

Edgar Filing: NEW AMERICA HIGH INCOME FUND INC - Form N-30D

NEW AMERICA HIGH INCOME FUND INC  
Form N-30D  
February 28, 2003

THE NEW AMERICA HIGH INCOME FUND, INC.

[NEW AMERICA HIGH INCOME FUND LOGO]

ANNUAL REPORT  
DECEMBER 31, 2002

EQUISERVE TRUST COMPANY N.A.  
P.O. BOX 43011  
PROVIDENCE, RI 02940-3011

NEHCM-AR-02

February 3, 2003

DEAR SHAREHOLDER,

The year ended December 31, 2002 was among the worst ever for the high yield bond market. Our Fund's leveraged structure magnified the market's poor performance. As we have often reminded our shareholders, leverage is a two-edged sword. New America's total return for the year was approximately -13%, calculated from the decline in the market value of \$.63 cents a share, offset in part by dividends of \$.2875 paid during the year. The Fund's net asset value per share declined from \$2.61 to \$1.89 during 2002. Part of this decline has been recovered in 2003 as the net asset value has risen to \$1.96 at January 31, 2003. The Board has currently targeted a monthly dividend of \$.0175 per share although as we move through the year, market conditions and actual portfolio results will determine what is paid.

For the last two years conventional wisdom has been that the high yield market was at, or near, a bottom. Conventional wisdom proved to be wrong. It is of little comfort to note that the major equity market indices have fared even worse than the high yield bond market. News about corporate malfeasance, declining consumer confidence, and fear of war were some of the factors that influenced investors to flee from any asset class perceived to have high risk. For most of the year, the prices of high yield bonds declined despite a climate of historically low interest rates on higher quality assets and an economy that may be showing signs of a slow recovery.

The reduction in the Fund's Auction Term Preferred Stock (the "ATP") outstanding was a principal cause of the dividend reduction announced in December. The ATP creates the leverage in our Fund. The ATP maintains a AAA rating from Moody's Investors Service and Fitch Ratings, provided the Fund meets specified asset coverage requirements. The Fund must also meet certain asset coverage requirements under federal securities laws. During the year the Fund reduced the amount of ATP outstanding by \$50 million in order to maintain compliance with the applicable asset coverage requirements, leaving \$100 million outstanding at year-end. A reduction in the amount of the Fund's leverage (the ATP) generally causes a reduction in the Fund's income. At year-end, the Fund was paying an effective cost of 4.50% on the ATP, while its portfolio of high yield bonds yielded over 9%. Other factors that contributed to the decline in the Fund's income were portfolio defaults earlier in 2002 and an upgrading of the Fund's portfolio that resulted in a lower portfolio yield. The Fund's portfolio was

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approximately 43% leveraged at year-end, which should offer an advantage if the high yield market improves in 2003.

The Fund's performance is summarized in the table below.

	TOTAL RETURNS FOR 12 MONTHS ENDED DECEMBER 31, 2002	TOTAL RETURNS FOR 36 MONTHS ENDED DECEMBER 31, 2002
	-----	-----
	12 MONTHS	CUMULATIVE
	-----	-----
New America High Income Fund (Stock Price and Dividends)*	(13.0)%	(4.6)%
New America High Income Fund (NAV and Dividends)	(17.1)	(27.6)
Lipper Closed-End Fund Leveraged High Yield Average	(5.9)	(20.6)

\* Because the Fund's shares may trade at either a discount or a premium to the Fund's net asset value per share, returns based upon the share price and dividends will tend to differ from those derived from the underlying change in net asset value.

Sources: Lipper Analytical Services and The New America High Income Fund, Inc.

On December 2, 2002, T. Rowe Price Associates, Inc. ("TRP") became the Fund's investment adviser. The Board selected TRP after an extensive search for a very experienced, high yield bond management team with a superior investment record and the resources to service the Fund. We are delighted that TRP and, in particular, Mark Vasselkiv, the portfolio manager responsible for the Fund's investments, were able to take on this assignment. Mark elaborates on the state of the high yield bond market below.

### HIGH YIELD MARKET UPDATE

The high yield market rebounded in the last two months of the year, after enduring significant challenges for most of 2002. Improving investor psychology and significant new demand for higher yielding securities had a big positive impact on the asset class. The rally in the stock market helped get the recovery started, but high yield bonds also held their own in December when stocks corrected again. Many individual and institutional investors appear to be viewing high yield bonds as a lower risk alternative to equities, with comparable return potential at significantly lower volatility. This theme is translating to significant new cash flow into the market, and lifting the prices of non-investment grade bonds, as managers put their cash to work.

On the fundamental side, cautious optimism is also returning to the high yield market. Last year all corporate bond sectors were rocked by management malfeasance at major companies, a very high default rate and geopolitical risks which slowed economic activity. While these three big negative forces have not been completely resolved, some light exists at the end of the tunnel. These same forces led to a record wave of downgrades into the high yield market last year, dramatically increasing the overall size of the asset class. Fortunately, management teams have woken up to these challenges and have focused on fixing balance sheets as a major priority in 2003. The emphasis on repairing capital structures will be a major theme this year, which could have favorable implications for high yield investors.

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### STRATEGY REVIEW

Sector selection remained the critical determining factor for performance in the high yield market last year. Many stable, Old Economy industries generated double digit positive returns in 2002. Included in this category were gaming, energy, broadcasting, healthcare and consumer products. Conversely, four sectors inflicted most of the pain felt by high yield investors over the past twelve months. Utilities, airlines, cable television and technology companies faced major operating problems and industry specific challenges. Restructurings and bankruptcies were disproportionately weighted in these areas of the economy. The Fund's portfolio had meaningful positions in these problem areas, but recently, these sectors have reversed course and are outperforming the market as a whole.

Our last shareholder report noted how bifurcated the high yield market had become. This dynamic has become more pronounced. Specifically, about half the asset class is yielding less than 9%, with most of these securities trading at premiums to par value. On the opposite side of the spectrum, 50% of the market is still priced at discounts, with a shrinking component of bonds classified as fundamentally distressed. Last year, over half the bonds in the market trading at less than 50 defaulted on their obligations, but this year we expect the experience to be different. Therefore, we intend to exercise particular care when considering the sale of the portfolio's discounted securities, mindful of the fact that many could enjoy meaningful capital appreciation in an improving market.

