

NEW AMERICA HIGH INCOME FUND INC
Form N-Q
May 21, 2015

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

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY**

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
(Address of principal executive offices)

02109
(Zip code)

Ellen E. Terry, 33 Broad 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: 1/1/15 - 3/31/15

Item 1 - Schedule of Investments - March 31, 2015 (Unaudited) (Dollar Amounts in Thousands)

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Principal Amount/Units		Moody's Rating (Unaudited)	Value (Note 1)
CORPORATE DEBT SECURITIES - 130.43% (b)(d)			
Aerospace & Defense - 1.22%			
1,575	Bombardier, Inc., Senior Notes, 5.50%, 09/15/18 (g)	B1	1,571
475	Ducommun, Inc., Senior Notes, 9.75%, 07/15/18	B3	502
500	Esterline Technologies, Senior Notes, 7%, 08/01/20	Ba2	521
350	Transdigm, Inc., Subordinated Notes, 6.50%, 07/15/24	Caa1	351
			2,945
Airlines - 2.71%			
675	Allegiant Travel Company, Senior Notes, 5.50%, 07/15/19	B1	692
1,100	American Airlines, Senior Notes, 5.50%, 10/01/19 (g)	B3	1,132
128	American Airlines, Senior Notes, 5.625%, 01/15/21 (g)	(e)	134
130	United Airlines, Senior Notes, 4.625%, 03/03/24	(e)	132
700	United Continental Holdings, Inc., Senior Notes, 6%, 12/01/20	B3	734
1,525	United Continental Holdings, Inc., Senior Notes, 6%, 07/15/26	B3	1,525
175	United Continental Holdings, Inc., Senior Notes, 6%, 07/15/28	B3	175
575	United Continental Holdings, Inc., Senior Notes, 6.375%, 06/01/18	B3	612
1,325	US Airways, Inc., Senior Notes, 6.125%, 06/01/18	B3	1,391
			6,527
Automotive - 3.74%			
125	Affinia Group, Inc., Senior Notes, 7.75%, 05/01/21	Caa2	130
725	Allison Transmission, Inc., Senior Notes, 7.125% 05/15/19 (g)	B2	756
225	American Axle and Manufacturing, Inc., Senior Notes, 6.25%, 03/15/21	B2	238
104	American Axle and Manufacturing, Inc., Senior Notes, 6.625%, 10/15/22	B2	112
675	Dana Holding Corporation, Senior Notes, 5.375%, 09/15/21	B2	704
1,475	FCA US LLC, Senior Notes, 8.25%, 06/15/21	B1	1,637
550	Gestamp Fund Lux S.A., Senior Notes, 5.625%, 05/31/20 (g)	B1	572
275	Goodyear Tire & Rubber Company, Senior Notes, 6.50%, 03/01/21	B1	293
350	Group 1 Automotive, Inc., Senior Notes, 5%, 06/01/22 (g)	B1	350
1,025	Jaguar Land Rover Automotive Plc, Senior Notes, 5.625%, 02/01/23 (g)	Ba2	1,079
675	MPG Holdco Inc., Senior Notes, 7.375%, 10/15/22 (g)	B3	721
925	Navistar International Group, Senior Notes, 8.25%, 11/01/21	B3	901

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400	Penske Auto Group, Inc., Senior Notes, 5.75%, 10/01/22	B1	420
270	Pittsburgh Glass Works, LLC, Senior Notes, 8%, 11/15/18 (g)	B3	286
475	Schaeffler Finance B.V., Senior Notes, 6.875%, 08/15/18 (g)	B1	497

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325	Sonic Automotive, Inc., Senior Subordinated Notes, 5%, 05/15/23	B2	322
			9,018
Broadcasting - 5.88%			
1,075	AMC Networks, Inc., Senior Notes, 4.75%, 12/15/22	B1	1,071
75	Clear Channel Worldwide Holdings, Inc., Senior Notes, 6.50%, 11/15/22	B1	78
850	Clear Channel Worldwide Holdings, Inc., Senior Notes, 6.50%, 11/15/22	B1	897
75	Gannett Co., Inc., Senior Notes, 6.375%, 10/15/23	Ba1	81
1,025	IHeart Communications, Inc., Senior Notes, 9%, 12/15/19	Caa1	1,017
850	IHeart Communications, Inc., Senior Notes, 10%, 01/15/18	Ca	722
450	Lamar Media Corporation, Senior Subordinated Notes, 5.875%, 02/01/22	B1	471
525	Lin Television Corporation, Senior Notes, 5.875%, 11/15/22 (g)	B3	537
950	MDC Partners, Inc., Senior Notes, 6.75%, 04/01/20 (g)	B3	1,001
725	Outfront Media Capital LLC, Senior Notes, 5.25%, 02/15/22	B1	754
250	Outfront Media Capital LLC, Senior Notes, 5.625%, 02/15/24	B1	262
400	Polish Television Holding B.V., Senior Notes, 11%, 01/15/21 (g)(EUR)	(e)	515
600	Sinclair Television Group, Inc., Senior Notes, 6.125%, 10/01/22	B1	628
1,475	Sirius XM Radio, Inc., Senior Notes, 5.75%, 08/01/21 (g)	Ba3	1,538
725	Starz LLC, Senior Notes, 5%, 09/15/19	Ba2	747
425	Townsquare Media, Inc., Senior Notes, 6.50%, 04/01/23 (g)	B3	427
375	Townsquare Radio LLC, Senior Notes, 9%, 04/01/19 (g)	B3	400
2,050	Univision Communications, Inc., Senior Notes, 5.125%, 05/15/23 (g)	B2	2,081
625	Univision Communications, Inc., Senior Notes, 5.125%, 02/15/25 (g)	B2	638
300	Univision Communications, Inc., Senior Notes, 6.75%, 09/15/22 (g)	B2	322
			14,187
Building & Real Estate - 3.32%			
500	CCRE Company, Senior Notes, 7.75%, 02/15/18 (g)	B1	522
350	Greystar Real Estate Partners, LLC, Senior Notes, 8.25%, 12/01/22 (g)	B2	367
1,175	Howard Hughes Corporation, Senior Notes, 6.875%, 10/01/21 (g)	Ba3	1,234
1,550	Jefferies LoanCore LLC, Senior Notes, 6.875%, 06/01/20 (g)	B2	1,438
600	KB Home, Senior Notes, 8%, 03/15/20	B2	648
325	Ladder Capital Finance Holdings LLLP, Senior Notes, 5.875%, 08/01/21 (g)	Ba3	307

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400	Ladder Capital Finance Holdings LLLP, Senior Notes, 7.375%, 10/01/17	Ba3	411
450	Realology Group LLC, Senior Notes, 5.25%, 12/01/21 (g)	Caa1	458
125	Realology Group LLC, Senior Notes, 9%, 01/15/20 (g)	B3	136
550	RPG Byty s.r.o., Senior Notes, 6.75%, 05/01/20 (g)(EUR)	Ba2	622
350	Shea Homes Limited Partnership, Senior Notes,		

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	5.875%, 04/01/23 (g)	B2	353
675	William Lyon Homes, Inc., Senior Notes,		
	7%, 08/15/22	B3	697
750	William Lyon Homes, Inc., Senior Notes,		
	8.50%, 11/15/20	B3	812
			8,005
Building Products - 2.16%			
550	Builders First Source, Inc., Senior Notes,		
	7.625%, 06/01/21 (g)	Caa1	558
275	Masonite International Corporation, Senior Notes,		
	5.625%, 03/15/23 (g)	B2	282
575	Nortek, Inc., Senior Notes,		
	8.50%, 04/15/21	B3	615
650	Nortek, Inc., Senior Notes,		
	10%, 12/01/18	B3	686
750	Reliance Intermediate Holdings L.P., Senior Notes,		
	6.50%, 04/01/23 (g)	B1	773
750	RSI Home Products, Inc., Senior Notes,		
	6.50%, 03/15/23 (g)	B1	763
275	Springs Industries, Inc., Senior Notes,		
	6.25%, 06/01/21	B2	272
850	Summit Materials LLC, Senior Notes,		
	10.50%, 01/31/20	Caa1	944
175	USG Corporation, Senior Notes,		
	5.875%, 11/01/21 (g)	B1	185
125	USG Corporation, Senior Notes,		
	9.75%, 01/15/18	Caa1	144
			5,222
Cable Operators - 10.90%			
375	Altice Financing SA, Senior Notes,		
	6.625%, 02/15/23 (g)	B1	386
1,100	Altice Financing S.A., Senior Notes,		
	7.625%, 02/15/25 (g)	B3	1,106
750	Altice Financing S.A., Senior Notes,		
	7.75%, 05/15/22 (g)	B3	763
600	Altice Financing S.A., Senior Notes,		
	8.125%, 01/15/24 (g)	B3	631
455	Altice Financing S.A., Senior Notes,		
	9%, 06/15/23 (g) (EUR)	B3	571
675	Altice Financing S.A., Senior Notes,		
	9.875%, 12/15/20 (g)	B3	747
800	B Communications Ltd., Senior Notes,		
	7.375%, 02/15/21 (g)	(e)	854
475	Block Communications, Inc., Senior Notes,		
	7.25%, 02/01/20 (g)	B1	487
75	CCO Holdings, LLC, Senior Notes,		
	5.25%, 03/15/21	B1	77
725	CCO Holdings, LLC, Senior Notes,		
	5.25%, 09/30/22	B1	741
325	CCO Holdings, LLC, Senior Notes,		
	5.75%, 09/01/23	B1	338
2,350	CCO Holdings, LLC, Senior Notes,		
	6.625%, 01/31/22	B1	2,515

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525	CCOH Safari, Senior Notes, 5.50%, 12/01/22	B1	537		
650	Cequel Communications Holdings I, LLC, Senior Notes, 5.125%, 12/15/21 (g)	B3	648		
1,775	Cequel Communications Holdings I, LLC, Senior Notes, 6.375%, 09/15/20 (g)	B3	1,870		
900	CSC Holdings, LLC, Senior Notes, 6.75%, 11/15/21	Ba2	1,001		
800	Dish DBS Corporation, Senior Notes, 5.125%, 05/01/20	Ba3	805		
525	Dish DBS Corporation, Senior Notes, 5.875%, 07/15/22	Ba3	532		
325	Dish DBS Corporation, Senior Notes,	22,400 (12)		\$ 1,457,344	
	16,667	8,333(4)		\$ 27.47	9/4/2014
	10,000	20,000(7)		\$ 22.90	9/2/2015
	0	30,000(8)		\$ 35.89	9/1/2016
Stephen D. Kelley	0	53,333(9)		\$ 22.90	9/2/2015 22,000(13) \$ 1,431,320
	0	35,000(10)		\$ 35.89	9/1/2016

- (1) The options and restricted stock awards listed were granted under the LTIP.
- (2) Each option expires on the earlier of the expiration date shown or 90 days after termination of the recipient's employment, except in cases of death or termination due to a long-term disability.
- (3) Market value of shares that have not vested is based on \$65.06 per share (the closing price of our common stock as reported by Nasdaq on June 25, 2010).
- (4) Vests on September 4, 2010.
- (5) Vests as to 40,000 shares on each of September 2, 2010 and September 2, 2011.
- (6) Vests as to 40,000 shares on each of September 1, 2010, September 1, 2011 and September 1, 2012.
- (7) Vests as to 10,000 shares on each of September 2, 2010 and September 2, 2011.
- (8) Vests as to 10,000 shares on each of September 1, 2010, September 1, 2011 and September 1, 2012.
- (9) Vests as to 26,667 shares on September 2, 2010 and as to 26,666 shares on September 2, 2011.
- (10) Vests as to 11,667 shares on each of September 1, 2010 and September 1, 2011 and as to 11,666 shares on September 1, 2012.
- (11) Awards vest as to 32,000 shares cumulatively on September 1, 2010, as to 26,000 shares cumulatively on September 1, 2011, as to 20,000 shares cumulatively on September 1, 2012, as to 14,000 shares cumulatively on September 1, 2013 and as to 7,000 shares on September 1, 2014.
- (12)

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Award vests as to 7,600 shares cumulatively on each of September 1, 2010 and September 1, 2011, as to 3,600 shares on September 1, 2012, as to 2,400 shares on September 1, 2013, and as to 1,200 shares on September 1, 2014.

- (13) Awards vest as to 5,200 shares cumulatively on each of September 1, 2010, September 1, 2011 and September 1, 2012 and September 1, 2013 and as to 1,200 shares on September 1, 2014.

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The following table provides information about option exercises and vesting of restricted stock held by the named executive officers during fiscal 2010.

Option Exercises and Stock Vested in Fiscal 2010

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) (1)
Charles M. Swoboda	551,000	\$ 9,319,956	25,000	\$ 921,000
John T. Kurtzweil	50,000	\$ 2,207,603	6,400	\$ 235,776
Stephen D. Kelley	26,667	\$ 1,052,008	4,000	\$ 147,360

- (1) For restricted stock, the value realized on vesting is based on \$36.84 per share (the closing price of our common stock as reported by Nasdaq on August 31, 2009, the trading day preceding the date on which the shares vested).

Potential Payments upon Termination or Change in Control

We have arrangements with each of Messrs. Swoboda, Kurtzweil and Kelley that provide them with specified benefits if their employment is terminated under certain circumstances, as described below. In addition, our named executive officers participate in various benefit plans that may provide them with acceleration of equity awards or payments under certain circumstances, as described below. In determining the various circumstances that trigger payment or provision of severance benefits to the named executive officers and the payment and benefit levels associated with each circumstance (other than such payments and benefits that are generally available to all employees), the Compensation Committee reviewed severance benefits data derived from proxy materials filed by the Company's compensation peer group. The Compensation Committee utilized this competitive severance benefits data as a check to determine whether each of the proposed severance payments and benefits for the named executive officers was set at an appropriate level for the circumstance that triggers payment or provision of benefits in light of market conditions. The Compensation Committee generally seeks to confirm that the level of each severance payment or benefit for the named executive officers is at or slightly above the median level of comparable payments and benefits offered to similarly situated executives in the compensation peer group. In approving changes in the various circumstances that trigger payment or provision of severance benefits to the named executive officers and the payment and benefit levels associated with each circumstance in August 2008, the Compensation Committee also confirmed with Radford that the proposed severance payment and benefit levels for the named executive officers were consistent with competitive practices in a broader cross-section of the total market.

*Executive Change in Control Agreement with Mr. Swoboda**Payments Made Upon Termination Without Cause or Resignation for Good Reason in Connection with a Change in Control*

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If Mr. Swoboda's employment is terminated by the Company without cause, but not as a result of his death or long-term disability, or by Mr. Swoboda for good reason, and the termination is in connection with a change in control, then he will receive (i) continued payment of his base salary for 24 months, (ii) a lump sum payment of an amount equal to 80% of his base salary, prorated to the date of termination, (iii) a lump sum payment equal to the sum of Mr. Swoboda's earned annual incentives for the two completed fiscal years immediately preceding the termination date, (iv) a lump sum payment equal to 24 multiplied by the monthly COBRA premium in effect for the type of medical, dental and vision coverage then in effect for Mr. Swoboda and (v) full accelerated vesting with respect to Mr. Swoboda's then outstanding, unvested stock options, restricted stock and other equity awards, other than with respect to any performance units used to pay Mr. Swoboda's annual incentive award, and other than as provided below with respect to equity awards outstanding as of August 18, 2008, the effective date of the change in

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control agreement. In addition, if any payment or benefit Mr. Swoboda receives from the Company or any person whose actions result in a change in control would be considered a parachute payment under Section 280G of the Code and the aggregate present value of the parachute payment reduced by any excise tax imposed would be less than three times Mr. Swoboda's base amount as defined in Section 280G of the Code, then in lieu of that portion of the payments to which Mr. Swoboda would otherwise be entitled under (i) through (iv) above, Mr. Swoboda will receive a total amount (if any) such that the aggregate present value of the payments is equal to 2.99 times such base amount. This amount will be apportioned and substituted for the amounts that otherwise would have been payable under (i) through (iv) and paid on the same schedule as those amounts.

