

EVERGREEN INCOME ADVANTAGE FUND  
Form N-CSRS  
January 08, 2004

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| <b>OMB APPROVAL</b>                              |
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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

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(Exact name of registrant as specified in charter)

200 Berkeley Street  
Boston, Massachusetts 02116

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(Address of principal executive offices) (Zip code)

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

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(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 a semiannual filing for 1 of its series, Evergreen Income Advantage Fund, for the year ended October 31, 2003. This 1 series has a 4/30 fiscal year end.

Date of reporting period: October 31, 2003

**Item 1 - Reports to Stockholders.**

# Evergreen Income Advantage Fund

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A description of the Fund's proxy voting policies and procedures is available without charge, upon request, by calling 1.800.343.2898, by visiting our website at [EvergreenInvestments.com](http://EvergreenInvestments.com) or by visiting the SEC's website at <http://www.sec.gov>.

Mutual Funds:

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NOT FDIC INSURED

MAY LOSE VALUE

NOT BANK GUARANTEED

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## LETTER TO SHAREHOLDERS

December 2003

We are pleased to provide the semiannual report for the Evergreen Income Advantage Fund, which covers the six-month period ended October 31, 2003.

Over the past six months, the U.S. fixed income markets have experienced seemingly a decade's worth of volatility. The investment period began as the U.S. financial markets were contending with the investment implications of the war in Iraq and potential changes in fiscal policy. The Federal Reserve was keeping its target interest rate low, and diversified bond investors were enjoying the fruits of strengthening balance sheets and improved credit quality in the corporate sector. U.S. monetary policy officials then warned of the possibility of an unwelcome, substantial fall in inflation.

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

Initially, this phrase wasn't threatening to the bond market as yields dropped down to 45-year lows in the U.S. Treasury market. Common market wisdom determined that since the Fed's primary concern was deflation, rates were likely headed lower. Yet when central bankers reduced their target for the federal funds rate by a less than expected 25 basis points in late June, many fixed income investors became alarmed. These worries were compounded by optimistic GDP forecasts from Fed Chairman Alan Greenspan during congressional banking committee hearings in July. As a result of these events, the yield on the 10-year Treasury rose from a low of 3.1% in June to 4.6% in late July. The deflation trade in bonds had changed from a significant overbought condition to an oversold one in a matter of just six weeks.

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**LETTER TO SHAREHOLDERS** continued

The bond market began to stabilize in August as investors became more comfortable with the likelihood that monetary policy makers would keep rates low for the foreseeable future. Fed parlance indicated monetary policy would remain accommodative for a considerable period. While the majority of economic data improved in recent months, the wildcard for investors continued to be sustainable employment growth. The massive investment in technology over the past decade has resulted in efficiencies never before experienced by U.S. businesses. Productivity growth remains high and most companies continue to expand without increasing their workforce. Yet many businesses have substantially increased capital investment, taking advantage of newly enacted fiscal incentives, and we believe payrolls will continue to gradually increase in the coming months as existing workforces become too stretched in attempting to satisfy the improvements in demand.

Diversification within the fixed income markets was obviously necessary to weather last summer's storms in the bond market. Those investors properly allocated between government, corporates, municipals, high yield and international bonds likely benefited from these long-term strategies. Indeed, many corporate and high yield spreads contracted as investors sought companies with strong balance sheets and improved credit quality. Possibilities for a synchronized global recovery should also enable many international bonds to contribute to diversified portfolios.

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**LETTER TO SHAREHOLDERS** continued

As always, fixed income investors should remain diversified in order to participate in the benefits of long-term asset allocation strategies within their portfolios.

Please visit our website, **EvergreenInvestments.com**, for more information about our funds and other investment products available to you. Thank you for your continued support of Evergreen Investments.

Sincerely,

**Dennis H. Ferro**  
 President and Chief Executive Officer  
 Evergreen Investment Company, Inc.

**FINANCIAL HIGHLIGHTS**

(For a common share outstanding throughout each period)

|   | <b>Six Months<br/>Ended<br/>October 31,<br/>2003<br/>(unaudited)</b> | <b>Year Ended<br/>April 30,<br/>2003(1)</b> |
|---|--|---|
| <b>Net asset value, beginning of period</b>   | \$ 14.92   | \$ 14.33 (2)                                |
| <b>Income from investment operations</b>  |  |   |
| Net investment income   | 0.79   | 0.17  |
| Net realized and unrealized gains or losses on securities and interest rate swap transactions | 0.57   | 0.67  |
| Total from investment operations  | 1.36   | 0.84  |
| <b>Distributions to common shareholders from net investment income</b>                        | (0.83)   | (0.14)                                      |
| <b>Offering costs charged to capital for</b>  |  |   |
| Common shares   | 0  | (0.03)                                      |
| Preferred shares  | 0  | (0.08)                                      |
| Total offering costs  | 0  | (0.11)                                      |

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|   | Six Months<br>Ended<br>October 31,<br>2003<br>(unaudited) | Year Ended<br>April 30,<br>2003(1) |
|---|---|------------------------------------|
| <b>Net asset value, end of period</b>                                 | \$ 15.45  | \$ 14.92                           |
| <b>Market value, end of period</b>                                    | \$ 15.02  | \$ 15.11                           |
| <b>Total return(3)</b>  |   |                                    |
| Based on market value   | 4.15%   | 1.66%                              |
| Based on net asset value  | 8.50%   | 5.07%                              |
| <b>Ratios and supplemental data</b>                                   |   |                                    |
| Net assets of common shareholders, end of period (in thousands)       | \$ 1,021,217  | \$ 979,903                         |
| Liquidation value of preferred shares, end of period (in thousands)   | \$ 490,000  | \$ 490,000                         |
| Asset coverage ratio, end of period                                   | 308%  | 300%                               |
| <b>Ratios to average net assets applicable to common shareholders</b> |   |                                    |
| Expenses  | 1.17%(4)  | 0.77%(4)                           |
| Net investment income applicable to common shareholders               | 10.41%(4)   | 6.66%(4)                           |
| Portfolio turnover rate   | 25%   | 2%                                 |

- (1) For the period from February 28, 2003 (commencement of operations), to April 30, 2003.
- (2) Initial public offering price of \$15.00 per share less underwriting discount of \$0.67 per share.
- (3) Total return is calculated assuming a purchase of common stock on the first day and a sale on the last assumed for purposes of these day of each period reported. Dividends and distributions are 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.
- (4) Annualized

See Notes to Financial Statements

**SCHEDULE OF INVESTMENTS**

| October 31, 2003 (unaudited)                            | Credit<br>Rating ^ | Principal<br>Amount | Value        |
|---|--------------------|---------------------|--------------|
| <b>CORPORATE BONDS 137.2%</b>                           |                    |                     |              |
| <b>CONSUMER DISCRETIONARY 46.7%</b>                     |                    |                     |              |
| <b>Auto Components 5.6%</b>                             |                    |                     |              |
| Advanced Accessory Systems LLC, 10.75%, 06/15/2011 144A | B-                 | \$ 4,000,000        | \$ 4,300,000 |

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|  |      |            |            |
|--|------|------------|------------|
| American Axle & Manufacturing, Inc., 9.75%, 03/01/2009 | BB-  | 5,000,000  | 5,362,500  |
| Dana Corp., 9.00%, 08/15/2011                          | BB   | 15,000,000 | 16,837,500 |
| R.J.Tower Corp., 12.00%, 06/01/2013 144A               | B    | 9,300,000  | 8,602,500  |
| Tenneco Automotive, Inc., 11.63%, 10/15/2009 P         | CCC+ | 5,425,000  | 5,655,563  |
| TRW Automotive, Inc., 9.38%, 02/15/2013 144A           | B+   | 12,000,000 | 13,680,000 |
| United Components, Inc., 9.38%, 06/15/2013 144A        | B    | 2,400,000  | 2,472,000  |

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56,910,063

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### Distributors 0.8%

|  |   |           |           |
|--|---|-----------|-----------|
| Roundys, Inc., Ser. B, 8.88%, 06/15/2012 P | B | 8,175,000 | 8,583,750 |
|--|---|-----------|-----------|

### Hotels, Restaurants & Leisure 13.3%

|   |     |            |            |
|---|-----|------------|------------|
| Ameristar Casinos, Inc., 10.75%, 02/15/2009 P         | B   | 10,000,000 | 11,575,000 |
| AMF Bowling Worldwide, Inc., 13.00%, 09/01/2008 P     | B3  | 4,000,000  | 4,505,000  |
| Argosy Gaming Co., 10.75%, 06/01/2009 P               | B+  | 7,000,000  | 7,700,000  |
| Coast Hotels & Casinos, Inc., 9.50%, 04/01/2009       | B   | 8,750,000  | 9,362,500  |
| Host Marriott Corp., Ser. B, 7.88%, 08/01/2008 REIT P | B+  | 15,000,000 | 15,562,500 |
| Isle of Capri Casinos, Inc., 8.75%, 04/15/2009        | B   | 9,000,000  | 9,573,750  |
| John Q Hammons Hotels LP, Ser. B, 8.88%, 05/15/2012 P | B   | 12,995,000 | 14,229,525 |
| Mandalay Resort Group, Ser. B, 10.25%, 08/01/2007 P   | BB- | 10,000,000 | 11,575,000 |
| Mohegan Tribal Gaming Authority:                      |     |            |            |
| 6.38%, 07/15/2009 P                                   | BB- | 3,085,000  | 3,173,694  |
| 8.00%, 04/01/2012                                     | BB- | 245,000    | 267,662    |
| Regal Cinemas Corp., 9.38%, 02/01/2012                | B   | 10,000,000 | 11,350,000 |
| Town Sports International, Inc., 9.63%, 04/15/2011    | B-  | 5,325,000  | 5,731,031  |
| Vail Resorts, Inc., 8.75%, 05/15/2009 P               | B   | 8,500,000  | 8,978,125  |
| Venetian Casino Resort LLC, 11.00%, 06/15/2010        | B-  | 19,000,000 | 22,016,250 |

