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NEW AMERICA HIGH INCOME FUND INC
Form N-CSRS
September 03, 2004

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OMB APPROVAL

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-5399

The New America High Income Fund Inc.

(Exact name of registrant as specified in charter)

33 Broad Street Boston MA 02109

(Address of principal executive offices) (Zip code)

Richard E. Floor, Secretary, 53 State Street, Boston MA 02109

(Name and address of agent for service)

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

Date of fiscal year end: 12/31

Date of reporting period: 1/1/04 - 6/30/04

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. Section 3507.

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Item 1 Report to Shareholders

THE NEW AMERICA HIGH INCOME FUND, INC.

[NEW AMERICA HIGH INCOME FUND LOGO]

SEMI-ANNUAL REPORT JUNE 30, 2004

August 20, 2004

DEAR FELLOW SHAREHOLDER,

Sometimes no news is good news. Neither the Fund's dividend nor its net asset value ("NAV") has moved significantly during the first 6 months of the year, despite the turmoil in the fixed income market and reductions in dividends at other income funds. The year opened with the Fund's NAV at \$2.19 and at the half way mark it was \$2.14. Based on current earnings, the Fund continues to target the current dividend of \$.0175 per month (subject to future market conditions and portfolio performance) despite the rising cost of the Fund's leverage. The annualized dividend calculated using the June 30th market price of \$1.94 and the current monthly dividend was 10.8%. One significant change during the period was an increase in the market price discount from NAV of 1.4% on December 31st to 9.4% as of June 30th. We cannot say for certain why there is discount on our Fund's shares and on those of some other income funds, however discount and premium levels do tend to fluctuate. Over the longer term, the key issue is not the short term swings in the discount or premium, but the quality and earning power of the underlying portfolio.

As always we remind you, leverage is a two-edged sword. Usually when the market declines our NAV will decline more rapidly than the market and the reverse is generally true in a bull market. In addition, rising interest rates increase the cost of the Fund's leverage, reducing the income spread benefit to the dividend. Despite the reduced spread between the cost of the leverage and the earnings on the portfolio assets, the leverage is still an important contributor to the Fund's dividend. The increase in the cost of the leverage due to rising interest rates is partially offset by the Fund's current interest rate swap position. As rates rise, we expect new high yield bonds with higher coupons to be issued which should also help mitigate the increasing cost of the leverage.

The mutual fund industry has been rocked with scandals involving a number of companies who were believed to be above such shenanigans. In this environment, it bears remembering that as a closed end fund, our shares trade on a stock exchange, so the Fund does not have the problems of trading after a 4 p.m. pricing deadline. Shareholders who attempt to profit by market timing are trading with other shareholders, so have no direct impact on the portfolio management. The Fund's Board and staff do not have any financial interest in the Fund's investment adviser, which does not have any representation on the Board. The Board is free to change investment advisers and has done so in the recent past. In addition, all of the Fund's officers and directors are shareholders.

Below you will find our investment adviser, T. Rowe Price's, market outlook and their strategy for the investment management of the Fund.

HIGH YIELD MARKET UPDATE

The high yield market got off to a strong start in the first three months of the year only to cool quickly in the second quarter and forfeit some of its early

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gains following a swift rise in interest rates. U.S. Treasury bonds set the tempo for fixed income markets in general over the first six months of 2004. The ten year government bond began the year at a yield of 4.24% and closed out the first six months yielding 4.58%. Despite what was just a 34 basis point (0.34%) increase in yield from the beginning of the year to the half-way point, action in Treasuries over the first six months was quite dramatic. The rate on the benchmark ten year government bond fell as low as 3.68% by mid-March and ended the first quarter at a yield of 3.83%. By the second quarter, Treasury rates began to reflect concerns that an expanding U.S. economy was bringing with it the specter of inflation, and the yield on the ten year bond spiked as high as 4.87% by mid-June. On the last day of the second quarter, the Federal Open Market Committee hiked the Fed Funds rate a quarter point to 1.25%, its first rate increase in four years.

Despite the heady action in Treasuries throughout the first six months, the damage to high yield bonds from the trend to higher interest rates was limited by two factors; a tendency for lower quality bonds to exhibit less interest rate sensitivity, and a positive credit environment for most companies. As measured by the CS First Boston High Yield Index, the market delivered a 2.66% gain in the first quarter, but lost .19% in the next three months. May was particularly challenging, with the market down 1.58%. By the same measure, the high yield market has delivered a 2.47% return over the first six months of 2004, but stands up an impressive 11.75% over the trailing 12 month period ended June 30th.

The downside of the high yield market's strong relative showing in the first half of the year has been a continued decrease in the difference or spread between the yields on high yield debt and those on Treasury instruments. Spreads narrowed about 50 basis points for the June quarter, to about 450 basis points over comparable government bonds. Valuations for the lowest rated high yield bonds seem particularly rich, with spreads for CCC-rated issues more than 200 basis points below long term historical averages. For the June quarter, CCC's sharply outperformed higher quality sectors of the market, with interest rate sensitive BB-rated bonds generating the biggest negative returns. For the balance of the year, we anticipate that continued evidence of economic strength will lead to more tightening from the Fed and higher interest rates across the Treasury curve.

STRATEGY REVIEW

We have had two overriding goals over the last six months; preserving the portfolio's ability to maintain its current dividend in a low coupon environment, and protecting the Fund's principal from the negative effects of higher interest rates. It has been a challenge in a market that for several months allowed many high yield borrowers to successfully price new deals with coupons below 7%, as bonds at these rates bring us short of our dividend goal and are likely to depreciate sharply in a rising rate environment. Our approach to this problem has been to overweight single-B rated issues relative to the high yield debt market as a whole and to favor high coupon bonds trading at a premium to their par values. These premium bonds still offer generous income and should afford some protection from the negative effects of rising rates. As with any strategy there are drawbacks. While these bonds should satisfy the current dividend stream, they will under-perform lower coupon issues should interest rates move lower rather than, as we expect, higher. With an economy growing around 4% and the first of what are anticipated to be several rate increases from the Federal Reserve, we think it's appropriate to sacrifice some capital appreciation potential to focus on income and capital preservation.

Fortunately, the upward trend in Treasury rates since the beginning of the year has brought with it at least one benefit - more attractive coupons on new high

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yield issues. Throughout the second quarter we enthusiastically bought a number of new credits with coupons of 9% and higher. And though scarcer than we'd prefer, we continue to find previously issued bonds that carry yields high enough to satisfy the Fund's dividend, and should the current economic climate continue, possibly deliver some capital appreciation.

We anticipate remaining overweight in single-B rated debt into the second half of the year. We believe that at this stage of the credit cycle, medium quality high yield companies have more potential for credit improvement than companies in the lower quality (CCC-rated) tiers. Bond prices tend to move inversely with changes in interest rates, and generally, the lower the coupon, the greater the sensitivity to changes in rates a bond will exhibit. We think single-B rated issues offer greater insulation against the effects of rising rates versus higher quality (BB-rated) issues, though we are intrigued by some of the lower coupon BB-rated bonds that have traded down eight to ten percent due to rising rates. We still think it is too early to move to a neutral weighting in BB's, but if the move to higher rates that we forecast takes shape, we expect this sector will eventually represent a

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compelling relative value. Overall, the second half of 2004 does not look to be much better than the first six months of the year, but the period of transition could eventually set the stage for potentially attractive high yield returns in 2005.

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 -- JUNE 30, 2004 (UNAUDITED)
(Dollar Amounts in Thousands)

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

CORPORATE DEBT SECURITIES -- 157.51% (d)

AEROSPACE AND DEFENSE -- 4.23%
\$ 850 Aviall, Inc., Senior Notes,

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| | | | | |
|---------------------|---|------|----|-------|
| | 7.625%, 07/01/11 | B1 | \$ | 884 |
| 250 | BE Aerospace, Inc., Senior Subordinated Notes, 8%, 03/1/08 | Caa3 | | 232 |
| 450 | BE Aerospace, Inc., Senior Subordinated Notes, 9.50%, 11/01/08 | Caa3 | | 438 |
| 550 | BE Aerospace, Inc., Senior Subordinated Notes, 8.875%, 05/01/11 | Caa3 | | 514 |
| 2,500 | GenCorp, Inc., Senior Subordinated Notes, 9.50%, 08/15/13 | B2 | | 2,600 |
| 600 | Sequa Corporation, Senior Notes, 9%, 08/01/09 | B1 | | 639 |
| 650 | Transdigm, Inc., Senior Subordinated Notes, 8.375%, 07/15/11 | B3 | | 669 |
| 2,650 | Vought Aircraft Industries, Inc., Senior Notes, 8%, 07/15/11 (g) | B2 | | 2,517 |
| | | | | ----- |
| | | | | 8,493 |
| | | | | ----- |
| AUTOMOBILE -- 5.44% | | | | |
| 175 | Adesa, Inc., Senior Subordinated Notes, 7.625%, 06/15/12 | B1 | | 176 |
| 700 | Asbury Automotive Group, Inc., Senior Subordinated Notes, 8%, 03/15/14 | B3 | | 668 |
| 675 | Autocam Corporation, Senior Subordinated Notes, 10.875%, 06/15/14 (g) | B3 | | 655 |
| 75 | Collins & Aikman Products, Co., Senior Unsecured Notes, 10.75%, 12/31/11 | B2 | | 75 |
| 590 | Cummins, Inc., Senior Notes, 9.50%, 12/01/10 | Ba2 | | 668 |
| 900 | Dana Corporation, Senior Notes, 9%, 08/15/11 | Ba3 | | 1,053 |
| 300 | Delco Remy International, Inc., Senior Subordinated Notes, 9.375%, 04/15/12 (g) | B3 | | 291 |
| 300 | Dura Operating Corporation, Senior Subordinated Notes, 9%, 05/01/09 | B2 | | 295 |
| \$ 1,150 | HLI Operating Company Inc., Senior Notes, 10.50%, 06/15/10 | B1 | \$ | 1,294 |
| 500 | J.B. Poindexter & Co., Inc., Senior Notes, 8.75%, 03/15/14 (g) | B1 | | 506 |
| 450 | MSX International, Inc., Senior Subordinated Notes, 11.375%, 01/15/08 | Caa1 | | 351 |
| 375 | Navistar International Corp., Senior Notes, 7.50%, 06/15/11 | Ba3 | | 381 |
| 375 | RJ Tower Corporation, Senior Unsecured Notes, 12%, 06/1/13 | B3 | | 357 |
| 1,457 | TRW Automotive Inc., Senior Notes, 9.375%, 02/15/13 | B1 | | 1,646 |
| 1,291 | TRW Automotive Inc., | | | |

