

EATON VANCE SENIOR FLOATING RATE TRUST
Form 486BPOS
February 23, 2017

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-2

REGISTRATION STATEMENT
UNDER

THE SECURITIES ACT of 1933 ..
PRE-EFFECTIVE AMENDMENT NO. ..
POST-EFFECTIVE AMENDMENT NO. 1 x
and/or

REGISTRATION STATEMENT
UNDER

THE INVESTMENT COMPANY ACT OF 1940 o
AMENDMENT NO. 16 x

EATON VANCE SENIOR FLOATING-RATE TRUST
(Exact Name of Registrant as Specified in Charter)

Two International Place, Boston, Massachusetts 02110
(Address of Principal Executive Offices)

(617) 482-8260
(Registrant's Telephone Number)

Frederick S. Marius
Two International Place, Boston, Massachusetts 02110
(Name and Address of Agent for Service)

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, as amended, other than securities offered in connection with a dividend reinvestment plan, check the following box. x

It is proposed that this filing will become effective (check appropriate box):

.. When declared effective pursuant to Section 8(c)

x Immediately upon filing pursuant to no-action relief granted to Registrant on June 26, 2013

C-1

BASE PROSPECTUS

Up to 4,084,905 Shares

Eaton Vance Senior Floating-Rate Trust

Common Shares

Investment objectives and policies. Eaton Vance Senior Floating-Rate Trust (the Trust) is a diversified, closed-end management investment company, which commenced operations on November 24, 2003. The Trust's investment objective is to provide a high level of current income. The Trust may, as a secondary objective, also seek preservation of capital to the extent consistent with its primary goal of high current income. The Trust will seek to achieve its investment objectives by investing primarily in senior, secured floating-rate loans (Senior Loans). Floating-rate loans are loans in which the interest rate paid fluctuates based on a reference rate. Under normal market conditions, Eaton Vance Management, the Trust's investment adviser, expects the Trust to maintain an average duration of less than one year (including the effect of leverage).

Investment Adviser. The Trust's investment adviser is Eaton Vance Management (Eaton Vance or the Adviser). As of December 31, 2016, Eaton Vance and its affiliates managed approximately \$ 354.3 billion of fund and separate account assets on behalf of clients, including approximately \$33. 2 billion in floating-rate income assets.

The Offering. The Trust may offer, from time to time, in one or more offerings (each, an Offering), the Trust's common shares of beneficial interest, \$0.01 par value (Common Shares). Common Shares may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each, a Prospectus Supplement). You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in Common Shares. Common Shares may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the Offering will identify any agents, underwriters or dealers involved in the offer or sale of Common Shares, and will set forth any applicable offering price, sales load, fee, commission or discount arrangement between the Trust and its agents or underwriters, or among its underwriters, or the basis upon which such amount may be calculated, net proceeds and use of proceeds, and the terms of any sale. The Trust may not sell any Common Shares through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular Offering of the Common Shares. *(continued on inside cover page)*

The Common Shares have traded both at a premium and a discount to net asset value (NAV). The Trust cannot predict whether Common Shares will trade in the future at a premium or discount to NAV. The provisions of the Investment Company Act of 1940, as amended (the 1940 Act) generally require that the public offering price of common shares (less any underwriting commissions and discounts) must equal or exceed the NAV per share of a company's common

stock (calculated within 48 hours of pricing). The Trust's issuance of Common Shares may have an adverse effect on prices in the secondary market for the Trust's Common Shares by increasing the number of Common Shares available, which may put downward pressure on the market price for the Trust's Common Shares. Shares of common stock of closed-end investment companies frequently trade at a discount from NAV, which may increase investors' risk of loss.

Investing in shares involves certain risks, including that the Trust will invest substantial portions of its assets in below investment grade quality securities with speculative characteristics. See "Investment Objectives, Policies and Risks" beginning at page 18.

Neither the Securities and Exchange Commission (SEC) nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

(continued from previous page)

Portfolio contents. The Trust will pursue its objectives by investing its assets primarily in Senior Loans. Under normal market conditions, the Trust will invest at least 80% of its total assets in Senior Loans of domestic and foreign borrowers that are denominated in U.S. dollars, euros, British pounds, Swiss francs, Canadian dollars and Australian dollars (each, an Authorized Foreign Currency). For the purposes of the 80% test, total assets is defined as net assets plus any borrowings for investment purposes, including any outstanding preferred shares. Senior Loans are made to corporations, partnerships and other business entities (Borrowers) that operate in various industries and geographical regions, including foreign Borrowers. Senior Loans pay interest at rates that are reset periodically on the basis of a floating base lending rate plus a premium. Senior Loans typically are of below investment grade quality and have below investment grade credit ratings, which ratings are associated with securities having high risk, speculative characteristics (sometimes referred to as junk).

Leverage. The Trust currently uses leverage created by issuing Auction Preferred Shares (APS) as well as by loans acquired with borrowings. On January 26, 2004, the Trust issued 3,940 Series A APS, 3,940 Series B APS, 3,940 Series C APS and 3,940 Series D APS, with a liquidation preference per share of \$25,000 plus accumulated but unpaid dividends. On September 23, 2016, the Trust repurchased 354 Series A APS, 354 Series B APS, 354 Series C APS and 354 Series D APS. In addition, the Trust has entered into a Credit Agreement (the Agreement) with a bank to borrow up to a limit of \$ 230 million (\$ 220 million prior to September 21, 2016) pursuant to a 364-day revolving line of credit. The Trust is required to maintain certain net asset levels during the term of the Agreement. As of October 31, 2016, the Trust had \$ 198 million in outstanding borrowings, at an interest rate of 1.31%, in addition to outstanding APS.

The Adviser anticipates that the use of leverage (from the issuance of APS and borrowings) will result in higher income to holders of Common Shares (Common Shareholders) over time. Use of financial leverage creates an opportunity for increased income but, at the same time, creates special risks. There can be no assurance that a leveraging strategy will be successful. The fee paid to Eaton Vance will be calculated on the basis of the Trust's gross assets, including proceeds from the issuance of APS and borrowings, so the fees will be higher when leverage is utilized. In this regard, holders of debt or preferred securities do not bear the investment advisory fee. Rather, Common Shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds, which means that Common Shareholders effectively bear the entire advisory fee. See Investment Objectives, Policies and Risks - Use of Leverage and Related Risks at page 26, Investment Objectives, Policies and Risks - Additional Risk Considerations at page 28 and Description of Capital Structure at page 36.

Exchange listing. As of February 21, 2017, the Trust had 38,841,535 Common Shares outstanding as well as 3,836 APS outstanding. The Trust's Common Shares are traded on the New York Stock Exchange (NYSE) under the symbol EFR. As of February 21, 2017, the last reported sales price of a Common Share of the Trust on the NYSE was \$ 15.27. Common Shares offered and sold pursuant to this Registration Statement will also be listed on the NYSE and trade under this symbol.

This Prospectus, together with any applicable Prospectus Supplement, sets forth concisely information you should know before investing in the shares of the Trust. Please read and retain this Prospectus for future reference. A Statement of Additional Information dated February 23, 2017, has been filed with the SEC. The Statement of Additional Information, annual and semi-annual reports to shareholders when available and other information about the Trust can be obtained without charge by calling 1-800-262-1122 or by writing to the Trust at the address below or from the Trust's website (<http://www.eatonvance.com>). A table of contents to the Statement of Additional Information is located at page 41 of this Prospectus. This Prospectus incorporates by reference the entire Statement of Additional Information. The Statement of Additional Information is available along with other Trust-related materials: at the SEC's public reference room in Washington, DC (call 1-202-551-8090 for information on the operation of the public reference room); the EDGAR database on the SEC's internet site (<http://www.sec.gov>); upon payment of copying fees by writing to the SEC's Public Reference Section, 100 F Street, NE, Washington, DC 20549-1520; or by electronic

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mail at publicinfo@sec.gov. The Trust's principal office is located at Two International Place, Boston, MA 02110, and its telephone number is 1-800-262-1122.

The Trust's shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

You should rely only on the information contained or incorporated by reference in this Prospectus. The Trust has not authorized anyone to provide you with different information. The Trust is not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the front of this Prospectus.

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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus, any accompanying Prospectus Supplement and the Statement of Additional Information contain forward-looking statements. Forward-looking statements can be identified by the words may, will, intend, expect, estimate, continue, plan, anticipate, and similar terms and the negative of such terms. Such forward-looking statements may be contained in this Prospectus as well as in any accompanying Prospectus Supplement. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect our actual results are the performance of the portfolio of securities we hold, the price at which our shares will trade in the public markets and other factors discussed in our periodic filings with the SEC.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in the Investment Objectives, Policies and Risks section of this Prospectus. All forward-looking statements contained or incorporated by reference in this Prospectus or any accompanying Prospectus Supplement are made as of the date of this Prospectus or the accompanying Prospectus Supplement, as the case may be. Except for our ongoing obligations under the federal securities laws, we do not intend, and we undertake no obligation, to update any forward-looking statement. The forward-looking statements contained in this Prospectus, any accompanying Prospectus Supplement and the Statement of Additional Information are excluded from the safe harbor protection provided by section 27A of the Securities Act of 1933, as amended (the 1933 Act).

Currently known risk factors that could cause actual results to differ materially from our expectations include, but are not limited to, the factors described in the Investment Objectives, Policies and Risks section of this Prospectus. We urge you to review carefully that section for a more detailed discussion of the risks of an investment in our securities.

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Prospectus Summary

The following summary is qualified in its entirety by reference to the more detailed information included elsewhere in this Prospectus, in any related Prospectus Supplement, and in the Statement of Additional Information.

THE TRUST

Eaton Vance Senior Floating-Rate Trust (the Trust) is a diversified, closed-end management investment company, which commenced operations on November 24, 2003. The Trust offers investors the opportunity to receive a high level of current income, through a professionally managed portfolio investing primarily in senior, secured floating-rate loans (Senior Loans), which are normally accessible only to financial institutions and large corporate and institutional investors, and are not widely available to individual investors. To the extent consistent with this objective, the Trust may also offer an opportunity for preservation of capital. Investments are based on Eaton Vance Management's (Eaton Vance or the Adviser) internal research and ongoing credit analysis, which is generally not available to individual investors. An investment in the Trust may not be appropriate for all investors. There is no assurance that the Trust will achieve its investment objectives.

THE OFFERING

The Trust may offer, from time to time, in one or more offerings (each, an Offering), up to 4,084,905 of the Trust's common shares of beneficial interest, \$0.01 par value (Common Shares), on terms to be determined at the time of the Offering. The Common Shares may be offered at prices and on terms to be set forth in one or more prospectus supplements. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in Common Shares. Common Shares may be offered directly to one or more purchasers, through agents designated from time to time by the Trust, or to or through underwriters or dealers. The Prospectus Supplement relating to the Offering will identify any agents, underwriters or dealers involved in the offer or sale of Common Shares, and will set forth any applicable offering price, sales load, fee, commission or discount arrangement between the Trust and its agents or underwriters, or among its underwriters, or the basis upon which such amount may be calculated, net proceeds and use of proceeds, and the terms of any sale. See Plan of Distribution. The Trust may not sell any of Common Shares through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular Offering of Common Shares.

INVESTMENT OBJECTIVES, POLICIES AND RISKS

The Trust's investment objective is to provide a high level of current income. The Trust may, as a secondary objective, also seek preservation of capital to the extent consistent with its primary goal of high current income. Under normal market conditions, Eaton Vance expects the Trust to maintain a duration of less than one year (including the effect of leverage). In comparison to maturity (which is the date on which a debt instrument ceases and the issuer is obligated to repay the principal amount), duration is a measure of the price volatility of a debt instrument as a result of changes in market rates of interest, based on the weighted average timing of the instrument's expected principal and interest payments. Duration differs from maturity in that it considers a security's yield, coupon payments, principal payments and call features in addition to the amount of time until the security finally matures. The Trust pursues its objectives by investing primarily in Senior Loans. Senior Loans are loans in which the interest rate paid fluctuates based on a reference rate. Senior Loans are made to corporations, partnerships and other business entities (Borrowers) which operate in various industries and geographical regions. Senior Loans pay interest at rates that are reset periodically by reference to a base lending rate, primarily the London Interbank Offered Rate (LIBOR), plus a premium. Under normal market conditions, at least 80% of the Trust's total assets will be invested in interests in Senior Loans of domestic and foreign borrowers that are denominated in U.S. dollars, euros, British pounds, Swiss francs, Canadian dollars and Australian dollars (each an Authorized Foreign Currency). For the purpose of the 80% test, total assets is defined as net assets plus any borrowings for investment purposes, including any outstanding preferred shares. It is anticipated that the proceeds of the Senior Loans in which the Trust will acquire interests primarily will be used to

finance leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases, refinancing, and internal growth and for other corporate purposes of Borrowers.

The Trust may invest up to 20% of its total assets in (i) loan interests which have (a) a second lien on collateral (Second Lien), (b) no security interest in the collateral, or (c) lower than a senior claim on collateral; (ii) other income-producing securities, such as investment and non-investment grade corporate debt securities and U.S. government and U.S. dollar-denominated foreign government or supranational debt securities; and (iii) warrants and equity securities issued by a Borrower or its affiliates as part of a package of investments in the Borrower or its affiliates. Corporate bonds of below investment grade quality (Non-Investment Grade Bonds), commonly referred to as junk bonds, which are bonds that are rated below investment grade by each of the nationally recognized statistical rating agencies (Rating Agencies) who cover the security, or, if unrated, are determined to be of comparable quality by the Adviser. Standard & Poor's Financial Services LLC (S&P) and Fitch Ratings (Fitch) consider securities rated below BBB- to be below investment grade and Moody's Investors Service, Inc. (Moody's) considers securities rated below Baa3 to be below investment grade. The Trust's credit quality policies apply only at the time a security is purchased, and the Trust is not required to dispose of a security in the event of a downgrade of an assessment of credit quality or the withdrawal of a rating. Securities rated in the lowest investment grade rating (BBB- or Baa3)

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may have certain speculative characteristics. Below investment grade quality securities are considered to be predominantly speculative because of the credit risk of the issuers. See Investment Objectives, Policies and Risks - Risk Considerations - Non-Investment Grade Bonds Risk.

Under normal market conditions, the Trust expects to maintain an average duration of less than one year (including the effect of leverage). As the value of a security changes over time, so will its duration. Prices of securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations. In general, a portfolio of securities with a longer duration can be expected to be more sensitive to interest rate changes than a portfolio with a shorter duration.

Investing in Senior Loans involves investment risk. Some Borrowers default on their Senior Loan payments. The Trust attempts to manage this credit risk through portfolio diversification and ongoing analysis and monitoring of Borrowers. The Trust also is subject to market, liquidity, interest rate and other risks. See Investment Objectives, Policies and Risks.

Scott H. Page, Craig P. Russ, and Peter M. Campo are portfolio managers of the Trust. Mr. Page is a Vice President of Eaton Vance, is Co-Director of Eaton Vance's Floating Rate Loan Group and has been a portfolio manager of the Trust since November 2003. Mr. Russ is a Vice President of Eaton Vance, is Co-Director of Eaton Vance's Floating Rate Loan Group and has been a portfolio manager of the Trust since November 2003. Mr. Campo is a Vice President of Eaton Vance and has been a portfolio manager of the Trust since January 2008.

The Trust's investments are actively managed, and Senior Loans and other securities may be bought or sold on a daily basis. The Adviser's staff monitors the credit quality and price of Senior Loans and other securities held by the Trust, as well as other securities that are available to the Trust. The Trust may invest in individual Senior Loans and other securities of any credit quality. Although the Adviser considers ratings when making investment decisions, it generally performs its own credit and investment analysis and does not rely primarily on the ratings assigned by the Rating Agencies. In evaluating the quality of particular Senior Loans or other securities, whether rated or unrated, the Adviser will normally take into consideration, among other things, the issuer's financial resources and operating history, its sensitivity to economic conditions and trends, the ability of its management, its debt maturity schedules and borrowing requirements, and relative values based on anticipated cash flow, interest and asset coverage, and earnings prospects.

The Trust may invest up to 15% of net assets in Senior Loans denominated in Authorized Foreign Currencies and may invest in other securities of non-United States issuers. The Trust's investments may have significant exposure to certain sectors of the economy and thus may react differently to political or economic developments than the market as a whole. The Trust may accept equity securities in connection with a debt restructuring or reorganization of a Borrower either inside or outside of bankruptcy. The Trust may hold equity securities issued in exchange for a Senior Loan or issued in connection with the debt restructuring or reorganization of a Borrower. The Trust may also acquire additional equity securities of such Borrower or its affiliates if, in the judgment of the Adviser, such an investment may enhance the value of a Senior Loan held or would otherwise be consistent with the Trust's investment policies.

The Trust may purchase or sell derivative instruments (which derive their value from another instrument, security or index) for risk management purposes, such as hedging against fluctuations in Senior Loans and other securities prices or interest rates; diversification purposes; changing the duration of the Trust; or leveraging the Trust. Transactions in derivative instruments may include the purchase or sale of futures contracts on securities, indices and other financial instruments, credit-linked notes, tranches of collateralized loan obligations and/or collateralized debt obligations, options on futures contracts, and exchange-traded and over-the-counter options on securities or indices, and interest rate, total return and credit default swaps. Guidelines of any rating organization that rates any preferred shares issued by the Trust may limit the Trust's ability to engage in such transactions. Subject to the Trust's policy of investing at least 80% of its total assets in Senior Loans and subject to the thresholds on the use of futures contracts and related options imposed by Rule 4.5 under the Commodity Exchange Act, as amended (the CEA) as promulgated by the

Commodity Futures Trading Commission (CFTC), the Trust may invest, without limitation, in the foregoing derivative instruments for the purposes stated herein.

LISTING

As of February 21, 2017, the Trust had 38,841,535 Common Shares outstanding as well as 3,836 auction preferred shares (APS) outstanding. The Trust's Common Shares are traded on the New York Stock Exchange (NYSE) under the symbol EFR. As of February 21, 2017, the last reported sales price of a Common Share of the Trust on the NYSE was \$ 15.27 .. Common Shares offered and sold pursuant to this Registration Statement will also be listed on the NYSE and trade under this symbol.

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LEVERAGE

Generally, leverage involves the use of proceeds from the issuance of preferred shares or borrowed funds, or various financial instruments (such as derivatives). Leverage can increase both the risk and return profile of the Trust. The Trust currently uses leverage created by issuing APS as well as by loans acquired with borrowings. On January 26, 2004, the Trust issued 3,940 Series A APS, 3,940 Series B APS, 3,940 Series C APS and 3,940 Series D APS, with a liquidation preference per share of \$25,000 plus accumulated but unpaid dividends. As of December 31, 2012, 2,627 Series A APS, 2,627 Series B APS, 2,627 Series C APS and 2,627 Series D APS had been redeemed. The APS have seniority over the Common Shares. On September 23, 2016, the Trust repurchased 354 Series A APS, 354 Series B APS, 354 Series C APS and 354 Series D APS. In addition, the Trust has entered into a Credit Agreement (the Agreement) with a bank to borrow up to a limit of \$ 230 million (\$ 220 million prior to September 21, 2016) pursuant to a 364-day revolving line of credit. Borrowings under the Agreement are secured by the assets of the Trust. Interest is charged at a rate above LIBOR and is payable monthly. Under the terms of the Agreement, in effect through March 21, 2017, the Trust pays a commitment fee of 0.15% on the borrowing limit. In connection with the renewal of the Agreement on March 22, 2016 , the Trust paid an upfront fee of \$ 110 ,000, which is being amortized to interest expense through March 21, 2017 .. The Trust is required to maintain certain net asset levels during the term of the Agreement. As of October 31, 2016 , the Trust had \$ 198 million in outstanding borrowings, at an interest rate of 1.31 %, in addition to outstanding APS. The Adviser anticipates that the use of leverage (from such issuance of APS and borrowings) may result in higher income to holders of Common Shares (Common Shareholders) over time. Use of financial leverage creates an opportunity for increased income but, at the same time, creates special risks. There can be no assurance that a leveraging strategy will be successful.

The costs of the financial leverage program (from any issuance of preferred shares and any borrowings) are borne by Common Shareholders and consequently result in a reduction of the NAV of Common Shares. During periods in which the Trust is using leverage, the fees paid to Eaton Vance for investment advisory services will be higher than if the Trust did not use leverage because the fees paid will be calculated on the basis of the Trust s gross assets, which include proceeds from the issuance of preferred shares and any borrowings. In this regard, holders of debt or preferred securities do not bear the investment advisory fee. Rather, Common Shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds, which means that Common Shareholders effectively bear the entire advisory fee. See Investment Objectives, Policies and Risks - Use of Leverage and Related Risks and Management of the Trust - The Adviser.

Financial leverage may also be achieved through the purchase of certain derivative instruments. The Trust s use of derivative instruments exposes the Trust to special risks. See Investment Objectives, Policies and Risks - Additional Investment Practices and Investment Objectives, Policies and Risks - Additional Risk Considerations.

INVESTMENT ADVISER AND ADMINISTRATOR

Eaton Vance, a wholly-owned subsidiary of Eaton Vance Corp., is the Trust s investment adviser and administrator. As of December 31, 2016 , Eaton Vance and its affiliates managed approximately \$ 354.3 billion of fund and separate account assets on behalf of clients, including approximately \$33. 2 billion in floating-rate income assets. See Management of the Trust.

PLAN OF DISTRIBUTION

The Trust may sell the Common Shares being offered under this Prospectus in any one or more of the following ways: (i) directly to purchasers; (ii) through agents; (iii) to or through underwriters; or (iv) through dealers. The Prospectus Supplement relating to the Offering will identify any agents, underwriters or dealers involved in the offer or sale of Common Shares, and will set forth any applicable offering price, sales load, fee, commission or discount arrangement between the Trust and its agents or underwriters, or among its underwriters, or the basis upon which such amount may be calculated, net proceeds and use of proceeds, and the terms of any sale.

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The Trust may distribute Common Shares from time to time in one or more transactions at: (i) a fixed price or prices that may be changed; (ii) market prices prevailing at the time of sale; (iii) prices related to prevailing market prices; or (iv) negotiated prices; provided, however, that in each case the offering price per Common Share (less any underwriting commission or discount) must equal or exceed the NAV per Common Share.

The Trust from time to time may offer its Common Shares through or to certain broker-dealers, including UBS Securities LLC, that have entered into selected dealer agreements relating to at-the-market offerings.

The Trust may directly solicit offers to purchase Common Shares, or the Trust may designate agents to solicit such offers. The Trust will, in a Prospectus Supplement relating to such Offering, name any agent that could be viewed as an underwriter under the 1933 Act, and describe any commissions the Trust must pay to such agent(s). Any such agent will be acting on a reasonable best efforts basis for the period of its appointment or, if indicated in the applicable Prospectus Supplement or other offering

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materials, on a firm commitment basis. Agents, dealers and underwriters may be customers of, engage in transactions with, or perform services for the Trust in the ordinary course of business.

If any underwriters or agents are used in the sale of Common Shares in respect of which this Prospectus is delivered, the Trust will enter into an underwriting agreement or other agreement with them at the time of sale to them, and the Trust will set forth in the Prospectus Supplement relating to such Offering their names and the terms of the Trust's agreement with them.

If a dealer is utilized in the sale of Common Shares in respect of which this Prospectus is delivered, the Trust will sell such Common Shares to the dealer, as principal. The dealer may then resell such Common Shares to the public at varying prices to be determined by such dealer at the time of resale.

The Trust may engage in at-the-market offerings to or through a market maker or into an existing trading market, on an exchange or otherwise, in accordance with Rule 415(a)(4) under the 1933 Act. An at-the-market offering may be through an underwriter or underwriters acting as principal or agent for the Trust.

Agents, underwriters and dealers may be entitled under agreements which they may enter into with the Trust to indemnification by the Trust against certain civil liabilities, including liabilities under the 1933 Act, and may be customers of, engage in transactions with or perform services for the Trust in the ordinary course of business.

In order to facilitate the Offering of Common Shares, any underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of Common Shares or any other Common Shares the prices of which may be used to determine payments on the Common Shares. Specifically, any underwriters may over-allot in connection with the Offering, creating a short position for their own accounts. In addition, to cover over-allotments or to stabilize the price of Common Shares or of any such other Common Shares, the underwriters may bid for, and purchase, Common Shares or any such other Common Shares in the open market. Finally, in any Offering of Common Shares through a syndicate of underwriters, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing Common Shares in the Offering if the syndicate repurchases previously distributed Common Shares in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of Common Shares above independent market levels. Any such underwriters are not required to engage in these activities and may end any of these activities at any time.

The Trust may enter into derivative transactions with third parties, or sell Common Shares not covered by this Prospectus to third parties in privately negotiated transactions. If the applicable Prospectus Supplement indicates, in connection with those derivatives, the third parties may sell Common Shares covered by this Prospectus and the applicable Prospectus Supplement or other offering materials, including in short sale transactions. If so, the third parties may use Common Shares pledged by the Trust or borrowed from the Trust or others to settle those sales or to close out any related open borrowings of securities, and may use Common Shares received from the Trust in settlement of those derivatives to close out any related open borrowings of securities. The third parties in such sale transactions will be underwriters and, if not identified in this Prospectus, will be identified in the applicable Prospectus Supplement or other offering materials (or a post-effective amendment).

The maximum amount of compensation to be received by any member of the Financial Industry Regulatory Authority, Inc. will not exceed 8% of the initial gross proceeds from the sale of any security being sold with respect to each particular Offering of Common Shares made under a single Prospectus Supplement.

Any underwriter, agent or dealer utilized in the initial Offering of Common Shares will not confirm sales to accounts over which it exercises discretionary authority without the prior specific written approval of its customer.

DISTRIBUTIONS

The Trust intends to make monthly distributions of net investment income to Common Shareholders, after payment of any dividends on any outstanding APS. The amount of each monthly distribution will vary depending on a number of factors, including dividends payable on the Trust's preferred shares or other costs of financial leverage. As portfolio and market conditions change, the rate of dividends on the Common Shares and the Trust's dividend policy could change. Over time, the Trust will distribute all of its net investment income (after it pays accrued dividends on any outstanding preferred shares) or other costs of financial leverage. In addition, at least annually, the Trust intends to distribute all or substantially all of its net realized capital gains (reduced by available capital loss carryforwards from prior years, if any). Distributions to Common Shareholders are recorded on the ex-dividend date. Distributions to preferred shareholders are recorded daily and are payable at the end of each dividend period.

Beginning February 13, 2008 and consistent with the patterns in the broader market for auction-rate securities, the Trust's APS auctions were unsuccessful in clearing due to an imbalance of sell orders over bids to buy the APS. As a result, the dividend rates of the APS were reset to the maximum applicable rates.

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The Trust distinguishes between distributions on a tax basis and a financial reporting basis. Accounting principles generally accepted in the United States of America require that only distributions in excess of tax basis earnings and profits be reported in the financial statements as a return of capital. Permanent differences between book and tax accounting relating to distributions are reclassified to paid-in capital. For tax purposes, distributions from short-term capital gains are considered to be from ordinary income.

Common Shareholders may elect automatically to reinvest some or all of their distributions in additional Common Shares under the Trust's dividend reinvestment plan. See [Distributions](#) and [Dividend Reinvestment Plan](#).

DIVIDEND REINVESTMENT PLAN

The Trust has established a dividend reinvestment plan (the [Plan](#)). Under the Plan, a Common Shareholder may elect to have all dividend and capital gain distributions automatically reinvested in additional Common Shares either purchased in the open market, or newly issued by the Trust if the Common Shares are trading at or above their net asset value. Common Shareholders may elect to participate in the Plan by completing the dividend reinvestment plan application form. Common Shareholders who do not elect to participate in the Plan will receive all distributions in cash paid by check mailed directly to them by American Stock Transfer & Trust Company, LLC, as dividend paying agent. Common Shareholders who intend to hold their Common Shares through a broker or nominee should contact such broker or nominee to determine whether or how they may participate in the Plan. See [Dividend Reinvestment Plan](#).

CLOSED-END STRUCTURE

Closed-end funds differ from open-end management investment companies (commonly referred to as mutual funds) in that closed-end funds generally list their shares for trading on a securities exchange and do not redeem their shares at the option of the shareholder. By comparison, mutual funds issue securities redeemable at NAV at the option of the shareholder and typically engage in a continuous offering of their shares. Mutual funds are subject to continuous asset in-flows and out-flows that can complicate portfolio management, whereas closed-end funds generally can stay more fully invested in securities consistent with the closed-end fund's investment objective(s) and policies. In addition, in comparison to open-end funds, closed-end funds have greater flexibility in the employment of financial leverage and in the ability to make certain types of investments, including investments in illiquid securities.

However, shares of closed-end funds frequently trade at a discount from their net asset value. Since inception, the market price of the Common Shares has fluctuated and at times traded below the Trust's NAV, and at times has traded above NAV. In recognition of the possibility that the Common Shares might trade at a discount to net asset value and that any such discount may not be in the interest of Common Shareholders, the Trust's Board of Trustees (the [Board](#)), in consultation with Eaton Vance, from time to time may review possible actions to reduce any such discount. The Board might consider open market repurchases or tender offers for Common Shares at net asset value. There can be no assurance that the Board will decide to undertake any of these actions or that, if undertaken, such actions would result in the Common Shares trading at a price equal to or close to net asset value per Common Share. The Board might also consider the conversion of the Trust to an open-end management investment company. The Board believes, however, that the closed-end structure is desirable, given the Trust's investment objectives and policies. Investors should assume, therefore, that it is highly unlikely that the Board would vote to convert the Trust to an open-end management investment company. Investors should note that the Trust's preferred shares could make a conversion to open-end form more difficult because of the voting rights of preferred shareholders, the costs of redeeming preferred shares and other factors. See [Description of Capital Structure](#).

SPECIAL RISK CONSIDERATIONS

Risk is inherent in all investing. Investing in any investment company security involves risk, including the risk that you may receive little or no return on your investment or even that you may lose part or all of your investment.

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Discount From or Premium to NAV .. The Offering will be conducted only when Common Shares of the Trust are trading at a price equal to or above the Trust's NAV per Common Share plus the per Common Share amount of commissions. As with any security, the market value of the Common Shares may increase or decrease from the amount initially paid for the Common Shares. The Trust's Common Shares have traded both at a premium and at a discount relative to net asset value. The shares of closed-end management investment companies frequently trade at a discount from their NAV. This is a risk separate and distinct from the risk that the Trust's NAV may decrease.

Secondary Market for the Common Shares .. The issuance of Common Shares through the Offering may have an adverse effect on the secondary market for the Common Shares. The increase in the amount of the Trust's outstanding Common Shares resulting from the Offering may put downward pressure on the market price for the Common Shares of the Trust. Common Shares will not be issued pursuant to the Offering at any time when Common Shares are trading at a price lower than a price equal to the Trust's NAV per Common Share plus the per Common Share amount of commissions.

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The Trust also issues Common Shares of the Trust through its dividend reinvestment plan. See Dividend Reinvestment Plan. Common Shares may be issued under the plan at a discount to the market price for such Common Shares, which may put downward pressure on the market price for Common Shares of the Trust.

When the Common Shares are trading at a premium, the Trust may also issue Common Shares of the Trust that are sold through transactions effected on the NYSE. The increase in the amount of the Trust's outstanding Common Shares resulting from that offering may also put downward pressure on the market price for the Common Shares of the Trust.

The voting power of current shareholders will be diluted to the extent that such shareholders do not purchase shares in any future Common Share offerings or do not purchase sufficient shares to maintain their percentage interest. In addition, if the Adviser is unable to invest the proceeds of such offering as intended, the Trust's per share distribution may decrease (or may consist of return of capital) and the Trust may not participate in market advances to the same extent as if such proceeds were fully invested as planned.

Income Risk .. The income investors receive from the Trust is based primarily on the interest it earns from its investments, which can vary widely over the short and long-term. If prevailing market interest rates drop, investors income from the Trust could drop as well. The Trust's income could also be affected adversely when prevailing short-term interest rates increase and the Trust is utilizing leverage, although this risk is mitigated by the Trust's investment in Senior Loans, which pay floating-rates of interest.

Credit Risk .. Loans and other income investments are subject to the risk of non-payment of scheduled principal and interest. Changes in economic conditions or other circumstances may reduce the capacity of the party obligated to make principal and interest payments on such instruments and may lead to defaults. Such non-payments and defaults may reduce the value of Trust shares and income distributions. The value of a fixed-income security also may decline because of concerns about the issuer's ability to make principal and interest payments. In addition, the credit ratings of loans or other income investments may be lowered if the financial condition of the party obligated to make payments with respect to such instruments changes. In the event of bankruptcy of the issuer of loans or other income investments, the Trust could experience delays or limitations with respect to its ability to realize the benefits of any collateral securing the instrument. In order to enforce its rights in the event of a default, bankruptcy or similar situation, the Trust may be required to retain legal or similar counsel.

Prepayment Risk .. During periods of declining interest rates or for other purposes, Borrowers may exercise their option to prepay principal earlier than scheduled. For fixed-income securities, such payments often occur during periods of declining interest rates, forcing the Trust to reinvest in lower yielding securities. This is known as call or prepayment risk. Non-Investment Grade Bonds frequently have call features that allow the issuer to redeem the security at dates prior to its stated maturity at a specified price (typically greater than par) only if certain prescribed conditions are met (call protection). An issuer may redeem a Non-Investment Grade Bond if, for example, the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. Senior Loans typically have no such call protection. For premium bonds (bonds acquired at prices that exceed their par or principal value) purchased by the Trust, prepayment risk may be enhanced.

Issuer Risk .. The value of corporate income-producing securities held by the Trust may decline for a number of reasons, which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods and services.

Senior Loans Risk .. The risks associated with Senior Loans are similar to the risks of Non-Investment Grade Bonds (discussed below), although Senior Loans are typically senior and secured in contrast to Non-Investment Grade Bonds, which are often subordinated and unsecured. Senior Loans' higher standing has historically resulted in generally higher recoveries in the event of a corporate reorganization or other restructuring. In addition, because their interest rates are adjusted for changes in short-term interest rates, Senior Loans generally have less interest rate risk

than Non-Investment Grade Bonds, which are typically fixed rate. The Trust's investments in Senior Loans are typically below investment grade and are considered speculative because of the credit risk of their issuers. Such companies are more likely to default on their payments of interest and principal owed to the Trust, and such defaults could reduce the Trust's net asset value and income distributions. An economic downturn generally leads to a higher non-payment rate, and a debt obligation may lose significant value before a default occurs. Moreover, any specific collateral used to secure a loan may decline in value or lose all its value or become illiquid, which would adversely affect the loan's value.

Economic and other events (whether real or perceived) can reduce the demand for certain Senior Loans or Senior Loans generally, which may reduce market prices and cause the Trust's net asset value per share to fall. The frequency and magnitude of such changes cannot be predicted. Fixed-income markets have recently experienced a period of relatively high volatility due to rising U.S. treasury yields which, in part, reflect the market's expectations for higher U.S. economic growth and inflation. As a result of the Federal Reserve's recent decision to raise the target fed funds rate following a similar move last year and the possibility that it may continue with such rate increases and/or unwind its quantitative easing program, among other factors, markets could experience continuing high volatility, which could negatively impact the Trust's performance.

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Loans and other debt securities are also subject to the risk of price declines and to increases in prevailing interest rates, although floating-rate debt instruments are less exposed to this risk than fixed-rate debt instruments. Interest rate changes may also increase prepayments of debt obligations and require the Trust to invest assets at lower yields. No active trading market may exist for certain loans, which may impair the ability of the Trust to realize full value in the event of the need to liquidate such assets. Adverse market conditions may impair the liquidity of some actively traded loans. Investments in bank loans may not be securities and may not have the protections of federal securities law.