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135,600,037

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### Household Durables 5.4%

|  |     |            |            |
|--|-----|------------|------------|
| K. Hovnanian Enterprises, Inc., 7.75%, 05/15/2013 144A | B+  | 5,000,000  | 5,275,000  |
| KB Home, 8.63%, 12/15/2008 P                           | BB- | 1,305,000  | 1,451,812  |
| Meritage Corp., 9.75%, 06/01/2011                      | B+  | 1,500,000  | 1,672,500  |
| Schuler Homes, Inc., 10.50%, 07/15/2011 P              | B+  | 1,175,000  | 1,346,844  |
| Sealy Mattress Co., Ser. B:                            |     |            |            |
| 9.88%, 12/15/2007                                      | B-  | 2,900,000  | 3,008,750  |
| 10.88%, 12/15/2007 P                                   | B-  | 11,100,000 | 11,655,000 |
| Simmons Co., Ser. B, 10.25%, 03/15/2009                | B   | 4,000,000  | 4,280,000  |
| Standard Pacific Corp., 7.75%, 03/15/2013              | BB  | 5,000,000  | 5,175,000  |
| Technical Olympic USA, Inc.:                           |     |            |            |
| 9.00%, 07/01/2010 P                                    | B+  | 10,200,000 | 10,926,750 |
| 10.38%, 07/01/2012                                     | B-  | 1,800,000  | 1,980,000  |
| WCI Communities, Inc., 9.125%, 05/01/2012              | B   | 8,000,000  | 8,800,000  |

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55,571,656

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See Notes to Financial Statements

## SCHEDULE OF INVESTMENTS continued

| October 31, 2003 (unaudited)  | Credit<br>Rating <sup>^</sup> | Principal<br>Amount | Value              |
|---|-------------------------------|---------------------|--------------------|
| <b>CORPORATE BONDS continued</b>  |                               |                     |                    |
| <b>CONSUMER DISCRETIONARY continued</b>   |                               |                     |                    |
| <b>Leisure Equipment &amp; Products 1.3%</b>  |                               |                     |                    |
| Hockey Co., 11.25%, 04/15/2009  | B                             | \$ 4,000,000        | \$ 4,540,000       |
| ICON Health & Fitness, Inc., 11.25%, 04/01/2012                                       | B-                            | 8,000,000           | 8,760,000          |
|   |                               |                     | <u>13,300,000</u>  |
| <b>Media 10.7%</b>  |                               |                     |                    |
| American Media Operations, Inc., 8.88%, 01/15/2011 P                                  | B-                            | 6,500,000           | 7,085,000          |
| Charter Communications Holdings LLC, 8.63%, 04/01/2009 P                              | CCC-                          | 3,000,000           | 2,422,500          |
| Cinemark USA, Inc., 9.00%, 02/01/2013   | B-                            | 12,000,000          | 13,200,000         |
| Dex Media East LLC:   |                               |                     |                    |
| 9.88%, 11/15/2009 P   | B                             | 3,725,000           | 4,237,188          |
| 12.13%, 11/15/2012 P  | B                             | 2,300,000           | 2,785,875          |
| Dex Media West LLC, 9.88%, 08/15/2013 144A  | B                             | 5,100,000           | 5,826,750          |
| EchoStar DBS Corp.:   |                               |                     |                    |
| 6.38%, 10/01/2011 144A  | BB-                           | 3,000,000           | 3,000,000          |
| 9.38%, 02/01/2009   | BB-                           | 11,000,000          | 11,687,500         |
| Emmis Communications Corp.:   |                               |                     |                    |
| Ser. B, 8.13%, 03/15/2009   | B-                            | 850,000             | 893,562            |
| Sr. Disc. Note, Step Bond, 0.00%, 03/15/2006  | B-                            | 12,000,000          | 11,070,000         |
| Mediacom LLC, 9.50%, 01/15/2013   | B+                            | 19,000,000          | 18,145,000         |
| Sinclair Broadcast Group, Inc., 8.00%, 03/15/2012                                     | B                             | 17,500,000          | 18,550,000         |
| Vivendi Universal SA, 9.25%, 04/15/2010 144A  | BB                            | 8,000,000           | 9,340,000          |
| World Color Press, Inc., 8.38%, 11/15/2008  | BBB-                          | 1,000,000           | 1,060,469          |
|   |                               |                     | <u>109,303,844</u> |
| <b>Multi-line Retail 0.3%</b>   |                               |                     |                    |
| Johnson Diversey Holdings, Inc., Sr. Disc. Note, Step Bond,<br>0.00%, 05/01/2007 144A | B                             | 3,000,000           | 2,250,000          |
| Saks, Inc., 9.88%, 10/01/2011 P   | BB                            | 815,000             | 969,850            |
|   |                               |                     | <u>3,219,850</u>   |
| <b>Specialty Retail 8.0%</b>  |                               |                     |                    |
| Alderwoods Group, Inc., 12.25%, 01/02/2009  | NA                            | 10,000,000          | 11,200,000         |
| Central Garden & Pet Co., 9.13%, 02/01/2013 P   | B+                            | 4,000,000           | 4,410,000          |
| Cole National Group, Inc., 8.88%, 05/15/2012  | B                             | 7,665,000           | 8,182,388          |
| Gap, Inc., 6.90%, 09/15/2007  | BB+                           | 2,200,000           | 2,403,500          |
| Group 1 Automotive, Inc., 8.25%, 08/15/2013 144A                                      | B+                            | 3,000,000           | 3,270,000          |
| Hollywood Entertainment Corp., 9.63%, 03/15/2011 P                                    | B-                            | 15,000,000          | 16,312,500         |
| Jo-Ann Stores, Inc., 10.38%, 05/01/2007 P   | B-                            | 181,000             | 190,955            |
| Mothers Work, Inc., 11.25%, 08/01/2010  | B+                            | 3,900,000           | 4,338,750          |
| Payless Shoe Source, Inc., 8.25%, 08/01/2013 144A P                                   | B+                            | 4,900,000           | 4,802,000          |
| PETCO Animal Supplies, Inc., 10.75%, 11/01/2011                                       | B                             | 10,000,000          | 11,800,000         |
| Tempur-Pedic, Inc., 10.25%, 08/15/2010 144A   | B-                            | 2,000,000           | 2,230,000          |
| United Auto Group, Inc., 9.63%, 03/15/2012 P  | B                             | 8,000,000           | 8,880,000          |
| Warnaco, Inc., 8.88%, 06/15/2013 144A   | B                             | 3,200,000           | 3,440,000          |



See Notes to Financial Statements

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## SCHEDULE OF INVESTMENTS continued

| October 31, 2003 (unaudited)                            | Credit Rating ^ | Principal Amount | Value         |
|---|-----------------|------------------|---------------|
| <b>CORPORATE BONDS continued</b>                        |                 |                  |               |
| <b>CONSUMER DISCRETIONARY continued</b>                 |                 |                  |               |
| <b>Textiles, Apparel &amp; Luxury Goods 1.3%</b>        |                 |                  |               |
| Oxford Industries, Inc., 8.88%, 06/01/2011 144A         | B               | \$ 12,000,000    | \$ 12,975,000 |
| <b>CONSUMER STAPLES 8.9%</b>                            |                 |                  |               |
| <b>Food &amp; Staples Retailing 1.9%</b>                |                 |                  |               |
| Rite Aid Corp., 12.50%, 09/15/2006 P                    | B+              | 17,000,000       | 19,890,000    |
| <b>Food Products 4.7%</b>                               |                 |                  |               |
| Chiquita Brands International, Inc., 10.56%, 03/15/2009 | B-              | 15,000,000       | 16,462,500    |
| Corn Products International, Inc., 8.25%, 07/15/2007    | BBB-            | 6,985,000        | 7,788,275     |
| Del Monte Corp., 8.63%, 12/15/2012 144A                 | B               | 8,000,000        | 8,880,000     |
| Dole Food, Inc., 7.25%, 06/15/2010                      | BB-             | 14,350,000       | 14,708,750    |
|   |                 |                  | 47,839,525    |
| <b>Personal Products 0.7%</b>                           |                 |                  |               |
| Playtex Products, Inc., 9.38%, 06/01/2011 P             | B-              | 7,000,000        | 6,947,500     |
| <b>Tobacco 1.6%</b>                                     |                 |                  |               |
| Commonwealth Brands, Inc.:                              |                 |                  |               |
| 9.75%, 04/15/2008 144A                                  | B-              | 7,500,000        | 8,287,500     |
| 10.63%, 09/01/2008 144A                                 | B-              | 7,000,000        | 7,665,000     |
|   |                 |                  | 15,952,500    |
| <b>ENERGY 11.3%</b>                                     |                 |                  |               |
| <b>Energy Equipment &amp; Services 3.7%</b>             |                 |                  |               |
| General Maritime Corp., 10.00%, 03/15/2013              | B+              | 7,850,000        | 8,811,625     |
| Grant Prideco, Inc., 9.00%, 12/15/2009 P                | BB-             | 6,000,000        | 6,510,000     |
| Lone Star Technologies, Inc., 9.00%, 06/01/2011         | B-              | 6,200,000        | 6,060,500     |
| Parker Drilling Co., Ser. B, 10.13%, 11/15/2009 P       | B-              | 14,000,000       | 14,700,000    |
| SESI LLC, 8.88%, 05/15/2011                             | BB-             | 2,000,000        | 2,160,000     |
|   |                 |                  | 38,242,125    |

