TREND MICRO INC
Form 6-K
February 07, 2003
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FORM 6-K

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

Commission File Number: 333-10486

For the Month of February 2003

Trend Micro Incorporated

(Translation of registrant s name into English)

Odakyu Southern Tower, 10th Floor, 2-1, Yoyogi 2-chome,

Sibuya-ku, Tokyo 151-8583, Japan

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F __X__ Form 40-F _____

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes _____ No __X__

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

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Information furnished on this form:

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SIGNATURE

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

		TREND MICRO INCORPORATED
Date: February 7, 2003	By:	/s/ MAHENDRA NEGI
		Mahendra Negi
		Representative Director, Chief Financial Officer and
		Executive Vice President

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Trend Micro Announces Fourth Quarter and Annual Results

Company Reports Record Annual Profits and Continued Growth in Enterprise Segment

Tokyo, Japan February 4th, 2003 Trend Micro Inc (TSE: 4704; Nasdaq: TMIC), a leader in network antivirus and Internet content security software and services, today reported results in Japanese GAAP for the fourth quarter and fiscal year ending December 31, 2002.

Trend Micro posted consolidated net sales of 11.76 billion yen, (or US $100 million) and operating income of 4.43 billion yen (or US $38million) for the fourth quarter of 2002. These figures reflect gains of 9% in net sales and 13% in operating income compared with the same period a year ago, and growth of 10% in net sales and 44% in operating income compared to the previous quarter.

Net sales for 2002 reached a record high of 42.98 billion yen (or US $364 million) in 2002, up 37% from 2001. Operating income was 13.88 billion yen (or US $118 million), up 46% from 2001. Net income was 7.89 billion yen (or US $67 million), up 226% from 2001. All major product lines grew during 2002, with enterprise products representing 81% of revenues.

We are very pleased that we have had yet another year of robust growth and that we continue to grow market share in the enterprise segment worldwide, said Steve Chang, Chairman and CEO, Trend Micro. This year we delivered our Enterprise Protection Strategy, a NIMDA-prevention architecture, along with many new services and products to support this and we demonstrated the appropriateness of the best-of-breed approach by forming key alliances with other security market leaders. Perhaps most satisfying is that we were able to achieve record profit growth while at the same time investing heavily in channels, products and programs that will enable our growth in coming years.

Consolidated net sales for the first quarter ending March 2003 are expected to be 11.0 billion yen (or US$ 93 million). Operating income is expected to be 3.1 billion yen (or US$ 26 million). Net income is expected to be 1.8 billion Yen (or US$ 15 million).

Trend Micro also resolved to change its dividend policy and will begin paying dividends beginning in fiscal year 2003. Shareholders of record at the end of December 2003 have the right to receive dividends. The company plans to set 20 percent of consolidated net income as a base for the dividends. The company will decide the dividends per share in consideration of its stock repurchase plan and the retained earnings available for dividends within the limits set by the Japanese Commercial Code.

Fourth Quarter Highlights

In Japan, the company showed continued strength, with growth coming from government, education, and service provider sectors. Growth in the region was fueled by the ISP market, where revenue rose 640% year over year. During the quarter, the company also delivered the newest version of VirusBuster, the company s consumer antivirus product, with the inclusion of a personal firewall & support for wireless devices. Nikkei Business Publications, Inc. gave the Best PC Software Award VirusBuster for the third consecutive year.

In the US, Trend Micro continued to grow its enterprise customer base, winning new contracts with an additional 9 companies in the Fortune 500, from industries including commercial banking, energy, and securities. A majority of the contracts were comprised of Trend Micro s Internet gateway and mail server products. Consumer sales in the US grew 43% from 2001 based on strong growth in online sales. Trend Micro named Lane Bess as Senior Vice President of Sales for North America during the quarter. Trend Micro products also won several accolades including a 5-Star rating for OfficeScan Corporate Edition from SC Magazine and Best of Show Finalist for ScanMail for Microsoft Exchange at MEC 2002.

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In Europe, Trend Micro continued to strengthen its enterprise customer base, signing over 30 new contracts of over 10,000 users each. The biggest wins were seen in the government and financial sectors. Trend Micro was also honored during the quarter with several awards in the region. GateLock X200 won three accolades: Editor s Choice from PC Professional in Germany, Product of the Year from PC World Norge in Norway, and membership in the Best of 2002 selection by SC Magazine. PC World Norge also awarded Trend Micro s corporate desktop solution, OfficeScan , Best in Test in a comparative review, while readers of the Spanish Publication PC Actual named Trend Micro s InterScan Messaging Security Suite winner of the Security Category .