Non-Investment Grade Bonds Risk .. The Trust's investments in Non-Investment Grade Bonds, commonly referred to as junk bonds, are predominantly speculative because of the credit risk of their issuers. While offering a greater potential opportunity for capital appreciation and higher yields, Non-Investment Grade Bonds typically entail greater potential price volatility and may be less liquid than higher-rated securities. Issuers of Non-Investment Grade Bonds are more likely to default on their payments of interest and principal owed to the Trust, and such defaults will reduce the Trust's net asset value and income distributions. The prices of these lower rated obligations are more sensitive to negative developments than higher rated securities. Adverse business conditions, such as a decline in the issuer's revenues or an economic downturn, generally lead to a higher non-payment rate. In addition, a security may lose significant value before a default occurs as the market adjusts to expected higher non-payment rates.

Derivatives Risk .. The use of derivatives can lead to losses because of adverse movements in the price or value of the asset, index, rate or instrument underlying a derivative, due to failure of a counterparty or due to tax or regulatory constraints. Derivatives may create economic leverage, which represents a non-cash exposure to the underlying asset, index, rate or instrument. Leverage can increase both the risk and return potential of the Trust. Derivative risk may be more significant when derivatives are used to enhance return or as a substitute for a cash investment position, rather than solely to hedge the risk of a position held by the Trust. A decision as to whether, when and how to use derivatives involves the exercise of specialized skill and judgment, and a transaction may be unsuccessful in whole or in part because of market behavior or unexpected events. Changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index .. Derivative instruments traded in over-the-counter markets may be difficult to value, may be illiquid, and may be subject to wide swings in valuation caused by changes in the value of the underlying instrument. If a derivative's counterparty is unable to honor its commitments, the value of Trust shares may decline and the Trust could experience delays in the return of collateral or other assets held by the counterparty. The loss on derivative transactions may substantially exceed the initial investment, particularly when there is no stated limitation on the Trust's use of derivatives.

The regulation of the U.S. and non-U.S. derivatives markets has undergone substantial change in recent years. In particular, the Dodd-Frank Act and related regulations require many derivatives to be cleared and traded on an exchange, expand entity registration requirements, impose business conduct requirements on counterparties, and impose other regulatory requirements that will continue to change derivative markets as regulations are implemented. Additional regulation of the derivatives markets may make the use of derivatives more costly, may limit the availability or reduce the liquidity of derivatives, and may impose limits or restrictions on the counterparties with which the Fund engages in derivative transactions. The effects of future regulation cannot be predicted and may impair the effectiveness of the Fund's derivative transactions and its ability to achieve its investment objective(s).

Leverage risk

As discussed above, the Trust currently uses leverage created by issuing APS and borrowings. On January 26, 2004, the Trust issued 3,940 Series A APS, 3,940 Series B APS, 3,940 Series C APS and 3,940 Series D APS, with a liquidation preference per share of \$25,000 plus accumulated but unpaid dividends. As of December 31, 2012, 2,627 Series A APS, 2,627 Series B APS, 2,627 Series C APS and 2,627 Series D APS had been redeemed. On September 23, 2016, the Trust repurchased 354 Series A APS, 354 Series B APS, 354 Series C APS and 354 Series D APS. In addition, the Trust has entered into an Agreement with a bank to borrow up to a limit of \$ 230 million (\$ 220 million prior to September 21, 2016) pursuant to a 364-day revolving line of credit. The Trust is required to maintain certain net asset levels during the term of the Agreement. As of October 31, 2016, the Trust had \$ 198 million in

outstanding borrowings, at an interest rate of 1.31 %, in addition to outstanding APS.

The Adviser anticipates that the use of leverage (from the issuance of APS and borrowings) may result in higher income to Common Shareholders over time. Leverage creates risks for Common Shareholders, including the likelihood of greater volatility of NAV and market price of the Common Shares and the risk that fluctuations in dividend rates on APS and costs of borrowings may affect the return to Common Shareholders. To the extent the income derived from investments purchased with funds received from leverage exceeds the cost of leverage, the Trust's distributions will be greater than if leverage had not been used. Conversely, if the income from the investments purchased with such funds is not sufficient to cover the cost of leverage, the amount available for distribution to Common Shareholders will be less than if leverage had not been used. In the latter case, Eaton Vance, in its best judgment, may nevertheless determine to maintain the Trust's leveraged position if it deems such action to be appropriate. While the Trust has preferred shares outstanding, an increase in short-term rates would also result in an

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increased cost of leverage, which would adversely affect the Trust's income available for distribution. There can be no assurance that a leveraging strategy will be successful.

In addition, under current federal income tax law, the Trust is required to allocate a portion of any net realized capital gains or other taxable income to APS holders. The terms of the Trust's APS require the Trust to pay to any APS holders additional dividends intended to compensate such holders for taxes payable on any capital gains or other taxable income allocated to such holders. Any such additional dividends will reduce the amount available for distribution to Common Shareholders. As discussed under Management of the Trust, the fee paid to Eaton Vance is calculated on the basis of the Trust's gross assets, including proceeds from the issuance of APS and borrowings, so the fees will be higher when leverage is utilized. In this regard, holders of APS do not bear the investment advisory fee. Rather, Common Shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds, which means that Common Shareholders effectively bear the entire advisory fee.

The APS have been rated AAA by Fitch and Aa3 by Moody's. The Trust currently intends to seek to maintain this rating or an equivalent credit rating on the APS or any preferred shares it issues. The Rating Agencies which rate the preferred shares and any bank lender in connection with a credit facility or commercial paper program may impose specific restrictions as a condition to borrowing. Such restrictions may include asset coverage or portfolio composition requirements that are more stringent than those imposed on the Trust by the 1940 Act. These covenants or guidelines do not currently and are not expected to impede Eaton Vance in managing the Trust's portfolio in accordance with its investment objectives and policies and it is not anticipated that they will so impede Eaton Vance in the future. See Description of Capital Structure - Preferred Shares.

Financial leverage may also be achieved through the purchase of certain derivative instruments. The Trust's use of derivative instruments exposes the Trust to special risks. See Investment Objectives, Policies and Risks - Additional Investment Practices and Investment Objectives, Policies, and Risks - Additional Risk Considerations.

Interest Rate Risk .. When interest rates decline, the value of a portfolio invested in Senior Loans may rise. Conversely, when interest rates rise, the value of a portfolio invested in Senior Loans may decline. Interest rates are at historical lows and, as a result, it is likely that they will rise. Because floating or variable rates on Senior Loans only reset periodically, changes in prevailing interest rates may cause some fluctuations in the Trust's net asset value. Similarly, a sudden and significant increase in market interest rates may cause a decline in the Trust's net asset value. A material decline in the Trust's net asset value may impair the Trust's ability to maintain required levels of asset coverage.

Foreign Securities Risk .. Investments in foreign issuers could be affected by factors not present in the United States, including expropriation, armed conflict, confiscatory taxation, lack of uniform accounting and auditing standards, less publicly available financial and other information, potential difficulties in enforcing contractual obligations and the imposition of economic or other sanctions. Because foreign issuers may not be subject to uniform accounting, auditing and financial reporting standards and the imposition of economic or other sanctions, practices and requirements and regulatory measures comparable to those in the United States, there may be less publicly available information about such foreign issuers. Settlements of securities transactions in foreign countries are subject to risk of loss, may be delayed and are generally less frequent than in the United States, which could affect the liquidity of the Trust's assets.

Liquidity Risk .. The Trust may invest without limitation in Senior Loans and other securities for which there is no readily available trading market or which are otherwise illiquid. The Trust may not be able to dispose readily of such securities at prices that approximate those at which the Trust could sell such securities if they were more widely traded and, as a result of such illiquidity, the Trust may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. In addition, the limited liquidity could affect the market price of the securities, thereby adversely affecting the Trust's net asset value and ability to make dividend distributions.

Some Senior Loans are not readily marketable and may be subject to contractual restrictions that must be satisfied before a loan can be bought or sold. Senior Loans generally are not listed on any national securities exchange or automated quotation system and no active trading market may exist for some of the Senior Loans in which the Trust will invest. Where a secondary market exists, such market for some Senior Loans may be subject to irregular activity, wide bid/ask spreads and extended trade settlement periods. Senior Loans that are illiquid may impair the Trust's ability to realize the full value of its assets in the event of a voluntary or involuntary liquidation of such assets and thus may cause a decline in the Trust's net asset value. The Trust has no limitation on the amount of its assets which may be invested in securities which are not readily marketable or are subject to restrictions on resale.

Reinvestment Risk .. Income from the Trust's portfolio will decline if and when the Trust invests the proceeds from matured, traded or called debt obligations into lower yielding instruments.

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Inflation Risk .. Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the Common Shares and distributions thereon can decline. In addition, during any periods of rising inflation, dividend rates of preferred shares would likely increase, which would tend to further reduce returns to Common Shareholders. This risk is mitigated to some degree by the Trust's investments in Senior Loans.

Management Risk .. The Trust is subject to management risk because it is actively managed. Eaton Vance and the individual portfolio managers invest the assets of the Trust as they deem appropriate in implementing the Trust's investment strategy. Accordingly, the success of the Trust depends upon the investment skills and analytical abilities of Eaton Vance and the individual portfolio managers to develop and effectively implement strategies that achieve the Trust's investment objective. There is no assurance that Eaton Vance and the individual portfolio managers will be successful in developing and implementing the Trust's investment strategy. Subjective decisions made by Eaton Vance and the individual portfolio managers may cause the Trust to incur losses or to miss profit opportunities.

Regulatory Risk .. To the extent that legislation or state or federal regulators that regulate certain financial institutions impose additional requirements or restrictions with respect to the ability of such institutions to make loans, particularly in connection with highly leveraged transactions, the availability of Senior Loans for investment may be adversely affected. Further, such legislation or regulation could depress the market value of Senior Loans.

Market Disruption .. Instability in the Middle East, the wars in Afghanistan, Iraq and Libya, geopolitical tensions elsewhere and terrorist attacks in the United States and around the world have resulted in market volatility and may have long-term effects on the United States and worldwide financial markets and may cause further economic uncertainties in the United States and worldwide. The Trust cannot predict the effects of significant future events on the global economy and securities markets. A similar disruption of the financial markets could impact interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to the Common Shares. In particular, Non-Investment Grade Bonds and Senior Loans tend to be more volatile than higher rated fixed-income securities so that these events and any actions resulting from them may have a greater impact on the prices and volatility on Non-Investment Grade Bonds and Senior Loans than on higher rated fixed-income securities.

Anti-takeover Provisions .. The Trust's Agreement and Declaration of Trust includes provisions that could have the effect of limiting the ability of other persons or entities to acquire control of the Trust or to change the composition of its Board. These provisions may have the effect of discouraging attempts to acquire control of the Trust, which attempts could have the effect of increasing the expenses of the Trust and interfering with the normal operation of the Trust. See Description of Capital Structure - Certain Provisions of the Declaration of Trust - Anti-Takeover Provisions in the Declaration of Trust.

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Summary of Trust Expenses

The purpose of the table below is to help you understand all fees and expenses that you, as a holder of Common Shares (Common Shareholder), would bear directly or indirectly. The table reflects the issuance of preferred shares in an amount equal to 20.9 % of the Trust 's total assets and borrowings in an amount equal 15.6 % of the Trust 's total assets (including the proceeds of all such leverage) and shows Trust expenses as a percentage of net assets attributable to Common Shares⁽¹⁾ for the year ended October 31, 2016 ..

Common Shareholder transaction expenses

Sales load paid by you (as a percentage of offering price)	--%(1)
Offering expenses (as a percentage of offering price)	None ⁽²⁾
Dividend reinvestment plan fees	None ⁽³⁾

<u>Annual expenses</u>	<u>Percentage of net assets attributable to Common Shares</u> ⁽⁴⁾
Investment advisory fee	1. 18 % ⁽⁵⁾
Interest payments on borrowed funds	0. 49 % ⁽⁶⁾
Other expenses	0. 20 %
Acquired Fund Fees and Expenses	0. 04 %
Total annual Trust operating expenses	1. 91 %
Dividends on preferred shares	0. 14 % ⁽⁶⁾
Total annual Trust operating expenses and dividends on preferred shares	2.05 %

EXAMPLE

The following example illustrates the expenses that Common Shareholders would pay on a \$1,000 investment in Common Shares, assuming (i) total annual expenses of 2.05 % of net assets attributable to Common Shares in years 1 through 10; (ii) a 5% annual return; and (iii) all distributions are reinvested at NAV:

1 Year	3 Years	5 Years	10 Years
\$ 21	\$ 64	\$ 110	\$ 238

The above table and example and the assumption in the example of a 5% annual return are required by regulations of the SEC that are applicable to all investment companies; the assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of the Trust 's Common Shares. For more complete descriptions of certain of the Trust 's costs and expenses, see Management of the Trust. In addition, while the example assumes reinvestment of all dividends and distributions at NAV, participants in the Trust 's dividend reinvestment plan may receive Common Shares purchased or issued at a price or value different from NAV. See Distributions and Dividend Reinvestment Plan. The example does not include sales load or estimated offering costs, which would cause the expenses shown in the example to increase.

The example should not be considered a representation of past or future expenses, and the Trust 's actual expenses may be greater or less than those shown. Moreover, the Trust 's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

(1)

If Common Shares are sold to or through underwriters, the Prospectus Supplement will set forth any applicable sales load.

(2)

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The Adviser will pay the expenses of the Offering (other than the applicable commissions); therefore, Offering expenses are not included in the Summary of Trust Expenses. Offering expenses generally include, but are not limited to, the preparation, review and filing with the SEC of the Trust's registration statement (including this Prospectus and the Statement of Additional Information), the preparation, review and filing of any associated marketing or similar materials, costs associated with the printing, mailing or other distribution of this Prospectus, the Statement of Additional Information and/or marketing materials, associated filing fees, NYSE listing fees, and legal and auditing fees associated with the Offering.

(3)

You will be charged a \$5.00 service charge and pay brokerage charges if you direct the plan agent to sell your Common Shares held in a dividend reinvestment account.

(4)

Stated as a percentage of average net assets attributed to Common Shares for the year ended October 31, 2016 ..

(5)

The advisory fee paid by the Trust to the Adviser is based on the average daily gross assets of the Trust, including all assets attributable to any form of investment leverage that the Trust may utilize. Accordingly, if the Trust were to increase investment leverage in the future, the advisory fee will increase as a percentage of net assets.

(6)

As of October 31, 2016 the outstanding borrowings and APS represented approximately 34.9 % leverage.

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Financial Highlights and Investment Performance

FINANCIAL HIGHLIGHTS

This table details the financial performance of the Common Shares, including total return information showing how much an investment in the Trust has increased or decreased each period. This information has been audited by Deloitte & Touche LLP, an independent registered public accounting firm. The report of Deloitte & Touche LLP and the Trust's financial statements are incorporated by reference and included in the Trust's annual report, which is available upon request.

Selected data for a common share outstanding during the periods stated.

	Year Ended October 31,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Net asset value -										
Beginning of year										
(Common shares)	\$14.350	\$15.330	\$15.810	\$15.630	\$14.910	\$14.980	\$13.700	\$10.190	\$17.800	\$18.690
Income (Loss) From										
Operations										
Net investment income ⁽¹⁾	\$0.963	\$0.943	\$0.925	\$1.009	\$1.097	\$1.014	\$1.025	\$0.978	\$1.665	\$2.177
Net realized and	0.459	(0.979)	(0.414)							
unrealized gain (loss)				0.145	0.681	(0.013)	1.374	3.423	(7.647)	(0.861)
Distributions to preferred										
shareholders										
From net investment										
income ⁽¹⁾	(0.019)	(0.006)	(0.004)	(0.006)	(0.006)	(0.009)	(0.011)	(0.028)	(0.367)	(0.634)
Discount on redemption										
and repurchase										
of auction preferred										
shares ⁽¹⁾	0.048									
Total income (loss) from										
operations	\$1.451	\$(0.042)	\$0.507	\$1.148	\$1.772	\$0.992	\$2.388	\$4.373	\$(6.349)	\$0.682
Less Distributions to										
Common Shareholders										
From net investment										
income	\$(0.941)	\$(0.938)	\$(0.987)	\$(1.038)	\$(1.052)	\$(1.062)	\$(1.108)	\$(0.863)	\$(1.142)	\$(1.542)
Tax return of capital									(0.119)	(0.030)
Total distributions to										
common shareholders	\$(0.941)	\$(0.938)	\$(0.987)	\$(1.038)	\$(1.052)	\$(1.062)	\$(1.108)	\$(0.863)	\$(1.261)	\$(1.572)
Premium from common										
shares sold through shelf										
offering ⁽¹⁾	\$	\$	\$	\$0.070	\$	\$	\$	\$	\$	\$
Net asset value End of										
year (Common shares)	\$14.860	\$14.350	\$15.330	\$15.810	\$15.630	\$14.910	\$14.980	\$13.700	\$10.190	\$17.800
Market value End of										
year (Common shares)	\$14.150	\$12.970	\$14.050	\$15.800	\$16.250	\$14.550	\$15.640	\$12.980	\$9.480	\$16.200
Total Investment Return	11.31%	0.15%	3.60%	7.98%	12.31%	6.69%	17.93%	46.90%	(37.33)%	3.93%
on Net Asset	(3)									

Value⁽²⁾

Total Investment Return
on Market

Value⁽²⁾ 17.27% (1.24)% (4.99)% 3.79% 19.66% (0.28)% 29.96% 49.61%(35.90)% (3.13)%

(See footnotes on next page.)

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Financial Highlights (continued)

	Year Ended October 31,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Ratios/Supplemental Data										
Net assets applicable to common shares, end of year (000 s omitted)	\$547,620	\$528,561	\$564,827	\$582,523	\$528,465	\$503,383	\$505,197	\$460,700	\$342,457	\$598,214
Ratios (as a percentage of average daily net assets applicable to common shares): ⁽⁴⁾										
Expenses excluding interest and fees ⁽⁵⁾	1.38%	1.39%	1.36%	1.37%	1.38%	1.29%	1.22%	1.21%	1.18%	1.18%
Interest and fee expense ⁽⁶⁾	0.49%	0.42%	0.40%	0.40%	0.42%	0.44%	0.49%	1.15%	0.99%	
Total expenses	1.87%	1.81%	1.76%	1.77%	1.80%	1.73%	1.71%	2.36%	2.17%	1.18%
Net investment income	6.84%	6.27%	5.89%	6.38%	7.20%	6.69%	7.11%	9.21%	10.66%	11.79%
Portfolio Turnover	35%	32%	35%	45%	54%	49%	36%	42%	21%	58%
Senior Securities:										
Total notes payable outstanding (in 000 s)	\$198,000	\$208,000	\$210,000	210,000	\$175,000	\$165,000	\$150,000	\$150,000	\$154,200	\$
Asset coverage per \$1,000 of notes payable ⁽⁷⁾	\$4,250	\$4,172	\$4,315	\$4,399	\$4,770	\$4,847	\$5,243	\$4,947	\$4,074	\$
Total preferred shares outstanding	3,836	5,252	5,252	5,252	5,252	5,252	5,252	5,252	5,252	15,760
Asset coverage per preferred share	\$71,584	⁽⁸⁾ \$63,946 ⁽⁸⁾	⁽⁸⁾ \$66,374 ⁽⁸⁾	⁽⁸⁾ \$67,670 ⁽⁸⁾	⁽⁸⁾ \$68,133 ⁽⁸⁾	⁽⁸⁾ \$67,473 ⁽⁸⁾	⁽⁸⁾ \$69,900 ⁽⁸⁾	⁽⁸⁾ \$65,945 ⁽⁸⁾	⁽⁸⁾ \$55,060 ⁽⁸⁾	⁽⁹⁾ \$63,001 ⁽⁹⁾
Involuntary liquidation preference per preferred share ⁽¹⁰⁾	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Approximate market value per preferred share ⁽¹⁰⁾	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000

(1)

Computed using average shares outstanding.

(2)

Returns are historical and are calculated by determining the percentage change in net asset value or market value with all distributions reinvested. Distributions are assumed to be reinvested at prices obtained under the Trust's dividend reinvestment plan.

(3)

The total return based on net asset value reflects the impact of the tender and repurchase by the Trust of a portion of its APS at 95% of the per share liquidation preference. Absent this transaction, the total return based on net asset value would have been 10.95%.

(4)

Ratios do not reflect the effect of dividend payments to preferred shareholders.

(5)

Excludes the effect of custody fee credits, if any, of less than 0.005%. Effective September 1, 2015, custody fee credits, which were earned on cash deposit balances, were discontinued by the custodian.

(6)

Interest and fee expense relates to the notes payable, primarily incurred to redeem the Trust's APS.

(7)

Calculated by subtracting the Trust's total liabilities (not including the notes payable and preferred shares) from the Trust's total assets, and dividing the result by the notes payable balance in thousands.

(8)

Calculated by subtracting the Trust's total liabilities (not including the notes payable and preferred shares) from the Trust's total assets, dividing the result by the sum of the value of the notes payable and liquidation value of preferred shares, and multiplying the result by the liquidation value of one preferred share. Such amount equates to 286%, 256%, 265%, 271%, 273%, 270%, 280%, 264% and 220% at October 31, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

(9)

Calculated by subtracting the Trust's total liabilities (not including the preferred shares) from the Trust's total assets, and dividing the result by the number of preferred shares outstanding.

(10)

Plus accumulated and unpaid dividends.

Ratios based on net assets applicable to common shares plus preferred shares and borrowings are presented below.

Ratios do not reflect the effect of dividend payments to preferred shareholders and exclude the effect of custody fee credits, if any.

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	Year Ended October 31,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Expenses excluding interest and fees	0.88%	0.86%	0.86%	0.87%	0.87%	0.83%	0.77%	0.74%	0.68%	0.72%
Interest and fee expense	0.31%	0.26%	0.25%	0.25%	0.27%	0.28%	0.31%	0.70%	0.57%	
Total expenses	1.19%	1.12%	1.11%	1.12%	1.14%	1.11%	1.08%	1.44%	1.25%	0.72%
Net investment income	4.34%	3.90%	3.70%	4.06%	4.54%	4.28%	4.50%	5.63%	6.12%	7.21%

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TRADING AND NAV INFORMATION

The Trust's common shares have traded both at a premium and a discount to NAV. The Trust cannot predict whether its shares will trade in the future at a premium or discount to NAV. The provisions of the 1940 Act generally require that the public offering price of common shares (less any underwriting commissions and discounts) must equal or exceed the NAV per share of a company's common stock (calculated within 48 hours of pricing). The issuance of common shares may have an adverse effect on prices in the secondary market for the Trust's common shares by increasing the number of common shares available, which may put downward pressure on the market price for the Trust's common shares. Shares of common stock of closed-end investment companies frequently trade at a discount from NAV. See [Additional Risk Considerations - Discount from or Premium to NAV](#).

In addition, the Trust's Board of Trustees has authorized the Trust to repurchase up to 10% of its outstanding common shares (as of the date of such authorization) in open-market transactions at a discount to NAV. The repurchase program does not obligate the Trust to purchase a specific amount of shares. The results of the repurchase program are disclosed in the Trust's annual and semi-annual reports to shareholders. See [Description of Capital Structure - Repurchase of Common Shares and Other Discount Measures](#).

The following table sets forth for each of the periods indicated the high and low closing market prices for Common Shares on the NYSE, and the corresponding NAV per share and the premium or discount to NAV per share at which the Trust's Common Shares were trading as of such date.

Fiscal Quarter Ended	Market Price		NAV per Share on Date of Market Price High and Low		NAV Premium/(Discount) on Date of Market Price High and Low	
	High	Low	High	Low	High	Low
1/31/2017	15.04	13.84	15.16	14.82	(0.79)%	(6.61)%
10/31/2016	14.26	13.31	14.86	14.47	(4.04)%	(8.02)%
7/31/2016	13.62	12.90	14.34	14.19	(5.02)%	(9.09)%
4/30/2016	12.97	11.43	14.19	13.11	(8.60)%	(12.81)%
1/31/2016	12.91	11.49	14.34	13.32	(9.97)%	(13.74)%
10/31/2015	13.77	12.92	14.67	14.36	(6.13)%	(10.03)%
7/31/2015	14.64	13.60	15.31	14.96	(4.38)%	(9.09)%
4/30/2015	14.82	13.59	15.31	15.01	(3.20)%	(9.46)%
1/31/2015	14.14	13.37	15.30	14.83	(7.58)%	(9.84)%

The last reported sale price, NAV per share and percentage premium/(discount) to NAV per share of the Common Shares as of February 21, 2017 were \$ 15.27, \$15.15 and 0.79%, respectively. As of February 21, 2017, the Trust had 38,841,535 Common Shares outstanding and net assets of the Trust were \$ 558,111,058 ..

The Trust

The Trust is a diversified, closed-end management investment company registered under the 1940 Act. The Trust was organized as a Massachusetts business trust on August 5, 2003, pursuant to a Declaration of Trust, as amended August 11, 2008, governed by the laws of The Commonwealth of Massachusetts. The Trust's principal office is located at Two International Place, Boston, MA 02110, and its telephone number is 1-800-262-1122.

Use of Proceeds

Subject to the remainder of this section, and unless otherwise specified in a Prospectus Supplement, the Trust currently intends to invest substantially all of the net proceeds of any sales of Common Shares pursuant to this Prospectus in accordance with its Trust's investment objectives and policies within three months of receipt of such proceeds. Such investments may be delayed up to three months if suitable investments are unavailable at the time or for other reasons, such as market volatility and lack of liquidity in the markets of suitable investments. Pending such investment, the Trust anticipates that it will invest the proceeds in short-term money market instruments, securities with remaining maturities of less than one year, cash or cash equivalents. A delay in the anticipated use of proceeds could lower returns and reduce the Trust's distribution to Common Shareholders or result in a distribution consisting principally of a return of capital.

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Portfolio Composition

As of October 31, 2016, the following table indicates the approximate percentage of the Trust's portfolio invested in long-term and short-term obligations and also includes other information with respect to the composition of the Trust's investment portfolio:

S&P ⁽¹⁾	Number of issues	Mkt Value	Percent
BBB	36	\$47,577,946	5.72%
BB	231	\$289,181,640	34.79%
B	273	\$404,123,594	48.61%
CCC	49	\$30,107,883	3.62%
CC	2	\$97,775	0.01%
D	7	\$6,687,778	0.80%
NR	47	\$47,088,035	5.66%
Cash and cash equivalents		\$6,413,047	0.77%
Total	645	\$831,277,698	100%

(1)

Ratings: Using S&P's ratings on the Trust's investments. S&P rating categories may be modified further by a plus (+) or minus (—) in AA, A, BBB, BB, B, and CCC ratings.

Investment Objectives, Policies and Risks

INVESTMENT OBJECTIVES

The Trust's investment objective is to provide a high level of current income. The Trust may, as a secondary objective, also seek preservation of capital to the extent consistent with its primary goal of high current income. Under normal market conditions, Eaton Vance expects the Trust to maintain a duration of less than one year (including the effect of leverage). In comparison to maturity (which is the date on which a debt instrument ceases and the issuer is obligated to repay the principal amount), duration is a measure of the price volatility of a debt instrument as a result of changes in market rates of interest, based on the weighted average timing of the instrument's expected principal and interest payments. Duration differs from maturity in that it considers a security's yield, coupon payments, principal payments and call features in addition to the amount of time until the security finally matures. The Trust pursues its objectives by investing its assets primarily in senior, secured floating-rate loans (Senior Loans). Senior Loans are loans in which the interest rate paid fluctuates based on a reference rate. Investment in such floating-rate instruments is expected to minimize changes in the underlying principal value of the Senior Loans, and therefore the Trust's net asset value, resulting from changes in market interest rates. Senior Loans are made to corporations, partnerships and other business entities (Borrowers) which operate in various industries and geographical regions. Senior Loans pay interest at rates that are reset periodically by reference to a base lending rate, primarily the LIBOR, plus a premium.

PRIMARY INVESTMENT POLICIES

General Composition of the Trust .. Under normal market conditions, the Trust will invest at least 80% of its total assets in Senior Loans of domestic and foreign borrowers that are denominated in U.S. dollars, euros, British pounds, Swiss francs, Canadian dollars and Australian dollars (each, an Authorized Foreign Currency). For the purposes of the 80% test, total assets is defined as net assets plus any borrowings for investment purposes, including any outstanding preferred shares. The Trust may invest up to 20% of its total assets in (i) loan interests which have (a) a second lien on collateral, (b) no security interest in the collateral, or (c) lower than a senior claim on collateral; (ii) other income - producing securities , such as investment and non-investment grade corporate debt securities and U.S. government and U.S. dollar-denominated foreign government or supranational debt securities; and (iii) warrants and equity securities issued by a Borrower or its affiliates as part of a package of investments in the Borrower or its affiliates. If the Adviser determines that market conditions temporarily warrant a defensive investment policy, the Trust may invest up to 100% of its assets in cash and/or high quality, short-term debt securities, which would not be consistent with the Trust s investment objectives. While temporarily invested, the Trust may not achieve its investment objectives. Corporate bonds of below investment grade quality (Non-Investment Grade Bonds), commonly referred to as junk bonds, which are bonds that are rated below investment grade by each of the Rating Agencies who cover the

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security, or, if unrated, are determined to be of comparable quality by the Adviser. S&P and Fitch consider securities rated below BBB- to be below investment grade and Moody's considers securities rated below Baa3 to be below investment grade. The Trust's credit quality policies apply only at the time a security is purchased, and the Trust is not required to dispose of a security in the event of a downgrade of an assessment of credit quality, the withdrawal of a rating, or in the event of a default. In determining whether to retain or sell such a security, Eaton Vance may consider such factors as Eaton Vance's assessment of the credit quality of the issuers of such security, the price at which such security could be sold and the rating, if any, assigned to such security by other Rating Agencies. Securities rated in the lowest investment grade rating (BBB- or Baa3) may have certain speculative characteristics. Below investment grade quality securities are considered to be predominantly speculative because of the credit risk of the issuers. See Investment Objectives, Policies and Risks - Risk Considerations - Non-Investment Grade Bonds Risk.

The Trust's policy of investing, under normal market conditions, at least 80% of its total assets in Senior Loans is not considered to be fundamental by the Trust and can be changed without a vote of the Trust's shareholders. However, this policy may only be changed by the Trust's Board following the provision of 60 days prior written notice to the Trust's shareholders.

Under normal market conditions, the Trust expects to maintain an average duration of less than one year (including the effect of leverage). As the value of a security changes over time, so will its duration. Prices of securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations. In general, a portfolio of securities with a longer duration can be expected to be more sensitive to interest rate changes than a portfolio with a shorter duration.

The Adviser's staff monitors the credit quality and the price of Senior Loans and other securities held by the Trust, as well as other securities that are available to the Trust. The Trust may invest in Senior Loans and other securities of any credit quality. Although the Adviser considers ratings when making investment decisions, it generally performs its own credit and investment analysis and does not rely primarily on the ratings assigned by the Rating Agencies. In evaluating the quality of a particular security, whether rated or unrated, the Adviser will normally take into consideration, among other things, the issuer's financial resources and operating history, its sensitivity to economic conditions and trends, the ability of its management, its debt maturity schedules and borrowing requirements, and relative values based on anticipated cash flow, interest and asset coverage, and earnings prospects. The Adviser will attempt to reduce the risks of investing in lower rated or unrated debt instruments through active portfolio management, credit analysis and attention to current developments and trends in the economy and the financial markets.

The Trust is not required to dispose of a security in the event that a Rating Agency downgrades its assessment of the credit characteristics of a particular issue or withdraws its assessment, including in the event of a default. In determining whether to retain or sell such a security, Eaton Vance may consider such factors as Eaton Vance's assessment of the credit quality of the issuers of such security, the price at which such security could be sold and the rating, if any, assigned to such security by other Rating Agencies.

The Trust may invest up to 15% of net assets in Senior Loans denominated in Authorized Foreign Currencies and may invest in other securities of non-United States issuers. The Trust's investments may have significant exposure to certain sectors of the economy and thus may react differently to political or economic developments than the market as a whole. The Trust may accept equity securities in connection with a debt restructuring or reorganization of a Borrower either inside or outside of bankruptcy. The Trust may hold equity securities issued in exchange for a Senior Loan or issued in connection with the debt restructuring or reorganization of a Borrower. The Trust may also acquire additional equity securities of such Borrower or its affiliates if, in the judgment of the Adviser, such an investment may enhance the value of a Senior Loan held or would otherwise be consistent with the Trust's investment policies.

The Trust may purchase shares of other investment companies with a similar investment objective and policies as permitted under the 1940 Act. Such investments are limited to 10% of total assets overall, with no more than 5%

invested in any one issuer. The value of shares of other closed-end investment companies is affected by risks similar to those of the Trust, such as demand for those securities regardless of the demand for the underlying portfolio assets. Investment companies bear fees and expenses that the Trust will bear indirectly, so investors in the Trust will be subject to duplication of fees. The Trust also may invest up to 5% of its total assets in structured notes with rates of return determined by reference to the total rate of return on one or more Senior Loans referenced in such notes. The rate of return on the structured note may be determined by applying a multiplier to the rate of total return on the referenced Senior Loan or Loans. Application of a multiplier is comparable to the use of financial leverage, a speculative technique. Leverage magnifies the potential for gain and the risk of loss; as a result, a relatively small decline in the value of a referenced Senior Loan could result in a relatively large loss in the value of a structured note. Common Shares of other investment companies and structured notes as discussed above that invest in Senior Loans or baskets of Senior Loans will be treated as Senior Loans for purposes of the Trust's policy of normally investing at least 80% of its assets in Senior Loans, and may be subject to the Trust's leverage limitations.

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Senior Loans .. Senior Loans hold the most senior position in the capital structure of a Borrower, are typically secured with specific collateral and have a claim on the assets and/or stock of the Borrower that is senior to that held by subordinated debt holders and stockholders of the Borrower. The capital structure of a Borrower may include Senior Loans, senior and junior subordinated debt, preferred stock and common stock issued by the Borrower, typically in descending order of seniority with respect to claims on the Borrower's asset. Senior Loans are typically secured by specific collateral. As also discussed above, the proceeds of Senior Loans primarily are used to finance leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases, refinancing and internal growth and for other corporate purposes.

Senior Loans in which the Trust will invest generally pay interest at rates, which are reset periodically by reference to a base lending rate, plus a premium. Senior Loans typically have rates of interest which are reset either daily, monthly, quarterly or semi-annually by reference to a base lending rate, plus a premium or credit spread. These base lending rates are primarily LIBOR, and secondarily the prime rate offered by one or more major United States banks (the Prime Rate) and the certificate of deposit (CD) rate or other base lending rates used by commercial lenders. As floating-rate loans, the frequency of how often a loan resets its interest rate will impact how closely such loans track current market interest rate. The Senior Loans held by the Trust will have a dollar-weighted average period until the next interest rate adjustment of approximately 90 days or less. As a result, as short-term interest rates increase, interest payable to the Trust from its investments in Senior Loans should increase, and as short-term interest rates decrease, interest payable to the Trust from its investments in Senior Loans should decrease. The Trust may utilize derivative instruments to shorten the effective interest rate redetermination period of Senior Loans in its portfolio. Senior Loans typically have a stated term of between one and ten years. In the experience of the Adviser over the last decade, however, the average life of Senior Loans has been two to four years because of prepayments.

