23%  | 9.41%  |
| PORTFOLIO TURNOVER RATE   | 120.47% | 82.47% | 38.89% | 45.58% |

- (a) Dollars in thousands.
- (b) The Fund issued Series D ATP on May 20, 1998 and additional shares of Series C ATP on October 17, 2003. The per share data and ratios for the years ended December 31, 1998 and December 31, 2003 reflect these transactions.
- (c) As required, effective January 1, 2001, the Fund has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing discount and premium on debt securities. This had no effect on net investment income per share and a \$.01 increase to net realized and unrealized loss per share for the year ended December 31, 2001. The effect of this change increased the ratio of net investment income to average net assets from 16.29% to 16.70%. Per share, ratios and supplemental data for periods prior to January 1, 2001 have not been restated to reflect this change in presentation.
- \* Ratios calculated on the basis of expenses and net investment income applicable to the common shares relative to the average net assets of the common stockholders only. The expense ratio and net investment income ratio do not reflect the effect of dividend payments (including net swap settlement receipts/payments) to preferred stockholders.
- # Calculation is based on average shares outstanding during the indicated period due to the per share effect of the Fund's March 1998 and August, 2003 rights offerings.
- + Total investment return is calculated assuming a purchase of common stock at the current market value on the first day and a sale at the current market value on the last day of each year reported. Dividends and distributions are assumed for purposes of this calculation to be reinvested at prices obtained under the dividend reinvestment plan. This calculation does not reflect brokerage commissions.

The accompanying notes are an integral part of these financial statements.

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### INFORMATION REGARDING SENIOR SECURITIES

|                                     | 2003           | 2002           | AS OF DECEMBER 31, |                |
|-------------------------------------|----------------|----------------|--------------------|----------------|
|                                     |                |                | 2001               | 2000           |
|                                     |                |                |                    |                |
| TOTAL AMOUNT OUTSTANDING:           |                |                |                    |                |
| Preferred Stock                     | \$ 130,000,000 | \$ 100,000,000 | \$ 150,000,000     | \$ 160,000,000 |
| ASSET COVERAGE:                     |                |                |                    |                |
| Per Preferred Stock Share (1)       | \$ 64,366      | \$ 57,793      | \$ 54,705          | \$ 54,900      |
| INVOLUNTARY LIQUIDATION PREFERENCE: |                |                |                    |                |
| Preferred Stock Share (2)           | \$ 25,000      | \$ 25,000      | \$ 25,000          | \$ 25,000      |
| APPROXIMATE MARKET VALUE:           |                |                |                    |                |
| Per Preferred Stock Share (2)       | \$ 25,000      | \$ 25,000      | \$ 25,000          | \$ 25,000      |

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- (1) Calculated by subtracting the Fund's total liabilities (not including the Preferred Stock) from the Fund's total assets and dividing such amount by the number of Preferred Shares outstanding.
- (2) Plus accumulated and unpaid dividends.

The accompanying notes are an integral part of these financial statements.

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The New America High Income Fund, Inc.

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2003

#### (1) SIGNIFICANT ACCOUNTING AND OTHER POLICIES

The New America High Income Fund, Inc. (the Fund) was organized as a corporation in the state of Maryland on November 19, 1987 and is registered with the Securities and Exchange Commission as a diversified, closed-end investment company under the Investment Company Act of 1940. The Fund commenced operations on February 26, 1988. The investment objective of the Fund is to provide high current income while seeking to preserve stockholders' capital through investment in a professionally managed, diversified portfolio of "high yield" fixed-income securities.

The Fund invests primarily in fixed maturity corporate debt securities that are rated less than investment grade. Risk of loss upon default by the issuer is significantly greater with respect to such securities compared to investment grade securities because these securities are generally unsecured and are often subordinated to other creditors of the issuer and because these issuers usually have high levels of indebtedness and are more sensitive to adverse economic conditions, such as a recession, than are investment grade issuers. In some cases, the collection of principal and timely receipt of interest is dependent upon the issuer attaining improved operating results, selling assets or obtaining additional financing.