We will also look to further diversify the portfolio, by investing in stable industries that have been underweighted in the fund. Two examples are gaming and broadcasting, sectors that have historically provided consistent positive returns for high yield investors. Both are regarded as defensive because of intrinsic asset protection as well as strong operating cash flows. Broadcasters are highly regarded for the inherent value of radio and television stations, and many gaming companies have valuable "bricks and mortar" facilities in prime real estate locations. We expect these moves to improve the overall credit quality of the portfolio, as well as reduce the volatility of the Fund.

In 2003, the portfolio's leveraged structure should be a positive for performance if our fundamental outlook proves correct. We will look for opportunities presenting higher current yield, as well as capital appreciation potential. We particularly favor B-rated bonds trading at 10-12% yields, putting our focus in the middle of the risk

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spectrum of the high yield market as a whole, but attractive relative to the income potential of investment grade fixed income sectors. We will maintain, however, our strict risk control priorities of broad diversification, conservative industry allocations and a strong sell discipline implemented by our trading desk. These disciplines have served TRP's clients and shareholders well over the past decade, and can help fulfill an important mission of high yield managers, which is preserving our clients' capital.

The high yield bear market has been long and painful, but we are hopeful that the market is now reaching the point where the perseverance of patient high yield investors will be rewarded. We believe the major sector meltdowns are largely behind us, the economy is slowly improving, and high yield managers have shown new discipline after four tough years of high yield bond market underperformance. Absent surprising negative developments on the global political or military fronts, we are optimistic that the positive momentum growing in this asset class over the past six months can be sustained for the foreseeable future.

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Both the Fund and T. Rowe Price Associates look forward to a long and rewarding relationship with the shareholders of The New America High Income Fund.

Sincerely,

/s/ Robert F. Birch

/s/ Mark Vaselkiv

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

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

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The New America High Income Fund, Inc.

SCHEDULE OF INVESTMENTS -- DECEMBER 31, 2002 (Dollar Amounts in Thousands)

PRINCIPAL AMOUNT/UNITS	MOODY'S RATING (UNAUDITED)	VALUE (NOTE 1)
CORPORATE DEBT SECURITIES -- 172.55% (d)		
AEROSPACE AND DEFENSE -- 1.17%		
\$ 1,600	Sequa Corporation, Senior Notes, 9%, 08/01/09	Ba3 \$ 1,536
AUTOMOBILE -- 5.00%		
4,000	Accuride Corporation, Senior Subordinated Notes, 9.25%, 02/01/08	Caa1 2,320
890	CSK Auto, Inc., Senior Notes, 12%, 06/15/06	B2 952
81	CSK Auto, Inc., Senior Subordinated Notes, 11%, 11/01/06	B3 83
165	Cummins, Inc., Senior Notes, 9.50% 12/01/10 (g)	Ba2 175
375	Dana Corporation, Notes 9%, 08/15/11	Ba3 363
395	Dana Corporation, Senior Notes, 10.125%, 03/15/10	Ba3 401
1,585	Dura Operating Corporation, Senior Notes, 8.625%, 04/15/12	B1 1,601
690	Navistar International Corporation, Senior Notes, 9.375%, 06/01/06	Ba3 662
		6,557
BANKING -- 1.46%		
1,670	People's Bank, Bridgeport, CT, Subordinated Notes, 9.875% 11/15/10	Baa3 1,919
BEVERAGE, FOOD AND TOBACCO -- 2.92%		
1,050	Agrilink Foods, Inc., Senior	

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		Subordinated Notes, 11.875%, 11/01/08	B3		1,129
1,200		B&G Foods, Inc., Senior Subordinated Notes, 9.625%, 08/01/07	B3		1,236
1,500		Smithfield Foods, Inc., Senior Subordinated Notes, 7.625%, 02/15/08	Ba3		1,470
					-----
					3,835
					-----
BROADCASTING AND ENTERTAINMENT -- 17.49%					
600		ACME Televison, LLC, Senior Discount Notes, 10.875%, 09/30/04	B3		612
\$ 720		Corus Entertainment Inc., Senior Subordinated Notes, 8.75%, 03/01/12	B1	\$	763
950		CSC Holdings, Inc., Senior Notes, 7.625%, 04/01/11	B1		895
2,940		EchoStar DBS Corporation, Senior Notes, 9.125%, 01/15/09	B1		3,072
225		EchoStar DBS Corporation, Senior Notes, 10.375%, 10/01/07	B1		242
430		Entravision Communications Corp., Senior Subordinated Notes, 8.125%, 03/15/09	B3		447
3,450		Insight Midwest, L.P., Senior Notes, 9.75%, 10/01/09	B2		3,260
1,500		Insight Midwest, L.P., Senior Notes, 10.50%, 11/01/10	B2		1,455
1,500		Lamar Media Corporation, Senior Subordinated Notes, 7.25%, 01/01/13 (g)	Ba3		1,522
3,400		Mediacom Broadband LLC, Senior Notes, 11%, 07/15/13	B2		3,434
1,955		Rogers Communications, Inc., Senior Notes, 8.875%, 07/15/07	Ba1		1,857
675		Salem Communications Holding Corporation, Senior Subordinated Notes, 7.75%, 12/15/10	B3		675
1,200		Sinclair Broadcasting Group, Inc., Senior Subordinated Notes, 8.75%, 12/15/11	B2		1,284
1,500		Time Warner Companies, Inc., Senior Notes, 9.125%, 01/15/13	Baa1		1,725
1,698		Young Broadcasting Inc., Senior Subordinated Notes, 10%, 03/01/11	B3		1,698
					-----
					22,941
					-----
BUILDING AND REAL ESTATE -- 6.73%					
500		Associated Materials Incorporated, Senior Subordinated Notes, 9.75%, 04/15/12	B3		525

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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)
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CORPORATE DEBT SECURITIES -- CONTINUED			
\$ 2,200	Beazer Homes USA, Inc., Senior Notes, 8.875%, 04/01/08	Ba2	\$ 2,277
1,500	D.R. Horton, Inc., Senior Notes, 8%, 02/01/09	Ba1	1,500
1,750	The Ryland Group, Inc., Senior Subordinated Notes, 8.25%, 04/01/08	Ba3	1,776
2,000	Standard Pacific Corp., Senior Notes, 8%, 02/15/08	Ba2	2,000
750	Standard Pacific Corp., Senior Notes, 8.50%, 06/15/07	Ba2	754
			----- 8,832 -----
CARGO TRANSPORTATION -- 2.12%			
2,530	The Kansas City Southern Railway Company, Senior Notes, 9.50%, 10/01/08	Ba2	2,783
-----			
CHEMICALS, PLASTICS AND RUBBER -- 11.77%			
260	American Pacific Corporation, Senior Notes, 9.25%, 03/01/05	B2	265
3,400	ARCO Chemical Company, Debentures, 9.80%, 02/01/20	Ba3	2,788
1,040	Buckeye Cellulose Corp., Senior Subordinated Notes, 8.50%, 12/15/05	Caa1	946
125	Compass Minerals Group, Inc., Guaranteed Senior Subordinated Notes, 10%, 08/15/11	B3	137
2,175	Hercules Incorporated, Senior Notes, 11.125%, 11/15/07	Ba2	2,425
2,000	IMC Global Inc., Senior Notes, 11.25%, 06/01/11	Ba2	2,170
1,525	Koppers Industries, Inc., Senior Subordinated Notes, 9.875%, 12/01/07	B2	1,372
2,620	Lyondell Chemical Company, Senior Subordinated Notes, 10.875%, 05/01/09	B2	2,214