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| | | | |
|-------------------------------------|--|------|--------------------------|
| | Senior Subordinated Notes, 11%, 02/15/13 | B2 | 1,530 |
| 1,000 | Visteon Corporation, Senior Unsecured Notes, 7%, 03/10/14 | Ba1 | 967 |
| | | | ----- 10,913 ----- |
| BEVERAGE, FOOD AND TOBACCO -- 3.64% | | | |
| 281 | Agrilink Foods, Inc. , Senior Subordinated Notes, 11.875%, 11/01/08 | B3 | 299 |
| 1,200 | B&G Foods, Inc., Senior Subordinated Notes, 9.625%, 08/01/07 | B3 | 1,221 |
| 400 | Dole Food Company, Inc., Senior Notes, 8.625%, 05/01/09 | B2 | 421 |
| 700 | Dole Food Company, Inc., Senior Notes, 8.875%, 03/15/11 | B2 | 740 |
| 1,175 | Le-Nature's, Inc., Senior Subordinated Notes, 10.00%, 06/15/13 (g) | Caa1 | 1,213 |
| 400 | Merisant Co., Senior Subordinated Notes, 9.50%, 07/15/13 (g) | B3 | 426 |
| 400 | Pierre Foods, Inc., Senior Subordinated Notes, 9.875%, 07/15/12 (g) | B3 | 406 |
| 2,200 | Pinnacle Foods Holding Corporation, Senior Subordinated Notes, 8.25%, 12/01/13 (g) | B3 | 2,128 |
| 450 | Wornick Co., Senior Secured Notes, 10.875%, 07/15/11 (g) | B2 | 459 |
| | | | ----- 7,313 ----- |

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 | | | |
| BROADCASTING AND ENTERTAINMENT -- 6.96% | | | |
| \$ 800 | CCO Holdings, LLC, Senior Notes, 8.75%, 11/15/13 (g) | B3 | \$ 776 |
| 1,675 | Charter Communications Holdings II, LLC, Senior Notes, 10.25%, 09/15/10 (g) | Caa1 | 1,696 |
| 800 | Charter Communications Operating, LLC, Senior Notes, 8%, 04/30/12 (g) | B2 | 776 |

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| | | | |
|----------|---|------|----------|
| 100 | Charter Communications Operating, LLC, Senior Notes, 8.375%, 04/30/14 (g) | B2 | 98 |
| 600 | Cinemark, Inc., Senior Discount Notes, 9.75%, 03/15/14 (g) (h) | Caa1 | 391 |
| 75 | Cinemark USA, Inc., Senior Subordinated Notes, 9%, 02/01/13 | B3 | 82 |
| 1,650 | CSC Holdings, Inc., Senior Notes, 7.625%, 04/01/11 | B1 | 1,662 |
| 644 | Echostar DBS Corporation, Senior Notes, 9.125%, 01/15/09 | Ba3 | 707 |
| 375 | Echostar DBS Corporation, Senior Notes, 10.375%, 10/01/07 | Ba3 | 401 |
| 375 | Insight Midwest, L.P., Senior Notes, 9.75%, 10/01/09 | B2 | 395 |
| 625 | Insight Midwest, L.P., Senior Notes, 10.50%, 11/01/10 | B2 | 680 |
| 600 | Mediacom Broadband LLC, Senior Notes, 11%, 07/15/13 | B2 | 636 |
| 2,475 | Quebecor Media Inc., Senior Notes, 11.125%, 07/15/11 | B2 | 2,821 |
| 500 | Spanish Broadcasting System, Inc., Senior Subordinated Notes, 9.625%, 11/01/09 | Caa1 | 526 |
| 1,625 | Warner Music Group, Senior Subordinated Notes, 7.375%, 04/15/14 (g) | B3 | 1,564 |
| 656 | XM Satellite Radio Inc., Senior Secured Notes, 12%, 06/15/10 | Caa1 | 751 |
| | | | ----- |
| | | | 13,962 |
| | | | ----- |
| | BUILDING AND REAL ESTATE -- 7.39% | | |
| \$ 1,550 | Associated Materials, Inc., Senior Subordinated Notes, 9.75%, 04/15/12 | B3 | \$ 1,720 |
| 625 | B.F. Saul Real Estate Investment Trust, Senior Secured Notes, 7.50%, 03/1/14 | B3 | 619 |
| 75 | Building Materials Corporation of America, Senior Notes, 7.75%, 07/15/05 | B2 | 75 |
| 150 | Building Materials Corporation of America, Senior Notes, 8%, 10/15/07 | B2 | 150 |
| 75 | Building Materials Corporation of America, Senior Notes, 8%, 12/1/08 | B2 | 75 |
| 50 | Building Materials Corporation of America, Senior Notes, 8.625%, 12/15/06 | B2 | 50 |
| 1,050 | Collins & Aikman Floorcoverings, Inc., Senior Subordinated Notes, 9.75%, 02/15/10 | B2 | 1,066 |
| 400 | GEO Group, Inc., Senior Notes, 8.25%, 07/15/13 | B1 | 396 |
| 825 | Hovnanian Enterprises, Inc., | | |

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|-------|---|-----|-------|
| | Senior Subordinated Notes, 7.75%, 05/15/13 | Ba3 | 823 |
| 750 | LNR Property Corporation, Senior Subordinated Notes, 7.25%, 10/15/13 | Ba3 | 735 |
| 100 | LNR Property Corporation, Senior Subordinated Notes, 7.625%, 07/15/13 | Ba3 | 100 |
| 775 | Mobile Mini, Inc., Senior Notes, 9.50%, 07/01/13 | B2 | 837 |
| 1,050 | Norcroft Companies, L.P., Senior Subordinated Notes, 9%, 11/01/11 (g) | B3 | 1,108 |
| 325 | Omega Healthcare Investors, Inc., Senior Notes, 7%, 04/1/14 (g) | B1 | 307 |
| 850 | Riverside Forest Products Ltd., Senior Notes, 7.875%, 03/1/14 (g) | B2 | 871 |
| 1,025 | Shaw Group, Inc., Senior Notes, 10.75%, 03/15/10 | Ba2 | 999 |

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 | | | |
| \$ 750 | Texas Industries, Inc., Senior Notes, 10.25%, 06/15/11 | B1 | \$ 838 |
| 550 | U.S. Concrete, Inc., Senior Subordinated Notes, 8.375%, 04/1/14 (g) | B3 | 550 |
| 700 | WII Components, Inc., Senior Notes, 10%, 02/15/12 (g) | B2 | 700 |
| 675 | WCI Communities, Inc., Senior Subordinated Notes, 9.125%, 05/01/12 | Ba3 | 724 |
| 975 | WCI Communities, Inc., Senior Subordinated Notes, 10.625%, 02/15/11 | Ba3 | 1,070 |
| 300 | Williams Scotsman, Inc., Senior Notes, 9.875%, 06/01/07 | B3 | 297 |
| 650 | Williams Scotsman, Inc., Senior Secured Notes, 10%, 08/15/08 | B2 | 705 |
| | | | ----- 14,815 ----- |
| CHEMICALS, PLASTICS AND RUBBER -- 8.05% | | | |
| 525 | ARCO Chemical Company, Debentures, 10.25%, 11/01/10 | B1 | 538 |