See the schedule of investments for information on individual securities as well as industry diversification and credit quality ratings.

The Fund's financial statements have been prepared in conformity with accounting principles generally accepted in the United States that require the management of the Fund to, among other things, make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The following is a summary of significant accounting policies consistently followed by the Fund, which are in conformity with those generally accepted in the investment company industry.

(a) VALUATION OF INVESTMENTS--Investments for which market quotations are readily available are stated at market value, which is determined by using the most recently quoted bid price provided by an independent pricing service or principal market maker. Independent pricing services provide market quotations based primarily on quotations from dealers and brokers, market transactions, accessing data from quotations services, offering sheets obtained from dealers and various relationships between securities. Short-term investments with

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original maturities of 60 days or less are stated at amortized cost, which approximates market value. Following procedures approved by the Board of Directors, investments for which market quotations are not readily available (primarily fixed-income corporate bonds and notes) are stated at fair value on the basis of subjective valuations furnished by securities dealers and brokers. Other investments, with a cost of approximately \$9,809,000 and a value of \$0, are valued in good faith at fair market value using methods determined by the Board of Directors.

(b) INTEREST AND DIVIDEND INCOME--Interest income is accrued on a daily basis. Discount on short-term investments is amortized to investment income. Premiums or discounts on corporate debt securities are amortized based on the interest method for financial reporting purposes. All income on original issue discount and step interest bonds is accrued based on the effective interest method for tax reporting purposes as required by federal income tax regulations. The Fund does not amortize market premiums or discounts for tax purposes. Dividend payments received in the

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form of additional securities are recorded on the ex-dividend date in an amount equal to the value of the security on such date.

(c) FEDERAL INCOME TAXES--It is the Fund's policy to comply with the requirements of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders each year. Accordingly, no federal income tax provision is required.

(2) TAX MATTERS AND DISTRIBUTIONS

At December 31, 2003, the total cost of securities (including temporary cash investments) for federal income tax purposes was approximately \$331,320,000. Aggregate gross unrealized gain on securities in which there was an excess of value over tax cost was approximately \$17,018,000. Aggregate unrealized loss on securities in which there was an excess of tax cost over value was approximately \$12,369,000. Net unrealized gain on investments for tax purposes at December 31, 2003 was approximately \$4,649,000.

At December 31, 2003, the Fund had approximate capital loss carryovers available to offset future capital gains, if any, to the extent provided by regulations:

| CARRYOVER AVAILABLE | EXPIRATION DATE   |
|---------------------|-------------------|
| -----               | -----             |
| \$ 35,581,000       | December 31, 2007 |
| 21,821,000          | December 31, 2008 |
| 67,043,000          | December 31, 2009 |
| 45,239,000          | December 31, 2010 |
| 7,387,000           | December 31, 2011 |
| -----               |                   |
| \$ 177,071,000      |                   |
| =====               |                   |

It is the policy of the Fund to reduce future distributions of realized gains to shareholders to the extent of the unexpired capital loss carry forward.

The tax character of distributions paid to common and preferred shareholders

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of approximately \$18,782,000 in 2003 was from ordinary income.

As of December 31, 2003, the components of distributable earnings on a tax basis were approximately:

|  |    |               |
|--|----|---------------|
| Undistributed Net Investment Income                              | \$ | 542,000       |
| Undistributed Long-Term Gain                                     |    | --            |
| Unrealized Gain  | \$ | 4,649,000     |
| Capital Losses Carry Forward<br>and Post October Losses Deferred | \$ | (177,071,000) |

The difference between components of distributable earnings on a tax basis and the amounts reflected in the Statement of Assets and Liabilities are primarily due to wash sales, accrued interest on defaulted bonds and amortization of swap termination payments.

Distributions on common stock are declared based upon annual projections of the Fund's investment company taxable income. The Fund records all dividends and distributions payable to shareholders on the ex-dividend date and declares and distributes income dividends monthly.

The Fund was required to amortize market discounts and premiums for financial reporting purposes beginning January 1, 2001. This new accounting policy results in additional interest income in some years and decreased interest income in others for financial reporting purposes only. The Fund does not amortize market discounts or premiums for tax purposes. Therefore, the additional or decreased interest income for financial reporting purposes does not result in additional or decreased common stock dividend income.