If Mr. Swoboda is generally disabled and the Company terminates his employment without cause in connection with a change in control prior to the date he is determined to have a long-term disability, then Mr. Swoboda will receive (i) continued payment of his base salary for 24 months and (ii) a lump sum payment equal to 24 multiplied by the monthly COBRA premium in effect for the type of medical, dental and vision coverage then in effect for Mr. Swoboda. If Mr. Swoboda ceases to be generally disabled before his employment is terminated due to a long-term disability, then he will have the right to resign for good reason (if in connection with a change in control) on account of any event or circumstances that occurred while he was generally disabled that would otherwise have constituted good reason (if not cured or consented to by Mr. Swoboda) and will receive these same benefits.

Payments Made Upon Termination Without Cause or Resignation for Good Reason Generally

If Mr. Swoboda's employment is terminated by the Company without cause or by Mr. Swoboda for good reason, whether or not in connection with a change in control, Mr. Swoboda's right to accelerated vesting of each equity award outstanding as of August 18, 2008 will be determined by reference to the version of the employment agreement between Mr. Swoboda and the Company that was in effect on the grant date of each such award instead of the change in control agreement. One effect of this provision is to grandfather Mr. Swoboda's rights under his prior employment agreement to accelerated vesting of 50% of his unvested equity awards if his employment is terminated by the Company without cause or by Mr. Swoboda for good reason not in connection with a change in control, provided that accelerated vesting under these circumstances would only apply to awards that were outstanding as of August 18, 2008. In addition, if Mr. Swoboda's employment is terminated by the Company without cause or by Mr. Swoboda for good reason under circumstances that would entitle him to severance benefits in connection with a change in control under the change in control agreement but not under either version of his prior employment agreement, then only the equity awards granted on or after August 18, 2008 would be eligible for accelerated vesting as a result of such termination of employment.

Conditions to Payments

Mr. Swoboda's severance benefits under his change in control agreement are subject to the following conditions: (i) signing and not revoking a release of claims, (ii) nondisparagement of the Company, its officers and directors for a period of 24 months after termination and (iii) compliance with the confidentiality and noncompete restrictions contained in his confidential information agreement, as amended by the change in control agreement, for two years following termination (or one year following termination if the termination relates to Mr. Swoboda being generally disabled as described above).

Definitions

The terms "cause," "good reason," "change in control" and "in connection with a change in control" are defined in Mr. Swoboda's change in control agreement as follows:

Cause means:

Mr. Swoboda's willful and continued failure to perform the duties and responsibilities of his position that is not corrected within a 30-day correction period that begins upon delivery to him of a written demand for performance from the Board of Directors that describes the basis for the Board of Directors' belief that he has not substantially performed his duties;

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any act of personal dishonesty taken by Mr. Swoboda in connection with his responsibilities as an employee of the Company with the intention or reasonable expectation that such may result in his substantial personal enrichment;

Mr. Swoboda's conviction of, or plea of *nolo contendere* to, a felony that the Board of Directors reasonably believes has had or will have a material detrimental effect on the Company's reputation or business; or

Mr. Swoboda materially breaching his confidential information agreement as modified by the change in control agreement, which breach is (if capable of cure) not cured within 30 days after the Company delivers written notice to him of the breach.

Good reason generally means (except with respect to Mr. Swoboda's being generally disabled as described above) the occurrence of any of the following without Mr. Swoboda's consent, subject to certain notice and cure provisions:

a significant reduction of Mr. Swoboda's duties or responsibilities or a change in his position as Chief Executive Officer or President, or the removal of Mr. Swoboda from any of such duties, positions or responsibilities;

a reduction in Mr. Swoboda's base salary or target annual incentive award level below 80% of base salary other than a one-time reduction that also is applied to substantially all other executive officers of the Company on his recommendation or approval if his reduction is substantially proportionate to, or no greater than, the reduction applied to substantially all other executive officers;

the Company requiring Mr. Swoboda to report to anyone other than the Board of Directors;

the Company eliminating from reporting to Mr. Swoboda any position that previously directly reported to him; or

the Company requiring Mr. Swoboda to relocate his principal place of business or the Company relocating its headquarters, in either case to a facility or location outside of a 35-mile radius from his current principal place of employment.

In addition, except with respect to Mr. Swoboda's being generally disabled as described above, good reason also means the occurrence of any of the following without his express written consent in connection with a change in control, subject to certain notice and cure provisions:

a substantial reduction by the Company of the facilities and perquisites (including office space and location) available to Mr. Swoboda, provided such reduction is not applied to all executive officers of the Company;

a material reduction in the kind or level of employee benefits to which Mr. Swoboda is entitled (other than a reduction due to application of the rules for eligibility or coverage under any benefit plan or policy) with the result that his overall benefits package is significantly reduced, provided such reduction is not applied to substantially all executive officers of the Company; or

the failure of the Company to obtain the assumption of the change in control agreement by the Company's successor.

Change in control generally means any of the following events:

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any person or group of persons becomes the beneficial owner of 20% or more of the Company's outstanding common stock or the combined voting power of the securities of the Company entitled to vote generally in the election of its directors;

a sale or other disposition of all or substantially all of the Company's assets;

shareholder approval of a definitive agreement or plan to liquidate the Company; or

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a merger or consolidation of the Company with and into another entity, unless immediately following such transaction (1) more than 50% of the members of the governing body of the surviving entity were incumbent directors at the time of execution of the initial agreement providing for such transaction, (2) no person or group of persons is the beneficial owner, directly or indirectly, of 20% or more of the equity interests of the surviving entity or the combined voting power of the equity interests of the surviving entity entitled to vote generally in the election of members of its governing body and (3) more than 50% of the equity interests of the surviving entity and the combined voting power of the equity interests of the surviving entity entitled to vote generally in the election of members of its governing body is beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners of the shares of common stock immediately prior to such transaction in substantially the same proportions as their ownership immediately prior to such transaction.

In connection with a change in control means either:

within the period of time between the commencement of a tender offer or the Company and another party entering into a written agreement that contemplates a transaction, the consummation of either of which would result in a change in control and the occurrence of either the resulting change in control or the termination or expiration of the tender offer or the written agreement without the occurrence of a change in control; or

within 24 months following a change in control.

Executive Change in Control Agreement with Messrs. Kurtzweil and Kelley

Payments Made Upon Termination Without Cause or Resignation for Good Reason in Connection with a Change in Control

If either Mr. Kurtzweil's or Mr. Kelley's employment is terminated by the Company without cause, but not as a result of his death or long-term disability, or by the executive for good reason, and the termination is in connection with a change in control, then he will receive (i) continued payment of his base salary for 12 months, (ii) a lump sum payment equal to 12 multiplied by the monthly COBRA premium in effect for the type of medical, dental and vision coverage then in effect for the executive and (iii) full accelerated vesting with respect to the executive's then outstanding, unvested stock options, time-vested restricted stock and other equity awards that vest solely based on the passage of time. However, Mr. Kurtzweil's right to accelerated vesting of each equity award outstanding as of August 18, 2008, the effective date of his change in control agreement, will be determined by reference to his prior severance agreement instead of his change in control agreement. Accordingly, if Mr. Kurtzweil's employment is terminated by the Company without cause or by Mr. Kurtzweil for good reason under circumstances that would entitle him to severance benefits in connection with a change in control under his change in control agreement but not under his prior severance agreement, then only the equity awards granted on or after August 18, 2008 would be eligible for accelerated vesting as a result of such termination of employment.

If Mr. Kurtzweil or Mr. Kelley is generally disabled and the Company terminates his employment without cause in connection with a change of control prior to the date he is determined to have a long-term disability, then the executive will receive (i) continued payment of his base salary for 12 months and (ii) a lump sum payment equal to 12 multiplied by the monthly COBRA premium in effect for the type of medical, dental and vision coverage then in effect for the executive. If the executive ceases to be generally disabled before his employment is terminated due to a long-term disability, then he will have the right to resign for good reason (if in connection with a change in control) on account of any event or circumstances that occurred while he was generally disabled that would otherwise have constituted good reason (if not cured or consented to by the executive) and will receive these same benefits.

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Conditions to Payments

The severance benefits under Messrs. Kurtzweil's and Kelley's change in control agreements are subject to the following conditions: (i) signing and not revoking a release of claims, (ii) nondisparagement of the Company, its officers and directors for a period of 12 months after termination and (iii) compliance with the confidentiality and noncompete restrictions contained in his confidential information agreement for one year following termination.

Definitions

The term "change in control" in Messrs. Kurtzweil's and Kelley's change in control agreements has the same meaning as described above with respect to Mr. Swoboda's change in control agreement. The terms "cause," "good reason" and "in connection with a change in control" are defined in Messrs. Kurtzweil's and Kelley's change in control agreement as follows:

Cause means:

the executive's willful and continued failure to perform the duties and responsibilities of his position that is not corrected after one written warning detailing the concerns and offering him a reasonable period of time to cure;

any material and willful violation of any federal or state law by the executive in connection with his responsibilities as an employee of the Company;

any act of personal dishonesty taken by the executive in connection with his responsibilities as an employee of the Company with the intention or reasonable expectation that such may result in his personal enrichment;

the executive's conviction of, or plea of *nolo contendere* to, or grant of prayer of judgment continued with respect to, a felony that the Board of Directors reasonably believes has had or will have a material detrimental effect on the Company's reputation or business; or

the executive materially breaching his confidential information agreement, which breach is (if capable of cure) not cured within 30 days after the Company delivers written notice to him of the breach.

"Good reason" generally means (except with respect to the executive's being generally disabled as described above) the occurrence of any of the following, without the executive's consent and not due to cause, within the timeframes specified in the definition of "in connection with a change in control" below, subject to certain notice and cure provisions:

a material reduction of the executive's authority, duties or responsibilities;

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a material reduction in the executive's base salary other than a one-time reduction that also is applied to substantially all other executive officers of the Company, provided that his reduction is substantially proportionate to the reduction applied to substantially all other executive officers;

the Company requiring the executive to report to anyone other than the Chief Executive Officer, the Board of Directors or a Committee of the Board; or

the Company requiring the executive to relocate his principal place of business or the Company relocating its headquarters, in either case to a facility or location outside of a 35-mile radius from his current principal place of employment.

In connection with a change in control means either:

within the period of time between the Company and another party entering into a written agreement that contemplates a transaction the consummation of which would result in a change in control and the occurrence of either the resulting change in control or the termination or expiration of the written agreement without the occurrence of a change in control; or

within 12 months following a change in control.

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Severance Plan

Eligibility

The Severance Plan provides severance benefits in the event of termination of employment without cause or resignation for good reason of the Section 16 Officers. All of the Company's named executive officers are eligible to participate in the Severance Plan. However, the Severance Plan will not apply to a Section 16 Officer if he or she becomes entitled to the payment of severance benefits upon termination of employment in connection with a change in control pursuant to a separate agreement with the Company.

Payments Made Upon Termination Without Cause or Resignation for Good Reason

If a Section 16 Officer's employment is terminated by the Company without cause or by the Section 16 Officer for good reason, except in the event of termination of the Section 16 Officer's employment due to death or long-term disability or in the event such termination of employment is in connection with a change in control and the Officer is entitled to the payment of severance benefits pursuant to a separate agreement with the Company, then the Officer will receive (i) continued payment of the Officer's base salary for 12 months (18 months in the Chief Executive Officer's case), (ii) all incentive compensation amounts that are not yet paid as of the termination date that the Officer is entitled to receive (under the performance units for all Officers and under the Company's Management Incentive Compensation Plan for the Chief Financial Officer and the Chief Operating Officer) on account of satisfaction of the relevant performance measures for the relevant performance period, provided the Officer was employed through the end of the last day of the relevant performance period, and (iii) a lump sum payment equal to 12 (18 in the Chief Executive Officer's case) multiplied by the monthly COBRA premium applicable to the type of medical, dental and vision coverage then in effect for the Officer.

Conditions to Payments

As a condition to the receipt of severance benefits under the Severance Plan, a Section 16 Officer must execute and comply with a release agreement that includes a release of claims against the Company, its affiliates and representatives and a nondisparagement provision.

Definitions

The definition of "cause" in the Severance Plan has the meaning as described above with respect to Messrs. Kurtzweil's and Kelley's change in control agreements. In addition, the events giving rise to a resignation for "good reason" under the Severance Plan are substantially the same as those listed with respect to Messrs. Kurtzweil's and Kelley's change in control agreements.

LTIP

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The Company's LTIP provides for potential acceleration of equity awards in the event of a proposed sale of all or substantially all of the assets or stock of the Company, the merger of the Company with or into another corporation such that shareholders of the Company immediately prior to the merger exchange their shares of stock in the Company for cash and/or shares of another entity or any other corporate transaction to which the Compensation Committee deems appropriate. Upon such an event, if the successor corporation does not agree to assume the outstanding equity awards or to substitute equivalent awards, the Compensation Committee has discretion to provide for the participants in the LTIP to have the right to exercise, for a period of 15 days, their stock options or other awards as to all shares, including shares as to which the options or other awards would not otherwise be exercisable (or with respect to restricted stock or stock units, provide that all restrictions will lapse). The stock options or other awards will terminate upon the expiration of the 15-day period to the extent not exercised.

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The award agreements under the LTIP provide for accelerated vesting of nonqualified stock options and restricted stock in the event of a participant's death or termination due to a long-term disability.

Under the terms of Messrs. Swoboda's, Kurtzweil's and Kelley's performance units granted under the LTIP, if the executive's employment is terminated due to death or long-term disability before the payment date of the performance units, the executive will be entitled to receive an adjusted payment under the performance units as if he had remained employed through the end of the performance period. In the event there is a change in control (as change in control is defined in the executive's change in control agreement described above) during fiscal 2011, the performance measurement for the plan year will be at least 100%. However, Mr. Swoboda would not be entitled to payment under the performance units if there is a change in control and his employment terminates prior to the end of fiscal 2011. If Mr. Swoboda's employment is terminated in connection with a change in control (as defined in his change in control agreement described above) upon or after the end of the performance period but prior to the payment date under his performance units, he will be entitled to payment under his performance units as if he had remained employed through the payment date. If either Mr. Kurtzweil's or Mr. Kelley's employment is terminated in connection with a change in control (as defined in the executive's change in control agreement described above) prior to the end of fiscal 2011 (other than due to death or long-term disability), the executive will be entitled to payment under his performance units as if he had remained employed through the end of the performance period.

Management Incentive Compensation Plan

Pursuant to the Company's Management Incentive Compensation Plan, as amended in August 2010, or the 2011 Plan, eligible participants generally must be employed by the Company on the last day of the award period in order to be eligible for awards for such award period, except in the case of death or termination due to a long-term disability or in connection with a change in control (as change in control is defined in the 2011 Plan). Upon a participant's death or termination due to a long-term disability, the participant will be entitled to receive an adjusted award for any award period in which he or she was employed by the Company as if the participant was employed on the last day of the award period. In the event there is a change in control during fiscal 2011, each participant's performance measurement against individual goals for any quarterly award period ending after the effective date of the change in control will be 100% and the corporate performance measurement for such quarterly award period will be deemed met, and the corporate performance measurement for the plan year will be at least 100%, regardless of whether the participant remains employed through the end of the award period. For fiscal 2011, Messrs. Kurtzweil and Kelley participate in the 2011 Plan only with respect to quarterly awards. If there is a change in control and a participant's employment terminates for any reason (other than death or long-term disability) subsequent to the change in control but prior to the payment date for an award period, the participant will be entitled to receive an award for all award periods for the plan year as if the participant was employed on the last day of the award period.

