

EVERGREEN INCOME ADVANTAGE FUND  
Form N-CSR  
July 07, 2005  
OMB APPROVAL

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

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT  
COMPANIES**

Investment Company Act file number 811-21269

\_\_\_\_\_  
Evergreen Income Advantage Fund

\_\_\_\_\_  
(Exact name of registrant as specified in charter)

200 Berkeley Street  
Boston, Massachusetts 02116

\_\_\_\_\_  
(Address of principal executive offices) (Zip code)

Michael H. Koonce, Esq.  
200 Berkeley Street  
Boston, Massachusetts 02116

\_\_\_\_\_  
(Name and address of agent for service)

Registrant's telephone number, including area code: (617) 210-3200

Date of fiscal year end: Registrant is making an annual filing for 1 of its series, Evergreen Income Advantage Fund, for the year ended April 30, 2005. These 1 series have a 4/30 fiscal year end.

Date of reporting period: April 30, 2005

**Item 1 - Reports to Stockholders.**

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The fund will file its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q will be available on the SEC's Web site at <http://www.sec.gov>. In addition, the fund's Form N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 800.SEC.0330.

A description of the fund's proxy voting policies and procedures, as well as information regarding how the fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30, is available by visiting our Web site at [EvergreenInvestments.com](http://EvergreenInvestments.com) or by visiting the SEC's Web site at <http://www.sec.gov>. The fund's proxy voting policies and procedures are also available without charge, upon request, by calling 800.343.2898.

Mutual Funds:

NOT FDIC INSURED    MAY LOSE VALUE    NOT BANK GUARANTEED

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### LETTER TO SHAREHOLDERS

June 2005

**Dennis H. Ferro**  
President and Chief  
Executive Officer

**Dear Shareholder,**

We are pleased to provide the annual report for the Evergreen Income Advantage Fund, which covers the twelve-month period ended April 30, 2005.

The portfolio management team for the Evergreen Income Advantage Fund had to overcome a variety of challenges over the past year. Moderating economic growth and less accommodation from the Federal Reserve (Fed) were chief among them, along with the increased volatility associated with the market's attempts to divine the degree to which interest rates would rise. Despite tighter monetary policy from the Fed, the Treasury bond yield curve continued to flatten, providing yet another intellectual hurdle for bond market participants to overcome. In utilizing Evergreen's outlook for moderate Gross Domestic Product (GDP) growth and a gradual tightening of monetary policy, the managers of the Fund positioned the portfolio with a more conservative slant, emphasizing higher quality issues within their universe.

The fiscal year began with the confusing message that the economy's growth was good, but no longer great. As a result, market interest rates declined on the perceived weakness. Adding to the confusion, a variety of data offered conflicting reads on the economy, such as strong retail sales in conjunction with poor levels of consumer confidence. Throughout this confusion, we maintained our belief that the economy was simply transitioning from recovery to

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**LETTER TO SHAREHOLDERS** continued

expansion, causing many economic reports to point in different directions. Historically, the maturation of the economic cycle had experienced similarly erratic behavior. Yet market interest rates began to fluctuate with seemingly every monthly data point. Moreover, the costs for commodities and energy were rising, and since inflation-adjusted interest rates had remained low for such a lengthy period, the Fed seemed determined to prevent inflation from becoming a long-term problem. As job growth began to exceed expectations, the market's inflation fears accelerated, and yields headed higher in anticipation of a tighter Fed policy.

The Fed finally began their "measured removal of policy accommodation" beginning last June. After three years of stimulative policy actions, monetary policymakers began the journey towards more moderate economic growth. Fed Chairman Alan Greenspan was very transparent in his public statements, attempting to assuage market angst. Market interest rates, though, still remained quite volatile. Only after the central bank's first few rate increases did the long-end of the yield curve begin to recover, a process that would continue for the bulk of the fiscal year. Chairman Greenspan, however, remained concerned about "complacency" within the bond market, as evidenced by his comments to congressional banking committees in February that it was a "conundrum" that long-term yields still remained low. These comments managed to move yields higher for only a short while, though, as the fixed income markets concluded that long-term inflation was under control.

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**LETTER TO SHAREHOLDERS** continued

We encourage our investors to maintain their diversified, long-term strategies, including municipal securities, within their fixed income portfolios.

Please visit our Web site, **EvergreenInvestments.com**, for more information about our funds and other investment products available to you. From the Web site, you may also access a detailed Q & A interview with the portfolio manager(s) for your fund. You can easily reach these interviews by following the link, **EvergreenInvestments.com/AnnualUpdates**, from our Web site. Thank you for your continued support of Evergreen Investments.

Sincerely,

**Dennis H. Ferro**

President and Chief Executive Officer  
Evergreen Investment Company, Inc.

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**Special Notice to Shareholders:**

Please visit our Web site at **EvergreenInvestments.com** for statements from President and Chief Executive Officer, Dennis Ferro, and Chairman of the Board of the Evergreen Funds, Michael S. Scofield, addressing recent SEC actions involving the Evergreen Funds.

**3****FINANCIAL HIGHLIGHTS**

(For a common share outstanding throughout each period)

|  | <b>Year Ended April 30,</b> |             |                         |
|--|-----------------------------|-------------|-------------------------|
|  | <b>2005</b>                 | <b>2004</b> | <b>2003<sup>1</sup></b> |
| <b>Net asset value, beginning of period</b>  | \$ 15.62                    | \$ 14.92    | \$ 14.33 <sup>2</sup>   |
| <b>Income from investment operations</b>   |                             |             |                         |
| Net investment income (loss)   | 1.56                        | 1.76        | 0.17                    |
| Net realized and unrealized gains or losses<br>on securities and interest rate swap transactions | (0.65)                      | 0.68        | 0.67                    |
| Distributions to preferred shareholders from <sup>3</sup>  |                             |             |                         |
| Net investment income  | (0.14)                      | (0.09)      | 0 <sup>4</sup>          |
| Net realized gains   | (0.01)                      | 0           | 0                       |
| Total from investment operations   | 0.76                        | 2.35        | 0.84                    |
| <b>Distributions to common shareholders from</b>   |                             |             |                         |
| Net investment income  | (1.64)                      | (1.65)      | (0.14)                  |
| Net realized gains   | (0.33)                      | 0           | 0                       |
| Total distributions to common shareholders   | (1.97)                      | (1.65)      | (0.14)                  |
| <b>Offering costs charged to capital for</b>   |                             |             |                         |
| Common shares  | 0                           | 0           | (0.03)                  |
| Preferred shares   | 0                           | 0           | (0.08)                  |
| Total offering costs   | 0                           | 0           | (0.11)                  |
| <b>Net asset value, end of period</b>  | \$ 14.41                    | \$ 15.62    | \$ 14.92                |
| <b>Market value, end of period</b>   | \$ 14.24                    | \$ 14.44    | \$ 15.11                |
| <b>Total return based on market value<sup>5</sup></b>  | 12.07%                      | 6.55%       | 1.66%                   |

**4**

**Ratios and supplemental data**

|  |           |             |           |
|--|-----------|-------------|-----------|
| Net assets of common shareholders, end of period (thousands)     | \$966,835 | \$1,035,766 | \$979,903 |
| Liquidation value of preferred shares, end of period (thousands) | \$490,000 | \$490,000   | \$490,000 |
| Asset coverage ratio, end of period                              | 297%      | 311%        | 300%      |

**Ratios to average net assets applicable to common shareholders**

|  |        |        |                    |
|--|--------|--------|--------------------|
| Expenses including waivers/reimbursements and excluding expense reductions | 1.15%  | 1.15%  | 0.77% <sup>6</sup> |
| Expenses excluding waivers/reimbursements and expense reductions           | 1.15%  | 1.15%  | 0.77% <sup>6</sup> |
| Net investment income (loss) <sup>7</sup>                                  | 10.03% | 10.56% | 6.66% <sup>6</sup> |
| Portfolio turnover rate  | 63%    | 49%    | 2%                 |

<sup>1</sup> For the period from February 28, 2003 (commencement of class operations), to April 30, 2003.

<sup>2</sup> Initial public offering price of \$15.00 per share less underwriting discount of \$0.67 per share.

<sup>3</sup> Distributions to preferred shareholders per common share are based on average common shares outstanding during the period.

<sup>4</sup> Amount represents less than \$0.005 per share.

<sup>5</sup> Total return is calculated assuming a purchase of common stock on the first day and a sale on the last day of each period reported.

Dividends and distributions are assumed for purposes of these calculations to be reinvested at prices obtained under the Fund's Automatic Dividend Reinvestment Plan. Total return does not reflect brokerage commissions or sales charges.

<sup>6</sup> Annualized

<sup>7</sup> The net investment income (loss) ratio reflects distributions to preferred shareholders.

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS**

April 30, 2005

|  | Principal<br>Amount | Value             |
|--|---------------------|-------------------|
| <b>CORPORATE BONDS 136.5%</b>                                    |                     |                   |
| <b>CONSUMER DISCRETIONARY 40.9%</b>                              |                     |                   |
| <b>Auto Components 1.5%</b>                                      |                     |                   |
| RJ Tower Corp., 12.00%, 06/01/2013 (p) •                         | \$ 3,060,000        | \$ 1,637,100      |
| Tenneco Automotive, Inc., 8.625%, 11/15/2014 (p) 144A            | 14,350,000          | 13,166,125        |
|  |                     | <u>14,803,225</u> |
| <b>Hotels, Restaurants &amp; Leisure 12.2%</b>                   |                     |                   |
| Ameristar Casinos, Inc., 10.75%, 02/15/2009                      | 10,000,000          | 10,925,000        |
| Equinox Holdings, Inc., 9.00%, 12/15/2009 (p)                    | 10,930,000          | 11,230,575        |
| Gaylord Entertainment Co., 6.75%, 11/15/2014 144A                | 2,500,000           | 2,325,000         |
| Herbst Gaming, Inc., 7.00%, 11/15/2014 144A                      | 7,300,000           | 7,190,500         |
| Inn of The Mountain Gods Resort & Casino, 12.00%, 11/15/2010 (p) | 7,000,000           | 8,242,500         |

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|   |            |            |
|---|------------|------------|
| Isle of Capri Casinos, Inc., 7.00%, 03/01/2014 (p)      | 7,500,000  | 7,312,500  |
| John Q. Hammons Hotels LP, Ser. B, 8.875%, 05/15/2012   | 12,995,000 | 13,904,650 |
| La Quinta Corp., 8.875%, 03/15/2011                     | 10,500,000 | 11,353,125 |
| Las Vegas Sands Corp., 6.375%, 02/15/2015 (p) 144A      | 5,830,000  | 5,494,775  |
| Mandalay Resort Group, Ser. B, 10.25%, 08/01/2007       | 10,000,000 | 11,025,000 |
| MGM MIRAGE, Inc., 5.875%, 02/27/2014 (p)                | 4,500,000  | 4,235,625  |
| Station Casinos, Inc.:                                  |            |            |
| 6.50%, 02/01/2014 (p)                                   | 3,650,000  | 3,659,125  |
| 6.875%, 03/01/2016 (p)                                  | 3,650,000  | 3,704,750  |
| Town Sports International, Inc., 9.625%, 04/15/2011 (p) | 6,325,000  | 6,522,656  |
| Wynn Resorts, Ltd., 6.625%, 12/01/2014 144A             | 11,280,000 | 10,603,200 |