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**Oil & Gas 7.6%**

|  |     |            |            |
|--|-----|------------|------------|
| <b>Chesapeake Energy Corp.:</b>                        |     |            |            |
| 7.50%, 09/15/2013 144A                                 | BB- | 7,000,000  | 7,560,000  |
| 8.13%, 04/01/2011                                      | BB- | 3,000,000  | 3,307,500  |
| El Paso Energy Partners LP, 8.50%, 06/01/2011 P        | BB- | 10,000,000 | 10,950,000 |
| El Paso Production Holding Co., 7.75%, 06/01/2013 144A | B+  | 16,000,000 | 15,440,000 |
| GulfTerra Energy Partners LP, 6.25%, 06/01/2010 144A   | BB  | 10,000,000 | 10,100,000 |
| Nuevo Energy Co., Ser. B, 9.50%, 06/01/2008            | B   | 4,276,000  | 4,505,835  |
| Overseas Shipholding Group, Inc., 8.25%, 03/15/2013    | BB+ | 12,050,000 | 12,833,250 |
| Peabody Energy Corp., 6.88%, 03/15/2013 P              | BB- | 2,720,000  | 2,876,400  |
| Plains Exploration & Production Co., 8.75%, 07/01/2012 | B   | 2,500,000  | 2,737,500  |
| Vintage Petroleum, Inc., 9.75%, 06/30/2009             | B   | 5,000,000  | 5,337,500  |
| Westport Resources Corp., 8.25%, 11/01/2011 144A       | B+  | 1,500,000  | 1,661,250  |
|  |     |            | 77,309,235 |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

| October 31, 2003 (unaudited)                                 | Credit<br>Rating ^ | Principal<br>Amount | Value        |
|--|--------------------|---------------------|--------------|
| <b>CORPORATE BONDS continued</b>                             |                    |                     |              |
| <b>FINANCIALS 10.0%</b>                                      |                    |                     |              |
| <b>Diversified Financial Services 4.0%</b>                   |                    |                     |              |
| HLI Operating Co., Inc., 10.50%, 06/15/2010 144A             | B+                 | \$ 7,000,000        | \$ 7,665,000 |
| Moore North America Finance, Inc., 7.88%, 01/15/2011 144A    | BB-                | 2,000,000           | 2,170,000    |
| Northern Telecom Capital Corp., 7.88%, 06/15/2026            | B                  | 4,000,000           | 4,020,000    |
| Sprint Capital Corp., 7.13%, 01/30/2006                      | BBB-               | 15,215,000          | 16,460,591   |
| Universal City Development Partners, 11.75%, 04/01/2010 144A | B-                 | 9,080,000           | 10,544,150   |
|  |                    |                     | 40,859,741   |
| <b>Insurance 0.4%</b>  |                    |                     |              |
| Crum & Forster Holdings Corp., 10.38%, 06/15/2013 144A       | BB                 | 3,750,000           | 4,050,000    |
| <b>Real Estate 5.6%</b>                                      |                    |                     |              |
| Choctaw Resort Development Enterprise, 9.25%, 04/01/2009 P   | BB-                | 10,000,000          | 10,962,500   |
| Crescent Real Estate Equities, 9.25%, 04/15/2009 REIT        | B+                 | 1,865,000           | 2,023,525    |
| Forest City Enterprises, Inc., 7.63%, 06/01/2015             | BB-                | 8,500,000           | 8,882,500    |
| La Quinta Properties Corp., 8.88%, 03/15/2011 REIT 144A      | BB-                | 10,500,000          | 11,641,875   |
| LNR Property Corp., 7.63%, 07/15/2013 144A                   | B+                 | 10,650,000          | 11,022,750   |
| MeriStar Hospitality Corp., 9.00%, 01/15/2008 REIT P         | CCC+               | 6,500,000           | 6,857,500    |
| Thornburg Mortgage, Inc., 8.00%, 05/15/2013 REIT             | BB-                | 5,500,000           | 5,802,500    |
|  |                    |                     | 57,193,150   |

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**HEALTH CARE 7.9%**

**Health Care Equipment & Supplies 0.4%**

|  |    |           |           |
|--|----|-----------|-----------|
| Kinetic Concepts, Inc., 7.38%, 05/15/2013 144A       | B  | 1,500,000 | 1,545,000 |
| Norcross Safety Products LLC, 9.88%, 08/15/2011 144A | B- | 2,750,000 | 2,983,750 |
|  |    |           | 4,528,750 |

**Health Care Providers & Services 7.5%**

|  |     |            |            |
|--|-----|------------|------------|
| AmeriPath, Inc., 10.50%, 04/01/2013                  | B-  | 14,000,000 | 14,840,000 |
| Extencicare Health Services, Inc., 9.50%, 07/01/2010 | B   | 13,000,000 | 14,365,000 |
| Iasis Healthcare Corp., 13.00%, 10/15/2009           | B-  | 13,000,000 | 14,657,500 |
| Pacificare Health Systems, Inc., 10.75%, 06/01/2009  | BB- | 12,000,000 | 13,860,000 |
| Stewart Enterprises, Inc., 10.75%, 07/01/2008        | B+  | 6,000,000  | 6,795,000  |
| Triad Hospitals, Inc., Ser. B, 8.75%, 05/01/2009 P   | B+  | 11,000,000 | 11,962,500 |
|  |     |            | 76,480,000 |

**INDUSTRIALS 9.8%**

**Building Products 0.3%**

|   |    |           |           |
|---|----|-----------|-----------|
| Nortek, Inc., Ser. B, 8.88%, 08/01/2008 | B+ | 3,000,000 | 3,142,500 |
|---|----|-----------|-----------|

**Commercial Services & Supplies 4.6%**

|  |     |            |            |
|--|-----|------------|------------|
| Allied Waste, Inc., 10.00%, 08/01/2009                   | B+  | 19,000,000 | 20,757,500 |
| Coinmach Corp., 9.00%, 02/01/2010                        | B   | 8,000,000  | 8,760,000  |
| IMCO Recycling, Inc., 10.38%, 10/15/2010 144A            | B-  | 3,000,000  | 2,985,000  |
| United Rentals North America, Inc., 10.75%, 04/15/2008 P | BB- | 8,000,000  | 9,020,000  |
| Wackenhut Corrections Corp., 8.25%, 07/15/2013 144A      | B   | 4,875,000  | 5,191,875  |
|  |     |            | 46,714,375 |

See Notes to Financial Statements

**SCHEDULE OF INVESTMENTS** continued

| October 31, 2003 (unaudited)            | Credit Rating ^ | Principal Amount | Value        |
|---|-----------------|------------------|--------------|
| <b>CORPORATE BONDS continued</b>        |                 |                  |              |
| <b>INDUSTRIALS continued</b>            |                 |                  |              |
| <b>Electrical Equipment 0.3%</b>        |                 |                  |              |
| Stoneridge, Inc., 11.50%, 05/01/2012    | B               | \$ 2,370,000     | \$ 2,761,050 |
| <b>Machinery 4.6%</b>                   |                 |                  |              |
| AGCO Corp., 8.50%, 03/15/2006 P         | BB-             | 9,000,000        | 9,045,000    |
| CNH Global N.V., 9.25%, 08/01/2011 144A | BB-             | 13,000,000       | 14,495,000   |
| SPX Corp., 7.50%, 01/01/2013 P          | BB+             | 8,000,000        | 8,580,000    |
| Terex Corp., 10.38%, 04/01/2011 P       | B               | 6,750,000        | 7,644,375    |

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|  |     |           |            |
|--|-----|-----------|------------|
| Wolverine Tube, Inc., 10.50%, 04/01/2009 P | BB- | 7,895,000 | 7,618,675  |
|  |     |           | 47,383,050 |

**INFORMATION TECHNOLOGY 0.2%**

**IT Services 0.2%**

|                                   |     |           |           |
|-----------------------------------|-----|-----------|-----------|
| Unisys Corp., 6.88%, 03/15/2010 P | BB+ | 1,500,000 | 1,601,250 |
|-----------------------------------|-----|-----------|-----------|

**MATERIALS 24.2%**

**Chemicals 11.2%**

|  |      |            |             |
|--|------|------------|-------------|
| Acetex Corp., 10.88%, 08/01/2009 P             | B+   | 5,000,000  | 5,625,000   |
| Airgas, Inc., 9.13%, 10/01/2011 P              | B+   | 1,425,000  | 1,599,562   |
| Equistar Chemicals LP, 10.63%, 05/01/2011 144A | BB-  | 6,565,000  | 6,893,250   |
| Ethyl Corp., 8.88%, 05/01/2010                 | B    | 12,000,000 | 12,540,000  |
| Huntsman International LLC:                    |      |            |             |
| 9.88%, 03/01/2009 P                            | B-   | 7,000,000  | 7,420,000   |
| 11.63%, 10/15/2010 144A P                      | B    | 8,510,000  | 8,212,150   |
| IMC Global, Inc., 10.88%, 08/01/2013 144A      | B+   | 7,100,000  | 7,366,250   |
| Lyondell Chemical Co.:                         |      |            |             |
| 9.50%, 12/15/2008                              | BB-  | 11,000,000 | 11,055,000  |
| Ser. B, 9.88%, 05/01/2007 P                    | BB-  | 4,000,000  | 4,080,000   |
| Methanex Corp., 8.75%, 08/15/2012              | BBB- | 1,300,000  | 1,423,500   |
| Millennium America, Inc., 9.25%, 06/15/2008    | BB-  | 8,000,000  | 8,500,000   |
| OM Group, Inc., 9.25%, 12/15/2011              | B-   | 18,000,000 | 18,270,000  |
| Rhodia SA, 8.88%, 06/01/2011 144A P            | B    | 5,000,000  | 4,475,000   |
| Terra Capital, Inc., 11.50%, 06/01/2010        | B-   | 12,000,000 | 11,790,000  |
| United Industries Corp., 9.88%, 04/01/2009 P   | B-   | 5,000,000  | 5,225,000   |
|  |      |            | 114,474,712 |

**Containers & Packaging 8.4%**

|   |      |            |            |
|---|------|------------|------------|
| Crown European Holdings SA, 10.88%, 03/01/2013 P              | B    | 17,000,000 | 19,465,000 |
| Four M Corp., Ser. B, 12.00%, 06/01/2006                      | CCC+ | 9,000,000  | 9,090,000  |
| Graphic Packaging International, Inc., 9.50%, 08/15/2013 144A | B-   | 15,000,000 | 16,762,500 |
| Jefferson Smurfit Group, 7.50%, 06/01/2013 P                  | B    | 5,000,000  | 5,125,000  |
| Norampac, Inc., 6.75%, 06/01/2013 144A                        | BB+  | 8,000,000  | 8,360,000  |
| Owens-Brockway Glass Container, Inc., 8.75%, 11/15/2012 P     | BB   | 18,000,000 | 19,800,000 |
| Stone Container Corp., 9.75%, 02/01/2011                      | B    | 6,500,000  | 7,117,500  |
|   |      |            | 85,720,000 |

See Notes to Financial Statements

**SCHEDULE OF INVESTMENTS** continued

| October 31, 2003 (unaudited) | Credit Rating ^ | Principal Amount | Value |
|------------------------------|-----------------|------------------|-------|
|------------------------------|-----------------|------------------|-------|

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**CORPORATE BONDS continued**

