

COLONIAL INTERMEDIATE HIGH INCOME FUND  
Form N-30D  
January 08, 2003

COLONIAL INTERMEDIATE HIGH INCOME FUND

ANNUAL REPORT

OCTOBER 31, 2002

[photo of calculator and newspaper]

President's Message

DEAR SHAREHOLDER:

The high-yield bond market was vulnerable to the same economic, accounting and management concerns that undermined confidence in the stock market during the 12-month period that ended October 31, 2002. Although high-yield bonds staged a modest comeback in the fourth quarter of 2001, a string of high-profile bankruptcies and the highest rate of bankruptcies in more than a decade cut the group's rally short. Continued uncertainty about the economy and the prospects for war in Iraq added to investor fears. As investors sought the safety of the highest quality bonds, high-yield bonds continued to lose ground and the lowest-quality high-yield bonds were the hardest hit.

We were disappointed in the returns generated by high-yield bonds during the year. However, based on their yields in comparison to US Treasury bond yields, we believe these bonds represented attractive relative values by the end of the fund's fiscal year.

The following report will provide you with detailed information about the fund's performance and the strategies used by portfolio managers Scott Richards and Greg Smalley. As always, we thank you for investing in Colonial Intermediate High Income Fund and for giving us the opportunity to help you build a strong financial future.

Sincerely,

/s/ Keith T. Banks

Keith T. Banks  
President

o NOT FDIC INSURED o MAY LOSE VALUE o NO BANK GUARANTEE

Economic and market conditions change frequently. There is no assurance that trends described in this report will continue or commence.

PORTFOLIO MANAGERS' REPORT

ANOTHER CHALLENGING YEAR

Colonial Intermediate High Income Fund returned negative 10.94% at net asset value (NAV) for the fiscal year ended October 31, 2002. The fund's results were in line with its high-yield closed-end fund peers. The Lipper High Current Yield Funds (Leveraged) Category Average returned negative 10.58%.1

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For the past year, high-yield investors have borne the brunt of continued concerns about economic weakness, the quality of reported earnings, fraudulent accounting practices and downgrades of investment-grade bonds by credit rating agencies. These factors created a volatile investment climate that sharply reduced your fund's potential earning power. Nevertheless, the fund performed in line with its peer group, despite having the majority of its assets in the credit-sensitive B-rated sector. During most of the year, B-rated issues did not perform as well as higher quality BB securities.

As a closed-end mutual fund, Colonial Intermediate High Income Fund remained fully invested and leveraged during the fiscal year. In a rising market, this strategy has had the potential to outperform open-end, high-yield mutual funds. However, in a declining market it was a drag on performance. As the price of high-yield bonds declined, we were required to repay borrowed funds in order to keep the required 3-to-1 ratio of assets versus leverage. At the end of the period, the fund's dividend yield of 11.61%, was in line with its closed-end fund peers.

### FUNDAMENTAL CREDIT ANALYSIS HELPED MINIMIZE LOSSES

Maintaining a disciplined approach to fundamental credit analysis played a key role in our investment process, especially during the difficult environment faced this year. We entered the year overweight in B-rated securities and underweight in BB-rated bonds, which was consistent with our long-standing strategy. As economic recovery remained elusive in early 2002, we continued to sell lower-quality issues and replace them with higher-quality bonds. Higher-quality bonds held up better as a result of greater cash flow stability and better liquidity as investor demand for these securities remained high.

-----  
1 Lipper Inc., a widely respected data provider, calculates an average total return for mutual funds with similar investment objectives.

### TOP CORPORATE ISSUES AS OF 10/31/02 (%)

|                          |      |
|--------------------------|------|
| Allied Waste North       |      |
| American                 | 2.01 |
| -----                    |      |
| Premier International    |      |
| Foods                    | 1.93 |
| -----                    |      |
| Hollywood Casino         | 1.68 |
| -----                    |      |
| Sovereign Bancorp        | 1.61 |
| -----                    |      |
| K. Hovnanian Enterprises | 1.54 |
| -----                    |      |

Corporate issues are calculated as a percentage of total investments including short-term investments.

### TOP 5 SECTOR BREAKDOWNS AS OF 10/31/02 (%)

|                        |      |
|------------------------|------|
| Amusement & recreation | 12.9 |
| -----                  |      |
| Oil & gas extraction   | 10.5 |
| -----                  |      |
| Health services        | 9.7  |

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Chemicals & allied products      9.6  
-----

Building construction              8.4  
-----

Sector breakdowns are calculated as a percentage of net assets.

Because the fund is actively managed, there can be no guarantee the fund will continue to hold securities of these issuers or these sectors in the future.

## 12-MONTH DISTRIBUTIONS

DECLARED PER SHARE AS OF

10/31/02 (\$)

0.37  
-----

12-MONTH TOTAL RETURNS,  
ASSUMING REINVESTMENT OF  
ALL DISTRIBUTIONS (%)

NAV                                      -10.94  
-----

Market price                          -10.43  
-----

PRICE PER SHARE ON 10/31/02

NAV                                      \$2.79  
-----

Market price                          \$2.79  
-----

1

## PORTFOLIO MANAGERS' REPORT (CONTINUED)

We also shifted the fund's assets out of the depressed cable sector and into more stable industries when it became apparent that this sector would generate sub-par results in 2002. Notable among our dispositions was Adelphia, whose securities we began selling aggressively upon initial indications that the company's financial position had been misrepresented. We managed to sell Adelphia securities at significantly higher values than where they were trading at the end of the period. We added higher-rated credits such as FMC, American Greetings and Yum! Brands (0.7%, 0.5% and 1.3% of net assets, respectively)<sup>2</sup> to the portfolio.

We have maintained greater exposure to less economically-sensitive, more stable industries such as healthcare and food. And we began to add to oil and gas, gaming, lodging and broadcasting holdings during the second half of the year. These industries have generally enjoyed stable cash flows that enable them to make regular income payments on the debt they owe.

COLONIAL INTERMEDIATE HIGH INCOME FUND VS.  
LIPPER HIGH CURRENT YIELD FUNDS  
(LEVERAGED) CATEGORY AVERAGE

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10/31/01-10/31/02

[bar chart data]:

COLONIAL  
INTERMEDIATE  
HIGH INCOME FUND -10.94%\*

LIPPER HIGH  
CURRENT YIELD  
FUNDS (LEVERAGED)  
CATEGORY AVERAGE -10.58

Past performance cannot predict future results. The returns and value of an investment may vary, resulting in a gain or loss on sale. All results shown assume reinvestment of distributions.

\* Return is computed at net asset value.

Lipper, Inc., a widely respected data provider, calculates an average total return for mutual funds with similar investment objectives.

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2 Holdings are disclosed as of October 31, 2002 and are subject to change.

2

PORTFOLIO MANAGERS' REPORT (CONTINUED)

ECONOMIC OUTLOOK IS MIXED

With no clear direction in the US economy, we believe high-yield bonds could remain volatile. Although there have been fewer negative surprises, many industries continue to struggle financially, and banks have made it more difficult to borrow money, putting additional pressure on borrowers. Until business prospects improve, we favor the higher quality tiers of the high-yield bond market. We also plan to acquire lower-rated credits opportunistically. We will continue to use our fundamental credit analysis to identify attractive issues backed by solid companies with above-average cash flow prospects.

Sincerely,

/s/ Scott B. Richards

/s/ Gregg R. Smalley

Scott B. Richards

Gregg R. Smalley

Scott B. Richards and Gregg R. Smalley are portfolio co-managers of the Colonial Intermediate High Income Fund. Mr. Richards is a senior vice president of Colonial Management Associates (Colonial). Mr. Smalley is a vice president of Colonial. Colonial is an affiliate of Columbia Management Group, Inc.

Past performance is no guarantee of future investment results.

Investing in high-yield bonds involves greater credit risk and other risks not associated with investing in higher-quality bonds. Bond investing also involves interest rate risk, which means that bond prices may change as interest rates

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increase or decrease.

3

INVESTMENT PORTFOLIO

October 31, 2002

CORPORATE FIXED-INCOME

| BONDS & NOTES - 134.8%                  | PAR        | VALUE      |
|---|------------|------------|
| -----                                   |            |            |
| CONSTRUCTION - 8.4%                     |            |            |
| BUILDING CONSTRUCTION - 8.4%            |            |            |
| Associated Materials, Inc.,             |            |            |
| 9.750% 04/15/12 (a)                     | \$ 335,000 | \$ 341,700 |
| Atrium Companies, Inc.,                 |            |            |
| 10.500% 05/01/09                        | 210,000    | 197,400    |
| D.R. Horton, Inc.,                      |            |            |
| 9.750% 09/15/10                         | 955,000    | 940,675    |
| KB Home,                                |            |            |
| 8.625% 12/15/08                         | 490,000    | 492,450    |
| K. Hovnanian Enterprises, Inc.:         |            |            |
| 8.875% 04/01/12                         | 170,000    | 146,200    |
| 10.500% 10/01/07                        | 1,060,000  | 1,113,000  |
| Lennar Corp.,                           |            |            |
| 7.625% 03/01/09                         | 525,000    | 528,937    |
| Ryland Group, Inc.,                     |            |            |
| 9.125% 06/15/11                         | 375,000    | 393,750    |
| Standard Pacific Corp.,                 |            |            |
| 9.250% 04/15/12                         | 740,000    | 717,800    |
|   |            | -----      |
|   |            | 4,871,912  |
|   |            | -----      |
| -----                                   |            |            |
| CONSUMER STAPLES - 0.3%                 |            |            |
| HOUSEHOLD PRODUCTS - 0.3%               |            |            |
| Armkel LLC,                             |            |            |
| 9.500% 08/15/09                         | 180,000    | 191,700    |
|   |            | -----      |
| -----                                   |            |            |
| FINANCE, INSURANCE & REAL ESTATE - 4.0% |            |            |
| DEPOSITORY INSTITUTIONS - 2.3%          |            |            |
| Sovereign Bancorp, Inc.,                |            |            |
| 10.500% 11/15/06                        | 1,180,000  | 1,309,800  |
|   |            | -----      |
| FINANCIAL SERVICES - 0.9%               |            |            |
| MDP Acquisitions PLC,                   |            |            |
| 9.625% 10/01/12 (a)                     | 525,000    | 540,750    |
|   |            | -----      |
| INSURANCE AGENTS & BROKERS - 0.5%       |            |            |
| Willis Corroon Corp.,                   |            |            |
| 9.000% 02/01/09                         | 295,000    | 309,750    |
|   |            | -----      |
| REAL ESTATE - 0.3%                      |            |            |
| iStar Financial, Inc.,                  |            |            |
| 8.750% 08/15/08                         | 185,000    | 185,000    |
|   |            | -----      |