The Fund has recorded several reclassifications in the capital accounts to present undistributed net investment income or accumulated net realized gains and losses on a tax basis, which is considered to be more informative to the shareholder. These reclassifications have no impact on the net asset value of the Fund.

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### (3) INVESTMENT ADVISORY AGREEMENT

T. Rowe Price Associates, Inc. (T. Rowe Price), the Fund's Investment Advisor, earned approximately \$935,000 in management fees during the year ended December 31, 2003. Management fees paid by the Fund to T. Rowe Price were calculated at 0.50% on the first \$50,000,000 of the Fund's average weekly net assets, 0.40% on the next \$50 million and 0.30% on average weekly net assets in excess of \$100 million. T. Rowe Price's fee is calculated based on assets attributable to the Fund's common and auction term preferred stock. At December 31, 2003, the fee payable to T. Rowe Price was approximately \$98,000, which was included in accrued expenses on the accompanying statement of assets and liabilities.

### (4) AUCTION TERM PREFERRED STOCK (ATP)

On October 17, 2003, the Fund issued 1,200 shares of Series C ATP. The underwriting discount of \$300,000 and offering expenses of \$358,000 were recorded as a reduction of the capital in excess of par value on common stock.

The Fund had 5,200 shares of ATP issued and outstanding at December 31, 2003. The ATP's dividends are cumulative at a rate determined at an auction, and dividend periods will typically be 28 days unless notice is given for periods to be longer or shorter than 28 days. Dividend rates ranged from 1.06% to 1.60% for



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the year ended December 31, 2003. The average dividend rate as of December 31, 2003 was 1.18%.

The ATP is redeemable, at the option of the Fund, or subject to mandatory redemption (if the Fund is in default of certain coverage requirements) at a redemption price equal to \$25,000 per share plus accumulated and unpaid dividends. The ATP has a liquidation preference of \$25,000 per share plus accumulated and unpaid dividends. The Fund is required to maintain certain asset coverages with respect to the ATP under the Fund's Charter and the 1940 Act in order to maintain the Fund's Aaa/AAA ratings by Moody's Investors Service, Inc. and Fitch, Inc., respectively.

### (5) ATP AUCTION-RELATED MATTERS

Bankers Trust Company (BTC) serves as the ATP's auction agent pursuant to an agreement entered into on January 4, 1994. The term of the agreement is unlimited and may be terminated by either party. BTC may resign upon notice to the Fund, such resignation to be effective on the earlier of the 90th day after the delivery of such notice and the date on which a successor auction agent is appointed by the Fund. The Fund may also replace BTC as auction agent at any time.

After each auction, BTC as auction agent will pay to each broker-dealer, from funds provided by the Fund, a maximum service charge at the annual rate of 0.25 of 1% or such other percentage subsequently agreed to by the Fund and the broker-dealers, of the purchase price of shares placed by such broker-dealers at such auction. In the event an auction scheduled to occur on an auction date fails to occur for any reason, the broker-dealers will be entitled to service charges as if the auction had occurred and all holders of shares placed by them had submitted valid hold orders. The Fund incurred approximately \$242,000 for service charges through December 31, 2003. This amount is included under the caption preferred and auction fees in the accompanying statement of operations.

### (6) INTEREST RATE SWAPS

The Fund entered into an interest payment swap arrangement with Fleet Bank (Fleet) for the purpose of partially hedging its dividend payment obligations with respect to the ATP. Pursuant to the Swap Arrangement the Fund makes payments to Fleet on a monthly basis at a fixed annual rate. In exchange for such payment Fleet makes payments to the Fund on a monthly basis

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at a variable rate determined with reference to one month LIBOR. The variable rates ranged from 1.10% to 1.44% for the year ended December 31, 2003. The effective date, notional amount, maturity and fixed rate of the swap is as follows:

| EFFECTIVE<br>DATE | NOTIONAL<br>CONTRACT<br>AMOUNT | MATURITY | FIXED<br>ANNUAL<br>RATE |
|-------------------|--------------------------------|----------|-------------------------|
| 10/1/01           | \$100 million                  | 10/1/06  | 4.50%                   |