Amounts of Potential Payments upon Termination or Change in Control

The following table provides information concerning the estimated payments and benefits that would be provided under the agreements, plans and arrangements described above for each of the named executive officers. Payments and benefits are estimated using the following assumptions: (i) the triggering event took place on June 25, 2010, the last business day of fiscal 2010, or the Trigger Date, (ii) the price per share of the Company's common stock on the Trigger Date was \$65.06, which represents the closing price of the Company's common stock as reported by Nasdaq on such date, (iii) the terms and conditions of any agreements, plans and arrangements in effect as of the date of this proxy statement (as described above) were in effect on and applicable as of the Trigger Date notwithstanding a later approval or execution date, and (iv) all amounts are based on compensation and benefit amounts in effect as of the Trigger Date notwithstanding subsequent changes in such amounts for fiscal 2011. There can be no assurance that a triggering event would produce the same or similar results as those estimated below if such event occurs on any other date or if the actual results differ from the assumptions described herein.

Table of Contents*Potential Payments and Benefits to Named Executive Officers upon**Termination of Employment or Change in Control*

Name	Triggering Event	Type of Payment/Benefit	Amount
Charles M. Swoboda	Death or termination of employment due to long-term disability	Annual incentive award (1)	\$ 750,891
		Vesting acceleration (100%) (2)	14,253,890
			<hr/>
			\$ 15,004,781
	Change in control (not involving termination of employment)	Annual incentive award (3) Vesting acceleration (100%) (4)	\$ 0 14,253,890
		<hr/>	
		\$ 14,253,890	
Charles M. Swoboda	Termination without cause or resignation for good reason not in connection with a change in control (5)	Base salary	\$ 858,000
		COBRA Premiums	23,569
		Vesting acceleration (50%)	1,640,955
			<hr/>
			\$ 2,522,524
Charles M. Swoboda	Termination without cause or resignation for good reason in connection with a change in control (6)	Base salary	\$ 1,144,000
		Lump sum payment (7)	1,264,643
		Vesting acceleration (100%)	14,253,890
			<hr/>
		\$ 16,662,553	
John T. Kurtzweil	Death or termination of employment due to long-term disability	Quarterly incentive award (8)	\$ 22,428
		Annual incentive award (1)	205,254
		Vesting acceleration (100%) (2)	3,488,881
			<hr/>
			\$ 3,716,563
John T. Kurtzweil	Change in control (not involving termination of employment)	Quarterly incentive award (9)	\$ 3,439
		Annual incentive award (9)	0
		Vesting acceleration (100%) (4)	3,488,881
			<hr/>
		\$ 3,492,320	
John T. Kurtzweil	Termination without cause or resignation for good reason not in connection with a change in control (10)	Base salary	\$ 364,000
		COBRA premiums	15,712
			<hr/>
			\$ 379,712
	John T. Kurtzweil	Termination without cause or resignation for good reason in connection with a change in control (11)	Base salary
Incentive Awards (9), (12)			229,320
COBRA premiums			15,712
Vesting acceleration (100%)			3,488,881
		<hr/>	
		\$ 4,097,913	
Stephen D. Kelley	Death or termination of employment due to long-term disability	Quarterly incentive award (8)	\$ 21,565
		Annual incentive award (1)	197,360
		Vesting acceleration (100%) (2)	4,700,789
			<hr/>
		\$ 4,919,714	

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Change in control (not involving termination of employment)	Quarterly incentive award (9)	\$ 275
	Annual incentive award (9)	0
	Vesting acceleration (100%) (4)	4,700,789
		<hr/>
		\$ 4,701,064
Termination without cause or resignation for good reason not in connection with a change in control (10)	Base salary	\$ 350,000
	COBRA premiums	15,712
		<hr/>
		\$ 365,712
Termination without cause or resignation for good reason in connection with a change in control (11)	Base salary	\$ 350,000
	Incentive Awards (9), (13)	220,455
	COBRA premiums	15,712
	Vesting acceleration (100%)	4,700,789
		<hr/>
		\$ 5,286,956

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- (1) Based on actual results for performance period using 150% performance measurement prorated to the Trigger Date for the annual incentive portion. Assumes no prior leave of absence in the case of death. In the case of termination due to long-term disability, assuming 180 days prior leave of absence, payment would have been \$377,520 for Mr. Swoboda, \$102,627 for Mr. Kurtzweil and \$99,225 for Mr. Kelley. Actual amount will vary based on performance measurement and the duration of any leave of absence prior to death or termination due to long-term disability.
- (2) Vesting is automatically accelerated for nonqualified stock options and restricted stock in the event of death or termination of employment due to long-term disability per terms of the award agreements under the LTIP, which terms apply equally to all participants.
- (3) Mr. Swoboda's performance units provide that the performance measurement for determining his annual incentive award will be no less than 100% if a change in control occurs during the performance period. The amount in the table represents the additional amount Mr. Swoboda would have received as a result of this provision and excludes any amount he would otherwise be entitled to receive based on actual performance results.
- (4) For options and other awards under the LTIP, if the outstanding awards are not assumed by the successor in connection with a change in control, the Compensation Committee, in its discretion, may accelerate vesting of the outstanding but unvested options and awards. For purposes of this table, it has been assumed that the options and awards were not assumed by the successor and that the Compensation Committee exercised its discretion to the fullest extent possible.
- (5) The triggering event, along with resulting benefits, is defined in the Severance Plan, except that the right to accelerated vesting of unvested equity awards outstanding on August 18, 2008 is provided in Mr. Swoboda's change in control agreement, and the triggering event and resulting benefits for each such award will be determined by reference to his employment agreement in effect on the date of the grant of such award. The Severance Plan does not provide an independent right to acceleration of unvested equity awards.
- (6) The triggering event, along with resulting benefits, is defined in Mr. Swoboda's change in control agreement, except that, with respect to accelerated vesting of equity awards outstanding on August 18, 2008, the triggering event and resulting benefits for each award will be determined by reference to Mr. Swoboda's employment agreement in effect on the date of the grant of such award. If Mr. Swoboda was generally disabled and the Company terminated his employment without cause in connection with a change in control prior to the date he was determined to have a long-term disability, or if he ceased to be generally disabled before his employment was terminated due to a long-term disability and he resigned for good reason (in connection with a change in control) on account of any event or circumstances that occurred while he was generally disabled (if not cured or consented to by Mr. Swoboda), then pursuant to his change in control agreement Mr. Swoboda would only be entitled to receive the base salary and COBRA premiums amounts specified for this triggering event, except that, vesting of equity awards outstanding on August 18, 2008 would be accelerated by reference to Mr. Swoboda's employment agreement in effect on the date of the grant of such award resulting in an additional severance benefit of \$2,226,495.
- (7) Includes lump sum payments in the following amounts: (i) \$453,839, which represents 80% of Mr. Swoboda's base salary prorated to the Trigger Date, (ii) \$779,379, which represents the sum of his annual incentive awards for the previous two fiscal years, and (iii) \$31,425 for 24 months of COBRA premiums.
- (8) Amount in table is based on actual results for performance period and is payable in the case of death only. In the case of termination due to long-term disability (assuming at least 91 days prior leave of absence), no payment would be due.
- (9) The 2011 Plan provides that, if a change in control occurs, a participant's performance measurement for all quarterly award periods that end after the effective date of the change in control will be 100%, and the participant does not need to be employed on the last day of the award period in order to receive payment (which would be required if the change in control had not occurred). Messrs. Kurtzweil's and Kelley's

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performance units provide that the performance measurement for determining the executive's annual incentive award will be no less than 100% if a change in control occurs during the performance period. In the absence of the change of control provisions in the 2011 Plan and Messrs. Kurtzweil's and Kelley's performance units, neither of the executives would be eligible to receive any quarterly payment under the incentive plans if he was not employed on the last day of the fiscal period. The amounts in the table represent the additional amounts Messrs. Kurtzweil and Kelley would have received as a result of this provision and exclude any amount the executive would otherwise be entitled to receive based on actual performance results.

- (10) The triggering event, along with resulting benefits, is defined in the Severance Plan.

- (11) The triggering event, along with resulting benefits, is defined in Messrs. Kurtzweil and Kelley's change in control agreements, except that, with respect to accelerated vesting of Mr. Kurtzweil's equity awards outstanding on August 18, 2008, the triggering event and resulting benefits for each award will be determined by reference to his severance agreement in effect on the date of the grant of such award, and with respect to incentive awards, Messrs. Kurtzweil's and Kelley's right to payment and the amount of such payment would be determined by the 2011 Plan, with respect to quarterly awards, and by the executive's performance units, with respect to annual awards. If either Mr. Kurtzweil or Mr. Kelley was generally disabled and the Company terminated his employment without cause in connection with a change in control prior to the date he was determined to have a long-term disability, or if he ceased to be generally disabled before his employment was terminated due to a long-term disability and he resigned for good reason (in connection with a change in control) on account of any event or circumstances that occurred while he was generally disabled (if not cured or consented to by the executive), then pursuant to his change in control agreement the executive would only be entitled to receive the base salary and COBRA premiums amounts specified for this triggering event.

- (12) Includes the following amounts: (i) guaranteed quarterly incentive award of 100%, or \$22,932, and (ii) actual results for performance period of \$206,388.

- (13) Includes the following amounts: (i) guaranteed quarterly incentive award of 100%, or \$22,050, and (ii) actual results for performance period of \$198,405.

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The following table summarizes the annual and long-term compensation of each of the Company's non-employee directors, as well as Dr. Palmour, who served as a director during fiscal 2010.

Director Compensation for Fiscal 2010

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$ (1))	Option Awards (\$ (1))	Total (\$)
Dolph W. von Arx (2)	\$ 60,000	\$ 179,450	\$ 73,777	\$ 313,227
Clyde R. Hosein (3)	\$ 62,000	\$ 179,450	\$ 73,777	\$ 315,227
Robert A. Ingram (4)	\$ 50,000	\$ 179,450	\$ 73,777	\$ 303,227
John W. Palmour, Ph.D. (5)	\$ 368,321	\$ 215,340	\$ 419,106	\$ 1,002,767
Franco Plastina (6)	\$ 61,000	\$ 179,450	\$ 73,777	\$ 314,227
Harvey A. Wagner (7)	\$ 81,000	\$ 179,450	\$ 73,777	\$ 334,227
Thomas H. Werner (8)	\$ 62,000	\$ 179,450	\$ 73,777	\$ 315,227

- (1) Amounts listed in the Stock Awards and Option Awards columns represent the aggregate grant date fair value of awards granted during the fiscal years shown calculated in accordance with ASC Topic 718, disregarding any forfeiture assumptions. With respect to Messrs. von Arx, Hosein, Ingram, Plastina, Wagner and Werner, these amounts relate to the annual grant of 5,000 nonqualified stock options and 5,000 shares of restricted stock on September 1, 2009. With respect to Dr. Palmour, these amounts relate to the annual grant of 30,000 nonqualified stock options and 6,000 shares of restricted stock on September 1, 2009 for his service as an employee. The exercise price of the option grants made on September 1, 2009 is \$35.89, the closing price of our common stock as reported by Nasdaq on the date of grant. The awards were made under the LTIP. For a discussion of the assumptions used to value these awards, see Note 11 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 27, 2010.
- (2) As of June 27, 2010, Mr. von Arx had options to purchase 41,000 shares outstanding, of which 38,500 were exercisable. In addition, Mr. von Arx held 5,000 shares of restricted stock that vested on September 1, 2010.
- (3) As of June 27, 2010, Mr. Hosein had options to purchase 23,750 shares outstanding, of which 21,250 were exercisable. In addition, Mr. Hosein held 5,000 shares of restricted stock that vested on September 1, 2010.
- (4) As of June 27, 2010, Mr. Ingram had options to purchase 8,750 shares outstanding, of which 6,250 were exercisable. In addition, Mr. Ingram held 5,000 shares of restricted stock that vested on September 1, 2010. Lastly, Mr. Ingram deferred \$12,500 of the \$50,000 of fees earned in fiscal 2010 into the Deferral Program.
- (5) Dr. Palmour's compensation reflected in this table is for service as an employee of the Company. Dr. Palmour does not receive any additional compensation for his service on the Board of Directors. Fees Earned or Paid in Cash represents compensation paid to Dr. Palmour as base salary, bonus, non-equity incentive plan compensation and all other compensation.

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- (6) As of June 27, 2010, Mr. Plastina had options to purchase 2,500 shares outstanding, none of which were exercisable. In addition, Mr. Plastina held 5,000 shares of restricted stock that vested on September 1, 2010.
- (7) As of June 27, 2010, Mr. Wagner had options to purchase 48,000 shares outstanding, of which 45,500 were exercisable. In addition, Mr. Wagner held 5,000 shares of restricted stock that vested on September 1, 2010.
- (8) As of June 27, 2010, Mr. Werner had options to purchase 22,500 shares outstanding, of which 20,000 were exercisable. In addition, Mr. Werner held 5,000 shares of restricted stock that vested on September 1, 2010.

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Summary of Director Compensation Program

Non-employee directors are compensated for Board of Directors service through a combination of a cash retainer and grants of restricted stock and nonqualified stock options to purchase shares of the Company's common stock. The Company also reimburses directors for expenses incurred in serving as a director. Directors who are also employed by the Company are not separately compensated for their service on the Board of Directors.

The Company grants each non-employee director annually an option to purchase 5,000 shares with a quarterly vesting schedule corresponding to the term of service following election as a director at the annual meeting of shareholders. The Company also grants each non-employee director a restricted stock award for 5,000 shares annually which vests on the first anniversary of the grant date. Non-employee directors appointed to fill a vacancy between annual meetings of shareholders are generally granted equity awards in an amount and with vesting terms that correspond to the remaining term of service before the next annual meeting. The exercise price of all option grants is equal to the fair market value on the grant date and the maximum term of the option is seven years. Vesting of the option and restricted stock award is subject to continued service to the Company. The options generally vest during the term of service following election or appointment as a director, vesting in equal increments on the last day of each calendar quarter following election or, if earlier, upon the election of directors at the next annual meeting.

In fiscal 2010, non-employee directors were paid the following quarterly cash retainers: \$8,750 for service as a member of the Board; \$1,250 for service as Lead Independent Director; \$5,000 for service as Audit Committee Chair; \$2,500 for service as Compensation Committee Chair; \$1,250 for service as Governance and Nominations Committee Chair; \$5,000 for service as a member of the Audit Committee; \$2,500 for service as a member of the Compensation Committee; and \$1,250 for service as a member of the Governance and Nominations Committee. Non-employee directors may receive meeting fees of \$1,000 for service as a committee member or \$2,000 for service as committee chair of any additional committee of the Board of Directors that may be formed in the future.

Non-employee directors may elect to participate in the Deferral Program. Under this plan, a participant will receive shares of the Company's common stock in lieu of all or a portion of the quarterly retainer and any meeting fees earned. The number of shares will be determined quarterly by dividing the applicable fees by the fair market value of a share, with fair market value for this purpose defined as the consolidated closing bid price on The NASDAQ Stock Market on the first business day following announcement of financial results for the previous fiscal quarter. A participant in the plan may also choose to defer receipt of the shares until after his or her separation from service as a director. A participant who elects to defer receipt of shares may choose either a lump sum distribution, to be made in any of the first five years after the year of separation from service as a director, or a series of up to five installment distributions ending not later than the fifth year after separation from service. In the event of the death of a participant, either while serving as a director or after separation of service, any deferred distributions will be made within ninety days after the date of death.