In the Asia-Pacific and Latin American regions, Trend Micro also showed significant growth, most notably in the service provider sector. The company gained access to over 700,000 users in these regions through new ISP relationships signed in the quarter. In Latin America, the company was awarded 2 government contracts of over 20,000 users each. In China, PC World named Trend Micro s ScanMailfor Microsoft Exchange Product of the Year.

Trend Micro continued to build upon its best-of-breed alliances during the quarter. In November, Nokia and Trend Micro joined forces to develop a rapidly deployable, auto-updating security appliance, Nokia Message Protector SC6600, which blocks viruses and other email borne exploits at the network perimeter.

The company also won noteworthy service accolades, including the Inaugural Service Excellence Award from Accenture and Commonwealth Magazine in Taiwan. In December, Trend Micro s US Premium Support organization earned the prestigious Support Center Practices (SCP) Certification, which recognized the company for its enterprise support excellence. Trend Micro is the first software vendor to receive such recognition.

About Trend Micro

Trend Micro, Inc. is a leader in network antivirus and Internet content security software and services. The Tokyo-based corporation has business units worldwide. Trend Micro products are sold through corporate and value-added resellers. For additional information and evaluation copies of all Trend Micro products, visit our website at http://www.trendmicro.com.

Supplementary Information

The following tables show key financial information for the fiscal year ended December 31, 2002 as announced by Trend Micro in Japan.

($1US = 118 Japanese Yen)

1. Consolidated Results of Operations

	From Jan 1 to Dec 31,				
	2002		2001		
	Millions of yen, except share data	Millions of US$ except share data	Millions of yen	Millions of US$	Change
Net sales	42,979	364	31,326	265	37%
Operating Income	13,876	118	9,481	80	46%

Ordinary Income	13,449	114	9,549	81	41%
Net income	7,892	67	2,421	21	226%
Net income per share (basic)	59.74 yen	$0.51	18.40 yen	$0.16	
Net income per share (diluted)	59.57 yen	$0.50	18.23 yen	$0.15	

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2. Consolidated Financial Position

	As of Dec 31,			
	2002		2001	
	Millions of yen, except share data	Millions of US$, except share data	Millions of yen, except share data	Millions of US$, except share data
Total assets	74,165	629	65,317	554
Shareholders equity	37,084	314	30,901	262
Shareholders equity ratio	50%		47%	
Shareholders equity per share	281.62 yen	$2.39	234.02 yen	$1.98

3. Consolidated Cash Flows

	From Jan 1 to Dec 31,			
	2002		2001	
	Millions of yen	Millions of US$	Millions of yen	Millions of US$
Cash flows from operating activities	15,217	129	12,563	106
Cash flows from investing activities	-3,172	-27	-2,918	-25
Cash flows from financing activities	-4,482	-38	5,460	46
Ending balance of cash and cash equivalent	47,829	405	40,782	346

Notice Regarding Forward Looking Statements

Statements included in this release contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements regarding our expectations about future dividend payments. Many important factors could cause our actual results to differ materially from those expressed in our forward-looking statements. These factors include:

Customer acceptance of our new products and services

The impact of competing products and services

Difficulties in adapting our products and services to the Internet

Difficulties in addressing new virus and other computer security problems

The potential lack of attractive investment targets and difficulties in successfully executing our investment strategy

Declining prices for our products and services

We assume no obligation to update any forward-looking statements. For more details regarding risk factors relating to our future performance, please refer to our filings with the SEC, including our annual report on Form 20-F which was filed on July 1,2002.

For Additional Information

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Chief Financial Officer / IR Officer

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ir@trendmicro.co.jp

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February 4, 2003

Digest of Consolidated Earnings Results

for the Fiscal Year Ended December 31, 2002

Company:	Trend Micro Incorporated		Tokyo Stock Exchange 1st section
Code:	4704		Location: Tokyo
Contact person:	Position:	Regional controller, Japan Financial Planning and Control	
	Name:	Ryo Masaki	(Phone: 81-3-5334-3600)
Date of the board of directors meeting:		February 4, 2003	

The US accounting standard is not adopted for preparing the consolidated financial statements for the fiscal year ended December 31, 2002.

1. Financial Highlights for FY 2002 (January 1, 2002 through December 31, 2002)

(1) Consolidated Results of Operations

(All figures are rounded down to millions of yen.)