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| -----                                    |            |            |
|--|------------|------------|
|  | PAR        | VALUE      |
| -----                                    |            |            |
| MANUFACTURING - 44.1%                    |            |            |
| APPAREL - 0.4%                           |            |            |
| William Carter Co.,                      |            |            |
| 10.875% 08/15/11                         | 225,000    | 243,000    |
| -----                                    |            |            |
| CHEMICALS & ALLIED PRODUCTS - 9.6%       |            |            |
| Avecia Group PLC,                        |            |            |
| 11.000% 07/01/09                         | 840,000    | 705,600    |
| FMC Corp.,                               |            |            |
| 10.250% 11/01/09 (a)                     | 420,000    | 431,550    |
| Huntsman ICI Holdings LLC,               |            |            |
| (b) 12/31/09                             | 3,975,000  | 834,750    |
| -----                                    |            |            |
|  | PAR        | VALUE      |
| -----                                    |            |            |
| Koppers Industries, Inc.,                |            |            |
| 9.875% 12/01/07                          | \$ 725,000 | \$ 696,000 |
| Lyondell Chemical Co.:                   |            |            |
| 9.625% 05/01/07                          | 450,000    | 429,750    |
| 11.125% 07/15/12                         | 475,000    | 463,125    |
| MacDermid, Inc.,                         |            |            |
| 9.125% 07/15/11                          | 375,000    | 399,375    |
| Terra Capital, Inc.,                     |            |            |
| 12.875% 10/15/08                         | 910,000    | 937,300    |
| Texas Petrochemicals Corp.,              |            |            |
| 11.125% 07/01/06                         | 1,125,000  | 675,000    |
| -----                                    |            |            |
|  |            | 5,572,450  |
| -----                                    |            |            |
| ELECTRONIC & ELECTRICAL EQUIPMENT - 2.4% |            |            |
| Amphenol Corp.,                          |            |            |
| 9.875% 05/15/07                          | 735,000    | 757,050    |
| Flextronics International Ltd.,          |            |            |
| 9.875% 07/01/10                          | 600,000    | 627,000    |
| -----                                    |            |            |
|  |            | 1,384,050  |
| -----                                    |            |            |
| FABRICATED METAL - 0.7%                  |            |            |
| Earle M. Jorgensen Co.,                  |            |            |
| 9.750% 06/01/12                          | 425,000    | 416,500    |
| -----                                    |            |            |
| FOOD & KINDRED PRODUCTS - 7.7%           |            |            |
| Constellation Brands, Inc.,              |            |            |
| 8.125% 01/15/12                          | 270,000    | 280,800    |
| Del Monte Corp.,                         |            |            |
| 9.250% 05/15/11                          | 500,000    | 497,500    |
| Dole Food Co., Inc.,                     |            |            |
| 7.250% 05/01/09                          | 455,000    | 414,050    |
| Johnsondiversey, Inc.,                   |            |            |
| 9.625% 05/15/12 (a)                      | 500,000    | 507,500    |
| New World Pasta Co.,                     |            |            |
| 9.250% 02/15/09                          | 275,000    | 261,250    |
| Premier International Foods PLC,         |            |            |
| 12.000% 09/01/09                         | 1,500,000  | 1,575,000  |
| Roundy's Inc.,                           |            |            |
| 8.875% 06/15/12 (a)                      | 410,000    | 393,600    |
| Smithfield Foods, Inc.,                  |            |            |
| 8.000% 10/15/09                          | 525,000    | 526,312    |

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|  |         |                             |
|--|---------|-----------------------------|
|  |         | -----<br>4,456,012<br>----- |
| FURNITURE & FIXTURES - 1.0%              |         |                             |
| Congoleum Corp.,                         |         |                             |
| 8.625% 08/01/08                          | 225,000 | 184,500                     |
| Juno Lighting, Inc.,                     |         |                             |
| 11.875% 07/01/09                         | 295,000 | 297,950                     |
| Simmons Co.,                             |         |                             |
| 10.250% 03/15/09                         | 100,000 | 106,000                     |
|  |         | -----<br>588,450<br>-----   |
| MEASURING & ANALYZING INSTRUMENTS - 0.7% |         |                             |
| Fisher Scientific International, Inc.,   |         |                             |
| 8.125% 05/01/12                          | 375,000 | 384,375                     |
|  |         | -----                       |

See notes to investment portfolio.

4

INVESTMENT PORTFOLIO (CONTINUED)

October 31, 2002

CORPORATE FIXED-INCOME

| BONDS & NOTES (CONTINUED)             | PAR        | VALUE                       |
|---------------------------------------|------------|-----------------------------|
| -----                                 |            |                             |
| MISCELLANEOUS MANUFACTURING - 6.6%    |            |                             |
| Actuant Corp.,                        |            |                             |
| 13.000% 05/01/09                      | \$ 351,000 | \$ 401,895                  |
| AGCO Corp.,                           |            |                             |
| 9.500% 05/01/08                       | 400,000    | 420,000                     |
| Applied Extrusion Technologies, Inc., |            |                             |
| 10.750% 07/01/11                      | 320,000    | 182,400                     |
| Ball Corp.,                           |            |                             |
| 8.250% 08/01/08                       | 250,000    | 257,500                     |
| Dana Corp.:                           |            |                             |
| 9.000% 08/15/11                       | 210,000    | 193,200                     |
| 10.125% 03/15/10                      | 200,000    | 194,000                     |
| Flowserve Corp.,                      |            |                             |
| 12.250% 08/15/10                      | 361,000    | 380,855                     |
| JLG Industries, Inc.,                 |            |                             |
| 8.375% 06/15/12                       | 245,000    | 176,400                     |
| Owens-Illinois, Inc.:                 |            |                             |
| 7.150% 05/15/05                       | 150,000    | 142,500                     |
| 7.500% 05/15/10                       | 600,000    | 534,000                     |
| Tekni-Plex, Inc.,                     |            |                             |
| 12.750% 06/15/10                      | 915,000    | 823,500                     |
| Terex Corp.,                          |            |                             |
| 10.375% 04/01/11                      | 145,000    | 130,500                     |
|                                       |            | -----<br>3,836,750<br>----- |
| PAPER PRODUCTS - 1.6%                 |            |                             |
| Corp. Durango SA de CV,               |            |                             |
| 13.125% 08/01/06                      | 525,000    | 333,375                     |

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|   |            |            |
|---|------------|------------|
| Jefferson Smurfit Corp.,<br>8.250% 10/01/12 (a)           | 250,000    | 251,250    |
| Tembec Industries, Inc.,<br>8.500% 02/01/11               | 350,000    | 353,500    |
|   |            | -----      |
|   |            | 938,125    |
|   |            | -----      |
| PRIMARY METAL - 2.7%                                      |            |            |
| AK Steel Corp.,<br>7.750% 06/15/12 (a)                    | 270,000    | 264,600    |
| Bayou Steel Corp.,<br>9.500% 05/15/08                     | 1,000,000  | 450,000    |
| Kaiser Aluminum & Chemical Corp.,<br>10.875% 10/15/06 (c) | 780,000    | 468,000    |
| Oregon Steel Mills, Inc.,<br>10.000% 07/15/09 (a)         | 205,000    | 205,000    |
| WCI Steel, Inc.,<br>10.000% 12/01/04                      | 665,000    | 146,300    |
| Wheeling-Pittsburgh Corp.,<br>9.250% 11/15/07 (c)         | 2,000,000  | 60,000     |
|   |            | -----      |
|   |            | 1,593,900  |
|   |            | -----      |
| PRINTING & PUBLISHING - 5.1%                              |            |            |
| American Greetings Corp.,<br>11.750% 07/15/08             | 255,000    | 272,850    |
| Dex Media East LLC,<br>12.125% 11/15/12 (a)               | 430,000    | 441,825    |
| PriMedia, Inc.,<br>8.875% 05/15/11                        | 445,000    | 378,250    |
| Quebecor Media, Inc.,<br>11.125% 07/15/11                 | 925,000    | 656,750    |
|   |            |            |
|   | PAR        | VALUE      |
|   | -----      | -----      |
| Von Hoffman Corp.,<br>10.250% 03/15/09                    | \$ 495,000 | \$ 455,400 |
| Yell Finance BV,<br>10.750% 08/01/11                      | 750,000    | 750,000    |
|   |            | -----      |
|   |            | 2,955,075  |
|   |            | -----      |
| STONE, CLAY, GLASS & CONCRETE - 0.8%                      |            |            |
| Anchor Glass Container Corp.,<br>11.250% 04/01/05 (c)     | 500,000    | 472,500    |
|   |            | -----      |
| TRANSPORTATION EQUIPMENT - 4.8%                           |            |            |
| BE Aerospace, Inc.,<br>8.875% 05/01/11                    | 575,000    | 372,313    |
| Collins & Aikman Products Co.,<br>10.750% 12/31/11        | 725,000    | 667,000    |
| Dura Operating Corp.,<br>8.625% 04/15/12                  | 345,000    | 332,925    |
| Lear Corp.,<br>8.110% 05/15/09                            | 500,000    | 522,500    |
| Newcor, Inc.,<br>9.875% 03/01/08 (c)                      | 1,170,000  | 210,600    |
| Pennzoil-Quaker State Co.,<br>10.000% 11/01/08            | 460,000    | 542,800    |
| Sequa Corp.,  |            |            |



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|                 |         |           |
|-----------------|---------|-----------|
| 8.875% 04/01/08 | 200,000 | 166,000   |
|                 |         | -----     |
|                 |         | 2,814,138 |
|                 |         | -----     |

-----  
MINING & ENERGY - 11.2%

METAL MINING - 0.6%

TriMas Corp.,

|                     |         |         |
|---------------------|---------|---------|
| 9.875% 06/15/12 (a) | 340,000 | 323,000 |
|                     |         | -----   |

OIL & GAS EXTRACTION - 10.1%

Benton Oil & Gas Co.,

|                 |         |         |
|-----------------|---------|---------|
| 9.375% 11/01/07 | 485,000 | 452,263 |
|-----------------|---------|---------|

Compton Petroleum Corp.,

|                     |         |         |
|---------------------|---------|---------|
| 9.900% 05/15/09 (a) | 325,000 | 340,073 |
|---------------------|---------|---------|

Denbury Management, Inc.,

|                 |         |         |
|-----------------|---------|---------|
| 9.000% 03/01/08 | 125,000 | 126,250 |
|-----------------|---------|---------|

El Paso Energy Partners LP,

|                     |         |         |
|---------------------|---------|---------|
| 8.500% 06/01/11 (a) | 165,000 | 148,088 |
|---------------------|---------|---------|

Encore Acquisition Co.,

|                     |         |         |
|---------------------|---------|---------|
| 8.375% 06/15/12 (a) | 325,000 | 328,250 |
|---------------------|---------|---------|

Forest Oil Corp.,

|                 |         |         |
|-----------------|---------|---------|
| 8.000% 06/15/08 | 400,000 | 424,000 |
|-----------------|---------|---------|

Magnum Hunter Resources, Inc.,

|                  |         |         |
|------------------|---------|---------|
| 10.000% 06/01/07 | 925,000 | 966,625 |
|------------------|---------|---------|

Mariner Energy, Inc.,

|                  |         |         |
|------------------|---------|---------|
| 10.500% 08/01/06 | 690,000 | 641,700 |
|------------------|---------|---------|

Petsec Energy, Inc.,

|                     |           |        |
|---------------------|-----------|--------|
| 9.500% 06/15/07 (d) | 2,000,000 | 20,000 |
|---------------------|-----------|--------|

Pioneer Natural Resources Co.:

|                 |         |         |
|-----------------|---------|---------|
| 7.500% 04/15/12 | 105,000 | 110,775 |
|-----------------|---------|---------|

|                 |        |        |
|-----------------|--------|--------|
| 9.625% 04/01/10 | 10,000 | 11,600 |
|-----------------|--------|--------|

See notes to investment portfolio.

