SI INTERNATIONAL INC
Form 10-K
March 15, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

o **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number

000-50080

SI International, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State of Other Jurisdiction of Incorporation or Organization)	**52-2127278** (I.R.S. Employer Identification No.)
12012 Sunset Hills Road, Reston, Virginia (Address of Principal Executive Offices)	**20190-5869** (Zip Code)

Registrant s Telephone Number, Including Area Code: **(703) 234-7000**

Securities to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities to be registered pursuant to Section 12(g) of the Act:

Common Stock, $0.01 par value per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of SI International, Inc. Common Stock held by non-affiliates of the registrant as of June 25, 2005 was $288,381,811.

As of March 1, 2006, there were 11,426,232 shares of SI International, Inc. Common Stock, $0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant s annual report to stockholders for the fiscal year ended December 31, 2005 will be incorporated by reference into Part II and III of this Form 10-K. Certain portions of the definitive proxy statement to be used in connection with SI International, Inc. s annual meeting of stockholders, which is expected to be filed not later than 120 days after the registrant s fiscal year ended December 31, 2005, will be incorporated by reference into Part III of this Form 10-K.

SI INTERNATIONAL, INC.

FORM 10-K

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BUSINESS INFORMATION

Throughout this document, we occasionally distinguish between SI International, Inc., as a company separate from its subsidiaries, and SI International, Inc., as a company combined with its subsidiaries.
In order to clarify which entity we are referring to in various discussions, we use the terms
SI International, Inc. and SI International to refer to SI International, Inc. without its subsidiaries. All other references, including SI, the Company, we and us refer to SI International and its subsidiaries.

Some of the statements under Item 1. Business, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this Form 10 K constitute forward looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward looking statements. In some cases, you can identify these statements by forward looking words such as anticipate, believe, could, estimate, expect, intend, may, plan, potential, should, will, and would or similar words. You should read statements that contain these words carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other forward looking information. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to predict accurately or control. The factors listed in the section captioned Item 1A. Risk Factors, as well as any cautionary language in this Form 10 K, provide examples of risks, uncertainties, and events that may cause our actual results to differ materially from the expectations we describe in our forward looking statements.

Although we believe that the expectations reflected in the forward looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward looking statements, which apply only as of the date of this Form 10 K. Subsequent events and developments may cause our views to change. However, while we may elect to update these forward looking statements at some point in the future, we specifically disclaim any obligation to do so.

PART I

Item 1. Business SI International, Inc. was organized as a Delaware corporation under the name of SI International, Incorporated on October 14, 1998. SI International conducts operations both in its own name and through subsidiaries, each of which is located in the U.S. but some of which have international operations.

Recent Events

Zen Acquisition. On February 27, 2006, we closed the acquisition of Zen Technology, Inc, or Zen, a Virginia corporation, pursuant to a Stock Purchase Agreement dated February 8, 2006 (the Zen Agreement). Zen is a provider of critical IT services, specializing in managed network services, information assurance, software development and systems engineering, database and systems administration and IT consulting to various U.S. Government agencies. Zen s largest clients include the Missile Defense Agency (MDA), Department of Defense s Washington Headquarters Services (WHS), Federal Communications Commission (FCC), the Pension Benefit Guaranty Corporation (PBGC), and the Federal Trade Commission (FTC). As a result of our acquisition of Zen, we gained approximately 275 employees, of which approximately 50% hold security clearances. The acquisition of Zen provides additional scale with existing customers as well as diversification with new government customers.

Pursuant to the terms of the Zen Agreement we acquired all of the outstanding capital stock of Zen for $60 million in cash, of which we are withholding $6 million for 15 months in order to secure post-closing indemnity obligations of the sellers. The purchase price is subject to a two-way adjustment based upon whether the working capital of Zen as of the closing date was above or below the target working capital specified in the Zen Agreement. Each of the parties to the Zen Agreement has made customary representations and warranties and agreed to certain indemnification obligations. The transaction was

funded through cash-on-hand, a subordinated Seller s Note in the amount of $6 million, and borrowing from our newly amended credit facility, which is described below. We expect the acquisition to be accretive to earnings. Zen s trailing twelve months revenue ended November 30, 2005, was approximately $38 million (unaudited).