	Sales	**(Compared to the previous year)**	**Operating income**	**(Compared to the previous year)**	**Ordinary income**	**(Compared to the previous year)**
	Millions of yen	**%**	**Millions of yen**	**%**	**Millions of yen**	**%**
FY2002	42,979	(37.2)	13,876	(46.4)	13,449	(40.8)
FY2001	31,326	(43.5)	9,481	(27.4)	9,549	(30.4)

	Net income	**(Compared to the previous year)**	**Net income per share (basic)**	**Net income per share (diluted)**	**Return on shareholders equity**	**Ordinary income/total assets ratio**	**Ordinary income ratio**
	Millions of yen	**%**	**Yen**	**Yen**	**%**	**%**	**%**
FY2002	7,892	(226.0)	59.74	59.57	23.2	19.3	31.3
FY2001	2,421	(-48.7)	18.40	18.23	8.5	17.5	30.5

(Note) 1) Loss on investment in affiliated companies: 11 millions of yen (FY 2002)

129 millions of yen (FY 2001)

2) Number of weighted average shares outstanding: 132,111,467 shares (FY2002)

131,594,913 shares (FY2001)

3) Change in accounting principle: None

4) The percentage of sales, operating income, ordinary income and net income are in comparison to the prior fiscal year.

(2) Consolidated Financial Position

	Total assets	Shareholders equity	Shareholders equity ratio	Shareholders equity per share
	Millions of yen	Millions of yen	%	Yen
FY 2002	74,165	37,084	50.0	281.62
FY 2001	65,317	30,901	47.3	234.02

(Note) Number of shares issued at the end of fiscal year : 131,682,975 shares (FY 2002)

132,043,182 shares (FY 2001)

(3) Consolidated Cash Flow

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Ending balance of cash and cash equivalent
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY 2002	15,217	-3,172	-4,482	47,829
FY 2001	12,563	-2,918	5,460	40,782

(4) Basis of consolidation and investments in affiliated companies:

The number of consolidated subsidiaries	15
The number of unconsolidated subsidiaries accounted by the equity method	0
The number of affiliated companies accounted by the equity method	4

(5) Change in reporting entities:

The number of additional consolidated subsidiaries	0
The number of excluded consolidated subsidiaries	3

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The number of additional consolidated affiliated companies	0
The number of excluded consolidated affiliated companies	0

2. Projected consolidated earnings (Note 1, 2)

(1) Projected earnings for the next quarter (January 1, 2003 through March 31, 2003)

	Sales	Operating income	Net income
	Millions of yen	Millions of yen	Millions of yen
1st Qtr	11,000	3,100	1,800

(Note 1) Since the business environment surrounding Trend Micro Group tends to fluctuate in the short run, it is difficult to make the highly reliable projection figures on a yearly basis. We, therefore, decided to announce the earnings on a quarterly basis in the fiscal year ending in March 2003 as well as earnings projection of the succeeding quarter. If we find through our calculation conducted from time to time that the sales fluctuate from the most recent quarterly projection by more than 10%, or operating income or net income fluctuates by more than 30%, we will announce the revision of the earnings projection.

(Note 2) We plan to prepare the consolidated financial statement in accordance with US GAAP from FY2003 and thus the above projection for the 1st Quarter is presented based on US GAAP.

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FY2002 (as of December 2002) Attachment to the Report

1. Condition of corporate group

Overview of corporate group

Trend Micro Group consists of Trend Micro Inc., and its 15 subsidiaries which develop and sell anti-virus products and offer other related services and three affiliated companies are: Soft Trend Capital Corporation which manages capital funds to be invested into Internet-related ventures, Japan JCN Co., Ltd which develops and offers the security system against unlawful access and NetSTAR Inc. which develops and offers the products of URL filtering.

The business related to anti-virus are described below.

The products related to anti-virus:

PC client products LAN server products Internet server products Other products	Trend Micro Inc develops and sells the products. Some parts of the research and development activities are entrusted to Trend Micro Incorporated (Taiwan), Trend Micro Inc.(U.S.A.), Trend Micro Deutschland GmbH (Germany), and Trend Micro (Shanghai) Inc. (China). Trend Micro Incorporated (Taiwan) also operates manufacturing and sales of the products, part of which are purchased by Trend Micro Inc (Japan), Trend Micro Inc.(U.S.A.), Trend Micro Korea Inc., Trend Micro Deutschland GmbH(Germany), Trend Micro Italy S.r.l., Trend Micro Australia Pty. Ltd.(Australia), Trend Micro do Brasil Ltda.(Brazil), Trend Micro France, Trend Micro Hong Kong Limited, Trend Micro(UK)Limited, Trend Micro Latinoamerica S.A.de C.V (Mexico), Trend Micro (Shanghai) Inc. (China). In addition, Trend Micro Inc (Japan) owns software copyrights and receives from its overseas subsidiaries royalties based on the respective sales of products to such subsidiaries.

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2. Management policies and results of operations

Trend Micro Group s Basic Management Policy

Setting out a vision A world safe for exchanging digital information , Trend Micro Group has focused on providing the secure and safe networked society to all users of computer networks and the Internet by offering solutions to protect corporate networks or home PCs from computer viruses or other malicious content.