The Trust expects primarily to purchase Senior Loans by assignment from a participant in the original syndicate of lenders or from subsequent assignees of such interests. The purchaser of an assignment typically succeeds to all the rights and obligations under the loan agreement and has the same rights and obligations as the assigning investor. However, assignments through private negotiations may cause the purchaser of an assignment to have different and more limited rights than those held by the assigning investor. The Trust may also purchase participations in the original syndicate making Senior Loans. Such indebtedness may be secured or unsecured. Loan participations typically represent direct participations in a loan to a corporate borrower, and generally are offered by banks or other financial institutions or lending syndicates. The Trust may participate in such syndications, or can buy part of a loan, becoming a part lender. When purchasing loan participations, the Trust assumes the credit risk associated with the corporate Borrower and may assume the credit risk associated with an interposed bank or other financial intermediary. The participation interests in which the Trust intends to invest may not be rated by any Rating Agency.

The Trust may purchase and retain in its portfolio Senior Loans where the Borrowers have experienced, or may be perceived to be likely to experience, credit problems, including default, involvement in or recent emergence from bankruptcy reorganization proceedings or other forms of debt restructuring. At times, in connection with the restructuring of a Senior Loan either outside of bankruptcy court or in the context of bankruptcy court proceedings, the Trust may determine or be required to accept equity securities or junior debt securities in exchange for all or a portion of a Senior Loan.

The Trust may also purchase unsecured loans, other floating-rate debt securities such as notes, bonds and asset-backed securities (such as special purpose trusts investing in bank loans), credit-linked notes, tranches of collateralized loan obligations, investment grade fixed-income debt obligations and money market instruments, such as commercial paper.

Senior Loans and other floating-rate debt instruments are subject to the risk of non-payment of scheduled interest or principal. Such non-payment would result in a reduction of income to the Trust, a reduction in the value of the investment and a potential decrease in the net asset value of the Trust. There can be no assurance that the liquidation of any collateral securing a loan would satisfy the Borrower's obligation in the event of non-payment of scheduled

interest or principal payments, or that such collateral could be readily liquidated. In the event of bankruptcy of a Borrower, the Trust could experience delays or limitations with respect to its ability to realize the benefits of the collateral securing a Senior Loan. The collateral securing a Senior Loan may lose all or substantially all of its value in the event of bankruptcy of a Borrower. Some Senior Loans are subject to the risk that a court, pursuant to fraudulent conveyance or other similar laws, could subordinate such Senior Loans to presently existing or future indebtedness of the Borrower or take other action detrimental to the holders of Senior Loans, including, in certain circumstances, invalidating such Senior Loans or causing interest previously paid to be refunded to the Borrower. If interest were required to be refunded, it could negatively affect the Trust's performance.

Many Senior Loans in which the Trust will invest may not be rated by a Rating Agency, will not be registered with the SEC or any state securities commission and will not be listed on any national securities exchange. In evaluating the creditworthiness of Borrowers, the Adviser will consider, and may rely in part, on analyses performed by others. Borrowers may have outstanding debt obligations that are rated below investment grade by a Rating Agency. Many of the Senior Loans held by the Trust will have been assigned ratings below investment grade by Rating Agencies. In the event Senior Loans are not rated, they are likely to be the equivalent of below investment grade quality. Because of the protective features of Senior Loans, the Adviser believes, based on its experience, that Senior Loans tend to have more favorable loss recovery rates as compared to more junior types of below

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investment grade debt obligations. The Adviser does not view ratings as the determinative factor in its investment decisions and relies more upon its credit analysis abilities than upon ratings.

The amount of public information available with respect to Senior Loans will generally be less extensive than that available for registered or exchange listed securities. With limited exceptions, the adviser will take steps intended to ensure that it does not receive material nonpublic information about the issuers of Senior Loans that also issue publicly traded securities. Therefore the adviser may have less information than other investors about certain of the Senior Loans in which it seeks to invest.

U.S. federal securities laws afford certain protections against fraud and misrepresentation in connection with the offering or sale of a security, as well as against manipulation of trading markets for securities. The typical practice of a lender in relying exclusively or primarily on reports from the borrower may involve the risk of fraud, misrepresentation, or market manipulation by the borrower. It is unclear whether U.S. federal securities law protections are available to an investment in a loan. In certain circumstances, loans may not be deemed to be securities, and in the event of fraud or misrepresentation by a borrower, lenders may not have the protection of the anti-fraud provisions of the federal securities laws. However, contractual provisions in the loan documents may offer some protections, and lenders may also avail themselves of common-law fraud protections under applicable state law.

No active trading market may exist for some loans and some loans may be subject to contractual restrictions that must be satisfied before a loan can be bought or sold. A secondary market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods, which may impair the ability to realize full value and thus cause a material decline in the Trust's net asset value. During periods of limited supply and liquidity of Senior Loans, the Trust's yield may be lower.

When interest rates decline, the value of a fund invested in fixed-rate obligations can be expected to rise. Conversely, when interest rates rise, the value of a fund invested in fixed-rate obligations can be expected to decline. Although changes in prevailing interest rates can be expected to cause some fluctuations in the value of Senior Loans (due to the fact that floating-rates on Senior Loans only reset periodically), the value of Senior Loans is substantially less sensitive to changes in market interest rates than fixed-rate instruments. As a result, the Adviser expects the Trust's policy of investing a portion of its assets in floating-rate Senior Loans will make the Trust less volatile and less sensitive to changes in market interest rates than if the Trust invested exclusively in fixed-rate obligations. Similarly, a sudden and significant increase in market interest rates may cause a decline in the value of these investments and in the Trust's net asset value. Other factors (including, but not limited to, rating downgrades, credit deterioration, a large downward movement in stock prices, a disparity in supply and demand of certain Senior Loans and other securities or market conditions that reduce liquidity) can reduce the value of Senior Loans and other debt obligations, impairing the Trust's net asset value.

The Adviser uses an independent pricing service to value most loans and other debt securities at their market value. The Adviser may use the fair value method to value loans or other securities if market quotations for them are not readily available or are deemed unreliable, or if events occurring after the close of a securities market and before the Trust values its assets would materially affect net asset value. A security that is fair valued may be valued at a price higher or lower than actual market quotations or the value determined by other funds using their own fair valuation procedures. Because foreign securities trade on days when the Common Shares are not priced, net asset value can change at times when Common Shares cannot be sold.

ADDITIONAL INVESTMENT PRACTICES

Collateralized Loan Obligations (CLOs). The Trust may invest in certain asset-backed securities as discussed below. Asset-backed securities are payment claims that are securitized in the form of negotiable paper that is issued by a financing company (generically called a Special Purpose Vehicle or SPV). These securitized payment claims are, as a

rule, corporate financial assets brought into a pool according to specific diversification rules. The SPV is a company founded solely for the purpose of securitizing these claims and its only asset is the risk arising out of this diversified asset pool. On this basis, marketable securities are issued which, due to the diversification of the underlying risk, generally represent a lower level of risk than the original assets. The redemption of the securities issued by the SPV takes place at maturity out of the cash flow generated by the collected claims.

A CLO is a structured credit security issued by an SPV that was created to reapportion the risk and return characteristics of a pool of assets. The assets, typically Senior Loans, are used as collateral supporting the various debt tranches issued by the SPV. The key feature of the CLO structure is the prioritization of the cash flows from a pool of debt securities among the several classes of CLO holders, thereby creating a series of obligations with varying rates and maturities appealing to a wide range of investors. CLOs generally are secured by an assignment to a trustee under the indenture pursuant to which the bonds are issued of collateral consisting of a pool of debt instruments, usually, non-investment grade bank loans. Payments with respect to the underlying debt securities generally are made to the trustee under the indenture. CLOs are designed to be retired as the underlying debt instruments are repaid. In the event of sufficient early prepayments on such debt instruments, the class or series of CLO first to mature generally will be retired prior to maturity. Therefore, although in most cases the issuer of CLOs will not supply additional collateral in the event of such prepayments, there will be sufficient collateral to secure their priority with respect

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to other CLO tranches that remain outstanding. The credit quality of these securities depends primarily upon the quality of the underlying assets, their priority with respect to other CLO tranches and the level of credit support and/or enhancement provided.

The underlying assets (e.g., loans) are subject to prepayments which shorten the securities' weighted average maturity and may lower their return. If the credit support or enhancement is exhausted, losses or delays in payment may result if the required payments of principal and interest are not made. The value of these securities also may change because of changes in market value, that is changes in the market's perception of the creditworthiness of the servicing agent for the pool, the originator of the pool, or the financial institution or fund providing the credit support or enhancement.

Collateralized Debt Obligations (CDOs). The Trust may invest in CDOs. A CDO is a structured credit security issued by an SPV that was created to reappportion the risk and return characteristics of a pool of assets. The assets, typically non-investment grade bonds, leveraged loans, and other asset-backed obligations, are used as collateral supporting the various debt and equity tranches issued by the SPV. The key feature of the CDO structure is the prioritization of the cash flows from a pool of debt securities among the several classes of CDO holders, thereby creating a series of obligations with varying rates and maturities appealing to a wide range of investors. CDOs generally are secured by an assignment to a trustee under the indenture pursuant to which the bonds are issued of collateral consisting of a pool of debt securities, usually, non-investment grade bonds. Payments with respect to the underlying debt securities generally are made to the trustee under the indenture. CDOs are designed to be retired as the underlying debt securities are repaid. In the event of sufficient early prepayments on such debt securities, the class or series of CDO first to mature generally will be retired prior to maturity. Therefore, although in most cases the issuer of CDOs will not supply additional collateral in the event of such prepayments, there will be sufficient collateral to secure CDOs that remain outstanding. The credit quality of these securities depends primarily upon the quality of the underlying assets and the level of credit support and/or enhancement provided. CDOs operate similarly to CLOs and are subject to the same inherent risks.

Foreign Securities. The Trust may invest in Senior Loans and other debt securities of non-U.S. issuers. Investment in securities of non-U.S. issuers involves special risks, including that non-U.S. issuers may be subject to less rigorous accounting and reporting requirements than U.S. issuers, less rigorous regulatory requirements, differing legal systems and laws relating to creditors' rights, the potential inability to enforce legal judgments and the potential for political, social and economic adversity. The willingness and ability of sovereign issuers to pay principal and interest on government securities depends on various economic factors, including among others the issuer's balance of payments, overall debt level, and cash flow considerations related to the availability of tax or other revenues to satisfy the issuer's obligations. The securities of some foreign issuers are less liquid and at times more volatile than securities of comparable U.S. issuers. Foreign settlement procedures and trade regulations may involve certain risks (such as delay in the payment or delivery of securities and interest or in the recovery of assets held abroad) and expenses not present in the settlement of domestic investments. Investments may include securities issued by the governments of lesser-developed countries, which are sometimes referred to as emerging markets. There may be a possibility of nationalization or expropriation of assets, imposition of currency exchange controls, confiscatory taxation, political or financial instability, armed conflict and diplomatic developments which could affect the value of the Trust's investments in certain foreign countries. Foreign issuers may become subject to sanctions imposed by the United States or another country, which could result in the immediate freeze of the foreign issuers' assets or securities. The imposition of such sanctions could impair the market value of the securities of such foreign issuers and limit the Trust's ability to buy, sell, receive or deliver the securities.

Corporate Bonds and Other Debt Securities. The Trust may invest in a wide variety of bonds, debentures and similar debt securities of varying maturities and durations issued by corporations and other business entities, including limited liability companies. Debt securities in which the Trust may invest may pay fixed or variable rates of interest. Bonds and other debt securities generally are issued by corporations and other issuers to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and normally must repay the amount borrowed on or before maturity. Certain debt securities are perpetual in that they have no maturity date. The Trust may invest in bonds and

other debt securities of any quality. As discussed below, Non-Investment Grade Bonds, commonly known as junk bonds, are considered to be predominantly speculative in nature because of the credit risk of the issuers.

Non-Investment Grade Bonds .. As indicated above, Non-Investment Grade Bonds are those rated lower than investment grade (i.e., bonds rated lower than Baa3 by Moody's and lower than BBB- by S&P and Fitch) or are unrated and of comparable quality as determined by the Adviser. Non-Investment Grade Bonds rated BB and Ba have speculative characteristics, while lower rated Non-Investment Grade Bonds are predominantly speculative.

The Trust may hold securities that are unrated or in the lowest rating categories (rated C by Moody's or D by S&P or Fitch). Bonds rated C by Moody's are regarded as having extremely poor prospects of ever attaining any real investment standing. Bonds rated D by S&P or Fitch are in payment default or a bankruptcy petition has been filed and debt service payments are jeopardized. In order to enforce its rights with defaulted securities, the Trust may be required to retain legal counsel and/or a financial adviser. This may increase the Trust's operating expenses and adversely affect net asset value.

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The credit quality of most securities held by the Trust reflects a greater than average possibility that adverse changes in the financial condition of an issuer, or in general economic conditions, or both, may impair the ability of the issuer to make payments of interest and principal. The inability (or perceived inability) of issuers to make timely payment of interest and principal would likely make the values of securities held by the Trust more volatile and could limit the Trust's ability to sell its securities at favorable prices. In the absence of a liquid trading market for securities held by it, the Trust may have difficulties determining the fair market value of such securities.

Although the Adviser considers security ratings when making investment decisions, it performs its own credit and investment analysis and does not rely primarily on the ratings assigned by the Rating Agencies. In evaluating the quality of a particular security, whether rated or unrated, the Adviser will normally take into consideration, among other things, the issuer's financial resources and operating history, its sensitivity to economic conditions and trends, the ability of its management, its debt maturity schedules and borrowing requirements, and relative values based on anticipated cash flow, interest and asset coverage, and earnings prospects. Because of the greater number of investment considerations involved in investing in high yield, high risk bonds, the achievement of the Trust's objective(s) depends more on the Adviser's judgment and analytical abilities than would be the case if the Trust invested primarily in securities in the higher rating categories. While the Adviser will attempt to reduce the risks of investing in lower rated or unrated securities through active Trust management, diversification, credit analysis and attention to current developments and trends in the economy and the financial markets, there can be no assurance that a broadly diversified fund of such securities would substantially lessen the risk of defaults brought about by an economic downturn or recession. In recent years, issuances of Non-Investment Grade Bonds by companies in various sectors have increased. Accordingly, the Trust's investments may have significant exposure to certain sectors of the economy and thus may react differently to political or economic developments than the market as a whole.

The Trust's high yield securities may have fixed or variable principal payments and all types of interest rate and dividend payment and reset terms, including fixed rate, adjustable rate, zero coupon, contingent, deferred, and payment in kind features.

Convertible Securities .. The Trust may invest in convertible securities. A convertible security is a bond, debenture, note, preferred security, or other security that entitles the holder to acquire common stock or other equity securities of the same or a different issuer. A convertible security entitles the holder to receive interest paid or accrued on debt or the dividend paid on preferred securities until the convertible security matures or is redeemed, converted or exchanged. Before conversion, convertible securities have characteristics similar to nonconvertible income securities. The value of a convertible security tends to be influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other issuer and market factors also may have an effect on the convertible security's value. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. The Trust may invest in convertible securities of any rating.

Government Securities .. U.S. Government securities include (1) U.S. Treasury obligations, which differ in their interest rates, maturities and times of issuance: U.S. Treasury bills (maturities of one year or less), U.S. Treasury notes (maturities of one year to ten years) and U.S. Treasury bonds (generally maturities of greater than ten years) and (2) obligations issued or guaranteed by U.S. Government agencies and instrumentalities that are supported by any of the following: (a) the full faith and credit of the U.S. Treasury, (b) the right of the issuer to borrow an amount limited to a specific line of credit from the U.S. Treasury, (c) discretionary authority of the U.S. Government to purchase certain obligations of the U.S. Government agency or instrumentality or (d) the credit of the agency or instrumentality. The Trust may also invest in any other security or agreement collateralized or otherwise secured by U.S. Government securities. Agencies and instrumentalities of the U.S. Government include but are not limited to: Federal Land Banks, Federal Financing Banks, Banks for Cooperatives, Federal Intermediate Credit Banks, Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Student Loan Marketing Association, United States Postal Service, Small Business Administration, Tennessee Valley Authority and any other enterprise established or sponsored by the U.S.

Government. Because the U.S. Government generally is not obligated to provide support to its instrumentalities, the Trust will invest in obligations issued by these instrumentalities only if the Adviser determines that the credit risk with respect to such obligations is minimal.

The principal of and/or interest on certain U.S. Government securities which may be purchased by the Trust could be (a) payable in foreign currencies rather than U.S. dollars or (b) increased or diminished as a result of changes in the value of the U.S. dollar relative to the value of foreign currencies. The value of such portfolio securities may be affected favorably by changes in the exchange rate between foreign currencies and the U.S. dollar.

Commercial Paper .. Commercial paper represents short-term unsecured promissory notes issued in bearer form by corporations such as banks or bank holding companies and finance companies. The rate of return on commercial paper may be linked or indexed to the level of exchange rates between the U.S. dollar and a foreign currency or currencies.

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When-Issued Securities and Forward Commitments .. Securities may be purchased on a forward commitment or when-issued basis (meaning securities are purchased or sold with payment and delivery taking place in the future beyond normal settlement times) in order to secure what is considered to be an advantageous price and yield at the time of entering into the transaction. However, the yield on a comparable security when the transaction is consummated may vary from the yield on the security at the time that the forward commitment or when-issued transaction was made. From the time of entering into the transaction until delivery and payment is made at a later date, the securities that are the subject of the transaction are subject to market fluctuations. In forward commitment or when-issued transactions, if the seller or buyer, as the case may be, fails to consummate the transaction, the counterparty may miss the opportunity of obtaining a price or yield considered to be advantageous. Forward commitment or when-issued transactions may be expected to occur a month or more before delivery is due. However, no payment or delivery is made until payment is received or delivery is made from the other party to the transaction. Forward commitment or when-issued transactions are not entered into for the purpose of investment leverage.

Illiquid Securities .. The Trust may invest without limitation in Senior Loans and other securities for which there is no readily available trading market or are otherwise illiquid. Illiquid securities include securities legally restricted as to resale, such as commercial paper issued pursuant to Section 4(a)(2) of the 1933 Act, and securities eligible for resale pursuant to Rule 144A thereunder. Section 4(a)(2) and Rule 144A securities may, however, be treated as liquid by the Adviser pursuant to procedures adopted by the Board, which require consideration of factors such as trading activity, availability of market quotations and number of dealers willing to purchase the security. If the Trust invests in Rule 144A securities, the level of portfolio illiquidity may be increased to the extent that eligible buyers become uninterested in purchasing such securities.

It may be difficult to sell such securities at a price representing the fair value until such time as such securities may be sold publicly. Where registration is required, a considerable period may elapse between a decision to sell the securities and the time when it would be permitted to sell. Thus, the Trust may not be able to obtain as favorable a price as that prevailing at the time of the decision to sell. The Trust may also acquire securities through private placements under which it may agree to contractual restrictions on the resale of such securities. Such restrictions might prevent their sale at a time when such sale would otherwise be desirable.

At times, a portion of the Trusts' assets may be invested in securities as to which the Trust, by itself or together with other accounts managed by the investment adviser and its affiliates, holds a major portion or all of such securities. Under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, the Trust could find it more difficult to sell such securities when the investment adviser believes it advisable to do so or may be able to sell such securities only at prices lower than if such securities were more widely held. It may also be more difficult to determine the fair value of such securities for purposes of computing the Trust's net asset value.

Derivatives .. As described more specifically below, the Trust may purchase or sell derivative instruments (which are instruments that derive their value from another instrument, security or index) to seek to hedge against fluctuations in securities prices or interest rates or for the purpose of leveraging the Trust. The Trust's transactions in derivative instruments may include the purchase or sale of futures contracts on securities, credit-linked notes, securities indices, other indices or other financial instruments; options on futures contracts; exchange-traded and over-the-counter options on securities or indices; index-linked securities; and interest rate swaps. The Trust's transactions in derivative instruments involve a risk of loss or depreciation due to: unanticipated adverse changes in securities prices, interest rates, the other financial instruments' prices; the inability to close out a position; default by the counterparty; imperfect correlation between a position and the desired hedge; tax constraints on closing out positions; and portfolio management constraints on securities subject to such transactions. The loss on derivative instruments (other than purchased options) may substantially exceed the Trust's initial investment in these instruments. In addition, the Trust may lose the entire premium paid for purchased options that expire before they can be profitably exercised by the Trust. Transaction costs will be incurred in opening and closing positions in derivative instruments. There can be no assurance that Eaton Vance's use of derivative instruments will be advantageous to the Trust.

Credit-Linked Notes .. The Trust may invest in credit-linked notes (CLN) for risk management purposes, including diversification. A CLN is a derivative instrument. It is a synthetic obligation between two or more parties where the payment of principal and/or interest is based on the performance of some obligation (a reference obligation). In this type of investment, the Trust is subject to credit risks, including, but not limited to, default risks, associated with the issuer of the CLN 's reference obligation. Material events or circumstances impacting the issuer of the CLN 's reference obligation will affect the payments between the derivative instrument 's parties because such events or circumstances will impact the performance of the reference obligation. The reference obligation may be loan obligations such as Senior Loans and other debt obligations. In addition to credit risk of the reference obligation and interest rate risk, the buyer/seller of the CLN is subject to counterparty risk.

Swaps .. Swap contracts may be purchased or sold to hedge against fluctuations in securities prices, interest rates or market conditions, to change the duration of the overall portfolio, or to mitigate default risk. In a standard swap transaction, two parties agree to exchange the returns (or differentials in rates of return) to be exchanged or swapped between the parties, which

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returns are calculated with respect to a notional amount, i.e., the return on or increase in value of a particular dollar amount invested at a particular interest rate or in a basket of securities representing a particular index.

Interest Rate Swaps. The Trust will enter into interest rate and total return swaps only on a net basis, i.e., the two payment streams are netted out, with the Trust receiving or paying, as the case may be, only the net amount of the two payments. Interest rate swaps involve the exchange by the Trust with another party of their respective commitments to pay or receive interest (e.g., an exchange of fixed rate payments for floating-rate payments). The Trust will only enter into interest rate swaps on a net basis. If the other party to an interest rate swap defaults, the Trust's risk of loss consists of the net amount of payments that the Trust is contractually entitled to receive. The net amount of the excess, if any, of the Trust's obligations over its entitlements will be maintained in a segregated account by the Trust's custodian. The Trust will not enter into any interest rate swap unless the claims-paying ability of the other party thereto is considered to be investment grade by the Adviser. If there is a default by the other party to such a transaction, the Trust will have contractual remedies pursuant to the agreements related to the transaction. These instruments are traded in the over-the-counter market.

The Trust may use interest rate swaps for risk management purposes only and not as a speculative investment and would typically use interest rate swaps to shorten the average interest rate reset time of the Trust's holdings. Interest rate swaps involve the exchange by the Trust with another party of their respective commitments to pay or receive interest (e.g., an exchange of fixed rate payments for floating-rate payments). The use of interest rate swaps is a highly specialized activity which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. If the Adviser is incorrect in its forecasts of market values, interest rates and other applicable factors, the investment performance of the Trust would be unfavorably affected.

Total Return Swaps. As stated above, the Trust will enter into total return swaps only on a net basis. Total return swaps are contracts in which one party agrees to make payments of the total return from the underlying asset(s), which may include securities, baskets of securities, or securities indices during the specified period, in return for payments equal to a fixed or floating-rate of interest or the total return from other underlying asset(s).

Credit Default Swaps. The Trust may enter into credit default swap contracts for risk management purposes, including diversification. When the Trust is the buyer of a credit default swap contract, the Trust is entitled to receive the par (or other agreed-upon) value of a referenced debt obligation from the counterparty to the contract in the event of a default by a third party, such as a U.S. or foreign corporate issuer, on the debt obligation. In return, the Trust would pay the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the Trust would have spent the stream of payments and received no benefit from the contract. When the Trust is the seller of a credit default swap contract, it receives the stream of payments, but is obligated to pay upon default of the referenced debt obligation. As the seller, the Trust would effectively add leverage to its portfolio because, in addition to its total net assets, the Trust would be subject to investment exposure on the notional amount of the swap. These transactions involve certain risks, including the risk that the seller may be unable to fulfill the transaction.

Futures and Options on Futures .. The Trust may purchase and sell various kinds of financial futures contracts and options thereon to seek to hedge against changes in interest rates or for other risk management purposes. Futures contracts may be based on various debt securities and securities indices. Such transactions involve a risk of loss or depreciation due to unanticipated adverse changes in securities prices, which may exceed the Trust's initial investment in these contracts. The Trust will only purchase or sell futures contracts or related options in compliance with the rules of the CFTC. These transactions involve transaction costs. There can be no assurance that Eaton Vance's use of futures will be advantageous to the Trust. Rating Agency guidelines on any preferred shares issued by the Trust, including APS, may limit use of these transactions.

Securities Lending .. The Trust may seek to earn income by lending portfolio securities to broker-dealers or other institutional borrowers. As with other extensions of credit, there are risks of delay in recovery or even loss of rights in

the securities loaned if the borrower of the securities fails financially. In the judgment of the Adviser, the loans will be made only to organizations whose credit quality or claims paying ability is considered to be at least investment grade and when the expected returns, net of administrative expenses and any finders' fees, justifies the attendant risk. Securities loans currently are required to be secured continuously by collateral in cash, cash equivalents (such as money market instruments) or other liquid securities held by the custodian and maintained in an amount at least equal to the market value of the securities loaned. The financial condition of the borrower will be monitored by the Adviser on an ongoing basis.

Borrowings .. The Trust may borrow money to the extent permitted under the 1940 Act as interpreted, modified or otherwise permitted by the regulatory authority having jurisdiction . Subject to Rating Agency guidelines regarding the APS and the Trust's ability to maintain a rating of AAA/Aa3 on APS, the Trust may from time to time borrow money to add leverage to the portfolio. Under the 1940 Act, the Trust is not permitted to incur indebtedness, including through the issuance of debt securities, unless immediately thereafter the total asset value of the Trust's portfolio is at least 300% of the liquidation value of the outstanding indebtedness (i.e., such liquidation value may not exceed 33 1/3% of the Trust's total assets). The Trust may also borrow money for temporary administrative purposes.

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The Trust has entered into a Credit Agreement (the Agreement) with a bank to borrow up to a limit of \$ 230 million (\$ 220 million prior to September 21, 2016) pursuant to a 364-day revolving line of credit. Borrowings under the Agreement are secured by the assets of the Trust. Interest is charged at a rate above LIBOR and is payable monthly. Under the terms of the Agreement, in effect through March 21, 2017, the Trust pays a commitment fee of 0.15% on the borrowing limit. In connection with the renewal of the Agreement on March 22, 2016, the Trust paid an upfront fee of \$ 110,000, which is being amortized to interest expense through March 21, 2017. The Trust is required to maintain certain net asset levels during the term of the Agreement. As of October 31, 2016, the Trust had borrowings outstanding under the Agreement of \$ 198 million at an interest rate of 1.31%. The carrying amount of the borrowings at October 31, 2016 approximated its fair value. For the year ended October 31, 2016, the average borrowings under the Agreement and the average interest rate (excluding fees) were \$ 170,737,705 and 1.23%, respectively. In addition, the credit facility may in the future be replaced or refinanced by one or more credit facilities having substantially different terms or by the issuance of preferred shares or debt securities.

Repurchase Agreements. The Trust may enter into repurchase agreements (the purchase of a security coupled with an agreement to resell at a higher price) with respect to its permitted investments. In the event of the bankruptcy of the other party to a repurchase agreement, the Trust might experience delays in recovering its cash. To the extent that, in the meantime, the value of the securities the Trust purchased may have decreased, the Trust could experience a loss. The Trust's repurchase agreements will provide that the value of the collateral underlying the repurchase agreement will always be at least equal to the repurchase price, including any accrued interest earned on the agreement, and will be marked to market daily. Repurchase agreements are considered by the staff of the SEC to be loans by the fund that enters into them.

Reverse Repurchase Agreements. While the Trust has no current intention to enter into reverse repurchase agreements, the Trust reserves the right to enter into reverse repurchase agreements in the future, at levels that may vary over time. Under a reverse repurchase agreement, the Trust temporarily transfers possession of a portfolio instrument to another party, such as a bank or broker-dealer, in return for cash. At the same time, the Trust agrees to repurchase the instrument at an agreed upon time (normally within seven days) and price, which reflects an interest payment. The Trust may enter into such agreements when it is able to invest the cash acquired at a rate higher than the cost of the agreement, which would increase earned income.

When the Trust enters into a reverse repurchase agreement, any fluctuations in the market value of either the securities transferred to another party or the securities in which the proceeds may be invested would affect the market value of the Trust's assets. As a result, such transactions may increase fluctuations in the market value of the Trust's assets. While there is a risk that large fluctuations in the market value of the Trust's assets could affect net asset value, this risk is not significantly increased by entering into reverse repurchase agreements, in the opinion of the Adviser. Because reverse repurchase agreements may be considered to be the practical equivalent of borrowing funds, they constitute a form of leverage. The SEC views reverse repurchase transactions as collateralized borrowings by a fund. Such agreements will be treated as subject to investment restrictions regarding borrowings. If the Trust reinvests the proceeds of a reverse repurchase agreement at a rate lower than the cost of the agreement, entering into the agreement will lower the Trust's yield.

Portfolio Turnover. The Trust cannot accurately predict its portfolio turnover rate, but the annual turnover rate may exceed 100% (excluding turnover of securities having a maturity of one year or less). A high turnover rate (100% or more) necessarily involves greater expenses to the Trust. The portfolio turnover rate(s) for the Trust for the fiscal years ended October 31, 2015 and 2016 were 32% and 35%, respectively.

USE OF LEVERAGE AND RELATED RISKS

Generally, leverage involves the use of proceeds from the issuance of preferred shares or borrowed funds, or various financial instruments (such as derivatives). Leverage can increase both the risk and return profile of the Trust. The Trust currently uses leverage created by issuing APS as well as by loans acquired with borrowings. On January 26,

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2004, the Trust issued 3,940 Series A APS, 3,940 Series B APS, 3,940 Series C APS and 3,940 Series D APS, with a liquidation preference per share of \$25,000 plus accumulated but unpaid dividends. As of December 31, 2012, 2,627 Series A APS, 2,627 Series B APS, 2,627 Series C APS and 2,627 Series D APS had been redeemed. The APS have seniority over the Common Shares. On September 23, 2016, the Trust repurchases 354 Series A APS, 354 Series B APS, 354 Series C APS and 354 Series D APS. In addition, the Trust has entered into an Agreement with a bank to borrow up to a limit of \$ 230 million (\$ 220 million prior to September 21, 2016) pursuant to a 364-day revolving line of credit. Borrowings under the Agreement are secured by the assets of the Trust. Interest is charged at a rate above LIBOR and is payable monthly. Under the terms of the Agreement, in effect through March 21, 2017, the Trust pays a commitment fee of 0.15% on the borrowing limit. In connection with the renewal of the Agreement on March 22, 2016, the Trust paid an upfront fee of \$ 110,000, which is being amortized to interest expense through March 21, 2017. The Trust is required to maintain certain net asset levels during the term of the Agreement. As of October 31, 2016, the Trust had \$ 198 million in outstanding borrowings, at an interest rate of 1.31%, in addition to outstanding APS. The Adviser anticipates that the use of leverage (from such issuance of APS and any borrowings) may result in

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higher income to Common Shareholders over time. Use of financial leverage creates an opportunity for increased income but, at the same time, creates special risks. There can be no assurance that a leveraging strategy will be successful.

The costs of the financial leverage program (from any issuance of preferred shares and any borrowings) are borne by Common Shareholders and consequently result in a reduction of the NAV of Common Shares. During periods in which the Trust is using leverage, the fees paid to Eaton Vance for investment advisory services will be higher than if the Trust did not use leverage because the fees paid will be calculated on the basis of the Trust's gross assets, including proceeds from the issuance of preferred shares and any borrowings. In this regard, holders of debt or preferred securities do not bear the investment advisory fee. Rather, Common Shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds, which means that Common Shareholders effectively bear the entire advisory fee.

Leverage creates risks for holders of the Common Shares, including the likelihood of greater volatility of NAV and market price of the Common Shares. There is a risk that fluctuations in the distribution rates on any outstanding preferred shares may adversely affect the return to the holders of the Common Shares. If the income from the investments purchased with the proceeds of leverage is not sufficient to cover the cost of leverage, the return on the Trust will be less than if leverage had not been used, and, therefore, the amount available for distribution to Common Shareholders will be reduced. The Adviser in its best judgment nevertheless may determine to maintain the Trust's leveraged position if it deems such action to be appropriate in the circumstances.

Changes in the value of the Trust's investment portfolio (including investments bought with the proceeds of leverage) will be borne entirely by the Common Shareholders. If there is a net decrease (or increase) in the value of the Trust's investment portfolio, the leverage will decrease (or increase) the NAV per Common Share to a greater extent than if the Trust were not leveraged. During periods in which the Trust is using leverage, the fees paid to Eaton Vance for investment advisory services will be higher than if the Trust did not use leverage because the fees paid will be calculated on the basis of the Trust's gross assets, including the proceeds from the issuance of preferred shares and any borrowings. As discussed under Description of Capital Structure, the Trust's issuance of preferred shares may alter the voting power of Common Shareholders.

Capital raised through leverage will be subject to distribution and/or interest payments, which may exceed the income and appreciation on the assets purchased. The issuance of preferred shares involves offering expenses and other costs and may limit the Trust's freedom to pay distributions on Common Shares or to engage in other activities. The issuance of a class of preferred shares having priority over the Common Shares creates an opportunity for greater return per Common Share, but at the same time such leveraging is a speculative technique that will increase the Trust's exposure to capital risk. Unless the income and appreciation, if any, on assets acquired with offering proceeds exceed the cost of issuing additional classes of securities (and other Trust expenses), the use of leverage will diminish the investment performance of the Common Shares compared with what it would have been without leverage.

The Trust is subject to certain restrictions on investments imposed by guidelines of one or more Rating Agencies that issued ratings for preferred shares issued by the Trust. These guidelines impose asset coverage or Trust composition requirements that are more stringent than those imposed on the Trust by the 1940 Act. These covenants or guidelines do not currently and are not expected to impede Eaton Vance in managing the Trust's portfolio in accordance with its investment objectives and policies and it is not anticipated that they will so impede Eaton Vance in the future.

Under the 1940 Act, the Trust is not permitted to issue preferred shares unless immediately after such issuance the total asset value of the Trust's portfolio is at least 200% of the liquidation value of the outstanding preferred shares plus the amount of any senior security representing indebtedness (i.e., such liquidation value and amount of indebtedness may not exceed 50% of the Trust's total assets). In addition, the Trust is not permitted to declare any cash distribution on its Common Shares unless, at the time of such declaration, the NAV of the Trust's portfolio (determined after deducting the amount of such distribution) is at least 200% of such liquidation value plus amount of

indebtedness. The Trust intends, to the extent possible, to purchase or redeem preferred shares, from time to time, to maintain coverage of any preferred shares of at least 200%. As of October 31, 2016, the outstanding APS and the outstanding borrowings represented 34.9% leverage, and there was an asset coverage of the APS of 286%. Holders of preferred shares, voting as a class, shall be entitled to elect two of the Trust's Trustees. The holders of both the Common Shares and the preferred shares (voting together as a single class with each share entitling its holder to one vote) shall be entitled to elect the remaining Trustees of the Trust. In the event the Trust fails to pay distributions on its preferred shares for two years, preferred shareholders would be entitled to elect a majority of the Trustees until the preferred distributions in arrears are paid.