Amendment to Credit Facility. On February 27, 2006, contemporaneously with our closing the acquisition of Zen, we entered into a First Amendment to the Amended and Restated Credit Agreement, or First Amendment, with a syndicate of lenders, including Wachovia Bank, National Association, a national banking association, which acted as administrative agent for the lenders.

The First Amendment amended the terms and conditions of the Amended and Restated Credit Agreement entered into on February 9, 2005, or the Credit Agreement, by (i) establishing a new term loan in the principal amount of approximately $129.3 million, which replaced the then existing term loan under the Credit Agreement, (ii) reducing both the base rate margin and the LIBOR margin on the term facility, (iii) increasing the leverage ratio for the financial covenants and (iv) amending certain restrictive covenants. The principal balance of the new term loan is to be repaid in quarterly installments commencing March 31, 2006, with the balance due upon the expiration of the Credit Agreement, as amended, or the Amended Credit Agreement, on February 9, 2011. If an event of default occurs and is continuing, we may be required immediately to repay all amounts outstanding under the Amended Credit Agreement.

The funds borrowed under the new term loan were used to (i) refinance the approximately $99.3 million in principal outstanding under the then existing term loan under the Credit Agreement and to pay any and all fees and expenses related thereto; (ii) to finance the acquisition of Zen and pay any and all fees and expenses related thereto; and (iii) to provide for working capital expenditures, and other general corporate uses.

The borrowing capacity under the Amended Credit Agreement totals approximately $189.3 million and is comprised of a $60 million five-year revolving credit facility and approximately $129.3 million term loan facility. Additionally, a $75 million uncommitted incremental term loan facility will be available upon our request at any time for up to two years from the date of the Credit Agreement from one or more of the lenders.

NVC Contract Award. On January 31, 2006, in a recompetition for our expiring National Visa Center, or NVC, contract, we were awarded the successor contract for the NVC contract by the Department of State. Under the contract, we anticipate performing over 20 million immigrant visa transactions each year at the NVC in Portsmouth, New Hampshire and at the Kentucky Consular Center in Williamsburg, Kentucky. The prime contract has a one-year base period and four one-year options with an announced value of approximately $84 million, inclusive of the options.

Acceleration of Vesting of Stock Options. On December 13, 2005, our Board of Directors approved the accelerated vesting of unvested stock options previously awarded to employees, officers and directors as of December 7, 2005 in light of new accounting regulations that were to come into effect January 1, 2006. Based on the Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R), the Board took the action to accelerate the unvested stock with the belief that it is in the best interest of stockholders, as it will reduce the Company s reported compensation expense in future periods.

Overview

We are a provider of mission critical information technology and network solutions primarily to the Federal Government. Our business is guided by our experienced team of eight executive officers and over twenty-five other corporate officers who manage and are responsible for successfully growing our business. As of the end of fiscal year 2005, we employed over 4,000 employees. Approximately 85% of our employees hold Federal Government security clearances or have passed National Agency Checks. Approximately 15% of our employees hold Top Secret security clearances. A significant portion of our

employees who hold Top Secret security clearances also hold Sensitive Compartmental Information clearances, which permit us to bid on highly classified projects.

Our broad set of contract vehicles gives us extensive reach and enables us to deliver a full range of our services and solutions to the Federal Government. The strength of our service offerings and information technology expertise allows us to maintain substantial relationships with clients, some of whom have been clients of ours, or of one of our acquired businesses, for over 20 years. In fiscal 2005 and fiscal 2004, we derived approximately 75% and 81%, respectively, of our revenue from contracts on which we acted as prime contractor. Acting as a prime contractor provides us with stronger client relationships, as well as the visibility and access to new work that are not available when acting as a subcontractor. Our total backlog as of December 31, 2005 was approximately $854 million, of which approximately $191 million was funded. See Backlog for a discussion of how we calculate backlog.

The Federal Government technology services market

The ongoing transformation of the Federal Government s information systems and communication networks is creating an increase in its demand for information technology, or IT, services. According to INPUT, an independent market research firm, the federal market demand for vendor-furnished information systems and services is projected to increase by $19.6 billion from $59.2 billion in government fiscal 2005 to $78.8 billion in government fiscal 2010, a compound annual growth rate of approximately 5.9%. In addition, the addressable IT spending, which is the amount that is contracted out, for the U.S. Air Force, our single largest client in terms of revenue for each of the last four completed fiscal years, is projected by INPUT to grow from $4.8 billion in government fiscal 2005 to $7.0 billion in government fiscal 2010, representing a compounded annual growth rate of 7.8%. The Department of Homeland Security addressable portion of the IT budget is projected by INPUT to grow from $4.5 billion in government fiscal 2005 to $6.4 billion in government fiscal 2010, representing a compounded annual growth rate of 7.6%. Spending for federal IT requested by the U.S. Office of Management and Budget (OMB) in government fiscal 2006 shows an increase of 9.0% over the government fiscal 2005 request, according to INPUT.