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| | | | |
|---|---|------|--------------------------|
| 825 | BCP Caylux Holdings Luxembourg S.C.A., Senior Subordinated Notes, 9.625%, 06/15/14 (g) | B3 | 858 |
| 1,650 | Compass Minerals Group, Inc., Senior Subordinated Notes, 10%, 08/15/11 | B3 | 1,836 |
| 475 | Ethyl Corporation, Senior Notes, 8.875%, 05/01/10 | B2 | 501 |
| 425 | Freeport McMoran Resources, Senior Notes, 7%, 02/15/08 | Caal | 436 |
| 600 | Huntsman International LLC, Senior Notes, 9.875%, 03/01/09 | B3 | 646 |
| 1,475 | Huntsman LLC, Senior Secured Notes, 11.625%, 10/15/10 | B2 | 1,626 |
| 850 | Invista, Senior Notes, Units, 9.25%, 05/01/12 (g) | B1 | 854 |
| 2,000 | Koppers Inc., Senior Secured Notes, 9.875%, 10/15/13 | B2 | 2,190 |
| \$ 400 | Lyondell Chemical Company, Senior Notes, 9.50%, 12/15/08 | B1 | \$ 418 |
| 725 | Omnova Solutions, Inc., Senior Secured Notes, 11.25%, 06/1/10 | B2 | 805 |
| 525 | PolyOne Corporation, Senior Notes, 10.625%, 05/15/10 | B3 | 554 |
| 825 | Resolution Performance Products, LLC, Senior Notes, 9.50%, 04/15/10 | B3 | 854 |
| 975 | Rhodia S.A., Senior Notes, 10.25%, 06/01/10 (g) | B3 | 985 |
| 1,500 | Rhodia S.A., Senior Subordinated Notes, 8.875%, 06/01/11 (g) | Caal | 1,264 |
| 775 | Rockwood Specialities Group, Inc., Senior Subordinated Notes, 10.625%, 05/15/11 | B3 | 829 |
| 200 | VWR International, Inc., Senior Notes, 6.875%, 04/15/12 (g) | B2 | 201 |
| 725 | VWR International, Inc., Senior Subordinated Notes, 8%, 04/15/14 (g) | B3 | 740 |
| | | | ----- 16,135 ----- |
| CONTAINERS, PACKAGING AND GLASS -- 12.75% | | | |
| 700 | AEP Industries, Inc., Senior Subordinated Notes, 9.875%, 11/15/07 | B3 | 719 |
| 800 | Ball Corporation, Senior Notes, 6.875%, 12/15/12 | Ba3 | 811 |
| 1,675 | Boise Cascade Corporation, Senior Notes, 7%, 11/01/13 | Ba2 | 1,708 |
| 775 | Bway Corporation, Senior Subordinated Notes, 10%, 10/15/10 | B3 | 808 |
| 575 | Constar International, Inc. Senior Subordinated Notes, | | |

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| | | | |
|-------|--|------|-------|
| | 11%, 12/01/12 | Caa1 | 538 |
| 1,300 | Crown European Holdings, S.A., Senior Secured Notes, 9.50%, 03/01/11 | B1 | 1,427 |
| 1,725 | Crown European Holdings, S.A., Senior Secured Notes, 10.875%, 03/01/13 | B2 | 1,975 |

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 | | | |
| \$ 500 | Georgia-Pacific Corporation, Senior Notes, 8.875%, 02/01/10 | Ba2 | \$ 568 |
| 2,375 | Georgia-Pacific Corporation, Senior Notes, 9.375%, 02/01/13 | Ba2 | 2,702 |
| 450 | Graphic Packaging International, Inc., Senior Notes, 8.50%, 08/15/11 | B2 | 481 |
| 175 | Graphic Packaging International, Inc., Senior Subordinated, Notes, 9.50%, 08/15/13 | B3 | 190 |
| 350 | Greif Brothers Corporation, Senior Subordinated Notes, 8.875%, 08/1/12 | B2 | 376 |
| 750 | Jefferson Smurfit Corporation, Senior Notes, 7.50%, 06/01/13 | B2 | 741 |
| 1,425 | Longview Fibre Company, Senior Subordinated Notes, 10%, 01/15/09 | B2 | 1,539 |
| 1,735 | MDP Acquisitions PLC, Senior Notes, 9.625%, 10/01/12 | B3 | 1,926 |
| 378 | MDP Acquisitions PLC, Subordinated Notes, 15.50%, 10/01/13 (b) | Caa1 | 440 |
| 550 | Owens-Brockway Glass Container, Inc., Senior Notes, 8.25%, 05/15/13 | B3 | 567 |
| 450 | Owens-Brockway Glass Container, Inc., Senior Secured Notes, 7.75%, 05/15/11 | B2 | 466 |
| 175 | Owens-Brockway Glass Container, Inc., Senior Secured Notes, 8.75%, 11/15/12 | B2 | 191 |
| 1,225 | Owens-Brockway Glass Container, Inc., Senior Secured Notes, 8.875%, 02/15/09 | B2 | 1,323 |
| 1,550 | Plastipak Holdings, Inc., Senior Notes, | | |

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|---|---|------|--------------------------|
| | 10.75%, 09/01/11 | B3 | 1,658 |
| 1,600 | Potlatch Corporation, Senior Subordinated Notes, 10%, 07/15/11 | Ba1 | 1,776 |
| 375 | Silgan Holdings, Inc., Senior Subordinated Notes, 6.75%, 11/15/13 | B1 | 364 |
| \$ 975 | Solo Cup Company, Senior Subordinated Notes, 8.50%, 02/15/14 (g) | B3 | \$ 916 |
| 100 | Stone Container Corporation, Senior Notes, 9.75%, 02/01/11 | B2 | 110 |
| 350 | Stone Container Finance Company of Canada, Senior Notes, 11.50%, 08/15/06 (g) | B2 | 353 |
| 950 | Tekni-Plex, Inc., Senior Notes, 8.75%, 11/15/13 (g) | B2 | 907 |
| | | | ----- 25,580 ----- |
| DIVERSIFIED/CONGLOMERATE MANUFACTURING -- 4.43% | | | |
| 750 | Aearo Company, Senior Subordinated Notes, 8.25%, 04/15/12 (g) | B3 | 765 |
| 275 | AGCO Corporation, Senior Notes, 9.50%, 05/01/08 | Ba3 | 298 |
| 850 | Case New Holland Inc., Senior Notes, 9.25%, 08/01/11 (g) | Ba3 | 897 |
| 500 | Columbus McKinnon Corporation, Senior Subordinated Notes, 8.50%, 04/01/08 | Caa1 | 455 |
| 450 | General Cable Corporation, Senior Notes, 9.50%, 11/15/10 | B2 | 481 |
| 550 | Manitowoc, Incorporated, Senior Notes, 7.125%, 11/01/13 | B1 | 550 |
| 1,150 | National Waterworks, Inc., Senior Subordinated Notes, 10.50%, 12/01/12 | B3 | 1,294 |
| 1,575 | Rexnord Corp., Senior Subordinated Notes, 10.125%, 12/15/12 | B3 | 1,732 |
| 1,625 | Trimas Corp. Senior Subordinated Notes, 9.875%, 06/15/12 | B3 | 1,731 |
| 700 | Valmont Industries, Inc., Senior Subordinated Notes, 6.875%, 05/01/14 (g) | Ba3 | 686 |
| | | | ----- 8,889 ----- |
| DIVERSIFIED/CONGLOMERATE SERVICE -- 2.96% | | | |
| 1,425 | Brand Services, Inc., Senior Subordinated Notes, 12%, 10/15/12 | B3 | 1,653 |
| 1,225 | Brickman Group LTD, Senior Subordinated Notes, 11.75%, 12/15/09 | B2 | 1,409 |

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| PRINCIPAL AMOUNT/UNITS | | MOODY'S RATING (UNAUDITED) | VALUE (NOTE 1(a)) |
|--|---|----------------------------------|-------------------------|
| ----- | | | |
| CORPORATE DEBT SECURITIES -- CONTINUED | | | |
| \$ 1,200 | Coinmach Corporation, Senior Notes, 9%, 02/01/10 | B2 | \$ 1,206 |
| 1,600 | Synagro Technologies, Inc., Senior Subordinated Notes, 9.50%, 04/01/09 | B3 | 1,672 |
| | | | ----- 5,940 ----- |
| ECOLOGICAL -- 1.87% | | | |
| 975 | Allied Waste North America, Inc., Senior Secured Notes, 7.875%, 04/15/13 | Ba3 | 1,019 |
| 1,625 | Casella Waste Systems, Inc., Senior Subordinated Notes, 9.75%, 02/01/13 | B3 | 1,755 |
| 900 | IESI Corporation, Senior Subordinated Notes, 10.25%, 06/15/12 | B3 | 972 |
| | | | ----- 3,746 ----- |
| ELECTRONICS -- 7.28% | | | |
| 325 | AMI Semiconductor, Inc., Senior Subordinated Notes, 10.75%, 02/01/13 | B3 | 379 |
| 325 | Amkor Technology, Inc., Senior Notes, 7.125%, 03/15/11 (g) | B1 | 306 |
| 825 | Amkor Technology, Inc., Senior Notes, 7.75%, 05/15/13 | B1 | 780 |
| 275 | Amkor Technology, Inc., Senior Notes, 10.50%, 05/01/09 | B3 | 288 |
| 461 | Avaya Inc., Senior Secured Notes, 11.125%, 04/01/09 | B1 | 541 |
| 750 | Chippac International Ltd., Senior Subordinated Notes, Series B, 12.75%, 08/01/09 | B3 | 801 |
| 875 | Fairchild Semiconductor Corporation, Senior 10.50%, 02/01/09 | B2 | 952 |
| 1,025 | Invensys PLC, Senior Notes, 9.875%, 03/15/11 (g) | B3 | 1,022 |
| 375 | Lucent Technologies, Inc., Senior Notes, 5.50%, 11/15/08 | Caa1 | 355 |
| 1,150 | New Asat Finance LLC, Senior Notes 9.25%, 02/01/11 (g) | B3 | 1,144 |
| \$ 1,075 | Nortel Networks, Ltd., Senior Secured Notes, | | |