**MATERIALS continued**

**Metals & Mining 2.4%**

|  |     |               |               |
|--|-----|---------------|---------------|
| Freeport-McMoRan Copper & Gold, Inc., 10.13%, 02/01/2010 P | B-  | \$ 19,000,000 | \$ 21,755,000 |
| U.S. Steel Corp., 10.75%, 08/01/2008 P                     | BB- | 2,730,000     | 3,009,825     |
|  |     |               | 24,764,825    |

**Paper & Forest Products 2.2%**

|  |     |            |            |
|--|-----|------------|------------|
| Georgia Pacific Corp., 8.13%, 05/15/2011 | BB+ | 20,000,000 | 21,850,000 |
|--|-----|------------|------------|

**TELECOMMUNICATION SERVICES 17.0%**

**Diversified Telecommunication Services 7.3%**

|   |      |            |            |
|---|------|------------|------------|
| Crown Castle International Corp., 9.50%, 08/01/2011 P | CCC  | 10,000,000 | 11,000,000 |
| FairPoint Communications, Inc.:                       |      |            |            |
| 11.88%, 03/01/2010                                    | B    | 3,000,000  | 3,525,000  |
| 12.50%, 05/01/2010                                    | B-   | 11,000,000 | 11,880,000 |
| Insight Midwest LP, 9.75%, 10/01/2009 P               | B+   | 10,000,000 | 10,250,000 |
| Level 3 Communications, Inc., 9.13%, 05/01/2008 P     | CC   | 8,750,000  | 7,984,375  |
| Paxson Communications Corp.:                          |      |            |            |
| 10.75%, 07/15/2008 P                                  | CCC+ | 11,420,000 | 12,362,150 |
| Sr. Disc. Note, Step Bond, 0.00%, 06/01/2006          | CCC+ | 3,705,000  | 3,130,725  |
| RCN Corp., 12.50%, 06/30/2008                         | CCC  | 14,137,445 | 14,490,881 |
|   |      |            | 74,623,131 |

**Wireless Telecommunications Services 9.7%**

|  |      |            |            |
|--|------|------------|------------|
| American Tower Escrow Corp., 0.00%, 08/01/2008 P   | CCC  | 17,500,000 | 12,075,000 |
| AT&T Wireless Services, Inc., 7.88%, 03/01/2011    | BBB  | 15,000,000 | 17,169,420 |
| Centennial Cellular Corp., 10.13%, 06/15/2013 144A | CCC  | 15,000,000 | 15,675,000 |
| Dobson Communications Corp., 10.88%, 07/01/2010    | CCC+ | 14,000,000 | 15,470,000 |
| Nextel Communications, Inc.:                       |      |            |            |
| 6.88%, 10/31/2013                                  | B+   | 7,225,000  | 7,360,469  |
| 9.38%, 11/15/2009                                  | B+   | 10,000,000 | 10,950,000 |
| Rural Cellular Corp., 9.75%, 01/15/2010            | CCC  | 4,500,000  | 4,050,000  |
| Spectrasite, Inc., 8.25%, 05/15/2010 144A P        | CCC+ | 10,000,000 | 10,650,000 |
| Western Wireless Corp., 9.25%, 07/15/2013 144A     | CCC  | 4,785,000  | 5,024,250  |
|  |      |            | 98,424,139 |

**UTILITIES 1.2%**

**Multi-Utilities & Unregulated Power 1.2%**

|   |   |           |            |
|---|---|-----------|------------|
| El Paso Energy Corp., 6.75%, 05/15/2009 P | B | 5,600,000 | 4,788,000  |
| Reliant Resources, Inc.:                  |   |           |            |
| 9.25%, 07/15/2010 144A                    | B | 4,000,000 | 3,600,000  |
| 9.50%, 07/15/2013 144A                    | B | 4,000,000 | 3,580,000  |
|   |   |           | 11,968,000 |

*Total Corporate Bonds*

1,399,643,851

See Notes to Financial Statements

## SCHEDULE OF INVESTMENTS continued

| October 31, 2003 (unaudited)                       | Credit<br>Rating <sup>^</sup> | Principal<br>Amount | Value              |
|--|-------------------------------|---------------------|--------------------|
| <b>YANKEE OBLIGATIONS CORPORATE 3.9%</b>           |                               |                     |                    |
| <b>CONSUMER DISCRETIONARY 1.7%</b>                 |                               |                     |                    |
| <b>Media 1.7%</b>                                  |                               |                     |                    |
| IMAX Corp., 7.00%, 12/01/2005                      | CCC+                          | \$ 1,495,000        | \$ 1,517,425       |
| Vivendi Universal SA, 6.25%, 07/15/2008 144A       | BB                            | 15,000,000          | 15,750,000         |
|  |                               |                     | <u>17,267,425</u>  |
| <b>INDUSTRIALS 0.3%</b>                            |                               |                     |                    |
| <b>Marine 0.3%</b>                                 |                               |                     |                    |
| CP Ships, Ltd., 10.38%, 07/15/2012                 | BB+                           | 2,400,000           | 2,772,000          |
| <b>MATERIALS 1.9%</b>                              |                               |                     |                    |
| <b>Paper &amp; Forest Products 1.9%</b>            |                               |                     |                    |
| Ainsworth Lumber, Ltd., 12.50%, 07/15/2007         | B-                            | 10,550,000          | 12,158,875         |
| Tembec Industries, Inc., 8.50%, 02/01/2011 P       | BB                            | 7,925,000           | 7,687,250          |
|  |                               |                     | <u>19,846,125</u>  |
| <i>Total Yankee Obligations-Corporate</i>          |                               |                     | <u>39,885,550</u>  |
|  |                               | <b>Shares</b>       | <b>Value</b>       |
| <b>PREFERRED STOCKS 1.5%</b>                       |                               |                     |                    |
| <b>INDUSTRIALS 1.5%</b>                            |                               |                     |                    |
| <b>Construction &amp; Engineering 1.5%</b>         |                               |                     |                    |
| CSC Holdings, Inc., Ser. M, 11.13%, 04/01/2008 P   |                               | 150,000             | 15,750,000         |
| <b>WARRANTS 0.3%</b>                               |                               |                     |                    |
| <b>TELECOMMUNICATION SERVICES 0.3%</b>             |                               |                     |                    |
| <b>Diversified Telecommunication Services 0.0%</b> |                               |                     |                    |
| RCN Corp., Expiring 06/30/2013 *                   |                               | 2,110,000           | 253,200            |
| <b>Wireless Telecommunications Services 0.3%</b>   |                               |                     |                    |
| American Tower Corp., Expiring 08/01/2008*         |                               | 17,500              | 2,371,250          |
| <i>Total Warrants</i>                              |                               |                     | <u>2,624,450</u>   |
| <b>SHORT-TERM INVESTMENTS 24.1%</b>                |                               |                     |                    |
| <b>MUTUAL FUND SHARES 24.1%</b>                    |                               |                     |                    |
| Evergreen Institutional Money Market Fund ø        |                               | 25,992,972          | 25,992,972         |
| Navigator Prime Portfolio PP                       |                               | 220,571,228         | 220,571,228        |
| <i>Total Short-Term Investments</i>                |                               |                     | <u>246,564,200</u> |

|  |                         |
|--|-------------------------|
| <b>Total Investments (cost \$1,628,195,137) 167.0%</b> | 1,704,468,051           |
| <b>Other Assets and Liabilities (67.0%)</b>            | (683,250,833)           |
| <b>Net Assets 100.0%</b>                               | <b>\$ 1,021,217,218</b> |

See Notes to Financial Statements

**SCHEDULE OF INVESTMENTS** continued

October 31, 2003 (unaudited)

No market quotation available. Valued at fair value as determined in good faith under procedures established by the Board of Trustees.

^ Credit ratings are unaudited and rated by Moody's Investors Service where Standard and Poor's ratings are not available.

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.

¤ Security issued in zero coupon form with no periodic interest payments but is acquired at a discount that results in a current yield to maturity. An effective interest rate is applied to recognize interest income daily for the bond. This rate is based on total expected income to be earned over the life of the bond from amortization of discount at acquisition.

\* Non-income producing security

Ð All or a portion of this security is on loan.

ÐÐ Represents investment of cash collateral received from securities on loan.

∅ Evergreen Investment Management Company, LLC is the investment advisor to both the Fund and the money market fund.

**Summary of Abbreviations:**

REIT Real Estate Investment Trust

**STATEMENT OF ASSETS AND LIABILITIES**

October 31, 2003 (unaudited)

**Assets**

|   |                      |
|---|----------------------|
| Identified cost of securities                       | \$ 1,628,195,137     |
| Net unrealized gains on securities                  | 76,272,914           |
|   | <hr/>                |
| Market value of securities                          | 1,704,468,051        |
| Interest receivable                                 | 36,522,127           |
| Receivable for securities lending income            | 34,033               |
| Unrealized gains on interest rate swap transactions | 5,181,567            |
|   | <hr/>                |
| <b>Total assets</b>                                 | <b>1,746,205,778</b> |

**Liabilities**

|  |                    |
|--|--------------------|
| Dividends payable                      | 9,088,235          |
| Payable for securities purchased       | 4,768,056          |
| Payable for securities on loan         | 220,571,228        |
| Offering costs payable                 | 173,867            |
| Advisory fee payable                   | 74,223             |
| Due to other related parties           | 6,185              |
| Accrued expenses and other liabilities | 157,193            |
|  | <hr/>              |
| <b>Total liabilities</b>               | <b>234,838,987</b> |

**Preferred shares at redemption value**

|   |             |
|---|-------------|
| \$25,000 liquidation value per share applicable to 19,600 shares,<br>including dividends payable of \$149,573 | 490,149,573 |
|   | <hr/>       |

|   |                         |
|---|-------------------------|
| <b>Net assets applicable to common shareholders</b> | <b>\$ 1,021,217,218</b> |
|   | <hr/>                   |

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

|  |                |
|--|----------------|
| Paid-in capital  | \$ 939,662,226 |
| Overdistributed net investment income                                  | (508,861)      |
| Accumulated net realized gains on securities                           | 609,372        |
| Net unrealized gains on securities and interest rate swap transactions | 81,454,481     |
|  | <hr/>          |

|   |                         |
|---|-------------------------|
| <b>Net assets applicable to common shareholders</b> | <b>\$ 1,021,217,218</b> |
|   | <hr/>                   |

