

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

---

OMB Number: 3235-0570  
Expires: Nov. 30, 2005  
Estimated average burden  
hours per response: 5.0

---

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

**FORM N-CSR**

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

Investment Company Act file number 811-21269

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

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

200 Berkeley Street  
Boston, Massachusetts 02116

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

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

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

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

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

Date of reporting period: April 30, 2005

**Item 1 - Reports to Stockholders.**

## table of contents

<b>1</b>	<b>LETTER TO SHAREHOLDERS</b>
<b>4</b>	<b>FINANCIAL HIGHLIGHTS</b>
<b>5</b>	<b>SCHEDULE OF INVESTMENTS</b>
<b>14</b>	<b>STATEMENT OF ASSETS AND LIABILITIES</b>
<b>15</b>	<b>STATEMENT OF OPERATIONS</b>
<b>16</b>	<b>STATEMENTS OF CHANGES IN NET ASSETS</b>
<b>17</b>	<b>NOTES TO FINANCIAL STATEMENTS</b>
<b>23</b>	<b>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</b>
<b>24</b>	<b>AUTOMATIC DIVIDEND REINVESTMENT PLAN</b>
<b>25</b>	<b>ADDITIONAL INFORMATION</b>
<b>28</b>	<b>TRUSTEES AND OFFICERS</b>

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

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

Mutual Funds:

NOT FDIC INSURED    MAY LOSE VALUE    NOT BANK GUARANTEED

Evergreen Investments<sup>SM</sup> is a service mark of Evergreen Investment Management Company, LLC. Copyright 2005, Evergreen Investment Management Company, LLC.

---

### LETTER TO SHAREHOLDERS

June 2005

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

**Dear Shareholder,**

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

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

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

1

---

**LETTER TO SHAREHOLDERS** continued

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

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

2

---

**LETTER TO SHAREHOLDERS** continued

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

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

Sincerely,

**Dennis H. Ferro**

President and Chief Executive Officer  
Evergreen Investment Company, Inc.

3

**Special Notice to Shareholders:**

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

**3****FINANCIAL HIGHLIGHTS**

(For a common share outstanding throughout each period)

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

**4**

**Ratios and supplemental data**

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

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

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

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

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

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

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

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

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

<sup>6</sup> Annualized

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

See Notes to Financial Statements

4

**SCHEDULE OF INVESTMENTS**

April 30, 2005

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

Edgar Filing: EVERGREEN INCOME ADVANTAGE FUND - Form N-CSR

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

---

117,728,981

---

**Household Durables 2.5%**

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

---

24,298,500

---

**Leisure Equipment & Products 1.9%**

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

---

18,097,087

---

**Media 14.2%**

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

See Notes to Financial Statements

Edgar Filing: EVERGREEN INCOME ADVANTAGE FUND - Form N-CSR

April 30, 2005

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

Edgar Filing: EVERGREEN INCOME ADVANTAGE FUND - Form N-CSR

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

See Notes to Financial Statements

6

**SCHEDULE OF INVESTMENTS** continued

April 30, 2005

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



Edgar Filing: EVERGREEN INCOME ADVANTAGE FUND - Form N-CSR

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

**FINANCIALS 8.7%**

**Consumer Finance 2.1%**

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

**Diversified Financial Services 1.8%**

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

See Notes to Financial Statements

7

**SCHEDULE OF INVESTMENTS** continued

April 30, 2005

Principal Amount	Value
---------------------	-------

**CORPORATE BONDS** continued

9

Edgar Filing: EVERGREEN INCOME ADVANTAGE FUND - Form N-CSR

**FINANCIALS continued**

**Insurance 0.8%**

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

**Real Estate 4.0%**

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

**HEALTH CARE 9.6%**

**Health Care Equipment & Supplies 1.6%**

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

**Health Care Providers & Services 8.0%**

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

**INDUSTRIALS 10.5%**

**Aerospace & Defense 0.6%**

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

**Commercial Services & Supplies 4.9%**

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

Edgar Filing: EVERGREEN INCOME ADVANTAGE FUND - Form N-CSR

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

See Notes to Financial Statements

8

**SCHEDULE OF INVESTMENTS** continued

April 30, 2005

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

**MATERIALS 28.9%**

**Chemicals 9.8%**

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

**Containers & Packaging 7.1%**

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

See Notes to Financial Statements

9

**SCHEDULE OF INVESTMENTS** continued

April 30, 2005

**Principal  
Amount**

**CORPORATE BONDS** continued

**MATERIALS** continued

**Containers & Packaging** continued

Owens-Brockway Glass Containers, Inc.:		
8.25%, 05/15/2013	\$10,525,000	

8.75%, 11/15/2012

12,150,000 **NOTE 9: Contingent Liabilities and Commitments**

*Repurchase Commitments*

Generally, companies in the RV industry enter into repurchase agreements with lending i

Our repurchase agreements provide that, in the event of default by the dealer on the agree