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\$ 2,330	Resolution Performance Products LLC, Senior Subordinated Notes, 13.50%, 11/15/10	B3	\$ 2,458
575	Salt Holdings Corporation, Senior Discount Notes, 12.75%, 12/15/12 (g) (h)	(e)	310
460	UCAR Finance Inc., Senior Notes, 10.25%, 02/15/12	B3	359
			-----
			15,444
			-----
CONTAINERS, PACKAGING AND GLASS -- 10.33%			
500	BWAY Corporation, Senior Subordinated Notes, 10%, 10/15/10 (g)	B3	519
415	Graphic Packaging Corp., Senior Subordinated Notes, 8.625%, 02/15/12	B2	438
460	MDP Acquisitions Plc, Senior Notes, 9.625%, 10/01/12 (g)	B2	481
2,000	Owens-Brockway Glass Container, Inc., Senior Secured Notes, 8.875%, 02/15/09	B2	2,050
1,000	Owens-Illinois, Inc., Senior Notes, 7.85%, 05/15/04	B3	985
865	Paperboard Industries International Inc., Senior Notes, 8.375%, 09/15/07	B2	830
1,700	Plastipak Holdings, Inc., Senior Notes, 10.75%, 09/01/11	B3	1,794
3,000	Silgan Corporation, Senior Subordinated Debentures, 9%, 06/01/09	B1	3,120
550	Smurfit Capital Funding Plc, Senior Notes, 6.75%, 11/20/05	Ba3	558
1,400	Stone Container Corporation, Senior Notes, 8.375%, 07/01/12	B2	1,435
1,265	Stone Container Corporation, Senior Notes, 9.25%, 02/01/08	B2	1,341
			-----
			13,551
			-----

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

PRINCIPAL	MOODY'S RATING	VALUE
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AMOUNT/UNITS		(UNAUDITED)	(NOTE 1)
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CORPORATE DEBT SECURITIES -- CONTINUED			
DIVERSIFIED/CONGLOMERATE MANUFACTURING -- 5.83%			
\$ 575	Actuant Financial Corporation, Senior Subordinated Notes, 13%, 05/01/09	B2	\$ 673
275	AGCO Corporation, Senior Notes, 9.50%, 05/01/08	Ba3	297
475	The Manitowoc Company, Inc., Senior Subordinated Notes, 10.50%, 08/01/12 (g)	B2	494
420	Numatics, Incorporated, Senior Subordinated Notes, 9.625%, 04/01/08	Caa2	189
625	SPX Corporation, Senior Notes, 7.50%, 01/01/13	Ba3	633
1,175	Trimas Corporation, Senior Subordinated Notes, 9.875%, 06/15/12 (g)	B3	1,163
195	Tyco International Group, S.A., Senior Notes, 5.80%, 08/01/06	Ba2	182
720	Tyco International Group, S.A., Senior Notes, 6.125%, 01/15/09	Ba2	659
360	Tyco International Group, S.A., Senior Notes, 6.375%, 02/15/06	Ba2	340
2,865	Tyco International Group, S.A., Senior Notes, 6.375%, 10/15/11	Ba2	2,679
360	Tyco International Group, S.A., Senior Notes, 6.75%, 02/15/11	Ba2	333
			----- 7,642 -----
DIVERSIFIED/CONGLOMERATE SERVICE -- 1.14%			
275	Brickman Group Ltd., Senior Subordinated Notes, 11.75%, 12/15/09 (g)	B2	287
1,500	United Rentals (North America), Inc., Senior Subordinated Notes, 9%, 04/01/09	B2	1,208
			----- 1,495 -----
DIVERSIFIED NATURAL RESOURCES, METALS AND MINERALS -- 2.66%			
2,300	Georgia Pacific Corporation, Notes, 9.50%, 12/01/11	Ba1	2,254
\$ 350	Longview Fibre Company, Senior Subordinated Notes, 10%, 01/15/09	B2	\$ 368
825	National Waterworks, Inc., Senior Subordinated Notes 10.50%, 12/01/12 (g)	B3	866
			----- 3,488 -----



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ECOLOGICAL -- .77%			
1,000	Allied Waste North America, Inc., Senior Notes, 8.50%, 12/01/08	Ba3	1,005
			-----
ELECTRONICS -- 11.74%			
4,000	Amkor Technology, Senior Notes, 9.25%, 05/01/06	B1	3,480
950	Amkor Technology, Senior Subordinated Notes, 10.50%, 05/01/09	B3	741
150	Avaya Inc., Senior Secured Notes, 11.125%, 04/01/09	B2	138
575	Chippac International Ltd., Senior Subordinated Notes, Series B, 12.75%, 08/01/09	B3	604
1,145	Fairchild Semiconductor Corporation, Senior Subordinated Notes, 10.375%, 10/01/07	B2	1,202
875	Fairchild Semiconductor Corporation, Senior Subordinated Notes, 10.50%, 02/01/09	B2	949
1,125	IPC Acquisition Corporation, Senior Subordinated Notes, 11.50%, 12/15/09	B3	990
2,725	Lucent Technologies, Inc., Notes, 5.50%, 11/15/08	Caa1	1,335
450	Sanmina-SCI Corporation, Senior Secured Notes, 10.375%, 01/15/10 (g)	Ba2	455
4,705	SCG Holding Corporation, Senior Subordinated Notes, 12%, 08/01/09	Caa1	1,929
1,875	Solelectron Corporation, Senior Notes, 9.625%, 02/15/09	Ba3	1,828
2,175	WESCO Distribution, Inc., Senior Subordinated Notes, 9.125%, 06/01/08	B3	1,740
			-----
			15,391
			-----