Compensation Committee Interlocks and Insider Participation

Messrs. Werner, von Arx, and Ingram served on our Compensation Committee during fiscal 2010. None of these individuals has ever served as an officer or employee of the Company or any of its subsidiaries, nor were they involved in any related person transaction during fiscal 2010. No interlocking relationships existed during fiscal 2010 between our Board of Directors or Compensation Committee and the board of directors or compensation committee of any other company.

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PROPOSAL NO. 3 APPROVAL OF AMENDMENT TO THE BYLAWS

The Board of Directors is proposing that the shareholders approve an amendment to the Company's Bylaws that would set the number of directors constituting the Board of Directors to be within a specified range, with the number within that range to be determined by the Board of Directors from time to time. The proposed amendment is described below. The current Bylaws are available through our website at www.cree.com/investor/corp.asp. The Bylaws are also filed as Exhibit 3.1 to our Current Report on Form 8-K (File No. 000-21154) filed with the Securities and Exchange Commission on August 21, 2009, which is available online through the Commission's EDGAR System. In addition, you may request a copy of our current Bylaws by sending a written request to: Director, Investor Relations, Cree, Inc., 4600 Silicon Drive, Durham, North Carolina 27703.

The current Bylaws provide that the size of the Board of Directors is to be determined by the shareholders from time to time. This bylaw appears in the first sentence of Article IV, Section 2, which reads as follows: "The number constituting the board of directors shall be determined from time to time by resolution of the shareholders." Pursuant to this bylaw, the shareholders last set the size of the Board of Directors at nine directors by resolution adopted by the shareholders in 1988.

If the proposed amendment is approved by the shareholders, the first sentence of Article IV, Section 2 of the Bylaws would be deleted and replaced by the following: "The number of directors which shall constitute the board of directors shall be not less than five (5) nor more than nine (9). This range shall not be altered without shareholder approval. The exact number of directors shall be fixed from time to time within such range by resolution of the board of directors." The remainder of Article IV, Section 2 of the Bylaws would not be altered by the amendment.

The amendment would provide the Board of Directors with the flexibility to determine the size of the Board within the pre-determined range fixed by the shareholders. Although the number of directors constituting the Board of Directors was set at nine by shareholder action in 1988, historically fewer than nine directors have served at any one time. Typically, only seven or eight directors have served at any one time, leaving unfilled vacancies. Allowing the Board of Directors to determine the number of directors constituting the Board of Directors would help avoid unnecessary vacancies and permit the Board to determine the number of directors that would best serve the Company from time to time, subject to the limitations of the range set by shareholders in the proposed amendment.

Under North Carolina law, our shareholders are not entitled to appraisal rights with respect to the amendment.

The Board of Directors recommends

shareholders vote FOR Proposal No. 3.

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PROPOSAL NO. 4 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee has reappointed Ernst & Young LLP to audit the consolidated financial statements of the Company for fiscal 2011. Ernst & Young LLP was first engaged as our independent auditors for fiscal 1999 and has served as our independent auditors for each subsequent fiscal year. A representative from Ernst & Young LLP is expected to be present at the 2010 Annual Meeting, will have the opportunity to make a statement if he or she desires to do so and is expected to be available to respond to appropriate questions.

Although shareholder ratification of the appointment is not required by law or the Company's Bylaws, the Audit Committee determined that, as a matter of corporate governance, the selection of independent auditors should be submitted to the shareholders for approval. If the appointment of Ernst & Young LLP is not ratified by a majority of the votes cast at the 2010 Annual Meeting, the Audit Committee will consider the appointment of other independent auditors for subsequent fiscal years.

**The Board of Directors recommends
shareholders vote FOR Proposal No. 4.**

Report of the Audit Committee

The role of the Audit Committee is to assist the Board of Directors in its oversight of the Company's financial reporting process and audits of the Company's financial statements including its internal controls over financial reporting. The full responsibilities of the Audit Committee are described in a written charter adopted by the Board of Directors, a copy of which is posted on the Company's website at www.cree.com. The management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements, the Company's accounting and financial reporting principles, and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for auditing the Company's financial statements and expressing an opinion as to their conformity with generally accepted accounting principles, as well as expressing opinions on the effectiveness of the Company's internal controls.

In the performance of its oversight function, the Audit Committee has reviewed and discussed with management and the independent auditors the audited financial statements, management's assessment and report on the effectiveness of the Company's internal controls, the independent auditors' attestation report on the Company's internal controls and the processes that support certifications of the Company's financial statements by the Company's Chief Executive Officer and Chief Financial Officer. The Audit Committee has also discussed with the independent auditors the matters required by Statement on Auditing Standards No. 61, Communication with Audit Committees, as currently in effect. In addition, the Audit Committee has received the written disclosures and the letter from the independent auditors required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditors' communications with the Audit Committee concerning independence and has discussed with the auditors the auditors' independence.

The members of the Audit Committee in carrying out their duties are not engaged in the practice of accounting and do not act as auditors. Members of the Committee rely without independent verification on the information provided to them and on the representations made by management and the independent auditors. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The Audit Committee's considerations and discussions referred to above do not assure that the audit of the Company's financial statements has been carried out in accordance with generally

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accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that the Company's auditors are in fact independent.

The Audit Committee routinely meets privately with the Company's internal auditor and the independent auditors.

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Based upon the review and discussions described in this report and, subject to the limitations on the role and responsibilities of the Audit Committee referred to above and in the Audit Committee Charter, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended June 27, 2010 for filing with the Securities and Exchange Commission.

THE AUDIT COMMITTEE

Harvey A. Wagner, Chairman

Clyde R. Hosein

Franco Plastina

Independent Auditor Fee Information

The fees of Ernst & Young LLP for the fiscal years shown were as follows:

	Fiscal 2010	Fiscal 2009
Audit Fees	\$ 933,902	\$ 1,083,751
Audit-Related Fees	125,000	
Tax Fees	236,641	145,876
All Other Fees	1,721	2,960
Total	\$ 1,297,264	\$ 1,232,587

Audit Fees. This category includes fees billed for the fiscal year shown for professional services for the audit of the Company's annual financial statements, review of financial statements included in the Company's quarterly reports on Form 10-Q, internal controls attestation under Section 404 of the Sarbanes-Oxley Act of 2002 and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for the relevant fiscal years.

Audit-Related Fees. This category includes fees billed in the fiscal year shown for assurance and related services that are reasonably related to the performance of the audits and reviews of the Company's financial statements and are not reported under the category Audit Fees. The services comprising the fees disclosed under this category for fiscal 2010 were primarily for due diligence work performed in connection with providing an auditor's consent in connection with our follow-on public offering of common stock in September 2009.

Tax Fees. This category includes fees billed in the fiscal year shown for professional services for tax compliance, tax planning and tax advice. The services comprising the fees disclosed under this category for fiscal 2010 and 2009 were primarily related to assistance in responding to Internal Revenue Service audit inquiries of our prior year tax returns and also for ongoing transfer pricing documentation assistance.

All Other Fees. This category includes fees billed in the fiscal year shown for products and services provided by Ernst & Young LLP that are not reported in any other category. The services comprising the fees disclosed under this category for fiscal 2010 and fiscal 2009 were for training and online research access.

All audit and permissible non-audit services provided by the Company's independent auditors, as well as the fees for such services, must be pre-approved by the Audit Committee. The Audit Committee may delegate to one or more designated members of the Audit Committee the authority to pre-approve audit and permissible non-audit services, provided such pre-approval decisions are reported to the full Audit Committee at its next scheduled meeting. The Committee has delegated such authority to the Committee's chairman. Any pre-approval is generally for the current fiscal year, and any pre-approval is detailed as to the particular service or category of services. All audit and non-audit services provided by the Company's independent auditors during fiscal 2010 and fiscal 2009 were approved by or on behalf of the Company's Audit Committee.

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OTHER MATTERS

Other Business

Other than the election of directors, approval of the amendment to the LTIP, approval of the amendment to the Bylaws and ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending June 26, 2011, as described in this proxy statement, the Board of Directors presently knows of no other business to be conducted at the 2010 Annual Meeting of Shareholders. Under the Company's Bylaws, any shareholder desiring to present a proposal for consideration at the meeting, including any director nomination, was required to give the Company written notice of the proposal in accordance with the Bylaws by a certain date. No timely notices meeting the Bylaw requirements have been received. Should any other business properly come before the meeting, the persons named in the accompanying form of proxy may vote the shares represented by the proxy in their discretion, except that under the rules of the Securities and Exchange Commission the accompanying proxy cannot be voted for more than eight nominees.

2011 Annual Meeting of Shareholders

Pursuant to the rules of the Securities and Exchange Commission, shareholder proposals submitted for inclusion in the Company's proxy statement and form of proxy for the annual meeting to be held in 2011 must be received by the Company not later than May 17, 2011, and must comply with the Commission's rules in other respects.

Other shareholder proposals to be presented at the annual meeting in 2011, including director nominations, must comply with the notice requirements of the Company's Bylaws and be delivered to the Company not later than July 28, 2011, nor earlier than June 28, 2011. Any such proposals should be sent via means that afford proof of delivery to the Secretary at the Company's principal executive offices.

Procedures for Director Nominations

Under the charter of the Governance and Nominations Committee, the Committee is responsible for identifying and recommending that the Board of Directors select qualified candidates for membership on the Board of Directors. In identifying candidates, the Committee takes into account such factors as it considers appropriate, which may include (a) ensuring that the Board of Directors, as a whole, is composed of individuals with diverse backgrounds and consists of individuals with various and relevant career experience, relevant technical skills, industry knowledge and experience, financial expertise and local or community ties, (b) minimum individual qualifications, including strength of character, mature judgment, familiarity with the Company's business and industry, independence of thought and an ability to work collegially, (c) questions of independence, possible conflicts of interest and whether a candidate has special interests or a specific agenda that would impair his or her ability to effectively represent the interests of all shareholders, (d) the extent to which the candidate would fill a present need on the Board of Directors, and (e) whether the candidate can make sufficient time available to perform the duties of a director. The Committee is also authorized to develop additional policies regarding Board size, composition and member qualification. The Governance and Nominations Committee annually reviews its charter and recommends changes to the Board of Directors for approval.

The Governance and Nominations Committee is responsible for evaluating suggestions concerning possible candidates for election to the Board of Directors submitted to the Company, including those submitted by Board members (including self-nominations) and shareholders. All candidates, including those submitted by shareholders, will be evaluated by the Committee on the same basis as other candidates using the Board

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of Directors membership criteria described above and in accordance with applicable procedures. The Governance and Nominations Committee annually considers the size, composition and needs of the Board of Directors in light of the criteria above, including diversity of career experience, technical skills and industry background, and accordingly considers and recommends candidates for membership on the Board of Directors. Once candidates have been identified, the Committee will determine whether such candidates meet the minimum qualifications for director nominees.

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Any shareholder desiring to present a nomination for consideration by the Governance and Nominations Committee prior to the 2011 Annual Meeting must do so in accordance with the Company's Bylaws. See "2011 Annual Meeting of Shareholders" above.

Shareholder Communications with Directors

The Board of Directors, as a matter of policy, desires to facilitate communications between shareholders and directors to assist the Board of Directors in fulfilling its responsibilities to all shareholders. To that end the Board of Directors has established a process for use by shareholders who desire to bring matters to the Board's attention. The process is intended to provide shareholders one means of communicating with directors and is not intended to be exclusive.

Any shareholder who desires to send a communication to members of the Board of Directors may submit it either by e-mail addressed to Corporate_Secretary@Cree.com or by mail addressed to the attention of the Corporate Secretary at Cree, Inc., 4600 Silicon Drive, Durham, North Carolina 27703. All such communications should include the number of shares beneficially owned by the person submitting the communication and his or her mailing address, telephone number and e-mail address, if any. All communications properly submitted under these procedures, except those deemed inappropriate as noted below, will be delivered to all members of the Board of Directors periodically, generally in advance of each regularly scheduled Board of Directors meeting. The Board of Directors has directed that the Secretary not forward communications which (a) are not reasonably related to the business of the Company, (b) concern individual grievances or other interests that are personal to the shareholder submitting the communication and that cannot reasonably be construed to present a matter of concern to shareholders generally or (c) under community standards, contain offensive, scurrilous or abusive content or that advocate engaging in illegal activities. If the Secretary, in his or her judgment, deems a communication inappropriate under the foregoing criteria, it will be returned to the person who submitted it together with a brief explanation of the reason why it has been deemed inappropriate for delivery.

Costs of Soliciting Proxies

The Company will bear the cost of this solicitation, including the preparation, printing and mailing of the proxy statement, proxy card and any additional soliciting materials sent by the Company to shareholders. The Company's directors, officers and employees may solicit proxies personally or by telephone without additional compensation. The Company has engaged The Proxy Advisory Group, LLC to assist in the solicitation of proxies and to provide related advice and informational support for a fee of \$10,000 plus an allowance for the reimbursement of customary disbursements. The Company will also reimburse brokerage firms and other persons representing beneficial owners of shares for reasonable expenses incurred in forwarding proxy soliciting materials to the beneficial owners.

Availability of Report on Form 10-K

A copy of the Company's report on Form 10-K for the fiscal year ended June 27, 2010 (without exhibits), including financial statements, will be furnished without charge to any shareholder whose proxy is solicited hereby upon written request directed to: Director, Investor Relations, Cree, Inc., 4600 Silicon Drive, Durham, North Carolina 27703.

Shareholders Sharing the Same Last Name and Address

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Only one Notice or annual report and proxy statement, as applicable, may be delivered to multiple shareholders sharing an address unless the Company has received contrary instructions from one or more of the shareholders. We will deliver promptly upon written or oral request a separate copy of the Notice or annual report and proxy statement, as applicable, to a shareholder at a shared address to which a single copy was delivered. Requests for additional copies should be directed to the Corporate Secretary by e-mail addressed to

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Corporate_Secretary@Cree.com, by mail addressed to the attention of the Corporate Secretary at Cree, Inc., 4600 Silicon Drive, Durham, North Carolina 27703 or by telephone at (919) 313-5300. Shareholders sharing an address and currently receiving a single copy may contact the Corporate Secretary as described above to request that multiple copies be delivered in future years. Shareholders sharing an address and currently receiving multiple copies may request delivery of a single copy in future years by contacting the Corporate Secretary as described above.

Principal Executive Offices and Annual Meeting Location

The Company's principal executive offices are located at 4600 Silicon Drive, Durham, North Carolina 27703, and the main telephone number at that location is (919) 313-5300. The 2010 Annual Meeting of Shareholders will be held at our offices at 4425 Silicon Drive, Durham, North Carolina 27703, on Tuesday, October 26, 2010, at 10:00 a.m. local time. Requests for directions to the meeting location may be directed to: Director, Investor Relations, Cree, Inc., 4600 Silicon Drive, Durham, North Carolina 27703.