Under the 1940 Act, the Trust is not permitted to incur indebtedness, including through the issuance of debt securities, unless immediately thereafter the total asset value of the Trust's portfolio is at least 300% of the liquidation value of the outstanding indebtedness (i.e., such liquidation value may not exceed 33 1/3% of the Trust's total assets). In addition, the Trust is not permitted to declare any cash distribution on its Common Shares unless, at the time of such declaration, the NAV of the Trust's portfolio (determined after deducting the amount of such distribution) is at least 300% of such liquidation value. If the Trust

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borrow money or enters into a commercial paper program, the Trust intends, to the extent possible, to retire outstanding debt, from time to time, to maintain coverage of any outstanding indebtedness of at least 300%. As of October 31, 2016, there were \$ 198 million in outstanding borrowings.

To qualify for federal income taxation as a regulated investment company, the Trust must distribute in each taxable year at least 90% of its net investment income (including net interest income and net short-term gain). The Trust also will be required to distribute annually substantially all of its income and capital gain, if any, to avoid imposition of a nondeductible 4% federal excise tax. If the Trust is precluded from making distributions on the Common Shares because of any applicable asset coverage requirements, the terms of the preferred shares may provide that any amounts so precluded from being distributed, but required to be distributed for the Trust to meet the distribution requirements for qualification as a regulated investment company, will be paid to the holders of the preferred shares as a special distribution. This distribution can be expected to decrease the amount that holders of preferred shares would be entitled to receive upon redemption or liquidation of the shares.

Successful use of a leveraging strategy may depend on the Adviser's ability to predict correctly interest rates and market movements, and there is no assurance that a leveraging strategy will be successful during any period in which it is employed.

The following table is designed to illustrate the effect on the return to a holder of the Common Shares of leverage in the amount of approximately 34.9 % of the Trust's gross assets, assuming hypothetical annual returns of the Trust's portfolio of minus 10% to plus 10%. As the table shows, leverage generally increases the return to Common Shareholders when portfolio return is positive and greater than the cost of leverage and decreases the return when the portfolio return is negative or less than the cost of leverage. The figures appearing in the table are hypothetical and actual returns may be greater or less than those appearing in the table.

Assumed portfolio return (net of expenses)	(10)%	(5)%	0%	5%	10%
Corresponding Common Share Total Return	(15.91)%	(8.22)%	(0.54)%	7.15%	14.83%

Assuming the utilization of leverage in the amount of 34.9 % of the Trust's gross assets, the cost of leverage is 1.00 %. The additional income that the Trust must earn (net of expenses) in order to cover such costs is approximately 0.35 % of net assets. The Trust's actual costs of leverage will be based on market rates at the time the Trust undertakes a leveraging strategy, and such actual costs of leverage may be higher or lower than that assumed in the previous example.

ADDITIONAL RISK CONSIDERATIONS

Risk is inherent in all investing. Investing in any investment company security involves risk, including the risk that you may receive little or no return on your investment or even that you may lose part or all of your investment.

Discount From or Premium to NAV .. The Offering will be conducted only when Common Shares of the Trust are trading at a price equal to or above the Trust's NAV per Common Share plus the per Common Share amount of commissions. As with any security, the market value of the Common Shares may increase or decrease from the amount initially paid for the Common Shares. The Trust's Common Shares have traded both at a premium and at a discount relative to net asset value. The shares of closed-end management investment companies frequently trade at a discount from their NAV. This is a risk separate and distinct from the risk that the Trust's NAV may decrease.

Secondary Market for the Common Shares .. The issuance of Common Shares through the Offering may have an adverse effect on the secondary market for the Common Shares. The increase in the amount of the Trust's outstanding Common Shares resulting from the Offering may put downward pressure on the market price for the Common Shares of the Trust. Common Shares will not be issued pursuant to the Offering at any time when Common Shares are trading at a price lower than a price equal to the Trust's NAV per Common Share plus the per Common Share amount

of commissions.

The Trust also issues Common Shares of the Trust through its dividend reinvestment plan. See Dividend Reinvestment Plan. Common Shares may be issued under the plan at a discount to the market price for such Common Shares, which may put downward pressure on the market price for Common Shares of the Trust.

When the Common Shares are trading at a premium, the Trust may also issue Common Shares of the Trust that are sold through transactions effected on the NYSE. The increase in the amount of the Trust's outstanding Common Shares resulting from that offering may also put downward pressure on the market price for the Common Shares of the Trust.

The voting power of current shareholders will be diluted to the extent that such shareholders do not purchase shares in any future Common Share offerings or do not purchase sufficient shares to maintain their percentage interest. In addition, if the Adviser is unable to invest the proceeds of such offering as intended, the Trust's per share distribution may decrease (or may consist of return of capital) and the Trust may not participate in market advances to the same extent as if such proceeds were fully invested as planned.

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Income Risk .. The income investors receive from the Trust is based primarily on the interest it earns from its investments, which can vary widely over the short and long-term. If prevailing market interest rates drop, investors income from the Trust could drop as well. The Trust's income could also be affected adversely when prevailing short-term interest rates increase and the Trust is utilizing leverage, although this risk is mitigated by the Trust's investment in Senior Loans, which pay floating-rates of interest.

Credit Risk .. Loans and other income investments are subject to the risk of non-payment of scheduled principal and interest. Changes in economic conditions or other circumstances may reduce the capacity of the party obligated to make principal and interest payments on such instruments and may lead to defaults. Such non-payments and defaults may reduce the value of Trust shares and income distributions. The value of a fixed-income security also may decline because of concerns about the issuer's ability to make principal and interest payments. In addition, the credit ratings of loans or other income investments may be lowered if the financial condition of the party obligated to make payments with respect to such instruments changes. In the event of bankruptcy of the issuer of loans or other income investments, the Trust could experience delays or limitations with respect to its ability to realize the benefits of any collateral securing the instrument. In order to enforce its rights in the event of a default, bankruptcy or similar situation, the Trust may be required to retain legal or similar counsel.

Prepayment Risk .. During periods of declining interest rates or for other purposes, Borrowers may exercise their option to prepay principal earlier than scheduled. For fixed-income securities, such payments often occur during periods of declining interest rates, forcing the Trust to reinvest in lower yielding securities. This is known as call or prepayment risk. Non-Investment Grade Bonds frequently have call features that allow the issuer to redeem the security at dates prior to its stated maturity at a specified price (typically greater than par) only if certain prescribed conditions are met (call protection). An issuer may redeem a Non-Investment Grade Bond if, for example, the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. Senior Loans typically have no such call protection. For premium bonds (bonds acquired at prices that exceed their par or principal value) purchased by the Trust, prepayment risk may be enhanced.

Issuer Risk .. The value of corporate income-producing securities held by the Trust may decline for a number of reasons, which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods and services.

Senior Loans Risk .. The risks associated with Senior Loans are similar to the risks of Non-Investment Grade Bonds (discussed below), although Senior Loans are typically senior and secured in contrast to Non-Investment Grade Bonds, which are often subordinated and unsecured. Senior Loans' higher standing has historically resulted in generally higher recoveries in the event of a corporate reorganization or other restructuring. In addition, because their interest rates are adjusted for changes in short-term interest rates, Senior Loans generally have less interest rate risk than Non-Investment Grade Bonds, which are typically fixed rate. The Trust's investments in Senior Loans are typically below investment grade and are considered speculative because of the credit risk of their issuers. Such companies are more likely to default on their payments of interest and principal owed to the Trust, and such defaults could reduce the Trust's net asset value and income distributions. An economic downturn generally leads to a higher non-payment rate, and a debt obligation may lose significant value before a default occurs. Moreover, any specific collateral used to secure a loan may decline in value or lose all its value or become illiquid, which would adversely affect the loan's value.

Economic and other events (whether real or perceived) can reduce the demand for certain Senior Loans or Senior Loans generally, which may reduce market prices and cause the Trust's net asset value per share to fall. The frequency and magnitude of such changes cannot be predicted. Fixed-income markets have recently experienced a period of relatively high volatility due to rising U.S. treasury yields which, in part, reflect the market's expectations for higher U.S. economic growth and inflation. As a result of the Federal Reserve's recent decision to raise the target fed funds rate following a similar move last year and the possibility that it may continue with such rate increases and/or unwind its quantitative easing program, among other factors, markets could experience continuing high volatility, which could

negatively impact the Trust's performance.

Loans and other debt securities are also subject to the risk of price declines and to increases in prevailing interest rates, although floating-rate debt instruments are less exposed to this risk than fixed-rate debt instruments. Interest rate changes may also increase prepayments of debt obligations and require the Trust to invest assets at lower yields. No active trading market may exist for certain loans, which may impair the ability of the Trust to realize full value in the event of the need to liquidate such assets. Adverse market conditions may impair the liquidity of some actively traded loans. Investments in bank loans may not be securities and may not have the protections of federal securities law.

Non-Investment Grade Bonds Risk .. The Trust's investments in Non-Investment Grade Bonds, commonly referred to as junk bonds, are predominantly speculative because of the credit risk of their issuers. While offering a greater potential opportunity for capital appreciation and higher yields, Non-Investment Grade Bonds typically entail greater potential price volatility and may be less liquid than higher-rated securities. Issuers of Non-Investment Grade Bonds are more likely to default on their payments of interest and principal owed to the Trust, and such defaults will reduce the Trust's net asset value and income distributions. The prices of these lower rated obligations are more sensitive to negative developments than higher rated securities. Adverse business

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conditions, such as a decline in the issuer's revenues or an economic downturn, generally lead to a higher non-payment rate. In addition, a security may lose significant value before a default occurs as the market adjusts to expected higher non-payment rates.

Derivatives Risk .. The use of derivatives can lead to losses because of adverse movements in the price or value of the asset, index, rate or instrument underlying a derivative, due to failure of a counterparty or due to tax or regulatory constraints. Derivatives may create economic leverage, which represents a non-cash exposure to the underlying asset, index, rate or instrument. Leverage can increase both the risk and return potential of the Trust. Derivative risk may be more significant when derivatives are used to enhance return or as a substitute for a cash investment position, rather than solely to hedge the risk of a position held by the Trust. A decision as to whether, when and how to use derivatives involves the exercise of specialized skill and judgment, and a transaction may be unsuccessful in whole or in part because of market behavior or unexpected events. Changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index .. Derivative instruments traded in over-the-counter markets may be difficult to value, may be illiquid, and may be subject to wide swings in valuation caused by changes in the value of the underlying instrument. If a derivative's counterparty is unable to honor its commitments, the value of Trust shares may decline and the Trust could experience delays in the return of collateral or other assets held by the counterparty. The loss on derivative transactions may substantially exceed the initial investment, particularly when there is no stated limitation on the Trust's use of derivatives.

The regulation of the U.S. and non-U.S. derivatives markets has undergone substantial change in recent years. In particular, the Dodd-Frank Act and related regulations require many derivatives to be cleared and traded on an exchange, expand entity registration requirements, impose business conduct requirements on counterparties, and impose other regulatory requirements that will continue to change derivative markets as regulations are implemented. Additional regulation of the derivatives markets may make the use of derivatives more costly, may limit the availability or reduce the liquidity of derivatives, and may impose limits or restrictions on the counterparties with which the Fund engages in derivative transactions. The effects of future regulation cannot be predicted and may impair the effectiveness of the Fund's derivative transactions and its ability to achieve its investment objective(s).

Leverage risk

As discussed above, the Trust currently uses leverage created by issuing APS and borrowings. On January 26, 2004, the Trust issued 3,940 Series A APS, 3,940 Series B APS, 3,940 Series C APS and 3,940 Series D APS, with a liquidation preference per share of \$25,000 plus accumulated but unpaid dividends. As of December 31, 2012, 2,627 Series A APS, 2,627 Series B APS, 2,627 Series C APS and 2,627 Series D APS had been redeemed. On September 23, 2016, the Trust repurchased 354 Series A APS, 354 Series B APS, 354 Series C APS and 354 Series D APS. In addition, the Trust has entered into an Agreement with a bank to borrow up to a limit of \$ 230 million (\$ 220 million prior to September 21, 2016) pursuant to a 364-day revolving line of credit. The Trust is required to maintain certain net asset levels during the term of the Agreement. As of October 31, 2016, the Trust had \$ 198 million in outstanding borrowings, at an interest rate of 1.31 %, in addition to outstanding APS.

The Adviser anticipates that the use of leverage (from the issuance of APS and borrowings) may result in higher income to Common Shareholders over time. Leverage creates risks for Common Shareholders, including the likelihood of greater volatility of NAV and market price of the Common Shares and the risk that fluctuations in dividend rates on APS and costs of borrowings may affect the return to Common Shareholders. To the extent the income derived from investments purchased with funds received from leverage exceeds the cost of leverage, the Trust's distributions will be greater than if leverage had not been used. Conversely, if the income from the investments purchased with such funds is not sufficient to cover the cost of leverage, the amount available for distribution to Common Shareholders will be less than if leverage had not been used. In the latter case, Eaton Vance, in its best judgment, may nevertheless determine to maintain the Trust's leveraged position if it deems such action to be appropriate. While the Trust has preferred shares outstanding, an increase in short-term rates would also result in an increased cost of leverage, which would adversely affect the Trust's income available for distribution. There can be no

assurance that a leveraging strategy will be successful.

In addition, under current federal income tax law, the Trust is required to allocate a portion of any net realized capital gains or other taxable income to APS holders. The terms of the Trust's APS require the Trust to pay to any APS holders additional dividends intended to compensate such holders for taxes payable on any capital gains or other taxable income allocated to such holders. Any such additional dividends will reduce the amount available for distribution to Common Shareholders. As discussed under Management of the Trust, the fee paid to Eaton Vance is calculated on the basis of the Trust's gross assets, including proceeds from the issuance of APS and borrowings, so the fees will be higher when leverage is utilized. In this regard, holders of APS do not bear the investment advisory fee.

Rather, Common Shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds, which means that Common Shareholders effectively bear the entire advisory fee.

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The APS have been rated AAA by Fitch and Aa3 by Moody's. The Trust currently intends to seek to maintain this rating or an equivalent credit rating on the APS or any preferred shares it issues. The Rating Agencies which rate the preferred shares and any bank lender in connection with a credit facility or commercial paper program may impose specific restrictions as a condition to borrowing. Such restrictions may include asset coverage or portfolio composition requirements that are more stringent than those imposed on the Trust by the 1940 Act. These covenants or guidelines do not currently and are not expected to impede Eaton Vance in managing the Trust's portfolio in accordance with its investment objectives and policies and it is not anticipated that they will so impede Eaton Vance in the future. See Description of Capital Structure - Preferred Shares.

Financial leverage may also be achieved through the purchase of certain derivative instruments. The Trust's use of derivative instruments exposes the Trust to special risks. See Investment Objectives, Policies and Risks - Additional Investment Practices and Investment Objectives, Policies, and Risks - Additional Risk Considerations.

Interest Rate Risk .. When interest rates decline, the value of a portfolio invested in Senior Loans may rise. Conversely, when interest rates rise, the value of a portfolio invested in Senior Loans may decline. Interest rates are at historical lows and, as a result, it is likely that they will rise. Because floating or variable rates on Senior Loans only reset periodically, changes in prevailing interest rates may cause some fluctuations in the Trust's net asset value. Similarly, a sudden and significant increase in market interest rates may cause a decline in the Trust's net asset value. A material decline in the Trust's net asset value may impair the Trust's ability to maintain required levels of asset coverage.

Foreign Securities Risk .. Investments in foreign issuers could be affected by factors not present in the United States, including expropriation, armed conflict, confiscatory taxation, lack of uniform accounting and auditing standards, less publicly available financial and other information, potential difficulties in enforcing contractual obligations and the imposition of economic or other sanctions. Because foreign issuers may not be subject to uniform accounting, auditing and financial reporting standards and the imposition of economic or other sanctions, practices and requirements and regulatory measures comparable to those in the United States, there may be less publicly available information about such foreign issuers. Settlements of securities transactions in foreign countries are subject to risk of loss, may be delayed and are generally less frequent than in the United States, which could affect the liquidity of the Trust's assets.

Liquidity Risk .. The Trust may invest without limitation in Senior Loans and other securities for which there is no readily available trading market or which are otherwise illiquid. The Trust may not be able to dispose readily of such securities at prices that approximate those at which the Trust could sell such securities if they were more widely traded and, as a result of such illiquidity, the Trust may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. In addition, the limited liquidity could affect the market price of the securities, thereby adversely affecting the Trust's net asset value and ability to make dividend distributions.

Some Senior Loans are not readily marketable and may be subject to contractual restrictions that must be satisfied before a loan can be bought or sold .. Senior Loans generally are not listed on any national securities exchange or automated quotation system and no active trading market may exist for some of the Senior Loans in which the Trust will invest. Where a secondary market exists, such market for some Senior Loans may be subject to irregular activity, wide bid/ask spreads and extended trade settlement periods. Senior Loans that are illiquid may impair the Trust's ability to realize the full value of its assets in the event of a voluntary or involuntary liquidation of such assets and thus may cause a decline in the Trust's net asset value. The Trust has no limitation on the amount of its assets which may be invested in securities which are not readily marketable or are subject to restrictions on resale.

Reinvestment Risk .. Income from the Trust's portfolio will decline if and when the Trust invests the proceeds from matured, traded or called debt obligations into lower yielding instruments.

Inflation Risk .. Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the Common Shares and

distributions thereon can decline. In addition, during any periods of rising inflation, dividend rates of preferred shares would likely increase, which would tend to further reduce returns to Common Shareholders. This risk is mitigated to some degree by the Trust's investments in Senior Loans.

Management Risk .. The Trust is subject to management risk because it is actively managed .. Eaton Vance and the individual portfolio managers invest the assets of the Trust as they deem appropriate in implementing the Trust's investment strategy. Accordingly, the success of the Trust depends upon the investment skills and analytical abilities of Eaton Vance and the individual portfolio managers to develop and effectively implement strategies that achieve the Trust's investment objective. There is no assurance that Eaton Vance and the individual portfolio managers will be successful in developing and implementing the Trust's investment strategy. Subjective decisions made by Eaton Vance and the individual portfolio managers may cause the Trust to incur losses or to miss profit opportunities .

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Regulatory Risk .. To the extent that legislation or state or federal regulators that regulate certain financial institutions impose additional requirements or restrictions with respect to the ability of such institutions to make loans, particularly in connection with highly leveraged transactions, the availability of Senior Loans for investment may be adversely affected. Further, such legislation or regulation could depress the market value of Senior Loans.

Market Disruption .. Instability in the Middle East, the wars in Afghanistan, Iraq and Libya, geopolitical tensions elsewhere and terrorist attacks in the United States and around the world have resulted in market volatility and may have long-term effects on the United States and worldwide financial markets and may cause further economic uncertainties in the United States and worldwide. The Trust cannot predict the effects of significant future events on the global economy and securities markets. A similar disruption of the financial markets could impact interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to the Common Shares. In particular, Non-Investment Grade Bonds and Senior Loans tend to be more volatile than higher rated fixed-income securities so that these events and any actions resulting from them may have a greater impact on the prices and volatility on Non-Investment Grade Bonds and Senior Loans than on higher rated fixed-income securities.

Anti-takeover Provisions .. The Trust's Agreement and Declaration of Trust includes provisions that could have the effect of limiting the ability of other persons or entities to acquire control of the Trust or to change the composition of its Board. These provisions may have the effect of discouraging attempts to acquire control of the Trust, which attempts could have the effect of increasing the expenses of the Trust and interfering with the normal operation of the Trust. See Description of Capital Structure - Certain Provisions of the Declaration of Trust - Anti-Takeover Provisions in the Declaration of Trust.

Management of the Trust

BOARD OF TRUSTEES

The management of the Trust, including general supervision of the duties performed by the Adviser under the Advisory Agreement (as defined below), is the responsibility of the Trust's Board under the laws of The Commonwealth of Massachusetts and the 1940 Act.

THE ADVISER

Eaton Vance acts as the Trust's investment adviser under an Investment Advisory Agreement (the Advisory Agreement). The Adviser's principal office is located at Two International Place, Boston, MA 02110. Eaton Vance, its affiliates and predecessor companies have been managing assets of individuals and institutions since 1924 and of investment companies since 1931. As of December 31, 2016, Eaton Vance and its affiliates managed approximately \$ 354.3 billion of fund and separate account assets on behalf of clients, including approximately \$33. 2 billion in floating-rate income assets. Eaton Vance is a wholly-owned subsidiary of Eaton Vance Corp., a publicly-held holding company, which through its subsidiaries and affiliates engages primarily in investment management, administration and marketing activities.

Under the general supervision of the Trust's Board, the Adviser will carry out the investment and reinvestment of the assets of the Trust, will furnish continuously an investment program with respect to the Trust, will determine which securities should be purchased, sold or exchanged, and will implement such determinations. The Adviser will furnish to the Trust investment advice and office facilities, equipment and personnel for servicing the investments of the Trust. The Adviser will compensate all Trustees and officers of the Trust who are members of the Adviser's organization and who render investment services to the Trust, and will also compensate all other Adviser personnel who provide research and investment services to the Trust. In return for these services, facilities and payments, the Trust has agreed to pay the Adviser as compensation under the Advisory Agreement a fee in the amount of 0.75% of the average daily gross assets of the Trust. Gross assets of the Trust shall be calculated by deducting accrued liabilities

of the Trust not including the amount of any preferred shares outstanding or the principal amount of any indebtedness for money borrowed. During periods in which the Trust is using leverage, the fees paid to Eaton Vance for investment advisory services will be higher than if the Trust did not use leverage because the fees paid will be calculated on the basis of the Trust's gross assets, including proceeds from any borrowings and from the issuance of preferred shares. The Trust is responsible for all expenses not expressly stated to be payable by another party (such as the expenses required to be paid pursuant to an agreement with the investment adviser or administrator).

Scott H. Page, Craig P. Russ, Peter M. Campo comprise the investment team responsible for the overall and day-to-day management of the Trust's investments. Mr. Page is a Vice President of Eaton Vance, is Co-Director of Eaton Vance's Floating Rate Loan Group and has been a portfolio manager of the Trust since November 2003. Mr. Russ, is a Vice President of Eaton Vance, is Co-Director of Eaton Vance's Floating Rate Loan Group and has been a portfolio manager of the Trust since November 2003. Mr. Campo is a Vice President of Eaton Vance and has been a portfolio manager of the Trust since January 2008.

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Additional Information Regarding Portfolio Managers

The Statement of Additional Information provides additional information about the portfolio managers' compensation, other accounts managed by the portfolio managers, and the portfolio managers' ownership of securities in the Trust. The Statement of Additional Information is available free of charge by calling 1-800-225-6265 or by visiting the Trust's website at <http://www.eatonvance.com>. The information contained in, or that can be accessed through, the Trust's website is not part of this Prospectus or the Statement of Additional Information.

The Trust and the Adviser have adopted Codes of Ethics relating to personal securities transactions. The Codes of Ethics permit Adviser personnel to invest in securities (including securities that may be purchased or held by the Trust) for their own accounts, subject to the provisions of the Codes of Ethics and certain employees are also subject to certain pre-clearance, reporting and other restrictions and procedures contained in such Codes of Ethics.

The Trust's semi-annual shareholder report contains information regarding the basis for the Trustees' approval of the Trust's Advisory Agreement.

THE ADMINISTRATOR

Eaton Vance serves as administrator of the Trust but currently receives no compensation for providing administrative services to the Trust. Under an Amended and Restated Administrative Services Agreement with the Trust (Administration Agreement), Eaton Vance is responsible for managing the business affairs of the Trust, subject to the supervision of the Trust's Board. Eaton Vance will furnish to the Trust all office facilities, equipment and personnel for administering the affairs of the Trust. Eaton Vance's administrative services include recordkeeping, preparation and filing of documents required to comply with federal and state securities laws, supervising the activities of the Trust's custodian and transfer agent, providing assistance in connection with the Trustees' and shareholders' meetings, providing service in connection with any repurchase offers and other administrative services necessary to conduct the Trust's business.

Plan of Distribution

The Trust may sell the Common Shares being offered under this Prospectus in any one or more of the following ways: (i) directly to purchasers; (ii) through agents; (iii) to or through underwriters; or (iv) through dealers. The Prospectus Supplement relating to the Offering will identify any agents, underwriters or dealers involved in the offer or sale of Common Shares, and will set forth any applicable offering price, sales load, fee, commission or discount arrangement between the Trust and its agents or underwriters, or among its underwriters, or the basis upon which such amount may be calculated, net proceeds and use of proceeds, and the terms of any sale.

The Trust may distribute Common Shares from time to time in one or more transactions at: (i) a fixed price or prices that may be changed; (ii) market prices prevailing at the time of sale; (iii) prices related to prevailing market prices; or (iv) negotiated prices; provided, however, that in each case the offering price per Common Share (less any underwriting commission or discount) must equal or exceed the NAV per Common Share.

The Trust from time to time may offer its Common Shares through or to certain broker-dealers, including UBS Securities LLC, that have entered into selected dealer agreements relating to at-the-market offerings.

The Trust may directly solicit offers to purchase Common Shares, or the Trust may designate agents to solicit such offers. The Trust will, in a Prospectus Supplement relating to such Offering, name any agent that could be viewed as an underwriter under the 1933 Act, and describe any commissions the Trust must pay to such agent(s). Any such agent will be acting on a reasonable best efforts basis for the period of its appointment or, if indicated in the applicable Prospectus Supplement or other offering materials, on a firm commitment basis. Agents, dealers and underwriters may

be customers of, engage in transactions with, or perform services for the Trust in the ordinary course of business.

If any underwriters or agents are used in the sale of Common Shares in respect of which this Prospectus is delivered, the Trust will enter into an underwriting agreement or other agreement with them at the time of sale to them, and the Trust will set forth in the Prospectus Supplement relating to such Offering their names and the terms of the Trust's agreement with them.

If a dealer is utilized in the sale of Common Shares in respect of which this Prospectus is delivered, the Trust will sell such Common Shares to the dealer, as principal. The dealer may then resell such Common Shares to the public at varying prices to be determined by such dealer at the time of resale.

The Trust may engage in at-the-market offerings to or through a market maker or into an existing trading market, on an exchange or otherwise, in accordance with Rule 415(a)(4) under the 1933 Act. An at-the-market offering may be through an underwriter or underwriters acting as principal or agent for the Trust.

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Agents, underwriters and dealers may be entitled under agreements which they may enter into with the Trust to indemnification by the Trust against certain civil liabilities, including liabilities under the 1933 Act, and may be customers of, engage in transactions with or perform services for the Trust in the ordinary course of business.

In order to facilitate the Offering of Common Shares, any underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of Common Shares or any other Common Shares the prices of which may be used to determine payments on the Common Shares. Specifically, any underwriters may over-allot in connection with the Offering, creating a short position for their own accounts. In addition, to cover over-allotments or to stabilize the price of Common Shares or of any such other Common Shares, the underwriters may bid for, and purchase, Common Shares or any such other Common Shares in the open market. Finally, in any Offering of Common Shares through a syndicate of underwriters, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing Common Shares in the Offering if the syndicate repurchases previously distributed Common Shares in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of Common Shares above independent market levels. Any such underwriters are not required to engage in these activities and may end any of these activities at any time.

The Trust may enter into derivative transactions with third parties, or sell Common Shares not covered by this Prospectus to third parties in privately negotiated transactions. If the applicable Prospectus Supplement indicates, in connection with those derivatives, the third parties may sell Common Shares covered by this Prospectus and the applicable Prospectus Supplement or other offering materials, including in short sale transactions. If so, the third parties may use Common Shares pledged by the Trust or borrowed from the Trust or others to settle those sales or to close out any related open borrowings of securities, and may use Common Shares received from the Trust in settlement of those derivatives to close out any related open borrowings of securities. The third parties in such sale transactions will be underwriters and, if not identified in this Prospectus, will be identified in the applicable Prospectus Supplement or other offering materials (or a post-effective amendment).

The maximum amount of compensation to be received by any member of the Financial Industry Regulatory Authority, Inc. will not exceed 8% of the initial gross proceeds from the sale of any security being sold with respect to each particular Offering of Common Shares made under a single Prospectus Supplement.

Any underwriter, agent or dealer utilized in the initial Offering of Common Shares will not confirm sales to accounts over which it exercises discretionary authority without the prior specific written approval of its customer.

Distributions

The Trust intends to make monthly distributions of net investment income to Common Shareholders, after payment of any dividends on any outstanding APS. The amount of each monthly distribution will vary depending on a number of factors, including dividends payable on the Trust's preferred shares or other costs of financial leverage. As portfolio and market conditions change, the rate of dividends on the Common Shares and the Trust's dividend policy could change. Over time, the Trust will distribute all of its net investment income (after it pays accrued dividends on any outstanding preferred shares) or other costs of financial leverage. In addition, at least annually, the Trust intends to distribute all or substantially all of its net realized capital gains (reduced by available capital loss carryforwards from prior years, if any). Distributions to Common Shareholders are recorded on the ex-dividend date. Distributions to preferred shareholders are recorded daily and are payable at the end of each dividend period.

Beginning February 13, 2008 and consistent with the patterns in the broader market for auction-rate securities, the Trust's APS auctions were unsuccessful in clearing due to an imbalance of sell orders over bids to buy the APS. As a result, the dividend rates of the APS were reset to the maximum applicable rates.

The Trust distinguishes between distributions on a tax basis and a financial reporting basis. Accounting principles generally accepted in the United States of America require that only distributions in excess of tax basis earnings and profits be reported in the financial statements as a return of capital. Permanent differences between book and tax accounting relating to distributions are reclassified to paid-in capital. For tax purposes, distributions from short-term capital gains are considered to be from ordinary income.

Common Shareholders may elect automatically to reinvest some or all of their distributions in additional Common Shares under the Trust's dividend reinvestment plan. See [Distributions](#) and [Dividend Reinvestment Plan](#).

While there are any borrowings or preferred shares outstanding, the Trust may not be permitted to declare any cash dividend or other distribution on its Common Shares in certain circumstances. See [Description of Capital Structure](#).

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Federal Income Tax Matters

The Trust intends to qualify each year as a regulated investment company (a RIC) under the Internal Revenue Code of 1986, as amended (the Code). Accordingly, the Trust intends to satisfy certain requirements relating to sources of its income and diversification of its assets and to distribute substantially all of its net income (including both investment company taxable income and net tax-exempt interest income) and net short-term and long-term capital gains (after reduction by any available capital loss carryforwards) in accordance with the timing requirements imposed by the Code, so as to maintain its RIC status and generally to avoid paying federal income or excise tax thereon. If it qualifies for treatment as a RIC and satisfies the above-mentioned distribution requirements, the Trust will not be subject to federal income tax on income paid to its shareholders in the form of dividends or capital gains distributions.

To qualify as a RIC for federal income tax purposes, the Trust must derive at least 90% of its annual gross income from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including, but not limited to, gains from options, futures or forward contracts) derived with respect to its business of investing in stock, securities and currencies, and net income derived from an interest in a qualified publicly traded partnership. The Trust must also distribute to its shareholders at least the sum of 90% of its investment company taxable income and 90% of its net tax-exempt interest income for each taxable year.

The Trust must also satisfy certain requirements with respect to the diversification of its assets. The Trust must have, at the close of each quarter of its taxable year, at least 50% of the value of its total assets represented by cash and cash items, U.S. government securities, securities of other RICs, and other securities that, in respect of any one issuer, do not represent more than 5% of the value of the assets of the Trust or more than 10% of the voting securities of that issuer. In addition, at those times, not more than 25% of the value of the Trust's assets may be invested in securities (other than U.S. Government securities or the securities of other RICs) of any one issuer, or of two or more issuers that the Trust controls and which are engaged in the same or similar trades or businesses or related trades or businesses, or of one or more qualified publicly traded partnerships.

If the Trust does not qualify as a RIC for any taxable year, the Trust's taxable income will be subject to corporate income taxes, and all distributions from earnings and profits, including distributions of net capital gain (if any), will be taxable to the shareholder as ordinary income. Such distributions will be treated as qualified dividend income with respect to shareholders who are individuals and will be eligible for the dividends received deduction in the case of shareholders taxed as corporations, provided certain holding period requirements are met. In order to requalify for taxation as a RIC, the Trust may be required to recognize unrealized gains, pay substantial taxes and interest, and make substantial distributions.

The Trust intends to make monthly distributions of net investment income after payment of dividends on any outstanding preferred shares or interest on any outstanding borrowings. The Trust will distribute annually any net short-term capital gain (which is taxable as ordinary income) and any net capital gain. Distributions of the Trust's net capital gains (capital gain dividends), if any, are taxable to shareholders as long-term capital gains, regardless of the length of time shares have been held by shareholders. Dividends paid to shareholders out of the Trust's current and accumulated earnings and profits, except in the case of capital gain dividends and certain dividends received by individuals, will be taxable as ordinary income. Dividends with respect to the shares generally will not constitute qualified dividends for federal income tax purposes and thus will not be eligible for the favorable long-term capital gains tax rates. Distributions, if any, in excess of the Trust's earnings and profits will first reduce the adjusted tax basis of a holder's shares and, after that basis has been reduced to zero, will constitute capital gains to the shareholder (assuming the shares are held as a capital asset). See below for a summary of the maximum tax rates applicable to capital gains (including capital gain dividends). Dividends will not qualify for a dividends received deduction generally available to corporate shareholders.

Gains or losses attributable to fluctuations in exchange rates between the time the Trust accrues income or receivables or expenses or other liabilities denominated in a foreign currency and the time the Trust actually collects such income or receivables or pays such expenses or liabilities are generally treated as ordinary income or loss. Transactions in foreign currencies, foreign currency-denominated debt securities and certain foreign currency options, futures contracts, forward contracts and similar instruments (to the extent permitted) may give rise to ordinary income or loss to the extent such income or loss results from fluctuations in the value of the foreign currency concerned.

The Trust may be subject to foreign withholding or other foreign taxes with respect to income (possibly including, in some cases, capital gains) on certain foreign securities. These taxes may be reduced or eliminated under the terms of an applicable U.S. income tax treaty. If more than 50% of the value of the total assets of the Trust consists of securities issued by foreign issuers, the Trust may be eligible to pass through to shareholders its proportionate share of any foreign taxes paid by the Trust, in which event shareholders will include in income, and will be entitled to take any foreign tax credits or deductions for, such foreign taxes.

The Trust will inform shareholders of the source and tax status of all distributions promptly after the close of each calendar year.

Eaton Vance Senior Floating-Rate Trust

Selling shareholders will generally recognize gain or loss in an amount equal to the difference between the shareholder's adjusted tax basis in the shares sold and the amount received. If the shares are held as a capital asset, the gain or loss will be a capital gain or loss.

The maximum tax rate applicable to net capital gains recognized by individuals and other non-corporate taxpayers is (i) the same as the maximum ordinary income tax rate for gains recognized on the sale of capital assets held for one year or less, or (ii) generally, 15% for gains recognized on the sale of capital assets held for more than one year (as well as certain capital gain dividends) (0% for individuals in the 10% and 15% tax brackets, and 20% for individuals in the 39.6% tax bracket). Any loss on a disposition of shares held for six months or less will be treated as a long-term capital loss to the extent of any capital gain dividends received with respect to those shares. For purposes of determining whether shares have been held for six months or less, the holding period is suspended for any periods during which the shareholder's risk of loss is diminished as a result of holding one or more other positions in substantially similar or related property, or through certain options or short sales. Any loss realized on a sale or exchange of shares will be disallowed to the extent those shares are replaced by other shares within a period of 61 days beginning 30 days before and ending 30 days after the date of disposition of the shares (whether through the reinvestment of distributions, which could occur, for example, if the shareholder is a participant in the Plan (as defined below) or otherwise). In that event, the basis of the replacement shares will be adjusted to reflect the disallowed loss.