We expect that the Federal Government s need for the types of IT services that we provide will continue to grow in the foreseeable future, as a result of the high priority placed by the federal government on the transformation of its IT programs. INPUT forecasts that the percentage of IT spending that is contracted out by the federal government will reach a high of 86% of total IT spending in government fiscal 2010. According to INPUT, the government fiscal 2006 IT budget request of 7% over the enacted government fiscal 2005 budget, at a time when the request for overall federal spending was nearly flat, demonstrated the importance the administration places on IT as an integral part of federal business processes.

We believe the following industry trends will also continue to drive the Federal Government technology services market:

- *Continued focus on mission-critical initiatives.* Since the events of September 11, 2001, the Federal Government has made the transformation of its IT infrastructure a major priority. According to INPUT, the Federal Government IT services commercial segment, which is comprised of outsourcing, professional services, systems integration and processing services, is projected to grow from $25.1 billion in government fiscal 2005 to $34.1 billion in government fiscal 2010, representing a projected compounded annual growth rate of 6.1%. According to INPUT, growth in the commercial segment for the U.S. Air Force is projected to rise from $1.7 billion in government fiscal 2005 to $2.6 billion in government fiscal year 2010, a compounded annual growth rate of 8.9%.

- *Increased Federal Government reliance on outsourcing.* According to INPUT, outsourcing through the use of outside providers to provide Federal Government services is projected to grow from $12.3 billion in government fiscal 2005 to $17 billion in government fiscal 2010, representing a projected compounded annual growth rate of 6.9%.

We believe that the Federal Government is increasingly turning to the IT industry to execute support processes and functions that were traditionally performed by Federal Government employees. INPUT expects that Department of Defense (DoD) budgets will continue to grow over the next several governmental fiscal years and anticipates that each of the defense agencies will move toward outsourcing more of the information technology functions that are not core to the war-fighting mission. Business process outsourcing, or BPO, is a relationship in which a contractor is responsible for performing an entire business operations function, including the information systems outsourcing that supports it. INPUT projects that Federal Government BPO spending will grow from $555 million in government fiscal 2005 to $857 million in government fiscal in 2010, which represents a compounded annual growth rate of 9.1%. In addition, during this same period, INPUT projects a compounded annual growth rate for BPO spending by defense agencies of 8.3%. According to INPUT, the size of the Federal Government workforce, which includes only civilian employees and non-uniform military personnel in federal civilian agencies and the DoD, decreased by 1.1 million workers during the period 1990 through 2000, representing a 22% decline.

We believe that homeland security will have the greatest impact on three specific segments of the Federal Government IT market: information security, communications and knowledge management. We believe that the rapid pace of technological innovations and the Federal Government s increasing reliance on complex IT infrastructure, combined with a decline in the size of the Federal Government workforce, as described above, make it increasingly difficult for many governmental agencies to operate and upgrade their IT systems. We expect that several trends will contribute to the Federal Government s increased use of service providers to fulfill a larger portion of its iIT responsibilities, and we believe that we will continue to gain new engagements to the extent that the Federal Government increases its reliance on outsourcing for its IT needs. These trends include:

- *The aging of the Federal Government s workforce.* According to INPUT, the government has estimated that more than 45% of federal IT workers will be eligible for retirement by 2008, and the average age of Federal Government employees increased from 42 years of age in 1990 to 47 years of age in 2005. In April 2001, the GAO concluded in a report that the Federal Government s human capital challenges are adversely affecting the ability of many agencies to carry out their missions.

- *Increased Federal Government emphasis on competitive sourcing.* The current administration has made competitive sourcing a major initiative of its management agenda. According to the President s Management Agenda, which was issued in 2001 and for which progress reports continue to be issued, including most recently during 2003, nearly half of all Federal Government employees perform tasks that are available in the commercial marketplace. To the extent that the size of the Federal Government workforce decreases, we believe that the Federal Government will have an increased need for entities that offer the technical skills, familiarity with government processes and procedures and skilled personnel that are necessary to meet the diverse IT requirements of the various Federal Government agencies.