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

|  |          |
|--|----------|
| (\$1,021,217,218 divided by 66,096,256 common shares issued and outstanding) | \$ 15.45 |
|  | <hr/>    |



**STATEMENT OF OPERATIONS**

Six Months Ended October 31, 2003 (unaudited)

|  |                   |
|--|-------------------|
| <b>Investment income</b>   |                   |
| Interest   | \$ 61,347,147     |
| <hr/>  |                   |
| <b>Expenses</b>  |                   |
| Advisory fee   | 4,511,805         |
| Administrative services fee  | 375,984           |
| Transfer agent fees  | 31,100            |
| Trustees' fees and expenses  | 30,000            |
| Printing and postage expenses  | 71,799            |
| Custodian fees   | 123,708           |
| Auction agent fees   | 643,041           |
| Professional fees  | 37,400            |
| Other  | 44,576            |
| <hr/>  |                   |
| Total expenses   | 5,869,413         |
| Less: Expense reductions   | (4,440)           |
| <hr/>  |                   |
| Net expenses   | 5,864,973         |
| <hr/>  |                   |
| <b>Net investment income</b>   | <b>55,482,174</b> |
| <hr/>  |                   |
| <b>Net realized and unrealized gains or losses on securities and interest rate swap transactions</b> |                   |
| Net realized losses on securities  | (41,141)          |
| Net change in unrealized gains or losses on securities and interest rate swap transactions           | 36,779,337        |
| <hr/>  |                   |
| Net realized and unrealized gains or losses on securities and interest rate swap transactions        | 36,738,196        |
| <hr/>  |                   |
| Dividends to preferred shareholders from net investment income                                       | (2,987,450)       |
| <hr/>  |                   |
| Net increase in net assets applicable to common shareholders resulting from operations               | \$ 89,232,920     |
| <hr/>  |                   |

See Notes to Financial Statements

## STATEMENTS OF CHANGES IN NET ASSETS

|   | Six Months Ended<br>October 31, 2003<br>(unaudited) | Year Ended<br>April 30, 2003(a) |
|---|---|---------------------------------|
| <b>Operations</b>   |   |                                 |
| Net investment income   | \$ 55,482,174                                       | \$ 10,449,537                   |
| Net realized gains or losses on securities  | (41,141)  | 656,448                         |
| Net change in unrealized gains or losses on securities and<br>interest rate swap transactions     | 36,779,337  | 44,675,492                      |
| Dividends to preferred shareholders from net investment income                                    | (2,987,450)   | (62,563)                        |
| <b>Net increase in net assets applicable to common shareholders<br/>resulting from operations</b> | <b>89,232,920</b>                                   | <b>55,718,914</b>               |
| Distributions to common shareholders from net investment income                                   | (54,463,416)  | (9,027,838)                     |
| <b>Capital share transactions</b>   |   |                                 |
| Net proceeds from the issuance of common shares   | 0   | 859,500,000                     |
| Net proceeds from underwriters over-allotment option exercised                                    | 0   | 80,936,250                      |
| Common share offering expenses charged to paid-in capital   | 0   | (1,969,500)                     |
| Preferred share offering expenses charged to paid-in capital                                      | 0   | (5,359,650)                     |
| Net asset value of common shares issued under the Automatic<br>Dividend Reinvestment Plan         | 6,544,538   | 0                               |
| <b>Net increase in net assets resulting from capital share<br/>transactions</b>                   | <b>6,544,538</b>                                    | <b>933,107,100</b>              |
| <b>Total increase in net assets applicable to common shareholders</b>                             | <b>41,314,042</b>                                   | <b>979,798,176</b>              |
| <b>Net assets applicable to common shareholders</b>   |   |                                 |
| Beginning of period   | 979,903,176   | 105,000                         |
| End of period   | \$ 1,021,217,218                                    | \$ 979,903,176                  |
| Undistributed (overdistributed) net investment income   | \$ (508,861)  | \$ 1,903,740                    |

(a) For the period from February 28, 2003 (commencement of operations), to April 30, 2003.

See Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS (unaudited)

## 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

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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, 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 valued at prices obtained from 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 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 available are valued at fair value as determined in good faith, according to procedures approved by the Board of Trustees.

### **b. Repurchase agreements**

Securities pledged as collateral for repurchase agreements are held by the custodian bank or in a segregated account in the Fund's name until the agreements mature. Each agreement requires that the market value of the collateral be sufficient to cover payments of interest and principal. However, in the event of default or bankruptcy by the other party to the agreement, retention of the collateral may be subject to legal proceedings. The Fund will only enter into repurchase agreements with banks and other financial institutions, which are deemed by the investment advisor to be creditworthy pursuant to guidelines established by the Board of Trustees.

### **c. Reverse repurchase agreements**

To obtain short-term financing, the Fund may enter into reverse repurchase agreements with banks and other financial institutions, which are deemed by the investment advisor to be creditworthy. At the time the Fund enters into a reverse repurchase agreement, it will establish a segregated account with the custodian containing qualified assets having a value not less than the

## **NOTES TO FINANCIAL STATEMENTS (unaudited) continued**

repurchase price, including accrued interest. If the counterparty to the transaction is rendered insolvent, the Fund may be delayed or limited in the repurchase of the collateral securities.

### **d. 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

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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.

### **e. 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 based on a notional principal amount. Cash payments or receipts are recorded on the accrual basis as part of interest income. 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 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.

### **f. Security transactions and investment income**

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. Dividend income is recorded on the ex-dividend date.

### **g. 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.

### **h. 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.

## **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.

From time to time, EIMC may voluntarily or contractually waive its fee and/or reimburse expenses in order to limit operating expenses. For any fee waivers and/or reimbursements made

### **NOTES TO FINANCIAL STATEMENTS (unaudited) continued**

after January 1, 2003, EIMC may recoup any amounts waived and/or reimbursed up to a period of three years following the end of the fiscal year in which the fee waivers and/or reimbursements were made.

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.

The Fund has placed a portion of its portfolio transactions with brokerage firms that are affiliates of Wachovia. During the six months ended October 31, 2003, the Fund paid brokerage commissions of \$13,155 to Wachovia Securities, LLC.

**3. CAPITAL SHARE TRANSACTIONS**

The Fund has authorized capital of 100,000,000 shares of common shares with no par value. For the six months ended October 31, 2003 and the period from February 28, 2003 (commencement of operations), to April 30, 2003, the Fund issued 439,256 and 65,657,000 common shares, respectively.

**4. SECURITIES TRANSACTIONS**

Cost of purchases and proceeds from sales of investment securities (excluding short-term securities) were \$636,027,466 and \$349,680,638, respectively, for the six months ended October 31, 2003.

During the six months ended October 31, 2003, the Fund loaned securities to certain brokers. At October 31, 2003, the value of securities on loan and the value of collateral (including accrued interest) amounted to \$216,247,373 and \$220,571,228, respectively. During the six months ended October 31, 2003, the Fund earned \$91,076 in income from securities lending which is included in interest income on the Statement of Operations.

At October 31, 2003, the Fund had the following open interest rate swap agreements:

| Expiration | Notional Amount | Counterparty              | Cash Flows Paid by the Fund | Cash Flows Received by the Fund | Unrealized Gain |
|------------|-----------------|---------------------------|-----------------------------|---------------------------------|-----------------|
| 7/02/2006  | \$ 150,000,000  | Merrill Lynch & Co., Inc. | Fixed 1.95%                 | Floating 1.12%                  | \$ 2,327,993    |
| 7/02/2008  | 100,000,000     | J.P.Morgan Chase & Co.    | Fixed 2.737%                | Floating 1.12%                  | 2,853,574       |

On October 31, 2003, the aggregate cost of securities for federal income tax purposes was \$1,628,195,137. The gross unrealized appreciation and depreciation on securities based on tax cost was \$82,327,376 and \$6,054,462, respectively, with a net unrealized appreciation of \$76,272,914.

**NOTES TO FINANCIAL STATEMENTS** (unaudited) 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 1.20% during the six months ended October 31, 2003. 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 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. EXPENSE REDUCTIONS

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

## 7. DEFERRED TRUSTEES' FEES

Each independent 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.

## 8. 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.

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## NOTES TO FINANCIAL STATEMENTS (unaudited) continued

### 9. SUBSEQUENT DISTRIBUTIONS

On October 20, 2003, the Fund declared distributions from net investment income of \$0.1375 per share, payable on December 1, 2003 to common shareholders of record on November 13, 2003. These distributions are not reflected in the accompanying financial statements.

On November 20, 2003, the Fund declared distributions from net investment income of \$0.1375 per share, payable on January 2, 2004 to common shareholders of record on December 15, 2003. These distributions are not reflected in the accompanying financial statements.

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## ADDITIONAL INFORMATION (unaudited)

### MEETING OF SHAREHOLDERS

On August 15, 2003, a Meeting of Shareholders for the Fund was held to consider the following proposal. On May 30, 2003, the record date for the meeting, the Fund had 65,770,576 of common shares outstanding of which 52,542,181 (or 80%) were represented at the meeting. In addition, the Fund had 19,600 of preferred shares outstanding of which 13,468 (or 69%) were represented at the meeting.

**Proposal** To elect three Trustees to serve for the term indicated and until their successors shall have been elected and qualified.

Shares voted For

Common Shares Voted

Preferred Shares Voted

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|                             |            |        |
|-----------------------------|------------|--------|
| Michael S. Scofield         | 52,037,354 | 12,264 |
| K. Dun Gifford              | 52,062,516 | 12,964 |
| Dr. Leroy Keith, Jr.        | 52,041,757 | 12,943 |
| <b>Shares voted Abstain</b> |            |        |
| Michael S. Scofield         | 504,827    | 1,204  |
| K. Dun Gifford              | 479,665    | 504    |
| Dr. Leroy Keith, Jr.        | 500,424    | 525    |

**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 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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**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 Investment Counselor, Appleton Partners, Inc. (investment advice); Former Director, Executive Vice President and Treasurer, State Street Research & Management Company (investment advice); Former Director, Health Development Corp. (fitness-wellness centers); Former Director, Mentor Income Fund, Inc.; Former Trustee, Mentor Funds and Cash Resource Trust.