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| | | | | |
|---|---|------|----|--------|
| | 6.125%, 02/15/06 | B3 | \$ | 1,078 |
| 1,089 | ON Semiconductor Corporation, Senior Secured Notes, 12%, 03/15/10 | B3 | | 1,280 |
| 163 | ON Semiconductor Corporation, Senior Secured Notes, 13%, 05/15/08 | Caa1 | | 187 |
| 975 | Sanmina Scientific Corporation, Senior Secured Notes, 10.375%, 01/15/10 | Ba2 | | 1,121 |
| 450 | Solectron Corporation, Senior Notes, 9.625%, 02/15/09 | B1 | | 492 |
| 1,200 | Stratus Technologies, Inc., Senior Notes, 10.375%, 12/01/08 (g) | B3 | | 1,230 |
| 775 | Superior Essex Communications LLC, Senior Notes, 9%, 04/15/12 (g) | B3 | | 748 |
| 800 | Telex Communications, Inc., Senior Notes, 11.50%, 10/15/08 | B3 | | 858 |
| 975 | UGS Corporation, Senior Subordinated Notes, 10%, 06/01/12 (g) | B3 | | 1,036 |
| | | | | ----- |
| | | | | 14,598 |
| | | | | ----- |
| FINANCE -- 1.00% | | | | |
| 1,100 | Global Cash Access LLC, Senior Subordinated Notes, 8.75%, 03/15/12 (g) | Caa1 | | 1,148 |
| 850 | LaBranche & Co., Inc., Senior Notes, 9.50%, 05/15/09 (g) | Ba1 | | 850 |
| | | | | ----- |
| | | | | 1,998 |
| | | | | ----- |
| FURNISHINGS, HOUSEWARES, DURABLE CONSUMER PRODUCTS -- .90% | | | | |
| 675 | Fedders North America, Inc., Senior Notes, 9.875%, 03/01/14 (g) | Caa1 | | 618 |
| 475 | Maax Corporation, Senior Subordinated Notes, 9.75%, 06/15/12 (g) | B3 | | 491 |
| 700 | Sealy Mattress Company, Senior Subordinated Notes, 8.25%, 06/15/14 (g) | Caa1 | | 703 |
| | | | | ----- |
| | | | | 1,812 |
| | | | | ----- |

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

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| PRINCIPAL AMOUNT/UNITS | | RATING (UNAUDITED) | VALUE (NOTE 1(a)) |
|--|---|-----------------------|-----------------------|
| CORPORATE DEBT SECURITIES -- CONTINUED | | | |
| FARMING AND AGRICULTURE -- .22% | | | |
| \$ 150 | IMC Global Inc., Senior Notes, 10.875%, 06/01/08 | B1 | \$ 175 |
| 125 | IMC Global Inc., Senior Notes, 10.875%, 08/01/13 | B1 | 151 |
| 100 | IMC Global Inc., Senior Notes, 11.25%, 06/01/11 | B1 | 116 |
| | | | ----- 442 ----- |
| HEALTHCARE, EDUCATION AND CHILDCARE -- 6.66% | | | |
| 850 | Alliance Imaging, Inc., Senior Subordinated Notes, 10.375%, 04/15/11 | B3 | 897 |
| 825 | Alpharma, Inc., Senior Notes, 8.625%, 05/01/11 (g) | B3 | 853 |
| 900 | Ameripath, Inc. Senior Subordinated Notes, 10.50%, 04/01/13 | Caal | 909 |
| 300 | AmerisourceBergen Corporation, Senior Notes, 8.125%, 09/01/08 | Ba3 | 325 |
| 700 | Biovail Corporation, Senior Subordinated Notes, 7.875%, 04/01/10 | B2 | 693 |
| 1,425 | Concentra Operating Corporation, Senior Subordinated Notes, 9.50%, 08/15/10 | B3 | 1,518 |
| 441 | Fisher Scientific International Inc., Senior Subordinated Notes, 8.125%, 05/01/12 | B2 | 472 |
| 575 | Fresenius Medical Care Capital Trust IV, 7.875%, 06/15/11 | Ba2 | 608 |
| 1,075 | Genesis Healthcare Corporation, Senior Subordinated Notes, 8%, 10/15/13 (g) | B3 | 1,105 |
| 425 | InSight Health Services Corp., Senior Subordinated Notes, 9.875%, 11/01/11 | B3 | 458 |
| 250 | Inverness Medical Innovations, Inc., Senior Subordinated Notes, 8.75%, 02/15/12 (g) | Caal | 256 |
| 1,000 | Omnicare, Inc., Senior Subordinated Notes, 8.125%, 03/15/11 | Ba2 | 1,070 |
| \$ 1,125 | Quintiles Transnational Corp., Senior Subordinated Notes, 10%, 10/01/13 | B3 | \$ 1,114 |
| 450 | Tenet Healthcare Corporation, Senior Notes, 6.50%, 06/01/12 | B3 | 391 |
| 300 | Tenet Healthcare Corporation, Senior Notes, 7.375%, 02/01/13 | B3 | 272 |
| 400 | Tenet Healthcare Corporation, Senior Notes, | | |

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| | | | |
|---|---|-----|--------|
| | 9.875%, 07/01/14 (g) | B3 | 406 |
| 750 | Triad Hospitals, Inc., Senior Subordinated Notes, 7%, 11/15/13 | B3 | 719 |
| 1,175 | Vicar Operating, Inc., Senior Subordinated Notes, 9.875%, 12/01/09 | B2 | 1,295 |
| | | | ----- |
| | | | 13,361 |
| | | | ----- |
| HOTELS, MOTELS, INNS AND GAMING -- 12.22% | | | |
| 625 | American Casino & Entertainment Properties LLC, Senior Secured Notes, 7.85%, 02/01/12 (g) | B2 | 634 |
| 1,000 | Ameristar Casinos, Inc., Senior Subordinated Notes, 10.75%, 02/15/09 | B2 | 1,137 |
| 450 | Argosy Gaming Company, Senior Subordinated Notes, 7%, 01/15/14 (g) | B3 | 438 |
| 75 | Argosy Gaming Company, Senior Subordinated Notes, 9%, 09/01/11 | B2 | 83 |
| 1,000 | Boyd Gaming Corporation, Senior Subordinated Notes, 6.75%, 04/15/14 (g) | B1 | 943 |
| 1,675 | Courtyard Marriott II Ltd., Senior Secured Notes, 10.75%, 02/01/08 | B2 | 1,679 |
| 550 | Horseshoe Gaming Holding Corp., Senior Subordinated Notes, 8.625%, 05/15/09 | B2 | 574 |
| 740 | Host Marriott LP, Senior Notes, Series I, 9.50%, 01/15/07 | Ba3 | 812 |
| 1,075 | Isle of Capri Casinos, Inc., Senior Subordinated Notes, 7%, 03/01/14 (g) | B2 | 997 |

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 | | | |
| \$ 1,475 | John Q. Hammons Hotels, LP, First Mortgage Notes, 8.875%, 05/15/12 | B2 | \$ 1,613 |
| 3,275 | La Quinta Properties, Inc., Senior Notes, 8.875%, 03/15/11 | Ba3 | 3,533 |
| 300 | Majestic Star Casino, LLC, | | |

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| | | | |
|---|--|-----|----------|
| | Senior Notes, 9.50%, 10/15/10 | B2 | 302 |
| 1,500 | MGM Grand, Inc., Senior Notes, 6.875%, 02/06/08 | Ba1 | 1,596 |
| 1,100 | Mohegan Tribal Gaming Authority, Senior Subordinated Notes, 8%, 04/01/12 | Ba3 | 1,173 |
| 1,625 | Penn National Gaming, Inc., Senior Subordinated Notes, 11.125%, 03/01/08 | B2 | 1,792 |
| 425 | Premier Entertainment Biloxi LLC, Senior Notes, 10.75%, 02/01/12 (g) | B3 | 447 |
| 825 | Prime Hospitality Corporation, Senior Subordinated Notes, 8.375%, 05/01/12 | B2 | 855 |
| 75 | Resorts International Hotel and Casino, Inc., Senior Notes, 11.50%, 03/15/09 | B2 | 85 |
| 525 | Station Casinos, Inc., Senior Notes, 6%, 04/01/12 | Ba3 | 507 |
| 425 | Station Casinos, Inc., Senior Subordinated Notes, 6.875%, 03/01/16 | B1 | 408 |
| 3,275 | Venetian Casino Resort, LLC, 2nd Mortgage Notes, 11%, 06/15/10 | B3 | 3,770 |
| 954 | Wynn Las Vegas, LLC, Senior Secured Notes, 12%, 11/01/10 | B3 | 1,140 |
| | | | ----- |
| | | | 24,518 |
| | | | ----- |
| LEISURE, AMUSEMENT AND ENTERTAINMENT -- 3.59% | | | |
| 700 | AMF Bowling Worldwide, Inc. Senior Subordinated Notes, 10%, 03/01/10 (g) | B3 | 719 |
| 575 | Equinox Holdings, Inc., Senior Notes, 9%, 12/15/09 (g) | B3 | 572 |
| \$ 1,075 | The Hockey Company, Senior Secured Notes, Units, 11.25%, 04/15/09 | Ba3 | \$ 1,279 |
| 775 | K2 Inc., Senior Notes, 7.375%, 07/01/14 (g) | Ba3 | 792 |
| 225 | Six Flags Inc., Senior Notes, 9.50%, 02/01/09 | B3 | 232 |
| 600 | Six Flags Inc., Senior Notes, 9.75%, 04/15/13 | B3 | 604 |
| 800 | Town Sports International, Inc., Senior Notes, 9.625%, 04/15/11 | B2 | 770 |
| 1,925 | Universal City Development Partners, Ltd., Senior Notes, 11.75%, 04/01/10 | B2 | 2,228 |
| | | | ----- |
| | | | 7,196 |
| | | | ----- |
| MACHINERY -- .28% | | | |
| 550 | JLG Industries, Inc., Senior Subordinated Notes, 8.375%, 06/15/12 | B3 | 560 |
| | | | ----- |
| MINING, STEEL, IRON AND NON-PRECIOUS METALS -- 10.00% | | | |
| 75 | Algoma Steel Inc., Secured Notes, | | |