Dated: September 3, 2010

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APPENDIX A

RADFORD EXECUTIVE SURVEY PARTICIPANTS

(\$300M-\$700M REVENUE)

1 ACCURAY	51 EPICOR SOFTWARE
2 ADTRAN	52 EQUINIX
3 ADVENT SOFTWARE	53 EXPONENT
4 AFFYMETRIX	54 EXTREME NETWORKS
5 AIRVANA	55 F5 NETWORKS
6 AKAMAI TECHNOLOGIES	56 FINISAR
7 ALIGN TECHNOLOGY	57 FISERV
8 ALLEGRO MICROSYSTEMS	58 FORMFACTOR
9 AMCC	59 FORRESTER RESEARCH
10 ANRITSU	60 FOUNDRY NETWORKS
11 ARGON ST	61 FOX INTERACTIVE MEDIA
12 ARIBA	62 FUJITSU AMERICA MGMT SVS OF AMERICA
13 ARTHROCARE	63 GENENCOR A DANISCO DIVISION
14 ASYST TECHNOLOGIES	64 GSI COMMERCE
15 AVANEX	65 GSI GROUP
16 AVID TECHNOLOGY	66 HARMONIC
17 AXCELIS TECHNOLOGIES	67 HARRIS STRATEX NETWORKS
18 BLUE COAT SYSTEMS	68 HUTCHINSON TECHNOLOGY
19 BOOKHAM TECHNOLOGY	69 HYPERCOM
20 BOWE BELL & HOWELL	70 I2 TECHNOLOGIES
21 BROOKS AUTOMATION	71 IAC SEARCH & MEDIA
22 CABOT MICROELECTRONICS	72 ICF INTERNATIONAL
23 CAE	73 INFINEON TECHNOLOGIES
24 CALAMP	74 INFINERA
25 CARL ZEISS MEDITEC	75 INFOCUS
26 CBSI	76 INFORMATICA
27 CIENA	77 INTEGRATED DEVICE TECHNOLOGY
28 COGNEX	78 INTERMEC
29 COHERENT	79 INTERSIL
30 COMM & POWER INDUSTRIES	80 INTERVOICE
31 CONEXANT SYSTEMS	81 INTERWOVEN
32 COREL	82 INTUITIVE SURGICAL
33 CSG SYSTEMS	83 ION GEOPHYSICAL
34 CUBIC CORPORATION	84 ITG
35 CYMER	85 JAZZ SEMICONDUCTOR A TOWER COMPANY
36 CYPRESS SEMICONDUCTOR	86 KULICKE AND SOFFA
37 DASSAULT SYSTEMS AMERICAS	87 L-1 IDENTITY SOLUTIONS
38 DEALERTRAK	88 LATTICE SEMICONDUCTOR
39 DIGITAL RIVER	89 LAWSON SOFTWARE
40 DIODES	90 LEAPFROG ENTERPRISES
41 DISNEY INTERACTIVE MEDIA GROUP	91 LTX CREDENCE
42 DOLBY LABORATORIES	92 MACROVISION
43 DOT HILL SYSTEMS	93 MAGMA DESIGN AUTOMATION
44 EARTHLINK	94 MATTSON TECHNOLOGY
45 ECLIPSYS	95 MEGGITT-USA
46 ELECTRO SCIENTIFIC INDUSTRIES	96 MENTOR GRAPHICS
47 ELECTRONICS FOR IMAGING	

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48 EMS TECHNOLOGIES
49 EMULEX
50 ENTEGRIS

97 MERCURY COMPUTER SYSTEMS
98 MERIX
99 MICREL SEMICONDUCTOR

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100 MICROSEMI	155 SMSC
101 MISYS	156 SOFTCHOICE
102 MOVE.COM	157 SOFTWARE AG
103 MSC.SOFTWARE	158 SOLIDWORKS
104 NATIONAL INSTRUMENTS	159 SONUS NETWORKS
105 NAVTEQ	160 SPACE SYSTEMS/LORAL
106 NDS AMERICAS	161 SPIRENT COMMUNICATIONS
107 NEKTAR THERAPEUTICS	162 SPSS
108 NEUSTAR	163 STANLEY ASSOCIATES
109 NIKON PRECISION	164 STERLING COMMERCE
110 NOVATEL WIRELESS	165 STRYKER ENDOSCOPY
111 NOVELL	166 SUMCO USA PHOENIX
112 NUANCE COMMUNICATIONS	167 SUNPOWER
113 OMNICELL	168 SUREWEST COMMUNICATIONS
114 OMNIVISION TECHNOLOGIES	169 SVB FINANCIAL GROUP
115 OPEN TEXT	170 SYMMETRICOM
116 PEARSON EDUCATION	171 SYNAPTICS
117 PHILIPS LUMILEDS LIGHTING COMPANY	172 SYNIVERSE TECHNOLOGIES
118 PLANAR SYSTEMS	173 TEKELEC
119 PLANTRONICS	174 THE PMI GROUP
120 PMC-SIERRA	175 THORATEC
121 POLYCOM	176 TIBCO SOFTWARE
122 POWERWAVE TECHNOLOGIES	177 TIVO
123 PRESSTEK	178 TOKYO ELECTRON US HOLDINGS
124 PROGRESS SOFTWARE	179 TOSHIBA AMERICA BUSINESS SOLUTIONS
125 PROVIDE COMMERCE	180 TOSHIBA AMERICA MEDICAL SYSTEM
126 QAD	181 TRAVELPORT
127 QLOGIC	182 TREE COM
128 QUANTUM	183 TREND MICRO
129 RACKABLE SYSTEMS	184 TRIDENT MICROSYSTEMS
130 RADIANT SYSTEMS	185 TRIQUINT SEMICONDUCTOR
131 RADISYS	186 UBISOFT
132 RAZORFISH	187 ULTRACLEAN TECHNOLOGY
133 RCN	188 UNITED ONLINE
134 REALNETWORKS	189 UNITED ONLINE
135 RED HAT	190 VARIAN
136 REDBACK NETWORKS AN ERICSSON COMPANY	191 VEECO INSTRUMENTS
137 RESMED	192 VERIFONE
138 RF MICRO DEVICES	193 VERIGY
139 RIVERBED TECHNOLOGY	194 VIASAT
140 S1	195 VISHAY- SILICONIX
141 SAGE SOFTWARE	196 VITESSE SEMICONDUCTOR
142 SALESFORCE.COM	197 VONAGE
143 SAVVIS COMMUNICATIONS	198 WAFERTECH
144 SECURE COMPUTING	199 WEBSense
145 SEMTECH	200 WIND RIVER SYSTEMS
146 SGI	201 WMS GAMING
147 SIGMA DESIGNS	202 XEROX INTERNATIONAL PERNERS
148 SILICON IMAGE	203 ZEBRA TECHNOLOGIES
149 SILICON LABORATORIES	204 ZORAN
150 SILICON STORAGE TECHNOLOGY	
151 SIRF TECHNOLOGY	
152 SKILLSOFT	
153 SKYWORKS SOLUTIONS	
154 SMART MODULAR TECHNOLOGIES	

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APPENDIX B

RADFORD EXECUTIVE SURVEY PARTICIPANTS

(SEMICONDUCTOR WITH <\$200M REVENUE)

- 1 ACTEL
- 2 ANADIGICS
- 3 CALIFORNIA MICRO DEVICES
- 4 CIRRUS LOGIC
- 5 EMCORE
- 6 ENTROPIC COMMUNICATIONS
- 7 EPSON ELECTRONICS AMERICA SJ
- 8 EXAR
- 9 HI/FN
- 10 IKANOS COMMUNICATIONS
- 11 MICROTUNE
- 12 MINDSPEED TECHNOLOGIES
- 13 MONOLITHIC POWER SYSTEMS
- 14 NETLOGIC MICROSYSTEMS
- 15 PERICOM SEMICONDUCTOR
- 16 PLX TECHNOLOGY
- 17 POLAR SEMICONDUCTOR
- 18 POWER INTEGRATIONS
- 19 QUICKLOGIC
- 20 RAMBUS
- 21 TESSERA TECHNOLOGIES
- 22 TRANSWITCH
- 23 TSMC NORTH AMERICA
- 24 VIRAGE LOGIC
- 25 ZILOG

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APPENDIX C

PROPOSED AMENDMENT TO

2004 LONG-TERM INCENTIVE COMPENSATION PLAN

If the proposed amendment to the 2004 Long-Term Incentive Compensation Plan is approved, Section 4.1 of the plan would read in its entirety as follows (not including the footnotes):

4.1 Aggregate Limits.

(a) Subject to adjustment as provided in Section 4.3, the aggregate number of Shares which may be issued pursuant to Awards under this Plan is (i) 14,200,000¹ plus (ii) the number of Shares which immediately prior to the Effective Date, were authorized for issuance under the Predecessor Plan and are not thereafter used for awards under the Predecessor Plan. Shares described in clause (ii) above include Shares which, immediately prior to the Effective Date, were authorized for issuance under the Predecessor Plan and either (x) were not subject to then outstanding awards or (y) were subject to then outstanding awards that subsequently expire, are canceled or otherwise terminate unexercised for any reason.

(b) Subject to adjustment as provided in Section 4.3, no more than an aggregate of 2,400,000² Shares authorized by subsection (a) may be issued pursuant to Awards of Restricted stock, Stock Units or Performance Units.

(c) If for any reason any Shares awarded or subject to purchase under this Plan are not delivered or purchased, or are reacquired by the Company, for reasons including, but not limited to, a forfeiture of Restricted Stock or a Stock Unit or the termination, expiration or cancellation of an Option, Stock Appreciation Right or Performance Unit, such Shares shall again be available for issuance pursuant to an Award under the Plan, except that Shares with respect to which a Stock Appreciation Right is exercised, and Shares withheld for payment of taxes pursuant to Section 13.2, shall not thereafter be available for issuance under the Plan. The determination of the number of issued Shares that again become available for issuance with respect to grants of Incentive Stock Options pursuant to this Section 4.1 shall be made in accordance with the requirements of Treas. Reg. section 1.422-2(b)(3).

¹ Increased from 11,200,000.

² Increased from 1,200,000.

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APPENDIX D

2004 LONG-TERM INCENTIVE COMPENSATION PLAN

(As amended August 17, 2010, subject to shareholder approval of amendment to Section 4.1)

ARTICLE 1 GENERAL PROVISIONS

1.1 *Establishment of Plan.* Cree, Inc., a North Carolina corporation (the *Company*), hereby establishes an incentive compensation plan to be known as the Cree, Inc. 2004 Long-Term Incentive Compensation Plan (the *Plan*), as set forth in this document.

1.2 *Purpose of Plan.* The objectives of the Plan are to (i) attract and retain employees for the Company and its affiliates and directors of the Company by providing competitive compensation opportunities; (ii) provide incentives to those individuals who contribute significantly to the long-term performance and growth of the Company and its affiliates; and (iii) align the long-term financial interests of employees and directors with those of the Company's shareholders.

1.3 *Types of Awards.* Awards under the Plan may be made to Eligible Participants who are employees in the form of (i) Incentive Stock Options, (ii) Nonqualified Stock Options, (iii) Stock Appreciation Rights, (iv) Restricted Stock, (v) Stock Units, (vi) Performance Units, or any combination of these. Awards under the Plan may be made to Eligible Participants who are Outside Directors in the form of (i) Nonqualified Stock Options, (ii) Stock Appreciation Rights, (iii) Restricted Stock, (iv) Stock Units, or any combination of these, subject to and in accordance with Section 4.2 and Article 10.

1.4 *Effective Date.* The Plan became effective upon approval of the Plan by the Company's shareholders on November 4, 2004, and the date of such approval is referred to herein as the *Effective Date*.

1.5 *Predecessor Plan.* Upon approval of the Plan by the shareholders of the Company, no further grants may be made under the Cree, Inc. Amended and Restated Equity Compensation Plan (the *Predecessor Plan*).

ARTICLE 2 DEFINITIONS

Except where the context otherwise indicates, the following definitions apply:

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2.1 **Award Agreement** means the written agreement, whether in printed or electronic form, between the Company and a Participant, evidencing an Award granted to the Participant under the Plan. The Award Agreement may be in the form of a master agreement between an Eligible Participant and the Company with respect to all or any types of Awards supplemented, with respect to a particular Award, by a notice of award issued by the Company.

2.2 **Award** means an award granted to a Participant under the Plan that is an Option, Stock Appreciation Right, Restricted Stock, Stock Unit, Performance Unit or combination of these.

2.3 **Board** means the Board of Directors of the Company.

2.4 **Cause** means, unless provided otherwise in the Award Agreement or the Plan: (i) **Cause** as defined in an Individual Agreement to which a Participant is a party that is then in effect, or (ii) if there is no such Individual Agreement or if it does not define **Cause**, termination of the Participant's employment by the Company or any other Employer because of any conduct amounting to fraud, dishonesty, willful misconduct,

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negligence, significant activities materially harmful to the reputation of the Company or an Employer, insubordination or conviction of a felony or a crime involving moral turpitude, all as determined by the Committee in good faith, including but not limited to (as determined by the Committee in good faith), (A) Participant's breach of any agreement between Participant and an Employer, (B) Participant's intentional or negligent failure to perform a reasonably requested directive or assignment or to perform his duties to the Employer substantially in accordance with the Employer's operating and personnel policies and procedures generally applicable to all of its employees, or (C) Participant's misappropriation or attempted misappropriation of any of the Employer's funds or property.

2.5 Change in Control means, unless provided otherwise in the Award Agreement, Change in Control or Change of Control, as applicable, as defined in an Individual Agreement to which a Participant is a party that is then in effect. If a Participant does not have an Individual Agreement, or if it does not define Change in Control, no Termination of Employment for that Participant shall be considered to be in connection with a Change in Control.

2.6 Code means the Internal Revenue Code of 1986, as now in effect or as hereafter amended. All citations to sections of the Code are to such sections as they may from time to time be amended or renumbered.

2.7 Committee means a committee appointed by the Board to administer this Plan (or any specific provisions hereunder) pursuant to Article 3.

2.8 Company means Cree, Inc., a North Carolina corporation, and its successors and assigns.

2.9 Disability means, with respect to any Incentive Stock Option, disability as determined under Section 22(e)(3) of the Code, and with respect to any other Award, unless provided otherwise in the Award Agreement, (i) with respect to a Participant who is eligible to participate in the Employer's program of long-term disability insurance, if any, a condition with respect to which the Participant is entitled to commence benefits under such program of long-term disability insurance and which results in Termination of Employment of the Participant, and (ii) with respect to any Participant (including a Participant who is eligible to participate in the Employer's program of long-term disability insurance, if any), a disability as determined under procedures established by the Committee or in any Award.

2.10 Effective Date shall have the meaning ascribed to such term in Section 1.4 hereof.

2.11 Eligible Participant means any employee of the Employer and any Outside Director, subject to such limitations as may be provided by the Code, the Exchange Act or the Committee, as shall be determined by the Committee.

2.12 Employer means the Company and any corporation or entity in which the Company owns or controls, directly or indirectly, fifty percent (50%) or more of the voting power or economic interests of such corporation or entity.

2.13 Exchange Act means the Securities Exchange Act of 1934, as now in effect or as hereafter amended. All citations to sections of the Exchange Act or rules thereunder are to such sections or rules as they may from time to time be amended or renumbered.

2.14 Fair Market Value means the fair market value of a Share, as determined in good faith by the Committee; provided, however, that unless otherwise directed by the Committee:

(a) if the Shares are listed for trading on a national securities exchange, Fair Market Value on any date shall be the last sale price reported for the Shares on such exchange on such date or, if no sale was reported on such date, on the last date preceding such date on which a sale was reported;

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(b) if the Shares are listed for trading on The Nasdaq Stock Market and have been designated as a Nasdaq Global Market security (or such other name as The Nasdaq Stock Market may hereafter adopt for such segment), Fair Market Value on any date shall be the last sale price reported for the Shares on such system during the regular trading session on such date or, if no sale was reported during the regular trading session on such date, on the last day preceding such date on which a sale was reported during the regular trading session;

(c) if the Shares are listed for trading on The Nasdaq Stock Market and have not been designated under subsection (b) above, Fair Market Value on any date shall be the average of the highest bid and lowest asked prices of the Shares on such system during the regular trading session on such date or, if no sale was reported during the regular trading session on such date, on the last day preceding such date on which a sale was reported during the regular trading session; or

(d) if (a), (b) and (c) do not apply, on the basis of the good faith determination of the Committee.