5

INVESTMENT PORTFOLIO (CONTINUED)

October 31, 2002

CORPORATE FIXED-INCOME

BONDS & NOTES (CONTINUED)

PAR

VALUE

-----  
MINING & ENERGY (CONTINUED)

OIL & GAS EXTRACTION (CONTINUED)

Pogo Producing Co.,

|                 |            |              |
|-----------------|------------|--------------|
| 8.250% 04/15/11 | \$ 965,000 | \$ 1,003,600 |
|-----------------|------------|--------------|

Stone Energy Corp.,

|                 |         |         |
|-----------------|---------|---------|
| 8.250% 12/15/11 | 220,000 | 223,300 |
|-----------------|---------|---------|

Trico Marine Services, Inc.,

|                 |         |         |
|-----------------|---------|---------|
| 8.875% 05/15/12 | 275,000 | 222,750 |
|-----------------|---------|---------|

XTO Energy, Inc.,

|                 |         |         |
|-----------------|---------|---------|
| 7.500% 04/15/12 | 800,000 | 844,000 |
|                 |         | -----   |

5,863,274

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OIL & GAS FIELD SERVICES - 0.5%  
 Newpark Resources, Inc.,  
 8.625% 12/15/07 290,000 274,050

RETAIL TRADE - 3.8%  
 FOOD STORES - 0.8%  
 Pathmark Stores, Inc.,  
 8.750% 02/01/12 200,000 170,000  
 Winn-Dixie Stores, Inc.,  
 8.875% 04/01/08 310,000 306,900  
 476,900

MISCELLANEOUS RETAIL - 1.7%  
 JC Penney Co., Inc.,  
 9.000% 08/01/12 (a) 450,000 423,000  
 Steinway Musical Instruments, Inc.,  
 8.750% 04/15/11 550,000 544,500  
 967,500

RESTAURANTS - 1.3%  
 Yum! Brands, Inc.:  
 7.700% 07/01/12 305,000 315,675  
 8.875% 04/15/11 395,000 426,600  
 742,275

SERVICES - 27.8%  
 AMUSEMENT & RECREATION - 12.9%  
 Ameristar Casinos, Inc.,  
 10.750% 02/15/09 400,000 430,000  
 Argosy Gaming Co.,  
 10.750% 06/01/09 335,000 368,500  
 Boyd Gaming Corp.,  
 9.500% 07/15/07 250,000 253,750  
 Circus-Circus & Eldorado/Silver Legacy,  
 10.125% 03/01/12 455,000 450,450  
 Coast Hotels & Casinos, Inc.,  
 9.500% 04/01/09 500,000 522,500  
 Hollywood Casino Corp.,  
 11.250% 05/01/07 400,000 432,000  
 Hollywood Casino Shreveport,  
 13.000% 08/01/06 900,000 936,000  
 Hollywood Park, Inc.,  
 9.500% 08/01/07 1,000,000 840,000  
 Majestic Investor Holdings,  
 11.653% 11/30/07 225,000 195,750

PAR VALUE  
 Mohegan Tribal Gaming Authority,  
 8.000% 04/01/12 \$ 500,000 \$ 512,500  
 Penn National Gaming, Inc.,  
 11.125% 03/01/08 1,050,000 1,123,500

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|   |         |           |
|---|---------|-----------|
| Regal Cinemas, Inc.,<br>9.375% 02/01/12                           | 600,000 | 627,000   |
| Riviera Holdings Corp.,<br>11.000% 06/15/10 (a)                   | 30,000  | 27,300    |
| Six Flags, Inc.,<br>9.500% 02/01/09                               | 485,000 | 438,925   |
| Venetian Casino Resort LLC,<br>11.000% 06/15/10 (a)               | 325,000 | 333,125   |
|   |         | -----     |
|   |         | 7,491,300 |
|   |         | -----     |
| AUTO EQUIPMENT & RENTAL SERVICES - 0.8%                           |         |           |
| United Rentals, Inc.:   |         |           |
| 8.800% 08/15/08   | 325,000 | 230,750   |
| 9.500% 06/01/08   | 275,000 | 203,500   |
|   |         | -----     |
|   |         | 434,250   |
|   |         | -----     |
| FUNERAL SERVICES - 2.0%   |         |           |
| Service Corp. International,<br>7.700% 04/15/09                   | 875,000 | 739,375   |
| Stewart Enterprises, Inc.,<br>10.750% 07/01/08                    | 400,000 | 434,000   |
|   |         | -----     |
|   |         | 1,173,375 |
|   |         | -----     |
| HEALTH SERVICES - 9.7%  |         |           |
| Alliance Imaging, Inc.,<br>10.375% 04/15/11                       | 415,000 | 429,525   |
| AmerisourceBergen Corp.,<br>8.125% 09/01/08                       | 330,000 | 351,450   |
| Bio-Rad Laboratories, Inc.,<br>11.625% 02/15/07                   | 600,000 | 669,000   |
| Coventry Health Care, Inc.,<br>8.125% 02/15/12                    | 525,000 | 540,750   |
| HCA, Inc.,<br>8.750% 09/01/10                                     | 670,000 | 752,035   |
| InSight Health Services Corp.,<br>9.875% 11/01/11                 | 675,000 | 644,625   |
| Magellan Health Services, Inc.:                                   |         |           |
| 9.000% 02/15/08   | 790,000 | 134,300   |
| 9.375% 11/15/07 (a)   | 385,000 | 227,150   |
| MedQuest Inc.,<br>11.875% 08/15/12 (a)                            | 500,000 | 492,500   |
| PacifiCare Health Systems, Inc.,<br>10.750% 06/01/09              | 210,000 | 216,300   |
| Radiologix, Inc.,<br>10.500% 12/15/08                             | 400,000 | 396,000   |
| Res-Care, Inc.,<br>10.625% 11/15/08                               | 455,000 | 364,000   |
| United Surgical Partners International, Inc.,<br>10.000% 12/15/11 | 400,000 | 396,000   |
| Vanguard Health Systems, Inc.,<br>9.750% 08/01/11                 | 55,000  | 51,150    |
|   |         | -----     |
|   |         | 5,664,785 |
|   |         | -----     |

See notes to investment portfolio.

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6

INVESTMENT PORTFOLIO (CONTINUED)

October 31, 2002

CORPORATE FIXED-INCOME

| BONDS & NOTES (CONTINUED)  | PAR        | VALUE      |
|--|------------|------------|
| -----  |            |            |
| HOTELS, CAMPS & LODGING - 2.4%   |            |            |
| Host Marriott LP,  |            |            |
| 9.500% 01/15/07  | \$ 800,000 | \$ 796,000 |
| Starwood Hotels & Resorts Worldwide, Inc.,                                   |            |            |
| 7.875% 05/01/12 (a)  | 625,000    | 595,313    |
|  |            | -----      |
|  |            | 1,391,313  |
|  |            | -----      |
| -----  |            |            |
| TRANSPORTATION, COMMUNICATIONS, ELECTRIC,<br>GAS & SANITARY SERVICES - 34.5% |            |            |
| AEROSPACE - 2.3%   |            |            |
| L-3 Communications Corp.,  |            |            |
| 7.625% 06/15/12  | 450,000    | 465,750    |
| TransDigm, Inc.,   |            |            |
| 10.375% 12/01/08   | 850,000    | 867,000    |
|  |            | -----      |
|  |            | 1,332,750  |
|  |            | -----      |
| AIR TRANSPORTATION - 1.8%  |            |            |
| Northwest Airlines, Inc.,  |            |            |
| 9.875% 03/15/07  | 615,000    | 264,450    |
| U.S. Airways, Inc.,  |            |            |
| 10.375% 03/01/13 (c)   | 1,600,000  | 800,000    |
|  |            | -----      |
|  |            | 1,064,450  |
|  |            | -----      |
| BROADCASTING - 7.5%  |            |            |
| Advanstar Communications, Inc.,  |            |            |
| 12.000% 02/15/11   | 500,000    | 300,000    |
| Allbritton Communications Co.,   |            |            |
| 9.750% 11/30/07  | 600,000    | 621,000    |
| CanWest Media, Inc.,   |            |            |
| 10.625% 05/15/11   | 500,000    | 532,500    |
| Corus Entertainment, Inc.,   |            |            |
| 8.750% 03/01/12  | 200,000    | 205,000    |
| Cumulus Media, Inc.,   |            |            |
| 10.375% 07/01/08   | 225,000    | 237,938    |
| Emmis Communications Corp.,  |            |            |
| (e) 03/15/11   |            |            |
| (12.500% 03/15/06)   | 561,000    | 440,385    |
| LIN Holdings Corp.,  |            |            |
| (e) 03/01/08   |            |            |
| (10.000% 03/01/03)   | 725,000    | 736,781    |
| Sinclair Broadcast Group, Inc.,  |            |            |
| 8.750% 12/15/11  | 600,000    | 630,000    |
| TV Azteca SA de CV,  |            |            |
| 10.500% 02/15/07   | 745,000    | 670,500    |
|  |            | -----      |
|  |            | 4,374,104  |