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| | | | |
|-------|---|------|-------|
| | 11%, 12/31/09 | (e) | 89 |
| 700 | Allegheny Technologies Inc., Senior Notes, 8.375%, 12/15/11 | B3 | 709 |
| 825 | Alpha Natural Resrouces, LLC, Senior Notes, 10%, 06/01/12 (g) | B3 | 862 |
| 2,230 | Century Aluminum Company, Senior Notes, 11.75%, 04/15/08 | B1 | 2,486 |
| 1,375 | CSN Islands VIII Corporation, Senior Notes, 9.75%, 12/16/13 (g) | B1 | 1,227 |
| 2,675 | Earle M. Jorgensen Company, Senior Secured Notes, 9.75%, 06/01/12 | B2 | 2,929 |
| 700 | Euramax Internanational, Inc., Senior Subordinated Notes, 8.50%, 08/15/11 | B2 | 732 |
| 1,800 | Gerdau Ameristeel Corporation, Senior Notes, 10.375%, 07/15/11 | B2 | 2,011 |
| 1,175 | IPSCO Inc., Senior Notes, 8.75%, 06/01/13 | Ba3 | 1,310 |
| 650 | Ispat Inland ULC, Senior Secured Notes, 9.75%, 04/01/14 (g) | Caal | 673 |

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 | | | |
| \$ 150 | Joy Global Inc., Senior Subordinated Notes, 8.75%, 03/15/12 | B1 | \$ 166 |
| 725 | Luscar Coal Ltd., Senior Notes, 9.75%, 10/15/11 | Ba3 | 816 |
| 675 | Massey Energy Company, Senior Notes, 6.625%, 11/15/10 | Ba3 | 673 |
| 500 | Neenah Foundry Company, Senior Notes, 11%, 09/30/10 (g) | B2 | 530 |
| 2,000 | Peabody Energy Corporation, Senior Notes, 6.875%, 03/15/13 | Ba3 | 2,030 |
| 1,155 | Steel Dynamics, Inc., Senior Notes, 9.50%, 03/15/09 | B1 | 1,276 |
| 375 | Steel Dynamics, Inc., Senior Notes, 9.50%, 03/15/09 (g) | | 415 |
| 1,009 | United States Steel Corporation, Senior Notes, 9.75%, 05/15/10 | B1 | 1,112 |
| | | | ----- |
| | | | 20,046 |
| | | | ----- |

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| | | | |
|-----------------------|--|-----|----------|
| OIL AND GAS -- 11.11% | | | |
| 2,300 | AmeriGas Partners, L.P., Senior Notes, 8.875%, 05/20/11 | B2 | 2,450 |
| 275 | ANR Pipeline Company, Senior Notes, 8.875%, 03/15/10 | B1 | 300 |
| 300 | Chesapeake Energy Corporation, Senior Notes, 8.125%, 04/01/11 | Ba3 | 324 |
| 875 | Chesapeake Energy Corporation, Senior Notes, 9%, 08/15/12 | Ba3 | 983 |
| 1,050 | Compagnie Generale de Geophysique (CGG), Senior Notes, 10.625%, 11/15/07 | Ba3 | 1,117 |
| 600 | Comstock Resources, Inc., Senior Notes, 6.875%, 03/01/12 | B2 | 572 |
| 425 | Denbury Resources, Inc., Senior Subordinated Notes, 7.50%, 04/01/13 | B2 | 427 |
| 925 | Dresser, Inc., Senior Notes, 9.375%, 04/15/11 | B2 | 990 |
| 725 | El Paso Production Holding Company, Senior Notes, 7.75%, 06/01/13 | B3 | 669 |
| 150 | Encore Acquisition Company, Senior Subordinated Notes, 8.375%, 06/15/12 | B2 | 159 |
| \$ 1,725 | Ferrellgas Partners LP, Senior Notes, 8.75%, 06/15/12 | B2 | \$ 1,841 |
| 1,000 | Magnum Hunter Resources, Inc., Senior Notes, 9.60%, 03/15/12 | B2 | 1,100 |
| 1,025 | North American Energy Partners, Senior Notes, 8.75%, 12/01/11 (g) | B2 | 1,020 |
| 200 | Northwest Pipeline Corporation, Senior Notes, 8.125%, 03/01/10 | B1 | 217 |
| 950 | Petroleum Helicopters, Inc., Senior Notes, 9.375%, 05/01/09 | B1 | 998 |
| 775 | Plains Exploration and Production Co., L.P., Senior Subordinated Notes, 8.75%, 07/01/12 | Ba3 | 839 |
| 600 | Pride International, Inc., Senior Notes, 7.375%, 07/15/14 (g) | Ba2 | 606 |
| 300 | Range Resources Corporation, Senior Subordinated Notes, 7.375%, 07/15/13 (g) | B3 | 299 |
| 375 | Southern Natural Gas Company, Senior Notes, 8.875%, 03/15/10 | B1 | 409 |
| 1,100 | Stone Energy Corporation, Senior Subordinated Notes, 8.25%, 12/15/11 | B2 | 1,151 |
| 850 | Suburban Propane Partners, L.P., Senior Notes, 6.875%, 12/15/13 | B1 | 827 |
| 400 | Swift Energy Company, Senior Notes, 7.625%, 07/15/11 | B1 | 403 |
| 350 | Swift Energy Company, Senior Subordinated Notes, 10.25%, 08/01/09 | B2 | 373 |
| 925 | Universal Compression, Inc., Senior Notes, 7.25%, 05/15/10 | B1 | 953 |
| 275 | Westport Resources Corporation, Senior Subordinated Notes, | | |

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| | | | |
|-------|--|-----|-------|
| | 8.25%, 11/01/11 | Ba3 | 311 |
| 175 | Williams Companies, Inc., Senior Notes, 7.625%, 07/15/19 | B3 | 169 |
| 1,725 | Williams Companies, Inc., Senior Notes, 8.125%, 03/15/12 | B3 | 1,837 |

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 | | | |
| \$ 850 | Williams Companies, Inc., Senior Notes, 8.625%, 06/01/10 | B3 | \$ 933 |
| | | | ----- |
| | | | 22,277 |
| | | | ----- |
| PERSONAL, FOOD AND MISCELLANEOUS SERVICES -- 1.96% | | | |
| 525 | Affinity Group, Inc., Senior Subordinated Notes, 9%, 02/15/12 (g) | B3 | 541 |
| 350 | Armkel LLC, Senior Subordinated Notes, 9.50%, 08/15/09 | B1 | 382 |
| 625 | Friendly Ice Cream Corporation, Senior Notes, 8.375%, 06/15/12 (g) | B2 | 609 |
| 425 | FTD, Inc., Senior Subordinated Notes, 7.75%, 02/15/14 | B3 | 402 |
| 850 | O'Charleys, Inc., Senior Subordinated Notes, 9%, 11/01/13 | Ba3 | 884 |
| 250 | Perkins Family Restaurants, L.P., Senior Notes, 10.125%, 12/15/07 | B1 | 256 |
| 825 | Worldspan, L.P., Senior Notes, 9.625%, 06/15/11 | B2 | 868 |
| | | | ----- |
| | | | 3,942 |
| | | | ----- |
| PERSONAL NON-DURABLE CONSUMER PRODUCTS -- 3.42% | | | |
| 1,050 | American Achievement Corporation, Senior Notes, 8.25%, 04/01/12 (g) | B3 | 1,066 |
| 150 | Buhrmann US, Inc., Senior Subordinated Notes, 8.25%, 07/01/14 (g) | B2 | 149 |
| 525 | Chattem, Inc., Senior | | |