While computer networks and the Internet are increasingly widespread in business activities and daily life, computer viruses are becoming smarter and more malicious to break into networks or computers, and damages by them are also continuously increasing. Moreover, as another problems, harmful content such as SPAM mail (nuisance e-mail) or Bad URLs (websites providing the information that offends public order and morals) are deteriorating functionality and user-friendliness of network systems.

We currently have the strong impression that needs of corporate or private network users toward security vendors have been changing into larger one. Such dramatic change tells us that Trend Micro Group itself has to change its current corporate scheme to develop and sell products through a single organization, to offer comprehensive security solutions by adding high value services.

Thorough those business operations, Trend Micro Group wishes to contribute to development of Japan s and global information societies.

Basic Policy on the Distribution of Profits

One of the most critical challenges for us has been to accumulate reserves and strengthen our financial structure, as we need to respond to rapidly changing business environments and maintain our competitiveness in the market. We have, therefore, withheld dividends except the one to commemorate public offering in the fiscal year ending in December 1998.

Through rise of revenue and profit margins attained over recent fiscal years, our reserves, however, have been accumulated sufficiently enough to allow us to combine strengthening of our financial structure with payment of dividends. Considering the above situation, we have reached a conclusion that we would start to pay dividends from the fiscal year ending December 2003. We plan to set 20 percent of our consolidated net income as a base of the dividends and decide the dividends per share in consideration of acquisition plan of own shares and the profit available for dividend stipulated in the Japanese Commercial Code.

Basic Policy on the Trading lots for Shares

We understand that it is our critical task to ensure the liquidity of the shares in Trend Micro. We do not believe, however, that all the shareholders in Trend Micro will benefit from the reduction of minimum lots for shares, because the current liquidity of the shares is being maintained apparently at a fair level and the reduction of minimum lots for shares requires considerable expense.

We promise that we continue to review the minimum trading l from the viewpoint of shareholders benefits as well as the liquidity of the shares.

Issues to Handle

Impacted by deterioration of corporate sentiment in the U.S. and Europe as well as the lingering economic slump in Japan, corporate investment in information systems has shown signs of a slowdown. We know that the situation, represented by such reduction in cooperate investment into information systems, will not allow us to have any optimistic outlook for the business environment surrounding us.

On the other hand, many corporations are now increasingly reliant on computer networks represented by mail systems; the monetary damages for the opportunity losses caused by system down of company networks have come to far larger than several years ago. It is expected that network security including anti-virus solutions will take a more important role in the future, and that the market scale of the network security business will steadily expand in the long and medium terms. In response to such expansion of the market, we would like to promote recruiting and securing of the necessary human resources, expansion of the management bases, strengthening of corporate brand power and expansion of sales channels in a more positive way at Trend Micro and its overseas subsidiaries.

The technological innovations in our industry are constant and fast: as for the next generation Internet, for example, some people have raised the possibility that further development of open platforms such as broadband, mobile telecommunications and Linux may bring sweeping changes to the present network environment. In order to take and maintain competitive advantage against the major U.S. competitors, we need to respond to the external environment changes initiated by the technological innovations on a timely basis.

Outbreak of new types of viruses, such as NIMDA of 2 years ago, gave greater impact on anti-virus solutions. These viruses, which have compound infection approaches, not only rapidly enlarge the scale of the damages with their high infectious capacity, but repeat the infection, if even one single PC of a network remains infected. To respond to such new types of the viruses, we have to provide the better anti-virus solutions than the conventional ones, which were just to detect and destroy viruses upon receipt of a virus patter file

In order to protect corporate information assets from threats of the compound-infection-type viruses, we have set up TM EPS (Trend Micro Enterprise Protection Strategy), our one and only new anti-virus strategy in which we center-control all the anti-virus solutions ranging from prevention of virus infection to destruction of viruses, for the purpose of minimizing infection damages and anti-virus costs.

Our products compliant with TM EPS newly feature a function to provide preventive measures against virus infection

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prior to receipt of the virus pattern file as well as a function to rummage out viruses throughout PCs and servers of the network once again and prevent reinfection by destroying any remaining viruses promptly. These functions allow corporate users to respond to attacks of new viruses in shorter time than before as well as to cut time and cost requiring for recovery from the infection damages by rummaging and destroying the viruses all at once in the network. Moreover, for enabling the network administrator to manage and operate these functions in an effective and easy manner, we will expand functions of the products that integrate and manage the Trend Micro products deployed in the network.

While network environments and information assets of corporations have become more significant than before, threats of viruses are rapidly changing. In such an environment, we would like to develop new anti-virus strategies and solutions always ahead of our competitors and offer products and services to meet users needs, aiming to maintain our current competitive advantage in the market for corporate customers and to increase the market share further.