An investor should be aware that, if shares are purchased shortly before the record date for any taxable dividend (including a capital gain dividend), the purchase price likely will reflect the value of the dividend and the investor then would receive a taxable distribution likely to reduce the trading value of such shares, in effect resulting in a taxable return of some of the purchase price. Taxable distributions to individuals and certain other non-corporate shareholders, including those who have not provided their correct taxpayer identification number and other required certifications, may be subject to backup federal income tax withholding at the fourth lowest rate of tax applicable to a single individual (currently 28%).

An investor should also be aware that the benefits of the reduced tax rate applicable to long-term capital gains may be impacted by the application of the alternative minimum tax to individual shareholders.

Certain foreign entities including foreign entities acting as intermediaries may be subject to a 30% withholding tax on dividend income paid and, after December 31, 2018, on gross redemption proceeds paid under the Foreign Account Tax Compliance Act (FATCA). To avoid withholding, foreign financial institutions subject to FATCA must agree to disclose to the relevant revenue authorities certain information regarding their direct and indirect U.S. owners and other foreign entities must certify certain information regarding their direct and indirect U.S. owners to the Trust. For more detailed information regarding FATCA withholding and compliance, please refer to the Statement of Additional Information.

The foregoing briefly summarizes some of the important federal income tax consequences to shareholders of investing in shares, reflects the federal tax law as of the date of this Prospectus, and may not address special tax rules applicable to certain types of investors, such as corporate and foreign investors. A more complete discussion of the tax rules applicable to the Trust and the shareholders can be found in the Statement of Additional Information that is incorporated by reference into this Prospectus. Unless otherwise noted, this discussion assumes that an investor is a United States person for federal income tax purposes and holds shares as a capital asset. This discussion is based upon current provisions of the Code, the regulations promulgated thereunder, and judicial and administrative ruling authorities, all of which are subject to change or differing interpretations by the courts or the Internal Revenue Service retroactively or prospectively. Investors should consult their tax advisors regarding other federal, state or local tax considerations that may be applicable in their particular circumstances, as well as any proposed tax law changes.

Dividend Reinvestment Plan

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The Trust offers a dividend reinvestment plan (the Plan) pursuant to which Common Shareholders may elect to have distributions automatically reinvested in Common Shares of the Trust. You may elect to participate in the Plan by completing the Dividend Reinvestment Plan Application Form. If you do not participate, you will receive all distributions in cash paid by check mailed directly to you by American Stock Transfer & Trust Company, LLC (AST or Plan Agent) as dividend paying agent. On the distribution payment date, if the net asset value per Common Share is equal to or less than the market price per Common Share plus estimated brokerage commissions, then new Common Shares will be issued. The number of Common Shares shall be determined by the greater of the net asset value per Common Share or 95% of the market price. Otherwise, Common Shares generally will be purchased on the open market by the Plan Agent. Distributions subject to income tax (if any) are taxable whether or not shares are reinvested.

If your shares are in the name of a brokerage firm, bank, or other nominee, you can ask the firm or nominee to participate in the Plan on your behalf. If the nominee does not offer the Plan, you will need to request that your shares be re-registered in your name with the Trust s transfer agent, AST, or you will not be able to participate.

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The Plan Agent's service fee for handling distributions will be paid by the Trust. Each participant will be charged their pro rata share of brokerage commissions on all open-market purchases.

Plan participants may withdraw from the Plan at any time by writing to the Plan Agent at the address noted on the following page. If you withdraw, you will receive shares in your name for all Common Shares credited to your account under the Plan. If a participant elects by written notice to the Plan Agent to have the Plan Agent sell part or all of his or her Common Shares and remit the proceeds, the Plan Agent is authorized to deduct a \$5.00 fee plus brokerage commissions from the proceeds.

Any inquiries regarding the Plan can be directed to the Plan Agent, AST, at 1-866-439-6787.

Description of Capital Structure

The Trust is an unincorporated business trust established under the laws of The Commonwealth of Massachusetts by an Agreement and Declaration of Trust (the Declaration of Trust). The Declaration of Trust provides that the Trustees of the Trust may authorize separate classes of shares of beneficial interest. The Trustees have authorized an unlimited number of Common Shares. The Trust intends to hold annual meetings of shareholders in compliance with the requirements of the NYSE.

COMMON SHARES

The Declaration of Trust permits the Trust to issue an unlimited number of full and fractional Common Shares. Each Common Share represents an equal proportionate interest in the assets of the Trust with each other Common Share in the Trust. Holders of Common Shares will be entitled to the payment of dividends when, as and if declared by the Board. The 1940 Act or the terms of any borrowings or preferred shares may limit the payment of dividends to the holders of Common Shares. Each whole Common Share shall be entitled to one vote as to matters on which it is entitled to vote pursuant to the terms of the Declaration of Trust on file with the SEC. Upon liquidation of the Trust, after paying or adequately providing for the payment of all liabilities of the Trust and the liquidation preference with respect to any outstanding preferred shares, and upon receipt of such releases, indemnities and refunding agreements as they deem necessary for their protection, the Trustees may distribute the remaining assets of the Trust among the holders of the Common Shares. The Declaration of Trust provides that shareholders are not liable for any liabilities of the Trust and permits inclusion of a clause to that effect in every agreement entered into by the Trust and in coordination with the Trust's By-Laws indemnifies shareholders against any such liability. Although shareholders of an unincorporated business trust established under Massachusetts law, in certain limited circumstances, may be held personally liable for the obligations of the Trust as though they were general partners, the provisions of the Declaration of Trust and By-Laws described in the foregoing sentence make the likelihood of such personal liability remote.

While there are any borrowings or preferred shares outstanding, the Trust may not be permitted to declare any cash dividend or other distribution on its Common Shares, unless at the time of such declaration, (i) all accrued dividends on preferred shares or accrued interest on borrowings have been paid and (ii) the value of the Trust's total assets (determined after deducting the amount of such dividend or other distribution), less all liabilities and indebtedness of the Trust not represented by senior securities, is at least 300% of the aggregate amount of such securities representing indebtedness and at least 200% of the aggregate amount of securities representing indebtedness plus the aggregate liquidation value of the outstanding preferred shares (expected to equal the aggregate original purchase price of the outstanding preferred shares plus redemption premium, if any, together with any accrued and unpaid dividends thereon, whether or not earned or declared and on a cumulative basis). In addition to the requirements of the 1940 Act, the Trust may be required to comply with other asset coverage requirements as a condition of the Trust obtaining a rating of the preferred shares from a Rating Agency. These requirements may include an asset coverage test more stringent than under the 1940 Act. This limitation on the Trust's ability to make distributions on its Common Shares

could in certain circumstances impair the ability of the Trust to maintain its qualification for taxation as a regulated investment company for federal income tax purposes. The Trust intends, however, to the extent possible to purchase or redeem preferred shares or reduce borrowings from time to time to maintain compliance with such asset coverage requirements and may pay special dividends to the holders of the preferred shares in certain circumstances in connection with any such impairment of the Trust's status as a regulated investment company. See Investment Objectives, Policies and Risks, Distributions and Federal Income Tax Matters. Depending on the timing of any such redemption or repayment, the Trust may be required to pay a premium in addition to the liquidation preference of the preferred shares to the holders thereof.

The Trust has no present intention of offering additional Common Shares, except as described herein. Other offerings of its Common Shares, if made, will require approval of the Board. Any additional offering will not be sold at a price per Common Share below the then current NAV (exclusive of underwriting discounts and commissions) except in connection with an offering to existing shareholders or with the consent of a majority of the Trust's outstanding Common Shares. The Common Shares have no preemptive rights.

The Trust generally will not issue Common Share certificates. However, upon written request to the Trust's transfer agent, a share certificate will be issued for any or all of the full Common Shares credited to an investor's account. Common Share certificates that have been issued to an investor may be returned at any time.

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CREDIT FACILITY

The Trust currently leverages through borrowings, and has entered into an Agreement with a bank to borrow up to a limit of \$ 230 million (\$ 220 million prior to September 21, 2016) pursuant to a 364-day revolving line of credit. Borrowings under the Agreement are secured by the assets of the Trust. Interest is charged at a rate above LIBOR and is payable monthly. Under the terms of the Agreement, in effect through March 21, 2017, the Trust pays a commitment fee of 0.15% on the borrowing limit. In connection with the renewal of the Agreement on March 22, 2016, the Trust paid an upfront fee of \$ 110,000, which is being amortized to interest expense through March 21, 2017. The Trust is required to maintain certain net asset levels during the term of the Agreement. As of October 31, 2016, the Trust had borrowings outstanding under the Agreement of \$ 198 million at an interest rate of 1.31%. The carrying amount of the borrowings at October 31, 2016 approximated its fair value. For the year ended October 31, 2016, the average borrowings under the Agreement and the average interest rate (excluding fees) were \$ 170,737,705 and 1.23%, respectively. In addition, upon the expiration of the term of the Trust's existing credit facility, the lender may not be willing to extend further credit to the Trust, may reduce amounts available under the facility or may only be willing to lend at an increased cost to the Trust. If the Trust is not able to extend its credit arrangement, it may be required to liquidate holdings to repay amounts borrowed under the credit facility.

In addition, the credit facility/program contains covenants that, among other things, limit the Trust's ability to pay dividends in certain circumstances, incur additional debt, change its fundamental investment policies and engage in certain transactions, including mergers and consolidations, and may require asset coverage ratios in addition to those required by the 1940 Act. The Trust is required to pledge its assets and to maintain a portion of its assets in cash or high-grade securities as a reserve against interest or principal payments and expenses. The credit facility/program contains customary covenant, negative covenant and default provisions. In addition, any such credit facility/program entered into in the future may be replaced or refinanced by one or more credit facilities having substantially different terms or by the issuance of preferred shares or debt securities.

REPURCHASE OF COMMON SHARES AND OTHER DISCOUNT MEASURES

Because shares of closed-end management investment companies frequently trade at a discount to their NAVs, the Board has determined that from time to time it may be in the interest of shareholders for the Trust to take corrective actions. The Board, in consultation with Eaton Vance, will review at least annually the possibility of open market repurchases and/or tender offers for the Common Shares and will consider such factors as the market price of the Common Shares, the NAV of the Common Shares, the liquidity of the assets of the Trust, effect on the Trust's expenses, whether such transactions would impair the Trust's status as a regulated investment company or result in a failure to comply with applicable asset coverage requirements, general economic conditions and such other events or conditions which may have a material effect on the Trust's ability to consummate such transactions. There are no assurances that the Board will, in fact, decide to undertake either of these actions or if undertaken, that such actions will result in the Trust's Common Shares trading at a price which is equal to or approximates their NAV. In recognition of the possibility that the Common Shares might trade at a discount to NAV and that any such discount may not be in the interest of shareholders, the Board, in consultation with Eaton Vance, from time to time may review possible actions to reduce any such discount.

On November 11, 2013, the Board of Trustees of the Trust authorized the repurchase by the Trust of up to 10% of its then-currently outstanding Common Shares in open-market transactions at a discount to net asset value. The repurchase program does not obligate the Trust to purchase a specific amount of shares. Results of the repurchase program will be disclosed in the Trust's annual and semiannual reports to shareholders.

PREFERRED SHARES

The Declaration of Trust authorizes the issuance of an unlimited number of shares of beneficial interest with preference rights, including preferred shares, having a par value of \$0.01 per share, in one or more series, with rights

as determined by the Board, by action of the Board without the approval of the Common Shareholders On January 26, 2004, the Trust issued 3,940 Series A APS, 3,940 Series B APS, 3,940 Series C APS and 3,940 Series D APS, with a liquidation preference per share of \$25,000 plus accumulated but unpaid dividends. As of December 31, 2012, 2,627 Series A APS, 2,627 Series B APS, 2,627 Series C APS and 2,627 Series D APS had been redeemed. The APS have seniority over the Common Shares. On September 23, 2016, the Trust repurchased 354 Series A APS, 354 Series B APS, 354 Series C APS and 354 Series D APS.

Under the requirements of the 1940 Act, the Trust must, immediately after the issuance of any preferred shares, have an asset coverage of at least 200%. Asset coverage means the ratio which the value of the total assets of the Trust, less all liability and indebtedness not represented by senior securities (as defined in the 1940 Act), bears to the aggregate amount of senior securities representing indebtedness of the Trust, if any, plus the aggregate liquidation preference of the preferred shares. The liquidation value of the preferred shares is expected to equal to their aggregate original purchase price plus the applicable redemption premium, if any, together with any accrued and unpaid distributions thereon (on a cumulative basis), whether or not earned or declared. The terms of the preferred shares, including their distribution rate, voting rights, liquidation preference and redemption provisions, are determined by the Board (subject to applicable law and the Trust's Declaration of Trust). The Trust

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may issue preferred shares that provide for the periodic redetermination of the distribution rate at relatively short intervals through an auction or remarketing procedure, although the terms of the preferred shares may also enable the Trust to lengthen such intervals. At times, the distribution rate on the Trust's preferred shares may exceed the Trust's return after expenses on the investment of proceeds from the preferred shares and the Trust's leverage structure, resulting in a lower rate of return to Common Shareholders than if the preferred shares were not outstanding.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Trust, the terms of any preferred shares may entitle the holders of preferred shares to receive a preferential liquidating distribution (expected to equal to the original purchase price per share plus the applicable redemption premium, if any, together with accrued and unpaid distributions, whether or not earned or declared and on a cumulative basis) before any distribution of assets is made to holders of Common Shares. After payment of the full amount of the liquidating distribution to which they are entitled, the preferred shareholders would not be entitled to any further participation in any distribution of assets by the Trust.

Holders of preferred shares, voting as a class, shall be entitled to elect two of the Trust's Trustees. The holders of both the Common Shares and the preferred shares (voting together as a single class with each share entitling its holder to one vote) shall be entitled to elect the remaining Trustees of the Trust. Under the 1940 Act, if at any time distributions on the preferred shares are unpaid in an amount equal to two full years' distributions thereon, the holders of all outstanding preferred shares, voting as a class, will be allowed to elect a majority of the Trust's Trustees until all distributions in arrears have been paid or declared and set apart for payment. In addition, if required by a Rating Agency rating the preferred shares or if the Board determines it to be in the best interests of the Common Shareholders, issuance of the preferred shares may result in more restrictive provisions than required by the 1940 Act being imposed. In this regard, holders of the preferred shares may be entitled to elect a majority of the Trust's Board in other circumstances, for example, if one payment on the preferred shares is in arrears. The differing rights of the holders of preferred and Common Shares with respect to the election of Trustees do not affect the obligation of all Trustees to take actions they believe to be consistent with the best interests of the Trust. All such actions must be consistent with (i) the obligations of the Trust with respect to the holders of preferred shares (which obligations arise primarily from the contractual terms of the preferred shares, as specified in the Declaration of Trust and By-laws of the Trust) and (ii) the fiduciary duties owed to the Trust, which include the duties of loyalty and care.

The APS have been rated AAA by Fitch and Aa3 by Moody's. The Trust currently intends to seek to maintain this rating or an equivalent credit rating on the APS or any preferred shares it issues. The Rating Agencies which rate the preferred shares and any bank lender in connection with a credit facility or commercial paper program may impose specific restrictions as a condition to borrowing. Such restrictions may include asset coverage or portfolio composition requirements that are more stringent than those imposed on the Trust by the 1940 Act. These covenants or guidelines do not currently and are not expected to impede Eaton Vance in managing the Trust's portfolio in accordance with its investment objectives and policies and it is not anticipated that they will so impede Eaton Vance in the future.

CERTAIN PROVISIONS OF THE DECLARATION OF TRUST

Anti-Takeover Provisions in the Declaration of Trust

The Declaration of Trust includes provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the Trust or to change the composition of its Board, and could have the effect of depriving holders of Common Shares of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Trust. These provisions may have the effect of discouraging attempts to acquire control of the Trust, which attempts could have the effect of increasing the expenses of the Trust and interfering with the normal operation of the Trust. The Board is divided into three classes, with the term of one class expiring at each annual meeting of holders of Common Shares and preferred shares. At each annual meeting, one class of Trustees is elected to a three-year term. This provision could delay for up to two years the

replacement of a majority of the Board. A Trustee may be removed from office only for cause by a written instrument signed by the remaining Trustees or by a vote of the holders of at least two-thirds of the class of shares of the Trust that elected such Trustee and are entitled to vote on the matter.

In addition, the Declaration of Trust requires the favorable vote of the holders of at least 75% of the outstanding shares of each class of the Trust, voting as a class, then entitled to vote to approve, adopt or authorize certain transactions with 5%-or-greater holders (Principal Shareholders) of a class of shares and their associates, unless the Board shall by resolution have approved a memorandum of understanding with such holders, in which case normal voting requirements would be in effect. For purposes of these provisions, a Principal Shareholder refers to any person who, whether directly or indirectly and whether alone or together with its affiliates and associates, beneficially owns 5% or more of the outstanding shares of any class of beneficial interest of the Trust. The transactions subject to these special approval requirements are: (i) the merger or consolidation of the Trust or any subsidiary of the Trust with or into any Principal Shareholder; (ii) the issuance of any securities of the Trust to any Principal Shareholder for cash; (iii) the sale, lease or exchange of all or any substantial part of the assets of the Trust to any Principal Shareholder (except assets having an aggregate fair market value of less than \$1,000,000, aggregating for the purpose

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of such computation all assets sold, leased or exchanged in any series of similar transactions within a twelve-month period); or (iv) the sale, lease or exchange to the Trust or any subsidiary thereof, in exchange for securities of the Trust, of any assets of any Principal Shareholder (except assets having an aggregate fair market value of less than \$1,000,000, aggregating for the purposes of such computation all assets sold, leased or exchanged in any series of similar transactions within a twelve-month period).

The Board has determined that provisions with respect to the Board and the 75% voting requirements described above, which voting requirements are greater than the minimum requirements under Massachusetts law or the 1940 Act, are in the best interest of holders of Common Shares and preferred shares generally. Reference should be made to the Declaration of Trust on file with the SEC for the full text of these provisions.

Conversion to Open-End Fund

The Trust may be converted to an open-end investment company at any time if approved by the lesser of (i) two-thirds or more of the Trust's then outstanding Common Shares and preferred shares, each voting separately as a class, or (ii) more than 50% of the then outstanding Common Shares and preferred shares, voting separately as a class if such conversion is recommended by at least 75% of the Trustees then in office. If approved in the foregoing manner, conversion of the Trust could not occur until 90 days after the Common Shareholders' meeting at which such conversion was approved and would also require at least 30 days' prior notice to all Common Shareholders. Conversion of the Trust to an open-end management investment company also would require the redemption of any outstanding preferred shares, including APS, and could require the repayment of borrowings. The Board believes that the closed-end structure is desirable, given the Trust's investment objectives and policies. Investors should assume, therefore, that it is unlikely that the Board would vote to convert the Trust to an open-end management investment company.

Custodian and Transfer Agent

State Street Bank and Trust Company (State Street), State Street Financial Center, One Lincoln Street, Boston, MA 02111, is the custodian of the Trust and will maintain custody of the securities and cash of the Trust. State Street maintains the Trust's general ledger and computes NAV per share at least weekly. State Street also attends to details in connection with the sale, exchange, substitution, transfer and other dealings with the Trust's investments, and receives and disburses all funds. State Street also assists in preparation of shareholder reports and the electronic filing of such reports with the SEC.

American Stock Transfer & Trust Company, LLC, 6201 15th Avenue, Brooklyn, NY 11219 is the transfer agent and dividend disbursing agent of the Trust.

Legal Opinions

Certain legal matters in connection with the Common Shares will be passed upon for the Trust by internal counsel for Eaton Vance.

Reports to Shareholders

The Trust will send to Common Shareholders unaudited semi-annual and audited annual reports, including a list of investments held.

Independent Registered Public Accounting Firm

Deloitte & Touche LLP, 200 Berkeley Street, Boston, MA 02116, independent registered public accounting firm, audits the Trust's financial statements and provides other audit, tax and related services.

Additional Information

The Prospectus and the Statement of Additional Information do not contain all of the information set forth in the Registration Statement that the Trust has filed with the SEC. The complete Registration Statement may be obtained from the SEC upon payment of the fee prescribed by its rules and regulations. The Statement of Additional Information can be obtained without charge by calling 1-800-262-1122.

Statements contained in this Prospectus as to the contents of any contract or other document referred to are not necessarily complete, and, in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement of which this Prospectus forms a part, each such statement being qualified in all respects by such reference.

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The Trust's Privacy Policy

The Eaton Vance organization is committed to ensuring your financial privacy. Each of the financial institutions identified below has in effect the following policy (Privacy Policy) with respect to nonpublic personal information about its customers:

Only such information received from you, through application forms or otherwise, and information about your Eaton Vance fund transactions will be collected. This may include information such as name, address, social security number, tax status, account balances and transactions.

None of such information about you (or former customers) will be disclosed to anyone, except as permitted by law (which includes disclosure to employees necessary to service your account). In the normal course of servicing a customer's account, Eaton Vance may share information with unaffiliated third parties that perform various required services such as transfer agents, custodians and broker/dealers.

Policies and procedures (including physical, electronic and procedural safeguards) are in place that are designed to protect the confidentiality of such information.

We reserve the right to change our Privacy Policy at any time upon proper notification to you. Customers may want to review our Privacy Policy periodically for changes by accessing the link on our homepage: www.eatonvance.com.

Our pledge of privacy applies to the following entities within the Eaton Vance organization: the Eaton Vance Family of Funds, Eaton Vance Management, Eaton Vance Investment Counsel, Eaton Vance Distributors, Inc., Eaton Vance Trust Company, Eaton Vance Management (International) Limited, Eaton Vance Management's Real Estate Investment Group and Boston Management and Research.

In addition, our Privacy Policy applies only to those Eaton Vance customers who are individuals and who have a direct relationship with us. If a customer's account (i.e., fund shares) is held in the name of a third-party financial adviser/broker-dealer, it is likely that only such adviser's privacy policies apply to the customer. This notice supersedes all previously issued privacy disclosures.

For more information about Eaton Vance's Privacy Policy, please call 1-800-262-1122.

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Up to 4,084,905 Shares

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Common Shares

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Printed on recycled paper using soy or vegetable inks

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STATEMENT OF
ADDITIONAL INFORMATION
February 23, 2017

Eaton Vance Senior Floating-Rate Trust

Two International Place
Boston, Massachusetts 02110
1-800-262-1122

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THIS STATEMENT OF ADDITIONAL INFORMATION (SAI) IS NOT A PROSPECTUS AND IS AUTHORIZED FOR DISTRIBUTION TO PROSPECTIVE INVESTORS ONLY IF PRECEDED OR ACCOMPANIED BY THE PROSPECTUS OF EATON VANCE SENIOR FLOATING-RATE TRUST (THE TRUST) DATED FEBRUARY 23, 2017 , AS SUPPLEMENTED FROM TIME TO TIME, WHICH IS INCORPORATED HEREIN BY REFERENCE. THIS SAI SHOULD BE READ IN CONJUNCTION WITH SUCH PROSPECTUS, A COPY OF WHICH MAY BE OBTAINED WITHOUT CHARGE BY CONTACTING YOUR FINANCIAL INTERMEDIARY OR CALLING THE TRUST AT 1-800-262-1122.

Capitalized terms used in this SAI and not otherwise defined have the meanings given them in the Trust's Prospectus and any related Prospectus Supplements.

ADDITIONAL INVESTMENT INFORMATION AND RESTRICTIONS

Primary investment strategies are described in the Prospectus. The following is a description of the various investment practices that may be engaged in, whether as a primary or secondary strategy, and a summary of certain attendant risks. The Adviser may not buy any of the following instruments or use any of the following techniques unless it believes that doing so will help to achieve the Trust's investment objectives.

SENIOR LOANS

Structure of Senior Loans .. A Senior Loan is typically originated, negotiated and structured by a U.S. or foreign commercial bank, insurance company, finance company or other financial institution (the Agent) for a group of loan investors (Loan Investors). The Agent typically administers and enforces the Senior Loan on behalf of the other Loan Investors in the syndicate. In addition, an institution, typically but not always the Agent, holds any collateral on behalf of the Loan Investors.

Senior Loans primarily include senior floating-rate loans to corporations and secondarily institutionally traded senior floating-rate debt obligations issued by an asset-backed pool, and interests therein. Loan interests primarily take the form of assignments purchased in the primary or secondary market. Loan interests may also take the form of participation interests in a Senior Loan. Such loan interests may be acquired from U.S. or foreign commercial banks, insurance companies, finance companies or other financial institutions who have made loans or are Loan Investors or from other investors in loan interests.

The Trust typically purchases Assignments from the Agent or other Loan Investors. The purchaser of an Assignment typically succeeds to all the rights and obligations under the Loan Agreement of the assigning Loan Investor and becomes a Loan Investor under the Loan Agreement with the same rights and obligations as the assigning Loan Investor. Assignments may, however, be arranged through private negotiations between potential assignees and potential assignors, and the rights and obligations acquired by the purchaser of an Assignment may differ from, and be more limited than, those held by the assigning Loan Investor.

The Trust also may invest in Participations. Participations by the Trust in a Loan Investor's portion of a Senior Loan typically will result in the Trust having a contractual relationship only with such Loan Investor, not with the Borrower. As a result, the Trust may have the right to receive payments of principal, interest and any fees to which it is entitled only from the Loan Investor selling the Participation and only upon receipt by such Loan Investor of such payments from the Borrower. In connection with purchasing Participations, the Trust generally will have no right to enforce compliance by the Borrower with the terms of the loan agreement, nor any rights with respect to any funds acquired by other Loan Investors through set-off against the Borrower and the Trust may not directly benefit from the collateral supporting the Senior Loan in which it has purchased the Participation. As a result, the Trust may assume the credit risk of both the Borrower and the Loan Investor selling the Participation. In the event of the insolvency of the Loan Investor selling a Participation, the Trust may be treated as a general creditor of such Loan Investor. The selling Loan Investors and other persons interpositioned between such Loan Investors and the Trust with respect to such Participations will likely conduct their principal business activities in the banking, finance and financial services industries. Persons engaged in such industries may be more susceptible to, among other things, fluctuations in interest rates, changes in the Federal Open Market Committee's monetary policy, governmental regulations concerning such industries and concerning capital raising activities generally and fluctuations in the financial markets generally.

The Trust will only acquire Participations if the Loan Investor selling the Participation, and any other persons interpositioned between the Trust and the Loan Investor, at the time of investment has outstanding debt or deposit

obligations rated investment grade (BBB or A-3 or higher by Standard & Poor's Financial Services LLC (S&P)) or Baa or P-3 or higher by Moody's Investors Service, Inc. (Moody's) or comparably rated by another nationally recognized rating agency) or determined by the Adviser to be of comparable quality. Securities rated Baa by Moody's have speculative characteristics. Long-term debt rated BBB by S&P is regarded by S&P as having adequate capacity to pay interest and repay principal and debt rated Baa by Moody's is regarded by Moody's as a medium grade obligation, i.e., it is neither highly protected nor poorly secured. Commercial paper rated A-3 by S&P indicates that S&P believes such obligations exhibit adequate protection parameters but that adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation and issues of commercial paper rated P-3 by Moody's are considered by Moody's to have an acceptable ability for repayment of senior short-term obligations. The effect of industry characteristics and market compositions may be more pronounced. Indebtedness of companies whose creditworthiness is poor involves substantially greater risks, and may be highly speculative. Some companies may never pay off their indebtedness, or may pay only a small fraction of the amount owed.

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Consequently, when investing in indebtedness of companies with poor credit, the Trust bears a substantial risk of losing the entire amount invested.

Loan Collateral .. In order to borrow money pursuant to a Senior Loan, a Borrower will frequently, for the term of the Senior Loan, pledge collateral, including but not limited to, (i) working capital assets, such as accounts receivable and inventory; (ii) tangible fixed assets, such as real property, buildings and equipment; (iii) intangible assets, such as trademarks and patent rights (but excluding goodwill); and (iv) security interests in shares of stock of subsidiaries or affiliates. In the case of Senior Loans made to non-public companies, the company's shareholders or owners may provide collateral in the form of secured guarantees and/or security interests in assets that they own. In many instances, a Senior Loan may be secured only by stock in the Borrower or its subsidiaries. Collateral may consist of assets that may not be readily liquidated, and there is no assurance that the liquidation of such assets would satisfy fully a Borrower's obligations under a Senior Loan.

Certain Fees Paid to the Trust .. In the process of buying, selling and holding Senior Loans, the Trust may receive and/or pay certain fees. These fees are in addition to interest payments received and may include facility fees, commitment fees, amendment fees, commissions and prepayment penalty fees. When the Trust buys a Senior Loan it may receive a facility fee and when it sells a Senior Loan it may pay a facility fee. On an ongoing basis, the Trust may receive a commitment fee based on the undrawn portion of the underlying line of credit portion of a Senior Loan. In certain circumstances, the Trust may receive a prepayment penalty fee upon the prepayment of a Senior Loan by a Borrower. Other fees received by the Trust may include covenant waiver fees and covenant modification fees.

Borrower Covenants .. A Borrower must comply with various restrictive covenants contained in a loan agreement or note purchase agreement between the Borrower and the holders of the Senior Loan (the "Loan Agreement"). Such covenants, in addition to requiring the scheduled payment of interest and principal, may include restrictions on dividend payments and other distributions to stockholders, provisions requiring the Borrower to maintain specific minimum financial ratios, and limits on total debt. In addition, the Loan Agreement may contain a covenant requiring the Borrower to prepay the Senior Loan with any free cash flow. Free cash flow is generally defined as net cash flow after scheduled debt service payments and permitted capital expenditures, and includes the proceeds from asset dispositions or sales of securities. A breach of a covenant that is not waived by the Agent, or by the Loan Investors directly, as the case may be, is normally an event of acceleration; i.e., the Agent, or the Loan Investors directly, as the case may be, has the right to call the outstanding Senior Loan. U.S. federal securities laws afford certain protections against fraud and misrepresentation in connection with the offering or sale of a security, as well as against manipulation of trading markets for securities. The typical practice of a lender in relying exclusively or primarily on reports from the borrower may involve the risk of fraud, misrepresentation, or market manipulation by the borrower. It is unclear whether U.S. federal securities law protections are available to an investment in a loan. In certain circumstances, loans may not be deemed to be securities, and in the event of fraud or misrepresentation by a borrower, lenders may not have the protection of the anti-fraud provisions of the federal securities laws. However, contractual provisions in the loan documents may offer some protections, and lenders may also avail themselves of common-law fraud protections under applicable state law. In the case of a Senior Loan in the form of Participation, the agreement between the buyer and seller may limit the rights of the holder to vote on certain changes that may be made to the Loan Agreement, such as waiving a breach of a covenant. However, the holder of the Participation will, in almost all cases, have the right to vote on certain fundamental issues such as changes in principal amount, payment dates and interest rate.

Administration of Loans .. In a typical Senior Loan, the Agent administers the terms of the Loan Agreement. In such cases, the Agent is normally responsible for the collection of principal and interest payments from the Borrower and the apportionment of these payments to the credit of all institutions that are parties to the Loan Agreement. The Trust will generally rely upon the Agent or an intermediate participant to receive and forward to the Trust its portion of the principal and interest payments on the Senior Loan. Furthermore, unless under the terms of a Participation Agreement the Trust has direct recourse against the Borrower, the Trust will rely on the Agent and the other Loan Investors to use appropriate credit remedies against the Borrower. The Agent is typically responsible for monitoring compliance with

covenants contained in the Loan Agreement based upon reports prepared by the Borrower. The seller of the Senior Loan usually does, but is often not obligated to, notify holders of Senior Loans of any failures of compliance. The Agent may monitor the value of the collateral and, if the value of the collateral declines, may accelerate the Senior Loan, may give the Borrower an opportunity to provide additional collateral or may seek other protection for the benefit of the participants in the Senior Loan. The Agent is compensated by the Borrower for providing these services under a Loan Agreement, and such compensation may include special fees paid upon structuring and funding the Senior Loan and other fees paid on a continuing basis. With respect to Senior Loans for which the Agent does not perform such administrative and enforcement functions, the Trust will perform such tasks on its own behalf, although a collateral bank will typically hold any collateral on behalf of the Trust and the other Loan Investors pursuant to the applicable Loan Agreement.

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A financial institution's appointment as Agent may usually be terminated in the event that it fails to observe the requisite standard of care or becomes insolvent, enters Federal Deposit Insurance Corporation (FDIC) receivership, or, if not FDIC insured, enters into bankruptcy proceedings. A successor Agent would generally be appointed to replace the terminated Agent, and assets held by the Agent under the Loan Agreement should remain available to holders of Senior Loans. However, if assets held by the Agent for the benefit of the Trust were determined to be subject to the claims of the Agent's general creditors, the Trust might incur certain costs and delays in realizing payment on a Senior Loan, or suffer a loss of principal and/or interest. In situations involving intermediate participants, similar risks may arise.

Prepayments .. Senior Loans will usually require, in addition to scheduled payments of interest and principal, the prepayment of the Senior Loan from a portion of free cash flow, as defined above. The degree to which Borrowers prepay Senior Loans, whether as a contractual requirement or at their election, may be affected by general business conditions, the financial condition of the Borrower and competitive conditions among Loan Investors, among other factors. As such, prepayments cannot be predicted with accuracy. Upon a prepayment, either in part or in full, the actual outstanding debt on which the Trust derives interest income will be reduced. However, the Trust may receive both a prepayment penalty fee from the prepaying Borrower and a facility fee upon the purchase of a new Senior Loan with the proceeds from the prepayment of the former. Prepayments generally will not materially affect the Trust's performance because the Trust typically is able to reinvest prepayments in other Senior Loans that have similar yields and because receipt of such fees may mitigate any adverse impact on the Trust's yield.

Other Information Regarding Senior Loans .. From time to time the Adviser and its affiliates may borrow money from various banks in connection with their business activities. Such banks may also sell interests in Senior Loans to or acquire them from the Trust or may be intermediate participants with respect to Senior Loans in which the Trust owns interests. Such banks may also act as Agents for Senior Loans held by the Trust.

The Trust may acquire interests in Senior Loans that are designed to provide temporary or "bridge" financing to a Borrower pending the sale of identified assets or the arrangement of longer-term loans or the issuance and sale of debt obligations. The Trust may also invest in Senior Loans of Borrowers that have obtained bridge loans from other parties. A Borrower's use of bridge loans involves a risk that the Borrower may be unable to locate permanent financing to replace the bridge loan, which may impair the Borrower's perceived creditworthiness.

The Trust will be subject to the risk that collateral securing a loan will decline in value or have no value. Such a decline, whether as a result of bankruptcy proceedings or otherwise, could cause the Senior Loan to be undercollateralized or unsecured. In most credit agreements, there is no formal requirement to pledge additional collateral. In addition, the Trust may invest in Senior Loans guaranteed by, or secured by assets of, shareholders or owners, even if the Senior Loans are not otherwise collateralized by assets of the Borrower; provided, however, that such guarantees are fully secured. There may be temporary periods when the principal asset held by a Borrower is the stock of a related company, which may not legally be pledged to secure a Senior Loan. On occasions when such stock cannot be pledged, the Senior Loan will be temporarily unsecured until the stock can be pledged or is exchanged for or replaced by other assets, which will be pledged as security for the Senior Loan. However, the Borrower's ability to dispose of such securities, other than in connection with such pledge or replacement, will be strictly limited for the protection of the holders of Senior Loans and, indirectly, Senior Loans themselves.