Swap transactions, which involve future settlement, give rise to credit risk. Credit risk is the amount of loss the Fund would incur in the event counterparties failed to perform according to the terms of the contractual commitments. In the event of nonperformance by the counterparty, the Fund's dividend payment obligation with respect to the ATP would no longer be partially hedged. Therefore, the ATP dividend would no longer be partially fixed. In an

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unfavorable interest rate environment, the Fund would be subject to higher net ATP dividend payments, resulting in less income available for the common share dividend. The Fund does not anticipate nonperformance by any counterparty. While notional contract amounts are used to express the volume of interest rate swap agreements, the amounts potentially subject to credit risk, in the event of nonperformance by counterparties, are substantially smaller.

The Fund recognizes all freestanding derivative instruments in the balance sheet as either assets or liabilities and measures them at fair value. Any change in the unrealized gain or loss is recorded in current earnings. For the year ended December 31, 2003, the Fund's obligations under the swap agreements were more than the amount received from Fleet by approximately \$3,316,000 and such amount is included in the accompanying statement of operations.

The estimated fair value of the interest rate swap agreement at December 31, 2003 amounted to approximately \$5,340,000 of unrealized loss and is presented in the accompanying balance sheet.

### (7) PURCHASES AND SALES OF SECURITIES

Purchases and proceeds of sales or maturities of long-term securities during the year ended December 31, 2003 were approximately:

|                         |                |
|-------------------------|----------------|
| Purchases of securities | \$ 374,439,000 |
| Sales of securities     | \$ 309,130,000 |

### (8) RELATED PARTY TRANSACTIONS

A partner of Goodwin Procter LLP, counsel to the Fund, serves as a Director of the Fund. Fees earned by Goodwin Procter LLP amounted to approximately \$916,000 for the year ended December 31, 2003. This total is broken out as follows:

|   |            |
|---|------------|
| Operations (Including change in investment advisor) | \$ 253,000 |
| Rights offering                                     | 399,000    |
| ATP Series C offering                               | 264,000    |
|   | -----      |
|   | \$ 916,000 |
|   | =====      |

The Fund paid approximately \$272,000 during the year ended December 31, 2003 to two officers of the Fund for the provision of certain administrative services.

### (9) RIGHTS OFFERING

The Fund issued to stockholders of record as of the close of business on July 21, 2003, rights to subscribe for an aggregate of 23,397,095 shares of common stock, \$.01 par value per share, of the Fund. One right was issued for each three full shares of common stock beneficially held on the record date. The rights entitled a stockholder to acquire at the subscription price of \$1.81 per share one share for each right held. The subscription price was 94% of the average of the last reported sales price of the Fund's Common Stock on the New York Stock Exchange on August 18, 2003, the expiration date

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and the nine preceding business days. On August 22, 2003 the Fund completed its rights offering. Proceeds of approximately \$42,349,000 and shares of 23,397,095 were recorded. In addition the deferred offering expense of approximately \$817,000 was netted against the rights offering proceeds.

### COMMON AND AUCTION TERM PREFERRED STOCK TRANSACTIONS

From time to time in the future, the Fund may effect redemptions and/or repurchases of its ATP as provided in the applicable constituent instruments or as agreed upon by the Fund and sellers. The Fund intends to effect such redemptions and/or repurchases to the extent necessary to maintain applicable asset coverage requirements.

The Fund may purchase shares of its Common Stock in the open market when the Common Stock trades at a discount to net asset value or at other times if the Fund determines such purchases are in the best interest of its stockholders. There can be no assurance that the Fund will take such action in the event of a market discount to net asset value or that Fund purchases will reduce a discount.

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### INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
The New America High Income Fund, Inc.