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PRINCIPAL AMOUNT/UNITS		MOODY'S RATING (UNAUDITED)	VALUE (NOTE 1)
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CORPORATE DEBT SECURITIES -- CONTINUED			
FINANCE -- .38%			
\$ 630	Fairfax Financial Holdings, Ltd., Notes, 7.375%, 03/15/06	Ba3	\$ 504
			-----

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FURNISHINGS, HOUSEWARES, DURABLE CONSUMER PRODUCTS -- .48%			
575	Simmons Company, Senior Subordinated Notes, 10.25%, 03/15/09	B2	624
			-----
GROCERY STORES -- .74%			
950	Winn-Dixie Stores, Inc., Senior Notes, 8.875%, 04/01/08	Ba2	969
			-----
HEALTHCARE, EDUCATION AND CHILDCARE -- 12.16%			
640	Advanced Medical Optics Inc., Senior Subordinated Notes, 9.25%, 07/15/10	B3	659
1,500	Alaris Medical Systems, Inc., Senior Secured Notes 11.625%, 12/01/06	B2	1,695
785	Alaris Medical Systems, Inc., Senior Subordinated Notes, 9.75%, 12/01/06	Caa1	793
565	AmerisourceBergen Corporation, Senior Notes, 7.25%, 11/15/12 (g)	Ba3	581
3,125	Athena Neurosciences Financial, Senior Notes, 7.25%, 02/21/08	Caa2	1,687
2,000	Beverly Enterprises, Inc., Senior Notes, 9%, 02/15/06	B1	1,700
1,000	Bio-Rad Laboratories, Inc., Senior Subordinated Notes, 11.625%, 02/15/07	B2	1,105
75	Concentra Operating Corporation, Senior Subordinated Notes, 13%, 08/15/09	B3	76
1,150	CONMED Corporation, Senior Subordinated Notes, 9%, 03/15/08	B2	1,196
405	HealthSouth Corporation, Senior Notes, 8.50%, 02/01/08	Ba3	350
945	HealthSouth Corporation, Senior Notes, 7.375%, 10/01/06	Ba3	817
\$ 1,420	NDC Health Corporation, Senior Subordinated Notes, 10.50%, 12/01/12 (g)	(e)	\$ 1,424
2,815	Radiologix Inc., Senior Notes, 10.50%, 12/15/08	B2	2,196
380	Sybron Dental Specialities, Senior Subordinated Notes, 8.125%, 06/15/12	B2	384
725	Total Renal Care, Inc., Subordinated Convertible Notes, 7%, 05/15/09	B2	719
275	Triad Hospitals Holdings, Inc., Senior Notes, 8.75%, 05/01/09	B1	294
250	Triad Hospitals Holdings, Inc., Senior Subordinated Notes, 11%, 05/15/09	B2	276
			-----
			15,952

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HOTELS, MOTELS, INNS AND GAMING -- 16.24%			
1,500	Ameristar Casinos, Inc., Senior Subordinated Notes, 10.75%, 02/15/09	B3	1,635
575	Coast Hotels and Casinos, Inc., Senior Subordinated Notes, 9.50%, 04/01/09	B2	611
75	Courtyard By Marriott II Limited Partnership, Senior Notes, 10.75%, 02/01/08	B1	76
1,825	John Q. Hammons Hotels, L.P., First Mortgage Notes, 8.875%, 05/15/12	B2	1,839
775	Hard Rock Hotel, Inc., Senior Subordinated Notes, 9.25%, 04/01/05	Caa1	787
1,575	Harrah's Operating Company, Inc., Guaranteed Senior Notes, 8%, 02/01/11	Baa3	1,816
1,000	Harrah's Operating Company, Inc., Guaranteed Senior Subordinated Notes, 7.875%, 12/15/05	Ba1	1,067
180	Host Marriott, L.P., Senior Notes, 9.25%, 10/01/07	Ba3	181

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)
CORPORATE DEBT SECURITIES -- CONTINUED			
\$ 2,215	Host Marriott, L.P., Senior Notes, 9.50%, 01/15/07	Ba3	\$ 2,248
1,750	MGM Mirage, Senior Secured Notes, 8.50%, 09/15/10	Ba1	1,925
1,650	Penn National Gaming, Inc., Senior Subordinated Notes, 11.125%, 03/01/08	B3	1,799
2,300	Riviera Holdings Corporation, Senior Secured Notes, 11%, 06/15/10	B2	2,070
600	Starwood Hotels & Resorts Worldwide Inc., Senior Notes 7.375%, 05/01/07	Ba1	592
2,200	Station Casinos, Inc., Senior Subordinated Notes, 8.875%, 12/01/08	B2	2,293
400	Turning Stone Casino Resorts Enterprise, Senior Notes 9.125%, 12/15/10 (g)	B1	410

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1,875	Venetian Casino Resort, LLC, Second Mortgage Notes, 11%, 06/15/10	Caa1	1,959
			-----
			21,308
			-----
LEISURE, AMUSEMENT AND ENTERTAINMENT -- 2.51%			
825	Hasbro Inc., Notes, 6.15%, 07/15/08	Ba3	792
1,600	Icon Health and Fitness Inc., Senior Subordinated Notes, 11.25%, 04/01/12	B3	1,392
350	Speedway Motorsports, Inc., Senior Subordinated Notes, 8.50%, 08/15/07	Ba2	366
700	TravelCenters of America, Inc., Senior Subordinated Notes, 12.75%, 05/01/09	B3	742
			-----
			3,292
			-----
MACHINERY -- 3.26%			
1,450	Case Corporation, Notes, 7.25%, 08/01/05	Ba2	1,218
675	Terex Corporation, Senior Subordinated Notes, 10.375%, 04/01/11	B3	635
\$ 2,375	Universal Compression, Inc., Senior Discount Notes, 9.875%, 02/15/08 (h)	B1	\$ 2,422
			-----
			4,275
			-----
MINING, STEEL, IRON AND NON-PRECIOUS METALS -- 4.70%			
1,195	AK Steel Corporation, Senior Notes, 7.75%, 06/15/12 (g)	B1	1,204
650	AK Steel Corporation, Senior Notes, 7.875%, 02/15/09	B1	657
1,800	Century Aluminum Company, Senior Secured First Mortgage Notes, 11.75%, 04/15/08	Ba3	1,746
1,500	Russel Metals, Inc., Senior Notes, Units, 10%, 06/01/09	B1	1,586
255	Steel Dynamics, Inc., Senior Notes, 9.50%, 03/15/09	B2	268
600	United States Steel Corporation, Senior Notes, 10.75%, 08/01/08	Ba3	591
1,100	Weirton Steel Corporation, Senior Secured Notes, 10%, 04/01/08 (b)	Caa3	110
			-----
			6,162
			-----
OIL AND GAS -- 12.81%			
3,500	Clark Refining & Marketing, Inc., Senior Notes, 8.375%, 11/15/07	Ba3	3,360
875	Dresser, Inc., Senior Subordinated Notes, 9.375%, 04/15/11	B2	884