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**K. Dun Gifford**  
Trustee  
DOB: 10/23/1938  
Term of office since: 1974  
Other directorships: None

Principal occupations: Chairman and President, Oldways Preservation and Exchange Trust (education); Trustee, Treasurer and Chairman of the Finance Committee, Cambridge College; Former Managing Partner, Roscommon Capital Corp.; Former Chairman of the Board, Director, and Executive Vice President, The London Harness Company (leather goods purveyor); Former Chairman, Gifford, Drescher & Associates (environmental consulting); Former Director, Mentor Income Fund, Inc.; Former Trustee, Mentor Funds and Cash Resource Trust.

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**Leroy Keith, Jr.**  
Trustee  
DOB: 2/14/1939  
Term of office since: 1983  
Other directorships: Trustee, Phoenix Series Fund, Phoenix Multi-Portfolio Fund, and The Phoenix Big Edge Series Fund

Principal occupations: Partner, Stonington Partners, Inc. (private investment firm); Trustee of Phoenix Series Fund, Phoenix Multi-Portfolio Fund, and The Phoenix Big Edge Series Fund; Former Chairman of the Board and Chief Executive Officer, Carson Products Company (manufacturing); Former Director of Phoenix Total Return Fund and Equifax, Inc. (worldwide information management); Former President, Morehouse College; 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: Sales Manager, SMI STEEL Co. South Carolina (steel producer); Former Sales and Marketing Management, 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: Partner and Vice President, Kellam & Pettit, P. A. (law firm); 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 & Company (recruitment business development/consulting company); Managing Director, Kennedy Information, Inc. (executive recruitment information and research company); Trustee, NDI Technologies, LLP (communications); Director, J&M Cumming Paper Co. (paper merchandising); Columnist, Commerce and Industry Association of New Jersey; 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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**Russell A. Salton III, MD**  
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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**Michael S. Scofield**  
Trustee  
DOB: 2/20/1943  
Term of office since: 1984  
Other directorships: None

Principal occupations: Attorney, Law Offices of Michael S. Scofield; Former Director, Mentor Income Fund, Inc.; Former Trustee, Mentor Funds and Cash Resource Trust.

**TRUSTEES AND OFFICERS** continued

**Richard J. Shima**  
Trustee  
DOB: 8/11/1939  
Term of office since: 1993  
Other directorships: None

Principal occupations: Independent Consultant; Director, Trust Company of CT; Trustee, Saint Joseph College (CT); Director of Hartford Hospital, Old State House Association; Trustee, Greater Hartford YMCA; Former Director of Enhance Financial Services, Inc.; Former Director of CTG Resources, Inc. (natural gas); Former Director, Middlesex Mutual Assurance Company; Former Director, Mentor Income Fund, Inc.; Former Trustee, Mentor Funds and Cash Resource Trust.

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**Richard K. Wagoner, CFA(2)**  
Trustee  
DOB: 12/12/1937  
Term of office since: 1999  
Other directorships: None

Principal occupations: Member and Former President, North Carolina Securities Traders Association; Member, Financial Analysts Society; Former Chief Investment Officer, Executive Vice President and Head of Capital Management Group, First Union National Bank; Former Consultant to the Boards of Trustees of the Evergreen funds; Former Member, New York Stock Exchange; Former Trustee, Mentor Funds and Cash Resource Trust.

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**OFFICERS**

**Dennis H. Ferro(3)**  
President  
DOB: 6/20/1945  
Term of office since: 2003

President and Chief Executive Officer, Evergreen Investment Company, Inc.; President and Chief Investment Officer, Evergreen Investment Management Company, LLC and Executive Vice President, Wachovia Bank, N. A.

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**Carol Kosel(4)**

Treasurer

DOB: 12/25/1963

Term of office since: 1999

Senior Vice President, Evergreen Investment Services, Inc. and Treasurer, Vestaur Securities, Inc.

**Michael H. Koonce(4)**

Secretary

DOB: 4/20/1960

Term of office since: 2000

Senior Vice President and General Counsel, Evergreen Investment Services, Inc.; Senior Vice President and Assistant General Counsel, Wachovia Corporation; Former Senior Vice President and General Counsel, Colonial Management Associates, Inc.; Former Vice President and Counsel, Colonial Management Associates, Inc.

- 1 Each Trustee serves until a successor is duly elected or qualified or until his death, resignation, retirement or removal from office. The address of each Trustee is 200 Berkeley Street, Boston, MA 02116. Each Trustee oversees 101 Evergreen funds.
- 2 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.
- 3 The address of the Officer is 401 S. Tryon Street, 20th Floor, Charlotte, NC 28288.
- 4 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.

**Investments that stand the test of time**

Year in and year out, Evergreen Investments seeks to provide each client with sound, time-tested investment strategies designed for sustainable long-term success. With over \$240 billion\* in assets under management, we manage diverse investments from institutional portfolios to mutual funds, variable annuities to retirement plans, alternative investments to private accounts. Our commitment to every one of our clients is reflected in the rigor and discipline with which we manage investments.

We offer a complete family of mutual funds designed to help investors meet a wide range of financial goals. From money market funds that meet short-term needs to international funds that involve greater risk but seek potentially higher returns, Evergreen provides a broad array of flexible investment options. Across all investment styles, we are committed to providing investors with investment excellence day after day, quarter after quarter and year after year.

\*As of October 31, 2003

**Visit us online at [EvergreenInvestments.com](http://EvergreenInvestments.com)**

Transfer Agent, Registrar, Shareholder Servicing Agent & Dividend Disbursing Agent  
EquiServe Trust Company, N.A.  
P.O. Box 43010  
Providence, RI 02940-3010

800.730.6001

Common Stock listed on American Stock Exchange, Symbol EAD.

568264 12/2003

**Evergreen Investments**

200 Berkeley Street  
Boston, MA 02116-5034

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**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**

Not applicable at this time. Applicable for annual reports filed for the first fiscal year ending after December 15, 2003.

**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.**

The Registrant has delegated the voting of proxies relating to its voting securities to its investment advisor, Evergreen Investment Management Company, LLC (the "Advisor"). The proxy voting policies and procedures of the Advisor are included as an exhibit hereto.

**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: Not applicable.

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(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 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,  
Principal Executive Officer

Date: December 31, 2003

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: December 31, 2003

By: \_\_\_\_\_  
Carol A. Kosel  
Principal Financial Officer

Date: December 31, 2003

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## Proxy Voting Policy and Procedures

Evergreen Investment Management Company, LLC June 16, 2003

### Statement of Principles

Evergreen Investment Management Company, LLC (EIMCO) recognizes it has a fiduciary duty to vote proxies on behalf of clients who have delegated such responsibility to EIMCO, and that in all cases proxies should be voted in a manner reasonably believed to be in the clients' best interest.

### Corporate Governance Committee

EIMCO has established a corporate governance committee (Committee), which is a sub-committee of EIMCO's Investment Policy Committee. The Committee is responsible for approving EIMCO's proxy voting policies and procedures, for overseeing the proxy voting process, and for reviewing proxy voting on a regular basis. The Committee will meet quarterly to review reports of all proxies voted for the prior period and to conduct other business as required.

### Conflicts of Interest

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EIMCO recognizes that under certain circumstances it may have a conflict of interest in voting proxies on behalf of its clients. Such circumstances may include, but are not limited to, situations where EIMCO or one or more of its affiliates has a client or customer relationship with the issuer of the security that is the subject of the proxy vote.

In most cases, structural and informational barriers within EIMCO and Wachovia Corporation will prevent EIMCO from becoming aware of the relationship giving rise to the potential conflict of interest. In such circumstances, EIMCO will vote the proxy according to its standard guidelines and procedures described above.

If persons involved in proxy voting on behalf of EIMCO becomes aware of a potential conflict of interest, the Committee shall consult with EIMCO's Legal Department and consider whether to implement special procedures with respect to the voting of that proxy, including whether an independent third party should be retained to vote the proxy.

### Share Blocking

EIMCO does not vote global proxies, with share blocking restrictions, requiring shares to be prohibited from sale.

### Proxy Voting Guideline Summary

I. The Board of Directors

II. Proxy Contests

III. Auditors

IV. Proxy Contest Defenses

V. Tender Offer Defenses

VI. Miscellaneous Governance Provisions

VII. Capital Structure

VIII. Executive and Director Compensation

IX. State of Incorporation

X. Mergers and Corporate Restructurings

XI. Mutual Fund Proxies

XII. Social and Environmental Issues

### I. The Board of Directors

#### Voting on Director Nominees in Uncontested Elections

Votes on director nominees should be made on a **case-by-case** basis, examining the following factors: composition of the board and key board committees, attendance at board meetings, corporate governance provisions and takeover activity, long-term company performance relative to a market index, directors' investment in the company, whether the chairman is also serving as CEO, and whether a retired CEO sits on the board. However, there are some actions by directors that should result in votes being **withheld**. These instances include directors who:

- Attend less than 75 percent of the board and committee meetings without a valid excuse
- Implement or renew a dead-hand or modified dead-hand poison pill
- Ignore a shareholder proposal that is approved by a majority of the shares outstanding
- Ignore a shareholder proposal that is approved by a majority of the votes cast for two consecutive years
- Have failed to act on takeover offers where the majority of the shareholders have tendered their shares
- Are inside directors and sit on the audit, compensation, or nominating committees

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- Are inside directors and the full board serves as the audit, compensation, or nominating committee or the company does not have one of these committees

In addition, directors who enacted egregious corporate governance policies or failed to replace management as appropriate would be subject to recommendations to **withhold** votes.

### **Separating Chairman and CEO**

Vote on a **case-by-case** basis on shareholder proposals requiring that the positions of chairman and CEO be held separately.

### **Proposals Seeking a Majority of Independent Directors**

Shareholder proposals asking that a majority of directors be independent should be evaluated on a case-by-case basis. Vote for shareholder proposals asking that board audit, compensation, and/or nominating committees be composed exclusively of independent directors.

### **Stock Ownership Requirements**

Vote **against** shareholder proposals requiring directors to own a minimum amount of company stock in order to qualify as a director or to remain on the board.

### **Term of Office**

Vote against shareholder proposals to limit the tenure of outside directors.