Summary of Consolidated Financial Results for the Fiscal Year 2002

The fiscal year under review saw a slowdown in demand within the IT industry, primarily the result of declining corporate IT spending in Japan, Europe and the United States. The corporate spending cuts also put the damper on demand for network security solutions, which have been positioned as a high priority in IT investment.

We have no intention, however, to change our outlook showing that our industry will undergo steady transition in the long and medium terms in spite of short-term fluctuation, because there still exists an underlying tendency that many companies continue to expand investments into overhaul of mission-critical operation systems. Further, since many harmful viruses that have been magnifying the damages from two years ago are strong and have multiple infection routes, users are requesting vendors of network security products to provide more effective products and services than ever.

The number of virus damage reports has increased constantly: we received 25,644 reports of domestic virus damages in 2001 and 52,172 reports in 2002.

During the fiscal year 2002, as more frequent virus infection has spread vie e-mail and websites in Japan, Trend Micro domestic operation saw significant sales increase of its InterScanVirusWall , an anti-virus product used on Internet gateways, as well as good sales growth of its ServerProtect for file servers and Virus Buster Corporate Edition for networked PCs. In the retail market, the Virus Buster series, which experienced drastic sales increase at the end of the previous fiscal period, set steady sales in this fiscal period as well. Further, in collaboration with ISPs, we greatly expanded the sales of the VirusWall E-Mail Service to offer anti-virus solutions.

In North America, growth of the sales was rather modest, because large-seized corporations, which make up the greatest portion of Trend Micro s customers in U.S., constrained investments to security. We have, however, implemented some measures to expand the sales in the next fiscal year and so on, such as strengthening of our brand power through marketing campaigns and expansion of sales channels aiming to shift to the indirect sales structure.

In Europe, anti-virus products, such as InterScan series and ScanMail series, used in higher layers of hierarchy of the network mainly contributed to the steady growth in sales of the products for relatively large-sized corporate users, and the sales of the products such as ServerProtect or OfficeScan (Virus Buster Corporate Edition) also increased with expansion of our middle-sized corporate customer segment.

In other areas such Australia, China, Brazil and Mexico, regardless of rather low shares in total sales of Trend Micro Group, the sales itself are expanding steadily.

During the fiscal year 2002, Trend Micro posted consolidated sales of ¥42,979 million, an increase of 37.2 percent over the last year. Consolidated ordinary income increased 40.8 percent to ¥13,449 million, while net income rose 226.0 percent to ¥7,892 million.

Sales in Japan posted an increase of 46.1 percent to ¥27,797 million, while operating income from these sales rose to ¥21,640 million, up 62.7 percent from the previous fiscal year. U.S. sales increased 32.9 percent to ¥14,758 million, with operating income totaling ¥1,152 million, a 7.7 percent increase. In Europe, sales increased 42.5 percent to ¥9,806 million, and operating income resulted in ¥653 million, a 22.7 percent increase. Asia and Oceania sales increased 41.9 percent to ¥7,339 million, and operating income resulted in ¥440 million. Other areas posted combined sales of ¥1,401 million, a 44.5 percent increase, and operating income of ¥263 million, down 15.7 percent.*1

(Note)*1 From the point of view with the term comparison, retroactive change for the segment classification is reflected to the data

for the previous fiscal year.

Earnings Projection

Since the business environment surrounding Trend Micro Group tends to fluctuate in the short run, it is difficult to make the highly reliable projection figures on a yearly basis. We, therefore, decided to announce the earnings on a quarterly basis in the fiscal year ending in March 2003 as well as earnings projection of the succeeding quarter.

If we find through our calculation conducted from time to time that the sales fluctuate from the most recent quarterly projection by more than 10%, or operating income or net income fluctuates by more than 30%, we will announce the revision of the earnings projection.

(Note) We plan to prepare the consolidated financial statement in accordance with US GAAP from FY2003 and thus the following

projection for the 1st Quarter is presented based on US GAAP.

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Projection for the 1st Quarter (Jan. 1 to Mar. 31, 2003)

Consolidate Sales:	Yen 11,000 Million
Consolidated Operating Income:	Yen 3,100 Million
Consolidated Net Income:	Yen 1,800 Million

The above earnings projection was calculated based on the following estimated major currency exchange rates;

Exchange Rates: USD 1=JPY 118, Euro 1= JPY 128

(For your reference) Actual results of the 1st Quarter of FY2002 (Japan GAAP)

Consolidated Sales:	Yen 9,752 Million
Consolidated Operating Income:	Yen 3,030 Million
Consolidated Net Income:	Yen 1,702 Million

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3. Consolidated Financial Statements

(1) Condensed consolidated balance sheets

(Thousands of yen)