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117,728,981

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**Household Durables 2.5%**

|   |           |           |
|---|-----------|-----------|
| Jarden Corp., 9.75%, 05/01/2012                       | 6,475,000 | 6,928,250 |
| K. Hovnanian Enterprises, Inc., 7.75%, 05/15/2013 (p) | 7,000,000 | 7,157,500 |
| Meritage Homes Corp., 6.25%, 03/15/2015 144A          | 4,050,000 | 3,746,250 |
| Technical Olympic USA, Inc.:                          |           |           |
| 7.50%, 03/15/2011                                     | 1,500,000 | 1,402,500 |
| 10.375%, 07/01/2012                                   | 4,800,000 | 5,064,000 |

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24,298,500

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**Leisure Equipment & Products 1.9%**

|  |            |            |
|--|------------|------------|
| AMC Entertainment, Inc., 8.625%, 08/15/2012 (p) 144A | 11,430,000 | 11,915,775 |
| Riddell Bell Holdings, Inc., 8.375%, 10/01/2012 144A | 6,105,000  | 6,181,312  |

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18,097,087

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**Media 14.2%**

|   |            |            |
|---|------------|------------|
| Cablevision Systems Corp., 8.00%, 04/15/2012 (p) 144A       | 15,635,000 | 15,498,194 |
| CCO Holdings LLC, 8.75%, 11/15/2013 (p)                     | 7,500,000  | 7,256,250  |
| Charter Communications Holdings LLC, 8.625%, 04/01/2009 (p) | 14,000,000 | 10,185,000 |
| Cinemark USA, Inc.:   |            |            |
| 9.00%, 02/01/2013   | 12,000,000 | 12,750,000 |
| Sr. Disc. Note, Step Bond, 0.00%, 03/15/2014 †              | 7,225,000  | 5,003,312  |
| Dex Media East LLC, 9.875%, 11/15/2009                      | 13,500,000 | 14,850,000 |
| Emmis Communications Corp., 6.875%, 05/15/2012              | 7,350,000  | 7,294,875  |
| Houghton Mifflin Co., 9.875%, 02/01/2013 (p)                | 7,000,000  | 7,105,000  |

See Notes to Financial Statements

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April 30, 2005

|   | <b>Principal<br/>Amount</b> | <b>Value</b> |
|---|-----------------------------|--------------|
| <b>CORPORATE BONDS continued</b>  |                             |              |
| <b>CONSUMER DISCRETIONARY continued</b>                                     |                             |              |
| <b>Media continued</b>  |                             |              |
| Marquee Holdings, Inc., Sr. Disc. Note, Step Bond, 0.00%, 08/15/2014 144A † | \$12,850,000                | \$ 8,095,500 |
| Mediacom LLC, 9.50%, 01/15/2013 (p)   | 15,250,000                  | 14,678,125   |
| PRIMEDIA, Inc., 8.875%, 05/15/2011  | 5,030,000                   | 5,231,200    |
| Sinclair Broadcast Group, Inc., 8.00%, 03/15/2012 (p)                       | 12,500,000                  | 12,468,750   |
| Visant Corp., 7.625%, 10/01/2012  | 7,465,000                   | 7,502,325    |
| WMG Holdings Corp., 7.39%, 12/15/2011 144A                                  | 9,000,000                   | 9,315,000    |
|   |                             | <hr/>        |
|   |                             | 137,233,531  |
|   |                             | <hr/>        |
| <b>Multi-line Retail 1.5%</b>   |                             |              |
| J.C. Penney Co., Inc., 7.375%, 08/15/2008 (p)                               | 14,000,000                  | 14,910,000   |
|   |                             | <hr/>        |
| <b>Specialty Retail 4.9%</b>  |                             |              |
| American Achievement Corp., 8.25%, 04/01/2012                               | 6,155,000                   | 6,355,038    |
| Central Garden & Pet Co., 9.125%, 02/01/2013                                | 7,000,000                   | 7,560,000    |
| CSK Auto, Inc., 7.00%, 01/15/2014   | 7,675,000                   | 6,984,250    |
| FTD, Inc., 7.75%, 02/15/2014  | 7,359,000                   | 7,359,000    |
| PETCO Animal Supplies, Inc., 10.75%, 11/01/2011                             | 10,000,000                  | 11,150,000   |
| United Auto Group, Inc., 9.625%, 03/15/2012                                 | 8,000,000                   | 8,360,000    |
|   |                             | <hr/>        |
|   |                             | 47,768,288   |
|   |                             | <hr/>        |
| <b>Textiles, Apparel &amp; Luxury Goods 2.2%</b>                            |                             |              |
| Norcross Safety Products LLC:   |                             |              |
| 11.75%, 01/01/2012 144A   | 1,915,000                   | 1,953,300    |
| Ser. B, 9.875%, 08/15/2011  | 2,750,000                   | 2,915,000    |
| Oxford Industries, Inc., 8.875%, 06/01/2011                                 | 12,000,000                  | 12,480,000   |
| The Warnaco Group, Inc., 8.875%, 06/15/2013                                 | 3,200,000                   | 3,472,000    |
|   |                             | <hr/>        |
|   |                             | 20,820,300   |
|   |                             | <hr/>        |
| <b>CONSUMER STAPLES 6.0%</b>  |                             |              |
| <b>Food &amp; Staples Retailing 1.6%</b>                                    |                             |              |
| Ingles Markets, Inc., 8.875%, 12/01/2011                                    | 7,000,000                   | 7,017,500    |
| Roundy's, Inc., Ser. B, 8.875%, 06/15/2012 (p)                              | 8,175,000                   | 8,502,000    |
|   |                             | <hr/>        |
|   |                             | 15,519,500   |
|   |                             | <hr/>        |
| <b>Food Products 1.8%</b>   |                             |              |
| B&G Foods Holdings Corp., 8.00%, 10/01/2011 (p)                             | 585,000                     | 606,938      |

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|  |           |            |
|--|-----------|------------|
| Chiquita Brands International, Inc., 7.50%, 11/01/2014 (p) | 2,460,000 | 2,263,200  |
| Del Monte Corp.:   |           |            |
| 6.75%, 02/15/2015 144A                                     | 1,600,000 | 1,544,000  |
| 8.625%, 12/15/2012   | 9,217,000 | 9,908,275  |
| Michael Foods, Inc., 8.00%, 11/15/2013                     | 3,400,000 | 3,502,000  |
|  |           | <hr/>      |
|  |           | 17,824,413 |
|  |           | <hr/>      |
| <b>Household Products 0.8%</b>                             |           |            |
| Rayovac Corp., 7.375%, 02/01/2015 144A                     | 8,010,000 | 7,809,750  |
|  |           | <hr/>      |
| <b>Personal Products 1.0%</b>                              |           |            |
| Playtex Products, Inc., 8.00%, 03/01/2011                  | 9,000,000 | 9,652,500  |
|  |           | <hr/>      |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2005

|  | Principal<br>Amount | Value        |
|--|---------------------|--------------|
| <hr/>  |                     |              |
| <b>CORPORATE BONDS continued</b>                           |                     |              |
| <b>CONSUMER STAPLES continued</b>                          |                     |              |
| <b>Tobacco 0.8%</b>  |                     |              |
| Commonwealth Brands, Inc., 10.625%, 09/01/2008 144A        | \$ 7,000,000        | \$ 7,350,000 |
|  |                     | <hr/>        |
| <b>ENERGY 14.8%</b>  |                     |              |
| <b>Energy Equipment &amp; Services 5.8%</b>                |                     |              |
| Dresser, Inc., 9.375%, 04/15/2011                          | 14,000,000          | 14,700,000   |
| Exide Technologies, 10.50%, 03/15/2013 144A (p)            | 6,080,000           | 5,183,200    |
| Grant Prideco, Inc., 9.00%, 12/15/2009                     | 12,750,000          | 13,961,250   |
| Gulfmark Offshore, Inc., 7.75%, 07/15/2014 144A            | 4,100,000           | 4,161,500    |
| Hornbeck Offshore Services, Ser. B, 6.125%, 12/01/2014 (p) | 2,100,000           | 2,081,625    |
| Parker Drilling Co.:                                       |                     |              |
| 9.625%, 10/01/2013 144A                                    | 8,125,000           | 8,978,125    |
| Ser. B, 9.625%, 10/01/2013 (p)                             | 3,830,000           | 4,232,150    |
| SESI LLC, 8.875%, 05/15/2011                               | 2,000,000           | 2,150,000    |
|  |                     | <hr/>        |
|  |                     | 55,447,850   |
|  |                     | <hr/>        |
| <b>Oil, Gas &amp; Consumable Fuels 9.0%</b>                |                     |              |



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|  |            |            |
|--|------------|------------|
| Chesapeake Energy Corp.:                               |            |            |
| 6.375%, 06/15/2015 144A                                | 5,375,000  | 5,294,375  |
| 6.875%, 01/15/2016                                     | 3,360,000  | 3,360,000  |
| 7.50%, 09/15/2013                                      | 7,000,000  | 7,420,000  |
| 7.75%, 01/15/2015                                      | 3,500,000  | 3,701,250  |
| El Paso Corp.:   |            |            |
| 7.75%, 01/15/2032 (p)                                  | 7,500,000  | 6,937,500  |
| 7.875%, 06/15/2012 (p)                                 | 7,050,000  | 6,926,625  |
| El Paso Production Holding Co., 7.75%, 06/01/2013      | 10,500,000 | 10,631,250 |
| Exco Resources, Inc., 7.25%, 01/15/2011                | 2,245,000  | 2,222,550  |
| Overseas Shipholding Group, Inc., 8.25%, 03/15/2013    | 12,050,000 | 12,833,250 |
| Plains Exploration & Production Co., 8.75%, 07/01/2012 | 2,500,000  | 2,712,500  |
| Premcor Refining Group, Inc., 9.50%, 02/01/2013        | 6,500,000  | 7,410,000  |
| The Williams Companies, Inc.:                          |            |            |
| 7.50%, 01/15/2031 (p)                                  | 6,750,000  | 7,003,125  |
| 8.125%, 03/15/2012                                     | 9,750,000  | 10,725,000 |
|  |            | <hr/>      |
|  |            | 87,177,425 |
|  |            | <hr/>      |

**FINANCIALS 8.7%**

**Consumer Finance 2.1%**

|   |            |            |
|---|------------|------------|
| General Motors Acceptance Corp., 6.125%, 09/15/2006 | 14,000,000 | 13,921,012 |
| Triad Financial Corp., 11.125%, 05/01/2013 144A     | 6,500,000  | 6,475,625  |
|   |            | <hr/>      |
|   |            | 20,396,637 |
|   |            | <hr/>      |