### **Age Limits**

Vote **against** shareholder proposals to impose a mandatory retirement age for outside directors.

### **Director and Officer Indemnification and Liability Protection**

Proposals on director and officer indemnification and liability protection should be evaluated on a **case-by-case** basis, using Delaware law as the standard. Vote **against** proposals to eliminate entirely directors' and officers' liability for monetary damages for violating the duty of care. Vote **against** indemnification proposals that would expand coverage beyond just legal expenses to acts, such as negligence, that are more serious violations of fiduciary obligation than mere carelessness. Vote **for** only those proposals providing such expanded coverage in cases when a director's or officer's legal defense was unsuccessful if: (1) the director was found to have acted in good faith and in a manner that he reasonably believed was in the best interests of the company, *and* (2) only if the director's legal expenses would be covered.

### **Charitable Contributions**

Vote against proposals regarding charitable contributions.

## **II. Proxy Contests**

### **Voting for Director Nominees in Contested Elections**

Votes in a contested election of directors must be evaluated on a **case-by-case** basis, considering the following factors: long-term financial performance of the target company relative to its industry; management's track record; background to the proxy contest; qualifications of director nominees (both slates); evaluation of what each side is offering shareholders as well as the likelihood that the proposed objectives and goals can be met; and stock ownership positions.

### **Reimburse Proxy Solicitation Expenses**

Voting to reimburse proxy solicitation expenses should be analyzed on a **case-by-case** basis. In cases where Evergreen recommends in favor of the dissidents, we also recommend voting **for** reimbursing proxy solicitation expenses.

## **III. Auditors**

## **Ratifying Auditors**

Vote **for** proposals to ratify auditors, unless: an auditor has a financial interest in or association with the company, and is therefore not independent; or there is reason to believe that the independent auditor has rendered an opinion, which is neither accurate nor indicative of the company's financial position.

## **IV. Proxy Contest Defenses**

### **Board Structure: Staggered vs. Annual Elections**

Vote **against** proposals to classify the board.

Vote **for** proposals to repeal classified boards and to elect all directors annually.

### **Shareholder Ability to Remove Directors**

Vote **against** proposals that provide that directors may be removed only for cause.

Vote **for** proposals to restore shareholder ability to remove directors with or without cause.

Vote **against** proposals that provide that only continuing directors may elect replacements to fill board vacancies.

Vote **for** proposals that permit shareholders to elect directors to fill board vacancies.

### **Cumulative Voting**

Vote **against** proposals to eliminate cumulative voting.

Vote proposals to restore or permit cumulative voting on a **case-by-case** basis relative to the company's other governance provisions.

### **Shareholder Ability to Call Special Meetings**

Vote **against** proposals to restrict or prohibit shareholder ability to call special meetings.

Vote **for** proposals that remove restrictions on the right of shareholders to act independently of management.

### **Shareholder Ability to Act by Written Consent**

Vote **against** proposals to restrict or prohibit shareholder ability to take action by written consent.

Vote **for** proposals to allow or make easier shareholder action by written consent.

### **Shareholder Ability to Alter the Size of the Board**

Vote **for** proposals that seek to fix the size of the board.

Vote **against** proposals that give management the ability to alter the size of the board without shareholder approval.

## **V. Tender Offer Defenses**

### **Poison Pills**

Vote for shareholder proposals that ask a company to submit its poison pill for shareholder ratification.

Review on a **case-by-case** basis shareholder proposals to redeem a company's poison pill.

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Review on a **case-by-case** basis management proposals to ratify a poison pill.

### **Fair Price Provisions**

Vote proposals to adopt fair price provisions on a **case-by-case** basis, evaluating factors such as the vote required to approve the proposed acquisition, the vote required to repeal the fair price provision, and the mechanism for determining the fair price.

Generally, vote **against** fair price provisions with shareholder vote requirements greater than a majority of disinterested shares.

### **Greenmail**

Vote **for** proposals to adopt antigreenmail charter of bylaw amendments or otherwise restrict a company's ability to make greenmail payments.

Review on a **case-by-case** basis antigreenmail proposals when they are bundled with other charter or bylaw amendments.

### **Pale Greenmail**

Review on a **case-by-case** basis restructuring plans that involve the payment of pale greenmail.

### **Unequal Voting Rights**

Vote **against** dual-class exchange offers.

Vote **against** dual-class recapitalizations.

### **Supermajority Shareholder Vote Requirement to Amend the Charter or Bylaws**

Vote **against** management proposals to require a supermajority shareholder vote to approve charter and bylaw amendments.

Vote **for** shareholder proposals to lower supermajority shareholder vote requirements for charter and bylaw amendments.

### **Supermajority Shareholder Vote Requirement to Approve Mergers**

Vote **against** management proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations.

Vote **for** shareholder proposals to lower supermajority shareholder vote requirements for mergers and other significant business combinations.

### **White Squire Placements**

Vote **for** shareholder proposals to require approval of blank check preferred stock Issues for other than general corporate purposes.

## **VI. Miscellaneous Governance Provisions**

### **Confidential Voting**

Vote **for** shareholder proposals that request companies to adopt confidential voting, use independent tabulators, and use independent inspectors of election as long as the proposals include clauses for proxy contests as follows: In the case of a contested election, management should be permitted to request that the dissident group honor its confidential voting policy. If the dissidents agree, the policy remains in place. If the dissidents do not agree, the confidential voting policy is waived.

Vote **for** management proposals to adopt confidential voting.

### **Equal Access**



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Vote for shareholder proposals that would allow significant company shareholders equal access to management's proxy material in order to evaluate and propose voting recommendations on proxy proposals and director nominees, and in order to nominate their own candidates to the board.

### **Bundled Proposals**

Review on a case-by-case basis bundled or "conditioned" proxy proposals. In the case of items that are conditioned upon each other, examine the benefits and costs of the packaged items. In instances when the joint effect of the conditioned items is not in shareholders' best interests, vote against the proposals. If the combined effect is positive, support such proposals.

### **Shareholder Advisory Committees**

Review on a case-by-case basis proposals to establish a shareholder advisory committee.

## **VII. Capital Structure**

### **Common Stock Authorization**

Review proposals to increase the number of shares of common stock authorized for issue on a case-by-case basis.

Vote against proposals to increase the number of authorized shares of the class of stock that has superior voting rights in companies that have dual-class capitalization structures.

### **Stock Distributions: Splits and Dividends**

Vote for management proposals to increase common share authorization for a stock split, provided that the increase in authorized shares would not result in an excessive number of shares available for issuance given a company's industry and performance in terms of shareholder returns.

### **Reverse Stock Splits**

Vote for management proposals to implement a reverse stock split when the number of shares will be proportionately reduced to avoid delisting.

Review on a case-by-case basis on proposals to implement a reverse stock split that do not proportionately reduce the number of shares authorized for Issue.

### **Preferred Stock**

Vote against proposals authorizing the creation of new classes of preferred stock with unspecified voting, conversion, dividend distribution, and other rights ("blank check" preferred stock).

Vote for proposals to create blank check preferred stock in cases when the company expressly states that the stock will not be used as a takeover defense.

Vote for proposals to authorize preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable.

Vote case-by-case on proposals to increase the number of blank check preferred shares after analyzing the number of preferred shares available for Issue given a company's industry and performance in terms of shareholder returns.

### **Shareholder Proposals Regarding Blank Check Preferred Stock**

Vote for shareholder proposals to have blank check preferred stock placements, other than those shares issued for the purpose of raising capital or making acquisitions in the normal course of business, submitted for shareholder ratification.

### **Adjustments to Par Value of Common Stock**

Vote for management proposals to reduce the par value of common stock.

### **Preemptive Rights**

Review on a case-by-case basis shareholder proposals that seek preemptive rights. In evaluating proposals on preemptive rights, consider the size of a company and the characteristics of its shareholder base.

### **Debt Restructurings**

Review on a case-by-case basis proposals to increase common and/or preferred shares and to Issue shares as part of a debt restructuring plan. Consider the following Issues: *Dilution* How much will ownership interest of existing shareholders be reduced, and how extreme will dilution to any future earnings be? *Change in Control* Will the transaction result in a change in control of the company? *Bankruptcy* Generally, approve proposals that facilitate debt restructurings unless there are clear signs of self-dealing or other abuses.

### **Share Repurchase Programs**

Vote for management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms.

### **Tracking Stock**

Votes on the creation of tracking stock are determined on a case-by-case basis, weighing the strategic value of the transaction against such factors as:

- Adverse governance changes
- Excessive increases in authorized capital stock
- Unfair method of distribution
- Diminution of voting rights
- Adverse conversion features
- Negative impact on stock option plans
- Other alternatives such as spinoff

## **VIII. Executive and Director Compensation**

Votes with respect to compensation plans should be determined on a case-by-case basis. Our new methodology for reviewing compensation plans primarily focuses on the transfer of shareholder wealth (the dollar cost of pay plans to shareholders instead of simply focusing on voting power dilution). Using the expanded compensation data disclosed under the SEC's new rules, Evergreen will value every award type. Evergreen will include in its analyses an estimated dollar cost for the proposed plan and all continuing plans. This cost, dilution to shareholders' equity, will also be expressed as a percentage figure for the transfer of shareholder wealth, and will be considered along with dilution to voting power. Once Evergreen determines the estimated cost of the plan, we compare it to a company-specific dilution cap.

Our model determines a company-specific allowable pool of shareholder wealth that may be transferred from the company to executives, adjusted for (1) long-term corporate performance (on an absolute basis and relative to a standard industry peer group and an appropriate market index), (2) cash compensation, and (3) categorization of the company as emerging, growth, or mature. These adjustments are pegged to market capitalization. Evergreen will continue to examine other features of proposed pay plans such as administration, payment terms, plan duration, and whether the administering committee is permitted to reprice underwater stock options without shareholder approval.

### **Management Proposals Seeking Approval to Reprice Options**

Vote on management proposals seeking approval to reprice options on a case-by-case basis.

### **Director Compensation**

Votes on stock-based plans for directors are made on a case-by-case basis.

### **Employee Stock Purchase Plans**

Votes on employee stock purchase plans should be made on a case-by-case basis.

**OBRA-Related Compensation Proposals:**

● **Amendments that Place a Cap on Annual Grants or Amend Administrative Features**

Vote for plans that simply amend shareholder-approved plans to include administrative features or place a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m) of OBRA.