If a Borrower becomes involved in bankruptcy proceedings, a court may invalidate the Trust's security interest in the loan collateral or subordinate the Trust's rights under the Senior Loan to the interests of the Borrower's unsecured creditors or cause interest previously paid to be refunded to the Borrower. If a court required interest to be refunded, it could negatively affect the Trust's performance. Such action by a court could be based, for example, on a "fraudulent conveyance" claim to the effect that the Borrower did not receive fair consideration for granting the security interest in the loan collateral to the Trust. For Senior Loans made in connection with a highly leveraged transaction, consideration for granting a security interest may be deemed inadequate if the proceeds of the Loan were not received or retained by the Borrower, but were instead paid to other persons (such as shareholders of the Borrower) in an

amount that left the Borrower insolvent or without sufficient working capital. There are also other events, such as the failure to perfect a security interest due to faulty documentation or faulty official filings, which could lead to the invalidation of the Trust's security interest in loan collateral. If the Trust's security interest in loan collateral is invalidated or the Senior Loan is subordinated to other debt of a Borrower in bankruptcy or other proceedings, the Trust would have substantially lower recovery, and perhaps no recovery on the full amount of the principal and interest due on the Senior Loan.

The Trust may acquire warrants and other equity securities as part of a unit combining a Senior Loan and equity securities of a Borrower or its affiliates. The acquisition of such equity securities will only be incidental to the Trust's purchase of a Senior Loan. The Trust may also acquire equity securities or debt securities (including non-dollar denominated debt securities) issued in exchange for a Senior Loan or issued in connection with the debt restructuring or reorganization of a Borrower, if such

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acquisition, in the judgment of the Adviser, may enhance the value of a Senior Loan or if such acquisition would otherwise be consistent with the Trust's investment policies.

Debtor-in-Possession Financing .. The Trust may invest in debtor-in-possession financings (commonly called "DIP financings"). DIP financings are arranged when an entity seeks the protections of the bankruptcy court under chapter 11 of the U.S. Bankruptcy Code. These financings allow the entity to continue its business operations while reorganizing under chapter 11. Such financings are senior liens on unencumbered security (i.e., security not subject to other creditors' claims). There is a risk that the entity will not emerge from chapter 11 and be forced to liquidate its assets under chapter 7 of the Bankruptcy Code. In such event, the Trust's only recourse will be against the property securing the DIP financing.

Regulatory Changes .. To the extent that legislation or state or federal regulators that regulate certain financial institutions impose additional requirements or restrictions with respect to the ability of such institutions to make loans, particularly in connection with highly leveraged transactions, the availability of Senior Loans for investment may be adversely affected. Further, such legislation or regulation could depress the market value of Senior Loans.

Junior Loans .. The Trust may invest in secured and unsecured subordinated loans, second lien loans and subordinated bridge loans ("Junior Loans"). Second lien loans are generally second in line in terms of repayment priority. A second lien loan may have a claim on the same collateral pool as the first lien or it may be secured by a separate set of assets, such as property, plants, or equipment. Second lien loans generally give investors priority over general unsecured creditors in the event of an asset sale.

Junior Loans are subject to the same general risks inherent to any loan investment, including credit risk, market and liquidity risk, and interest rate risk. Due to their lower place in the Borrower's capital structure and possible unsecured status, Junior Loans involve a higher degree of overall risk than Senior Loans of the same Borrower.

The Trust may purchase Junior Loan interests either in the form of an assignment or a loan participation. As the purchaser of an assignment, the Trust would typically succeed to all of the rights and obligations of the assigning investor under the loan documents. In contrast, loan participations typically result in the purchaser having a contractual relationship only with the seller of the loan interest, not with the Borrower. As a result, the loan is not transferred to the loan participant. The loan participant's right to receive payments from the Borrower derives from the seller of the loan participation. The loan participant will generally have no right to enforce compliance by the Borrower with the terms of the loan agreement. Lastly, the loan participant's voting rights may be limited.

Bridge Loans .. Bridge loans or bridge facilities are short-term loan arrangements (e.g., 12 to 18 months) typically made by a Borrower in anticipation of intermediate-term or long-term permanent financing. Most bridge loans are structured as floating-rate debt with step-up provisions under which the interest rate on the bridge loan rises the longer the loan remains outstanding. In addition, bridge loans commonly contain a conversion feature that allows the bridge loan investor to convert its loan interest into senior exchange notes if the loan has not been prepaid in full on or prior to its maturity date. Bridge loans may be subordinate to other debt and may be secured or unsecured. Like any loan, bridge loans involve credit risk. Bridge loans are generally made with the expectation that the Borrower will be able to obtain permanent financing in the near future. Any delay in obtaining permanent financing subjects the bridge loan investor to increased risk. A Borrower's use of bridge loans also involves the risk that the Borrower may be unable to locate permanent financing to replace the bridge loan, which may impair the Borrower's perceived creditworthiness. From time to time, the Trust may make a commitment to participate in a bridge loan facility, obligating itself to participate in the facility if it funds. In return for this commitment, the Trust receives a fee.

Credit Quality .. Many Senior Loans in which the Trust may invest are of below investment grade credit quality. Accordingly, these Senior Loans are subject to similar or identical risks and other characteristics described below in relation to Non-Investment Grade Bonds.

NON-INVESTMENT GRADE BONDS

Investments in Non-Investment Grade Bonds generally provide greater income and increased opportunity for capital appreciation than investments in higher quality securities, but they also typically entail greater price volatility and principal and income risk, including the possibility of issuer default and bankruptcy. Non-Investment Grade Bonds are regarded as predominantly speculative with respect to the issuer's continuing ability to meet principal and interest payments. Debt securities in the lowest investment grade category also may be considered to possess some speculative characteristics by certain rating agencies. In addition, analysis of the creditworthiness of issuers of Non-Investment Grade Bonds may be more complex than for issuers of higher quality securities.

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\$
637,110

\$
—

Corporate securities
476,411

—

472,581

3,830

Municipal securities
88,854

—

88,854

—

Government securities
26,368

—

26,368

—

Prepaid expenses and other current assets:

Foreign currency derivatives

3,856

—

3,856

—

Total assets

\$

1,232,599

\$

—

\$

1,228,769

\$

3,830

Accrued expenses and other current liabilities:

Foreign currency derivatives
8,370

—

8,370

—

Total liabilities
\$
8,370

\$

—

\$
8,370

\$

—

The Company's fixed income available-for-sale security portfolio generally consists of high quality, investment grade securities from diverse issuers with a minimum credit rating of A-/A3 and a weighted average credit rating of AA+/Aa1. The Company previously classified these investments as Level 1 because it did not make adjustments to the prices obtained from the Service. However, as the Company values these securities based on pricing from the Service, whose sources may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value, the Company began classifying all of its fixed income available-for-sale securities as Level 2 in the first quarter of 2011. See Note 5 for more information regarding the Company's available for-sale investments.

The Company measures its cash flow hedges, which are classified as prepaid expenses and other current assets and accrued expenses and other current liabilities, at fair value based on indicative prices in active markets (Level 2 inputs).

The Company has invested in convertible debt securities of certain early-stage entities that are classified as available-for-sale investments. As quoted prices in active markets or other observable inputs were not available for these investments, in order to measure them at fair value, the Company utilized a discounted cash flow model using a discount rate reflecting the market risk inherent in holding securities of an early-stage enterprise, adjusted by the probability-weighted exit possibilities associated with the convertible debt securities. This methodology required the Company to make assumptions that were not directly or indirectly observable regarding the fair value of the convertible debt securities; accordingly it is a Level 3 valuation and is included in the "Purchases of Level securities" line in the table below.

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Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

	Short-term Investments (in thousands)
Balance at December 31, 2010	\$49,340
Purchases of Level 3 securities	3,830
Proceeds received on Level 3 securities ⁽¹⁾	(50,000)
Decrease in previously recognized unrealized losses included in accumulated other comprehensive (loss) income	660
Balance at September 30, 2011	\$3,830

⁽¹⁾ In September 2011, the Company's investment in the AIG Capped Floater matured and proceeds of \$50.0 million were received. See Note 5 for more information regarding the AIG Capped Floater.

Assets Measured at Fair Value on a Non-recurring Basis Using Significant Unobservable Inputs (Level 3)

During the third quarter of 2011, one of the Company's cost method investments with a carrying value of \$5.0 million was determined to be impaired and has been written down to its fair value of \$1.5 million, resulting in an impairment charge of \$3.5 million. The impairment charge is included in other (expense) income in the accompanying condensed consolidated financial statements for the three and nine months ended September 30, 2011. The fair value of the cost method investment represents a Level 3 valuation as the assumptions used in valuing this investment were not directly or indirectly observable. See Note 5 for more information regarding cost method investments.

Additional Disclosures Regarding Fair Value Measurements

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair value due to the short maturity of these items.

7. STOCK-BASED COMPENSATION

The Company's stock-based compensation program is a long-term retention program that is intended to attract and reward talented employees and align stockholder and employee interests. As of September 30, 2011, the Company had two stock-based compensation plans under which it was granting stock options and non-vested stock units. The Company is currently granting stock-based awards from its Amended and Restated 2005 Equity Incentive Plan (as amended, the "2005 Plan") and its 2005 Employee Stock Purchase Plan (the "2005 ESPP"). In connection with certain of the Company's acquisitions, the Company has assumed several plans from acquired companies. The Company's Board of Directors has provided that no new awards will be granted under the Company's acquired stock plans. The Company's superseded and expired stock plans include the Amended and Restated 1995 Stock Plan, Second Amended and Restated 2000 Director and Officer Stock Option and Incentive Plan and Second Amended and Restated 1995 Non-Employee Director Stock Option Plan. Awards previously granted under these plans and still outstanding typically expire ten years from the date of grant and will continue to be subject to all the terms and conditions of such plans, as applicable.

Under the terms of the 2005 Plan, the Company is authorized to grant incentive stock options ("ISOs"), non-qualified stock options ("NSOs"), non-vested stock, non-vested stock units, stock appreciation rights ("SARs"), and performance units and to make stock-based awards to full and part-time employees of the Company and its subsidiaries or affiliates, where legally eligible to participate, as well as consultants and non-employee directors of the Company. Currently, the 2005 Plan provides for the issuance of a maximum of 43,100,000 shares of common stock. Under the 2005 Plan, ISOs must be granted at exercise prices no less than fair market value on the date of grant, except for ISOs granted to employees who own more than 10% of the Company's combined voting power, for which the exercise prices must be no less than 110% of the fair market value at the date of grant. NSOs and SARs must be granted at no less than fair market value on the date of grant, or in the case of SARs in tandem with options, at the exercise price of the related option. Non-vested stock awards may be granted for such consideration in cash, other property or services, or a combination thereof, as determined by the Company's Compensation Committee of its Board of Directors. All

stock-based awards, other than the long-term incentive awards discussed below, are exercisable or issuable upon vesting. The Company's policy is to recognize compensation cost for awards with only service conditions and a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. As of September 30, 2011, there were 28,947,452 shares of common stock reserved for issuance pursuant to the Company's stock-based compensation plans and the Company had authorization under its 2005 Plan to grant 15,936,649 additional stock-based awards.

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Under the 2005 ESPP, all full-time and certain part-time employees of the Company are eligible to purchase common stock of the Company twice per year at the end of a six-month payment period (a "Payment Period"). During each Payment Period, eligible employees who so elect may authorize payroll deductions in an amount no less than 1% nor greater than 10% of his or her base pay for each payroll period in the Payment Period. At the end of each Payment Period, the accumulated deductions are used to purchase shares of common stock from the Company up to a maximum of 12,000 shares for any one employee during a Payment Period. Shares are purchased at a price equal to 85% of the fair market value of the Company's common stock on the last business day of a Payment Period. Employees who, after exercising their rights to purchase shares of common stock in the 2005 ESPP, would own shares representing 5% or more of the voting power of the Company's common stock, are ineligible to participate under the 2005 ESPP. The 2005 ESPP provides for the issuance of a maximum of 10,000,000 shares of common stock. As of September 30, 2011, 2,214,921 shares had been issued under the 2005 ESPP. The Company recorded stock-based compensation costs related to the 2005 ESPP of \$0.9 million and \$2.6 million for the three and nine months ended September 30, 2011, respectively.

Stock-Based Compensation

The detail of the total stock-based compensation recognized by income statement classification is as follows (in thousands):

Income Statement Classifications	Three Months Ended	Three Months Ended	Nine Months	Nine Months
	September 30, 2011	September 30, 2010	Ended September 30, 2011	Ended September 30, 2010
Cost of services revenues	\$ 448	\$ 371	\$ 1,112	\$ 999
Research and development	9,599	17,418	21,465	46,029
Sales, marketing and services	8,434	7,448	21,618	22,516
General and administrative	6,473	5,596	19,396	14,362
Total	\$ 24,954	\$ 30,833	\$ 63,591	\$ 83,906

Stock Options

Stock options granted under the 2005 Plan typically have a five-year life and vest over three years at a rate of 33.3% of the shares underlying the option one year from date of grant and at a rate of 2.78% monthly thereafter. The Company also assumes stock options from certain of its acquisitions. See Note 4 for more information related to acquisitions. The Company currently uses the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price, as well as assumptions regarding a number of complex and subjective variables. These variables include the Company's expected stock price, volatility over the term of the awards, actual employee exercise behaviors, risk-free interest rate and expected dividends. For purposes of valuing stock options, the Company determined the expected volatility factor by considering the implied volatility in two-year market-traded options of the Company's common stock based on third party volatility quotes in accordance with the provisions of Staff Accounting Bulletin ("SAB") No. 107, Share Based Payment. The Company's decision to use implied volatility was based upon the availability of actively traded options on the Company's common stock and its assessment that implied volatility is more representative of future stock price trends than historical volatility. The approximate risk free interest rate was based on the implied yield available on U.S. Treasury zero-coupon issues with remaining terms equivalent to the Company's expected terms on stock options. The expected term of stock options was based on the historical employee exercise patterns. The Company also periodically analyzes its historical pattern of option exercises based on certain demographic characteristics and determined that there were no meaningful differences in option exercise activity based on the demographic characteristics. The Company does not intend to pay dividends on its common stock in the foreseeable future. Accordingly, the Company used a dividend yield of zero in its option pricing model.

The weighted average fair value of stock options granted during the three months ended September 30, 2011 was \$25.63. The total intrinsic value of options exercised during the three and nine months ended September 30, 2011 was

\$9.1 million and \$132.9 million, respectively. The intrinsic value is calculated as the difference between the market value on the date of exercise and the exercise price of the shares. As of September 30, 2011, there was \$111.5 million of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 2.38 years.

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The assumptions used to value option grants under the 2005 Plan are as follows:

	Three Months Ended	Three Months Ended	Nine Months	Nine Months
	September 30,	September 30,	Ended	Ended
	2011	2010	September 30,	September 30,
			2011	2010
Expected volatility factor	0.50	0.34	.38 - .50	.34 - .44
Approximate risk free interest rate	0.64	% 0.89	% .64% - 1.10%	.89% - 1.61%
Expected term (in years)	3.27	3.06	3.27	3.06 - 3.37
Expected dividend yield	0	% 0	% 0	% 0

Non-vested Stock Units

Annually, the Company awards senior level employees non-vested performance stock units granted under the 2005 Plan. The number of non-vested stock units underlying each award is determined one year after the date of the award and is based on achievement of a specific corporate financial performance goal. If the performance goal is less than 90% attained, then no non-vested stock units will be issued pursuant to the authorized award. For performance at and above 90%, the number of non-vested stock units issued is based on a graduated slope, with the maximum number of non-vested stock units issuable pursuant to the award capped at 125% of the base number of non-vested stock units set forth in the award agreement. The Company is required to estimate the attainment that will be achieved related to the defined performance goals and the number of non-vested stock units that will ultimately be awarded in order to recognize compensation expense over the vesting period. If the performance goal is met, the non-vested stock units vest 33.33% on each anniversary subsequent to the date of the award. Each non-vested stock unit, upon vesting, represents the right to receive one share of the Company's common stock. If the performance goals are not met, no compensation cost will ultimately be recognized in that period and any previously recognized compensation cost will be reversed. For awards of non-vested performance stock units made in 2010, the performance goal was achieved within the range of the graduated slope and there was no material adjustment to compensation cost related to non-vested stock units granted to executives.

The Company also awards senior level and certain other employees non-vested stock units granted under the 2005 Plan that vest based on service. The majority of these non-vested stock units vest 33.33% on each anniversary subsequent to the date of the award. The remaining awards vest on the 3rd anniversary subsequent to the grant date in their entirety. Each non-vested stock unit, upon vesting, will represent the right to receive one share of the Company's common stock. In addition, the Company awards non-vested stock units to all of its non-employee directors. These units vest monthly in 12 equal installments based on service and, upon vesting, each stock unit represents the right to receive one share of the Company's common stock.

As of September 30, 2011, the number of non-vested stock units outstanding was 1,798,940 and there was \$86.2 million of total unrecognized compensation cost related to non-vested stock units. The unrecognized cost is expected to be recognized over a weighted-average period of 2.33 years.

Long-term Incentive Plan

In May 2009, the Company granted certain senior level executives restricted stock unit awards that vest based on market and service conditions as part of a long-term incentive plan. The number of restricted stock units underlying each award is determined at the end of a three-year performance period ending December 31, 2011. In order to vest, the Company's stock price must appreciate by at least ten percent by the end of the performance period. If the Company's stock appreciation is at least ten percent, then the percentage of the restricted stock units that will vest will be determined by comparing the Company's stock price appreciation to the appreciation of the weighted average of two stock market indices comprised of the Standard & Poor's 500 Index (the "S&P 500"), which has been assigned a two-thirds weighting, and the iShares Standard & Poor's North America Technology Index (the "IGM"), which has been assigned a one-third weighting. Based on the level of performance, up to 200% of the award may vest. After vesting, the shares underlying the award will be issued at the earliest of (i) six months and one day after the participant's separation from the Company (other than termination for cause), (ii) the participant's death, or (iii) the effective date of a change in control of the Company. In the event of a change in control of the Company prior to the end of the

performance period, the payout of any award is limited to a prorated portion of such award based upon a performance assessment prior to the change in control date.

The market condition requirements are reflected in the grant date fair value of the award, and the compensation expense for the award will be recognized assuming that the requisite service is rendered regardless of whether the market conditions are achieved. The grant date fair value of the restricted stock unit awards was determined through the use of a Monte Carlo simulation model, which utilizes multiple input variables that determine the probability of satisfying the market condition requirements applicable to each award.

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The estimated fair value of each award was \$24.16 as of the date of grant. As of September 30, 2011, the number of restricted stock units granted pursuant to these awards was 175,667 and there was \$0.5 million of total unrecognized compensation cost related to these restricted stock unit awards. The unrecognized cost is expected to be recognized over 0.3 years.

8. GOODWILL AND OTHER INTANGIBLE ASSETS**Goodwill**

The Company accounts for goodwill in accordance with the authoritative guidance, which requires that goodwill and certain intangible assets are not amortized, but are subject to an annual impairment test. There was no impairment of goodwill as a result of the annual impairment tests completed during the fourth quarter of 2010. In September 2011, the FASB issued guidance on testing goodwill for impairment. The guidance provides entities with an option to perform a qualitative assessment to determine whether further quantitative impairment testing is necessary. The Company has elected to early adopt the guidance and will perform the qualitative assessment when it performs its goodwill impairment test in the fourth quarter of 2011. Excluding goodwill, the Company has no intangible assets deemed to have indefinite lives. See Note 4 for acquisitions and Note 10 for segment information.

The following table presents the change in goodwill allocated to the Company's reportable segments during the nine months ended September 30, 2011 (in thousands):

	Balance at January 1, 2011	Additions	Other	Balance at September 30, 2011
Enterprise division	\$733,720	\$118,576	\$30	\$852,326
Online Services division	187,380	109,316	1,011	(2) 297,707
Consolidated	\$921,100	\$227,892	(1) \$1,041	\$1,150,033

(1) Amount primarily relates to acquisitions. See Note 4 for more information regarding the Company's acquisitions.

(2) Amount primarily includes foreign currency translation.

Intangible Assets

The Company has intangible assets with finite lives that are recorded at cost, less accumulated amortization.

Amortization is computed over the estimated useful lives of the respective assets, generally three to seven years, except for patents, which are amortized over the lesser of their remaining life or ten years. Intangible assets consist of the following (in thousands):

	September 30, 2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Product related intangible assets	\$421,562	\$255,846	\$332,878	\$218,915
Other	252,167	129,105	178,395	114,214
Total	\$673,729	\$384,951	\$511,273	\$333,129

Amortization of product related intangible assets, which consists primarily of product related technologies and patents, was \$14.7 million and \$12.5 million for the three months ended September 30, 2011 and 2010, respectively, and \$39.9 million and \$37.3 million for the nine months ended September 30, 2011 and 2010, respectively, and is classified as a component of cost of net revenues on the accompanying condensed consolidated statements of income. Amortization of other intangible assets, which consist primarily of customer relationships, trade names and covenants not to compete was \$4.4 million and \$3.3 million for the three months ended September 30, 2011 and 2010, respectively, and \$11.9 million and \$11.3 million for the nine months ended September 30, 2011 and 2010, respectively, and is classified as a component of operating expenses on the accompanying condensed consolidated statements of income. Estimated future amortization expense is as follows (in thousands):

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Year ending December 31,

2011	\$69,954
2012	64,560
2013	57,754
2014	50,775
2015	29,966

9. CREDIT FACILITY

Effective on August 9, 2005, the Company entered into a revolving credit facility (the “Credit Facility”) with a group of financial institutions. Effective September 27, 2006, the Company entered into an amendment and restatement of its Credit Facility (the “Amendment”). The Amendment decreased the overall range of interest rates the Company paid on amounts outstanding on the Credit Facility and lowered the facility fee. In addition, the Amendment extended the term of the Credit Facility until September 27, 2011. The Credit Facility, as amended, provided for a revolving line of credit in the aggregate amount of \$100.0 million, subject to continued covenant compliance. The Credit Facility, as amended, bore interest at the London Interbank Offered Rate (“LIBOR”) plus 0.32% and adjusted in the range of 0.32% to 0.80% above LIBOR based on the level of the Company’s total debt and its adjusted earnings before interest, taxes, depreciation and amortization (“EBITDA”) as defined in the agreement. In addition, the Company was required to pay a quarterly facility fee ranging from 0.08% to 0.20% based on the aggregate amount available under the Credit Facility, as amended, and the level of the Company’s total debt and its adjusted EBITDA. The Company did not renew the credit facility and it expired on September 27, 2011. Upon expiration, there was no indebtedness outstanding under the Credit Facility.

10. SEGMENT INFORMATION

The Company’s revenues are derived from sales of its Enterprise division products which include its Desktop Solutions, Datacenter and Cloud Solutions and related technical services and from sales of its Online Services division’s web collaboration, connectivity and remote support services. The Enterprise division and the Online Services division constitute the Company’s two reportable segments.

The Company does not engage in intercompany revenue transfers between segments. The Company’s chief operating decision maker (“CODM”) evaluates the Company’s performance based primarily on profitability from its Enterprise division products and Online Services division services. Segment profit for each segment includes certain research and development, sales, marketing, general and administrative expenses directly attributable to the segment as well as other corporate costs allocated to the segment and excludes certain expenses that are managed outside of the reportable segments. Costs excluded from segment profit primarily consist of certain restructuring charges, stock-based compensation costs, amortization of product related technology, amortization of other intangible assets, net interest and other (expense) income, net. Accounting policies of the Company’s segments are the same as its consolidated accounting policies.

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Net revenues and segment profit, classified by the Company's two reportable segments were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2011	2010	September 30, 2011	2010
Net revenues:				
Enterprise division	\$455,790	\$380,573	\$1,271,217	\$1,079,117
Online Services division	109,558	91,660	315,809	265,821
Consolidated	\$565,348	\$472,233	\$1,587,026	\$1,344,938
Segment profit:				
Enterprise division	\$124,835	\$102,940	\$341,903	\$273,649
Online Services division	23,907	25,330	54,660	67,130
Unallocated expenses (1):				
Amortization of intangible assets	(19,109	) (15,873	) (51,796	) (48,581
Restructuring	—	(87	) (24	) (922
Net interest and other income	(1,861	) 5,700	10,799	10,508
Stock-based compensation	(24,954	) (30,833	) (63,591	) (83,906
Consolidated income before income taxes	\$102,818	\$87,177	\$291,951	\$217,878

(1) Represents expenses presented to management on a consolidated basis only and not allocated to the operating segments.

Revenues by Product Grouping

During the third quarter of 2010, the Company began reporting technical services revenue included in the Company's Enterprise division, which is comprised primarily of consulting and education services, separately from the Desktop Solutions and Datacenter and Cloud Solutions product revenue groupings included in the Company's Enterprise division, as indicated in the table below. In addition, previously reported results have been restated to conform to the 2011 presentation.

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Revenues by product grouping for the Company's Enterprise division and Online Services division were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net revenues:				
Enterprise division				
Desktop Solutions revenues ⁽¹⁾	\$315,983	\$277,090	\$909,751	\$812,769
Datacenter and Cloud Solutions revenues ⁽²⁾	111,155	84,240	282,081	213,188
Enterprise technical services ⁽³⁾	23,210	15,339	63,991	39,968
Other	5,442	3,904	15,394	13,192
Total Enterprise division revenues	455,790	380,573	1,271,217	1,079,117
Online Services division revenues	109,558	91,660	315,809	265,821
Total net revenues	\$565,348	\$472,233	\$1,587,026	\$1,344,938

Desktop Solutions revenues are primarily comprised of sales from the Company's desktop virtualization product, (1) XenDesktop, and the Company's application virtualization product, XenApp, and related license updates and technical support.

Datacenter and Cloud Solutions revenues are primarily comprised of sales from the Company's cloud networking (2) products which include NetScaler, Access Gateway and Branch Repeater and the Company's server virtualization and cloud infrastructure products which include XenServer, Essentials for Hyper-V, CloudPortal and CloudStack and related license updates and maintenance.

(3) Technical services revenues are primarily comprised of revenues from consulting and education services.

Revenues by Geographic Location

The following table presents revenues by segment and geographic location, for the following periods (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net revenues:				
Enterprise division				
Americas	\$262,629	\$217,349	\$715,104	\$598,280
EMEA	136,794	122,628	406,116	367,143
Asia-Pacific	56,367	40,596	149,997	113,694
Total Enterprise division revenues	455,790	380,573	1,271,217	1,079,117
Online Services division				
Americas	92,975	83,991	271,925	244,115
EMEA	14,074	5,931	36,795	16,863
Asia-Pacific	2,509	1,738	7,089	4,843
Total Online Services division revenues	109,558	91,660	315,809	265,821
Total net revenues	\$565,348	\$472,233	\$1,587,026	\$1,344,938

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Identifiable assets classified by the Company's reportable segments are shown below.

	September 30, 2011 (In thousands)	December 31, 2010
Identifiable assets:		
Enterprise division	\$3,402,978	\$3,386,392
Online Services division	479,886	317,208
Total identifiable assets	\$3,882,864	\$3,703,600

The increases in identifiable assets are primarily due to goodwill and intangible assets recorded in conjunction with the Company's 2011 Acquisitions. See Note 4 for additional information regarding the Company's acquisitions.

11. RESTRUCTURING

During the first quarter of 2009, the Company announced a restructuring program and reduced its headcount by approximately 450 full-time positions. The restructuring program was completed in 2009. Total costs incurred as of September 30, 2011 since the inception of the restructuring program were \$27.5 million, of which \$26.3 million was related to the Company's Enterprise division and \$1.2 million was related to its Online Services division.

Restructuring charges related to the reduction of the Company's headcount and non-cancelable lease costs related to the consolidation and exiting of excess facilities were not material for the three and nine months ended September 30, 2011, and were \$0.1 million and \$0.9 million, respectively, during the three and nine months ended September 30, 2010. All charges for the periods presented are attributable to the Company's Enterprise division.

Restructuring accruals

As of September 30, 2011, the \$0.1 million in outstanding restructuring liability relates to non-cancelable lease costs related to the consolidation of excess facilities that the Company expects to pay over the lives of the related obligations through fiscal 2012, all of which were related to the Company's Enterprise division.

The activity in the Company's restructuring accruals for the nine months ended September 30, 2011 is summarized as follows (in thousands):

	Total
Balance at January 1, 2011	\$1,275
Employee severance and related costs	24
Adjustments to non-cancelable lease costs and other charges	—
Payments	(1,244)
Reversal of previous charges	—
Balance at September 30, 2011	\$55

12. DERIVATIVE FINANCIAL INSTRUMENTS**Derivatives Designated as Hedging Instruments**

As of September 30, 2011, the Company's derivative assets and liabilities primarily resulted from cash flow hedges related to its forecasted operating expenses transacted in local currencies. A substantial portion of the Company's overseas expenses are and will continue to be transacted in local currencies. To protect against fluctuations in operating expenses and the volatility of future cash flows caused by changes in currency exchange rates, the Company has established a program that uses foreign exchange forward contracts to hedge its exposure to these potential changes. The terms of these instruments, and the hedged transactions to which they relate, generally do not exceed 12 months and the maximum term is 18 months.

Generally, when the dollar is weak, foreign currency denominated expenses will be higher, and these higher expenses will be partially offset by the gains realized from the Company's hedging contracts. Conversely, if the dollar is strong, foreign currency denominated expenses will be lower. These lower expenses will in turn be partially offset by the losses incurred from the Company's hedging contracts. The change in the derivative component in accumulated other comprehensive (loss) income includes unrealized gains or losses that arose from changes in market value of the effective portion of derivatives that were held during the period, and gains or losses that were previously unrealized

but have been recognized in the same line item as the

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forecasted transaction in current period net income due to termination or maturities of derivative contracts. This reclassification has no effect on total comprehensive income or equity.

The total cumulative unrealized (loss) gain on cash flow derivative instruments was \$(4.2) million and \$6.1 million at September 30, 2011 and December 31, 2010, respectively, and is included in accumulated other comprehensive (loss) income in the accompanying condensed consolidated balance sheets. The net unrealized loss as of September 30, 2011 is expected to be recognized in income over the next twelve months at the same time the hedged items are recognized in income.

Derivatives not Designated as Hedges

A substantial portion of the Company's overseas assets and liabilities are and will continue to be denominated in local currencies. To protect against fluctuations in earnings caused by changes in currency exchange rates when remeasuring the Company's balance sheet, it utilizes foreign exchange forward contracts to hedge its exposure to this potential volatility.

These contracts are not designated for hedge accounting treatment under the authoritative guidance. Accordingly, changes in the fair value of these contracts are recorded in other (expense) income, net. There were no assets or liabilities related to derivatives not designated as hedges as of December 31, 2010.

Fair Values of Derivative Instruments

	Asset Derivatives (In thousands)				Liability Derivatives			
	September 30, 2011		December 31, 2010		September 30, 2011		December 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Designated as Hedging Instruments								
Foreign currency forward contracts	Prepaid expenses and other current assets	\$3,802	Prepaid expenses and other current assets	\$13,192	Accrued expenses and other current liabilities	\$8,247	Accrued expenses and other current liabilities	\$6,745
	Asset Derivatives (In thousands)				Liability Derivatives			
	September 30, 2011		December 31, 2010		September 30, 2011		December 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value

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The Effect of Derivative Instruments on Financial Performance

Derivatives in Cash Flow Hedging Relationships	For the Three Months Ended September 30, (In thousands)				
	Amount of (Loss) Gain Recognized in Other Comprehensive Income (Effective Portion)		Location of (Loss) Gain Reclassified from Accumulated Other Comprehensive (Loss) Income into Income (Effective Portion)	Amount of Gain Reclassified from Accumulated Other Comprehensive (Loss) Income (Effective Portion)	
	2011	2010		2011	2010
Foreign currency forward contracts	\$ (11,490)	\$ 10,162	Operating expenses	\$ 3,672	\$ 2,268

Derivatives in Cash Flow Hedging Relationships	For the Nine Months Ended September 30, (In thousands)				
	Amount of Loss Recognized in Other Comprehensive Income (Effective Portion)		Location of (Loss) Gain Reclassified from Accumulated (Loss) Other Comprehensive Income into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive (Loss) Income (Effective Portion)	
	2011	2010		2011	2010
Foreign currency forward contracts	\$ (10,233)	\$ (808)	Operating expenses	\$ 9,166	\$ (2,482)

There was no material ineffectiveness in the Company's foreign currency hedging program in the periods presented.

Derivatives Not Designated as Hedging Instruments	For the Three Months Ended September 30, (In thousands)			
	Location of Loss Recognized in Income on Derivative	Amount of Loss Recognized in Income on Derivative		
		2011	2010	
Foreign currency forward contracts	Other (expense) income, net	\$ (456)	\$ (836)	

Derivatives Not Designated as Hedging Instruments	For the Nine Months Ended September 30, (In thousands)			
	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative		
		2011	2010	
Foreign currency forward contracts	Other (expense)	\$ 958	\$ (1,324)	

income, net

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Outstanding Foreign Currency Forward Contracts

As of September 30, 2011, the Company had the following net notional foreign currency forward contracts outstanding (in thousands):

Foreign Currency	Currency Denomination
Australian dollars	AUD 16,627
British pounds sterling	GBP 9,462
Canadian dollars	CAD 2,507
Chinese renminbi	CNY 10,419
Euro	EUR 31,122
Hong Kong dollars	HKD 18,372
Indian rupees	INR 43,492
Japanese yen	JPY 862,442
Singapore dollars	SGD 3,243
Swiss francs	CHF 15,847

13. COMPREHENSIVE INCOME

The components of comprehensive income, net of tax, are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net income attributable to Citrix Systems, Inc.	\$92,176	\$87,779	\$247,623	\$182,685
Other comprehensive income:				
Change in unrealized (loss) gain on available-for-sale securities	(218	) 3,027	2,048	5,835
Net change due to derivative instruments	(11,490	) 10,162	(10,233	) (808
Foreign currency translation adjustments	(6,222	) (105	) 1,151	(473
Comprehensive income	74,246	100,863	240,589	187,239
Less: Comprehensive income attributable to non-controlling interest	—	—	692	—
Comprehensive income attributable to Citrix Systems, Inc.	\$74,246	\$100,863	\$239,897	\$187,239

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The components of accumulated other comprehensive (loss) income, net of tax, are as follows (in thousands):

	September 30, 2011	December 31, 2010
Unrealized gain on available-for-sale securities	\$2,680	\$632
Unrealized (loss) gain on derivative instruments	(4,150	) 6,083
Cumulative foreign currency translation adjustments	265	(886
Other comprehensive loss on pension liability	(3,806	) (3,806
Accumulated other comprehensive (loss) income	\$(5,011	) \$2,023

14. INCOME TAXES

The Company's net unrecognized tax benefits totaled approximately \$70.4 million and \$63.9 million as of September 30, 2011 and December 31, 2010, respectively. There was \$1.3 million included in the balance at September 30, 2011 for tax positions which would not affect the annual effective tax rate. During the quarter ended September 30, 2011, the Company recognized \$0.1 million of expense related to interest, which is included in income tax expense. The Company has approximately \$1.5 million for the payment of interest and penalties accrued at September 30, 2011.

The Company and one or more of its subsidiaries is subject to federal income taxes in the United States, as well as income taxes of multiple state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2004.

In June 2010, the Company reached a settlement in principle with the Internal Revenue Service ("IRS") regarding certain previously disclosed income tax deficiencies asserted in a Revenue Agent's Report (the "RAR"). Under the terms of the settlement in principle, the Company would agree to an assessment of income tax deficiencies in full settlement of all open claims under the RAR and would resolve with finality for future years all of the transfer pricing issues raised in the RAR. Based on this, the Company incurred a charge of \$13.1 million in 2010 in accordance with the authoritative guidance. Among other things, the authoritative guidance requires application of a "more likely than not" threshold to the recognition and non-recognition of tax positions. It further requires that a change in management judgment related to prior years' tax positions be recognized in the quarter of such change.