**Diversified Financial Services 1.8%**

|   |           |            |
|---|-----------|------------|
| Arch Western Finance LLC, 6.75%, 07/01/2013     | 7,125,000 | 7,178,437  |
| Borden US Finance Corp., 9.00%, 07/15/2014 144A | 2,200,000 | 2,211,000  |
| Metris Companies, Inc., 10.125%, 07/15/2006 (p) | 8,333,000 | 8,374,665  |
|   |           | <hr/>      |
|   |           | 17,764,102 |
|   |           | <hr/>      |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2005

| Principal<br>Amount | Value |
|---------------------|-------|
|---------------------|-------|

**CORPORATE BONDS** continued

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**FINANCIALS continued**

**Insurance 0.8%**

|  |              |              |
|--|--------------|--------------|
| Crum & Forster Holdings Corp., 10.375%, 06/15/2013 | \$ 6,750,000 | \$ 7,357,500 |
|--|--------------|--------------|

**Real Estate 4.0%**

|  |            |            |
|--|------------|------------|
| Crescent Real Estate Equities Co., REIT, 9.25%, 04/15/2009 | 7,425,000  | 7,834,630  |
| HMH Properties, Inc., Ser. B, REIT, 7.875%, 08/01/2008 (p) | 1,701,000  | 1,743,525  |
| Host Marriott Corp., Ser. J, REIT, 7.125%, 11/01/2013 (p)  | 15,000,000 | 15,262,500 |
| Omega Healthcare Investors, Inc., REIT:                    |            |            |
| 6.95%, 08/01/2007  | 4,255,000  | 4,345,419  |
| 7.00%, 04/01/2014  | 1,400,000  | 1,358,000  |
| Thornburg Mortgage Inc., REIT, 8.00%, 05/15/2013           | 7,825,000  | 7,903,250  |
|  |            | <hr/>      |
|  |            | 38,447,324 |

**HEALTH CARE 9.6%**

**Health Care Equipment & Supplies 1.6%**

|  |            |            |
|--|------------|------------|
| Universal Hospital Services, Inc., 10.125%, 11/01/2011 | 14,715,000 | 14,972,512 |
|--|------------|------------|

**Health Care Providers & Services 8.0%**

|  |            |            |
|--|------------|------------|
| Carriage Services, Inc., 7.875%, 01/15/2015 144A         | 3,600,000  | 3,636,000  |
| Extencicare, Inc., 9.50%, 07/01/2010                     | 13,000,000 | 14,186,250 |
| HCA, Inc., 6.375%, 01/15/2015                            | 7,525,000  | 7,589,775  |
| IASIS Healthcare Corp., 8.75%, 06/15/2014                | 5,100,000  | 5,265,750  |
| Select Medical Corp., 7.625%, 02/01/2015 144A            | 8,150,000  | 8,048,125  |
| Service Corporation International, 6.75%, 04/01/2016 (p) | 7,475,000  | 7,157,313  |
| Team Health, Inc., 9.00%, 04/01/2012 (p)                 | 8,675,000  | 8,675,000  |
| Tenet Healthcare Corp., 9.875%, 07/01/2014               | 11,230,000 | 11,594,975 |
| Triad Hospital, Inc., 7.00%, 05/15/2012                  | 11,000,000 | 11,330,000 |
|  |            | <hr/>      |
|  |            | 77,483,188 |

**INDUSTRIALS 10.5%**

**Aerospace & Defense 0.6%**

|                                    |           |           |
|------------------------------------|-----------|-----------|
| Argo-Tech Corp., 9.25%, 06/01/2011 | 1,640,000 | 1,763,000 |
| Moog, Inc., 6.25%, 01/15/2015      | 4,614,000 | 4,590,930 |
|                                    |           | <hr/>     |
|                                    |           | 6,353,930 |

**Commercial Services & Supplies 4.9%**

|  |           |           |
|--|-----------|-----------|
| Allied Waste North America, Inc.:  |           |           |
| 5.75%, 02/15/2011 (p)  | 4,080,000 | 3,600,600 |
| 6.375%, 04/15/2011 (p)   | 4,075,000 | 3,728,625 |
| American Color Graphics, Inc., 10.00%, 06/15/2010 (p)                          | 7,250,000 | 4,676,250 |
| Clean Harbors, Inc., 11.25%, 07/15/2012 144A                                   | 7,950,000 | 8,864,250 |
| Corrections Corporation of America, 6.25%, 03/15/2013 144A                     | 3,825,000 | 3,710,250 |
| Geo Group, Inc., 8.25%, 07/15/2013   | 4,875,000 | 4,911,563 |
| JohnsonDiversey Holdings, Inc., Sr. Disc. Note, Step Bond, 0.00%, 05/15/2013 † | 8,500,000 | 6,757,500 |

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|                                  |            |                   |
|----------------------------------|------------|-------------------|
| TriMas Corp., 9.875%, 06/15/2012 | 11,025,000 | 10,914,750        |
|                                  |            | <u>47,163,788</u> |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2005

|  | <b>Principal<br/>Amount</b> | <b>Value</b>      |
|--|-----------------------------|-------------------|
| <b>CORPORATE BONDS continued</b>                   |                             |                   |
| <b>INDUSTRIALS continued</b>                       |                             |                   |
| <b>Machinery 3.5%</b>                              |                             |                   |
| Case New Holland, Inc., 9.25%, 08/01/2011 144A     | \$13,000,000                | \$ 13,325,000     |
| Douglas Dynamics LLC, 7.75%, 01/15/2012 144A       | 5,385,000                   | 5,304,225         |
| Dresser Rand Group, Inc., 7.375%, 11/01/2014 144A  | 6,375,000                   | 6,247,500         |
| Terex Corp., 7.375%, 01/15/2014                    | 8,750,000                   | 8,837,500         |
|  |                             | <u>33,714,225</u> |
| <b>Trading Companies &amp; Distributors 1.5%</b>   |                             |                   |
| United Rentals, Inc., 7.75%, 11/15/2013 (p)        | 15,000,000                  | 14,137,500        |
| <b>INFORMATION TECHNOLOGY 5.7%</b>                 |                             |                   |
| <b>Communications Equipment 1.5%</b>               |                             |                   |
| Lucent Technologies, Inc., 6.45%, 03/15/2029 (p)   | 16,800,000                  | 14,259,000        |
| <b>Electronic Equipment &amp; Instruments 1.0%</b> |                             |                   |
| Da-Lite Screen Co., Inc., 9.50%, 05/15/2011        | 8,850,000                   | 9,712,875         |
| <b>Internet Software &amp; Services 1.5%</b>       |                             |                   |
| UGS Corp., 10.00%, 06/01/2012 144A                 | 14,060,000                  | 15,114,500        |
| <b>IT Services 1.7%</b>                            |                             |                   |
| Computer Sciences Corp., 9.50%, 02/15/2013 144A    | 10,100,000                  | 9,746,500         |
| Stratus Technologies, Inc., 10.375%, 12/01/2008    | 5,000,000                   | 4,900,000         |
| Unisys Corp., 6.875%, 03/15/2010 (p)               | 1,500,000                   | 1,443,750         |
|  |                             | <u>16,090,250</u> |

**MATERIALS 28.9%**

**Chemicals 9.8%**

|  |            |            |
|--|------------|------------|
| Arco Chemical Co., 9.80%, 02/01/2020 (p)                 | 4,050,000  | 4,495,500  |
| Equistar Chemicals LP, 10.625%, 05/01/2011 (p)           | 14,000,000 | 15,680,000 |
| Ethyl Corp., 8.875%, 05/01/2010                          | 12,000,000 | 12,690,000 |
| Huntsman Advanced Materials LLC, 11.00%, 07/15/2010 144A | 6,500,000  | 7,442,500  |
| Huntsman International LLC:                              |            |            |
| 9.875%, 03/01/2009                                       | 7,000,000  | 7,560,000  |
| 11.50%, 07/15/2012 144A                                  | 8,085,000  | 9,338,175  |
| Lyondell Chemical Co.:                                   |            |            |
| 9.50%, 12/15/2008  | 7,500,000  | 8,034,375  |
| 10.50%, 06/01/2013 (p)                                   | 6,500,000  | 7,523,750  |
| Millenium America, Inc.:                                 |            |            |
| 7.625%, 11/15/2026                                       | 5,000,000  | 4,775,000  |
| 9.25%, 06/15/2008  | 4,000,000  | 4,280,000  |
| PQ Corp., 7.50%, 02/15/2013 (p) 144A                     | 7,655,000  | 7,463,625  |
| Terra Capital, Inc., 11.50%, 06/01/2010                  | 4,550,000  | 5,209,750  |
|  |            | 94,492,675 |

**Containers & Packaging 7.1%**

|  |            |            |
|--|------------|------------|
| Crown Holdings, Inc., 8.00%, 04/15/2023 (p)                  | 17,000,000 | 16,150,000 |
| Graham Packaging Co., 9.875%, 10/15/2014 (p) 144A            | 6,940,000  | 6,662,400  |
| Graphic Packaging International, Inc., 9.50%, 08/15/2013 (p) | 15,000,000 | 15,000,000 |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2005

|  | Principal<br>Amount | Value         |
|--|---------------------|---------------|
| <b>CORPORATE BONDS</b> continued             |                     |               |
| <b>MATERIALS</b> continued                   |                     |               |
| <b>Containers &amp; Packaging</b> continued  |                     |               |
| Owens-Brockway Glass Containers, Inc.:       |                     |               |
| 8.25%, 05/15/2013                            | \$10,525,000        | \$ 11,209,125 |
| 8.75%, 11/15/2012                            | 12,150,000          | 13,304,250    |
| Stone Container Corp., 9.75%, 02/01/2011 (p) | 6,500,000           | 6,841,250     |
|  |                     | 69,167,025    |

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**Metals & Mining 7.2%**

|   |            |            |
|---|------------|------------|
| Alaska Steel Corp., 7.75%, 06/15/2012 (p)           | 11,150,000 | 9,979,250  |
| Foundation Pennsylvania Coal Co., 7.25%, 08/01/2014 | 8,800,000  | 9,086,000  |
| Freeport-McMoRan Copper & Gold, Inc.:               |            |            |
| 6.875%, 02/01/2014 (p)                              | 4,750,000  | 4,488,750  |
| 10.125%, 02/01/2010 (p)                             | 6,450,000  | 7,095,000  |
| Oregon Steel Mills, Inc., 10.00%, 07/15/2009 (p)    | 10,500,000 | 11,313,750 |
| Peabody Energy Corp.:                               |            |            |
| 5.875%, 04/15/2016 (p)                              | 11,175,000 | 10,895,625 |
| 6.875%, 03/15/2013                                  | 2,720,000  | 2,828,800  |
| United States Steel Corp., 10.75%, 08/01/2008 (p)   | 12,612,000 | 14,251,560 |
|   |            | <hr/>      |
|   |            | 69,938,735 |
|   |            | <hr/>      |