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| | | | |
|-----------------------------------|--|------|--------|
| | Subordinated Notes, 7%, 03/01/14 | B2 | 501 |
| 3,000 | Jostens, Inc., Senior Subordinated Notes, 12.75%, 05/01/10 | B3 | 3,390 |
| 1,675 | Rayovac Corporation, Senior Subordinated Notes, 8.50%, 10/01/13 | B3 | 1,759 |
| | | | ----- |
| | | | 6,865 |
| | | | ----- |
| PERSONAL TRANSPORTATION -- 2.07% | | | |
| \$ 800 | CHC Helicopter Corporation, Senior Subordinated Notes, 7.375%, 05/01/14 (g) | B2 | \$ 786 |
| 1,525 | Laidlaw International, Incorporated, Senior Notes, 10.75%, 06/15/11 | B2 | 1,666 |
| 1,475 | TravelCenters of America, Inc., Senior Subordinated Notes, 12.75%, 05/01/09 | B3 | 1,711 |
| | | | ----- |
| | | | 4,163 |
| | | | ----- |
| PRINTING AND PUBLISHING -- 11.64% | | | |
| 325 | Advanstar Communications, Inc., Senior Notes, 10.75%, 08/15/10 | B3 | 359 |
| 325 | Advanstar Communications, Inc., Senior Subordinated Notes, 12%, 02/15/11 | Caa2 | 346 |
| 500 | American Media Operations, Inc., Senior Subordinated Notes, 10.25%, 05/01/09 | B2 | 515 |
| 950 | CanWest Media, Inc., Senior Subordinated Notes, 10.625%, 05/15/11 | B2 | 1,066 |
| 150 | CBD Media LLC, Senior Subordinated Notes, 8.625%, 06/01/11 | B3 | 159 |
| 1,750 | Dex Media East, LLC, Senior Subordinated Notes, 12.125%, 11/15/12 | Caa1 | 2,043 |
| 700 | Dex Media, Inc., Senior Notes, 8%, 11/15/13 (g) | Caa2 | 672 |
| 825 | Dex Media West LLC, Senior Notes, 8.50%, 08/15/10 (g) | B3 | 907 |
| 1,725 | Dex Media West LLC, Senior Notes, 9.875%, 08/15/13 | Caa1 | 1,898 |
| 2,245 | R.H. Donnelley Inc., Senior Subordinated Notes, 10.875%, 12/15/12 | B2 | 2,610 |
| 800 | Hollinger International Publishing, Inc., Senior Notes, 9%, 12/15/10 | B2 | 924 |
| 1,333 | Hollinger Participation Trust, Senior Notes, 12.125%, 11/15/10 (b) (g) | B3 | 1,553 |

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 | | | |
| \$ 1,100 | Houghton Mifflin Company, Senior Subordinated Notes, 9.875%, 02/01/13 | B3 | \$ 1,104 |
| 925 | Liberty Group Operating, Inc., Senior Subordinated Notes, 9.375%, 02/01/08 | Caa1 | 920 |
| 2,160 | Mail-Well I Corp., Senior Notes, 9.625%, 03/15/12 | B1 | 2,333 |
| 625 | Primedia, Inc., Senior Notes, 7.625%, 04/01/08 | B3 | 620 |
| 675 | Reader's Digest Association, Inc., Senior Notes, 6.50%, 03/01/11 | Ba3 | 660 |
| 1,675 | Vertis, Inc., Senior Secured Notes, 9.75%, 04/01/09 | B2 | 1,809 |
| 650 | Vertis, Inc., Senior Secured Notes, 13.50%, 12/07/09 (g) | Caa1 | 652 |
| 2,150 | Von Hoffman Corp., Senior Notes, 10.25%, 03/15/09 | B2 | 2,209 |
| | | | ----- 23,359 ----- |
| RETAIL STORES -- 1.81% | | | |
| 1,200 | Barneys, Incorporated, Senior Notes, 9%, 04/01/08 | B3 | 1,248 |
| 550 | Dollar Financial Group, Inc., Senior Notes, 9.75%, 11/15/11 | B3 | 575 |
| 100 | J.Crew Intermediate, LLC, Senior Discount Notes, 16%, 05/15/08 (h) | (e) | 86 |
| 875 | J. Crew Operating Corporation, Senior Subordinated Notes, 10.375%, 10/15/07 | Caa3 | 888 |
| 850 | Nebraska Book Company, Inc., Senior Subordinated Notes, 8.625%, 03/15/12 | Caa1 | 835 |
| | | | ----- 3,632 ----- |
| TELECOMMUNICATIONS -- 14.71% | | | |
| 1,822 | Alamosa (Delaware) Inc., Senior Notes, 11%, 07/31/10 | Caa1 | 1,995 |
| 550 | Alaska Communications System Holdings, Inc., Senior Notes, 9.875%, 08/15/11 | B2 | 572 |
| 750 | Call-Net Enterprises, Inc., Senior Secured Notes 10.625%, 12/31/08 | Caa3 | 750 |
| \$ 475 | Centennial Cellular Operating | | |

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| | | | | |
|-------|--|------|----|-------|
| | Company, L.L.C., Senior Notes, 8.125%, 02/01/14 (g) | Caa1 | \$ | 439 |
| 350 | Centennial Cellular Operating Company, L.L.C., Senior Notes, 10.125%, 06/15/13 | Caa1 | | 360 |
| 500 | Citizens Communications Co., Senior Notes, 9.25%, 05/15/11 | Baa3 | | 524 |
| 1,025 | Crown Castle International Corp., Senior Notes, 10.75%, 08/1/11 | B3 | | 1,151 |
| 1,675 | Eircom Funding, plc, Senior Subordinated Notes, 8.25%, 08/15/13 | B1 | | 1,754 |
| 75 | Fairpoint Communications, Inc., Senior Notes, 11.875%, 03/01/10 | B3 | | 86 |
| 400 | Fairpoint Communications, Inc., Senior Subordinated Notes, 12.50%, 05/01/10 | Caa1 | | 426 |
| 275 | Inmarsat Finance, PLC, Senior Notes, 7.625%, 06/30/12 (g) | B2 | | 268 |
| 900 | IPC Acquisition Corporation, Senior Subordinated Notes, 11.50%, 12/15/09 | B3 | | 972 |
| 900 | LCI International, Inc., Senior Notes, 7.25%, 06/15/07 | Caa1 | | 828 |
| 1,225 | MCI, Inc., Notes, 5.908%, 05/1/07 | (e) | | 1,185 |
| 1,625 | NEXTEL Communications, Inc., Senior Serial Notes, 6.875%, 10/31/13 | B2 | | 1,605 |
| 1,600 | NEXTEL Communications, Inc., Senior Serial Notes, 7.375%, 08/01/15 | B2 | | 1,612 |
| 825 | Primus Telecommunications Holding, Inc., Senior Notes, 8%, 01/15/14 (g) | B3 | | 726 |
| 975 | Qwest Corporation, Senior Notes, 9.125%, 03/15/12 (g) | Ba3 | | 1,065 |
| 3,997 | Qwest Services Corp., Senior Subordinated Secured Notes, 14%, 12/15/10 (g) | Caa1 | | 4,647 |
| 450 | Rogers Wireless Inc., Senior Secured Notes, 6.375%, 03/01/14 (g) | Ba3 | | 415 |

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

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| | | | | | |
|----|-------|--|------|----|--------|
| \$ | 1,000 | Rogers Wireless Inc., Senior Secured Notes, 9.625%, 05/01/11 | Ba3 | \$ | 1,123 |
| | 400 | Rural Cellular Corporation, Senior Secured Notes, 8.25%, 03/15/12 (g) | B2 | | 411 |
| | 1,075 | Time Warner Telecom, Inc., Senior Notes, 9.75%, 07/15/08 | B3 | | 1,027 |
| | 725 | Triton PCS, Inc., Senior Notes, 8.50%, 6/01/13 | B2 | | 691 |
| | 1,025 | TSI Telecommunications Services, Inc., Senior Subordinated Notes, 12.75%, 02/01/09 | B3 | | 1,112 |
| | 675 | UbiquiTel Operating Company, Senior Notes, 9.875%, 03/01/11 (g) | Caa1 | | 678 |
| | 900 | US Unwired, Inc., Senior Secured Notes, 10%, 06/15/12 (g) | Caa1 | | 911 |
| | 390 | US West Capital Funding Inc., Senior Notes, 6.375%, 07/15/08 | Caa2 | | 351 |
| | 1,775 | Western Wireless Corporation, Senior Notes, 9.25%, 07/15/13 | Caa1 | | 1,824 |
| | | | | | ----- |
| | | | | | 29,508 |
| | | | | | ----- |
| | | TEXTILES AND LEATHER -- .48% | | | |
| | 375 | Anvil Knitwear, Incorporated, Senior Notes, 10.875%, 03/15/07 | (e) | | 293 |
| | 1,075 | Avondale Mills, Inc., Senior Subordinated Notes, 10.25%, 07/01/13 | B3 | | 661 |
| | | | | | ----- |
| | | | | | 954 |
| | | | | | ----- |
| | | UTILITIES -- 10.44% | | | |
| | 350 | The AES Corporation, Senior Notes, 7.75%, 03/01/14 | B2 | | 337 |
| | 725 | The AES Corporation, Senior Notes, 9.375%, 09/15/10 | B2 | | 772 |
| | 1,550 | The AES Corporation, Senior Secured Notes, 9%, 05/15/15 (g) | B1 | | 1,659 |
| | 1,200 | Allegeny Energy Supply Company, LLC, Senior Notes, 8.25%, 04/15/12 (g) | B3 | | 1,179 |
| \$ | 1,500 | CE Electric UK Funding Company, Senior Notes, 6.995%, 12/30/07 (g) | Baa3 | \$ | 1,583 |
| | 1,500 | CenterPoint Energy, Inc., Senior Notes, 7.25%, 09/01/10 | Ba2 | | 1,590 |
| | 775 | Dynegy Holdings, Inc., Senior Notes, 10.125%, 07/15/13 (g) | B3 | | 840 |
| | 950 | Edison Mission Energy, Senior Notes, 9.875%, 04/15/11 | B2 | | 986 |
| | 125 | Edison Mission Energy, Senior Notes, 10%, 08/15/08 | B2 | | 132 |
| | 1,225 | Illinois Power Company, Senior Secured 1st Mortgage Bonds, 11.50%, 12/15/10 | B1 | | 1,446 |
| | 450 | Midwest Generation, LLC, | | | |