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|   |         |         |
|---|---------|---------|
| CABLE - 6.4%                            |         |         |
| Cable Satisfaction International, Inc., |         |         |
| 12.750% 03/01/10                        | 595,000 | 190,400 |
| Charter Communications Holdings LLC:    |         |         |
| (e) 04/01/11                            |         |         |
| (9.920% 04/01/04)                       | 795,000 | 246,450 |
| 10.000% 04/01/09                        | 325,000 | 139,750 |
| 10.750% 10/01/09                        | 275,000 | 121,688 |
| 11.125% 01/15/11                        | 675,000 | 298,687 |
| Comcast UK Cable Partners Ltd.,         |         |         |
| 11.200% 11/15/07                        | 750,000 | 540,000 |

|                                   | PAR         | VALUE     |
|-----------------------------------|-------------|-----------|
| -----                             |             |           |
| Diamond Cable Communications PLC, |             |           |
| 10.750% 02/15/07 (c)              | \$1,085,000 | \$ 75,950 |
| EchoStar DBS Corp.,               |             |           |
| 9.250% 02/01/06                   | 1,005,000   | 1,015,050 |
| Insight Communications Co., Inc., |             |           |
| (e) 02/15/11                      |             |           |
| (12.250% 02/15/06)                | 770,000     | 292,600   |
| Northland Cable Television, Inc., |             |           |
| 10.250% 11/15/07                  | 1,350,000   | 783,000   |
|                                   |             | -----     |
|                                   |             | 3,703,575 |
|                                   |             | -----     |

|                                    |         |         |
|------------------------------------|---------|---------|
| COMMUNICATIONS - 0.6%              |         |         |
| XM Satellite Radio Holdings, Inc., |         |         |
| 14.000% 03/15/10                   | 830,000 | 340,300 |

|                                   |         |         |
|-----------------------------------|---------|---------|
| COMMUNICATIONS SERVICES - 0.9%    |         |         |
| Crown Castle International Corp.: |         |         |
| (e) 05/15/11                      |         |         |
| (10.375% 05/15/04)                | 250,000 | 132,500 |
| 10.750% 08/01/11                  | 250,000 | 191,250 |
| SBA Communications Corp.,         |         |         |
| 10.250% 02/01/09                  | 440,000 | 211,200 |
|                                   |         | -----   |
|                                   |         | 534,950 |
|                                   |         | -----   |

|  |           |           |
|--|-----------|-----------|
| ELECTRIC, GAS & SANITARY SERVICES - 3.8% |           |           |
| Allied Waste North America, Inc.:        |           |           |
| 8.500% 12/01/08                          | 475,000   | 465,500   |
| 10.000% 08/01/09                         | 1,215,000 | 1,170,956 |
| HydroChem Industrial Services, Inc.,     |           |           |
| 10.375% 08/01/07                         | 750,000   | 562,500   |
|  |           | -----     |
|  |           | 2,198,956 |
|  |           | -----     |

|                               |         |         |
|-------------------------------|---------|---------|
| ELECTRIC SERVICES - 4.1%      |         |         |
| AES Corp.,                    |         |         |
| 9.500% 06/01/09               | 450,000 | 198,000 |
| Beaver Valley Funding Corp.,  |         |         |
| 9.000% 06/01/17               | 590,000 | 593,198 |
| Caithness Coso Funding Corp., |         |         |
| 9.050% 12/15/09               | 582,754 | 559,444 |
| Calpine Corp.,                |         |         |
| 8.500% 02/15/11               | 875,000 | 280,000 |
| Nevada Power Co.,             |         |         |

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|                                    |         |           |
|------------------------------------|---------|-----------|
| 10.875% 10/15/09 (a)               | 260,000 | 248,123   |
| PSE&G Energy Holdings, Inc.,       |         |           |
| 8.625% 02/15/08                    | 395,000 | 260,700   |
| Western Resources, Inc.,           |         |           |
| 7.875% 05/01/07                    | 275,000 | 266,750   |
|                                    |         | -----     |
|                                    |         | 2,406,215 |
|                                    |         | -----     |
| MOTOR FREIGHT & WAREHOUSING - 0.6% |         |           |
| QDI LLC:                           |         |           |
| 12.000% 06/15/09 (a)               | 150,687 | 22,603    |
| 12.500% 06/15/08 (a)               | 651,000 | 325,500   |
|                                    |         | -----     |
|                                    |         | 348,103   |
|                                    |         | -----     |
| POLLUTION CONTROL - 0.5%           |         |           |
| EnviroSource, Inc.,                |         |           |
| 14.000% 12/15/08                   | 318,192 | 286,373   |
|                                    |         | -----     |

See notes to investment portfolio.

7

INVESTMENT PORTFOLIO (CONTINUED)

October 31, 2002

CORPORATE FIXED-INCOME

| BONDS & NOTES (CONTINUED)  | PAR        | VALUE     |
|--|------------|-----------|
| -----  |            |           |
| TRANSPORTATION, COMMUNICATIONS, ELECTRIC,<br>GAS & SANITARY SERVICES (CONTINUED) |            |           |
| RADIOTELEPHONE COMMUNICATIONS - 2.2%   |            |           |
| AirGate PCS, Inc.,   |            |           |
| (e) 10/01/09   |            |           |
| (13.500% 10/01/04)   | \$ 399,000 | \$ 31,920 |
| Nextel Communications, Inc.,   |            |           |
| 9.375% 11/15/09  | 870,000    | 748,200   |
| Nextel Partners, Inc.,   |            |           |
| 11.000% 03/15/10   | 90,000     | 67,500    |
| Rogers Cantel, Inc.,   |            |           |
| 9.750% 06/01/16  | 450,000    | 337,500   |
| US Unwired, Inc.,  |            |           |
| (e) 11/01/09   |            |           |
| (13.375% 11/01/04)   | 800,000    | 64,000    |
|  |            | -----     |
|  |            | 1,249,120 |
|  |            | -----     |
| RAILROAD - 1.3%  |            |           |
| Kansas City Southern Railway Co.,  |            |           |
| 7.500% 06/15/09  | 365,000    | 377,319   |
| TFM SA de CV,  |            |           |
| 12.500% 06/15/12 (a)   | 380,000    | 371,450   |
|  |            | -----     |
|  |            | 748,769   |
|  |            | -----     |

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|   |         |            |
|---|---------|------------|
| TELECOMMUNICATIONS - 1.6%                 |         |            |
| AT&T Wireless Services, Inc.,             |         |            |
| 7.875% 03/01/11                           | 335,000 | 291,450    |
| Carrier 1 International SA,               |         |            |
| 13.250% 02/15/09 (c)                      | 750,000 | 22,500     |
| Horizon PCS, Inc.,                        |         |            |
| 13.750% 06/15/11                          | 415,000 | 78,850     |
| Ono Finance PLC,                          |         |            |
| (b) 12/31/09                              | 175     | 2          |
| RCN Corp.,                                |         |            |
| 11.125% 10/15/07                          | 750,000 | 135,000    |
| Time Warner Telecom, Inc.:                |         |            |
| 9.750% 07/15/08                           | 470,000 | 211,500    |
| 10.125% 02/01/11                          | 405,000 | 186,300    |
|   |         | -----      |
|   |         | 925,602    |
|   |         | -----      |
| TRANSPORTATION SERVICES - 0.9%            |         |            |
| Petroleum Helicopters, Inc.,              |         |            |
| 9.375% 05/01/09                           | 530,000 | 553,850    |
|   |         | -----      |
| -----                                     |         |            |
| WHOLESALE TRADE - 0.7%                    |         |            |
| DURABLE GOODS - 0.7%                      |         |            |
| Playtex Products, Inc.,                   |         |            |
| 9.375% 06/01/11                           | 380,000 | 404,700    |
|   |         | -----      |
| TOTAL CORPORATE FIXED-INCOME              |         |            |
| BONDS & NOTES                             |         |            |
| (cost of \$97,869,781)                    |         | 78,338,076 |
|   |         | -----      |
|   |         |            |
| PREFERRED STOCKS - 2.4%                   |         |            |
|   | SHARES  | VALUE      |
| -----                                     |         |            |
| TRANSPORTATION, COMMUNICATIONS, ELECTRIC, |         |            |
| GAS & SANITARY SERVICES - 2.4%            |         |            |
| BROADCASTING - 0.6%                       |         |            |
| Granite Broadcasting Corp.,               |         |            |
| 12.750%                                   | 1       | \$ 629     |
| Sinclair Broadcast Group, Inc.            |         |            |
| 11.625%                                   | 3,250   | 340,031    |
|   |         | -----      |
|   |         | 340,660    |
|   |         | -----      |
| CABLE - 1.6%                              |         |            |
| CSC Holdings Ltd.:                        |         |            |
| 11.125%                                   | 7,681   | 460,847    |
| 11.750%                                   | 7,979   | 478,726    |
|   |         | -----      |
|   |         | 939,573    |
|   |         | -----      |
| COMMUNICATIONS - 0.1%                     |         |            |
| Dobson Communication Corp.,               |         |            |
| 12.250% PIK                               | 161     | 35,394     |
|   |         | -----      |
| POLLUTION CONTROL - 0.1%                  |         |            |
| EnviroSource, Inc.,                       |         |            |
| 7.250%                                    | 2,000   | 92,593     |

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|   |        |           |
|---|--------|-----------|
| -----   |        |           |
| TELECOMMUNICATIONS - 0.0%   |        |           |
| XO Communications, Inc.:  |        |           |
| 13.500% PIK (c)   | 789    | 1         |
| 14.000% PIK (c)   | 28,520 | 285       |
|   |        | -----     |
|   |        | 286       |
|   |        | -----     |
| TOTAL PREFERRED STOCKS  |        |           |
| (cost of \$4,694,840)   |        | 1,408,506 |
|   |        | -----     |
|   |        |           |
| COMMON STOCKS - 0.5% (F)  |        |           |
| -----   |        |           |
| MINING & ENERGY - 0.4%  |        |           |
| OIL & GAS EXTRACTION - 0.4%   |        |           |
| Pioneer Natural Resources Co.   | 8,153  | 202,765   |
|   |        | -----     |
|   |        |           |
| -----   |        |           |
| TRANSPORTATION, COMMUNICATIONS, ELECTRIC,<br>GAS & SANITARY SERVICES - 0.1% |        |           |
| POLLUTION CONTROL - 0.0%  |        |           |
| EnviroSource, Inc.  | 8,000  | 1,840     |
| Fairlane Management Corp. (g)   | 8,000  | --        |
|   |        | -----     |
|   |        | 1,840     |
|   |        | -----     |
|   |        |           |
| RADIOTELEPHONE COMMUNICATIONS - 0.1%  |        |           |
| AirGate PCS, Inc.   | 1      | 0         |
| Nextel Communications, Inc., Class A  | 6,196  | 69,891    |
|   |        | -----     |
|   |        | 69,891    |
|   |        | -----     |
| TOTAL COMMON STOCKS   |        |           |
| (cost of \$359,856)   |        | 274,496   |
|   |        | -----     |

See notes to investment portfolio.