**Paper & Forest Products 4.8%**

|   |            |            |
|---|------------|------------|
| Amscan Holdings, Inc., 8.75%, 05/01/2014      | 7,450,000  | 6,965,750  |
| Boise Cascade LLC:                            |            |            |
| 6.02%, 10/15/2012 144A                        | 3,750,000  | 3,731,250  |
| 7.125%, 10/15/2014 144A                       | 3,500,000  | 3,342,500  |
| Bowater, Inc., 6.50%, 06/15/2013 (p)          | 7,250,000  | 6,615,625  |
| Buckeye Technologies, Inc., 8.50%, 10/01/2013 | 7,500,000  | 7,837,500  |
| Georgia Pacific Corp.:                        |            |            |
| 8.00%, 01/15/2024                             | 4,170,000  | 4,461,900  |
| 8.125%, 05/15/2011                            | 12,000,000 | 13,185,000 |
|   |            | <hr/>      |
|   |            | 46,139,525 |
|   |            | <hr/>      |

**TELECOMMUNICATION SERVICES 7.8%**

**Diversified Telecommunication Services 3.9%**

|   |            |            |
|---|------------|------------|
| Consolidated Communications, Inc., 9.75%, 04/01/2012 144A         | 12,000,000 | 12,660,000 |
| Hawaiian Telecom Communications, Inc.:                            |            |            |
| FRN, 8.91%, 05/01/2013 144A                                       | 5,025,000  | 4,999,875  |
| 9.75%, 05/01/2013 144A  | 4,000,000  | 3,995,000  |
| Insight Midwest LP, 9.75%, 10/01/2009 (p)                         | 8,000,000  | 8,400,000  |
| Qwest Communications International, Inc., 7.875%, 09/01/2011 144A | 7,300,000  | 7,446,000  |
|   |            | <hr/>      |
|   |            | 37,500,875 |
|   |            | <hr/>      |

**Wireless Telecommunication Services 3.9%**

|  |            |            |
|--|------------|------------|
| Alamosa Holdings, Inc., 8.50%, 01/31/2012 (p)        | 3,500,000  | 3,640,000  |
| Centennial Communications Corp., 10.125%, 06/15/2013 | 10,000,000 | 10,975,000 |
| Horizon PCS, Inc., 11.375%, 07/15/2012 144A          | 3,325,000  | 3,690,750  |
| Nextel Communications, Inc., 7.375%, 08/01/2015      | 10,000,000 | 10,700,000 |
| Rural Cellular Co., 8.25%, 03/15/2012 (p)            | 1,420,000  | 1,444,850  |

See Notes to Financial Statements

**SCHEDULE OF INVESTMENTS** continued

April 30, 2005

|  | <b>Principal<br/>Amount</b> | <b>Value</b>         |
|--|-----------------------------|----------------------|
| <b>CORPORATE BONDS continued</b>                     |                             |                      |
| <b>TELECOMMUNICATION SERVICES continued</b>          |                             |                      |
| <b>Wireless Telecommunication Services continued</b> |                             |                      |
| UbiquiTel, Inc., 9.875%, 03/01/2011                  | \$ 3,375,000                | \$ 3,670,312         |
| US Unwired, Inc., Ser. B, 10.00%, 06/15/2012         | 3,325,000                   | 3,665,813            |
|  |                             | <u>37,786,725</u>    |
| <b>UTILITIES 3.6%</b>                                |                             |                      |
| <b>Multi-Utilities 3.6%</b>                          |                             |                      |
| AES Corp., 7.75%, 03/01/2014 (p)                     | 11,250,000                  | 11,531,250           |
| NRG Energy, Inc., 8.00%, 12/15/2013 144A             | 8,912,000                   | 9,045,680            |
| Reliant Resources, Inc.:                             |                             |                      |
| 6.75%, 12/15/2014 (p)                                | 8,150,000                   | 7,253,500            |
| 9.25%, 07/15/2010 (p)                                | 7,000,000                   | 7,192,500            |
|  |                             | <u>35,022,930</u>    |
| <i>Total Corporate Bonds (cost \$1,325,624,637)</i>  |                             | <u>1,319,457,171</u> |
| <b>YANKEE OBLIGATIONS-CORPORATE 10.0%</b>            |                             |                      |
| <b>CONSUMER DISCRETIONARY 1.8%</b>                   |                             |                      |
| <b>Hotels, Restaurants &amp; Leisure 0.7%</b>        |                             |                      |
| Intrawest Corp., 7.50%, 10/15/2013                   | 7,050,000                   | 7,050,000            |
| <b>Media 1.1%</b>                                    |                             |                      |
| IMAX Corp., 9.625%, 12/01/2010 (p)                   | 9,950,000                   | 10,571,875           |
| <b>CONSUMER STAPLES 1.5%</b>                         |                             |                      |
| <b>Food &amp; Staples Retailing 1.5%</b>             |                             |                      |
| Jean Coutu Group, Inc., 8.50%, 08/01/2014 (p)        | 14,750,000                  | 13,975,625           |
| <b>FINANCIALS 1.8%</b>                               |                             |                      |
| <b>Diversified Financial Services 1.8%</b>           |                             |                      |
| Northern Telecom Capital Corp., 7.875%, 06/15/2026   | 9,000,000                   | 9,000,000            |
| Ship Finance International, Ltd., 8.50%, 12/15/2013  | 8,640,000                   | 8,251,200            |
|  |                             | <u>17,251,200</u>    |

**INDUSTRIALS 0.7%**

**Marine 0.3%**

|                                     |           |           |
|-------------------------------------|-----------|-----------|
| CP Ships, Ltd., 10.375%, 07/15/2012 | 2,400,000 | 2,706,000 |
|-------------------------------------|-----------|-----------|

**Transportation Infrastructure 0.4%**

|  |           |           |
|--|-----------|-----------|
| Sea Containers, Ltd., 10.50%, 05/15/2012 | 3,715,000 | 3,900,750 |
|--|-----------|-----------|

**INFORMATION TECHNOLOGY 1.1%**

**Electronic Equipment & Instruments 0.8%**

|   |           |           |
|---|-----------|-----------|
| Celestica, Inc., 7.875%, 07/01/2011 (p) | 7,805,000 | 7,805,000 |
|---|-----------|-----------|

**Semiconductors & Semiconductor Equipment 0.3%**

Magnachip Semiconductor SA:

|                             |           |           |
|-----------------------------|-----------|-----------|
| FRN, 6.26%, 12/15/2011 144A | 1,750,000 | 1,645,000 |
|-----------------------------|-----------|-----------|

|                         |           |           |
|-------------------------|-----------|-----------|
| 6.875%, 12/15/2011 144A | 1,750,000 | 1,610,000 |
|-------------------------|-----------|-----------|

|           |
|-----------|
| 3,255,000 |
|-----------|

See Notes to Financial Statements

**SCHEDULE OF INVESTMENTS** continued

April 30, 2005

|   | Principal<br>Amount | Value        |
|---|---------------------|--------------|
| <b>YANKEE OBLIGATIONS-CORPORATE</b> continued       |                     |              |
| <b>MATERIALS 2.3%</b>                               |                     |              |
| <b>Containers &amp; Packaging 0.2%</b>              |                     |              |
| Stone Container Finance Co., 7.375%, 07/15/2014 (p) | \$ 1,625,000        | \$ 1,503,125 |
| <b>Metals &amp; Mining 1.6%</b>                     |                     |              |
| Gerdau Ameristeel Corp., 10.375%, 07/15/2011        | 1,231,000           | 1,347,945    |
| Novelis, Inc., 7.25%, 02/15/2015 144A               | 14,750,000          | 14,344,375   |
|   |                     | 15,692,320   |
| <b>Paper &amp; Forest Products 0.5%</b>             |                     |              |
| Abitibi Consolidated, Inc., 6.00%, 06/20/2013 (p)   | 4,125,000           | 3,403,125    |
| Tembec Industries, Inc., 7.75%, 03/15/2012 (p)      | 1,785,000           | 1,356,600    |
|   |                     | 4,759,725    |

**TELECOMMUNICATION SERVICES 0.8%**

**Wireless Telecommunication Services 0.8%**

Rogers Wireless, Inc.:

|                    |           |           |
|--------------------|-----------|-----------|
| 6.375%, 03/01/2014 | 3,485,000 | 3,354,312 |
| 7.50%, 03/15/2015  | 4,350,000 | 4,485,938 |

---

7,840,250

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*Total Yankee Obligations-Corporate (cost \$97,150,316)* 96,310,870

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**Shares**

**Value**

**WARRANTS 0.4%**

**CONSUMER DISCRETIONARY 0.0%**

**Media 0.0%**

|  |           |   |
|--|-----------|---|
| RCN Corp., Expiring 06/30/2013 * + (h) | 2,110,000 | 0 |
|--|-----------|---|

---

**TELECOMMUNICATION SERVICES 0.4%**

**Wireless Telecommunication Services 0.4%**

|  |        |           |
|--|--------|-----------|
| American Tower Escrow Corp., Expiring 08/01/2008 * | 17,500 | 4,261,302 |
|--|--------|-----------|

---

*Total Warrants (cost \$1,421,436)* 4,261,302

---

**SHORT-TERM INVESTMENTS 27.5%**

**MUTUAL FUND SHARES 27.5%**

|   |             |             |
|---|-------------|-------------|
| Navigator Prime Portfolio (p)(p) (cost \$265,688,293) | 265,688,293 | 265,688,293 |
|---|-------------|-------------|

---

**Total Investments (cost \$1,689,884,682) 174.4%** 1,685,717,636

**Other Assets and Liabilities and Preferred Shares (74.4%)** (718,882,807)

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**Net Assets Applicable to Common Shareholders 100.0%** \$ 966,834,829

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See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2005

- (p) All or a portion of this security is on loan.
- Security which has defaulted on payment of interest and/or principal. The Fund has stopped accruing interest on this security.



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- 144A Security that may be sold to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended. This security has been determined to be liquid under guidelines established by the Board of Trustees.
- † Security initially issued in zero coupon form which converts to coupon form at a specified rate and date. An effective interest rate is applied to recognize interest income daily for the bond. This rate is based on total expected interest to be earned over the life of the bond which consists of the aggregate coupon-interest payments and discount at acquisition. The rate shown is the stated rate at the current period end.
- \* Non-income producing security
- + Security is deemed illiquid and is valued using market quotations when readily available.
- (h) Security is valued at fair value as determined in good faith under procedures established by the Board of Trustees.
- (p)(p) Represents investment of cash collateral received from securities on loan.