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| | | | |
|-------|--|------|---------|
| | Senior Secured Notes, 8.75%, 05/01/34 (g) | B1 | 455 |
| 200 | NGC Corporation, Senior Notes, 7.125%, 05/15/18 | Caa2 | 154 |
| 1,650 | NRG Energy, Inc., Senior Notes, 8%, 12/15/13 (g) | B2 | 1,671 |
| 1,650 | Orion Power Holdings, Inc., Senior Notes, 12%, 05/01/10 | B2 | 2,013 |
| 1,075 | PSEG Energy Holdings, L.L.C., Senior Notes, 8.50%, 06/15/11 | Ba3 | 1,150 |
| 175 | PSEG Energy Holdings, L.L.C., Senior Notes, 10%, 10/01/09 | Ba3 | 199 |
| 1,725 | Sierra Pacific Resources, Senior Notes, 8.625%, 03/15/14 (g) | B2 | 1,693 |
| 1,500 | Teco Energy, Inc., Senior Notes, 7%, 05/01/12 | Ba2 | 1,440 |
| 1,575 | TNP Enterprises, Inc., Senior Subordinated Notes, 10.25%, 04/01/10 | B2 | 1,638 |
| | | | ----- |
| | | | 20,937 |
| | | | ----- |
| | TOTAL CORPORATE DEBT SECURITIES (Total cost of \$312,330) | | 315,954 |
| | | | ----- |

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

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| SHARES | | MOODY'S RATING (UNAUDITED) | VALUE (NOTE 1(a)) |
|--------|---|----------------------------------|----------------------|
| ----- | | | |
| | PREFERRED STOCK -- .85% (d) | | |
| | BANKING -- 0.00% | | |
| 57,935 | WestFed Holdings, Inc., Cumulative, Series A, Preferred Stock, 15.50% (a)(c)(f) | (e) | \$ -- |
| | | | ----- |
| | CHEMICALS, PLASTICS AND RUBBER -- .43% | | |
| 1,275 | Hercules Trust II, Preferred Stock Unit, 6.50% | Ba3 | 865 |
| | | | ----- |
| | MINING, STEEL, IRON, NON-PRECIOUS METALS -- 0.00% | | |
| 18,000 | Weirton Steel Corp., Series C Preferred Stock (a)(f) | (e) | 3 |
| | | | ----- |
| | UTILITIES -- .42% | | |
| 750 | TNP Enterprises, Inc., Preferred Stock, 14.50% | B3 | 840 |
| | | | ----- |
| | TOTAL PREFERRED STOCK (Total cost of \$6,994) | | 1,708 |
| | | | ----- |

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COMMON STOCK and WARRANTS -- 0.00% (d)

| | | |
|--------|--|-------|
| 950 | Barneys, Inc., warrants exp. 2/1/08 (f) (g) | -- |
| 27,474 | WestFed Holdings, Inc., Common Stock (a) (c) (f) | -- |
| 10,052 | WKI Holdings Common Stock Common Stock (c) (f) | -- |
| | | ----- |
| | TOTAL COMMON STOCK AND WARRANTS (Total cost of \$2,295) | -- |
| | | ----- |

| PRINCIPAL AMOUNT/UNITS | | MOODY'S RATING (UNAUDITED) | VALUE (NOTE 1(a)) |
|-------------------------------------|---|----------------------------------|----------------------|
| SHORT-TERM INVESTMENTS -- 4.98% (d) | | | |
| \$ 5,000 | Citibank Credit Card Issuance Trust, Citiserries, Commercial Paper, Due 07/14/04 Discount of 1.221% | P-1 | \$ 4,998 |
| 5,000 | New Center Asset Trust, Commercial Paper, Due 07/07/04 Discount of 1.11% | P-1 | 4,999 |
| | | | ----- |
| | TOTAL SHORT-TERM INVESTMENTS (Total cost of \$9,997) | | 9,997 |
| | | | ----- |
| | TOTAL INVESTMENTS (Total cost of \$331,616) | | \$ 327,659 |
| | | | ===== |

- (a) Denotes issuer is in bankruptcy proceedings.
- (b) Security is a Pay-in-Kind bond. Income on this bond accrues based upon the effective interest rate.
- (c) Security is valued at fair value using methods determined by the Board of Directors. The total value of these securities at June 30, 2004 was \$0.
- (d) Percentages indicated are based on total net assets to common shareholders of \$200,592.
- (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 \$75,529 as of June 30, 2004.
- (h) Securities are step interest bonds. Interest on these bonds accrue based upon the effective interest rate.

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

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STATEMENT OF ASSETS AND LIABILITIES JUNE 30, 2004 (UNAUDITED)

| | |
|--|------------|
| ASSETS: (Dollars in thousands, except per share amounts) | |
| INVESTMENTS IN SECURITIES, at value (Identified cost of \$331,616 see Schedule of Investments and Notes 1 and 2) | \$ 327,659 |
| CASH | 1,277 |
| RECEIVABLES: | |
| Investment securities sold | 1,418 |
| Interest and dividends | 6,661 |
| PREPAID EXPENSES | 103 |
| | ----- |
| Total assets | \$ 337,118 |
| | ----- |
| LIABILITIES: | |
| PAYABLES: | |
| Investment securities purchased | \$ 2,901 |
| Dividend on common stock | 184 |
| Dividend on preferred stock | 58 |
| Swap settlement payable | 283 |
| INTEREST RATE SWAP, at fair value (Note 6) | 2,917 |
| ACCRUED EXPENSES (Note 3) | 183 |
| | ----- |
| Total liabilities | \$ 6,526 |
| | ----- |
| 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 |
| | ----- |
| NETASSETS | \$ 200,592 |
| | ===== |
| REPRESENTED BY: | |
| COMMON STOCK: | |
| \$0.01 par value, 200,000,000 shares authorized, 93,868,118 shares issued and outstanding | \$ 939 |
| CAPITAL IN EXCESS OF PAR VALUE | 381,226 |
| UNDISTRIBUTED NET INVESTMENT INCOME (Note 2) | 2,865 |
| ACCUMULATED NET REALIZED LOSS FROM SECURITIES TRANSACTIONS (Note 2) | (177,564) |
| NET UNREALIZED DEPRECIATION ON INVESTMENTS AND INTEREST RATE SWAPS | (6,874) |
| | ----- |
| NET ASSETS APPLICABLE TO COMMON STOCK (Equivalent to \$2.14 per share, based on 93,868,118 shares outstanding) | \$ 200,592 |
| | ===== |

STATEMENT OF OPERATIONS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004 (UNAUDITED)

| | |
|--|-----------|
| INVESTMENT INCOME: (Note 1) (Dollars in thousands) | |
| Interest income | \$ 13,422 |

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| | |
|--|------------|
| Other income | 310 |
| Dividend income | 87 |
| | ----- |
| Total investment income | \$ 13,819 |
| | ----- |
| EXPENSES: | |
| Cost of leverage: | |
| Preferred and auction fees (Note 5) | \$ 171 |
| | ----- |
| Total cost of leverage | \$ 171 |
| | ----- |
| Professional services expenses: | |
| Management fees (Note 3) | \$ 574 |
| Custodian and transfer agent fees | 150 |
| Legal fees (Note 8) | 147 |
| Audit fees | 43 |
| | ----- |
| Total professional services expenses | \$ 914 |
| | ----- |
| Administrative expenses: | |
| General administrative fees | \$ 222 |
| Directors' fees | 85 |
| NYSE fees | 43 |
| Shareholder meeting expenses | 22 |
| Shareholder communications expense | 22 |
| Miscellaneous expenses | 5 |
| | ----- |
| Total administrative expenses | \$ 399 |
| | ----- |
| Total expenses | \$ 1,484 |
| | ----- |
| Net investment income | \$ 12,335 |
| | ----- |
| REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENT ACTIVITIES: | |
| Realized loss on investments, net | \$ (131) |
| | ----- |
| Net swap settlement disbursements (Note 6) | \$ (1,717) |
| | ----- |
| Change in net unrealized depreciation on investments | \$ (8,717) |
| Change in unrealized depreciation on interest rate swap agreement | 2,423 |
| | ----- |
| Total change in net unrealized depreciation on investments and interest rate swap | \$ (6,294) |
| | ----- |
| Net loss on investments and interest rate swap | \$ (8,142) |
| | ----- |
| COST OF PREFERRED LEVERAGE | |
| Distributions to preferred stockholders | \$ (763) |
| | ----- |
| Net increase in net assets resulting from operations | \$ 3,430 |
| | ===== |

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

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The New America High Income Fund, Inc.