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975	Energy Corporation of America, Senior Subordinated Notes, 9.50%, 05/15/07	Caa3	566
1,275	Ferrellgas Partners L.P., Senior Notes, 8.75%, 06/15/12	B2	1,320
1,455	Forest Oil Corporation, Senior Notes, 8%, 06/15/08	Ba3	1,535
1,000	Forest Oil Corporation, Senior Notes, 8%, 12/15/11	Ba3	1,055
1,650	Giant Industries, Inc., Senior Subordinated Notes, 11%, 05/15/12	B3	1,122

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)
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CORPORATE DEBT SECURITIES -- CONTINUED			
\$ 750	Magnum Hunter Resources, Inc., Senior Notes, 9.60%, 03/15/12	B2	\$ 795
2,000	Pioneer Natural Resources Company, Senior Notes, 9.625%, 04/01/10	Ba1	2,330
1,400	Plains Exploration & Production Co., L.P., Senior Subordinated Notes, 8.75%, 07/01/12 (g)	B2	1,456
2,650	Tesoro Petroleum Corporation, Senior Subordinated Notes, 9.625%, 04/01/12	B3	1,723
580	Tesoro Petroleum Corporation, Senior Subordinated Notes, 9.625%, 11/01/08	B3	371
275	Westport Resources Corporation, Senior Subordinated Notes, 8.25%, 11/01/11 (g)	Ba3	287
			----- 16,804 -----
PERSONAL, FOOD AND MISCELLANEOUS SERVICES -- .90%			
1,125	The Coinmach Corporation, Senior Notes, 9%, 02/01/10	B2	1,181
-----			
PERSONAL NON-DURABLE CONSUMER PRODUCTS -- 3.00%			
2,500	Corning Consumer Products Company, Senior Subordinated Notes, 9.625%, 05/01/08 (a) (b)	(e)	125
275	JohnsonDiversey, Inc., Senior		

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	Subordinated Notes, 9.625%, 05/15/12 (g)	B2	289
1,400	Jostens, Inc., Senior Subordinated Notes, 12.75%, 05/01/10	B3	1,589
1,775	Playtex Products, Inc., Senior Subordinated Notes, 9.375%, 06/01/11	B2	1,935
			-----
			3,938
			-----
PERSONAL TRANSPORTATION -- 4.50%			
3,440	Air Canada, Senior Notes, 10.25%, 03/15/11	B3	1,926
\$ 2,000	Atlas Air, Inc., Senior Notes, 10.75%, 08/01/05	Caa1	\$ 440
3,175	Delta Air Lines, Inc., Notes, 7.90%, 12/15/09	Ba3	2,159
325	Delta Air Lines, Inc., Notes, 10.375%, 02/01/11	Ba3	221
335	Northwest Airlines, Inc. Notes, 9.875%, 03/15/07	B2	214
1,500	Northwest Airlines, Inc., Senior Notes, 8.875%, 06/01/06	B2	945
			-----
			5,905
			-----
PRINTING AND PUBLISHING -- 11.47%			
1,975	K III Communications Corporation, Senior Notes, 8.50%, 02/01/06	B3	1,847
1,560	Mail-Well I Corp., Senior Notes, 9.625%, 03/15/12	B1	1,373
4,900	Quebecor Media Inc., Senior Notes, 11.125%, 07/15/11	B2	4,508
1,845	R.H. Donnelley, Inc., Senior Subordinated Notes, 10.875%, 12/15/12 (g)	B2	2,011
2,150	Von Hoffman Corporation, Senior Notes, 10.25%, 03/15/09	B2	2,043
3,155	World Color Press, Inc., Senior Subordinated Notes, 8.375%, 11/15/08	Baa2	3,259
			-----
			15,041
			-----
RETAIL STORES -- 1.94%			
1,400	Gap Inc., Notes, 10.55%, 12/15/08	Ba3	1,533
1,000	J.C. Penney Company, Inc., Notes, 7.60%, 04/01/07	Ba3	1,005
			-----
			2,538
			-----
TELECOMMUNICATIONS -- 7.85%			
1,025	AT&T Wireless Services, Inc., Senior Notes, 7.875%, 03/01/11	Baa2	1,025
4,500	NEXTEL Communications Inc., Senior Notes, 9.50%, 02/01/11	B3	4,117
2,322	Qwest Services Corporation, Senior		

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Subordinated Notes,  
13.50%, 12/15/10 (g) (e) 2,438

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)
-----			
CORPORATE DEBT SECURITIES -- CONTINUED			
\$ 1,000	Rogers Wireless Inc., Senior Secured Notes, 8.30%, 10/01/07	Ba3	\$ 910
275	Rogers Wireless Inc., Senior Secured Notes, 9.625%, 05/01/11	Ba3	257
125	Rogers Wireless Inc., Senior Subordinated Notes, 8.80%, 10/01/07	B2	106
450	Tritel PCS, Inc., Senior Subordinated Notes, 10.375%, 01/15/11	Baa2	477
825	Triton PCS, Inc., Senior Subordinated Discount Notes, 11%, 05/01/08 (h)	B3	710
390	US West Capital Funding Inc., Notes, 6.375%, 07/15/08	Caa2	254
			-----
			10,294
			-----
TEXTILES AND LEATHER -- 3.22%			
775	Interface, Inc., Senior Notes, 7.30%, 04/01/08	B2	659
3,100	Levi Strauss & Co., Senior Notes, 11.625%, 01/15/08	Caa1	3,007
575	Levi Strauss & Co., Senior Notes, 12.25%, 12/15/12 (g)	B3	564
			-----
			4,230
			-----
UTILITIES -- 5.26%			
1,820	Avista Corporation, Senior Notes, 9.75%, 06/01/08	Ba1	1,784
1,515	Calpine Corporation, Senior Notes, 8.625% 08/15/10	B1	667
1,850	Mirant Americas Generation, LLC, Senior Notes, 7.20%, 10/01/08	Ba3	833
775	TNP Enterprises, Inc., Senior Subordinated Notes, 10.25%, 04/01/10	Ba3	728
2,500	Western Resources, Inc.,		

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	Senior Notes, 7.125%, 8/01/09	Ba2	1,975
\$ 1,000	Western Resources, Inc., Senior Notes, 9.75%, 05/01/07	Ba2	\$ 910
			----- 6,897
	TOTAL CORPORATE DEBT SECURITIES (Total cost of \$245,127)		----- 226,333