### Summary of Abbreviations

- FRN Floating Rate Note  
REIT Real Estate Investment Trust

The following table shows the percent of total bonds by credit quality based on Moody's and Standard & Poor's ratings as of April 30, 2005 (unaudited):

|     |        |
|-----|--------|
| BBB | 1.0%   |
| BB  | 22.7%  |
| B   | 70.2%  |
| CC  | 6.0%   |
| NR  | 0.1%   |
|     | <hr/>  |
|     | 100.0% |
|     | <hr/>  |

The following table shows the percent of total bonds by maturity as of April 30, 2005 (unaudited):

|                |        |
|----------------|--------|
| 1 to 3 year(s) | 2.7%   |
| 3 to 5 years   | 11.4%  |
| 5 to 10 years  | 78.3%  |
| 10 to 20 years | 4.6%   |
| 20 to 30 years | 3.0%   |
|                | <hr/>  |
|                | 100.0% |
|                | <hr/>  |

See Notes to Financial Statements

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## STATEMENT OF ASSETS AND LIABILITIES

April 30, 2005

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**Assets**

|  |                  |
|--|------------------|
| Investments in securities, at value (cost \$1,689,884,682) including \$259,023,366<br>of securities loaned | \$ 1,685,717,636 |
| Receivable from broker   | 360,346          |
| Receivable for securities sold   | 25,553,683       |
| Interest receivable  | 33,679,521       |
| Receivable for securities lending income   | 55,715           |
| Unrealized gains on interest rate swap transactions  | 9,168,220        |
| <hr/>  |                  |
| Total assets   | 1,754,535,121    |

**Liabilities**

|  |             |
|--|-------------|
| Dividends payable                      | 8,595,921   |
| Payable for securities purchased       | 9,025,000   |
| Payable for securities on loan         | 265,688,293 |
| Due to custodian bank                  | 13,707,250  |
| Advisory fee payable                   | 72,028      |
| Due to other related parties           | 6,002       |
| Accrued expenses and other liabilities | 173,671     |
| <hr/>                                  |             |
| Total liabilities                      | 297,268,165 |

**Preferred shares at redemption value**

|   |             |
|---|-------------|
| \$25,000 liquidation value per share applicable to 19,600 shares, including dividends payable<br>of \$432,127 | 490,432,127 |
|---|-------------|

---

|   |                       |
|---|-----------------------|
| <b>Net assets applicable to common shareholders</b> | <b>\$ 966,834,829</b> |
|---|-----------------------|

**Net assets applicable to common shareholders represented by**

|  |                |
|--|----------------|
| Paid-in capital  | \$ 955,312,834 |
| Overdistributed net investment income  | (847,808)      |
| Accumulated net realized gains on securities and interest rate swap transactions | 7,368,629      |
| Net unrealized gains on securities and interest rate swap transactions           | 5,001,174      |

---

|   |                       |
|---|-----------------------|
| <b>Net assets applicable to common shareholders</b> | <b>\$ 966,834,829</b> |
|---|-----------------------|

**Net asset value per share applicable to common shareholders**

|   |          |
|---|----------|
| Based on \$966,834,829 divided by 67,087,508 common shares issued and outstanding<br>(100,000,000 common shares authorized) | \$ 14.41 |
|---|----------|

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See Notes to Financial Statements

**STATEMENT OF OPERATIONS**

Year Ended April 30, 2005

**Investment income**

|  |                    |
|--|--------------------|
| Interest income (net of foreign withholding taxes of \$42,445) | \$ 123,709,853     |
| Income from affiliates   | 784,248            |
| Securities lending   | 424,244            |
| <b>Total investment income</b>                                 | <b>124,918,345</b> |

**Expenses**

|                               |                   |
|-------------------------------|-------------------|
| Advisory fee                  | 9,098,881         |
| Administrative services fee   | 758,240           |
| Transfer agent fees           | 46,893            |
| Trustees' fees and expenses   | 47,956            |
| Printing and postage expenses | 185,706           |
| Custodian and accounting fees | 310,386           |
| Professional fees             | 54,142            |
| Auction agent fees            | 1,286,912         |
| Other                         | 36,938            |
| <b>Total expenses</b>         | <b>11,826,054</b> |
| Less: Expense reductions      | (7,989)           |
| Expense reimbursements        | (203)             |

|                     |                   |
|---------------------|-------------------|
| <b>Net expenses</b> | <b>11,817,862</b> |
|---------------------|-------------------|

|                              |                    |
|------------------------------|--------------------|
| <b>Net investment income</b> | <b>113,100,483</b> |
|------------------------------|--------------------|

**Net realized and unrealized gains or losses on securities and interest rate swap transactions**

Net realized gains or losses on:

|                                 |             |
|---------------------------------|-------------|
| Securities                      | 26,850,019  |
| Interest rate swap transactions | (3,137,157) |

|  |              |
|--|--------------|
| Net realized gains on securities and interest rate swap transactions                       | 23,712,862   |
| Net change in unrealized gains or losses on securities and interest rate swap transactions | (76,423,477) |

|   |              |
|---|--------------|
| Net realized and unrealized gains or losses on securities and interest rate swap transactions | (52,710,615) |
| Distributions to preferred shareholders from  |              |
| Net investment income   | (9,367,586)  |
| Net realized gains  | (674,040)    |

|   |                      |
|---|----------------------|
| <b>Net increase in net assets applicable to common shareholders resulting from operations</b> | <b>\$ 50,348,242</b> |
|---|----------------------|

See Notes to Financial Statements

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**STATEMENTS OF CHANGES IN NET ASSETS**

|  | <b>Year Ended April 30,</b> |                 |
|--|-----------------------------|-----------------|
|  | <b>2005</b>                 | <b>2004</b>     |
| <b>Operations</b>  |                             |                 |
| Net investment income  | \$ 113,100,483              | \$ 113,276,185  |
| Net realized gains on securities and interest rate swap transactions                       | 23,712,862                  | 10,757,680      |
| Net change in unrealized gains or losses on securities and interest rate swap transactions | (76,423,477)                | 36,732,394      |
| Distributions to preferred shareholders from   |                             |                 |
| Net investment income  | (9,367,586)                 | (5,808,658)     |
| Net realized gains   | (674,040)                   | 0               |
| Net increase in net assets applicable to common shareholders resulting from operations     | 50,348,242                  | 154,957,601     |
| <b>Distributions to common shareholders from</b>   |                             |                 |
| Net investment income  | (113,371,836)               | (109,070,550)   |
| Net realized gains   | (18,002,382)                | 0               |
| Total distributions to common shareholders   | (131,374,218)               | (109,070,550)   |
| <b>Capital share transactions</b>  |                             |                 |
| Net asset value of common shares issued under the Automatic Dividend Reinvestment Plan     | 12,094,632                  | 9,975,946       |
| Total increase (decrease) in net assets applicable to common shareholders                  | (68,931,344)                | 55,862,997      |
| <b>Net assets applicable to common shareholders</b>  |                             |                 |
| Beginning of period  | 1,035,766,173               | 979,903,176     |
| End of period  | \$ 966,834,829              | \$1,035,766,173 |
| Undistributed (overdistributed) net investment income                                      | \$ (847,808)                | \$ 1,825,484    |

See Notes to Financial Statements

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**NOTES TO FINANCIAL STATEMENTS**

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## 1. SIGNIFICANT ACCOUNTING POLICIES

Evergreen Income Advantage Fund (the "Fund") was organized as a statutory trust under the laws of the state of Delaware on December 3, 2002 and is registered as a diversified closed-end management investment company under the Investment Company Act of 1940, as amended. The primary investment objective of the Fund is to seek a high level of current income. The Fund may, as a secondary objective, also seek capital appreciation to the extent consistent with its investment objective.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles in the United States of America, which require management to make estimates and assumptions that affect amounts reported herein. Actual results could differ from these estimates.

### a. Valuation of investments

Portfolio debt securities acquired with more than 60 days to maturity are fair valued using matrix pricing methods determined by an independent pricing service which takes into consideration such factors as similar security prices, yields, maturities, liquidity and ratings. Securities for which valuations are not readily available from an independent pricing service may be valued by brokers which use prices provided by market makers or estimates of market value obtained from yield data relating to investments or securities with similar characteristics.

Listed equity securities are usually valued at the last sales price or official closing price on the national securities exchange where the securities are principally traded.

Short-term securities with remaining maturities of 60 days or less at the time of purchase are valued at amortized cost, which approximates market value.

Investments in other mutual funds are valued at net asset value. Securities for which market quotations are not readily available or not reflective of current market value are valued at fair value as determined in good faith, according to procedures approved by the Board of Trustees.

### b. Securities lending

The Fund may lend its securities to certain qualified brokers in order to earn additional income. The Fund receives compensation in the form of fees or interest earned on the investment of any cash collateral received. The Fund also continues to receive interest and dividends on the securities loaned. The Fund receives collateral in the form of cash or securities with a market value at least equal to the market value of the securities on loan, including accrued interest. In the event of default or bankruptcy by the borrower, the Fund could experience delays and costs in recovering the loaned securities or in gaining access to the collateral. The Fund has the right under the lending agreement to recover the securities from the borrower on demand.

### c. Interest rate swaps

The Fund may enter into interest rate swap agreements to manage the Fund's exposure to interest rates. A swap agreement is an exchange of cash payments between the Fund and another party

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## NOTES TO FINANCIAL STATEMENTS continued

based on a notional principal amount. Cash payments or receipts are recorded as realized gains or losses. The value of the swap agreements is marked-to-market daily based upon quotations from market makers and any change in value is recorded as an unrealized gain or loss. The Fund could be exposed to risks if the counterparty defaults on its obligation to perform or if there are unfavorable changes in the fluctuation of interest rates.

### d. Security transactions and investment income

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Security transactions are recorded on trade date. Realized gains and losses are computed using the specific cost of the security sold. Interest income is recorded on the accrual basis and includes accretion of discounts and amortization of premiums. Foreign income and capital gains realized on some securities may be subject to foreign taxes, which are accrued as applicable.

### e. Federal taxes

The Fund intends to continue to qualify as a regulated investment company and distribute all of its taxable income, including any net capital gains (which have already been offset by available capital loss carryovers). Accordingly, no provision for federal taxes is required.

### f. Distributions

Distributions to shareholders from net investment income and net realized gains, if any, are recorded on the ex-dividend date. Such distributions are determined in conformity with income tax regulations, which may differ from generally accepted accounting principles.

Reclassifications have been made to the Fund's components of net assets to reflect income and gains available for distribution (or available capital loss carryovers, as applicable) under income tax regulations. The primary permanent differences causing such reclassifications are due to dividend redesignations, consent fees on tendered bonds and premium amortization. During the year ended April 30, 2005, the following amounts were reclassified:

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|   |    |              |
|---|----|--------------|
| Overdistributed net investment income   | \$ | 11,156,353   |
| Accumulated net realized gains on securities<br>and interest rate swap transactions |    | (11,156,353) |

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### g. Reclassifications

Certain amounts in previous years' financial statements have been reclassified to conform to the current year's presentation.