We have audited the accompanying statement of assets and liabilities of The New America High Income Fund, Inc., including the schedule of investments, as of December 31, 2003, the statement of operations for the year then ended and the statement of changes in net assets and financial highlights for the two years ended December 31, 2003. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial highlights for each of the years in the four-year period ended December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial highlights in their report dated February 1, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2003 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The New America High Income Fund, Inc. as of December 31, 2003, the results of its operations, changes in its net assets and financial highlights for the periods indicated above, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Boston, Massachusetts  
February 2, 2004

DIRECTORS

Robert F. Birch  
 Joseph L. Bower  
 Richard E. Floor  
 Bernard J. Korman  
 Ernest E. Monrad

OFFICERS

Robert F. Birch - President  
 Ellen E. Terry - Vice President, Treasurer  
 Richard E. Floor - Secretary

INVESTMENT ADVISOR

T. Rowe Price Associates, Inc.  
 100 E. Pratt Street  
 Baltimore, Maryland 21202

ADMINISTRATOR

The New America High Income Fund, Inc.  
 33 Broad Street  
 Boston, MA 02109  
 (617) 263-6400

CUSTODIAN

State Street Bank and Trust Company  
 225 Franklin Street  
 Boston, MA 02110

TRANSFER AGENT

EquiServe Trust Company N.A.  
 P.O. Box 43011  
 Providence, RI 02940-3011  
 (617) 328-5000 ext. 6406  
 (800) 426-5523

INDEPENDENT PUBLIC ACCOUNTANTS

KPMG LLP  
 99 High Street  
 Boston, MA 02110

Listed: NYSE  
 Symbol: HYB  
 Web site: [www.newamerica-hyb.com](http://www.newamerica-hyb.com)

INFORMATION ABOUT THE FUND'S DIRECTORS AND OFFICERS

INDEPENDENT DIRECTORS

| NAME,<br>ADDRESS (1), AND | POSITION(S)<br>HELD WITH | TERM OF OFFICE (2)<br>AND LENGTH OF | PRINCIPAL<br>OCCUPATION(S)<br>DURING | NUMBER OF<br>PORTFOLIOS<br>IN FUND<br>COMPLEX (3)<br>OVERSEEN |
|---------------------------|--------------------------|-------------------------------------|--------------------------------------|---|
|---------------------------|--------------------------|-------------------------------------|--------------------------------------|---|

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| DATE OF BIRTH                      | FUND     | TIME SERVED            | PAST 5 YEARS  | BY DIRECTOR |
|------------------------------------|----------|------------------------|---|-------------|
| Joseph L. Bower<br>DOB: 09/21/38   | Director | Director<br>since 1988 | Professor, Harvard Business School since 1963 - as Donald K. David Professor of Business Administration since 1986, Senior Associate Dean, Chair of the Doctoral Programs, Chair of the General Management Area, and currently, Chair of the General Manager Program. | 1           |
| Bernard J. Korman<br>DOB: 10/13/31 | Director | Director<br>since 1987 | Chairman of the Board of Directors of Philadelphia Health Care Trust.   | 1           |

- (1) The address for each Director is c/o The New America High Income Fund, Inc., 33 Broad Street, Boston, MA 02109.
- (2) Each Director serves as such until the next annual meeting of the Fund's stockholders and until the Director's successor shall have been duly elected and qualified.
- (3) The New America High Income Fund, Inc. is not part of any fund complex.

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| NAME,<br>ADDRESS(1), AND<br>DATE OF BIRTH | POSITION(S)<br>HELD WITH<br>FUND | TERM OF OFFICE(2)<br>AND LENGTH OF<br>TIME SERVED | PRINCIPAL<br>OCCUPATION(S)<br>DURING<br>PAST 5 YEARS  | NUMBER OF<br>PORTFOLIOS<br>IN FUND<br>COMPLEX(3)<br>OVERSEEN<br>BY DIRECTOR |
|---|----------------------------------|---|---|---|
| Ernest E. Monrad<br>DOB: 5/30/30          | Director                         | Director<br>since 1988                            | Trustee since 1960 and Chairman of the Trustees from 1969 to May 2001 of Northeast Investors Trust; Chairman, Assistant | 1   |

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Treasurer and a Director since 1981 of Northeast Investors Growth Fund; Director of Northeast Investment Management, Inc., Northeast Management & Research Co., Inc.