For purposes of subsection (a) above, if the Shares are traded on more than one national securities exchange, then the following exchange shall be referenced to determine Fair Market Value: (i) the New York Stock Exchange if the Shares are then traded on such exchange and (ii) otherwise such other exchange on which Shares are traded as may be designated by the Committee.

2.15 **Good Reason** means a Termination of Employment for **Good Reason** as defined in an Individual Agreement to which the Participant is a party that is then in effect. If a Participant does not have an Individual Agreement, or if it does not define **Good Reason**, no Termination of Employment for that Participant shall be considered to be for **Good Reason**.

2.16 **Incentive Stock Option** or **ISO** means an Option granted to an Eligible Participant under Article 5 of the Plan which meets the requirements of Section 422 of the Code.

2.17 **Individual Agreement** means a written agreement between a Participant and the Company or any other Employer relating to employment by the Company or other Employer or to service as an Outside Director of the Company (other than an Award Agreement).

2.18 **Insider** shall mean an individual who is, on the relevant date, subject to the reporting requirements of Section 16(a) of the Exchange Act.

2.19 **Nonqualified Stock Option** or **NQSO** means an Option granted to an Eligible Participant under Article 5 of the Plan that does not meet the requirements of Section 422 of the Code.

2.20 **Option** means an Incentive Stock Option or a Nonqualified Stock Option. An Option shall be designated in the applicable Award Agreement as either an Incentive Stock Option or a Nonqualified Stock Option, and in the absence of such designation, shall be treated as a Nonqualified Stock Option.

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2.21 **Option Price** means the price at which a Participant may purchase a Share pursuant to an Option.

2.22 **Outside Director** means a member of the Board who is not an employee of the Company or any other Employer.

2.23 **Participant** means an Eligible Participant to whom an Award has been granted.

2.24 **Payment Date** shall have the meaning set forth in Section 5.6 of the Plan.

2.25 **Performance Unit** means an Award under Article 8 of the Plan that has a value set by the Committee (or that is determined by reference to a valuation formula specified by the Committee), which value may be paid to the Participant by delivery of such property as the Committee shall determine, including without limitation,

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cash or Shares, or any combination thereof, upon achievement of such performance objectives during the relevant performance period as the Committee shall establish at the time of such Award or thereafter, but not later than the time permitted by Section 162(m) of the Code in the case of Awards intended to comply with Section 162(m) of the Code.

2.26 **Plan** means the Cree, Inc. 2004 Long-Term Incentive Compensation Plan, as amended from time to time.

2.27 **Restricted Stock** means an Award of Shares under Article 7 of the Plan, which Shares are issued with such restriction(s) as the Committee, in its sole discretion, may impose, including without limitation, any restriction on the right to retain such Shares, to sell, transfer, pledge or assign such Shares, to vote such Shares, and/or to receive any cash dividends with respect to such Shares, which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.

2.28 **Restriction Period** means the period of any restriction applicable to an Award of Restricted Stock or Stock Units, which period shall commence on the date an Award of Restricted Stock or Stock Units is granted and end on such date as the Committee shall determine (subject to Sections 7.2(b) and Section 14.2).

2.29 **Retirement** means, unless provided otherwise in the Award Agreement or Individual Agreement, Termination of Employment other than for Cause after a Participant has reached the age of 55 years and has completed at least five years of service (full-time or full-time equivalent).

2.30 **Share** means one share of common stock, par value \$0.00125 per share, of the Company, as such Share may be adjusted pursuant to the provisions of Section 4.3 of the Plan.

2.31 **Stock Appreciation Right** or **SAR** means an Award granted under Article 6 which provides for an amount payable in Shares and/or cash, as determined by the Committee, equal to the excess of the Fair Market Value of a Share on the day the Stock Appreciation Right is exercised over the specified purchase price.

2.32 **Stock Unit** means an Award under Article 7 of the Plan that is valued by reference to a Share, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including without limitation, cash or Shares, or any combination thereof, and that has such restriction(s) as the Committee, in its sole discretion, may impose, including without limitation, any restriction on the right to retain such Awards, to sell, transfer, pledge or assign such Awards, and/or to receive any cash dividend equivalents with respect to such Awards, which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.

2.33 **Termination of Employment** means, unless provided otherwise in the Award Agreement, the discontinuance of employment of a Participant with the Employer for any reason, whether voluntary or involuntary, or in the case of an Outside Director, the discontinuance of services to the Company by an Outside Director, for any reason, whether voluntary or involuntary. If an Outside Director becomes an employee of the Company or any other Employer before or upon terminating service as an Outside Director, such employment will constitute a continuation of service with respect to Awards granted to the Participant while he or she served as a member of the Board. The determination of whether a Participant has discontinued employment or service shall be made by the Committee in its sole discretion. **Termination of Service** as used in an Award Agreement shall mean Termination of Employment.

ARTICLE 3 ADMINISTRATION

3.1 *Composition of Committee.* This Plan shall be administered by the Committee. The Committee shall consist of two or more Outside Directors who shall be appointed by the Board. The Board shall fill vacancies on the Committee and may from time to time remove or add members of the Committee. Except with respect to

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Awards to Outside Directors under Article 10, the Board, in its sole discretion, may exercise any authority of the Committee under this Plan in lieu of the Committee's exercise thereof and in such instances references herein to the Committee shall refer to the Board of Directors. Unless the Board directs otherwise, the Compensation Committee of the Board shall serve as the Committee.

3.2 Authority of the Committee.

(a) The Committee shall have the exclusive right to interpret, construe and administer the Plan, to select the persons who are eligible to receive an Award, and to act in all matters pertaining to the granting of an Award and the contents of the Award Agreement evidencing the Award, including without limitation, the determination of the number of Options, Stock Appreciation Rights, Restricted Stock, Stock Units or Performance Units subject to an Award and the form, terms, conditions and duration of each Award, and any amendment thereof consistent with the provisions of the Plan. The Committee may adopt such rules, regulations and procedures of general application for the administration of this Plan as it deems appropriate. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement in the manner and to the extent it shall deem desirable to carry it into effect.

(b) The Committee shall have the discretion to determine the effect upon an Award and upon an individual's status as an employee or Outside Director under the Plan (including whether a Participant shall be deemed to have experienced a Termination of Employment, or other change in status) and upon the vesting, expiration or forfeiture of an Award in the case of (i) any individual who is employed by an entity that ceases to qualify as an Employer, (ii) any leave of absence, (iii) any transfer between locations of employment with the Employer or between Employers, (iv) any change in the Participant's status from an employee to a consultant or member of the Board of Directors, or vice versa, and (v) any employee who, at the request of the Employer or the Company, becomes employed by any partnership, joint venture, corporation or other entity not meeting the requirements of an Employer.

(c) All actions, determinations and decisions of the Committee made or taken pursuant to grants of authority under the Plan or with respect to any questions arising in connection with the administration and interpretation of the Plan, including the severability of any and all of the provisions thereof, shall be conclusive, final and binding upon all parties, including the Company, its shareholders, Participants, Eligible Participants and their estates, beneficiaries and successors. The Committee shall consider such factors as it deems relevant to making or taking such actions, determinations and decisions including, without limitation, the recommendations or advice of any director, officer or employee of the Company and such attorneys, consultants and accountants as it may select. A Participant or other holder of an Award may contest an action, determination or decision by the Committee with respect to such person or Award only on the grounds that such action, determination or decision was arbitrary or capricious or was unlawful, and any review of such action, determination or decision shall be limited to determining whether the Committee's decision or action was arbitrary or capricious or was unlawful.

3.3 Rules for Foreign Jurisdictions. Notwithstanding anything in the Plan to the contrary, the Committee may, in its sole discretion, amend or vary the terms of the Plan in order to conform such terms with the requirements of each non-U.S. jurisdiction where an Eligible Participant is located or to meet the goals and objectives of the Plan; establish one or more sub-plans for these purposes; and establish administrative rules and procedures to facilitate the operation of the Plan in such non-U.S. jurisdictions. For purposes of clarity, the terms and conditions contained herein which are subject to variation in a non-U.S. jurisdiction shall be reflected in a written addendum to the Plan and/or Award Agreement for such non-U.S. jurisdiction.

3.4 Delegation of Authority. The Committee may, at any time and from time to time, to the extent permitted by law and the Company's Bylaws and subject to the applicable rules of any securities exchange or quotation or trading system on which Shares are traded, delegate to one or more members of the Committee or executive officers of the Company any or all of its authority under Section 3.2 and 3.3, except that the Committee may not delegate such authority with respect to Awards to members of the Board or to executive officers of the Company.

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The Committee may delegate the administration of the Plan to an officer or employee of the Company, and such administrator(s) may have the authority to prepare, execute and distribute Award Agreements or other documents relating to Awards granted by the Committee under the Plan, to maintain records relating to the grant, vesting, exercise, forfeiture or expiration of Awards, to process or oversee the issuance of Shares upon the exercise, vesting and/or settlement of an Award, to interpret the terms of Awards and to take such other actions as the Committee may specify, provided that the actions and interpretations of any such administrator shall be subject to review and approval, disapproval or modification by the Committee.

3.5 Award Agreements. Each Award granted under the Plan shall be evidenced by an Award Agreement. Each Award Agreement shall be subject to and incorporate, by reference or otherwise, the applicable terms and conditions of the Plan, and any other terms and conditions, not inconsistent with the Plan, as may be directed by the Committee, including without limitation, provisions related to the consequences of Termination of Employment. A copy of such document shall be provided to the Participant, and the Committee may, but need not, require that the Participant sign a copy of the Award Agreement or otherwise confirm the Participant's acceptance of the provisions of the Award Agreement. The Participant shall in any event be deemed to have accepted the provisions of an Award Agreement delivered to the Participant with respect to an Award by exercising the Award or receiving any benefits thereunder.

3.6 Indemnification. In addition to such other rights of indemnification as they may have as directors or as members of the Committee, the members of the Committee and any persons acting on its behalf pursuant to authority delegated by the Committee shall be indemnified by the Company against reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Award granted thereunder, and against all amounts paid by them in settlement thereof, provided such settlement is approved by independent legal counsel selected by the Company, or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except as to matters as to which the person seeking indemnification has been negligent or engaged in misconduct in the performance of his or her duties; provided, that within sixty (60) days after institution of any such action, suit or proceeding, the person seeking indemnification shall in writing offer the Company the opportunity, at its own expense, to handle and defend the same.

ARTICLE 4 SHARES SUBJECT TO THE PLAN

4.1 Aggregate Limits.

(a) Subject to adjustment as provided in Section 4.3, the aggregate number of Shares which may be issued pursuant to Awards under this Plan is (i) 14,200,000 plus (ii) the number of Shares which, immediately prior to the Effective Date, were authorized for issuance under the Predecessor Plan and are not thereafter used for awards under the Predecessor Plan. Shares described in clause (ii) above include Shares which, immediately prior to the Effective Date, were authorized for issuance under the Predecessor Plan and either (x) were not subject to then outstanding awards or (y) were subject to then outstanding awards that subsequently expire, are canceled or otherwise terminate unexercised for any reason.

(b) Subject to adjustment as provided in Section 4.3, no more than an aggregate of 2,400,000 Shares authorized by subsection (a) may be issued pursuant to Awards of Restricted Stock, Stock Units or Performance Units.

(c) If for any reason any Shares awarded or subject to purchase under this Plan are not delivered or purchased, or are reacquired by the Company, for reasons including, but not limited to, a forfeiture of Restricted Stock or a Stock Unit or the termination, expiration or cancellation of an Option, Stock Appreciation Right or Performance Unit, such Shares shall again be available for issuance pursuant to an Award under the Plan, except that Shares with respect to which a Stock Appreciation Right is exercised, and Shares withheld for payment of taxes pursuant to

Section 13.2, shall not thereafter be available for issuance

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under the Plan. The determination of the number of issued Shares that again become available for issuance with respect to grants of Incentive Stock Options pursuant to this Section 4.1 shall be made in accordance with the requirements of Treas. Reg. section 1.422-2(b)(3).

4.2 Individual Limits.

(a) *Tax Code Limits.* Except to the extent the Committee determines that an Award shall not comply with the performance-based compensation provisions of Section 162(m) of the Code: (i) the aggregate number of Shares subject to Options or Stock Appreciation Rights granted under this Plan in any one fiscal year to any one Participant shall not exceed 300,000; (ii) the aggregate number of Shares subject to Restricted Stock or Stock Unit Awards granted under this Plan in any one fiscal year to any one Participant shall not exceed 100,000; and (iii) the aggregate value of Performance Unit Awards (valued as of the grant date) that may be granted in any one fiscal year to any one Participant shall not exceed the Fair Market Value of 100,000 Shares.

(b) *Awards to Outside Directors.* Awards to Outside Directors may be in the form of Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Stock Units or a combination thereof. The aggregate number of Shares subject to Restricted Stock or Stock Units granted under this Plan in any one fiscal year to any Outside Director shall not exceed 10,000. The aggregate number of Shares subject to Awards of any type granted under this Plan in any one fiscal year to any Outside Director shall not exceed 20,000.

4.3 Adjustment of Shares. If any change in corporate capitalization, such as a stock split, reverse stock split, or stock dividend; or any corporate transaction such as a reorganization, reclassification, merger or consolidation or separation, including a spin-off, of the Company or sale or other disposition by the Company of all or a portion of its assets, any other change in the Company's corporate structure, or any distribution to shareholders (other than a cash dividend) results in the outstanding Shares, or any securities exchanged therefor or received in their place, being exchanged for a different number or class of shares or other securities of the Company, or for shares of stock or other securities of any other corporation (including unpaired shares replacing paired Shares); or new, different or additional shares or other securities of the Company or of any other corporation being received by the holders of outstanding Shares; then equitable adjustments shall be made by the Committee, as it determines are necessary and appropriate, in:

(a) the number of Shares that may be awarded as set forth in Section 4.1;

(b) the limitations on the aggregate number of Shares that may be awarded to any one single Participant as set forth in Section 4.2;

(c) the number and class of Shares that may be subject to an Award, and which have not been issued or transferred under an outstanding Award;

(d) the Option Price under outstanding Options and the number of Shares to be transferred in settlement of outstanding Stock Appreciation Rights; and

(e) the terms, conditions or restrictions of any Award and Award Agreement, including the price payable for the acquisition of Shares; provided, however, that all such adjustments made in respect of each ISO shall be accomplished so that such Option shall continue to be an incentive stock

option within the meaning of Section 422 of the Code.

ARTICLE 5 STOCK OPTIONS

5.1 *Grant of Options.* Subject to the provisions of the Plan, Options may be granted to Eligible Participants at any time and from time to time as shall be determined by the Committee. The Committee shall have sole discretion in determining the number of Shares subject to Options granted to each Participant. The Committee may grant a Participant ISOs, NQSOs or a combination thereof, and may vary such Awards among Participants; provided that only an employee may be granted ISOs.

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5.2 Award Agreement. Each Option grant shall be evidenced by an Award Agreement that shall specify the Option Price, the duration of the Option, the number of Shares to which the Option pertains and such other provisions as the Committee shall determine. The Award Agreement shall further specify whether the Award is intended to be an ISO or an NQSO. Any portion of an Option that is not designated as an ISO or otherwise fails or is not qualified as an ISO (even if designated as an ISO) shall be an NQSO.

5.3 Option Price. The Option Price for each grant of an Option shall not be less than the Fair Market Value of a Share on the date the Option is granted.

5.4 Duration of Options. Each Option shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no Option shall be exercisable later than the seventh (7th) anniversary of its grant date.