In certain instances, we also repurchase inventory from our dealers due to state law or reg

---

Table of Contents

Based on our repurchase agreements and the incremental repurchase exposure explained

A summary of the activity for repurchased units is as follows:

**(Dollars in thousands)**

Inventory repurchased

Units

Dollars

Inventory resold

Units

Cash collected

Loss recognized

As noted in the table above, during the first two quarters of Fiscal 2009, we incurred a sig

***Guarantees For Suppliers***

During the second quarter of Fiscal 2004, we entered into a five-year limited guaranty ag

***Litigation***

We are involved in various legal proceedings which are ordinary routine litigation incid

---

Table of Contents

**NOTE 10: Income Per Share**

The following table reflects the calculation of basic and diluted income per share:

**(In thousands, except per share data)**

(Loss) income per share - basic

Net (loss) income

Weighted average shares outstanding

Net (loss) income per share - basic

(Loss) income per share - assuming dilution

Net (loss) income

Weighted average shares outstanding

Dilutive impact of options and awards outstanding

Weighted average shares and potential dilutive shares outstanding

Net (loss) income per share - assuming dilution

At February 28, 2009 and March 1, 2008, there were options outstanding to purchase 1,0

**NOTE 11: Comprehensive Income**

Comprehensive income, net of tax, consists of:

**(In thousands)**

Net (loss) income

Change in temporary impairment of investments

Amortization of prior service credit

Amortization of actuarial loss

Comprehensive (loss) income

**NOTE 12: Subsequent Event**

We filed our Fiscal 2008 federal tax return during the second quarter of Fiscal 2009 and i

---

Table of Contents

**ITEM 2. Management's Discussion and Analysis of Financial Condition**

It is suggested that this management's discussion be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Forward-Looking Information**

Certain of the matters discussed in this Quarterly Report on Form 10-Q are forward-looking.

**Executive Overview**

Winnebago Industries, Inc. is a leading motor home manufacturer with a proud history of innovation and quality.

**Company and Business Outlook**

The RV industry saw substantial reductions in wholesale motor home shipments and retail sales in the first quarter of 2020.

**(In units)**

First Quarter

Second Quarter

Third Quarter

Fourth Quarter

Total

January

February

Total year-to-date

(1)

(2)

The motorized market has been significantly impacted by highly unstable market conditions.

---



Table of Contents

Subsequent to our second quarter end in early March 2009, two of our significant competitors

Due to extremely challenging market conditions which have resulted in a severe decline in

As of February 28, 2009, we had \$27.5 million of cash as well as our \$25.0 million credit

We have taken significant actions over the past 12 months to reduce our fixed cost structure

Order backlog for our motor homes was as follows:

Class A gas
Class A diesel
Total Class A
Class B
Class C
Total backlog
Total approximate revenue dollars (in millions) <sup>(1)</sup>
Dealer inventory (units)

(1)

Table of Contents

When wholesale and retail credit availability and consumer confidence improve, we expect

**Critical Accounting Policies**

Our consolidated financial statements are prepared in accordance with generally accepted

We believe that the following accounting estimates and policies are the most critical to our

**Revenue Recognition.** Generally, revenues for motor homes are recorded when all of the

Revenues from the sales of our OEM and motor home-related parts are recorded as the pr

**Sales Promotions and Incentives.** We accrue for sales promotions and incentive expens

**Repurchase Commitments.** It is customary practice for companies in the recreation veh

Based on these repurchase agreements, we establish an associated loss reserve. This loss

---

Table of Contents

**Warranty.** We provide with the purchase of any new motor home, a comprehensive 12-month

**Stock-Based Compensation.** Prior to Fiscal 2007, we granted stock options to our key employees

The amount of stock-based compensation expense incurred and to be incurred in future periods

The value of the restricted stock is based on the closing price of our common stock on the date of

**Unrecognized Tax Benefits.** We only recognize tax benefits for filing positions that are more likely than

Our liability for unrecognized tax benefits contains uncertainties because we are required to estimate

Although we believe that the judgments and estimates discussed herein are reasonable, actual results

---

Table of Contents

**Postretirement Benefits Obligations and Costs.** We provide certain health care and other

**Other.** We have reserves for other loss exposures, such as litigation, product liability, wo

---

Table of Contents

**Results of Operations**

**Second Quarter of Fiscal 2009 Compared to the Second Quarter of Fiscal 2008**

The following is an analysis of changes in key items included in the consolidated statements of operations:

**(In thousands, except percent and per share data)**

Net revenues  
Cost of goods sold  
Gross (deficit) profit  
Selling  
General and administrative  
Total operating expenses  
Operating (loss) income  
Financial income  
(Loss) income before income taxes  
(Benefit) provision for taxes  
Net (loss) income

Diluted (loss) income per share  
Fully diluted average shares outstanding  
Unit deliveries consisted of the following:

**(In units)**

Class A gas  
Class A diesel  
Total Class A  
Class B  
Class C  
Total deliveries  
Net revenues for the quarter ended February 28, 2009 decreased \$132.4 million, or 80.6 percent, from the quarter ended February 28, 2008.