INTERESTED DIRECTORS AND OFFICERS

|                                    |                              |                        |  |   |                      |
|------------------------------------|------------------------------|------------------------|--|---|----------------------|
| Robert F. Birch(4)<br>DOB: 3/12/36 | Director<br>and<br>President | Director<br>since 1992 | Mutual Fund Director   | 1 | Di<br>Hy<br>th<br>Fu |
| Richard E. Floor(5)<br>DOB: 8/3/40 | Director<br>and<br>Secretary | Director<br>since 1987 | Partner through his professional corporation with the law firm of Goodwin Procter LLP, Boston, Massachusetts | 1 | Di<br>Af<br>Gr       |

- (1) The address for each Director is c/o The New America High Income Fund, Inc., 33 Broad Street, Boston, MA 02109.
- (2) Each Director serves as such until the next annual meeting of the Fund's stockholders and until the Director's successor shall have been duly elected and qualified.
- (3) The New America High Income Fund, Inc. is not part of any fund complex.
- (4) As the Fund's President, Mr. Birch is an interested person of the Fund within the meaning of the Investment Company Act of 1940, as amended (the "1940 Act").
- (5) Mr. Floor is an interested person of the Fund within the meaning of the 1940 Act because, through his professional corporation, Mr. Floor is a partner of Goodwin Procter LLP, counsel to the Fund.

Ellen E. Terry (D.O.B. 4/9/59), Vice President and Treasurer of the Fund since February 18, 1992, is the only executive officer of the Fund not named in the above table of interested Directors. Ms. Terry served as Acting President and Treasurer of the Fund from October 1991 through February 18, 1992, and as Vice President of the Fund prior to such time. Ms. Terry's address is: c/o The New America High Income Fund, 33 Broad Street, Boston, MA 02109. A Fund officer holds office until the officer's successor is duly elected and qualified, until the officer's death or until the officer resigns or has been removed.

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EquiServe Trust Company N.A.  
P.O. Box 43011  
Providence, RI 02940-3011

NEHCM-SA-03

ITEM 2. CODE OF ETHICS.

As of December 31, 2003, the Fund has adopted a code of ethics, as defined in Item 2 of Form N-CSR, that applies to its Principal Executive Officer, Principal Financial Officer/Chief Financial Officer, Principal Accounting Officer, Vice President, Treasurer and Manager of Accounting and Finance.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

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The Fund's Board of Directors has determined that none of the members of the Fund's Audit and Nominating Committee is an "audit committee financial expert" as that term is defined in the instructions to this Item. The Fund's Board of Directors has also determined that there is no need to appoint a Director to the Audit and Nominating Committee who qualifies as an "audit committee financial expert" at this time because the Board of Directors (a) has determined that each member of the Audit and Nominating Committee is "financially literate" and has "accounting or related financial management experience" as these terms are used in the corporate governance standards of the New York Stock Exchange and (b) believes that each has substantial experience relating to the review of financial statements and the operations of audit committees. Accordingly, the Board believes that the Audit and Nominating Committee members are qualified to evaluate the Fund's financial statements, supervise the Fund's preparation of its financial statements, and oversee the work of the Fund's independent auditors.

### ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

**AUDIT FEES.** For fiscal 2003 and 2002, the aggregate fees billed by KPMG LLP ("KPMG"), the Fund's independent public accountants, for audit of the Fund's annual financial statements, review of the semi-annual financial statements and assistance in connection with the Fund's filing of the registration statements totaled \$96,000 and \$48,500, respectively.

**AUDIT-RELATED FEES.** KPMG billed \$31,500 and \$26,000 for fiscal 2003 and 2002, respectively, for assurance and related services that are reasonably related to the performance of the audit and review of the Fund's financial statements, including quarterly agreed upon procedures related to requirements of the Fund's articles supplementary.