Account		Period	FY 2002 (As of December 31, 2002) Amount	FY 2002 Percentage	FY 2001 (As of December 31, 2001) Amount	FY 2001 Percentage	Net increase/ decrease Amount
				%		%	
	(Assets)						
I	Current assets						
1.	Cash and bank deposits		47,895,542		40,853,417		
2.	Notes and accounts receivable, trade		12,287,077		12,280,759		
3.	Marketable securities		1,847,889				
4.	Inventories		363,848		238,881		
5.	Deferred tax assets		4,044,671		3,209,029		
6.	Others		798,244		786,996		
7.	Allowance for bad debt		(599,808)		(206,752)		
	Total current assets		66,637,465	89.8	57,162,330	87.5	9,475,135
II	Non-current assets						
1.	Property and equipment	*1					
(1)	Buildings		617,180		703,877		
(2)	Furniture and fixtures		1,302,093		1,290,269		
(3)	Others		25,405		18,727		
	Total property and equipment		1,944,678	2.6	2,012,873	3.1	(68,195)
2.	Intangibles						
(1)	Software		1,114,095		661,116		
(2)	Software in progress		156,595		400,202		
(3)	Others		26,395		49,141		
	Total intangibles		1,297,085	1.8	1,110,461	1.7	186,624
3.	Investments and other non-current assets						
(1)	Investments in Securities	*2 *3	1,150,049		2,529,142		
(2)	Investments in capital funds		536,380		707,389		
(3)	Deferred tax Assets		1,562,669		926,772		
(4)	Others		1,052,200		882,995		
(5)	Allowance for bad debt		(14,617)		(14,617)		
	Total investments and other non-current assets		4,286,682	5.8	5,031,681	7.7	(744,999)
	Total non-current assets		7,528,446	10.2	8,155,017	12.5	(626,570)

Total assets	74,165,912	100.0	65,317,347	100.0	8,848,564

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(Thousands of yen)

Account	Period	FY 2002 (As of December 31, 2002) Amount	Percentage	FY 2001 (As of December 31, 2001) Amount	Percentage	Net increase/ decrease Amount
			%		%	
(Liabilities)						
I Current liabilities						
1. Notes and accounts payable, trade		1,099,249		1,381,995		
2. Current portion of Long-term Debt	*3	5,000,000		3,000,000		
3. Accrued corporate tax and others		3,683,122		3,006,182		
4. Deferred revenue	*4	13,484,251		9,342,597		
5. Allowance for sales return		362,228		643,622		
6. Others		4,171,694		4,185,534		
Total current liabilities		27,800,546	37.5	21,559,933	33.0	6,240,613
II Long-term liabilities						
1. Long-term debt	*3	6,500,000		11,500,000		
2. Deferred revenue	*4	2,188,459		916,873		
3. Allowance for Retirement Benefits		381,356		313,082		
4. Others		210,947		126,399		
Total long-term liabilities		9,280,763	12.5	12,856,355	19.7	(3,575,592)

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See Notes to Financial Statements

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STATEMENT OF ASSETS AND LIABILITIES

April 30, 2005

Assets	
Investments in securities, at value (cost $1,689,884,682) including $259,023,366 of securities loaned	$ 1,685,717,636
Receivable from broker	360,346
Receivable for securities sold	25,553,683
Interest receivable	33,679,521
Receivable for securities lending income	55,715
Unrealized gains on interest rate swap transactions	9,168,220
Total assets	1,754,535,121
Liabilities	
Dividends payable	8,595,921
Payable for securities purchased	9,025,000
Payable for securities on loan	265,688,293
Due to custodian bank	13,707,250
Advisory fee payable	72,028
Due to other related parties	6,002
Accrued expenses and other liabilities	173,671
Total liabilities	297,268,165
Preferred shares at redemption value	
$25,000 liquidation value per share applicable to 19,600 shares, including dividends payable of $432,127	490,432,127
Net assets applicable to common shareholders	$ 966,834,829
Net assets applicable to common shareholders represented by	
Paid-in capital	$ 955,312,834
Overdistributed net investment income	(847,808)
Accumulated net realized gains on securities and interest rate swap transactions	7,368,629
Net unrealized gains on securities and interest rate swap transactions	5,001,174
Net assets applicable to common shareholders	$ 966,834,829
Net asset value per share applicable to common shareholders	
Based on $966,834,829 divided by 67,087,508 common shares issued and outstanding (100,000,000 common shares authorized)	$ 14.41