5.5 Exercise of Options. Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, including conditions related to the employment of or provision of services by the Participant with the Company or any Employer, which need not be the same for each grant or for each Participant. The Committee may provide in the Award Agreement and/or an Individual Agreement that vesting of the Award shall accelerate or other restrictions applicable to the Award shall lapse only: (i) in the event of the Participant's death, Disability, or Retirement, in connection with a Change of Control, or pursuant to Section 14.5; (ii) for any Award granted on or before June 29, 2008, in the event of the Participant's Termination of Employment by the Company without Cause or by the Participant for Good Reason; or (iii) in any other circumstance, provided that the number of Shares subject to Awards granted pursuant to this clause (iii), plus the number of Shares subject to Awards granted pursuant to clause (ii) of the fifth sentence of Section 6.4, clause (iii) of the first sentence of Section 7.2(b) and clause (ii) of the second sentence of Section 8.3, does not exceed five percent (5%) of the number of shares authorized for grant under this Plan. In addition, the Committee may provide in the Award Agreement for the deferral of gains related to an exercise or may establish a cap on the maximum earnings a Participant can realize from exercise.

5.6 Payment. Options shall be exercised by the delivery of written or electronic notice of exercise to the Company or its designated representative, setting forth the number of Shares with respect to which the Option is to be exercised and satisfying any requirements that the Committee may establish in or pursuant to the Award Agreement from time to time. Unless otherwise authorized by the Committee, no Shares shall be delivered, whether in certificated or uncertificated form, until the full Option Price has been paid. Full payment of the Option Price (less any amount previously received from the Participant to acquire the Option) must be made on or prior to the Payment Date, as defined below. The Option Price shall be payable to the Company either: (a) in cash, (b) in a cash equivalent approved by the Committee, (c) if approved by the Committee, by tendering previously acquired Shares (or delivering a certification or attestation of ownership of such Shares) having an aggregate Fair Market Value at the time of exercise equal to the total Option Price (provided that the tendered Shares must have been held by the Participant for any period required by the Committee), or (d) by a combination of (a), (b) or (c). The Committee also may allow cashless exercises as permitted under Regulation T of the Federal Reserve Board, subject to applicable securities law restrictions, or by any other means which the Committee determines to be consistent with the Plan's purpose and applicable law. Payment Date shall mean the date on which a sale transaction in a cashless exercise (whether or not payment is actually made pursuant to a cashless exercise) would have settled in connection with the subject option exercise.

5.7 Nontransferability of Options.

(a) Incentive Stock Options. No ISO granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all ISOs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

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(b) *Nonqualified Stock Options.* Except as otherwise provided in a Participant's Award Agreement consistent with securities and other applicable laws, rules and regulations, no NQSO granted under this Article 5 may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Agreement, all NQSOs granted to a Participant under this Article 5 shall be exercisable during his or her lifetime only by such Participant.

5.8 *Special Rules for ISOs.* Notwithstanding the above, in no event shall any Participant who owns (within the meaning of Section 424(d) of the Code) stock of the Company possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company be eligible to receive an ISO at an Option Price less than one hundred ten percent (110%) of the Fair Market Value of a share on the date the ISO is granted or be eligible to receive an ISO that is exercisable later than the fifth (5th) anniversary date of its grant. No Participant may be granted ISOs (under the Plan and all other incentive stock option plans of the Employer) which are first exercisable in any calendar year for Shares having an aggregate Fair Market Value (determined as of the date an Option is granted) that exceeds \$100,000.

ARTICLE 6 STOCK APPRECIATION RIGHTS

6.1 *Grant of SARs.* A Stock Appreciation Right may be granted to an Eligible Participant in connection with an Option granted under Article 5 of this Plan or may be granted independently of any Option. A Stock Appreciation Right shall entitle the holder, within the specified period, to exercise the SAR and receive in exchange a payment having an aggregate value equal to the amount by which the Fair Market Value of a Share exceeds the exercise price, times the number of Shares with respect to which the SAR is exercised. A SAR granted in connection with an Option (a Tandem SAR) shall entitle the holder of the related Option, within the period specified for the exercise of the Option, to surrender the unexercised Option, or a portion thereof, and to receive in exchange therefore a payment having an aggregate value equal to the amount by which the Fair Market Value of a Share exceeds the Option price per Share, times the number of Shares under the Option, or portion thereof, which is surrendered.

6.2 *Tandem SARs.* Each Tandem SAR shall be subject to the same terms and conditions as the related Option, including limitations on transferability, shall be exercisable only to the extent such Option is exercisable and shall terminate or lapse and cease to be exercisable when the related Option terminates or lapses. The grant of Stock Appreciation Rights related to ISOs must be concurrent with the grant of the ISOs. With respect to NQSOs, the grant either may be concurrent with the grant of the NQSOs, or in connection with NQSOs previously granted under Article 5, which are unexercised and have not terminated or lapsed.

6.3 *Payment.* The Committee shall have sole discretion to determine in each Award Agreement whether the payment with respect to the exercise of an SAR will be in the form of cash, Shares, or any combination thereof. If payment is to be made in Shares, the number of Shares shall be determined based on the Fair Market Value of a Share on the date of exercise. If the Committee elects to make full payment in Shares, no fractional Shares shall be issued and cash payments shall be made in lieu of fractional shares. The Committee shall have sole discretion to determine in each Award Agreement the timing of any payment made in cash or Shares, or a combination thereof, upon exercise of SARs. Payment may be made in a lump sum, in annual installments or may be otherwise deferred; and the Committee shall have sole discretion to determine in each Award Agreement whether any deferred payments may bear amounts equivalent to interest or cash dividends.

6.4 *Duration, Exercise Price and Exercise of SARs.* Each SAR shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no SAR shall be exercisable later than the seventh (7th) anniversary of its grant date. The exercise price for each grant of an SAR shall not be less than the Fair Market Value of a Share on the date the SAR is granted. Upon exercise of an SAR, the number of Shares subject to exercise under any related Option shall automatically be reduced by the number of Shares represented by the Option or portion thereof which is surrendered. SARs granted under the Plan shall be exercisable at such times

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and be subject to such restrictions and conditions as the Committee shall in each instance approve, including conditions related to the employment of or provision of services by the Participant with the Company or any Employer, which need not be the same for each grant or for each Participant. The Committee may provide in the Award Agreement and/or an Individual Agreement that vesting of the Award shall accelerate or other restrictions applicable to the Award shall lapse only: (i) in the event of the Participant's death, Disability, or Retirement, in connection with a Change of Control, or pursuant to Section 14.5; or (ii) in any other circumstance, provided that the number of Shares subject to Awards granted pursuant to this clause (ii), plus the number of Shares subject to Awards granted pursuant to clause (iii) of the second sentence of Section 5.5, clause (iii) of the first sentence of Section 7.2(b), and clause (ii) of the second sentence of Section 8.3, does not exceed five percent (5%) of the number of shares authorized for grant under this Plan.

ARTICLE 7 RESTRICTED STOCK AND STOCK UNITS

7.1 Grants of Restricted Stock and Stock Units. Restricted Stock Awards and Stock Unit Awards may be made to Eligible Participants as an incentive for the performance of future services that the Committee in its sole discretion determines will contribute materially to the successful operation of the Employer. Subject to Section 4.2(b) with respect to grants to Outside Directors, Awards of Restricted Stock or Stock Units may be made either alone or in addition to or in tandem with other Awards granted under the Plan and may be current grants of Restricted Stock or Stock Units or deferred grants of Restricted Stock or Stock Units.

7.2 Restricted Stock/Stock Unit Award Agreement.

(a) *In General.* The Restricted Stock Award Agreement or the Stock Unit Award Agreement, as applicable, shall set forth the terms of the Award, as determined by the Committee, including, without limitation, the purchase price, if any, to be paid for such Restricted Stock or Stock Unit, which may be more than, equal to, or less than Fair Market Value of a Share and may be zero, subject to such minimum consideration as may be required by applicable law; any restrictions applicable to the Restricted Stock or Stock Unit such as continued service or achievement of performance goals; the length of the Restriction Period and whether any circumstances will shorten or terminate the Restriction Period; and rights of the Participant during the Restriction Period to vote and receive dividends in the case of Restricted Stock, or to receive dividend equivalents in the case of Stock Units that accrue dividend equivalents.

(b) *Minimum Restriction Periods.* All grants of Restricted Stock or Stock Units shall have a Restriction Period of at least three (3) years (or one (1) year in the case of Restricted Stock or Stock Unit Awards with restrictions based solely on achievement of performance goals), except that the Committee may provide in the Award Agreement and/or an Individual Agreement for vesting of the Award on a pro rata basis during the Restriction Period and/or that the Restriction Period for any Award may otherwise be shortened only: (i) in the event of the Participant's death, Disability, or Retirement, in connection with a Change of Control, or pursuant to Section 14.5; (ii) for any Award granted on or before June 29, 2008, in the event of the Participant's Termination of Employment by the Company without Cause or by the Participant for Good Reason; or (iii) in any other circumstance, provided that the number of Shares subject to Awards granted pursuant to this clause (iii), plus the number of Shares subject to Awards granted pursuant to clause (iii) of the second sentence of Section 5.5, clause (ii) of the fifth sentence of Section 6.4, and clause (ii) of the second sentence of Section 8.3, does not exceed five percent (5%) of the number of shares authorized for grant under this Plan.

(c) *Execution of Award Agreements.* Notwithstanding Section 3.5, a Restricted Stock or Stock Unit Award must be accepted within a period of sixty (60) days after receipt, or such other period as the Committee may specify, by executing a Restricted Stock/Stock Unit Award Agreement and paying whatever price, if any, is required. The prospective recipient of a Restricted Stock or Stock Unit Award shall not have any rights with respect to such Award, unless and until such recipient has executed a Restricted Stock/Stock Unit Award Agreement and has delivered a fully executed copy thereof to the Company, and has otherwise complied with the applicable terms and conditions of such Award.

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7.3 Nontransferability. Except as otherwise provided in this Article 7 or in a Participant's Award Agreement, no shares of Restricted Stock or Stock Units received by a Participant shall be sold, exchanged, transferred, pledged, assigned, hypothecated or otherwise disposed of during the Restriction Period or, in the case of Stock Units, either during or after the Restriction Period, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Agreement, a Participant's rights under an Award of Restricted Stock or Stock Units shall be exercisable during the Participant's lifetime only by the Participant or the Participant's legal representative.

7.4 Certificates. Upon an Award of Restricted Stock to a Participant, Shares of Restricted Stock shall be registered in the Participant's name. Certificates, if issued, may either be held in custody by the Company until the Restriction Period expires or until restrictions thereon otherwise lapse and/or be issued to the Participant and registered in the name of the Participant, bearing an appropriate restrictive legend and remaining subject to appropriate stop-transfer orders. If required by the Committee, the Participant shall deliver to the Company one or more stock powers endorsed in blank relating to the Restricted Stock. If and when the Restriction Period expires without a prior forfeiture of the Restricted Stock subject to such Restriction Period, unrestricted certificates for such shares shall be delivered to the Participant; provided, however, that the Committee may cause such legend or legends to be placed on any such certificates as it may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission and any applicable federal or state law.

7.5 Dividends and Other Distributions. Except as provided in this Article 7 or in the Award Agreement, a Participant receiving a Restricted Stock Award shall have, with respect to such Restricted Stock Award, all of the rights of a shareholder of the Company, including the right to vote the Shares to the extent, if any, such Shares possess voting rights and the right to receive any dividends; provided, however, the Committee may require that any dividends on such Shares of Restricted Stock shall be automatically deferred and reinvested in additional Restricted Stock subject to the same restrictions as the underlying Award, or may require that dividends and other distributions on Restricted Stock shall be paid to the Company for the account of the Participant and held pending and subject to the vesting of the applicable Shares. The Committee shall determine whether interest shall be paid on such amounts, the rate of any such interest, and the other terms applicable to such amounts. A Participant receiving a Stock Unit Award shall not possess voting rights and shall accrue dividend equivalents on such Units to the extent provided in the Award Agreement relating to the Award. The Committee may require that such dividend equivalents shall be subject to the same restrictions on vesting and payment as the underlying Award. In addition, with respect to Awards intended to qualify for the performance-based compensation provisions of Section 162(m) of the Code, the Committee may apply any restrictions it deems appropriate to the payment of dividends declared with respect to Restricted Stock such that the dividends and/or Restricted Stock maintain eligibility for such provisions.

ARTICLE 8 PERFORMANCE UNITS

8.1 Grant of Performance Units. Performance Units may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee.

8.2 Value of Performance Units. Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. The Committee shall set performance goals in its discretion which, depending on the extent to which they are met, will determine the number and/or value of Performance Units that will be paid out to the Participant. For purposes of this Article 8, the time period during which the performance goals must be met shall be called a Performance Period.

8.3 Earning of Performance Units. Subject to the terms of this Plan, after the applicable Performance Period has ended, the holder of Performance Units shall be entitled to receive a payout of the number and value of Performance Units earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved. The Committee may provide in the

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Award Agreement and/or an Individual Agreement that the Performance Units are earned notwithstanding achievement of the performance goals only: (i) in the event of the Participant's death, Disability, or Retirement, in connection with a Change of Control, or pursuant to Section 14.5; or (ii) in any other circumstance, provided that the number of Shares subject to Awards granted pursuant to this clause (ii), plus the number of Shares subject to Awards granted pursuant to clause (iii) of the second sentence of Section 5.5, clause (ii) of the fifth sentence of Section 6.4, and clause (iii) of the first sentence of Section 7.2(b), does not exceed five percent (5%) of the number of shares authorized for grant under this Plan.

8.4 Form and Timing of Payment of Performance Units. Subject to the terms of this Plan, the Committee, in its sole discretion, may pay earned Performance Units in the form of cash or in Shares (or in a combination thereof) that has an aggregate Fair Market Value equal to the value of the earned Performance Units at the close of the applicable Performance Period. Such Shares may be granted subject to any restrictions in the Award Agreement deemed appropriate by the Committee. The determination of the Committee with respect to the form and timing of payout of such Awards shall be set forth in the Award Agreement pertaining to the grant of the Award. Except as otherwise provided in the Participant's Award Agreement, a Participant shall be entitled to receive any dividends declared with respect to earned grants of Performance Units that are being settled in Shares and that have not yet been distributed to the Participant (such dividends may be subject to the same accrual, forfeiture, and payout restrictions as apply to dividends earned with respect to Stock Units, as set forth in Section 7.5 herein). In addition, unless otherwise provided in the Participant's Award Agreement, a Participant shall be entitled to exercise full voting rights with respect to such Shares.

8.5 Nontransferability. Except as otherwise provided in a Participant's Award Agreement, Performance Units may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

ARTICLE 9 PERFORMANCE MEASURES

9.1 Approved Measures. Until the Committee proposes for shareholder vote and shareholders approve a change in the general performance measures set forth in this Article 9, the attainment of which may determine the degree of payout and/or vesting with respect to Awards that are intended to qualify under the performance-based compensation provisions of Section 162(m) of the Code, the performance measure(s) to be used for purposes of such Awards shall be chosen from among the following: earnings, earnings per share, consolidated pre-tax earnings, net earnings, operating income, EBIT (earnings before interest and taxes), EBITDA (earnings before interest, taxes, depreciation and amortization), gross margin, revenues, revenue growth, market value added, economic value added, return on equity, return on investment, return on assets, return on net assets, return on capital employed, total shareholder return, profit, economic profit, after-tax profit, pre-tax profit, cash flow measures, cash flow return, sales, sales volume, stock price, cost, and/or unit cost. The Committee can establish other performance measures for Awards granted to Eligible Participants that are not intended to qualify under the performance-based compensation provisions of Section 162(m) of the Code.