8

INVESTMENT PORTFOLIO (CONTINUED)

October 31, 2002

|   |       |        |
|---|-------|--------|
| WARRANTS - 0.0% (F)   | UNITS | VALUE  |
| -----   |       |        |
| TRANSPORTATION, COMMUNICATIONS, ELECTRIC,<br>GAS & SANITARY SERVICES - 0.0% |       |        |
| CABLE - 0.0%  |       |        |
| Cable Satisfaction International, Inc.,<br>Expires 03/01/05                 | 970   | \$ 485 |
|   |       | -----  |
| COMMUNICATIONS - 0.0%   |       |        |
| UbiquiTel Operating Co.,<br>Expires 04/15/10 (a)                            | 525   | 5      |
| XM Satellite Radio Holdings, Inc.,  |       |        |



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|   |             |              |
|---|-------------|--------------|
| Expires 03/15/10 (a)                      | 600         | 450          |
|   |             | -----        |
|   |             | 455          |
|   |             | -----        |
| TELECOMMUNICATIONS - 0.0%                 |             |              |
| Carrier 1 International SA,               |             |              |
| Expires 02/19/09 (a)                      | 347         | 3            |
| Horizon PCS, Inc.,                        |             |              |
| Expires 10/01/10 (a)                      | 665         | 7            |
| Jazztel PLC,                              |             |              |
| Expires 07/15/10 (a)                      | 350         | 0            |
| MetroNet Communications Corp.,            |             |              |
| Expires 08/15/07 (a)                      | 250         | 16,902       |
| Ono Finance PLC,                          |             |              |
| Expires 05/31/09 (a)                      | 750         | 1            |
|   |             | -----        |
|   |             | 16,913       |
|   |             | -----        |
| MOTOR FREIGHT & WAREHOUSING - 0.0%        |             |              |
| QDI, LLC,                                 |             |              |
| Expires 01/15/07 (a)                      | 2,041       | 0            |
|   |             | -----        |
| TOTAL WARRANTS                            |             |              |
| (cost of \$94,214)                        |             | 17,853       |
|   |             | -----        |
| SHORT-TERM OBLIGATION - 2.5%              |             |              |
|   | PAR         |              |
| -----                                     |             |              |
| Federal Home Loan Bank,                   |             |              |
| 1.690% 11/01/02 (h)                       |             |              |
| (cost of \$1,464,000)                     | \$1,464,000 | 1,464,000    |
|   |             | -----        |
| TOTAL INVESTMENTS - 140.2%                |             |              |
| (cost of \$104,494,214) (i)               |             | 81,502,931   |
|   |             | -----        |
| OTHER ASSETS & LIABILITIES, NET - (40.2)% |             | (23,368,681) |
| -----                                     |             |              |
| Net Assets - 100.0%                       |             | \$58,134,250 |
|   |             | -----        |

NOTES TO INVESTMENT PORTFOLIO:

- 
- (a) This security is exempt from registration under Rule 144A of the Securities Act of 1933 and may be resold in transactions exempt from registration, normally to qualified institutional buyers. At October 31, 2002, the value of these securities amounted to \$7,600,618 or 13.1% of net assets.
  - (b) Zero coupon bond.
  - (c) As of October 31, 2002, the Fund held securities of certain issuers that have filed for bankruptcy protection under Chapter 11.
  - (d) This issuer is in default of certain debt covenants. Income is not being accrued.
  - (e) Stepped coupon bond. Currently accruing at zero. Shown parenthetically is the next interest rate to be paid and the date the Fund will begin accruing this rate.
  - (f) Non-income producing.
  - (g) Represents fair value as determined in good faith under the direction of the Board of Trustees.
  - (h) Rate represents yield at date of purchase.

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- (i) Cost for generally accepted accounting principles is \$104,494,214. Cost for federal income tax purposes is \$104,191,282. The difference between cost for generally accepted accounting principles and cost on a tax basis is related to timing differences and amortization/accretion tax elections on fixed-income securities. Realized losses have been deferred for tax purposes and cost adjusted accordingly.

| ACRONYM                                    | NAME            |
|--|-----------------|
| -----                                      | -----           |
| PIK  | Payment-In-Kind |
| See notes to financial statements.         |                 |
| 9  |                 |
| STATEMENT OF ASSETS AND LIABILITIES        |                 |
| October 31, 2002                           |                 |
| ASSETS:                                    |                 |
| Investments, at cost                       | \$104,494,214   |
|  | -----           |
| Investments, at value                      | \$ 81,502,931   |
| Cash                                       | 51,578          |
| Receivable for:                            |                 |
| Investments sold                           | 317,375         |
| Interest                                   | 2,401,873       |
| Deferred Trustees' compensation plan       | 4,928           |
|  | -----           |
| Total Assets                               | 84,278,685      |
|  | -----           |
| LIABILITIES:                               |                 |
| Payable for:                               |                 |
| Interest                                   | 558,484         |
| Investments purchased                      | 433,625         |
| Distributions                              | 562,205         |
| Management fee                             | 32,400          |
| Pricing and bookkeeping fees               | 1,522           |
| Trustees' fee                              | 41              |
| Deferred Trustees' fee                     | 4,928           |
| Other liabilities                          | 51,230          |
| Notes payable - short-term                 | 14,800,000      |
| Notes payable - long-term                  | 9,700,000       |
|  | -----           |
| Total Liabilities                          | 26,144,435      |
|  | -----           |
| NET ASSETS                                 | \$ 58,134,250   |
|  | -----           |
| COMPOSITION OF NET ASSETS:                 |                 |
| Paid-in capital                            | \$143,310,995   |
| Overdistributed net investment income      | (401,061)       |
| Accumulated net realized loss              | (61,784,401)    |
| Net unrealized depreciation on investments | (22,991,283)    |
|  | -----           |
| NET ASSETS                                 | \$ 58,134,250   |
|  | -----           |
| Shares outstanding                         | 20,822,420      |
|  | -----           |
| Net asset value per share                  | \$ 2.79         |

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STATEMENT OF OPERATIONS

For the Year Ended October 31, 2002

|  |                |
|--|----------------|
| INVESTMENT INCOME:   |                |
| Interest   | \$ 10,137,773  |
| Dividends  | 481,486        |
| -----  |                |
| Total Investment Income                                    |                |
| (net of foreign taxes withheld of \$1,651)                 | 10,619,259     |
| -----  |                |
| EXPENSES:  |                |
| Management fee   | 645,271        |
| Pricing and bookkeeping fees                               | 44,825         |
| Trustees' fee  | 8,747          |
| Custody fee  | 8,277          |
| Other expenses   | 157,379        |
| -----  |                |
| Total Operating Expenses                                   | 864,499        |
| Custody earnings credit                                    | (1,123)        |
| -----  |                |
| Net Operating Expenses                                     | 863,376        |
| Interest expense   | 1,889,585      |
| -----  |                |
| Net Expenses   | 2,752,961      |
| -----  |                |
| Net Investment Income                                      | 7,866,298      |
| -----  |                |
| NET REALIZED AND UNREALIZED GAIN                           |                |
| (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY                 |                |
| Net realized loss on:                                      |                |
| Investments  | (23,338,320)   |
| Foreign currency transactions                              | (75,278)       |
| -----  |                |
| Net realized loss  | (23,413,598)   |
| -----  |                |
| Net change in unrealized appreciation/<br>depreciation on: |                |
| Investments  | 8,409,133      |
| Foreign currency translations                              | 28,117         |
| -----  |                |
| Net change in unrealized<br>appreciation/depreciation      | 8,437,250      |
| -----  |                |
| Net Loss   | (14,976,348)   |
| -----  |                |
| Net Decrease in Net Assets from Operations                 | \$ (7,110,050) |
| -----  |                |

See notes to financial statements.

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STATEMENT OF CHANGES IN NET ASSETS

INCREASE (DECREASE) IN NET ASSETS:

OPERATIONS:

|   |     |
|---|-----|
| Net investment income   | \$  |
| Net realized loss on investments and foreign currency transactions                                  | (2) |
| Net change in unrealized appreciation/depreciation on investments and foreign currency translations |     |

|                              |   |
|------------------------------|---|
| Net Decrease from Operations | ( |
|------------------------------|---|

DISTRIBUTIONS DECLARED TO SHAREHOLDERS:

|                            |   |
|----------------------------|---|
| From net investment income | ( |
| Return of capital          |   |

|  |   |
|--|---|
| Total Distributions Declared to Shareholders | ( |
|--|---|

SHARE TRANSACTIONS:

|                          |  |
|--------------------------|--|
| Distributions reinvested |  |
|--------------------------|--|

|                              |    |
|------------------------------|----|
| Total Decrease in Net Assets | (1 |
|------------------------------|----|

NET ASSETS:

|                     |   |
|---------------------|---|
| Beginning of period | 7 |
|---------------------|---|

|  |      |
|--|------|
| End of period (including overdistributed net investment income of \$(401,061) and \$(1,027,990), respectively) | \$ 5 |
|--|------|

CHANGES IN SHARES:

|                                     |  |
|-------------------------------------|--|
| Issued for distributions reinvested |  |
|-------------------------------------|--|

See notes to financial statements.

11

STATEMENT OF CASH FLOWS

For the Year Ended October 31, 2002

INCREASE (DECREASE) IN CASH:

CASH FLOWS FROM OPERATING ACTIVITIES:

|  |              |
|--|--------------|
| Net investment income  | \$ 7,866,298 |
| Adjustments to reconcile net investment income to net cash provided by operating activities: |              |
| Purchase of investment securities  | (49,945,586) |
| Proceeds from disposition of investment securities   | 53,785,870   |
| Sale of short-term investments, net  | 2,279,042    |
| Net realized gain due to foreign currency transactions                                       | 779          |

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|  |              |
|--|--------------|
| Decrease in interest and dividend receivable       | 391,272      |
| Decrease in other assets                           | 15,179       |
| Net realized loss from forward currency contracts  | (76,057)     |
| Decrease in receivable for investments sold        | 847,178      |
| Decrease in payable for investments purchased      | (676,874)    |
| Decrease in accrued expenses and other liabilities | (44,912)     |
| Net amortization/accretion of income               | (1,264,612)  |
|  | -----        |
| Net cash provided by operating activities          | 13,177,577   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>       |              |
| Decrease in notes payable                          | (6,000,000)  |
| Decrease in interest payable                       | (105,665)    |
| Distributions paid in cash                         | (7,290,795)  |
|  | -----        |
| Net cash used by financing activities              | (13,396,460) |
|  | -----        |
| Net decrease in cash                               | (218,883)    |
| <b>CASH:</b>                                       |              |
| Beginning of period                                | 270,461      |
|  | -----        |
| End of period                                      | \$ 51,578    |
|  | =====        |

### Supplemental disclosure of cash flow information:

Non-cash financing activities not included in this statement consist of reinvestment of distributions of \$653,667.