Gross (deficit) profit for the quarter ended February 28, 2009 was a deficit of \$11.8 million, or 8.6 percent, compared to a deficit of \$11.8 million, or 8.6 percent, for the quarter ended February 28, 2008.

Table of Contents

Selling expenses decreased \$1.4 million, or 33.9 percent, for the quarter ended February 28, 2009.

General and administrative expenses decreased \$1.5 million, or 26.6 percent, for the quarter ended February 28, 2009.

Financial income decreased \$603,000, or 48.8 percent, for the quarter ended February 28, 2009.

The overall effective income tax rate for the quarter ended February 28, 2009 was a benefit of 1.2 percent.

**(Dollars in thousands)**

Tax (benefit) provision before discrete items <sup>(1)</sup>

Discrete item: tax planning initiative <sup>(2)</sup>

Total (benefit) provision for taxes

(1)

(2)

---

Table of Contents

**First Twenty-Six Weeks of Fiscal 2009 Compared to the First Twenty-Seven Weeks**

The following is an analysis of changes in key items included in the consolidated statements

**(In thousands, except percent  
and per share data)**

Net revenues  
Cost of goods sold  
Gross (deficit) profit  
Selling  
General and administrative  
Total operating expenses  
Operating (loss) income  
Financial income  
(Loss) income before income taxes  
(Benefit) provision for taxes  
Net (loss) income  
  
Diluted (loss) income per share  
Fully diluted average share outstanding  
Unit deliveries consisted of the following:

**(In units)**

Class A gas  
Class A diesel  
Total Class A  
Class B  
Class C  
Total deliveries

Net revenues for the twenty-six weeks ended February 28, 2009 decreased \$278.1 million

- 1.
- 2.
- 3.
- 4.
- 5.

Gross (deficit) profit for the twenty-six weeks ended February 28, 2009 was a deficit of \$  
deterioration of margin was primarily due to a significant reduction in production resulting

provision.

---



Table of Contents

Selling expenses decreased \$3.4 million, or 34.3 percent, for the twenty-six weeks ended

General and administrative expenses decreased \$3.6 million, or 30.0 percent, for the twen

Financial income decreased \$1.3 million, or 53.3 percent, for the twenty-six weeks ended

The overall effective income tax rate for the twenty-six weeks ended February 28, 2009 v

**(Dollars in thousands)**

Tax (benefit) provision before discrete items <sup>(1)</sup>

Discrete item: tax planning initiative <sup>(2)</sup>

Total (benefit) provision for taxes

(1)

(2)

**Analysis of Financial Condition, Liquidity and Resources**

Cash and cash equivalents totaled \$27.5 million and \$17.9 million as of February 28, 200

Short-term and long-term investments net of temporary impairments totaled \$33.5 million

At the end of the second quarter, we had generated an income tax receivable of \$19.5 mil

On September 17, 2008, we entered into a Credit and Security Agreement with Wells Far

Table of Contents

Working capital at February 28, 2009 and August 30, 2008 was \$92.7 million and \$108.5 million.

**Operating Activities**

Cash used in operating activities was \$2.3 million for the twenty-six weeks ended February 28, 2009.

**Investing Activities**

Cash provided by investing activities was due primarily to ARS redemptions of \$8.5 million for the twenty-six weeks ended February 28, 2009.

**Financing Activities**

Cash provided by financing activities of \$5.4 million for the twenty-six weeks ended February 28, 2009.

**Anticipated Use of Funds**

Estimated uses of our liquid assets, at February 28, 2009 for the remainder of Fiscal 2009 are as follows:

**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risks related to fluctuations in interest rates on marketable investments.

Our investments are comprised of ARSs. These securities have historically traded at par value.

Additional information regarding our investment portfolio is detailed in Note 4 to the Consolidated Financial Statements.

We do not believe that future market equity or interest rate risks related to our marketable investments are material.

---

Table of Contents

**ITEM 4. Controls and Procedures**

We are responsible for establishing and maintaining adequate internal control over financial

*Disclosure Controls and Procedures.* As of the end of the period covered by this report,

We, including the Chief Executive Officer and the Chief Financial Officer, do not expect

*Changes in Internal Control Over Financial Reporting.* There have been no significant

---

Table of Contents

**PART II. OTHER INFORMATION**

**ITEM 1.**

**ITEM 1A.**

**ITEM 2.**

**ITEM 4.**

Table of Contents

John V. Hanson (2011)

Gerald C. Kitch (2011)

Robert J. Olson (2011)

There were no broker nonvotes.

Company's proposal regarding ratification of the appointment of Deloitte & Touche, LL

**ITEM 6.**

---

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has o

Date

Date

---

Table of Contents

31.1

31.2

32.1

32.2

---