STATEMENTS OF CHANGES IN NET ASSETS

| | SIX MONTHS ENDED JUNE 30, 2004 (UNAUDITED) | FOR D |
|---|---|----------|
| | ----- | ----- |
| FROM OPERATIONS: (Dollars in thousands, except per share amounts) | | |
| Net investment income | \$ 12,335 | \$ |
| Realized loss on investments, net | (131) | |
| Net swap settlement disbursements | (1,717) | |
| Change in net unrealized depreciation on investments and other financial instruments | (6,294) | |
| Distributions from net investment income related to preferred stock | | |
| Dividends to preferred stockholders (\$147 and \$313 per preferred share in 2004 and 2003, respectively) | (763) | |
| | ----- | ----- |
| Net increase in net assets resulting from operations | \$ 3,430 | \$ |
| | ----- | ----- |
| FROM FUND SHARE AND AUCTION TERM PREFERRED STOCK TRANSACTIONS: | | |
| Proceeds from rights offering (23,397,095 shares), net of \$84 of offering costs in 2004 and \$817 in 2003 (Note 9) | \$ (84) | \$ |
| Offering costs and sales load from sale of Auction Term Preferred Stock Series C (Note 4) | -- | |
| Net asset value of 339,724 shares and 583,346 shares issued to common stockholders for reinvestment of dividends in 2004 and 2003, respectively | 750 | |
| | ----- | ----- |
| Increase in net assets resulting from fund share transactions | \$ 666 | \$ |
| | ----- | ----- |
| DISTRIBUTIONS TO COMMON STOCKHOLDERS: | | |
| From net investment income (\$.09 and \$.22 per share in 2004 and 2003, respectively) | \$ (8,209) | \$ |
| | ----- | ----- |
| Total net increase (decrease) in net assets | \$ (4,113) | \$ |
| | ----- | ----- |
| NET ASSETS APPLICABLE TO COMMON STOCK: | | |
| Beginning of period | \$ 204,705 | \$ |
| | ----- | ----- |
| End of period (Including \$2,865 and \$570 of undistributed net investment income at June 30, 2004 and December 31, 2003, respectively) | \$ 200,592 | \$ |
| | ===== | ===== |

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

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

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| | FOR THE SIX MONTHS ENDED JUNE 30, 2004 (UNAUDITED) | 2003 (b) | FOR THE YEARS END 2002 | 2001 |
|--|---|----------|---------------------------|---------|
| NET ASSET VALUE: | | | | |
| Beginning of period | \$ 2.19 | \$ 1.89 | \$ 2.61 | \$ 2.00 |
| NET INVESTMENT INCOME | .13 | .26# | .37 | |
| NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND OTHER FINANCIAL INSTRUMENTS | (.06) | .34 | (.72) | |
| DISTRIBUTIONS FROM NET INVESTMENT INCOME RELATED TO PREFERRED STOCK: | (.03) | (.06) | (.08) | |
| TOTAL FROM INVESTMENT OPERATIONS | .04 | .54 | (.43) | |
| DISTRIBUTIONS TO COMMON SHAREHOLDERS: | | | | |
| From net investment income | (.09) | (.22) | (.29) | |
| TOTAL DISTRIBUTIONS | (.09) | (.22) | (.29) | |
| Effect of rights offering and related expenses; and Auction Term Preferred Stock offering costs and sales load | -- | (.02) | -- | |
| NET ASSET VALUE: | | | | |
| End of period | \$ 2.14 | \$ 2.19 | \$ 1.89 | \$ 2.00 |
| PER SHARE MARKET VALUE: | | | | |
| End of period | \$ 1.94 | \$ 2.16 | \$ 2.01 | \$ 2.00 |
| TOTAL INVESTMENT RETURN+ | (6.35)% | 19.23% | (12.97)% | 13.00% |

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

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| | FOR THE SIX MONTHS ENDED JUNE 30, 2004 (UNAUDITED) | 2003 (b) | FOR THE YEARS 2002 | 2001 |
|---|---|------------|-----------------------|------------|
| NET ASSETS, END OF PERIOD, APPLICABLE TO COMMON STOCK (a) | \$ 200,592 | \$ 204,705 | \$ 131,170 | \$ 130,000 |
| NET ASSETS, END OF PERIOD, APPLICABLE TO PREFERRED STOCK (a) | \$ 130,000 | \$ 130,000 | \$ 100,000 | \$ 100,000 |

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| | ===== | ===== | ===== | ===== |
|---|------------|------------|------------|-------|
| TOTAL NET ASSETS APPLICABLE TO COMMON AND PREFERRED STOCK, END OF PERIOD (a) | \$ 330,592 | \$ 334,705 | \$ 231,170 | \$ 3 |
| EXPENSE RATIOS: | | | | |
| Ratio of preferred and other leverage expenses to average net assets* | .17%** | .16% | .18% | |
| Ratio of operating expenses to average net assets* | 1.29%** | 1.56% | 1.46% | |
| ----- | | | | |
| RATIO OF TOTAL EXPENSES TO AVERAGE NET ASSETS* | 1.46%** | 1.72% | 1.64% | |
| ===== | | | | |
| RATIO OF NET INVESTMENT INCOME TO AVERAGE NET ASSETS* | 12.13%** | 12.81% | 16.48% | |
| RATIO OF TOTAL EXPENSES TO AVERAGE NET ASSETS APPLICABLE TO COMMON AND PREFERRED STOCK | .89%** | 1.05% | .89% | |
| RATIO OF NET INVESTMENT INCOME TO AVERAGE NET ASSETS APPLICABLE TO COMMON AND PREFERRED STOCK | 7.42%** | 7.79% | 8.91% | |
| PORTFOLIO TURNOVER RATE | 43.46% | 120.47% | 82.47% | |

(a) Dollars in thousands.

(b) The Fund issued Series C ATP on October 17, 2003. The per share data and ratios for the year ended December 31, 2003 reflect this transaction.

(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.

** Annualized.

Calculation is based on average shares outstanding during the indicated period due to the per share effect of the Fund's August, 2003 rights offering.

+ 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.

The New America High Income Fund, Inc.

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| | JUNE 30, 2004 (UNAUDITED) | 2003 | 2002 | AS OF DECEMBER 2001 |
|-------------------------------------|------------------------------|----------------|----------------|------------------------|
| | ----- | ----- | ----- | ----- |
| TOTAL AMOUNT OUTSTANDING: | | | | |
| Preferred Stock | \$ 130,000,000 | \$ 130,000,000 | \$ 100,000,000 | \$ 150,000,000 |
| ASSET COVERAGE: | | | | |
| Per Preferred Stock Share (1) | \$ 63,575 | \$ 64,366 | \$ 57,793 | \$ 54,000 |
| 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 |

(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
JUNE 30, 2004 (UNAUDITED)

(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.

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The Fund's financial statements have been prepared in conformity with accounting principles generally accepted in the United States for investment companies 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 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 \$7,214,000 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 June 30, 2004, the total cost of securities (including temporary cash investments) for federal income tax purposes was approximately \$331,612,000. Aggregate gross unrealized gain on securities in which there was an excess of value over tax cost was approximately \$7,489,000. Aggregate unrealized loss on securities in which there was an excess of tax cost over value was approximately \$11,443,000. Net unrealized loss on investments for tax purposes at June 30, 2004 was approximately \$3,954,000.

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:

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| 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 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 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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T. Rowe Price Associates, Inc. (T. Rowe Price), the Fund's Investment Advisor, earned approximately \$574,000 in management fees during the six months ended June 30, 2004. 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 June 30, 2004, the fee payable to T. Rowe Price was approximately \$93,000, 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 June 30, 2004. 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 1.08% to 1.47% for the six months ended June 30, 2004. The average dividend rate as of June 30, 2004 was 1.41%.

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 \$158,000 for service charges for the six month period ended June 30, 2004. 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

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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 1.09% to 1.17% for the six months ended June 30, 2004. The effective date, notional amount, maturity and fixed rate of the swap is as follows:

| EFFECTIVE DATE | NOTIONAL CONTRACT AMOUNT | MATURITY | FIXED ANNUAL 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 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 six months ended June 30, 2004, the Fund's obligations under the swap agreements were more than the amount received from Fleet by approximately \$1,717,000 and such amount is included in the accompanying statement of operations.

The estimated fair value of the interest rate swap agreement at June 30, 2004 amounted to approximately \$2,917,000 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 six months ended June 30, 2004 were approximately:

| | |
|-------------------------|----------------|
| Purchases of securities | \$ 140,876,000 |
| Sales of securities | \$ 139,309,000 |

(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 \$108,000 for the six months ended June 30, 2004.

The Fund paid approximately \$131,000 during the six months ended June 30,

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2004 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 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 in 2003 and \$84,000 in 2004.

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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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The New America High Income Fund, Inc.

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

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(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

Listed: NYSE

Symbol: HYB

Web site: www.newamerica-hyb.com

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

3709-SAR-04

ITEM 2-ITEM 9 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 first 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) not applicable.

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

(a) (3) Not applicable.

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(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

Name: Robert F. Birch
Title: President and Director
Date: September 3, 2004

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

By: /s/ Robert F. Birch

Name: Robert F. Birch
Title: President
Date: September 3, 2004

By: /s/ Ellen E. Terry

Name: Ellen E. Terry
Title: Treasurer
Date: September 3, 2004