See notes to financial statements.

12

### NOTES TO FINANCIAL STATEMENTS

October 31, 2002

#### NOTE 1. ACCOUNTING POLICIES

##### ORGANIZATION:

Colonial Intermediate High Income Fund (the "Fund") is a Massachusetts business trust registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The Fund's investment goal is to seek high current income and total return by investing primarily in lower-rated corporate debt securities. The Fund is authorized to issue an unlimited number of shares.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements.

##### SECURITY VALUATION AND TRANSACTIONS:

Debt securities generally are valued by a pricing service based upon market transactions for normal, institutional-size trading units of similar securities. When management deems it appropriate, an over-the-counter or exchange bid quotation is used.

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Equity securities generally are valued at the last sale price or, in the case of unlisted or listed securities for which there were no sales during the day, at the current quoted bid price.

Forward currency contracts are valued based on the weighted value of exchange-traded contracts with similar durations.

Short-term obligations with a maturity of 60 days or less are valued at amortized cost.

Investments for which market quotations are not readily available, or quotations which management believes are not appropriate, are valued at fair value under procedures approved by the Board of Trustees.

Security transactions are accounted for on the date the securities are purchased, sold or mature.

Cost is determined and gains (losses) are based upon the specific identification method for both financial statement and federal income tax purposes.

The Fund may trade securities on other than normal settlement terms. This may increase the risk if the other party to the transaction fails to deliver and causes the Fund to subsequently invest at less advantageous prices.

STATEMENT OF CASH FLOWS:

Information on financial transactions which have been settled through the receipt or disbursement of cash is presented in the Statement of Cash Flows. The cash amount shown in the Statement of Cash Flows is the amount included in the Fund's Statement of Assets and Liabilities and represents cash on hand at its custodian bank account and does not include any short-term investments at October 31, 2002.

FEDERAL INCOME TAXES:

Consistent with the Fund's policy to qualify as a regulated investment company and to distribute all of its taxable income, no federal income tax has been accrued.

INTEREST INCOME, DEBT DISCOUNT AND PREMIUM:

Interest income is recorded on the accrual basis.

The value of additional securities received as an interest payment is recorded as income and as the cost basis of such securities. Effective November 1, 2001, the Fund adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing and accreting premium and discount on all debt securities. The cumulative effect of this accounting change did not impact total net assets of the Fund, but resulted in reclassifications as follows, based on securities held by the Fund on November 1, 2001:

| COST      | NET UNREALIZED<br>DEPRECIATION |
|-----------|--------------------------------|
| -----     | -----                          |
| \$371,801 | \$(371,801)                    |

The effect of this change, for the year ended October 31, 2002, was as follows:

| NET INVESTMENT<br>INCOME | NET REALIZED<br>LOSS | NET UNREALIZED<br>DEPRECIATION |
|--------------------------|----------------------|--------------------------------|
| -----                    | -----                | -----                          |
| \$319,580                | \$(323,835)          | \$4,255                        |

The Statement of Changes in Net Assets and Financial Highlights for prior periods have not been restated to reflect this change.

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### DISTRIBUTIONS TO SHAREHOLDERS:

Distributions to shareholders are recorded on the ex-date.

### FOREIGN CURRENCY TRANSACTIONS:

Net realized and unrealized gains (losses) on foreign currency transactions include gains (losses) arising from the fluctuation in exchange rates between trade and settlement dates on securities transactions, gains (losses) arising from the disposition of foreign currency and currency gains (losses) between the accrual and payment dates on dividends and interest income and foreign withholding taxes.

The Fund does not distinguish that portion of gains (losses) on investments which is due to changes in foreign exchange rates from that which is due to changes in market prices of the investments. Such fluctuations are included with the net realized and unrealized gains (losses) from investments.

### FORWARD CURRENCY CONTRACTS:

The Fund may enter into forward currency contracts to purchase or sell foreign currencies at predetermined exchange rates in connection with the settlement of purchases and sales

13

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2002

of securities. The Fund may also enter into forward currency contracts to hedge certain other foreign currency denominated assets. The contracts are used to minimize the exposure to foreign exchange rate fluctuations during the period between trade and settlement date of the contracts. All contracts are marked-to-market daily, resulting in unrealized gains (losses) which become realized at the time the forward currency contracts are closed or mature. Realized and unrealized gains (losses) arising from such transactions are included in net realized and unrealized gains (losses) on foreign currency transactions. Forward currency contracts do not eliminate fluctuations in the prices of the Fund's portfolio securities. While the maximum potential loss from such contracts is the aggregate face value in U.S. dollars at the time the contract was opened, exposure is typically limited to the change in value of the contract (in U.S. dollars) over the period it remains open. Risks may also arise if counterparties fail to perform their obligations under the contracts.

### OTHER:

Corporate actions and dividend income are recorded on the ex-date (except for certain foreign securities which are recorded as soon after ex-date as the Fund becomes aware of such), net of non-reclaimable tax withholdings. Where a high level of uncertainty as to collection exists, income on securities is recorded net of all tax withholdings with any rebates recorded when received.

The Fund's custodian takes possession through the federal book-entry system of securities collateralizing repurchase agreements. Collateral is marked-to-market daily to ensure that the market value of the underlying assets remains sufficient to protect the Fund. The Fund may experience costs and delays in liquidating the collateral if the issuer defaults or enters bankruptcy.

### NOTE 2. FEDERAL TAX INFORMATION

Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles.

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These differences are primarily due to differing treatments for deferral of losses from wash sales, discount accretion/premium amortization on debt securities, current year distribution payable, capital loss carryforwards, non-deductible expenses and defaulted bonds. Reclassifications are made to the Fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryforwards) under income tax regulations.

For the year ended October 31, 2002, permanent items identified and reclassified among the components of net assets are as follows:

| OVERDISTRIBUTED<br>NET INVESTMENT<br>INCOME | ACCUMULATED<br>NET REALIZED<br>LOSS | PAID-IN<br>CAPITAL |
|---|-------------------------------------|--------------------|
| \$(145,888)                                 | \$145,888                           | \$--               |

Net investment income, net realized gains (losses) and net assets were not affected by this reclassification. The tax character of distributions paid during the year was as follows:

| ORDINARY INCOME | TAX<br>RETURN OF CAPITAL |
|-----------------|--------------------------|
| \$7,465,282     | \$297,562                |

As of October 31, 2002, the components of distributable earnings on a tax basis were as follows:

| UNREALIZED<br>DEPRECIATION* |
|-----------------------------|
| \$(22,688,351)              |

\*The difference between book-basis and tax-basis unrealized depreciation is attributable primarily to the tax deferral of losses on wash sales.

The following capital loss carryforwards are available to reduce taxable income arising from future net realized gains on investments, if any, to the extent permitted by the Internal Revenue Code:

| YEAR OF<br>EXPIRATION | CAPITAL LOSS<br>CARRYFORWARD |
|-----------------------|------------------------------|
| 2003                  | \$ 2,102,577                 |
| 2007                  | 3,282,077                    |
| 2008                  | 10,437,671                   |
| 2009                  | 22,694,029                   |
| 2010                  | 23,203,433                   |
|                       | \$61,719,787                 |

### 3. FEES AND COMPENSATION PAID TO AFFILIATES

#### MANAGEMENT FEE:

Colonial Management Associates, Inc. (the "Advisor") is the investment advisor of the Fund and furnishes accounting and other services and office facilities for a fee to be paid monthly at the annual rate of 0.65% of the average weekly net assets of the Fund.

In addition, the Fund shall pay the Advisor monthly a fee equal to 20% of the



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Fund's monthly "leverage income" (as that term is defined in the management contract); provided, however, if the Fund's monthly leverage income is less than zero then the Advisor shall pay the Fund 20% of the Fund's monthly leverage income. For the year ended October 31, 2002, the fee paid to the Advisor under this agreement amounted to \$195,862, which represents 0.28% annually of the Fund's average daily net assets.

14

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

October 31, 2002

#### PRICING AND BOOKKEEPING FEES:

The Advisor is responsible for providing pricing and bookkeeping services to the Fund under a Pricing and Bookkeeping Agreement. Under a separate agreement (the "Outsourcing Agreement"), the Advisor has delegated those functions to State Street Bank and Trust Company ("State Street"). The Advisor pays fees to State Street under the Outsourcing Agreement.

Under its pricing and bookkeeping agreement with the Fund, the Advisor receives from the Fund an annual flat fee of \$10,000, paid monthly, and in any month that the Fund's average net assets are more than \$50 million, a monthly fee equal to the average net assets of the Fund for that month multiplied by a fee rate that is calculated by taking into account the fees payable to State Street under the Outsourcing Agreement. For the year ended October 31, 2002, the net asset based fee rate was 0.036%. The Fund also pays out-of-pocket costs for pricing services.

#### OTHER:

The Fund pays no compensation to its officers, all of whom are employees of the Advisor or its affiliates. The Fund's Independent Trustees may participate in a deferred compensation plan which may be terminated at any time. Obligations of the plan will be paid solely out of the Fund's assets.

The Fund has an agreement with its custodian bank under which \$1,123 of custody fees were reduced by balance credits for the year ended October 31, 2002. The Fund could have invested a portion of the assets utilized in connection with the expense offset arrangement in an income-producing asset if it had not entered into such an agreement.

#### NOTE 4. PORTFOLIO INFORMATION

##### INVESTMENT ACTIVITY:

For the year ended October 31, 2002, purchases and sales of investments, other than short-term obligations, were \$49,945,586 and \$53,785,870, respectively. Unrealized appreciation (depreciation) at October 31, 2002, based on cost of investments for federal income tax purposes, was:

|                               |                |
|-------------------------------|----------------|
| Gross unrealized appreciation | \$ 1,721,556   |
| Gross unrealized depreciation | (24,409,907)   |
|                               | -----          |
| Net unrealized depreciation   | \$(22,688,351) |
|                               | -----          |

#### OTHER:

There are certain additional risks involved when investing in foreign securities

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that are not inherent with investments in domestic securities. These risks may involve foreign currency exchange rate fluctuations, adverse political and economic developments and the possible prevention of currency exchange or other foreign governmental laws or restrictions.