SHARES

PREFERRED STOCK-- 2.46% (d)

BANKING - 0.00%

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

BROADCASTING AND ENTERTAINMENT -- 2.45%

34,300	CSC Holdings, Inc., Preferred Stock	B3	3,207
			-----

MINING, STEEL, IRON, NON-PRECIOUS METALS -- 0.01%

18,000	Weirton Steel Corp., Series C Preferred Stock (f)	(e)	18
			-----

	TOTAL PREFERRED STOCK (Total cost of \$8,222)		3,225
			-----

COMMON STOCK -- 0.00% (d)

4,780	Mediq Inc. Common Stock (a) (c) (f)		--
27,474	WestFed Holdings, Inc., Series B, Common Stock (a) (c) (f)		--
			-----

	TOTAL COMMON STOCK (Total cost of \$2,596)		--
			-----

PRINCIPAL  
AMOUNT

SHORT-TERM INVESTMENTS -- 2.53% (d)

\$ 3,325	Ciesco, L.P., Commercial Paper, due 01/02/03, Discount of 1.22%	P-1	3,325
			-----

	TOTAL SHORT-TERM INVESTMENTS (Total cost of \$3,325)		3,325
			-----

	TOTAL INVESTMENTS (Total cost of \$259,270)		\$ 232,883
			=====



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- (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, 2002 was \$0.
- (d) Percentages indicated are based on total net assets to common shareholders of \$131,170.
- (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 \$16,936 as of December 31, 2002.
- (h) Securities are step interest bonds. Interest on these bonds accrue based on the effective interest rate.

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

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The New America High Income Fund, Inc.

STATEMENT OF ASSETS AND LIABILITIES  
DECEMBER 31, 2002

ASSETS: (Dollars in thousands, except per share amounts)	
INVESTMENTS IN SECURITIES, at value (Identified cost of \$259,270 see Schedule of Investments and Notes 1 and 2)	\$ 232,883
RECEIVABLES:	
Investment securities Sold	450
Interest and dividends	5,892
PREPAID EXPENSES	31
	-----
Total assets	\$ 239,256
	-----
LIABILITIES:	
PAYABLES:	
Dividend on common stock	\$ 749
Dividend on preferred stock	43
INTEREST RATE SWAP, at fair value (Note 6)	6,768
ACCRUED EXPENSES (Note 3)	526

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Total liabilities	\$ 8,086
-----	
AUCTION TERM PREFERRED STOCK:	
\$1.00 par value, 1,000,000 shares authorized, 4,000 shares issued and outstanding, liquidation preference of \$25,000 per share (Notes 4 and 5)	\$ 100,000
-----	
NET ASSETS	\$ 131,170
=====	
REPRESENTED BY:	
COMMON STOCK:	
\$0.01 par value, 200,000,000 shares authorized, 69,548,153 shares issued and outstanding	\$ 695
CAPITAL IN EXCESS OF PAR VALUE	340,125
UNDISTRIBUTED NET INVESTMENT INCOME (Note 2)	351
ACCUMULATED NET REALIZED LOSS FROM SECURITIES TRANSACTIONS (Note 2)	(176,846)
NET UNREALIZED DEPRECIATION ON INVESTMENTS AND INTEREST RATE SWAPS	(33,155)
-----	
Net assets applicable to common stock (Equivalent to \$1.89 per share, based on 69,548,153 shares outstanding)	\$ 131,170
=====	
STATEMENT OF OPERATIONS	
FOR THE PERIOD ENDED DECEMBER 31, 2002	
INVESTMENT INCOME: (Note 1) (Dollars in thousands)	
Interest income	\$ 27,320
Other income	276
Dividend income	95
-----	
Total investment income	\$ 27,691
-----	
EXPENSES:	
Cost of leverage:	
Preferred and auction fees (Note 5)	\$ 278
-----	
Total cost of leverage	\$ 278
-----	
Professional services expenses:	
Management fees (Note 3)	\$ 686
Legal fees	316
Custodian and transfer agent fees	240
Computer systems upgrade expense	101
Audit fees	77
-----	
Total professional services expenses	\$ 1,420
-----	
Administrative expenses:	
General administrative fees	\$ 435
Directors' fees	212
NYSE fees	68
Miscellaneous expenses	64
Shareholder communications expenses	37

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Total administrative expenses	\$ 816
Total expenses	\$ 2,514
Net investment income	\$ 25,177
REALIZED AND UNREALIZED LOSS ON INVESTMENT ACTIVITIES:	
Realized loss on investments and interest rate swap agreements	\$ (45,362)
Net swap settlement disbursements (Note 6)	\$ (2,851)
Change in net unrealized depreciation on investments	\$ 3,926
Change in unrealized depreciation on interest rate swap agreement	(8,290)
Total change in net unrealized depreciation on investments and interest rate swap	\$ (4,364)
Net loss on investments and interest rate swap	\$ (52,577)
COST OF PREFERRED LEVERAGE	
Distributions to preferred stockholders	\$ (2,530)
Net decrease in net assets resulting from operations	\$ (29,930)

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

	FOR THE YEAR 2002
FROM OPERATIONS: (Dollars in thousands, except per share amounts)	
Net investment income	\$ 25,177
Realized loss on investments, net	(45,362)
Net swap settlement disbursements	(2,851)
Change in net unrealized depreciation on investments and other financial instruments	(4,364)
Distributions from net investment income related to preferred stock	
Dividends to preferred stockholders (\$488 and \$1,057 per preferred share in 2002 and 2001, respectively)	(2,530)
Net increase (decrease) in net assets resulting from operations	\$ (29,930)
FROM FUND SHARE TRANSACTIONS:	
Net asset value of 1,215,044 shares and 1,064,683 shares issued to common stockholders for reinvestment of dividends in 2002 and 2001, respectively	\$ 2,710

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Increase in net assets resulting from fund share transactions	\$ 2,710
-----	
DISTRIBUTIONS TO COMMON STOCKHOLDERS:	
From net investment income (\$.29 and \$.36 per share in 2002 and 2001, respectively)	\$ (19,841)
-----	
Total net decrease in net assets	\$ (47,061)
-----	
NET ASSETS APPLICABLE TO COMMON STOCK:	
Beginning of period	\$ 178,231
-----	
End of period (Including \$351 and \$317 of undistributed net investment income at December 31, 2002 and December 31, 2001, respectively)	\$ 131,170
=====	