Increased spending on homeland security and intelligence.

In the wake of the terrorist attacks on September 11, 2001, there has been an increased emphasis on homeland security, intelligence and national defense, including protecting critical infrastructure. According to INPUT, the total addressable IT budget for the Department of Homeland Security is projected to grow from $4.5 billion in government fiscal 2005 to $6.4 billion in government fiscal 2010, representing a compound annual growth rate of 7.6%.

Although the total amount to be spent for intelligence applications is classified, based on available information, INPUT has forecasted that the addressable Federal Government IT spending in the intelligence community may be as much as $7.8 billion in government fiscal 2005. We believe that there will continue to be increases in spending on federal intelligence activities, which are expected to represent significant additional opportunities for us.

Increased simplicity of procurement.

Through changes that began with the Federal Acquisition Streamlining Act of 1994, or FASA 94, the federal government has developed a variety of accelerated contracting methods. Federal governmental agencies have increasingly been able to rely on multiple contracting vehicles to procure needed services in an expedient manner. According to INPUT, the average time to procure products and services was approximately 100 days in government fiscal 2004 as compared to 278 days in government fiscal 1995.

Our Core Strengths

We strategically built our business to respond specifically to the federal IT marketplace. We believe that our core strengths position us to respond to the long-term trends and changing demands of our market.

Our Experienced Management Team

On July 15, 2005, our Board of Directors approved a CEO succession plan, pursuant to which the Board appointed S. Bradford Antle, formerly our President and Chief Operating Officer, to be the next President and Chief Executive Officer (CEO) succeeding Ray J. Oleson, and to serve on our Board of Directors. Mr. Antle assumed these positions effective September 24, 2005. Mr. Antle, who joined us in 1999, brings more than 25 years of management experience in our industry to his new position. In addition to his new role as CEO and member of the Board, Mr. Antle retained the position of President. Ray Oleson continues to serve as Executive Chairman of the Board.

Additionally, to further support our growth during 2006 and beyond, our eight business units are now incorporated into the Strategic Programs Group, the IT Solutions Group, and the Mission Services Group. Each of these Business Groups is headed by an Executive Vice President, who reports to Mr. Antle.

Harry Gatanas is the Executive Vice President of the Strategic Programs Group, where he oversees a significant portion of our business with the DoD and the Intelligence community. Mr. Gatanas is a retired U.S. Army general with over 30 years of experience in the military and intelligence community, including serving as Commanding General of the U.S. Army White Sands Missile Range.

Marylynn Stowers is the Executive Vice President of the IT Solutions Group. She oversees a significant portion of business that addresses federal IT modernization. Ms. Stowers has more than 24 years of experience providing IT services to the Federal Government, such as Department of Homeland Security, Department of State, Department of Treasury, Internal Revenue Service, and the Intelligence community.

Mike Becraft is the Executive Vice President of the Mission Services Group. He is responsible for a major portion of work with the Deparment of Homeland Security, Department of State, and U.S. Army. Mr. Becraft has more than 37 years of Federal civilian government and military experience. He joined us in 2003 as Senior Vice President of Homeland Security.

Our Corporate Culture

Our corporate culture is based on respect for clients, personnel, business partners and management. We view our commitment to this culture of respect as a cornerstone of our company. We believe that our culture helps us build the relationships necessary to gain an in-depth understanding of our clients needs, business practices and information technology and network systems. In addition, we believe our culture is a factor in helping our employee turnover rate remain low compared to other companies in our industry, helping us to maintain client domain knowledge and provide consistent service to our clients. Further, we believe that our commitment to respect, combined with quality of performance, is an important factor in retaining clients and winning new referrals.

Focus on Information Technology Services

We deliver a full spectrum of IT services and solutions that address challenges common to many Federal Government agencies and commercial companies. Our capabilities position us to capitalize on the Federal Government s increasing demand for IT services. We integrate our technical areas of expertise into comprehensive solutions covering IT applications, systems engineering, network and telecommunications engineering and outsourcing. Our focus on end-to-end information technology solutions allows us to leverage our knowledge and experience to provide best practices across many Federal Government agencies and industries. Our key focus areas are:

- *Federal IT Modernization*. We define federal IT modernization to include designing, building and deploying solutions that enable our clients to replace legacy applications and databases and allow effective information sharing across agencies. We believe we have a proven track record of delivering true end-to-end solutions in this focus area that encompass application and software development, systems engineering, network solutions, and information security and performance support.