The Fund may focus its investments in certain industries, subjecting it to greater risk than a fund that is more diversified.

NOTE 5. LOAN AGREEMENT

At October 31, 2002, the Fund had two term loans and a revolver loan outstanding with Bank of America NA, totaling \$24,500,000. These loans are comprised of a \$13,700,000 term loan which bears interest at 7.74% per annum, due June 12, 2003, a \$1,100,000 term loan which bears interest at 4.75% per annum, due June 12, 2003 and a \$9,700,000 revolver loan which bears interest at 4.37% per annum, due June 13, 2004. The average daily loan balance was \$28,763,014 at a weighted average interest rate of 6.57%. The Fund is subject to certain covenants including, but not limited to, requirements with respect to asset coverage, portfolio diversification and liquidity.

15

FINANCIAL HIGHLIGHTS

Selected data for a share outstanding throughout each period is as follows:

|  | YEAR ENDED OCTOBER 31 |          |            |
|--|-----------------------|----------|------------|
|  | 2002                  | 2001     | 2000       |
| NET ASSET VALUE, BEGINNING OF PERIOD                                 | \$ 3.51               | \$ 4.83  | \$ 5.10    |
| INCOME FROM INVESTMENT OPERATIONS:                                   |                       |          |            |
| Net investment income  | 0.38 (a)              | 0.51 (a) | 0.40 (a)   |
| Net realized and unrealized loss on investments and foreign currency | (0.73) (b)            | (1.26)   | (0.80) (b) |
| Total from Investment Operations                                     | (0.35)                | (0.75)   | (0.40)     |
| LESS DISTRIBUTIONS DECLARED TO SHAREHOLDERS:                         |                       |          |            |
| From net investment income   | (0.36)                | (0.55)   | (0.40)     |
| In excess of net investment income                                   | --                    | --       | (0.01)     |
| Return of capital  | (0.01)                | (0.02)   | (0.01)     |
| Total Distributions Declared to Shareholders                         | (0.37)                | (0.57)   | (0.41)     |
| NET ASSET VALUE, END OF PERIOD                                       | \$ 2.79               | \$ 3.51  | \$ 5.10    |
| Market price per share   | \$ 2.79               | \$ 3.49  | \$ 5.10    |
| Total return-- based on market value (c)                             | (10.43)%              | (14.26)% | (10.43)%   |
| RATIOS TO AVERAGE NET ASSETS:  |                       |          |            |
| Operating expenses (d)   | 1.25%                 | 1.31%    | 1.31%      |
| Interest and amortization of deferred debt issuance expenses         | 2.73%                 | 2.98%    | 2.98%      |
| Total expenses (d)   | 3.98%                 | 4.29%    | 4.29%      |

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|                                   |            |           |       |
|-----------------------------------|------------|-----------|-------|
| Net investment income (d)         | 11.38% (b) | 11.96%    | 1     |
| Portfolio turnover rate           | 54%        | 52%       |       |
| Net assets, end of period (000's) | \$ 58,134  | \$ 72,353 | \$ 98 |

- (a) Per share data was calculated using average shares outstanding during the period.
- (b) Effective November 1, 2001, the Fund adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing and accreting premium and discount on all debt securities. The effect of this change for the year ended October 31, 2002, was to increase net investment income per share by \$0.02, increase net realized and unrealized loss per share by \$0.02 and increase ratio of net investment income to average net assets from 10.92% to 11.38%. Per share data and ratios for periods prior to October 31, 2002 have not been restated to reflect this change in presentation.
- (c) Total return at market value assuming all distributions reinvested at prices calculated in accordance with the Dividend Reinvestment Plan.
- (d) The benefits derived from custody credits and directed brokerage arrangements, if applicable, had no impact.

16

### FINANCIAL HIGHLIGHTS (CONTINUED)

Selected data for a share outstanding throughout each period is as follows:

|   | YEAR ENDED OCTOBER 31 |           |           |
|---|-----------------------|-----------|-----------|
|   | 1997                  | 1996      | 1995      |
| NET ASSET VALUE, BEGINNING OF PERIOD  | \$ 6.89               | \$ 6.62   | \$ 6.45   |
| INCOME FROM INVESTMENT OPERATIONS:  |                       |           |           |
| Net investment income   | 0.70                  | 0.70      | 0.68      |
| Net realized and unrealized gain (loss) on investments and foreign currency | 0.38                  | 0.26      | 0.25      |
| Total from Investment Operations  | 1.08                  | 0.96      | 0.93      |
| LESS DISTRIBUTIONS DECLARED TO SHAREHOLDERS:                                |                       |           |           |
| From net investment income  | (0.70)                | (0.69)    | (0.68)    |
| NET ASSET VALUE, END OF PERIOD  | \$ 7.27               | \$ 6.89   | \$ 6.81   |
| Market price per share  | \$ 7.56               | \$ 7.13   | \$ 6.81   |
| Total return-- based on market value (a)                                    | 16.97%                | 14.62%    | 13.36%    |
| RATIOS TO AVERAGE NET ASSETS:   |                       |           |           |
| Operating expenses (b)  | 0.89%                 | 0.98%     | 0.98%     |
| Interest and amortization of deferred debt issuance expenses                | 1.96%                 | 2.07%     | 2.07%     |
| Total expenses (b)  | 2.85%                 | 3.05%     | 3.05%     |
| Net investment income (b)   | 9.63%                 | 10.11%    | 10.11%    |
| Portfolio turnover rate   | 92%                   | 92%       | 92%       |
| Net assets, end of period (000's)   | \$ 107,774            | \$ 99,925 | \$ 93,925 |

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- (a) Total return at market value assuming all distributions reinvested at prices calculated in accordance with the Dividend Reinvestment Plan.
- (b) The benefits derived from custody credits and directed brokerage arrangements, if applicable, had no impact, except for the year ended 1997 which had a 0.01% impact.

17

FINANCIAL HIGHLIGHTS (CONTINUED)

LOAN AGREEMENT ASSET COVERAGE REQUIREMENTS

| OCTOBER 31,<br>----- | TOTAL AMOUNT<br>OUTSTANDING<br>----- | ASSET COVERAGE PER \$1,000<br>OF INDEBTEDNESS<br>----- |
|----------------------|--------------------------------------|--|
| 2002                 | \$24,500,000                         | \$3,373  |
| 2001                 | 30,500,000                           | 3,372  |
| 2000                 | 47,300,000                           | 3,079  |
| 1999                 | 47,300,000                           | 3,558  |
| 1998                 | 47,300,000                           | 3,632  |
| 1997                 | 27,400,000                           | 4,933  |
| 1996                 | 27,400,000                           | 4,647  |
| 1995                 | 27,400,000                           | 4,430  |
| 1994                 | 27,400,000                           | 4,194  |
| 1993                 | 27,400,000                           | 4,473  |

18

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE TRUSTEES AND THE SHAREHOLDERS OF  
COLONIAL INTERMEDIATE HIGH INCOME FUND

In our opinion, the accompanying statement of assets and liabilities, including the investment portfolio, and the related statements of operations, changes in net assets and cash flows and the financial highlights present fairly, in all material respects, the financial position of Colonial Intermediate High Income Fund (the "Fund") at October 31, 2002, and the results of its operations, the changes in its net assets, its cash flows and its financial highlights for the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of portfolio positions

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at October 31, 2002 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
Boston, Massachusetts

December 23, 2002

19

### UNAUDITED INFORMATION

#### RESULTS OF ANNUAL MEETING OF SHAREHOLDERS

On May 22, 2002, the Annual Meeting of Shareholders of the Fund was held to conduct a vote for or against the approval of the following Item listed on the Fund's Proxy Statement for said Meeting. On March 1, 2002, the record date for the Meeting, the Fund had 20,723,717 shares outstanding. The votes cast were as follows:

#### PROPOSAL 1.

| ELECTION OF TRUSTEES | FOR        | WITHHELD |
|----------------------|------------|----------|
| Richard W. Lowry     | 18,050,382 | 482,151  |
| William E. Mayer     | 18,010,777 | 521,756  |
| Charles R. Nelson    | 18,053,408 | 479,125  |

Mr. Lowry, Mr. Mayer and Mr. Nelson were elected as Trustees of the Fund. Each will serve for three years or until a successor is elected.

The Board of Trustees is divided into the following three classes, each with a term expiring in the indicated year:

| 2003          | 2004         | 2005       |
|---------------|--------------|------------|
| Mr. Hacker    | Mr. Macera   | Mr. Lowry  |
| Ms. Kelly     | Mr. Stitzel  | Mr. Mayer  |
| Mr. Neuhauser | Mr. Theobald | Mr. Nelson |
| Mr. Palombo   | Ms. Verville |            |

20

#### DIVIDEND REINVESTMENT PLAN

The Fund generally distributes net investment income monthly and capital gains annually. Under the Fund's Dividend Reinvestment Plan (the "Plan") all distributions will be reinvested automatically in additional shares of the Fund, unless the shareholder elects to receive cash or the shares are held in broker or nominee name and a reinvestment service is not provided by the broker or nominee. All cash distributions will be mailed by check directly to the record holder by the dividend paying agent.

If the market price of the shares on the distribution payment date is equal to

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or greater than the net asset value, Plan participants will be issued shares at the higher of net asset value or 95% of the market price. The aggregate market value of the shares may constitute income to shareholders for federal income tax purposes. However, if the market price of the shares is less than the net asset value, shares will be bought as soon as practicable (but no more than 30 days after the distribution, except as may be required to comply with federal securities laws) in the open market for the accounts of Plan participants. If, during this purchase period, the market price surpasses the net asset value, the average per share price paid may exceed the asset value of the shares, resulting in the acquisition of fewer shares than if the distribution had been in newly-issued shares.

All Plan accounts receive written confirmations of all transactions. Shares purchased under the Plan are held in uncertificated form. Each shareholder's proxy includes shares purchased pursuant to the Plan. The automatic reinvestment of distributions does not relieve participants of any income tax payable on the distributions.

Fees and expenses of the Plan other than brokerage charges will be paid by the Fund. No brokerage charges are incurred on shares issued directly by the Fund. Participants will bear a pro-rata share of brokerage charges incurred on open market purchases.