**TAX FEES.** During fiscal 2003, KPMG's fees for its professional services related to preparation of the Fund's federal and state tax returns, review of excise distributions, and testing of quarterly asset diversification totaled \$7,000. During fiscal 2002, KPMG's fees for its professional services related to preparation of the Fund's federal and state tax returns, review of excise distributions, and testing of quarterly asset diversification totaled \$6,000.

**ALL OTHER FEES.** KPMG did not provide any other services to the Fund in 2003 or 2002 other than those listed above.

The services described in the three preceding paragraphs, representing engagements entered into prior to the effective date of the SEC's pre-approval requirements, although not formally pre-approved, were reviewed by the Audit and Nominating Committee.

**NON-AUDIT FEES.** KPMG did not provide any other services to the Fund in 2003 or 2002 other than those listed above. KPMG's fees for non-audit services in fiscal 2003 billed to T. Rowe Price Group, Inc. ("Price Group") and its subsidiaries totaled \$852,200. KPMG's fees for non-audit services in fiscal 2002 billed to Price Group totaled \$372,490, other than fees billed for professional services rendered for the audit of the annual financial statements and the reviews of the financial statements included in Forms 10-Q. The Committee has considered and determined that the performance by KPMG of non-audit services to Price Group and its subsidiaries is compatible with maintaining that firm's independence in connection with serving as the Fund's independent public accountants.

### ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

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The Fund has a separately-designated standing audit committee, the Audit and Nominating Committee, established by and amongst the Fund's Board of Directors for the purpose of overseeing the accounting and financial reporting processes of the Fund and audits of the Fund's financial statements. The Audit and Nominating Committee consists of the Fund's Directors who are not "interested persons" of the Fund within the meaning of the Investment Company Act of 1940, as amended (the "1940 Act") - Joseph L. Bower, Bernard J. Korman and Ernest E. Monrad.

ITEM 6.

[Reserved.]

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

### PROXY VOTING POLICIES AND PROCEDURES

At its June 26, 2003 meeting, the Fund's Board of Directors authorized and directed T. Rowe Price, the Fund's investment adviser, to vote proxies relating to the Fund's portfolio securities in accordance with T. Rowe Price's proxy voting policies and procedures. T. Rowe Price, as an investment adviser with a fiduciary responsibility to the Fund, analyzes the proxy statements of issuers whose stock is owned by the Fund, if any.

PROXY ADMINISTRATION. The T. Rowe Price Proxy Committee develops T. Rowe Price's positions on all major corporate issues, creates guidelines, and oversees the voting process. The Proxy Committee, composed of portfolio managers, investment operations managers, and internal legal counsel, analyzes proxy policies based on whether they would adversely affect stockholders' interests and make a company less attractive to own. In evaluating proxy policies each year, the Proxy Committee relies upon its own fundamental research, independent research provided by third parties, and information presented by company managements and stockholder groups.

Once the Proxy Committee establishes its recommendations, they are distributed to the firm's portfolio managers as voting guidelines. Ultimately, the portfolio manager votes on the proxy proposals of companies in his or her portfolio. When portfolio managers cast votes that are counter to the Proxy Committee's guidelines, they are required to document their reasons in

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writing to the Proxy Committee. Annually, the Proxy Committee reviews T. Rowe Price's proxy voting process, policies, and voting records.

T. Rowe Price has retained Institutional Shareholder Services ("ISS"), an expert in the proxy voting and corporate governance area, to provide proxy advisory and voting services. These services include in-depth research, analysis, and voting recommendations as well as vote execution, reporting, auditing and consulting assistance for the handling of proxy voting responsibility and corporate governance-related efforts. While the Proxy Committee relies upon ISS research in establishing T. Rowe Price's voting guidelines--many of which are consistent with ISS positions--T. Rowe Price may deviate from ISS recommendations on general policy issues or specific proxy proposals.

FIDUCIARY CONSIDERATIONS. T. Rowe Price's decisions with respect to proxy issues are made in light of the anticipated impact of the issue on the desirability of investing in the portfolio company. Proxies are voted solely in the interests of the Fund or Fund stockholders. Practicalities involved with



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international investing may make it impossible at times, and at other times disadvantageous, to vote proxies in every instance.