## 2. ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

Evergreen Investment Management Company, LLC ("EIMC"), an indirect, wholly-owned subsidiary of Wachovia Corporation ("Wachovia"), is the investment advisor to the Fund and is paid an annual fee of 0.60% of the Fund's average daily total assets applicable to common shareholders. Total assets consist of the net assets of the Fund plus borrowings or other leverage for investment purposes to the extent excluded in calculating net assets. The advisory fee would be

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## NOTES TO FINANCIAL STATEMENTS continued

equivalent to 0.89% of the Fund's average daily net assets applicable to common shareholders if the Fund is fully leveraged through the issuance of preferred shares and/or other borrowings. For the year ended April 30, 2005, the Fund had preferred shares issued and outstanding.

From time to time, EIMC may voluntarily or contractually waive its fee and/or reimburse expenses in order to limit operating expenses. During the year ended April 30, 2005, EIMC reimbursed other expenses in the amount of \$203.

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Evergreen Investment Services, Inc. ("EIS"), an indirect, wholly-owned subsidiary of Wachovia, is the administrator to the Fund. As administrator, EIS provides the Fund with facilities, equipment and personnel and is paid an annual administrative fee of 0.05% of the Fund's average daily total assets.

### 3. CAPITAL SHARE TRANSACTIONS

The Fund has authorized capital of 100,000,000 common shares with no par value. For the years ended April 30, 2005 and April 30, 2004, the Fund issued 772,533 and 657,975 common shares, respectively.

### 4. SECURITIES TRANSACTIONS

Cost of purchases and proceeds from sales of investment securities (excluding short-term securities) were \$1,148,384,236 and \$915,762,393, respectively, for the year ended April 30, 2005.

During the year ended April 30, 2005 the Fund loaned securities to certain brokers. At April 30, 2005, the value of securities on loan and the value of collateral amounted to \$259,023,366 and \$265,688,293, respectively.

At April 30, 2005, the Fund had the following open interest rate swap agreements:

| Expiration | Notional<br>Amount | Counterparty                 | Cash Flows<br>Paid<br>by the Fund | Cash Flows<br>Received<br>by the Fund | Unrealized<br>Gain |
|------------|--------------------|------------------------------|-----------------------------------|---------------------------------------|--------------------|
| 7/02/2006  | \$150,000,000      | Merrill Lynch<br>& Co., Inc. | Fixed - 1.95%                     | Floating-2.87%                        | \$3,083,390        |
| 11/26/2006 | 105,000,000        | Merrill Lynch<br>& Co., Inc. | Fixed - 2.79%                     | Floating-2.85%                        | 1,596,336          |
| 7/02/2008  | 100,000,000        | JPMorgan<br>Chase & Co.      | Fixed - 2.737%                    | Floating-2.87%                        | 3,430,374          |
| 11/26/2008 | 65,000,000         | Merrill Lynch<br>& Co., Inc. | Fixed - 3.585%                    | Floating-2.85%                        | 1,058,120          |

On April 30, 2005, the aggregate cost of securities for federal income tax purposes was \$1,684,981,958. The gross unrealized appreciation and depreciation on securities based on tax cost was \$461,669,432 and \$460,933,754, respectively, with a net unrealized appreciation of \$735,678.

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## NOTES TO FINANCIAL STATEMENTS continued

### 5. AUCTION MARKET PREFERRED SHARES

The Fund has issued 19,600 shares of Auction Market Preferred Shares ("Preferred Shares") consisting of six series, each with a liquidation value of \$25,000 plus accumulated but unpaid dividends (whether or not earned or declared). Dividends on each series of Preferred Shares are cumulative at a rate, which is reset based on the result of an auction. The annualized dividend rate was 2.05% during the year ended April 30, 2005. The Fund will not declare, pay or set apart for payment any dividend to its common shareholders unless the Fund has declared and paid or contemporaneously declares and pays full cumulative dividends on each series of Preferred Shares through its most recent dividend payment date.

Each series of Preferred Shares is redeemable, in whole or in part, at the option of the Fund on any dividend payment date at \$25,000 per share plus any accumulated or unpaid dividends (whether or not earned or

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declared). Each series of Preferred Shares is also subject to mandatory redemption at \$25,000 per share plus any accumulated or unpaid dividends (whether or not earned or declared) if the requirement relating to the asset coverage with respect to the outstanding Preferred Shares would be less than 200%.

The holders of Preferred Shares have voting rights equal to the holders of the Fund's common shares and will vote together with holders of common shares as a single class. Holders of Preferred Shares, voting as a separate class, are entitled to elect two of the Fund's Trustees.

**6. DISTRIBUTIONS TO SHAREHOLDERS**

As of April 30, 2005, the components of distributable earnings on a tax basis were as follows:

| <b>Overdistributed<br/>Ordinary Income</b> | <b>Undistributed<br/>Long-term<br/>Capital<br/>Gain</b> | <b>Unrealized<br/>Appreciation</b> |
|--|---|------------------------------------|
| \$ 847,808                                 | \$11,634,125  | \$ 735,678                         |

The differences between the components of distributable earnings on a tax basis and the amounts reflected in the Statement of Assets and Liabilities are primarily due to wash sales, premium amortization adjustments and interest rate swap payments.

The tax character of distributions paid was as follows:

|                        | <b>Year Ended April 30,</b> |               |
|------------------------|-----------------------------|---------------|
|                        | <b>2005</b>                 | <b>2004</b>   |
| Ordinary Income        | \$122,739,422               | \$114,879,208 |
| Long-term Capital Gain | 18,676,422                  | 0             |

**7. EXPENSE REDUCTIONS**

Through expense offset arrangements with the Fund's custodian, a portion of fund expenses has been reduced.

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**NOTES TO FINANCIAL STATEMENTS** continued

**8. DEFERRED TRUSTEES' FEES**

Each Trustee of the Fund may defer any or all compensation related to performance of their duties as Trustees. The Trustees' deferred balances are allocated to deferral accounts, which are included in the accrued expenses for the Fund. The investment performance of the deferral accounts are based on the investment performance of certain Evergreen funds. Any gains earned or losses incurred in the deferral accounts are reported in the Fund's Trustees' fees and expenses. At the election of the Trustees, the deferral account will be paid either in one lump sum or in quarterly installments for up to ten years.

**9. CONCENTRATION OF RISK**

The Fund may invest a substantial portion of its assets in an industry or sector and, therefore, may be more affected by changes in that industry or sector than would be a comparable mutual fund that is not heavily



weighted in any industry or sector.

#### **10. REGULATORY MATTERS AND LEGAL PROCEEDINGS**

Since September 2003, governmental and self-regulatory authorities have instituted numerous ongoing investigations of various practices in the mutual fund industry, including investigations relating to revenue sharing, market-timing, late trading and record retention, among other things. The investigations cover investment advisors, distributors and transfer agents to mutual funds, as well as other firms. EIMC, EIS and Evergreen Service Company, LLC (collectively, "Evergreen") have received subpoenas and other requests for documents and testimony relating to these investigations, are endeavoring to comply with those requests, and are cooperating with the investigations. Evergreen is continuing its own internal review of policies, practices, procedures and personnel, and is taking remedial action where appropriate.

In connection with one of these investigations, on July 28, 2004, the staff of the Securities and Exchange Commission ("SEC") informed Evergreen that the staff intends to recommend to the SEC that it institute an enforcement action against Evergreen. The SEC staff's proposed allegations relate to (i) an arrangement pursuant to which a broker at one of EIMC's affiliated broker-dealers had been authorized, apparently by an EIMC officer (no longer with EIMC), to engage in short-term trading, on behalf of a client, in Evergreen Mid Cap Growth Fund (formerly Evergreen Emerging Growth Fund and prior to that, known as Evergreen Small Company Growth Fund) during the period from December 2000 through April 2003, in excess of the limitations set forth in the fund's prospectus, (ii) short-term trading from September 2001 through January 2003, by a former Evergreen portfolio manager, of Evergreen Precious Metals Fund, a fund he managed at the time, (iii) the sufficiency of systems for monitoring exchanges and enforcing exchange limitations as stated in the fund's prospectuses, and (iv) the adequacy of e-mail retention practices. In connection with the activity in Evergreen Mid Cap Growth Fund, EIMC reimbursed the fund \$378,905, plus an additional \$25,242, representing what EIMC calculated at that time to be the client's net gain and the fees earned by EIMC and the expenses incurred by this fund on the client's account. In connection with the activity in Evergreen

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#### **NOTES TO FINANCIAL STATEMENTS** continued

Precious Metals Fund, EIMC reimbursed the fund \$70,878, plus an additional \$3,075, representing what EIMC calculated at that time to be the portfolio manager's net gain and the fees earned by EIMC and expenses incurred by the fund on the portfolio manager's account. Evergreen is currently engaged in discussions with the staff of the SEC concerning its recommendation.

Any resolution of these matters with regulatory authorities may include, but not be limited to, sanctions, penalties or injunctions regarding Evergreen, restitution to mutual fund shareholders and/or other financial penalties and structural changes in the governance or management of Evergreen's mutual fund business. Any penalties or restitution will be paid by Evergreen and not by the Evergreen funds.

From time to time, EIMC is involved in various legal actions in the normal course of business. In EIMC's opinion, it is not involved in any legal actions that will have a material effect on its ability to provide services to the Fund.

Although Evergreen believes that neither the foregoing investigations nor any pending or threatened legal actions will have a material adverse impact on the Evergreen funds, there can be no assurance that these matters and any publicity surrounding or resulting from them will not result in reduced sales or increased redemptions of Evergreen fund shares, which could increase Evergreen fund transaction costs or operating expenses, or have other adverse consequences on the Evergreen funds.

#### **11. SUBSEQUENT DISTRIBUTIONS**

On April 18, 2005, the Fund declared distributions from net investment income of \$0.13 per common share, payable on June 1, 2005 to shareholders of record on May 16, 2005.

On May 20, 2005, the Fund declared distributions from net investment income of \$0.13 per common share, payable on June 1, 2005 to shareholders of record on June 15, 2005.

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These distributions are not reflected in the accompanying financial statements.