A Plan participant may terminate his or her participation by written notice to the Plan agent. The Plan may be amended or terminated on 90 days written notice to the Plan participants. All correspondence concerning the Plan should be directed to PFPC Inc., the Plan agent, by mail at P.O. Box 43027, Providence, RI 02940-3027 or by phone at 1-800-331-1710.

21

### TRUSTEES

The Trustees serve terms of indefinite duration. The names, addresses and ages of the Trustees and officers of Colonial Intermediate High Income Fund, the year each was first elected or appointed to office, their principal business occupations during at least the last five years, the number of portfolios overseen by each Trustee, and other directorships they hold are shown below.

| Name, address and age   | Position with Liberty Funds | Year first elected or appointed to office | Principal occupation(s) during past five years  |
|---|-----------------------------|---|---|
| <hr/>   |                             |   |   |
| DISINTERESTED TRUSTEES  |                             |   |   |
| Douglas A. Hacker (age 46)<br>c/o Liberty Funds Group LLC<br>One Financial Center<br>Boston, MA 02111 | Trustee                     | 2000                                      | President of UAL Loyalty Services and Executive Vice President of United Airlines (airline) September 2001 (formerly Executive Vice President from July 1999 to September 2001); Chief Financial Officer of United Airlines since July 1999; Senior Vice President and Chief Financial Officer of UAL, Inc. prior thereto |
| Janet Langford Kelly (age 44)<br>c/o Liberty Funds Group LLC<br>One Financial Center                  | Trustee                     | 2000                                      | Executive Vice President-Corporate Development and Administration, General Counsel and Secretary, Kellogg Company (food manufacture   |

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|  |         |      |   |
|--|---------|------|---|
| Boston, MA 02111   |         |      | since September 1999; Senior Vice President, Secretary and General Counsel, Sara Lee Corporation (branded, packaged, consumer-products manufacturer) prior thereto  |
| Richard W. Lowry (age 66)<br>c/o Liberty Funds Group LLC<br>One Financial Center<br>Boston, MA 02111   | Trustee | 1995 | Private Investor since 1987 (formerly Chairman and Chief Executive Officer, U.S. Plywood Corporation (building products manufacturer))  |
| Salvatore Macera (age 71)<br>c/o Liberty Funds Group LLC<br>One Financial Center<br>Boston, MA 02111   | Trustee | 1998 | Private Investor since 1981 (formerly Executive Vice President and Director of Itek Corporation (electronics) from 1975 to 1981)  |
| Charles R. Nelson (age 60)<br>c/o Liberty Funds Group LLC<br>One Financial Center<br>Boston, MA 02111  | Trustee | 2000 | Professor of Economics, University of Washington since January 1976; Ford and Louisa Van Voorst Professor of Political Economy, University of Washington, since September 1993; Director, Institute for Economic Research, University of Washington, since September 2001; Adjunct Professor of Statistics, University of Washington since September 1980, Associate Editor, Journal of Money Credit and Banking, since September 1993; Trustee, Columbia Funds since July 2000; consultant on economic and statistical matters |
| John J. Neuhauser (age 59)<br>c/o Liberty Funds Group LLC<br>One Financial Center<br>Boston, MA 02111  | Trustee | 1985 | Academic Vice President and Dean of Faculty since August 1999, Boston College (formerly Dean, Boston College School of Management from September 1977 to September 1999)  |
| Thomas E. Stitzel (age 66)<br>c/o Liberty Funds Group LLC<br>One Financial Center<br>Boston, MA 02111  | Trustee | 1998 | Business Consultant since 1999 (formerly Professor of Finance from 1975 to 1999 and Dean from 1977 to 1991, College of Business, Boise State University); Chartered Financial Analyst   |
| Thomas C. Theobald (age 65)<br>c/o Liberty Funds Group LLC<br>One Financial Center<br>Boston, MA 02111 | Trustee | 2000 | Managing Director, William Blair Capital Partners (private equity investing) since 1994 (formerly Chief Executive Officer and Chairman of the Board of Directors, Continental Bank Corporation)   |

22

TRUSTEES (CONTINUED)

| Name, address and age | Position with<br>Liberty Funds | Year first<br>elected or<br>appointed<br>to office | Principal occupation(s)<br>during past five years |
|-----------------------|--------------------------------|--|---|
|-----------------------|--------------------------------|--|---|

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### DISINTERESTED TRUSTEES

|   |         |      |   |
|---|---------|------|---|
| Anne-Lee Verville (age 57)<br>c/o Liberty Funds Group LLC<br>One Financial Center<br>Boston, MA 02111 | Trustee | 1998 | Author and speaker on educational systems ne<br>(formerly General Manager, Global Education<br>Industry from 1994 to 1997, and President,<br>Applications Solutions Division from 1991 to<br>1994, IBM Corporation (global education and<br>global applications)) |
|---|---------|------|---|

### INTERESTED TRUSTEES

|  |         |      |   |
|--|---------|------|---|
| William E. Mayer** (age 62)<br>c/o Liberty Funds Group LLC<br>One Financial Center<br>Boston, MA 02111 LLC | Trustee | 1994 | Managing Partner, Park Avenue Equity Partner<br>(private equity fund) since February 1999<br>(formerly Founding Partner, Development Capi<br>LLC from November 1996 to February 1999;<br>Dean and Professor, College of Business and<br>Management, University of Maryland from<br>October 1992 to November 1996) |
|--|---------|------|---|

|  |   |      |   |
|--|---|------|---|
| Joseph R. Palombo** (age 49)<br>One Financial Center<br>Boston, MA 02111 | Trustee<br>and<br>Chairman<br>of the<br>Board | 2000 | Chief Operating Officer of Columbia<br>Management Group, Inc. (Columbia Management<br>Group) since November 2001; formerly Chief<br>Operations Officer of Mutual Funds, Liberty<br>Financial Companies, Inc. from August 2000 to<br>November 2001; Executive Vice President of S<br>Roe & Franham, Incorporated (Stein Roe)<br>since April 1999; Executive Vice President<br>and Director of Colonial Management Associat<br>Inc. since April 1999; Executive Vice Presid<br>and Chief Administrative Officer of Liberty<br>Group LLC (LFG) since April 1999; Director o<br>Roe since September 2000; Trustee and Chairm<br>of the Board of Stein Roe Mutual Funds since<br>October 2000; Manager of Stein Roe Floating<br>Limited Liability Company since October 2000<br>President of Galaxy Funds since September 20<br>(formerly Vice President of Liberty Funds fr<br>April 1999 to August 2000; Chief Operating O<br>and Chief Compliance Officer, Putnam Mutual<br>Funds from December 1993 to March 1999) |
|--|---|------|---|

\* In addition to serving as a disinterested trustee of Liberty Funds, Mr. Nelson serves as a disinterested director of Columbia Funds, currently consisting of 15 funds, which are advised by an affiliate of the Advisor.

\*\* Mr. Mayer is an "interested person" (as defined in the Investment Company Act of 1940 ("1940 Act")) by reason of his affiliation with WR Hambrecht + Co., a registered broker-dealer. Mr. Palombo is an interested person as an employee of an affiliate of the Advisor.

\*\*\*In addition to serving as a trustee of Liberty Funds, Mr. Lowry, Mr. Neuhauser and Mr. Mayer each serve as a director/trustee of Liberty All-Star Funds, currently consisting of 2 funds, which are advised by an affiliate of the Advisor.



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OFFICERS

| Name, address and age   | Position with Colonial Intermediate High Income Fund | Year first elected or appointed to office | Principal occupation(s) during past five years   |
|---|--|---|--|
| -----   |  |   |  |
| OFFICERS  |  |   |  |
| Keith T. Banks (age 46)<br>Columbia Management Group, Inc. 590 Madison Avenue, 36th Floor<br>Mail Stop NY EH 30636A<br>New York, NY 10022 | President  | 2001                                      | President of Liberty Funds since November 2000; Officer and Chief Executive Officer of Columbia Management Group since August 2000; President, Columbia Investment Officer of Fleet Investment Advisors since August 2000; Managing Director and Head of U.S. Equity, J.P. Morgan from November 1996 to August 2000); President of Liberty Funds since September 2002  |
| Vicki L. Benjamin (age 41)<br>One Financial Center<br>Boston, MA 02111  | Chief Accounting Officer and Controller              | 2001                                      | Controller of the Liberty Funds, Stein Roe Funds since May 2002; Chief Accounting Officer of Columbia Management and Liberty All-Star Funds since June 2001; Chief Accounting Officer of Galaxy Funds since September 2002; Chief Accounting Officer since September 2001 (formerly Vice President, Corporate Audit of Columbia Management Company from May 1998 to April 2001; Audit Manager of Columbia Senior Audit Manager from July 1997 to May 1999)   |
| J. Kevin Connaughton (age 38)<br>One Financial Center<br>Boston, MA 02111   | Treasurer  | 2000                                      | Treasurer of the Liberty Funds and Liberty All-Star Funds since February 1998 (formerly Controller of the Liberty Funds and Liberty All-Star Funds from February 1998 to October 2000); Treasurer of Liberty Funds since February 2000 (formerly Controller from May 2000 to February 2000); Senior Vice President of Columbia Management since September 2002; Senior Vice President of Columbia Management from April 2000 to January 2000; Senior Vice President of Management Associates, Inc. from February 1999 to January 2000; Manager; Coopers & Lybrand, LLP from April 1997 to January 1999 |
| Jean S. Loewenberg (age 57)<br>One Financial Center<br>Boston, MA 02111   | Secretary  | 2002                                      | Secretary of Liberty Funds, Stein Roe Funds since February 2002; General Counsel of Columbia Management since February 2002; Senior Vice President since November 1996, Assistant Vice President of Fleet National Bank since September 1996; Vice President and Group Senior Counsel of Fleet National Bank from 1994 to September 2002); Assistant Secretary of Liberty Funds since 2002   |

24

Transfer Agent

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IMPORTANT INFORMATION ABOUT THIS REPORT

The Transfer Agent for Colonial Intermediate High Income Fund is:

PFPC,  
P.O. Box 8030

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Boston, MA 02266-8030  
1-800-331-1710

The fund mails one shareholder report to each shareholder address. Shareholders can order additional reports by calling 800-345-6611. In addition, representatives at that number can provide shareholders information about the fund.

Financial advisors who want additional information about the fund may speak to a representative at 800-426-3750.

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ANNUAL REPORT  
Colonial Intermediate High Income Fund

COLONIAL INTERMEDIATE HIGH INCOME FUND

ANNUAL REPORT

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