CONSIDERATION GIVEN MANAGEMENT RECOMMENDATIONS. When determining whether to invest in a particular company, one of the key factors T. Rowe Price considers is the quality and depth of its management. As a result, T. Rowe Price believes that recommendations of management on most issues should be given weight in determining how proxy issues should be voted.

T. ROWE PRICE VOTING POLICIES. Specific voting guidelines have been established by the Proxy Committee for recurring issues that appear on proxies. The following is a summary of the more significant T. Rowe Price policies:

- ELECTION OF DIRECTORS. T. Rowe Price generally supports slates with a majority of independent directors and nominating committees chaired by an independent board member. T. Rowe Price withholds votes for inside directors serving on compensation and audit committees and for directors who miss more than one-fourth of the scheduled board meetings.
- EXECUTIVE COMPENSATION. T. Rowe Price's goal is to assure that a company's equity-based compensation plan is aligned with stockholders' long-term interests. While it evaluates most plans on a case-by-case basis, T. Rowe Price generally opposes compensation packages that provide what it views as excessive awards to a few senior executives or that contain excessively dilutive stock option plans. T. Rowe Price bases its review on criteria such as the costs associated with the plan, plan features, dilution to stockholders and comparability to plans in the company's peer group. T. Rowe Price generally opposes plans that give a company the ability to reprice options.
- ANTI-TAKEOVER AND CORPORATE GOVERNANCE ISSUES. T. Rowe Price generally opposes anti-takeover measures and other proposals designed to limit the ability of stockholders to act on possible transactions. When voting on

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corporate governance proposals, T. Rowe Price will consider the dilutive impact to stockholders and the effect on stockholder rights.

- SOCIAL AND CORPORATE RESPONSIBILITY ISSUES. T. Rowe Price generally votes with a company's management on social issues unless they have substantial economic implications for the company's business and operations that have not been adequately addressed by management.

MONITORING AND RESOLVING CONFLICTS OF INTEREST. The Proxy Committee is also responsible for monitoring and resolving possible material conflicts between the interests of T. Rowe Price and those of its clients with respect to proxy voting. Because T. Rowe Price's voting guidelines are pre-determined by the Proxy Committee using recommendations from ISS, an independent third party, application of the T. Rowe Price guidelines to vote clients' proxies should in most instances adequately address any possible conflicts of interest. However, for proxy votes inconsistent with T. Rowe Price guidelines, the Proxy Committee reviews all such proxy votes in order to determine whether the portfolio manager's voting rationale appears reasonable. The Proxy Committee also assesses whether any business or other relationships between T. Rowe Price and a portfolio company could have influenced an inconsistent vote on that company's proxy. Issues raising possible conflicts of interest are referred to designated members of the Proxy Committee for immediate resolution.

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ITEM 8. PURCHASE 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.

(a) The Fund's principal executive officer and principal financial officer concluded that the Fund disclosure controls and procedures (as defined in Rule 30a-3(c) under the 1940 Act) provide reasonable assurances that information required to be disclosed by the Fund on Form N-CSR is recorded, processed, summarized and reported within the required time periods and that information required to be disclosed by the Fund in the reports that it files or submits on Form N-CSR is accumulated and communicated to the Fund's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure, based on their evaluation of the disclosure controls and procedures as of a date within 90 days of the filing date of this report.

(b) There was no change in the Fund's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the Fund's second fiscal half-year that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

ITEM 11. EXHIBITS.

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(a) (1) The code of ethics referenced in Item 2.

(a) (2) The certifications required by Rule 30a-2(a) under the 1940 Act.

(a) (3) Not applicable.

(b) The certifications required by Rule 30a-2(b) under the 1940 Act.

SIGNATURES

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

The New America High Income Fund, Inc.

By: /s/ Robert F. Birch

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Name: Robert F. Birch  
Title: President and Director  
Date: March 8, 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

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following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Robert F. Birch

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Name: Robert F. Birch

Title: President

Date: March 8, 2004

By: /s/ Ellen E. Terry

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Name: Ellen E. Terry

Title: Treasurer

Date: March 8, 2004

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