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Trustees and Shareholders  
Evergreen Income Advantage Fund

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of the Evergreen Income Advantage Fund as of April 30, 2005, and the related statement of operations for the year then ended, statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years or periods in the three-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of April 30, 2005 by correspondence with the custodian and brokers. As to securities purchased or sold but not yet received or delivered, we performed other appropriate auditing procedures when replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Evergreen Income Advantage Fund as of April 30, 2005, the results of its operations, changes in its net assets and financial highlights for each of the years or periods described above in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts  
June 17, 2005

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## AUTOMATIC DIVIDEND REINVESTMENT PLAN (unaudited)

All common shareholders are eligible to participate in the Automatic Dividend Reinvestment Plan ("the Plan"). Pursuant to the Plan, unless a common shareholder is ineligible or elects otherwise, all cash dividends and capital gains distributions are automatically reinvested by EquiServe Trust Company, N.A., as agent for shareholders in administering the Plan ("Plan Agent"), in additional common shares of the Fund. Whenever the Fund declares an ordinary income dividend or a capital gain dividend (collectively referred to as "dividends") payable either in shares or in cash, non-participants in the Plan will receive cash, and participants in the Plan will receive the equivalent in shares of common shares. The shares are acquired by the Plan Agent for the participant's account, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized common shares from the Fund ("newly issued common shares") or (ii) by purchase of outstanding common shares on the open market (open-market purchases) on the American Stock Exchange or elsewhere. If, on the payment date for any dividend or distribution, the net asset value per share of the common shares is equal to or less than the market price per common share plus estimated brokerage commissions ("market premium"), the Plan Agent will invest the amount of such dividend or distribution in newly issued shares on behalf of the participant. The number of newly issued common shares to be credited to the participant's account will be determined by dividing the dollar amount of the dividend by the net asset value per share on the date the shares are issued, provided that the maximum discount from the then current market price per share on the date of issuance may not exceed 5%. If on the dividend payment date the net asset value per share is greater than the market value or market premium ("market discount"), the Plan Agent will invest the dividend amount in shares

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acquired on behalf of the participant in open-market purchases. There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open-market purchases in connection with the reinvestment of dividends. The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends. All correspondence concerning the Plan should be directed to the Plan Agent at P.O. Box 43010, Providence, Rhode Island 02940-3010.

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**ADDITIONAL INFORMATION** (unaudited)

**FEDERAL TAX DISTRIBUTIONS**

Pursuant to Section 852 of the Internal Revenue Code, the Fund has designated aggregate capital gain distributions of \$18,676,422 for the fiscal year ended April 30, 2005.

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**TRUSTEES AND OFFICERS**

**TRUSTEES 1**

**Charles A. Austin III**

Trustee

DOB: 10/23/1934

Term of office since: 1991

Other directorships: None

Principal occupations: Investment Counselor, Anchor Capital Advisors, Inc. (investment advice); Director, The Andover Companies (insurance); Trustee, Arthritis Foundation of New England; Director, The Francis Ouimet Society; Former Director, Health Development Corp. (fitness-wellness centers); Former Director, Mentor Income Fund, Inc.; Former Trustee, Mentor Funds and Cash Resource Trust; Former Investment Counselor, Appleton Partners, Inc. (investment advice); Former Director, Executive Vice President and Treasurer, State Street Research & Management Company (investment advice)

**Shirley L. Fulton**

Trustee

DOB: 1/10/1952

Term of office since: 2004

Other directorships: None

Principal occupations: Partner, Tin, Fulton, Greene & Owen, PLLC (law firm); Former Partner, Helms, Henderson & Fulton, P.A. (law firm); Retired Senior Resident Superior Court Judge, 26th Judicial District, Charlotte, NC

**K. Dun Gifford**

Trustee

Principal occupations: Chairman and President, Oldways Preservation and Exchange Trust (education); Trustee, Treasurer and Chairman of the Finance Committee, Cambridge College;

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DOB: 10/23/1938  
Term of office since: 1974  
Other directorships: None

Former Chairman of the Board, Director, and Executive Vice President, The London Harness Company (leather goods purveyor); Former Director, Mentor Income Fund, Inc.; Former Trustee, Mentor Funds and Cash Resource Trust

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**Dr. Leroy Keith, Jr.**  
Trustee  
DOB: 2/14/1939  
Term of office since: 1983  
Other directorships: Trustee, The Phoenix Group of Mutual Funds

Principal occupations: Partner, Stonington Partners, Inc. (private equity firm); Trustee, The Phoenix Group of Mutual Funds; Director, Obagi Medical Products Co.; Director, Diversapack Co.; Former Director, Lincoln Educational Services; Former Chairman of the Board and Chief Executive Officer, Carson Products Company (manufacturing); Former Director, Mentor Income Fund, Inc.; Former Trustee, Mentor Funds and Cash Resource Trust

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**Gerald M. McDonnell**  
Trustee  
DOB: 7/14/1939  
Term of office since: 1988  
Other directorships: None

Principal occupations: Manager of Commercial Operations, SMI Steel Co. □ South Carolina (steel producer); Former Sales and Marketing Manager, Nucor Steel Company; Former Director, Mentor Income Fund, Inc.; Former Trustee, Mentor Funds and Cash Resource Trust

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**William Walt Pettit**  
Trustee  
DOB: 8/26/1955  
Term of office since: 1984  
Other directorships: None

Principal occupations: Vice President, Kellam & Pettit, P.A. (law firm); Director, Superior Packaging Corp.; Director, National Kidney Foundation of North Carolina, Inc.; Former Director, Mentor Income Fund, Inc.; Former Trustee, Mentor Funds and Cash Resource Trust

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**David M. Richardson**  
Trustee  
DOB: 9/19/1941  
Term of office since: 1982  
Other directorships: None

Principal occupations: President, Richardson, Runden LLC (executive recruitment business development/consulting company); Consultant, Kennedy Information, Inc. (executive recruitment information and research company); Consultant, AESC (The Association of Executive Search Consultants); Director, J&M Cumming Paper Co. (paper merchandising); Former Trustee, NDI Technologies, LLP (communications); Former Vice Chairman, DHR International, Inc. (executive recruitment); Former Director, Mentor Income Fund, Inc.; Former Trustee, Mentor Funds and Cash Resource Trust

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**Dr. Russell A. Salton III**  
Trustee  
DOB: 6/2/1947  
Term of office since: 1984  
Other directorships: None

Principal occupations: President/CEO, AccessOne MedCard; Former Medical Director, Healthcare Resource Associates, Inc.; Former Medical Director, U.S. Health Care/Aetna Health Services; Former Director, Mentor Income Fund, Inc.; Former Trustee, Mentor Funds and Cash Resource Trust

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**TRUSTEES AND OFFICERS** continued

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**Michael S. Scofield** Principal occupations: Director, Branded Media Corporation (multi-media branding company);  
Trustee Attorney, Law Offices of Michael S. Scofield; Former Director, Mentor Income Fund, Inc.;  
DOB: 2/20/1943 Former Trustee, Mentor Funds and Cash Resource Trust  
Term of office since: 1984  
Other directorships: None

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**Richard J. Shima** Principal occupations: Independent Consultant; Director, Trust Company of CT; Trustee,  
Trustee Saint Joseph College (CT); Director, Hartford Hospital; Trustee, Greater Hartford YMCA;  
DOB: 8/11/1939 Former Director, Enhance Financial Services, Inc.; Former Director, Old State House Association;  
Term of office since: 1993 Former Director of CTG Resources, Inc. (natural gas); Former Director, Mentor Income Fund, Inc.;  
Former Trustee, Mentor Funds and Cash Resource Trust  
Other directorships: None

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**Richard K. Wagoner, CFA**<sup>2</sup> Principal occupations: Member and Former President, North Carolina Securities Traders  
Trustee Association; Member, Financial Analysts Society; Former Consultant to the Boards of Trustees  
DOB: 12/12/1937 of the Evergreen funds; Former Trustee, Mentor Funds and Cash Resource Trust  
Term of office since: 1999  
Other directorships: None

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**OFFICERS**

**Dennis H. Ferro**<sup>3</sup> Principal occupations: President and Chief Executive Officer, Evergreen Investment Company,  
President Inc. and Executive Vice President, Wachovia Bank, N.A.; former Chief Investment Officer,  
DOB: 6/20/1945 Evergreen Investment Company, Inc.  
Term of office since: 2003

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**Carol Kosel**<sup>4</sup> Principal occupations: Senior Vice President, Evergreen Investment Services, Inc.  
Treasurer  
DOB: 12/25/1963  
Term of office since: 1999

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**Michael H. Koonce**<sup>4</sup> Principal occupations: Senior Vice President and General Counsel, Evergreen Investment  
Secretary Services, Inc.; Senior Vice President and Assistant General Counsel, Wachovia Corporation  
DOB: 4/20/1960  
Term of office since: 2000

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**James Angelos**<sup>4</sup> Principal occupations: Chief Compliance Officer and Senior Vice President, Evergreen Funds;  
Chief Compliance Officer Former Director of Compliance, Evergreen Investment Services, Inc.  
DOB: 9/2/1947

Term of office since: 2004

<sup>1</sup>The Board of Trustees is classified into three classes of which one class is elected annually. Each Trustee serves a three year term concurrent with the class from which the Trustee is elected. Each Trustee oversees 89 Evergreen funds. Correspondence for each Trustee may be sent to Evergreen Board of Trustees, P.O. Box 20083, Charlotte, NC 28202.

<sup>2</sup>Mr. Wagoner is an "interested person" of the Fund because of his ownership of shares in Wachovia Corporation, the parent to the Fund's investment advisor.

<sup>3</sup>The address of the Officer is 401 S. Tryon Street, 20th Floor, Charlotte, NC 28288.

<sup>4</sup>The address of the Officer is 200 Berkeley Street, Boston, MA 02116.

Additional information about the Fund's Board of Trustees and Officers can be found in the Statement of Additional Information (SAI) and is available upon request without charge by calling 800.343.2898.

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568264 rv2 6/2005

## Item 2 - Code of Ethics

(a) The Registrant has adopted a code of ethics that applies to the Registrant's principal executive officer and principal financial officer.

(b) During the period covered by this report, there were no amendments to the provisions of the code of ethics adopted in 2.(a) above.

(c) During the period covered by this report, there were no implicit or explicit waivers to the provisions of the code of ethics adopted in 2.(a) above.

## Item 3 - Audit Committee Financial Expert

Charles A. Austin III and K. Dun Gifford have been determined by the Registrant's Board of Trustees to be audit committee financial experts within the meaning of Section 407 of the Sarbanes-Oxley Act. These financial experts are independent of management.

## Items 4 □ Principal Accountant Fees and Services

The following table represents fees for professional audit services rendered by KPMG LLP, for the audit of the Registrant's annual financial statements for the fiscal years ended April 30, 2005 and April 30, 2004, and fees billed for other services rendered by KPMG LLP.

|                              | <u>2005</u> | <u>2004</u> |
|------------------------------|-------------|-------------|
| Audit fees                   | \$25,000    | \$24,000    |
| Audit-related fees (1)       | 13,000      | 12,250      |
|                              | <hr/>       | <hr/>       |
| Audit and audit-related fees | 38,000      | 36,250      |
| Tax fees (2)                 | 3,375       | 1,850       |
| All other fees               | 0           | 0           |
|                              | <hr/>       | <hr/>       |

|            |          |          |
|------------|----------|----------|
| Total fees | \$41,375 | \$38,100 |
|------------|----------|----------|

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- (1) Audit-related fees consists principally of fees for interfund lending procedures and any merger related activity.  
 (2) Tax fees consists of fees for tax consultation, tax compliance and tax review.