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

	2002	2001 (c)	FOR THE YEARS ENDED DECEMBER	
	-----	-----	2000	1999
	-----	-----	-----	-----
NET ASSET VALUE:				
Beginning of period	\$ 2.61	\$ 2.85	\$ 3.86	\$ 4.16
-----				
NET INVESTMENT INCOME	.37	.48	.60	.66
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND OTHER FINANCIAL INSTRUMENTS	(.72)	(.24)	(1.00)	(.30)
DISTRIBUTIONS FROM NET INVESTMENT INCOME RELATED TO PREFERRED STOCK:	(.08)	(.12)	(.18)	(.18)
-----				
TOTAL FROM INVESTMENT OPERATIONS	(.43)	.12	(.58)	.18
-----				
DISTRIBUTIONS TO COMMON SHAREHOLDERS:				
From net investment income	(.29)	(.36)	(.43)	(.48)
In excess of net investment income	--	--	--	--
-----				
TOTAL DISTRIBUTIONS	(.29)	(.36)	(.43)	(.48)
-----				
Effect of rights offering and related expenses; and Auction Term Preferred Stock offering costs and sales load	--	--	--	--
-----				
NET ASSET VALUE:				
End of period	\$ 1.89	\$ 2.61	\$ 2.85	\$ 3.86
=====				
PER SHARE MARKET VALUE:				
End of period	\$ 2.01	\$ 2.64	\$ 2.63	\$ 3.13
=====				

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TOTAL INVESTMENT RETURN+	(12.97)%	13.97%	(3.84)%	(16.92)%
	=====	=====	=====	=====

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

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	2002	2001 (c)	FOR THE YEARS ENDED D 2000	19
	-----	-----	-----	-----
NET ASSETS, END OF PERIOD, APPLICABLE TO COMMON STOCK (a)	\$ 131,170	\$ 178,231	\$ 191,928	\$ 258,000
	=====	=====	=====	=====
NET ASSETS, END OF PERIOD, APPLICABLE TO PREFERRED STOCK (a)	\$ 100,000	\$ 150,000	\$ 160,000	\$ 210,000
	=====	=====	=====	=====
TOTAL NET ASSETS APPLICABLE TO COMMON AND PREFERRED STOCK, END OF PERIOD (a)	\$ 231,170	\$ 328,231	\$ 351,928	\$ 468,000
	=====	=====	=====	=====
EXPENSE RATIOS:				
Ratio of preferred and other debt expenses to average net assets*	.18%	.17%	.19%	
Ratio of operating expenses to average net assets*	1.46%	1.11%	.99%	
	-----	-----	-----	-----
RATIO OF TOTAL EXPENSES TO AVERAGE NET ASSETS*	1.64%	1.28%	1.18%	
	=====	=====	=====	=====
RATIO OF NET INVESTMENT INCOME TO AVERAGE NET ASSETS*	16.48%	16.70%	17.46%	16.29%
RATIO OF TOTAL EXPENSES TO AVERAGE NET ASSETS APPLICABLE TO COMMON AND PREFERRED STOCK	.89%	.71%	.64%	
RATIO OF NET INVESTMENT INCOME TO AVERAGE NET ASSETS APPLICABLE TO COMMON AND PREFERRED STOCK	8.91%	9.23%	9.41%	8.91%
PORTFOLIO TURNOVER RATE	82.47%	38.89%	45.58%	60.00%

(a) Dollars in thousands.

(b) The Fund issued Series C ATP on May 6, 1997 and Series D ATP on May 20, 1998. The per share data and ratios for the years ended December 31, 1997 and 1998 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 did increase 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

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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 1997 and March 1998 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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The New America High Income Fund, Inc.

### INFORMATION REGARDING SENIOR SECURITIES

	2002	2001	AS OF DECEMBER 31,	
	-----	-----	2000	1999
	-----	-----	-----	-----
TOTAL AMOUNT OUTSTANDING:				
Preferred Stock	\$ 100,000,000	\$ 150,000,000	\$ 160,000,000	\$ 210,000,000
ASSET COVERAGE:				
Per Preferred Stock Share (1)	\$ 57,793	\$ 54,705	\$ 54,989	\$ 55,740
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 DECEMBER 31, 2002

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

The New America High Income Fund, Inc. (the Fund) was organized as a

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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 generally accepted accounting principles 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 having 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 \$7,514,000 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, 2002, the total cost of securities (including temporary cash investments) for federal income tax purposes was approximately \$259,345,000. Aggregate gross unrealized gain on securities in which there was an excess of value over tax cost was approximately \$5,492,000. Aggregate unrealized loss on securities in which there was an excess of tax cost over value was approximately \$31,954,000. Net unrealized loss on investments for tax purposes at December 31, 2002 was approximately \$26,462,000.

At December 31, 2002, 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
21,822,000	December 31, 2008
67,042,000	December 31, 2009
46,118,000	December 31, 2010
\$ 170,563,000	

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 \$22,371,000 in 2002 was from ordinary income.

As of December 31, 2002, the components of distributable earnings on a tax basis were approximately:

Undistributed Net Investment Income	\$ 402,000
Undistributed Long-Term Gain	--
Unrealized Gain (Loss)	\$ (26,462,000)
Capital Losses Carry Forward and Post October Losses Deferred	\$ (176,822,000)

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



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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 resulted in additional interest income for financial reporting purposes only. The Fund does not amortize market discounts or premiums for tax purposes. Therefore, the additional interest income for financial reporting purposes does not result in additional 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.

### (3) INVESTMENT ADVISORY AGREEMENT

Wellington Management Company, LLP, the Fund's Investment Advisor, for the eleven months ended

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November 30, 2002 earned approximately \$635,000 in management fees. Management fees paid by the Fund to Wellington Management were calculated at .45 of 1% (on an annual basis) of the average weekly value of the Fund's net assets attributable to common stock.

The Fund's Board of Directors voted to appoint T. Rowe Price Associates, Inc. (T. Rowe Price) as the Fund's investment advisor succeeding Wellington Management Company, LLP in that capacity. An interim investment advisory agreement with T. Rowe Price took effect concurrently with the termination of the existing investment advisory agreement on December 2, 2002. Prior to the expiration of the 150 day term of the interim contract, the Fund will hold a meeting of stockholders to seek stockholder approval of the new advisory agreement with T. Rowe Price. If stockholders approve the new advisory agreement, the annual advisory fee payable to T. Rowe Price will be 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 will be calculated based on assets attributable to the Fund's common and auction term preferred stock. At December 31, 2002, the fee payable to T. Rowe Price was approximately \$51,000, which was included in accrued expenses on the accompanying statement of assets and liabilities.