9.2 Adjustments to Measures. The Committee shall be authorized to make adjustments in performance-based criteria or in the terms and conditions of other Awards in recognition of unusual or nonrecurring events affecting the Company or its financial statements or changes in applicable laws, regulations or accounting principles. In the case of Awards that are intended to qualify under the performance-based compensation provisions of Section 162(m) of the Code, such adjustments shall be made in accordance with guidelines established by the Committee at the time the performance-based Award is granted (or within such period thereafter as may be permissible under Section 162(m) of the Code). The Committee shall also have the discretion to adjust the determinations of the degree of attainment of the pre-established performance goals; provided, however, that Awards which are designed to qualify for the performance-based compensation exception from the deductibility limitations of Section 162(m) of the Code, and which are held by executive officers, may not be adjusted upward (the Committee shall retain the discretion to adjust such Awards downward).

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9.3 *Use of Other Measures.* If changes in applicable laws or regulations permit the Committee, in the case of Awards intended to qualify under the performance-based compensation provisions of Section 162(m) of the Code, discretion to use performance measures other than those listed in Section 9.1 without obtaining shareholder approval of such changes, the Committee may make such changes without obtaining shareholder approval. In addition, in the event that the Committee determines that it is advisable to grant Awards which shall not qualify for the performance-based compensation exception from the deductibility limitations of Section 162(m) of the Code, the Committee may make such grants without satisfying the requirements of Section 162(m) of the Code.

ARTICLE 10 AWARDS TO OUTSIDE DIRECTORS

An Outside Director may be granted one or more Awards of Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Stock Units or a combination thereof in any fiscal year, subject to the limitations of Section 4.2. The number of Shares subject to such Awards, any formula pursuant to which such number shall be determined, the date of grant and the vesting, expiration and other terms applicable to such Awards shall be approved from time to time by the Committee and shall be subject to the terms of this Plan applicable to Awards in general. Outside Directors may receive Awards under the Plan only as provided in this Article 10.

ARTICLE 11 BENEFICIARY DESIGNATION

If and to the extent permitted by the Committee, each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. If any such designation is permitted, the Committee shall, in its sole discretion, establish rules and procedures for such designations. Unless different rules and procedures are established by the Committee, each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with a designated representative of the Committee during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

ARTICLE 12 DEFERRALS

The Committee may permit or require a Participant to defer such Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant by virtue of the exercise of an Option or SAR, the lapse or waiver of restrictions with respect to Restricted Stock, or the satisfaction of any requirements or goals with respect to Stock Units. If any such deferral election is required or permitted, the Committee shall, in its sole discretion, establish rules and procedures for such deferrals, and the Committee may provide for such arrangements, including conversion to another form of Award that is available under the Plan and has equivalent value, as it deems necessary in order to permit the deferral of taxes in connection with such deferral by the Participant.

ARTICLE 13 WITHHOLDING

13.1 *Tax Withholding.* The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan. The Company shall not be required to issue Shares or to recognize the disposition of such Shares until such obligations are satisfied.

13.2 *Share Withholding*. With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock, or upon any other taxable event arising as a result of Awards granted hereunder, to the extent permitted or required by the Committee, these obligations may or shall be satisfied by

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having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to not more than the minimum amount of tax required to be withheld with respect to the transaction. All such elections shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

ARTICLE 14 AMENDMENT AND TERMINATION

14.1 *Amendment of Plan.* Except as otherwise provided in this Section 14.1, the Committee or the Board may at any time terminate or from time to time amend the Plan in whole or in part, but no such action shall adversely affect any rights or obligations with respect to any Awards previously granted under the Plan, unless the affected Participants consent in writing. Neither the Committee nor the Board may, without approval of the shareholders of the Company, amend the Plan to (i) materially increase benefits accruing to Participants under the Plan, (ii) materially increase the number of Shares which may be issued under the Plan or (iii) materially modify the requirements for participation in the Plan. The Company will also obtain the approval of the shareholders before amending the Plan to the extent required by Section 162(m) or Section 422 of the Code or the rules of any securities exchange or quotation or trading system on which Shares are traded or other applicable law.

14.2 *Amendment of Award; Repricing.* The Committee may, at any time, amend outstanding Awards in a manner not inconsistent with the terms of the Plan; provided, however, that: (i) if such amendment is adverse to the Participant, as determined by the Committee, the amendment shall not be effective unless and until the Participant consents, in writing, to such amendment, except as provided in Section 14.4 or in the Award Agreement; and (ii) the Committee shall not have the authority to decrease the exercise price of any outstanding Option or SAR, nor award any Option or SAR in replacement of a canceled Option or SAR with a higher exercise price, except in accordance with Section 4.3 or unless such an amendment is approved by the shareholders of the Company. To the extent not inconsistent with the terms of the Plan and the foregoing, the Committee may, at any time, amend an outstanding Award Agreement in a manner that is not unfavorable to the Participant without the consent of such Participant. Neither the Committee nor the Board may amend, waive, lapse or otherwise modify any conditions or restrictions in any outstanding Award without approval of the shareholders of the Company, except to the extent the Awards so modified would have been permitted by clause (iii) of the second sentence of Section 5.5, clause (ii) of the fifth sentence of Section 6.4, clause (iii) of the first sentence of Section 7.2(b), or clause (ii) of the second sentence of Section 8.3.

14.3 *Termination of Plan.* No Awards shall be granted under the Plan after November 3, 2015, but Awards theretofore granted may extend beyond that date.

14.4 *Cancellation of Awards.*

(a) The Committee may, in its sole discretion, provide in the Award Agreement that if a Participant engages in any Detrimental Activity (as defined below), the Committee may, notwithstanding any other provision in this Plan to the contrary, cancel, rescind, suspend, withhold or otherwise restrict or limit any unexpired, unexercised, unpaid or deferred Award as of the first date the Participant engages in the Detrimental Activity, unless sooner terminated by operation of another term of this Plan or any other agreement. Without limiting the generality of the foregoing, the Award Agreement may also provide that if the Participant exercises an Option or SAR, receives a Performance Unit payout, receives or vests in Shares under an Award or vests in or receives a payout under a Stock Unit at any time during the period beginning six months prior to the date the Participant first engages in Detrimental Activity and ending six months after the date the Participant ceases to engage in any Detrimental Activity, the Participant shall be required to pay to the Company the excess of the then fair market value of the Shares subject to the Award over the total price paid by the Participant for such Shares.

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(b) For purposes of this Section, except to the extent provided otherwise in the Award Agreement, Detrimental Activity means any of the following, as determined by the Committee in good faith: (i) the violation of any agreement between the Company or any Employer and the Participant relating to the

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disclosure of confidential information or trade secrets, the solicitation of employees, customers, suppliers, licensees, licensors or contractors, or the performance of competitive services; (ii) conduct that constitutes Cause (as defined in Section 2.4 above without regard to any definition of Cause in any Individual Agreement), whether or not the Participant's employment is terminated for Cause; (iii) making, or causing or attempting to cause any other person to make, any statement, either written or oral, or conveying any information about the Company or any other Employer which is disparaging or which in any way reflects negatively upon the Company or the Employer; (iv) improperly disclosing or otherwise misusing any confidential information regarding the Company or any Employer; or (v) the refusal or failure of a Participant to provide, upon the request of the Company, a certification, in a form satisfactory to the Company, that he or she has not engaged in any activity described in clauses (i)-(iv).

14.5 Assumption or Acceleration of Awards. In the event of a proposed sale of all or substantially all of the assets or stock of the Company, the merger of the Company with or into another corporation such that shareholders of the Company immediately prior to the merger exchange their shares of stock in the Company for cash and/or shares of another entity or any other corporate transaction to which the Committee deems this provision applicable, each Award shall be assumed or an equivalent Award shall be substituted by the successor corporation or a parent or subsidiary of such successor corporation (and adjusted as appropriate), unless such successor corporation does not agree to assume the Award or to substitute an equivalent award, in which case the Committee may, in lieu of such assumption or substitution, provide for the Participant to have the right to exercise the Option or other Award as to all Shares, including Shares as to which the Option or other Award would not otherwise be exercisable (or with respect to Restricted Stock or Stock Units, provide that all restrictions shall lapse). If the Committee makes an Option or other Award fully exercisable in lieu of assumption or substitution in the event of a merger or sale of assets or stock or other corporate transaction, the Committee shall notify the Participant that, subject to rescission if the merger, sale of assets or stock or other corporate transaction is not successfully completed within a certain period, the Option or other Award shall be fully exercisable for a period of fifteen (15) days from the date of such notice (or such other period as provided by the Committee), and, to the extent not exercised, the Option or other Award will terminate upon the expiration of such period.

ARTICLE 15 MISCELLANEOUS PROVISIONS

15.1 Restrictions on Shares. All certificates for Shares delivered under the Plan shall be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules and regulations of the Securities and Exchange Commission, any securities exchange or quotation or trading system on which Shares are traded and any applicable federal, state, local or foreign laws, and the Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions. In making such determination, the Committee may rely upon an opinion of counsel for the Company. Notwithstanding any other provision of the Plan, the Company shall have no liability to deliver any Shares under the Plan or make any other distribution of the benefits under the Plan unless such delivery or distribution would comply with all applicable laws (including, without limitation, the requirements of the Securities Act of 1933), and the applicable requirements of any securities exchange or quotation or trading system on which Shares are traded.

15.2 Rights of a Shareholder. Except as otherwise provided in Article 7 of the Plan and in the Restricted Stock Award Agreement, each Participant who receives an Award of Restricted Stock shall have all of the rights of a shareholder with respect to such Shares, including the right to vote the Shares to the extent, if any, such Shares possess voting rights and receive dividends and other distributions. Except as provided otherwise in the Plan or in an Award Agreement, no Participant shall have any rights as a shareholder with respect to any Shares covered by an Award prior to the date of issuance to him or her of a certificate or certificates for such Shares.

15.3 No Implied Rights. Nothing in the Plan or any Award granted under the Plan shall confer upon any Participant any right to continue in the service of the Employer, or to serve as a member of the Board, or interfere in any way with the right of the Employer to terminate his or her employment or other service relationship at any time. Except to the extent approved by the Board, no Award granted under the Plan shall be deemed salary or

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compensation for the purpose of computing benefits under any employee benefit plan, severance program, or other arrangement of the Employer for the benefit of its employees. No Participant shall have any claim to an Award until it is actually granted under the Plan. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall, except as otherwise provided by the Committee, be no greater than the right of an unsecured general creditor of the Company.

15.4 Compliance with Laws. At all times when the Committee determines that compliance with Section 162(m) of the Code is required or desirable with respect to a particular Award granted under this Plan, such Award shall comply with the requirements of Section 162(m) of the Code. In addition, in the event that changes are made to Section 162(m) of the Code to permit greater flexibility with respect to any Awards under the Plan, the Committee may, subject to the requirements of Article 14, make any adjustments it deems appropriate. The Plan and the grant of Awards shall be subject to all applicable federal, state local and foreign laws, rules, and regulations and to such approvals by any government or regulatory agency as may be required.

15.5 Successors. The terms of the Plan shall be binding upon the Company, and its successors and assigns.

15.6 Tax Elections. Each Participant shall give the Committee prompt written notice of any election made by such Participant under Section 83(b) of the Code or any similar provision thereof. Notwithstanding the preceding sentence, the Committee may condition any award on the Participant's not making an election under Section 83(b) of the Code.

15.7 Legal Construction.

(a) *Severability.* If any provision of this Plan or an Award Agreement is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would result in the Plan or any Award Agreement not complying with any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws or, if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award Agreement, it shall be stricken and the remainder of the Plan or the Award Agreement shall remain in full force and effect.

(b) *Gender and Number.* Where the context permits, words in any gender shall include the other gender, words in the singular shall include the plural and words in the plural shall include the singular.

(c) *Governing Law.* To the extent not preempted by federal law, the Plan and all Award Agreements hereunder, shall be construed in accordance with and governed by the substantive laws of the State of North Carolina.

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VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

CREE, INC.

4600 SILICON DRIVE

DURHAM, NC 27703

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to CREE, INC. c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK

INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

	For	Withhold	For All	To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s)								
CREE, INC.	All	All	Except									
<p>The Board of Directors recommends that you vote FOR the following:</p> <p>Vote on Directors</p> <p>1. ELECTION OF DIRECTORS</p> <p>Nominees:</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">01) Charles M. Swoboda</td> <td style="width: 50%;">05) Franco Plastina</td> </tr> <tr> <td>02) Dolph W. von Arx</td> <td>06) Robert L. Tillman</td> </tr> <tr> <td>03) Clyde R. Hosein</td> <td>07) Harvey A. Wagner</td> </tr> <tr> <td>04) Robert A. Ingram</td> <td>08) Thomas H. Werner</td> </tr> </table>				01) Charles M. Swoboda	05) Franco Plastina	02) Dolph W. von Arx	06) Robert L. Tillman	03) Clyde R. Hosein	07) Harvey A. Wagner	04) Robert A. Ingram	08) Thomas H. Werner	on the line below.
01) Charles M. Swoboda	05) Franco Plastina											
02) Dolph W. von Arx	06) Robert L. Tillman											
03) Clyde R. Hosein	07) Harvey A. Wagner											
04) Robert A. Ingram	08) Thomas H. Werner											
									

For Against Abstain

The Board of Directors recommends you vote FOR the following proposal(s):

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Vote on Proposals

- | | | | | |
|----|---|----|----|----|
| 2. | APPROVAL OF AMENDMENT TO THE 2004 LONG-TERM INCENTIVE COMPENSATION PLAN. | .. | .. | .. |
| 3. | APPROVAL OF AMENDMENT TO CREE S BYLAWS. | .. | .. | .. |
| 4. | RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT AUDITORS FOR

THE FISCAL YEAR ENDING JUNE 26, 2011. | .. | .. | .. |

The shares represented by this proxy, when properly executed, will be voted in the manner directed herein by the undersigned Shareholder(s). **If no direction is made, this proxy will be voted FOR items 1, 2, 3 and 4.** If any other matters properly come before the meeting or any adjournments thereof, the person named in this proxy will vote in their discretion, all as more specifically set forth in the Notice of Annual Meeting and Proxy Statement dated September 3, 2010, receipt of which is hereby acknowledged.

For address changes, please check this box and write the changes on the back where indicated.

Yes No

Please indicate if you plan to attend this meeting.

Please sign your name exactly as it appears on this proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

Signature [PLEASE SIGN WITHIN BOX]

Date

Signature (Joint Owners)

Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

ANNUAL MEETING OF SHAREHOLDERS

OCTOBER 26, 2010

The undersigned hereby appoints Charles M. Swoboda and Adam H. Broome, and each of them individually, as proxies and attorneys-in-fact of the undersigned, with full power of substitution, to represent the undersigned and to vote, in accordance with the directions in this proxy, all of the shares of stock of Cree, Inc. that the undersigned is entitled to vote at the 2010 Annual Meeting of Shareholders of Cree, Inc. to be held at the offices of the corporation at 4425 Silicon Drive, Durham, North Carolina 27703, on Tuesday, October 26, 2010 at 10:00 a.m. local time, and any and all adjournments thereof.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED BY THE SHAREHOLDER. IF NO SUCH DIRECTIONS ARE MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE NOMINEES LISTED ON THE REVERSE SIDE FOR THE BOARD OF DIRECTORS AND FOR EACH PROPOSAL.

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED REPLY ENVELOPE

Address Changes: _____

(If you noted any Address Changes above, please mark corresponding box on the reverse side.)

CONTINUED AND TO BE SIGNED ON REVERSE SIDE