The final settlement requires the finalization of tax deficiency calculations with the IRS and a written agreement signed by the IRS. This process could take several more months to complete. There can be no assurances that a final written agreement will be obtained or that this matter will otherwise be resolved in our favor. An adverse outcome of this matter could have a material adverse effect on our results of operations and financial condition.

In the ordinary course of global business, there are transactions for which the ultimate tax outcome is uncertain; thus, judgment is required in determining the worldwide provision for income taxes. The Company provides for income taxes on transactions based on its estimate of the probable liability. The Company adjusts its provision as appropriate for changes that impact its underlying judgments. Changes that impact provision estimates include such items as jurisdictional interpretations on tax filing positions based on the results of tax audits and general tax authority rulings. Due to the evolving nature of tax rules combined with the large number of jurisdictions in which the Company operates, it is possible that the Company's estimates of its tax liability and the realizability of its deferred tax assets could change in the future, which may result in additional tax liabilities and adversely affect the Company's results of operations, financial condition and cash flows.

The Company is required to estimate its income taxes in each of the jurisdictions in which it operates as part of the process of preparing its condensed consolidated financial statements. At September 30, 2011, the Company had approximately \$98.7 million in net deferred tax assets. The authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company reviews deferred tax assets periodically for recoverability and makes estimates and judgments regarding the expected geographic sources of taxable income and gains from investments, as well as tax planning strategies in assessing the need for a valuation allowance.

The Company maintains certain strategic management and operational activities in overseas subsidiaries and its foreign earnings are taxed at rates that are generally lower than in the United States. The Company does not expect to remit earnings from its foreign subsidiaries. The Company's effective tax rate was approximately 10.4% and (0.7)% for the three months ended September 30, 2011 and 2010, respectively, and 15.4% and 16.2% for the nine months ended September 30, 2011 and 2010, respectively. The increase in the effective tax rate when comparing the three months ended September 30, 2011 to the three months ended September 30, 2010 was primarily due to a net tax benefit of \$18.5 million recognized during the third

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quarter of 2010. The decrease in the effective tax rate when comparing the nine months ended September 30, 2011 to the nine months ended September 30, 2010 was primarily due to higher earnings in jurisdictions taxed at lower rates. The effective tax rates for the three and nine months ended September 30, 2011 were also reduced by a net tax benefit of \$5.7 million related to adjustments to research and development credits recorded in the third quarter of 2011. The Company's effective tax rate generally differs from the U.S. federal statutory rate of 35% due primarily to lower tax rates on earnings generated by the Company's foreign operations that are taxed primarily in Switzerland. The Company has not provided for U.S. taxes for those earnings because it plans to reinvest all of those earnings indefinitely outside the United States.

15. TREASURY STOCK

Stock Repurchase Programs

The Company's Board of Directors authorized an ongoing stock repurchase program with a total repurchase authority granted to the Company of \$3.0 billion. The Company may use the approved dollar authority to repurchase stock at any time until the approved amount is exhausted. The objective of the Company's stock repurchase program is to improve stockholders' returns. At September 30, 2011, approximately \$286.6 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock. A portion of the funds used to repurchase stock over the course of the program was provided by proceeds from employee stock option exercises and the related tax benefit.

The Company is authorized to make open market purchases of its common stock using general corporate funds. Additionally, from time to time, the Company may enter into structured stock repurchase arrangements with large financial institutions using general corporate funds in order to lower the average cost to acquire shares. These programs include terms that require the Company to make up-front payments to the counterparty financial institution and result in the receipt of stock during or at the end of the term of the agreement or the receipt of either stock or cash at the maturity of the agreement, depending on market conditions. As of September 30, 2011, the Company did not have any prepaid notional amounts outstanding under structured stock repurchase programs and it did not make any up-front payments to financial institutions related to structured stock repurchase agreements in 2011.

During the three months ended September 30, 2011, the Company expended approximately \$125.0 million on open market purchases, repurchasing 2,205,270 shares of outstanding common stock at an average price of \$56.68. During the nine months ended September 30, 2011, the Company expended approximately \$324.9 million on open market purchases, repurchasing 4,865,770 shares of outstanding common stock at an average price of \$66.77.

During the three months ended September 30, 2010, the Company expended approximately \$110.0 million on open market purchases, repurchasing 1,850,200 shares of outstanding common stock at an average price of \$59.43. During the nine months ended September 30, 2010, the Company expended approximately \$309.9 million on open market purchases, repurchasing 6,277,300 shares of outstanding common stock at an average price of \$49.37.

Shares for Tax Withholding

During the three months ended September 30, 2011, the Company withheld 1,998 shares from stock units that vested totaling \$0.1 million to satisfy minimum tax withholding obligations that arose on the vesting of stock units. During the nine months ended September 30, 2011, the Company withheld 165,738 shares from stock units that vested totaling \$12.2 million to satisfy minimum tax withholding obligations that arose on the vesting of stock units. These shares are reflected as treasury stock in the Company's condensed consolidated balance sheets and the related cash outlays reduce the Company's total stock repurchase authority.

During the three months ended September 30, 2010, the Company withheld 1,627 shares from stock units that vested totaling \$0.1 million to satisfy minimum tax withholding obligations that arose on the vesting of stock units. During the nine months ended September 30, 2010, the Company withheld 93,228 shares from stock units that vested totaling \$4.2 million to satisfy minimum tax withholding obligations that arose on the vesting of stock units. These shares are reflected as treasury stock in the Company's condensed consolidated balance sheets and the related cash outlays reduce the Company's total stock repurchase authority.

16. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases certain office space and equipment under various operating leases. In addition to rent, the leases require the Company to pay for taxes, insurance, maintenance and other operating expenses. Certain of these leases contain

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stated escalation clauses while others contain renewal options. The Company recognizes rent expense on a straight-line basis over the term of the lease, excluding renewal periods, unless renewal of the lease is reasonably assured.

The Company has operating lease obligations through 2018 related to two properties that are not utilized. At September 30, 2011, the total remaining obligation on these leases was approximately \$5.5 million, of which \$2.2 million was accrued as of September 30, 2011, and is reflected in accrued expenses and other current liabilities and other liabilities in the accompanying condensed consolidated balance sheets. In calculating these accruals, the Company made estimates, based on market information, including the estimated vacancy periods and sublease rates and opportunities. The Company periodically re-evaluates its estimates related to these vacant facilities.

Legal Matters

Due to the nature of the Company's business, it is subject to patent infringement claims, including current suits against it or one or more of its wholly-owned subsidiaries alleging infringement by various Citrix products and services. The Company believes that it has meritorious defenses to the allegations made in its pending cases and intends to vigorously defend these lawsuits; however, it is unable currently to determine the ultimate outcome of these or similar matters or the potential exposure to loss, if any.

In addition, the Company is a defendant in various litigation matters generally arising out of the normal course of business. Although it is difficult to predict the ultimate outcomes of these cases, the Company believes that the ultimate outcomes will not materially affect its business, financial position, results of operations or cash flows.

Guarantees

The authoritative guidance requires certain guarantees to be recorded at fair value and requires a guarantor to make disclosures, even when the likelihood of making any payments under the guarantee is remote. For those guarantees and indemnifications that do not fall within the initial recognition and measurement requirements of the authoritative guidance, the Company must continue to monitor the conditions that are subject to the guarantees and indemnifications, as required under existing generally accepted accounting principles, to identify if a loss has been incurred. If the Company determines that it is probable that a loss has been incurred, any such estimable loss would be recognized. The initial recognition and measurement requirements do not apply to the provisions contained in the majority of the Company's software license agreements that indemnify licensees of the Company's software from damages and costs resulting from claims alleging that the Company's software infringes the intellectual property rights of a third party. The Company has not made payments pursuant to these provisions. The Company has not identified any losses that are probable under these provisions and, accordingly, the Company has not recorded a liability related to these indemnification provisions.

17. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-05—Comprehensive Income (Topic 220): Presentation of Comprehensive Income, to increase the prominence of other comprehensive income in financial statements. Under the provisions of ASU No. 2011-05, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income. The accounting changes summarized in ASU No. 2011-05 are effective for fiscal years beginning on or after December 15, 2011, with early adoption permitted. The Company is currently in the process of evaluating the impact of this standard on its consolidated financial statements and disclosures.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our operating results and financial condition have varied in the past and could in the future vary significantly depending on a number of factors. From time to time, information provided by us or statements made by our employees contain "forward-looking" information that involves risks and uncertainties. In particular, statements contained in this Quarterly Report on Form 10-Q, and in the documents incorporated by reference into this Quarterly Report on Form 10-Q, that are not historical facts, including, but not limited to, statements concerning new products, research and development, offerings of products and services, market positioning and opportunities, headcount, customer demand, financial information and results of operations for future periods, product and price competition, strategy and growth initiatives, international operations and expansion, investment transactions and valuations of investments and derivative instruments, reinvestment or repatriation of foreign earnings, fluctuations in foreign exchange rates, tax matters, the finalization of our tax settlement and written agreement with the IRS, the expected benefits of acquisitions, the completion of pending acquisitions, changes in domestic and foreign economic conditions and credit markets, liquidity, litigation and intellectual property matters, constitute forward-looking statements and are made under the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are neither promises nor guarantees. Our actual results of operations and financial condition have varied and could in the future vary materially from those stated in any forward-looking statements. The factors described in Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2010, as updated in Part II, Item 1A in this Quarterly Report on Form 10-Q, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Quarterly Report on Form 10-Q, in the documents incorporated by reference into this Quarterly Report on Form 10-Q or presented elsewhere by our management from time to time. Such factors, among others, could have a material adverse effect upon our business, results of operations and financial condition. We caution readers not to place undue reliance on any forward-looking statements, which only speak as of the date made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

Executive Summary

Overview

Management's discussion and analysis of financial condition and results of operations is intended to help the reader understand our financial condition and results of operations. This section is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for the three months and nine months ended September 30, 2011. The results of operations for the periods presented in this report are not necessarily indicative of the results expected for the full year or for any future period, due in part to the seasonality of our business. Historically, our revenue for the fourth quarter of any year is typically higher than our revenue for the first quarter of the subsequent year.

We design, develop and market technology solutions that enable IT services to be securely delivered on demand – independent of location, device or network. Our customers achieve lower IT operating costs, increased information security, and greater business agility using Citrix technologies that enable virtual computing. We market and license our products directly to enterprise customers, over the web, and through systems integrators, or SIs, in addition to indirectly through value-added resellers, or VARs, value-added distributors, or VADs, and original equipment manufacturers, or OEMs.

We are a strategic technology provider transforming how people, business and IT work and collaborate in the Cloud era. With our virtualization, networking and cloud technologies, we make complex enterprise IT simpler and more accessible for a diverse, global, and mobile workforce. We deliver a secure and familiar virtual workplace experience, so people can work and collaborate anywhere, with anyone on any device, simply accessing the services they need. This gives workers more control over their work and life, while helping business and IT be more flexible and agile.

We believe our approach is unique in the market because we have combined innovative technologies in the area of desktop management, including but not limited to desktop virtualization and application virtualization, marketed as our Desktop Solutions, and server virtualization, cloud networking and cloud infrastructure products, marketed as our Datacenter and Cloud Solutions, to deliver a comprehensive end-to-end application delivery solution, and one that, when considered as a whole, is competitively differentiated by its feature set and interoperability.

In today's business environment, however, there is a sharp focus on IT products and services that can reduce cost and deliver a quick, tangible return on investment, or ROI. With our customers focused on economic value in technology solutions, we intend to continue highlighting our solutions' abilities to reduce IT costs, increase business flexibility and deliver ROI with

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a simpler more flexible approach to computing.

We saw uncertainties surrounding IT spending, particularly in the European markets in 2010. This trend has continued in 2011 as we still see uneven demand in many European countries, especially in the public sector. This overall economic uncertainty may adversely affect sales of our products and services and may result in longer sales cycles, slower adoption of technologies and increased price competition, particularly in Europe. Offsetting the uneven demand in European countries, we continue to see demand growth in the Americas and Asia-Pacific regions.

Our priorities for 2011 are to sustain the long-term growth of our businesses and enhance our current solutions through expanding our go-to-market reach and customer attach points, technological innovation, engineering excellence, selective and strategic acquisitions of technology, talent and/or businesses, and through a commitment to delivering high-quality products and services to customers and partners.

We continue to make strategic investments in research and development of existing and new products, and to invest in research and development of advanced and innovative technologies for future application, including increasing research and development capacity and headcount. We believe that delivering innovative and high-value solutions through our Enterprise division's products and our Online Services division's services is the key to meeting customer and partner needs and achieving our future growth. We also intend to continue making significant investments to expand our brand awareness in virtualization, networking and cloud computing spaces. We plan to increase sales, consulting and technical services capacity and headcount to support larger strategic customer engagements and more focus on SI partnerships, as well as investing in new channel programs that allow our partners to upgrade their capabilities in desktop virtualization, which we currently believe is our largest area of opportunity.

Enterprise division

In July 2011, we acquired Cloud.com, Inc., or Cloud.com, a market leading provider of software infrastructure platforms for cloud providers. Cloud.com's CloudStackTM product line helps providers of all types deploy and manage simple, cost-effective cloud services that are scalable, secure, and open by design. In August 2011, we acquired RingCube, a company that specializes in user personalization technology for virtual desktops.

In October 2011, we acquired Novel Labs, Inc., or ShareFile, a market leading provider of secure, cloud-based data storage, sharing and collaboration. The ShareFile product line makes it easy for businesses of all sizes to securely store, sync and share business documents and files, both inside and outside the company. ShareFile's centralized cloud storage capability also allows users to share files across multiple devices and access them from any location.

In October 2011, we entered into a definitive agreement to acquire App-DNATM, a leader in application migration. The pending acquisition is subject to customary closing conditions and is expected to close in the fourth quarter.

App-DNA technology will add a significant component to our Desktop Transformation Model, which is aimed at helping customers speed deployments of desktop virtualization enterprise-wide. The App-DNA AppTitideTM product enables organizations to quickly and intelligently assess their application portfolio and migration plans. See 2011 Acquisitions below for more information related to our acquisitions.

Our Desktop Solutions are built to transform and reduce the cost of traditional desktop management by virtualizing the desktop, with our XenDesktop product, and virtualizing applications, with our XenApp product, in a customer's datacenter. We are moving the delivery of desktops and related applications to an on-demand service as opposed to the delivery of a device. We continue to see growing customer interest in XenDesktop and, in addition, by making the XenDesktop trade-up program a standard program, we are maximizing our XenApp install base and driving continued XenDesktop adoption. Further, we are helping customers accelerate the implementation of desktop virtualization enterprise-wide through our Desktop Transformation Model. Our Desktop Transformation Model has been enhanced by our acquisition of RingCube, which facilitates user personalization in virtual desktop deployments, and our pending App-DNA acquisition, which will provide customers a means of analyzing an enterprise's application portfolio, offering deployment guidance and a project effort calculator.

Our Datacenter and Cloud Solutions, including our cloud networking products, server virtualization products and cloud infrastructure products, which include our newly acquired CloudStack product, can alter the traditional economics of the datacenter by providing much greater levels of flexibility of computing resources, especially with respect to servers, by improving application performance and thereby reducing the amount of processing power involved, and allowing easy reconfiguration of servers by allowing storage and network infrastructure to be added-in

virtually rather than physically. Our cloud networking products are also enhancing our differentiation and driving customer interest around desktop virtualization, as enterprises are finding good leverage in deploying these technologies together.

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Online Services division

Our Online Services division is focused on developing and marketing Web-based access, support and collaboration services. These services are primarily marketed via the Web to large enterprises, medium and small businesses, prosumers and individuals. Our Online Services division's web collaboration services offer secure and cost-effective solutions that allow users to host and actively participate in online meetings, webinars and training sessions remotely and reduce costs associated with business travel. Our remote access solution offers a secure, simple and cost efficient way for users to access their desktops remotely, and our remote support solutions offer secure, on-demand support over the Internet.

In addition, we continue to grow our Online Services division by increasing our addressable market geographically and offering services that appeal to a wider range of customers. To accelerate the European expansion of our Online Services division, in February 2011, we acquired Netviewer AG, or Netviewer, a privately held European SaaS vendor in collaboration and IT services. Netviewer is part of our Online Services division and is expected to further enable the extension of our SaaS leadership in Europe.

Summary of Results

For the three months ended September 30, 2011 compared to the three months ended September 30, 2010, a summary of our results included:

- Product License revenue increased 27.8% to \$193.9 million;
- License Updates revenue increased 7.5% to \$187.2 million;
- Online Services revenue increased 19.5% to \$109.6 million;
- Technical Services revenue increased 36.7% to \$74.7 million;
- Operating income increased 28.5% to \$104.7 million; and
- Diluted net income per share increased 5.7% to \$0.49.

The increase in our Product License revenue was driven by increased sales of our Desktop Solutions products, led by XenDesktop and our Datacenter and Cloud Solutions products, led by NetScaler. We currently target our Product License revenue to increase when comparing the fourth quarter of 2011 to the third quarter of 2011. The increase in License Updates revenue was primarily driven by an increase in renewals of our Subscription Advantage product. Our Online services revenue increased due to increased sales of our web collaboration services. Technical Services revenue increased due to increases in support revenues of \$12.1 million driven by increased sales of our support related to our Datacenter and Cloud Solutions and a \$6.7 million increase in sales of consulting services related to our Enterprise division's products. We currently target that total revenue will increase when comparing the fourth quarter of 2011 to the third quarter of 2011, as well as when comparing the 2011 fiscal year to the 2010 fiscal year. The increase in operating income is primarily due to an increase in total revenues due to the factors discussed above.

2011 Acquisitions

Netviewer AG

In February 2011, we acquired all of the issued and outstanding securities of Netviewer AG, or the Netviewer Acquisition or Netviewer, a privately held European software-as-a-service, or SaaS, vendor in collaboration and IT services. Netviewer became part of our Online Services division and the acquisition enables the extension of our Online Services business in Europe. The total consideration for this transaction was approximately \$107.5 million, net of \$6.3 million of cash acquired, and was payable in cash. Transaction costs associated with the acquisition were approximately \$2.9 million, of which we expensed \$0.1 million during the three months ended September 30, 2011 and \$0.9 million during the nine months ended September 30, 2011 and are included in general and administrative expense in our condensed consolidated statements of income. In addition, in connection with the acquisition, we assumed non-vested stock units which were converted into the right to receive up to 99,100 shares of our common stock, for which the vesting period reset fully upon the closing of the transaction. Revenues from Netviewer are included in our Online Services division's revenue.

Cloud.com

In July 2011, we acquired all of the issued and outstanding securities of Cloud.com, Inc., or Cloud.com, a privately held provider of software infrastructure platforms for cloud providers. Cloud.com became part of our Enterprise division and the acquisition further establishes us as a leader in infrastructure for the growing cloud provider market.

The total consideration for this transaction was approximately \$158.8 million, net of \$5.6 million of cash acquired, and was paid in cash. Transaction costs associated with the acquisition were approximately \$3.0 million, of which we expensed \$2.4 million during the three months ended September 30, 2011 and \$3.0 million during the nine months ended September 30, 2011, and are included in general and

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administrative expense in our condensed consolidated statements of income. In addition, in connection with the acquisition we assumed non-vested stock units which were converted into the right to receive up to 288,742 shares of our common stock and certain stock options which are exercisable for 183,780 shares of our common stock, for which the vesting period reset fully upon the closing of the transaction.

Other Acquisitions

During the first quarter of 2011, we acquired certain assets of a wholly-owned subsidiary of a privately-held company for total cash consideration of approximately \$10.5 million. We accounted for this acquisition as a business combination in accordance with the authoritative guidance and it became part of our Enterprise division, thereby expanding our solutions portfolio for service providers and developing unique integrations with our cloud application delivery solutions.

In August 2011, we acquired all of the issued and outstanding securities of RingCube Technologies, Inc., or RingCube, a privately held company that specializes in user personalization technology for virtual desktops. RingCube became part of our Enterprise division and the acquisition further solidifies our position in desktop virtualization. The total consideration for this transaction was approximately \$32.2 million, net of \$0.5 million of cash acquired, and was paid in cash. Transaction costs associated with the acquisition were approximately \$0.6 million, of which we expensed \$0.5 million during the three months ended September 30, 2011, and \$0.6 million during the nine months ended September 30, 2011 and are included in general and administrative expense in our condensed consolidated statements of income. In addition, in connection with the RingCube acquisition, we assumed non-vested stock units which were converted into the right to receive up to 58,439 shares of our common stock, for which the vesting period reset fully upon the closing of the transaction.

We have included the effects of all of the companies acquired in 2011 in our results of operations prospectively from the date of each acquisition.

Purchase of Non-Controlling Interest

Kaviza Inc.

In May 2011, we acquired all of the non-controlling interest of Kaviza Inc., or Kaviza, a provider of virtual desktop infrastructure solutions, for \$17.2 million. In addition, we also deposited an additional \$3.0 million to be held in escrow. As a result of this transaction, we have obtained a 100% interest in this subsidiary. In accordance with the authoritative guidance, the excess of the proceeds paid over the carrying amount of the non-controlling interest of Kaviza has been reflected as a reduction of additional paid-in capital. In addition, in connection with the purchase of the non-controlling interest of Kaviza, we assumed non-vested stock units which were converted into the right to receive up to 88,687 shares of our common stock and assumed certain stock options which are exercisable for 33,301 shares of our common stock, with existing vesting schedules.

Subsequent Events

ShareFile

In October 2011, we acquired all of the issued and outstanding securities of Novel Labs, Inc., or ShareFile, a privately held provider of secure, cloud-based data storage, sharing and collaboration. ShareFile will become part of our Enterprise division. The total preliminary consideration for this transaction was approximately \$54.2 million, net of cash acquired, and was paid in cash. Transaction costs associated with the acquisition are currently estimated at \$0.5 million, of which we expensed \$0.4 million during the three and nine months ended September 30, 2011 and are included in general and administrative expense in our condensed consolidated statements of income. In addition, in connection with the acquisition we assumed non-vested stock units, which were converted into the right to receive up to 180,697 shares of our common stock and assumed certain stock options which are exercisable for 390,775 shares of our common stock, for which the vesting period reset fully upon the closing of the transaction.

App-DNA

In October 2011, we entered into a definitive agreement to acquire all of the issued and outstanding securities of App-DNA, a privately held company that specializes in application migration and management. The acquisition is subject to customary closing conditions and is expected to close in the fourth quarter of 2011.

2010 Acquisitions

On September 7, 2010, we acquired all of the issued and outstanding securities of VMLogix Inc., or VMLogix, a

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privately held corporation headquartered in Santa Clara, California. VMLogix is a provider of virtualization management software for private and public cloud computing systems. The total consideration for this transaction was approximately \$13.2 million, comprised of approximately \$10.4 million in cash, net of cash acquired, and approximately \$2.8 million related to VMLogix liabilities settled in conjunction with the acquisition. The sources of funds for this transaction consisted of available cash. We recorded approximately \$7.7 million of goodwill, which is not deductible for tax purposes, and acquired \$10.6 million in assets including \$7.5 million of identifiable intangible assets, of which \$6.2 million is related to product related intangible assets with a useful life of 5.0 years and \$1.3 million is related to other intangible assets with a useful life of 4.0 years. We assumed liabilities of approximately \$5.1 million in conjunction with the acquisition. In addition, we also assumed stock options for which the vesting period reset fully upon the closing of the transaction. When these stock options vest, they will be exercisable for up to 47,784 shares of our common stock. We have included the effect of this transaction in our results of operations prospectively from the date of the acquisition, which effect was not material to our consolidated results.

During the first quarter of 2010, we acquired two privately-held companies for a total cash consideration of approximately \$9.2 million, net of cash acquired. We recorded approximately \$2.6 million of goodwill, which is not deductible for tax purposes, and acquired \$9.4 million in assets including \$7.1 million of identifiable intangible assets, of which \$6.2 million is related to product related intangible assets with a weighted-average useful life of 5.0 years and \$0.9 million is related to other intangible assets with a weighted-average useful life of 2.0 years. In addition, we assumed liabilities of approximately \$2.8 million in conjunction with the acquisitions. We have included the effects of these transactions in our results of operations prospectively from the respective dates of the acquisitions, which were not material to our consolidated results.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. We base these estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances, and these estimates form the basis for our judgments concerning the carrying values of assets and liabilities that are not readily apparent from other sources. We periodically evaluate these estimates and judgments based on available information and experience. Actual results could differ from our estimates under different assumptions and conditions. If actual results significantly differ from our estimates, our financial condition and results of operations could be materially impacted. For more information regarding our critical accounting policies and estimates please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” contained in our Annual Report on Form 10-K for the year ended December 31, 2010, or the Annual Report, and Note 2 to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. There have been no material changes to the critical accounting policies disclosed in the Annual Report except as described below.

Revenue Recognition

We recognize revenue when it is earned and when all of the following criteria are met: persuasive evidence of the arrangement exists; delivery has occurred or the service has been provided and we have no remaining obligations; the fee is fixed or determinable; and collectability is probable. We define these four criteria as follows:

Persuasive evidence of the arrangement exists. We recognize revenue on packaged products and appliances upon shipment to distributors and resellers. For packaged product and appliance sales, it is our customary practice to require a purchase order from distributors and resellers who have previously negotiated a master packaged product distribution or resale agreement. For electronic and paper license arrangements, we typically require a purchase order from the distributor, reseller or end-user (depending on the arrangement) and an executed product license agreement from the end-user. For technical support, product training and consulting services, we require a purchase order and an executed agreement. For online services, we require the customer or the reseller to electronically accept the terms of an online services agreement or execute a contract.

Delivery has occurred and we have no remaining obligations. For product license and hardware appliance sales, our standard delivery method is free-on-board shipping point. Consequently, we consider delivery of packaged products and appliances to have occurred when the products are shipped pursuant to an agreement and purchase order. We consider delivery of licenses under electronic licensing agreements to have occurred when the related products are shipped and the end-user has been electronically provided the software activation keys that allow the end-user to take immediate possession of the product. For online services, delivery occurs upon providing the users with their login id and password. For product training and consulting services, we fulfill our obligation when the services are performed. For license updates, technical support and online services, we assume that our obligation is satisfied ratably over the respective terms of the agreements, which are typically 12 to 24 months.

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The fee is fixed or determinable. In the normal course of business, we do not provide customers the right to a refund of any portion of their license fees or extended payment terms. The fees are considered fixed and determinable upon establishment of an arrangement that contains the final terms of the sale including description, quantity and price of each product or service purchased. For online services, the fee is considered fixed or determinable if it is not subject to refund or adjustment.

Collectability is probable. We determine collectability on a customer-by-customer basis and generally do not require collateral. We typically sell product licenses and license updates to distributors or resellers for whom there are histories of successful collection. New customers are typically subject to a credit review process that evaluates their financial position and ultimately their ability to pay. Customers are also subject to an ongoing credit review process. If we determine from the outset of an arrangement that collectability is not probable, revenue recognition is deferred until customer payment is received and the other parameters of revenue recognition described above have been achieved. Management's judgment is required in assessing the probability of collection, which is generally based on an evaluation of customer specific information, historical experience and economic market conditions.

The majority of our product license revenue consists of revenue from the sale of stand-alone software products. Stand-alone software sales generally include a perpetual license to our software and are subject to the industry specific software revenue recognition guidance. In accordance with this guidance, we allocate revenue to license updates related to our stand-alone software and any other undelivered elements of the arrangement based on vendor specific objective evidence, or VSOE, of fair value of each element and such amounts are deferred until the applicable delivery criteria and other revenue recognition criteria described above have been met. The balance of the revenues, net of any discounts inherent in the arrangement, is recognized at the outset of the arrangement using the residual method as the product licenses are delivered. If management cannot objectively determine the fair value of each undelivered element based on VSOE of fair value, revenue recognition is deferred until all elements are delivered, all services have been performed, or until fair value can be objectively determined.

Our hardware appliances contain software components that are essential to the overall functionality of the products. For hardware appliance transactions entered into prior to January 1, 2011, revenue for arrangements with multiple elements, such as sales of products that included services, was allocated to each element using the residual method based on the VSOE of the fair value of the undelivered items pursuant to authoritative guidance. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. If VSOE of one or more undelivered items does not exist, revenue from the entire arrangement is deferred and recognized at the earlier of: (i) delivery of those elements or (ii) when fair value can be established unless maintenance is the only undelivered element, in which case, the entire arrangement fee is recognized ratably over the contractual support period.

In October 2009, the Financial Accounting Standards Board, or the FASB, amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for multiple deliverable revenue arrangements to:

- (i) provide updated guidance on how the deliverables in a multiple deliverable arrangement should be separated, and how the consideration should be allocated;
- (ii) require an entity to allocate revenue in an arrangement using estimated selling prices, or ESP, of deliverables if a vendor does not have VSOE of selling price or third-party evidence of selling price, or TPE; and
- (iii) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

Effective January 1, 2011, we adopted these standards on a prospective basis for new and materially modified arrangements originating after December 31, 2010. The adoption of these standards did not have a material impact on our financial position and results of operations for the three and nine months ended September 30, 2011. We do not expect the adoption of these standards to have a material impact on our financial position and results of operations in the future. However, we expect that this amended accounting guidance will facilitate our efforts to optimize our offerings due to better alignment between the economics of an arrangement and the accounting. This may lead us to

engage in new go-to-market practices in the future. In particular, we expect that the amended accounting standards will enable us to better integrate products and services without VSOE into existing offerings and solutions. As our go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes in selling prices, including both VSOE and ESP.

For new and materially modified multiple element transactions which contain non-software deliverables subsequent to the adoption of the amended revenue recognition standards, the arrangement consideration is allocated to stand-alone software deliverables as a group and the non-software deliverables based on the relative selling prices of using the selling price hierarchy in the amended revenue recognition guidance. The selling price hierarchy for a deliverable is based on its VSOE if available,

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third-party evidence if VSOE is not available, or estimated selling price if neither VSOE nor TPE is available. We then recognize revenue on each deliverable in accordance with our policies for product and service revenue recognition. VSOE of selling price is based on the price charged when the element is sold separately. In determining VSOE, we require that a substantial majority of the selling prices fall within a reasonable range based on historical discounting trends for specific products and services. TPE of selling price is established by evaluating competitor products or services in stand-alone sales to similarly situated customers. However, as our products contain a significant element of proprietary technology and our solutions offer substantially different features and functionality, the comparable pricing of products with similar functionality typically cannot be obtained. Additionally, as we are unable to reliably determine what competitors products' selling prices are on a stand-alone basis, we are not typically able to determine TPE. The estimate of selling price is established considering multiple factors including, but not limited to, pricing practices in different geographies and through different sales channels and competitor pricing strategies.

For our non-software deliverables we allocate the arrangement consideration based on the relative selling price of the deliverables. For our hardware appliances we use ESP as our selling price. For our support and services, we generally use VSOE as our selling price. When we are unable to establish selling price using VSOE for our support and services, we use ESP in our allocation of arrangement consideration.

Our online services are purchased by large enterprises, small and medium-sized businesses, as well as individuals, and are centrally hosted within our datacenters. Our online services are considered service arrangements per the authoritative guidance; accordingly, fees related to online service agreements are recognized ratably over the contract term. In addition, Online Services revenues may also include set-up fees, which are recognized ratably over the contract term or the expected customer life, whichever is longer. Generally, our online services are sold separately and not bundled with the Enterprise division's products and services.

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Results of Operations

The following table sets forth our condensed consolidated statements of income data and presentation of that data as a percentage of change from period-to-period (in thousands):

	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30,		September 30,		September 30,		September 30,	
	2011	2010	2011	2010	2011 vs. September 30, 2010		30, 2011 vs. September 30, 2010	
Revenues:								
Product licenses	\$ 193,880	\$ 151,758	\$ 515,466	\$ 423,197	27.8	%	21.8	%
License updates	187,169	174,128	548,920	505,684	7.5		8.6	
Online services	109,558	91,660	315,809	265,821	19.5		18.8	
Technical services	74,741	54,687	206,831	150,236	36.7		37.7	
Total net revenues	565,348	472,233	1,587,026	1,344,938	19.7		18.0	
Cost of net revenues:								
Cost of license revenues	22,345	19,325	54,834	47,125	15.6		16.4	
Cost of services revenues	39,711	25,934	108,283	75,613	53.1		43.2	
Amortization of product related intangible assets	14,679	12,539	39,920	37,314	17.1		7.0	
Total cost of net revenues	76,735	57,798	203,037	160,052	32.8		26.9	
Gross margin	488,613	414,435	1,383,989	1,184,886	17.9		16.8	
Operating expenses:								
Research and development	88,933	87,399	254,963	244,644	1.8		4.2	
Sales, marketing and services	212,985	174,734	606,587	531,855	21.9		14.1	
General and administrative	77,586	67,404	229,387	188,828	15.1		21.5	
Amortization of other intangible assets	4,430	3,334	11,876	11,267	32.9		5.4	
Restructuring	—	87	24	922	*		*	
Total operating expenses	383,934	332,958	1,102,837	977,516	15.3		12.8	
Income from operations	104,679	81,477	281,152	207,370	28.5		35.6	
Interest income	3,085	3,638	10,751	11,031	(15.2	)	(2.5)
Other (expense) income, net	(4,946	) 2,062	48	(523) *		*	
Income before income taxes	102,818	87,177	291,951	217,878	17.9		34.0	
Income taxes	10,642	(602	) 45,020	35,193	*		27.9	
Consolidated net income	92,176	87,779	246,931	182,685	5.0		35.2	
Less: Net loss attributable to non-controlling interest	—	—	692	—	*		*	
Net income attributable to Citrix Systems, Inc.	\$ 92,176	\$ 87,779	\$ 247,623	\$ 182,685	5.0	%	35.5	%

* not meaningful

Revenues

Net revenues of our Enterprise division include the following categories: Product Licenses, License Updates and Technical Services.

Product Licenses primarily represent fees related to the licensing of the following major products:

• Our Desktop Solutions, comprised primarily of our desktop virtualization product XenDesktop and our application virtualization product XenApp; and

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Our Datacenter and Cloud Solutions revenues are primarily comprised of sales from our cloud networking products which include NetScaler, Access Gateway and Branch Repeater and our server virtualization and cloud infrastructure products which include XenServer, Essentials for Hyper-V, CloudPortal and CloudStack.

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In addition, we offer incentive programs to our VADs and VARs to stimulate demand for our products. Product license revenues associated with these programs are partially offset by these incentives to our VADs and VARs. License Updates consist of fees related to our Subscription Advantage program that are recognized ratably over the term of the contract, which is typically 12 to 24 months. Subscription Advantage is an annual renewable program that provides subscribers with automatic delivery of unspecified software upgrades, enhancements and maintenance releases when and if they become available during the term of the subscription.

Technical Services revenues are comprised of fees from technical support, which includes hardware maintenance, and are recognized ratably over the contract term, as well as revenues from product training and certification, and consulting services revenue related to implementation of our products, which is recognized as the services are provided.

Our Online Services division's revenues consist of fees related to online service agreements from our web collaboration products which primarily include our GoToMeeting, GoToWebinar, Hi-Def Audio, and GoToTraining services, our connectivity product, GoToMyPC, and our remote IT support which primarily include GoToAssist and GoToManage. Our Online Services revenue is recognized ratably over the contract term.