See Notes to Financial Statements

STATEMENT OF OPERATIONS

Year Ended April 30, 2005

Investment income		
Interest income (net of foreign withholding taxes of $42,445)	$	123,709,853
Income from affiliates		784,248
Securities lending		424,244
Total investment income		124,918,345
Expenses		
Advisory fee		9,098,881
Administrative services fee		758,240
Transfer agent fees		46,893
Trustees' fees and expenses		47,956
Printing and postage expenses		185,706
Custodian and accounting fees		310,386
Professional fees		54,142
Auction agent fees		1,286,912
Other		36,938
Total expenses		11,826,054
Less: Expense reductions		(7,989)
Expense reimbursements		(203)
Net expenses		11,817,862
Net investment income		113,100,483
Net realized and unrealized gains or losses on securities and interest rate swap transactions		
Net realized gains or losses on:		
Securities		26,850,019
Interest rate swap transactions		(3,137,157)
Net realized gains on securities and interest rate swap transactions		23,712,862
Net change in unrealized gains or losses on securities and interest rate swap transactions		(76,423,477)
Net realized and unrealized gains or losses on securities and interest rate swap transactions		(52,710,615)
Distributions to preferred shareholders from		
Net investment income		(9,367,586)
Net realized gains		(674,040)
Net increase in net assets applicable to common shareholders resulting from operations	$	50,348,242

See Notes to Financial Statements

STATEMENTS OF CHANGES IN NET ASSETS

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

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

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

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

a. Valuation of investments

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

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

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

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

b. Securities lending

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

c. Interest rate swaps

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

NOTES TO FINANCIAL STATEMENTS continued

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

d. Security transactions and investment income

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

e. Federal taxes

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

f. Distributions

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

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

Overdistributed net investment income	$	11,156,353
Accumulated net realized gains on securities and interest rate swap transactions		(11,156,353)

g. Reclassifications

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

2. ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

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

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

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

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

3. CAPITAL SHARE TRANSACTIONS

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

4. SECURITIES TRANSACTIONS

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

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

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

Expiration	Notional 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-2.87%	$3,083,390
11/26/2006	105,000,000	Merrill Lynch & Co., Inc.	Fixed - 2.79%	Floating-2.85%	1,596,336
7/02/2008	100,000,000	JPMorgan Chase & Co.	Fixed - 2.737%	Floating-2.87%	3,430,374
11/26/2008	65,000,000	Merrill Lynch & Co., Inc.	Fixed - 3.585%	Floating-2.85%	1,058,120

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

NOTES TO FINANCIAL STATEMENTS continued

5. AUCTION MARKET PREFERRED SHARES

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

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

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

6. DISTRIBUTIONS TO SHAREHOLDERS

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

Overdistributed Ordinary Income	Undistributed Long-term Capital Gain	Unrealized Appreciation
$ 847,808	$11,634,125	$ 735,678

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

The tax character of distributions paid was as follows:

	Year EndedApril 30,	
	2005	2004
Ordinary Income	$122,739,422	$114,879,208
Long-term Capital Gain	18,676,422	0

7. EXPENSE REDUCTIONS

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

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NOTES TO FINANCIAL STATEMENTS continued

8. DEFERRED TRUSTEES' FEES

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

9. CONCENTRATION OF RISK

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

10. REGULATORY MATTERS AND LEGAL PROCEEDINGS

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

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

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

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

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

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

11. SUBSEQUENT DISTRIBUTIONS

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

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

These distributions are not reflected in the accompanying financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Trustees and Shareholders
Evergreen Income Advantage Fund

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

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

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

Boston, Massachusetts
June 17, 2005

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.

ADDITIONAL INFORMATION (unaudited)

FEDERAL TAX DISTRIBUTIONS

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

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TRUSTEES AND OFFICERS

TRUSTEES 1

Charles A. Austin III Trustee DOB: 10/23/1934 Term of office since: 1991 Other directorships: None	Principal occupations: Investment Counselor, Anchor Capital Advisors, Inc. (investment advice); Director, The Andover Companies (insurance); Trustee, Arthritis Foundation of New England; Director, The Francis Ouimet Society; Former Director, Health Development Corp. (fitness-wellness centers); Former Director, Mentor Income Fund, Inc.; Former Trustee, Mentor Funds and Cash Resource Trust; Former Investment Counselor, Appleton Partners, Inc. (investment advice); Former Director, Executive Vice President and Treasurer, State Street Research & Management Company (investment advice)
Shirley L. Fulton Trustee DOB: 1/10/1952	Principal occupations: Partner, Tin, Fulton, Greene & Owen, PLLC (law firm); Former Partner, Helms, Henderson & Fulton, P.A. (law firm); Retired Senior Resident Superior Court Judge, 26th Judicial District, Charlotte, NC

Term of office since: 2004
Other directorships: None

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

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Dr. Leroy Keith, Jr.
Trustee
DOB: 2/14/1939
Term of office since: 1983

Other directorships: Trustee, The Phoenix Group of Mutual Funds

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

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

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

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

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

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David M. Richardson
Trustee
DOB: 9/19/1941
Term of office since: 1982