- *Defense Transformation*. We define defense transformation to include development of solutions intended to enable the U.S. military to successfully adapt to the requirements of net-centric warfare through our deep capabilities in space systems engineering, enterprise and operational architecture, command and control, logistics, and military satellite communications. In the area of space systems modernization, we are supporting clients such as Air Force Space Command, NORAD, Northern Command and U.S. Strategic Command.

- *Homeland Defense*. We define homeland defense as defense of the U.S. homeland, and includes the development of large scale replicated databases, secure optical calls processing and identification systems, managing records, and processing visas. We are working in this focus area to provide advanced information technology to assist in meeting this challenge for clients that include Department of Homeland Security, Department of State, Northern Command, Department of Energy, and Department of Agriculture.

- *Mission-Critical Outsourcing*. We define mission-critical outsourcing as assisting the Federal Government with shortages of personnel, including for the purpose of permitting re-assignment to higher priority government assignments, increasing operational efficiency, and improving the overall quality of service. We provide services in this focus area to both civilian agencies and the DoD.

Our skilled employees use their advanced technological training and extensive experience to implement our state-of-the-practice solutions. As of the end of fiscal year 2005, we employed over 4,000 employees, many of whom possess security clearances and National Agency Checks that allow us to bid on and perform classified work for the Federal Government.

Knowledge of Federal Government Contracting and Federal Agencies

We believe that our in-depth knowledge of Federal Government contracting and the governmental agencies we serve and their procurement processes allows us to provide better solutions for our clients needs. Our experienced team of executive officers and senior managers brings to us their many years of experience and extensive contacts in the industry. They provide us with an understanding of our clients needs and procedures, as well as valuable mission-specific information. We believe that the insight provided by our officers and managers allows us to design solutions that are responsive to our clients mission-critical needs.

Successful Integration of Acquired Businesses

We believe that a critical component of our success is our ability to identify, acquire and integrate companies that build or expand our suite of services to serve our clients needs more effectively. Members of our management team have substantial experience acquiring and successfully integrating acquired entities. We believe that this experience provides a basis for our disciplined approach to identifying acquisition candidates and integrating acquired companies. By integrating corporate infrastructures such as marketing and sales, accounting, human resources and internal networks, we can save the expense of redundant functions. In addition, by integrating operations, we establish a corporate-wide mission which can reduce internal competition and promote the cross-selling of newly augmented skill sets to increase our client base.

Within the 15-month period from January 1999 through March 2000, we identified, acquired and integrated four federal IT companies with aggregate revenues of approximately $105 million, measured for the 12 months prior to their respective acquisition dates. In January, 2004, we acquired Matcom International Corporation, or Matcom; in December 2004, we acquired Bridge Technology Corporation, or Bridge; in February 2005, we acquired Shenandoah Electronic Intelligence, Inc., or SEI. We successfully integrated each of these acquisitions into our organization; and, we built and expanded our services and solutions capabilities and our client relationships. We applied our disciplined acquisition processes to integrate the acquired companies and successfully grew these businesses. On February 27, 2006, we acquired Zen, and we have commenced the integration process as we have done with our previous acquisitions.

Our Growth Strategy

We have implemented the following strategies in order to reach our goal of becoming a leading provider of information technology and network solutions to our clients:

- *Maintain and expand our existing client relationships.* We maintain relationships with our existing clients by adhering to our culture of respect and providing quality performance. We believe this helps us win renewals of our engagements. In addition, we use our knowledge of our clients needs to identify additional opportunities and cross-sell new services to them.

- *Leverage our existing client base to win new clients.* We believe satisfied clients are one of our most effective marketing tools. Since FASA 94 went into effect, client referrals have become a crucial component of expedited procurement processes and are key to our winning new contracts. Since we focus on technology infrastructure improvement, we are able to transfer our skills readily from client to client. We plan to continue building a network of clients and leveraging these relationships to gain access to new clients. We have launched a Major Programs initiative through which we intend to compete for large contracts over longer procurement periods. We believe that favorable client referrals are strategically important to our winning these opportunities.