● **Amendments to Added Performance-Based Goals**

Vote for amendments to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) of OBRA.

● **Amendments to Increase Shares and Retain Tax Deductions Under OBRA**

Votes on amendments to existing plans to increase shares reserved and to qualify the plan for favorable tax treatment under the provisions of Section 162(m) should be evaluated on a case-by-case basis.

● **Approval of Cash or Cash-and-Stock Bonus Plans**

Vote for cash or cash-and-stock bonus plans to exempt the compensation from taxes under the provisions of Section 162(m) of OBRA.

**Shareholder Proposals to Limit Executive and Director Pay**

Generally, vote for shareholder proposals that seek additional disclosure of executive and director pay information.

Review on a case-by-case basis all other shareholder proposals that seek to limit executive and director pay.

**Golden and Tin Parachutes**

Vote for shareholder proposals to have golden and tin parachutes submitted for shareholder ratification.

Review on a case-by-case basis all proposals to ratify or cancel golden or tin parachutes.

**Employee Stock Ownership Plans (ESOPs)**

Vote for proposals that request shareholder approval in order to implement an ESOP or to increase authorized shares for existing ESOPs, except in cases when the number of shares allocated to the ESOP is "excessive" (i.e., generally greater than five percent of outstanding shares).

**401(k) Employee Benefit Plans**

Vote for proposals to implement a 401(k) savings plan for employees.

**IX. State of Incorporation**

**Voting on State Takeover Statutes**

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Review on a case-by-case basis proposals to opt in or out of state takeover statutes (including control share acquisition statutes, control share cash-out statutes, freezeout provisions, fair price provisions, stakeholder laws, poison pill endorsements, severance pay and labor contract provisions, antigreenmail provisions, and disgorgement provisions).

### **Voting on Reincorporation Proposals**

Proposals to change a company's state of incorporation should be examined on a case-by-case basis.

## **X. Mergers and Corporate Restructurings**

### **Mergers and Acquisitions**

Votes on mergers and acquisitions should be considered on a case-by-case basis, taking into account at least the following: anticipated financial and operating benefits; offer price (cost vs. premium); prospects of the combined companies; how the deal was negotiated; and changes in corporate governance and their impact on shareholder rights.

### **Corporate Restructuring**

Votes on corporate restructuring proposals, including minority squeezeouts, leveraged buyouts, spinoffs, liquidations, and asset sales should be considered on a case-by-case basis.

### **Spinoffs**

Votes on spinoffs should be considered on a case-by-case basis depending on the tax and regulatory advantages, planned use of sale proceeds, market focus, and managerial incentives.

### **Asset Sales**

Votes on asset sales should be made on a case-by-case basis after considering the impact on the balance sheet/working capital, value received for the asset, and potential elimination of diseconomies.

### **Liquidations**

Votes on liquidations should be made on a case-by-case basis after reviewing management's efforts to pursue other alternatives, appraisal value of assets, and the compensation plan for executives managing the liquidation.

### **Appraisal Rights**

Vote for proposals to restore, or provide shareholders with, rights of appraisal.

### **Changing Corporate Name**

Vote for changing the corporate name.

## **XI. Mutual Fund Proxies**

### **Election of Directors**

Vote the election of directors on a case-by-case basis, considering the following factors: board structure; director independence and qualifications; and compensation of directors within the fund and the family of funds attendance at board and committee meetings.

Votes should be withheld from directors who:

- Attend less than 75 percent of the board and committee meetings without a valid excuse for the absences. Valid reasons include illness or absence due to company business. Participation via telephone is acceptable. In addition, if the director missed only one meeting or one day's meetings, votes should not be withheld even if such absence dropped the director's attendance below 75 percent

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- Ignore a shareholder proposal that is approved by a majority of shares outstanding
- Ignore a shareholder proposal that is approved by a majority of the votes cast for two consecutive years
- Are interested directors and sit on the audit or nominating committee
- Are interested directors and the full board serves as the audit or nominating committee or the company does not have one of these committees

### **Converting Closed-end Fund to Open-end Fund**

Vote conversion proposals on a case-by-case basis, considering the following factors: past performance as a closed-end fund; market in which the fund invests; measures taken by the board to address the discount; and past shareholder activism, board activity, and votes on related proposals.

### **Proxy Contests**

Vote proxy contests on a case-by-case basis, considering the following factors: past performance; market in which fund invests; and measures taken by the board to address the Issues past shareholder activism, board activity, and votes on related proposals.

### **Investment Advisory Agreements**

Vote the investment advisory agreements on a case-by-case basis, considering the following factors: proposed and current fee schedules; fund category/investment objective; performance benchmarks; share price performance as compared with peers; and the magnitude of any fee increase.

### **Approving New Classes or Series of Shares**

Vote for the establishment of new classes or series of shares.

### **Preferred Stock Proposals**

Vote the authorization for or increase in preferred shares on a case-by-case basis, considering the following factors: stated specific financing purpose and other reasons management gives possible dilution for common shares.

### **1940 Act Policies**

Vote these proposals on a case-by-case basis, considering the following factors: potential competitiveness; regulatory developments; current and potential returns; and current and potential risk.

### **Changing a Fundamental Restriction to a Nonfundamental Restriction**

Vote these proposals on a case-by-case basis, considering the following factors: fund's target investments; reasons given by fund for change; and the projected impact of change on portfolio.

### **Change Fundamental Investment Objective to Nonfundamental**

Vote against proposals to change a fund's fundamental investment objective to nonfundamental.

### **Name Rule Proposals**

Vote these proposals on a case-by-case basis, considering the following factors: political/economic changes in target market; bundling with quorum requirements; bundling with asset allocation changes; and consolidation in the fund's target market.

### **Disposition of Assets/Termination/Liquidation**

Vote this proposal on a case-by-case basis, considering the following factors: strategies employed to salvage the company; company's past performance; and terms of the liquidation.

### **Changes to the Charter Document**

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Vote changes to the charter document on a case-by-case basis, considering the following factors: degree of change implied by the proposal; efficiencies that could result; state of incorporation; and regulatory standards and implications.

### **Changing the Domicile of a Fund**

Vote reincorporations on a case-by-case basis, considering the following factors: state regulations of both states; required fundamental policies of both states; and the increased flexibility available.

### **Change in Fund's Subclassification**

Vote these proposals on a case-by-case basis, considering the following factors: potential competitiveness; current and potential returns; risk of concentration; and consolidation in the target industry.

### **Authorizing the Board to Hire and Terminate Subadvisors Without Shareholder Approval**

Vote against these proposals.

### **Distribution Agreements**

Vote these proposals on a case-by-case basis, considering the following factors: fees charged to comparably sized funds with similar objectives; proposed distributor's reputation and past performance; and competitiveness of fund in industry.

### **Master-Feeder Structure**

Vote for the establishment of a master-feeder structure.

### **Changes to the Charter Document**

Vote changes to the charter document on a case-by-case basis, considering the following factors: degree of change implied by the proposal; efficiencies that could result; state of incorporation; and regulatory standards and implications.

### **Mergers**

Vote merger proposals on a case-by-case basis, considering the following factors: resulting fee structure; performance of both funds; and continuity of management personnel.

### **Shareholder Proposals**

- **Establish Director Ownership Requirement**

Vote against the establishment of a director ownership requirement.

- **Reimburse Shareholder for Expenses Incurred**

Voting to reimburse proxy solicitation expenses should be analyzed on a case-by-case basis. In cases where Evergreen recommends in favor of the dissidents, we also recommend voting for reimbursing proxy solicitation expenses.

- **Terminate the Investment Advisor**

Vote to terminate the investment advisor on a case-by-case basis, considering the following factors: performance of the fund's NAV and the history of shareholder relations.

## **XII. Social and Environmental Issues**

### **Energy and Environment**

In most cases, Evergreen refrains from providing a vote recommendation on proposals that request companies to file the CERES Principles.

Generally, vote for disclosure reports that seek additional information, particularly when it appears companies have not adequately addressed shareholders' environmental concerns.

### **South Africa**

In most cases, Evergreen refrains from providing a vote recommendation on proposals pertaining to South Africa.

Generally, vote for disclosure reports that seek additional information such as the amount of business that could be lost by conducting business in South Africa.

### **Northern Ireland**

In most cases, Evergreen refrains from providing a vote recommendation on proposals pertaining to the MacBride Principles.

Generally, vote for disclosure reports that seek additional information about progress being made toward eliminating employment discrimination, particularly when it appears companies have not adequately addressed shareholder concerns.

### **Military Business**

In most cases, Evergreen refrains from providing a vote recommendation on defense Issue proposals.

Generally, vote for disclosure reports that seek additional information on military related operations, particularly when the company has been unresponsive to shareholder requests.

### **Maquiladora Standards and International Operations Policies**

In most cases, Evergreen refrains from providing a vote recommendation on proposals relating to the Maquiladora Standards and international operating policies.

Generally, vote for disclosure reports on these Issues, particularly when it appears companies have not adequately addressed shareholder concerns.

### **World Debt Crisis**

In most cases, Evergreen refrains from providing a vote recommendation on proposals dealing with third world debt.

Generally, vote for disclosure reports on these Issues, particularly when it appears companies have not adequately addressed shareholder concerns.

### **Equal Employment Opportunity and Discrimination**

In most cases, Evergreen refrains from providing a vote recommendation on proposals regarding equal employment opportunities and discrimination.

Generally, vote for disclosure reports that seek additional information about affirmative action efforts, particularly when it appears companies have been unresponsive to shareholder requests.

### **Animal Rights**

In most cases, Evergreen refrains from providing a vote recommendation on proposals that deal with animal rights.

### **Product Integrity and Marketing**

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In most cases, Evergreen refrains from providing a vote recommendation on proposals that ask companies to end their production of legal, but socially questionable, products.

Generally, vote for disclosure reports that seek additional information regarding product integrity and marketing Issues, particularly when it appears companies have been unresponsive to shareholder requests.

### **Human Resources Issues**

In most cases, Evergreen refrains from providing a vote recommendation on proposals regarding human resources Issues.

Generally, vote for disclosure reports that seek additional information regarding human resources Issues, particularly when it appears companies have been unresponsive to shareholder requests.