	Three Months Ended		Nine Months Ended		Three Months Ended	Nine Months Ended
	September 30,		September 30,		September 30, 2011	September 30,
	2011	2010	2011	2010	vs. September 30,	vs. September 30,
					2010	2010
	(In thousands)					
Product Licenses	\$193,880	\$151,758	\$515,466	\$423,197	\$42,122	\$92,269
License Updates	187,169	174,128	548,920	505,684	13,041	43,236
Online Services	109,558	91,660	315,809	265,821	17,898	49,988
Technical Services	74,741	54,687	206,831	150,236	20,054	56,595
Total net revenues	\$565,348	\$472,233	\$1,587,026	\$1,344,938	\$93,115	\$242,088

Product Licenses

Product License revenue increased for the three months ended September 30, 2011 compared to the three months ended September 30, 2010 primarily due to increased sales of Desktop Solutions of \$22.4 million, led by XenDesktop, and due to increased sales of our Datacenter and Cloud Solutions of \$18.0 million, led by NetScaler. Product License revenues increased for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 primarily due to increases in sales of our Desktop Solutions products of \$49.2 million and our Datacenter and Cloud Solutions of \$40.4 million. These increases in Product License revenue were primarily due to the factors discussed in the Executive Summary Overview above. We currently target Product license sales to increase when comparing the fourth quarter of 2011 to the fourth quarter of 2010 due to the factors discussed in the Executive Summary Overview above.

License Updates

License Updates revenue increased for the three months ended September 30, 2011 compared to the three months ended September 30, 2010 and for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 primarily due to renewals related to our Subscription Advantage product over a larger base of subscribers. We are currently targeting that License Updates revenue will increase when comparing the fourth quarter of 2011 to the fourth quarter of 2010.

Online Services

Online Services revenue increased for the three months ended September 30, 2011 compared to the three months ended September 30, 2010 and for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 primarily due to increased sales of our web collaboration products. We are currently targeting that

Online Services revenue will increase when comparing the fourth quarter of 2011 to the fourth quarter of 2010.

Technical Services

Technical Services revenue increased for the three months ended September 30, 2011 compared to the three months ended September 30, 2010 primarily due to increases in technical support revenues of \$12.1 million driven by increased sales of our Datacenter and Cloud Solutions, primarily NetScaler, and an increase in consulting revenues of \$6.7 million related to

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increased implementation sales of our Enterprise division's products. Technical Services revenue increased for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 primarily due to increases in technical support revenues of \$32.5 million driven by increased sales of our Datacenter and Cloud Solutions, primarily NetScaler, and an increase in consulting revenues of \$17.9 million related to increased implementation sales of our Enterprise division's products. We currently anticipate that Technical Services revenues will increase when comparing the fourth quarter of 2011 to the fourth quarter of 2010 consistent with the targeted increase in Product License revenue described above.

Deferred Revenue

Deferred revenues are primarily comprised of License Updates revenue from Subscription Advantage, Technical Services revenues related to our technical support and consulting contracts and Online Services revenues from annual service agreements for our Online Services. Deferred revenues increased approximately \$54.7 million as of September 30, 2011 compared to December 31, 2010 primarily due to increased sales of our technical support of \$21.5 million, renewals of our Subscription Advantage product, led by XenDesktop, of \$21.1 million and increased sales of our Online services of \$16.6 million. We currently anticipate that deferred revenues will continue to increase for the remainder of 2011.

International Revenues

International revenues (sales outside the United States) accounted for approximately 41.9% of our net revenues for the three months ended September 30, 2011 and 41.3% of our net revenues for the three months ended September 30, 2010. International revenues accounted for approximately 43.8% of our net revenues for the nine months ended September 30, 2011 and 42.2% of our net revenues for the nine months ended September 30, 2010. See Note 10 to our condensed consolidated financial statements for detailed information on net revenues by geography.

Segment Revenues

Our revenues are derived from sales of Enterprise division products which include our Desktop Solutions, Datacenter and Cloud Solutions products and related technical services and from our Online Services division's web collaboration, connectivity and remote support services. The Enterprise division and the Online Services division constitute our two reportable segments.

An analysis of our reportable segment net revenue is presented below (in thousands):

	Three Months Ended		Nine Months Ended		Increase for the		
	September 30,		September 30,		Three Months Ended	Nine Months Ended	
	2011	2010	2011	2010	September 30, 2011	September 30, 2011	
					vs. September 30,	vs. September 30,	
					2010	2010	
Enterprise division	\$455,790	\$380,573	\$1,271,217	\$1,079,117	19.8	% 17.8	%
Online Services division	109,558	91,660	315,809	265,821	19.5	% 18.8	%
Net revenues	\$565,348	\$472,233	\$1,587,026	\$1,344,938	19.7	% 18.0	%

With respect to our segment revenues, the increase in net revenues for the comparative periods presented was due primarily to the factors previously discussed above. See Note 10 of our condensed consolidated financial statements for additional information on our segment revenues.

Cost of Net Revenues

	Three Months Ended		Nine Months Ended		Increase for the	
	September 30,		September 30,		Three Months Ended	Nine Months Ended
	2011	2010	2011	2010	September 30, 2011	September 30, 2011
					vs. September 30,	vs. September 30,
					2010	2010
Cost of product license revenues	\$22,345	\$19,325	\$54,834	\$47,125	\$ 3,020	\$7,709

(In thousands)

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Cost of services revenues	39,711	25,934	108,283	75,613	13,777	32,670
Amortization of product related intangible assets	14,679	12,539	39,920	37,314	2,140	2,606
Total cost of net revenues	\$76,735	\$57,798	\$203,037	\$160,052	\$18,937	\$42,985

Cost of product license revenues consists primarily of hardware, product media and duplication, manuals, packaging

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materials, shipping expense and royalties. Cost of services revenue consists primarily of compensation and other personnel-related costs of providing technical support and consulting, as well as the costs related to providing our online services. Also included in cost of net revenues is amortization of product related intangible assets. Cost of product license revenues increased for the three months ended September 30, 2011 compared to the three months ended September 30, 2010 and for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 primarily due to increased revenue of our Datacenter and Cloud products, many of which contain hardware components that have a higher cost than our other products. We currently anticipate cost of product license revenues will increase when comparing the fourth quarter of 2011 to the fourth quarter of 2010 consistent with the targeted increase in Product License sales.

Cost of services revenues increased for the three months ended September 30, 2011 compared to the three months ended September 30, 2010 by \$6.2 million consistent with the increase in sales of our technical support related to our Enterprise products and \$4.9 million primarily due to an increase in sales of our web collaboration products consistent with the increase in revenue as described above. Cost of services revenues increased for nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 by \$15.9 million consistent with the increase in revenue of technical support related to our Enterprise products and increased \$12.3 million primarily due to an increase in sales of our web collaboration products as described above. We currently anticipate cost of services revenues will increase when comparing the fourth quarter of 2011 to the fourth quarter of 2010 consistent with the targeted increase in Online Services and Technical Services revenues as discussed above.

Gross Margin

Gross margin as a percentage of revenue was 86.4% for the three months ended September 30, 2011 and 87.8% for the three months ended September 30, 2010. Gross margin as a percentage of revenue was 87.2% for the nine months ended September 30, 2011 and 88.1% for the nine months ended September 30, 2010.

Operating Expenses**Foreign Currency Impact on Operating Expenses**

A substantial majority of our overseas operating expenses and capital purchasing activities are transacted in local currencies and are therefore subject to fluctuations in foreign currency exchange rates. In order to minimize the impact on our operating results, we generally initiate our hedging of currency exchange risks up to 15 months in advance of anticipated foreign currency expenses. When the dollar is weak, the resulting increase to foreign currency denominated expenses will be partially offset by the gain in our hedging contracts. When the dollar is strong, the resulting decrease to foreign currency denominated expenses will be partially offset by the loss in our hedging contracts. There is a risk that there will be fluctuations in foreign currency exchange rates beyond the timeframe for which we hedge our risk.

Research and Development Expenses

	Three Months Ended		Nine Months Ended		Three Months Ended	Nine Months Ended
	September 30,		September 30,		September 30, 2011	September 30,
	2011	2010	2011	2010	vs. September 30,	vs. September 30,
					2010	2010
	(In thousands)					
Research and development	\$88,933	\$87,399	\$254,963	\$244,644	\$ 1,534	\$10,319

Research and development expenses consisted primarily of personnel related costs and facility and equipment costs directly related to our research and development activities. We expensed substantially all development costs included in the research and development of our products.

Research and development expenses increased during the three months ended September 30, 2011 compared to the three months ended September 30, 2010 primarily due to a \$9.9 million increase in compensation and other employee

related costs primarily related to increased headcount due to strategic hiring and acquisitions. Partially offsetting the increases in research and development costs when comparing the three months ended September 30, 2011 to the three months ended September 30, 2010 is a \$7.8 million decrease in stock-based compensation expense due to stock-based awards related to certain acquisitions that fully vested.

Research and development expenses increased during the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 primarily due to a \$32.0 million increase in compensation and other employee related costs.

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Also contributing to the increase in research and development expenses was a \$3.4 million increase in facilities and related depreciation. These increases primarily relate to increased headcount due to strategic hiring and acquisitions. Partially offsetting the increases in research and development costs when comparing the nine months ended September 30, 2011 to the nine months ended September 30, 2010 is a \$24.6 million decrease in stock-based compensation expense due to stock-based awards related to certain acquisitions that fully vested.

We are currently targeting an increase in research and development expense when comparing the fourth quarter of 2011 to the third quarter of 2011 due to our recent acquisitions, development of existing and new products, and investments in research and development of advanced technologies for future application.

Sales, Marketing and Services Expenses

	Three Months Ended		Nine Months Ended		Three Months Ended	Nine Months Ended
	September 30,		September 30,		September 30, 2011	September 30,
	2011	2010	2011	2010	vs. September 30,	vs. September 30,
					2010	2010
	(In thousands)					
Sales, marketing and services	\$212,985	\$174,734	\$606,587	\$531,855	\$38,251	\$74,732

Sales, marketing and services expenses consisted primarily of personnel-related costs, including sales commissions, pre-sales support, the costs of marketing programs aimed at increasing revenue, such as brand development, advertising, trade shows, public relations and other market development programs and costs related to our facilities, equipment and information systems that are directly related to our sales, marketing and services activities.

Sales, marketing and services expenses increased during the three months ended September 30, 2011 compared to the three months ended September 30, 2010 primarily due to a \$28.0 million increase in compensation, including variable compensation increases and employee related costs due to additional headcount in our sales force and technical services group, as well as from our acquisition of Netviewer. Also contributing to the increase in sales, marketing and services expense was a \$4.0 million increase in marketing program costs related to various marketing campaigns and events.

Sales, marketing and services expenses increased during the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 primarily due to a \$60.5 million increase in compensation, including variable compensation increases and employee related costs due to additional headcount in our sales force and technical services group, as well as from our acquisition of Netviewer. Also contributing to the increase in sales, marketing and services expense was a \$9.4 million increase in marketing program costs related to various marketing campaigns and events.

We are currently targeting an increase in sales, marketing and services expenses when comparing the fourth quarter of 2011 to the third quarter of 2011 due to our recent acquisitions and as we continue to increase our sales capacity.

General and Administrative Expenses

	Three Months Ended		Nine Months Ended		Three Months Ended	Nine Months Ended
	September 30,		September 30,		September 30,	September 30,
	2011	2010	2011	2010	vs. September 30,	vs. September 30,
					2010	2010
	(In thousands)					
General and administrative	\$77,586	\$67,404	\$229,387	\$188,828	\$10,182	\$40,559

General and administrative expenses consisted primarily of personnel related costs and expenses related to outside consultants assisting with information systems, as well as accounting and legal fees.

General and administrative expenses increased for the three months ended September 30, 2011 compared to the three months ended September 30, 2010 primarily due to a \$7.0 million increase in compensation and employee related costs due to additional headcount, primarily in IT, as well as from our acquisition of Netviewer. Also contributing to the increase in general and administrative expense is a \$3.5 million increase in professional fees primarily related to acquisition and strategic investment activity.

General and administrative expenses increased for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 primarily due to a \$29.1 million increase in compensation and employee related costs due to

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additional headcount, primarily in IT, as well as from our acquisition of Netviewer. Also contributing to the increase in general and administrative expense is a \$7.0 million increase in professional fees primarily related to acquisition and strategic investment activity.

We currently anticipate that general and administrative expenses will increase when comparing the fourth quarter of 2011 to the third quarter of 2011 due primarily to our recent acquisitions and the related transaction costs and professional fees, and, to a lesser extent costs to support the growth in our business.

Other (Expense) Income, Net

	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months
	September 30,		September 30,		September 30, 2011		Ended
	2011	2010	2011	2010	vs. September 30,	vs. September 30,	September 30,
					2010	2010	2011
	(In thousands)						
Other (expense) income, net	\$ (4,946)	\$ 2,062	\$ 48	\$ (523)	\$ (7,008)	\$ 571	

Other (expense) income, net is primarily comprised of remeasurement of foreign currency transaction gains (losses) and realized gains (losses) related to changes in the fair value of our investments that have a decline in fair value that is considered other-than-temporary, if any, recognized gains (losses) related to investments and interest expense which was not material for all periods presented. The change in other (expense) income, net, during the three months ended September 30, 2011 compared to the three months ended September 30, 2010 is primarily due to a loss on remeasurments of our foreign currency transactions of \$4.3 million and an impairment recognized on a cost method investment of \$3.5 million. The change in other (expense) income, net, during the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 is due to an increase in gains of \$3.8 million, primarily related to remeasurement of our foreign currency transactions, partially offset by an impairment recognized on a cost method investment of \$3.5 million. For more information on our cost method investments, see Note 5 to our condensed consolidated financial statements.

Income Taxes

As of September 30, 2011, our net unrecognized tax benefits totaled approximately \$70.4 million. There was \$1.3 million included in the balance at September 30, 2011 for tax positions which would affect the annual effective tax rate. During the quarter ended September 30, 2011, we recognized \$0.1 million of expense related to interest, which is included in income tax expense. We have approximately \$1.5 million for the payment of interest and penalties accrued at September 30, 2011.

We and certain of our subsidiaries are subject to U.S. federal income taxes, as well as income taxes of multiple state and foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S., income tax examinations by tax authorities for years prior to 2004.

In the ordinary course of global business, there are transactions for which the ultimate tax outcome is uncertain and judgment is required in determining the worldwide provision for income taxes. We provide for income taxes on transactions based on our estimate of the probable liability. We adjust our provision as appropriate for changes that impact our underlying judgments. Changes that impact provision estimates include such items as jurisdictional interpretations on tax filing positions based on the results of tax audits and general tax authority rulings. Due to the evolving nature of tax rules combined with the large number of jurisdictions in which we operate, it is possible that our estimates of our tax liability and the realizability of our deferred tax assets could change in the future, which may result in additional tax liabilities and adversely affect our results of operations, financial condition and cash flows.

In June 2010, we reached a settlement in principle with the IRS regarding certain previously disclosed income tax deficiencies asserted in a Revenue Agent's Report, or RAR. Under the terms of the settlement in principle, we would agree to an assessment of income tax deficiencies in full settlement of all open claims under the RAR and would

resolve with finality for future years all of the transfer pricing issues raised in the RAR. Based on this, we incurred a charge of \$13.1 million in 2010 in accordance with the authoritative guidance. Among other things, the authoritative guidance requires application of a “more likely than not” threshold to the recognition and non-recognition of tax positions. It further requires that a change in management judgment related to prior years’ tax positions be recognized in the quarter of such change.

The final settlement requires the finalization of tax deficiency calculations with the IRS and a written agreement signed by the IRS. It is uncertain how long it will take to reach a final settlement with the IRS. There can be no assurances that a final written agreement will be obtained or that this matter will otherwise be resolved in our favor. An adverse outcome of this matter could have a material adverse effect on our results of operations and financial condition.

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We are required to estimate our income taxes in each of the jurisdictions in which we operate as part of the process of preparing our condensed consolidated financial statements. At September 30, 2011, we had approximately \$98.7 million in net deferred tax assets. The authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We review deferred tax assets periodically for recoverability and make estimates and judgments regarding the expected geographic sources of taxable income and gains from investments, as well as tax planning strategies in assessing the need for a valuation allowance.

We maintain certain strategic management and operational activities in overseas subsidiaries and our foreign earnings are taxed at rates that are generally lower than in the United States. We do not expect to remit earnings from our foreign subsidiaries. Our effective tax rate was approximately 10.4% for the three months ended September 30, 2011, (0.7)% for the three months ended September 30, 2010, 15.4% for the nine months ended September 30, 2011 and 16.2% for the nine months ended September 30, 2010. The increase in the effective tax rate when comparing the three months ended September 30, 2011 to the three months ended September 30, 2010 was primarily due to a net tax benefit of \$18.5 million recognized during the third quarter of 2010. The decrease in the effective tax rate when comparing the nine months ended September 30, 2011 to the nine months ended September 30, 2010 was primarily due to higher earnings in jurisdictions taxed at lower rates. The effective tax rates for the three and nine months ended September 30, 2011 were also reduced by a net tax benefit of \$5.7 million related to adjustments to research and development credits recorded in the third quarter of 2011.

Our effective tax rate generally differs from the U.S. federal statutory rate of 35% due primarily to lower tax rates on earnings generated by our foreign operations that are taxed primarily in Switzerland. We have not provided for U.S. taxes for those earnings because we plan to reinvest all of those earnings indefinitely outside the United States. Our effective tax rate will fluctuate based on the mix of earnings from our U.S. and foreign jurisdictions. Accordingly, earnings from the production and distribution of our products and services through our foreign headquarters in Switzerland are currently taxed at lower income tax rates than earnings from our U.S. operations.

Liquidity and Capital Resources

During the nine months ended September 30, 2011, we generated operating cash flows of \$509.6 million. These operating cash flows related primarily to net income of \$246.9 million, adjusted for, among other things, non-cash charges, including depreciation and amortization expenses of \$115.6 million and stock-based compensation expense of \$63.6 million. Also contributing to these cash inflows was an aggregate increase in operating assets and liabilities of \$71.4 million, net of effects of our acquisitions. Our investing activities used \$362.5 million of cash consisting primarily of cash paid for acquisitions of \$309.5 million and the purchase of property and equipment of \$88.9 million. Our financing activities used cash of \$234.2 million primarily due to stock repurchases of \$324.9 million. This financing cash outflow was partially offset by proceeds received from the issuance of common stock under our employee stock-based compensation plans of \$94.8 million.

During the nine months ended September 30, 2010, we generated operating cash flows of \$437.0 million. These operating cash flows related primarily to net income of \$182.7 million, adjusted for, among other things, non-cash charges, including depreciation and amortization expenses of \$102.6 million and stock-based compensation expense of \$83.9 million. Also contributing to these cash inflows was an aggregate increase in operating assets and liabilities of \$67.3 million, net of effects of our acquisitions. Our investing activities used \$325.9 million of cash consisting primarily of cash paid for net purchases of investments of \$235.7 million and the purchase of property and equipment of \$53.1 million. Also contributing to these cash outflows was cash paid for acquisitions and licensing agreements and product-related intangible assets of \$33.6 million. Our financing activities provided cash of \$24.8 million primarily due to proceeds received from the issuance of common stock under our employee stock-based compensation plans of \$310.8 million and \$43.1 million related to excess tax benefits from the exercise of stock-based awards. These financing cash outflows were partially offset by stock repurchases of \$324.9 million.

Historically, significant portions of our cash inflows were generated by our operations. We currently expect this trend to continue throughout 2011. We believe that our existing cash and investments together with cash flows expected

from operations will be sufficient to meet expected operating and capital expenditure requirements for the next 12 months.

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Cash, Cash Equivalents and Investments

	September 30, 2011 (In thousands)	December 31, 2010	2011 Compared to 2010
Cash, cash equivalents and investments	\$1,540,873	\$1,685,659	\$(144,786)

The decrease in cash, cash equivalents and investments when comparing September 30, 2011 to December 31, 2010, is primarily due to expenditures made on stock repurchases of \$324.9 million, cash paid for acquisitions, net of cash acquired, of \$309.5 million, purchases of property and equipment of \$88.9 million and purchases of cost method investments and product-related intangible assets of \$29.0 million partially offset by cash provided by our operating activities of \$509.6 million and cash received from the issuance of common stock under our employee stock-based compensation plans of \$94.8 million. As of September 30, 2011, \$840.1 million of the \$1,540.9 million of cash, cash equivalents and investments was held by our foreign subsidiaries. If these funds are needed for our operations in the United States, we would be required to accrue and pay U.S. taxes to repatriate these funds. Our current plans are not expected to require repatriation of cash and investments to fund our U.S. operations and, as a result, we intend to permanently reinvest our foreign earnings. See “– Liquidity and Capital Resources.” We generally invest our cash and cash equivalents in investment grade, highly liquid securities to allow for flexibility in the event of immediate cash needs. Our short-term and long-term investments primarily consist of interest-bearing securities.

Fair Value Measurements

The authoritative guidance defines fair value as an exit price, representing the amount that would either be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Available-for-sale securities included in Level 1 are valued using closing prices for identical instruments that are traded on active exchanges. Available-for-sale securities included in Level 2 are valued utilizing inputs obtained from an independent pricing service, or the Service, which uses quoted market prices for identical or comparable instruments rather than direct observations of quoted prices in active markets. The Service gathers observable inputs for all of our fixed income securities from a variety of industry data providers, for example, large custodial institutions and other third-party sources. Once the observable inputs are gathered by the Service, all data points are considered and an average price is determined. The Service’s providers utilize a variety of inputs to determine their quoted prices. These inputs may include interest rates, known historical trades, yield curve information, benchmark data, prepayment speeds, credit quality and broker/dealer quotes. Substantially all of our available-for-sale investments are valued utilizing inputs obtained from the Service and accordingly are categorized as Level 2. We do not adjust the prices obtained from the Service. Available-for-sale securities are included in Level 3 when relevant observable inputs for a security are not available.

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the classification of assets and liabilities within the fair value hierarchy. In certain instances, the inputs used to measure fair value may meet the definition of more than one level of the fair value hierarchy. The input with the lowest level priority is used to determine the applicable level in the fair value hierarchy.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Our fixed income available-for-sale securities consist of high quality, investment grade securities from diverse issuers with a minimum credit rating of A- and a weighted average credit rating of AA. We previously classified these investments as Level 1 because we did not make adjustments to the prices obtained from the Service. However, as we value these securities based on pricing from the Service, who may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value; we began

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classifying all of our fixed income available-for-sale securities as Level 2 in the first quarter of 2011. We measure our cash flow hedges at fair value based on indicative prices in active markets (Level 2 inputs). We have invested in convertible debt securities of certain early-stage entities that are classified as available-for-sale investments. As quoted prices in active markets or other observable inputs were not available for these investments, in order to measure them at fair value, we utilized a discounted cash flow model using a discount rate reflecting the market risk inherent in holding securities of an early-stage enterprise, adjusted by the probability-weighted exit possibilities associated with the convertible debt securities. This methodology required us to make assumptions that were not directly or indirectly observable regarding the fair value of the convertible debt securities; accordingly it is a Level 3 valuation and is included in the "Purchases of Level 3 securities" line in the table below.

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

	Long-term Investments (in thousands)
Balance at December 31, 2010	\$49,340
Purchases of Level 3 securities	\$3,830
Proceeds received on Level 3 securities ⁽¹⁾	\$(50,000)
Decrease in previously recognized unrealized losses included in accumulated other comprehensive (loss) income	660
Balance at September 30, 2011	\$3,830

⁽¹⁾ In September 2011, the Company's investment in AIG Matched Funding Corporation matured and proceeds of \$50.0 million were received. See Note 5 to our condensed consolidated financial statements for more information.

Assets Measured at Fair Value on a Non-recurring Basis Using Significant Unobservable Inputs (Level 3)

During the third quarter of 2011, one of our cost method investments with a carrying value of \$5.0 million was determined to be impaired and has been written down to its fair value of \$1.5 million, resulting in an impairment charge of \$3.5 million, which is included in other (expense) income in our condensed consolidated financial statements for the three and nine months ended September 30, 2011. The fair value of the cost method investment represents a Level 3 valuation as the assumptions used in valuing this investment were not directly or indirectly observable.

Accounts Receivable, Net

	September 30, 2011	December 31, 2010	2011 Compared to 2010
	(In thousands)		
Accounts receivable	\$344,595	\$382,654	\$(38,059)
Allowance for returns	(1,659)	(850)	(809)
Allowance for doubtful accounts	(3,442)	(3,409)	(33)
Accounts receivable, net	\$339,494	\$378,395	\$(38,901)

The decrease in accounts receivable when comparing September 30, 2011 to December 31, 2010 was primarily due to increased collections in the first quarter of 2011 on higher fourth quarter 2010 sales. The activity in our allowance for returns was comprised primarily of \$3.8 million of provisions for returns recorded in the nine month period ended September 30, 2011 partially offset by \$3.0 million in credits issued for returns during the nine month period ended September 30, 2011. The activity in our allowance for doubtful accounts was comprised primarily of \$1.8 million in additional provisions for doubtful accounts primarily acquired in acquisitions during the nine month period ended September 30, 2011 partially offset by \$1.8 million of uncollectible accounts written off, net of recoveries during the nine month period ended September 30, 2011. From time to time, we could maintain individually significant accounts

receivable balances from our distributors or customers, which are comprised of large business enterprises, governments and small and medium-sized businesses. If the financial condition of our distributors or customers deteriorates, our operating results could be adversely affected. See Note 4 to our condensed consolidated financial statements for additional information on our acquisitions.

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Credit Facility

Effective on August 9, 2005, we entered into a revolving credit facility, or the Credit Facility, with a group of financial institutions, or the Lenders. Effective September 27, 2006, we entered into an amendment and restatement of the Credit Facility, or the Amendment. The Amendment decreased the overall range of interest we paid on amounts outstanding on the Credit Facility and lowered the facility fee. In addition, the Amendment extended the term of the Credit Facility until September 27, 2011. The Credit Facility, as amended, provided for a revolving line of credit in the aggregate amount of \$100.0 million, subject to continued covenant compliance. The Credit Facility, as amended, bore interest at the London Interbank Offered Rate, or LIBOR, plus 0.32% and adjusted in the future in the range of 0.32% to 0.80% above LIBOR based on the level of our total debt and our adjusted earnings before interest, taxes, depreciation and amortization, or EBITDA. In addition, we were required to pay an annual facility fee ranging from 0.08% to 0.20% based on the aggregate amount available under the Credit Facility, as amended, and the level of our total debt and adjusted EBITDA. We did not renew the Credit Facility and it expired on September 27, 2011. Upon expiration, there was no indebtedness under the Credit Facility.

Stock Repurchase Program

Our Board of Directors authorized an ongoing stock repurchase program with a total repurchase authority granted to us of \$3.0 billion. We may use the approved dollar authority to repurchase stock at any time until the approved amounts are exhausted. The objective of our stock repurchase program is to improve stockholders' returns. At September 30, 2011, approximately \$286.6 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock. A portion of the funds used to repurchase stock over the course of the program was provided by proceeds from employee stock option exercises and the related tax benefit.

We are authorized to make open market purchases of our common stock using general corporate funds. Additionally, from time to time, we may enter into structured stock repurchase arrangements with large financial institutions using general corporate funds in order to lower the average cost to acquire shares. These programs include terms that require us to make up-front payments to the counterparty financial institution and result in the receipt of stock during or at the end of the agreement or the receipt of either stock or cash at the maturity of the agreement, depending on market conditions.

During the three months ended September 30, 2011, we expended approximately \$125.0 million on open market purchases, repurchasing 2,205,270 shares of outstanding common stock at an average price of \$56.68. During the nine months ended September 30, 2011, we expended approximately \$324.9 million on open market purchases, repurchasing 4,865,770 shares of outstanding common stock at an average price of \$66.77.

During the three months ended September 30, 2010, we expended approximately \$110.0 million on open market purchases, repurchasing 1,850,200 shares of outstanding common stock at an average price of \$59.43. During the nine months ended September 30, 2010, we expended approximately \$309.9 million on open market purchases, repurchasing 6,277,300 shares of outstanding common stock at an average price of \$49.37.

Shares for Tax Withholding

During the three months ended September 30, 2011, we withheld 1,998 shares from stock units that vested totaling \$0.1 million to satisfy minimum tax withholding obligations that arose on the vesting of stock units. During the nine months ended September 30, 2011, we withheld 165,738 shares from stock units that vested totaling \$12.2 million to satisfy minimum tax withholding obligations that arose on the vesting of stock units. These shares are reflected as treasury stock in our condensed consolidated balance sheets and the related cash outlays reduce our total stock repurchase authority.

During the three months ended September 30, 2010, we withheld 1,627 shares from stock units that vested totaling \$0.1 million to satisfy minimum tax withholding obligations that arose on the vesting of stock units. During the nine months ended September 30, 2010, we withheld 93,228 shares from stock units that vested totaling \$4.2 million to satisfy minimum tax withholding obligations that arose on the vesting of stock units. These shares are reflected as treasury stock in our condensed consolidated balance sheets and the related cash outlays reduce our total stock repurchase authority.

Office Leases

We have operating lease obligations through 2018 related to two properties that are not utilized. At September 30, 2011, the total remaining obligation on these leases was approximately \$5.5 million, of which \$2.2 million was accrued as of September 30, 2011, and is reflected in accrued expenses and other current liabilities and other liabilities in our condensed consolidated financial statements. In calculating this accrual, we made estimates, based on market information, including the estimated vacancy periods and sublease rates and opportunities. We periodically re-evaluate our estimates related to these vacant facilities.

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Off-Balance Sheet Arrangements

The Company does not have any special purpose entities or off-balance sheet financing arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes with respect to the information appearing in Part II, Item 7A., "Quantitative and Qualitative Disclosures About Market Risk," of our Annual Report on Form 10-K for the year ended December 31, 2010.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2011, our management, with the participation of our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer concluded that, as of September 30, 2011, our disclosure controls and procedures were effective in ensuring that material information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such material information is accumulated by and communicated to our management, including our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the quarter ended September 30, 2011, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Due to the nature of our business, we are subject to patent infringement claims, including current suits against us or one or more of our wholly-owned subsidiaries alleging infringement by various Citrix products and services. We believe that we have meritorious defenses to the allegations made in these pending suits and intend to vigorously defend these lawsuits; however, we are unable currently to determine the ultimate outcome of these or similar matters or the potential exposure to loss, if any.

In addition, we are a defendant in various litigation matters generally arising out of the normal course of business. Although it is difficult to predict the ultimate outcomes of these cases, we believe that the ultimate outcomes will not materially affect our business, financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

The following information updates, and should be read in conjunction with, the information disclosed in Part 1, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was filed with the Securities and Exchange Commission on February 24, 2011. Except as disclosed below, there have been no material changes in our risk factors from those disclosed in Part 1, Item 1A., "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

The financial and strategic benefits we anticipate from acquiring Cloud.com and ShareFile may not be realized. Acquisitions, including those of high-technology companies, are inherently risky. We cannot provide any assurance that our acquisition of Cloud.com or ShareFile will be successful in helping us reach our financial and strategic goals. We acquired each of Cloud.com and ShareFile with the expectation that the acquisition will result in various benefits, including, among other things, enhanced revenue and profits, greater market presence and development, and enhancements to our customer base. We may not realize any of these benefits. In addition, we may not achieve the anticipated benefits of our acquisitions of Cloud.com and/or Sharefile as rapidly as, or to the extent, anticipated by our management and certain financial or industry analysts, and others may not perceive the same benefits of the acquisitions as we do. For example, Cloud.com's or ShareFile's contribution to our financial results may not meet the current expectations of our management for a number of reasons, including the following integration risks:

- difficulties and delays integrating the operations, technologies, and acquired products; including higher than expected costs related to these activities;
- undetected errors or unauthorized use of a third-party's code in the acquired products;
- security breaches with respect to the acquired products that could disrupt our services and cause us to incur losses or liabilities that could adversely affect our business;
- the diversion of management's attention from normal daily operations of the business;
- entry into a new market in which we have limited direct prior experience and where competitors have stronger market positions and which are highly competitive;
- the potential loss of key employees of the acquired company; and
- an uncertain revenue and earnings stream from the acquired company which could unexpectedly dilute our earnings.

In addition, the acquisition of Cloud.com and/or ShareFile could dilute our profits beyond the current expectations of our management. Operations and costs incurred and potential liabilities assumed in connection with our acquisitions of Cloud.com and/or ShareFile also could have an adverse effect on our business, financial condition and operating results. If these risks materialize, our stock price could be materially and adversely affected.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer

Our Board of Directors has authorized an ongoing stock repurchase program with a total repurchase authority granted to us of \$3.0 billion. The objective of the stock repurchase program is to improve stockholders' returns. At September 30, 2011, approximately \$286.6 million was available to repurchase common stock pursuant to the stock

repurchase program. All shares repurchased are recorded as treasury stock. The following table shows the monthly activity related to our stock repurchase program for the quarter ended September 30, 2011:

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	(a) Total Number of Shares (or Units) Purchased (1)(2)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or approximate dollar value) of Shares (or Units) that may yet be Purchased under the Plans or Programs
July 1, 2011 through July 31, 2011	367	\$80.78	367	\$ 411,552
August 1, 2011 through August 31, 2011	1,621,976	56.92	1,621,976	319,252
September 1, 2011 through September 30, 2011	584,925	56.01	584,925	286,570
Total	2,207,268	\$56.68	2,207,268	\$ 286,570

Represents shares acquired in open market purchases. We expended approximately \$125.0 million during the (1) quarter ended September 30, 2011 for repurchases of our common stock. For more information see Note 15 to our condensed consolidated financial statements.

(2) Includes 1,998 shares withheld from stock units that vested in the third quarter of 2011 to satisfy minimum tax withholding obligations that arose on the vesting of stock units.

ITEM 5. OTHER INFORMATION

Our policy governing transactions in our securities by our directors, officers and employees permits our officers, directors and certain other persons to enter into trading plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. The Company has been advised that Mark B. Templeton, the President, Chief Executive Officer and a Director of the Company, entered into a new trading plan in the third quarter of 2011 in accordance with Rule 10b5-1 and our policy governing transactions in our securities. Mr. Templeton entered into his trading plan to exercise soon to expire stock options and to sell the underlying shares of common stock. We undertake no obligation to update or revise the information provided herein, including for revision or termination of an established trading plan.

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ITEM 6. EXHIBITS

(a) List of exhibits

Exhibit No.	Description
10.1*	Form of Amendment to Change in Control Agreements by and between Citrix Systems, Inc. and each Executive Officer (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on August 8, 2011)
10.2*	Form of Indemnification Agreement by and between Citrix Systems, Inc. and each of its Directors and Executive Officers (incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on August 8, 2011)
31.1	Rule 13a-14(a) / 15d-14(a) Certification
31.2	Rule 13a-14(a) / 15d-14(a) Certification
32.1†	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101††	The following financial statements from Citrix Systems, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, as filed with the SEC on November 7, 2011, formatted in XBRL, as follows: <ul style="list-style-type: none"> (i) the Condensed Consolidated Balance Sheets (ii) the Condensed Consolidated Statement of Income (iii) the Condensed Consolidated Statements of Cash Flows (iv) the Notes to Condensed Consolidated Financial Statements, tagged in summary and detail

* Indicates a management contract or a compensatory plan, contract or arrangement.

† Furnished herewith.

†† As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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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 on this 7th day of November 2011.

CITRIX SYSTEMS,
INC.

By: /s/ DAVID J. HENSHALL
David J. Henshall
Executive Vice President, Operations and Chief
Financial Officer
(Authorized Officer and Principal Financial Officer)

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