Other directorships: None

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

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Dr. Russell A. Salton III
Trustee
DOB: 6/2/1947
Term of office since: 1984

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

Other directorships: None

TRUSTEES AND OFFICERS continued

Michael S. Scofield Trustee DOB: 2/20/1943 Term of office since: 1984 Other directorships: None	Principal occupations: Director, Branded Media Corporation (multi-media branding company); Attorney, Law Offices of Michael S. Scofield; Former Director, Mentor Income Fund, Inc.; Former Trustee, Mentor Funds and Cash Resource Trust
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, Hartford Hospital; Trustee, Greater Hartford YMCA; Former Director, Enhance Financial Services, Inc.; Former Director, Old State House Association; Former Director of CTG Resources, Inc. (natural gas); Former Director, Mentor Income Fund, Inc.; Former Trustee, Mentor Funds and Cash Resource Trust
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 Consultant to the Boards of Trustees of the Evergreen funds; Former Trustee, Mentor Funds and Cash Resource Trust

OFFICERS

Dennis H. Ferro [3] President DOB: 6/20/1945 Term of office since: 2003	Principal occupations: President and Chief Executive Officer, Evergreen Investment Company, Inc. and Executive Vice President, Wachovia Bank, N.A.; former Chief Investment Officer, Evergreen Investment Company, Inc.
Carol Kosel [4] Treasurer DOB: 12/25/1963 Term of office since: 1999	Principal occupations: Senior Vice President, Evergreen Investment Services, Inc.
Michael H. Koonce [4] Secretary	Principal occupations: Senior Vice President and General Counsel, Evergreen Investment Services, Inc.; Senior Vice President and Assistant General Counsel, Wachovia Corporation

DOB: 4/20/1960
Term of office since: 2000

James Angelos [4] Chief Compliance Officer DOB: 9/2/1947 Term of office since: 2004	Principal occupations: Chief Compliance Officer and Senior Vice President, Evergreen Funds; Former Director of Compliance, Evergreen Investment Services, Inc.

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

Item 2 - Code of Ethics

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

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

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

Item 3 - Audit Committee Financial Expert

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

Items 4 Principal Accountant Fees and Services

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

	2005	2004

Audit fees	$25,000	$24,000
Audit-related fees (1)	13,000	12,250
Audit and audit-related fees	38,000	36,250
Tax fees (2)	3,375	1,850
All other fees	0	0
Total fees	$41,375	$38,100

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

Evergreen Funds

Evergreen Income Advantage Fund
Evergreen Managed Income Fund

Audit and Non-Audit Services Pre-Approval Policy

I. Statement of Principles

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

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

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

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

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

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

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

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

II. Delegation

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

III. Audit Services

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

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

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

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

IV. Audit-related Services

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

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

V. Tax Services

The Audit Committee believes that the independent auditor can provide Tax services to the Funds such as tax compliance, tax planning and tax advice without impairing the auditor's independence, and the SEC has stated that the independent auditor may provide such services. Hence, the Audit Committee believes it may grant general pre-approval to those Tax services that have historically been provided by the auditor, that the Audit Committee has reviewed and believes would not impair the independence of the auditor, and that are consistent with the SEC's rules on auditor independence. The Audit Committee will not permit the retention of the independent auditor in connection with a transaction initially recommended by the independent auditor, the sole business purpose of which may be tax avoidance and the tax treatment of which may not be supported in the Internal Revenue Code and related regulations. The Audit Committee will consult with the Director of Fund Administration, the Vice President of Tax Services or outside counsel to determine that the tax planning and reporting positions are consistent with this policy.

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

VI. All Other Services

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

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

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

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

VII. Pre-Approval Fee Levels or Budgeted Amounts

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

VIII. Procedures

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

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

The Audit Committee has designated the Chief Compliance Officer to monitor the performance of all services provided by the independent auditor and to determine whether such services are in compliance with this policy. The Chief Compliance Officer will report to the Audit Committee on a periodic basis on the results of its monitoring. Both the Chief Compliance Officer and management will immediately report to the chairman of the Audit Committee any breach of this policy that comes to the attention of the Chief Compliance Officer or any member of management.

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

IX. Additional Requirements

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

Items 5 – Audit Committee of Listed Registrants

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

Item 6 – [Reserved]

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

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

Item 8 – [Reserved]

Item 9 - Controls and Procedures

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

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

Item 10 - Exhibits

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

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

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

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

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Dennis H. Ferro,

Principal Executive Officer

Date: June 30, 2005

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

By:

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Dennis H. Ferro,

Principal Executive Officer

Date: June 30, 2005

By:

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Carol A. Kosel

Principal Financial Officer

Date: June 30, 2005