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

The Fund had 4,000 shares of ATP issued and outstanding at December 31, 2002. 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 1.40% to 2.35% for the year ended December 31, 2002. The average dividend rate as of December 31, 2002 was 1.47%.

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.

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Under Emerging Issues Task Force (EITF) promulgation Topic D-98, CLASSIFICATION AND MEASUREMENT OF REDEEMABLE SECURITIES, which was issued on July 19, 2001, preferred securities that are redeemable for cash or other assets are to be classified outside of permanent equity to the extent that redemption is at a fixed or determinable price and at the option of the holder or upon the occurrence of an event that is not solely within the control of the issuer. Subject to the guidance of the EITF, the Fund's preferred stock is shown outside of permanent equity (net assets) in the accompanying financial statements. In connection with Topic D-98 distributions related to preferred stock are reflected in the statements of changes in net assets and financial highlights as distributions from operations. Prior year amounts have also been reclassified to conform with this presentation. The impact of this reclassification creates no change to the net assets available to common shareholders.

During 2002, the Fund repurchased \$50,000,000 of ATP.

### (5) ATP AUCTION-RELATED MATTERS

Bankers Trust Company (BTC) serves as the ATP's auction agent pursuant to an agreement entered into on

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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% or 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 \$278,000 for service charges through December 31, 2002. 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 at a variable rate determined with reference to one month LIBOR. The variable rates ranged from 1.44% to 2.14% for the year ended December 31, 2002. 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%

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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 accounts for interest rate swaps in accordance with the Statement of Financial Accounting Standards No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. This statement requires an entity to recognize all freestanding derivative instruments in the balance sheet as either assets or liabilities and measure them at fair value. Any change in the unrealized gain or loss is recorded in current earnings. For the year ended December 31, 2002, the Fund's obligations under the swap agreements were more than the amount received from Fleet by approximately \$2,851,000 and is included in the accompanying statement of operations.

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The estimated fair value of the interest rate swap agreement at December 31, 2002 amounted to approximately \$6,768,000 of unrealized loss and is presented in the accompanying balance sheet.

### (7) REPURCHASE AGREEMENTS

At the time the Fund enters into a repurchase agreement, the value of the underlying security, including accrued interest, will be equal to or exceed the value of the repurchase agreement, and, in the case of repurchase agreements exceeding one day, the value of the underlying security, including accrued interest, is required during the term of the agreement to be equal to or exceed the value of the repurchase agreement.

The underlying securities for all repurchase agreements are held in safekeeping in an investment account of State Street Bank and Trust Company (SSBT), the Fund's custodian, at the Federal Reserve Bank of Boston. In the case of repurchase agreements exceeding one day, SSBT's Money Market Department monitors the market value of the underlying securities by pricing them daily, and in the event any individual repurchase agreement is not fully collateralized, SSBT advises the Fund and additional collateral is obtained.

### (8) PURCHASES AND SALES OF SECURITIES

Purchases and proceeds of sales or maturities of long-term securities during the year ended December 31, 2002 were approximately:

Purchases of securities	\$ 224,214,000
Sales of securities	\$ 261,579,000

### (9) 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

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\$248,000 for the year ended December 31, 2002. The Fund paid approximately \$249,000 during the year ended December 31, 2002 to two officers of the Fund for the provision of certain administrative services.

### CHANGE IN INDEPENDENT ACCOUNTANTS (UNAUDITED)

On June 27, 2002, the Board of Directors, upon the recommendation of the Board's Audit and Nominating Committee, determined not to retain Arthur Andersen LLP and approved a change in the Fund's independent auditors to KPMG LLP. For the fiscal years ended December 31, 2001 and December 31, 2000, Arthur Andersen LLP's audit reports on the Fund's financial statements contained no adverse opinion or disclaimer of opinion; nor were their reports qualified or modified as to uncertainty, audit scope, or accounting principals. Further, there were no disagreements between the Fund and Arthur Andersen LLP on any matter of accounting principles or practices, financial statement disclosure or audit scope or procedure, which if not resolved to the satisfaction of Arthur Andersen LLP, would have caused them to make reference to the disagreements in their report.

### 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.

### 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, 2002, and the related statement of operations, statement of changes in net assets and financial highlights for the year then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit. The statement of changes in net assets for the year ended December 31, 2001 and the financial highlights for each of the years in the five-year period ended December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on that financial statement and those financial highlights in their report dated February 1, 2002.

We conducted our audit 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

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disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2002 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of The New America High Income Fund, Inc. as of December 31, 2002, the results of its operations, changes in its net assets and financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Boston, Massachusetts  
January 31, 2003

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### DIRECTORS

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

### DIRECTOR EMERITUS

Franco Modigliani

### 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

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99 High Street  
Boston, MA 02110

Listed: NYSE  
Symbol: HYB  
Web site: www.newamerica-hyb.com

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The New America High Income Fund, Inc.

INFORMATION ABOUT THE FUND'S DIRECTORS AND OFFICERS

INDEPENDENT DIRECTORS

NAME, ADDRESS (1), AND DATE OF BIRTH	POSITION(S) HELD WITH FUND	TERM OF OFFICE (2) AND LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS	NUMBER OF PORTFOLIO IN FUND COMPLEX (S) OVERSEEN BY DIRECTOR
Joseph L. Bower DOB: 09/21/38	Director	Director 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; member and research fellow at the Institute of Politics since 1966; faculty member of the John F. Kennedy School of Government since 1969.	1
Bernard J. Korman DOB: 10/13/31	Director	Director 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.

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- (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, ADDRESS (1), AND DATE OF BIRTH	POSITION(S) HELD WITH FUND	TERM OF OFFICE (2) AND LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS	NUMBER OF PORTFOLIO IN FUND COMPLEX (3) OVERSEEN BY DIRECTOR
Ernest E. Monrad DOB: 5/30/30	Director	Director since 1988	Trustee since 1960 and Chairman of the Trustees from 1969 to May 2001 of Northeast Investors Trust; Chairman, Assistant Treasurer and a Director since 1981 of Northeast Investors Growth Fund; Director of Northeast Investment Management, Inc., Northeast Management & Research Co., Inc.	1

INTERESTED DIRECTORS AND OFFICERS

Robert F. Birch <sup>4</sup> DOB: 3/12/36	Director and President	Director since 1992	Private Investor and Consultant	1
Richard E. Floor <sup>5</sup> DOB: 8/3/40	Director and Secretary	Director since 1987	Partner through his professional corporation with the law firm of Goodwin Procter LLP, Boston, Massachusetts	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.
- (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

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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.