**Evergreen Funds**

**Evergreen Income Advantage Fund**

**Evergreen Managed Income Fund**

**Audit and Non-Audit Services Pre-Approval Policy**

**I. Statement of Principles**

Under the Sarbanes-Oxley Act of 2002 (the "Act"), the Audit Committee of the Board of Trustees/Directors is responsible for the appointment, compensation and oversight of the work of the independent auditor. As part of this responsibility, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent auditor in order to assure that they do not impair the auditor's independence from the Funds. To implement these provisions of the Act, the Securities and Exchange Commission (the "SEC") has issued rules specifying the types of services that an independent auditor may not provide to its audit client, as well as the audit committee's administration of the engagement of the independent auditor. Accordingly, the Audit Committee has adopted, and the Board of

Trustees/Directors has ratified, the Audit and Non-Audit Services Pre Approval Policy (the "Policy"), which sets forth the procedures and the conditions pursuant to which services proposed to be performed by the independent auditor may be pre-approved.

The SEC's rules establish two different approaches to pre-approving services, which the SEC considers to be equally valid. Proposed services either: may be pre-approved without consideration of specific case-by-case services by the Audit Committee ("general pre-approval"); or require the specific pre-approval of the Audit Committee ("specified pre-approval"). The Audit Committee believes that the combination of these two approaches in this Policy will result in an effective and efficient procedure to pre-approve services performed by the independent auditor. As set forth in this Policy, unless a type of service has received general pre-approval, it will require specific pre-approval by the Audit Committee if it is to be provided by the independent auditor. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by the Audit Committee.

For both types of pre-approval, the Audit Committee will consider whether such services are consistent with the SEC's rules on auditor independence. The Audit Committee will also consider whether the independent auditor is best positioned to provide the most effective and efficient service, for reasons such as its familiarity with the Funds' business people, culture, accounting systems, risk profile and other factors, and whether the service might enhance the Funds' ability to manage or control risk or improve audit quality. All such factors will be considered as a whole, and no one factor should necessarily be determinative.

The Audit Committee is also mindful of the relationship between fees for audit and non-audit services in deciding whether to pre-approve any such services and may determine, for each fiscal year, the ratio between the total amount of fees for Audit, Audit-related and Tax services and the total amount of fees for certain permissible non-audit services classified as All Other services.

The appendices to this Policy describe the Audit, Audit-related, Tax and All Other services that have the general pre-approval of the Audit Committee. The term of any general pre-approval is 12 months from the date of pre-approval, unless the Audit Committee considers a different period and states otherwise. The Audit Committee will annually review and pre-approve the services that may be provided by the independent auditor without obtaining specific pre-approval from the Audit Committee. The Audit Committee will add or subtract to the list of general pre-approved services from time to time, based on subsequent determinations.

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The purpose of this Policy is to set forth the procedures by which the Audit Committee intends to fulfill its responsibilities. It does not delegate the Audit Committee's responsibilities to pre-approve services performed by the independent auditor to management.

The independent auditor has reviewed this Policy and believes that implementation of the policy will not adversely affect the auditor's independence.

### **II. Delegation**

As provided in the Act and the SEC's rules, the Audit Committee may delegate either type of pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions of the Audit Committee at its next scheduled meeting.

### **III. Audit Services**

The annual Audit services engagement terms and fees will be subject to the specific pre-approval of the Audit Committee. Audit services include the annual financial statement audit and other procedures required to be performed by the independent auditor to be able to form an opinion on the Funds' financial statements. These other procedures include information systems and procedural reviews and testing performed in order to understand and place reliance on the systems of internal control, and consultations

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relating to the audit. Audit services also include the attestation engagement for the independent auditor's report on management's report on internal controls for financial reporting. The Audit Committee will monitor the Audit services engagement as necessary, but no less than on a quarterly basis, and will also approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, Fund service providers or other items.

In addition to the annual Audit services engagement approved by the Audit Committee, the Audit Committee may grant general pre-approval to other Audit services, which are those services that only the independent auditor reasonably can provide. Other Audit services may include services associated with SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with mergers or acquisitions.

The Audit Committee has pre-approved the Audit services in Appendix A. All other audit services not listed in Appendix A must be specifically pre-approved by the Audit Committee.

### **IV. Audit-related Services**

Audit -related services are assurance and related services that are reasonably related to the performance of the audit or review of the Funds' financial statements or that are traditionally performed by the independent auditor. Because the Audit Committee believes that the provision of Audit-related services does not impair the independence of the auditor and is consistent with SEC's rules on auditor independence, the Audit Committee may grant general pre-approval to Audit-related services. Audit-related services include, among others, due diligence services pertaining to potential business acquisitions/dispositions; accounting consultations related to accounting, financial reporting or disclosure matters not classified as "Audit services"; assistance with understanding and implementing new accounting and financial reporting guidance from rulemaking authorities; agreed-upon or expanded audit procedures related to accounting records required to respond to or comply with financial, accounting or regulatory reporting matters; and assistance with internal control reporting requirements.

The Audit Committee has pre-approved the Audit-related services in Appendix B. All other Audit-related services not listed in appendix B must be specifically pre-approved by the Audit Committee.

### **V. Tax Services**

The Audit Committee believes that the independent auditor can provide Tax services to the Funds such as tax compliance, tax planning and tax advice without impairing the auditor's independence, and the SEC has stated that the independent auditor may provide such services. Hence, the Audit Committee believes it may grant



general pre-approval to those Tax services that have historically been provided by the auditor, that the Audit Committee has reviewed and believes would not impair the independence of the auditor, and that are consistent with the SEC's rules on auditor independence. The Audit Committee will not permit the retention of the independent auditor in connection with a transaction initially recommended by the independent auditor, the sole business purpose of which may be tax avoidance and the tax treatment of which may not be supported in the Internal Revenue Code and related regulations. The Audit Committee will consult with the Director of Fund Administration, the Vice President of Tax Services or outside counsel to determine that the tax planning and reporting positions are consistent with this policy.

Pursuant to the preceding paragraph, the Audit Committee has pre-approved the Tax services in Appendix C. All Tax services involving large and complex transactions not listed in Appendix C must be specifically pre-approved by the Audit Committee, including: tax services proposed to be provide by the independent auditor to any executive officer or director of the Funds, in his or her individual capacity, where such services are paid for by the Funds or the investment advisor.

## **VI. All Other Services**

The Audit Committee believes, based on the SEC's rules prohibiting the independent auditor from providing specific non-audit services, that other types of non-audit services are permitted. Accordingly, the

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Audit Committee believes it may grant general pre-approval to those permissible non-audit services classified as All Other services that it believes are routine and recurring services, would not impair the independence of the auditor and are consistent with the SEC's rules on auditor independence.

The Audit Committee has pre-approved the All Other services in appendix D. Permissible All Other services not listed in Appendix D must be specifically pre-approved by the Audit Committee.

A list of the SEC's prohibited non-audit services is attached to this policy as Exhibit 1. The SEC's rules and relevant guidance should be consulted to determine the precise definitions of these services and the applicability of exceptions to certain of the prohibitions.

## **VII. Pre-Approval Fee Levels or Budgeted Amounts**

Pre-approval fee levels or budgeted amounts for all services to be provided by the independent auditor will be established annually by the Audit Committee. Any proposed services exceeding these levels or amounts will require specific pre-approval by the Audit Committee. The Audit Committee is mindful of the overall relationship of fees for audit and non-audit services in determining whether to pre-approve any such services. For each fiscal year, the Audit Committee may determine to ratio between the total amount of fees for Audit, Audit-related and Tax services, and the total amount of fees for services classified as All Other services.

## **VIII. Procedures**

All requests or applications for services to be provided by the independent auditor that do not require specific approval by the Audit Committee will be submitted to the Director of Fund Administration or Assistant Director of Fund Administration and must include a detailed description of the services to be rendered. The Director/Assistant Director of Fund Administration will determine whether such services are included within the list of services that have received the general pre-approval of the Audit Committee. The Audit Committee will be informed on a quarterly basis (or more frequent if requested by the audit committee) of any such services rendered by the independent auditor.

Request or applications to provide services that require specific approval by the Audit Committee will be submitted to the Audit Committee by both the independent auditor and the Director/Assistant Director of Fund Administration, and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's rules on auditor independence.

The Audit Committee has designated the Chief Compliance Officer to monitor the performance of all services provided by the independent auditor and to determine whether such services are in compliance with this policy. The Chief Compliance Officer will report to the Audit Committee on a periodic basis on the results of its

monitoring. Both the Chief Compliance Officer and management will immediately report to the chairman of the Audit Committee any breach of this policy that comes to the attention of the Chief Compliance Officer or any member of management.

The Audit Committee will also review the internal auditor's annual internal audit plan to determine that the plan provides for the monitoring of the independent auditor's services.

## **IX. Additional Requirements**

The Audit Committee has determined to take additional measures on an annual basis to meet its responsibility to oversee the work of the independent auditor and to assure the auditor's independence from the Funds, such as reviewing a formal written statement from the independent auditor delineating all relationships between the independent auditor and the Funds, the Funds' investment advisor and related parties of the investment advisor, consistent with Independence Standards Board Standard No. 1, and discussing with the independent auditor its methods and procedures for ensuring independence.

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### **Items 5 - Audit Committee of Listed Registrants**

If applicable, not applicable at this time. Applicable for annual reports covering periods ending on or after the compliance date for the listing standards applicable to the particular issuer. Listed issuers must be in compliance with the new listing rules by the earlier of the registrant's first annual shareholders meeting after January 15, 2004 or October 31, 2004.

### **Item 6 - [Reserved]**

### **Item 7 - Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

If applicable, not applicable at this time. Applicable for annual reports filed on or after July 1, 2003.

### **Item 8 - [Reserved]**

### **Item 9 - Controls and Procedures**

(a) The Registrant's Principal Executive Officer and Principal Financial Officer have evaluated the Registrant's disclosure controls and procedures within 90 days of this filing and have concluded that the Registrant's disclosure controls and procedures were effective, as of that date, in ensuring that information required to be disclosed by the Registrant in this Form N-CSR was recorded, processed, summarized, and reported timely.

(b) There were no significant changes in the Registrant's internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

### **Item 10 - Exhibits**

File the exhibits listed below as part of this Form. Letter or number the exhibits in the sequence indicated.

(a) Any code of ethics, or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent that the registrant intends to satisfy the Item 2 requirements through filing of an exhibit.

(b)(1) Separate certifications for the Registrant's principal executive officer and principal financial officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and Rule 30a-2(a) under the Investment Company Act of 1940, are attached as EX99.CERT.

(b)(2) Separate certifications for the Registrant's principal executive officer and principal financial officer, as required by Section 1350 of Title 18 of United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and Rule 30a-2(b) under the Investment Company Act of 1940, are attached as

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EX99.906CERT. The certifications furnished pursuant to this paragraph are not deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certifications are not deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Registrant specifically incorporates them by reference.

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

Evergreen Income Advantage Fund

By:

\_\_\_\_\_  
Dennis H. Ferro,

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Principal Executive Officer

Date: June 30, 2005

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

By:

\_\_\_\_\_  
Dennis H. Ferro,  
Principal Executive Officer  
Date: June 30, 2005

By:

\_\_\_\_\_  
Carol A. Kosel  
Principal Financial Officer  
Date: June 30, 2005

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