- *Pursue strategic acquisitions.* We plan to continue utilizing our disciplined methodology to identify, evaluate and integrate strategic acquisitions. We have acquired and successfully integrated seven businesses since 1999 and we are in the process of integrating our eighth acquisition, Zen, which we acquired in February 2006. This acquisition has positioned us with strategically important technical skills in important client areas.

- *Business Capabilities and Sales Integration*. Our business units are now incorporated into the Strategic Programs Group, the IT Solutions Group, and the Mission Services Group. Under our new management structure (see above Our Experienced Management Team for more information about our management), these three business groups will be better able to present integrated solutions through the cross-marketing and delivery of our business capabilities to new and existing customers.

Our Areas of Practice

We provide IT and network solutions in the following eight practice areas to supplement our clients needs in Defense Transformation, Homeland Defense, Mission Critical Outsourcing and Federal IT Modernization.

- *Program Management & Acquisition Support* The program management and acquisition support practice assists clients with initiating, assembling, executing, and managing all sizes of acquisition programs. The practice area provides acquisition strategies, government required documentation (DoD 5000), and solicitation packages, as well as, source selections and contract management support. The practice area manages and oversees high-tech systems development; interprets and synchronizes requirements with system architectures and integrated master plans; and, identifies and tracks technical and programmatic interdependencies and interactions among requirements. The technical staff is skilled in providing systems engineering technical assistance (SETA) support to client programs for cost, schedule, performance, risk management, and contracting activities.

- *Integrated Solutions Development* The integrated solutions development practice focuses on the integration of commercial-off-the-shelf products with custom software engineering. Integrated solutions are deployed using structured Capability Maturity Model Integration (CMMI) practices to deliver services including feasibility studies and systems planning, enterprise architecture design, rapid prototype development, detailed systems design, implementation, independent verification and validation, testing, life-cycle documentation, and operations and maintenance. This practice area specializes in legacy systems migration to enterprise-wide applications, database-driven web applications (internet, extranet, and intranet), work flow systems implementation, enterprise portal development, enterprise-wide IT integrated services, mobile and wireless solutions, business intelligence (data warehouse and mining solutions) and Enterprice Resource Planning systems implementation.

- *Information Security* The information security practice delivers analyses, methods and technologies that enable clients to secure their information against unauthorized access and service disruption. The solutions are designed to protect and defend information systems against malicious actions, reduce the threat to system security and proactively manage risk. The practice area provides security policy and procedure development, threat determination and risk assessment, vulnerability analysis, system security engineering, network defense, secure document processing, applications and web security, security evaluation and accreditation and training.

- *Records Management* The records management practice specializes in application processing, data entry, case and file management, large scale identification and credentialing systems, call center support, and analytical support services. The practice area services include the management and operation of integrated file tracking systems, electronic records management, large volume file processing, secure identity card production, scanning operations to include documents and biometrics, storing and shipping of documents, quality control audits, secure file destruction, and network installation.

- *Learning Solutions* The learning solutions practice focuses on the design, development and delivery of learning and performance interventions to meet the client s individual and organizational performance needs and manage change. The practice area provides front end analysis, blended solutions, web-based and instructor-led training, electronic performance support systems (EPSS), human performance design, and learning standards and learning infrastructure consulting. Our understanding and experience in the distance learning, *e*-Learning, and ever changing Learning Management Systems/Learning Content Manangement Systems environments provides our clients rapid design and deployment of solution-based programs to meet today s requirements and tomorrow s challenges.

- *Systems Engineering* The systems engineering practice delivers mission and requirements analysis, enterprise/operational architecture modeling and development, system application and development, system design, validation and verification, integrated logistics support, life cycle engineering, and complex simulation. The technical staff is skilled in command, control, communications, computer and intelligence (C4I), engineering, object oriented analysis and design, system testing, requirements traceability and specialty disciplines, including reliability/maintainability/availability engineering and safety and sustaining engineering. Many of these skills are focused on military space applications.

- *Network Solutions* The network solutions practice designs, engineers, deploys, and manages a full range of networked communications and infrastructure solutions. The practice area provides IT and network requirements, definition and analysis, detailed systems design, network and technology selection and procurement, global end-to-end installation, and spectrum/bandwidth management. These solutions encompass voice, video, data, narrowband, broadband and wireless technologies. Applications include large scale enterprise networks for government, highly secure networks.

- *Mission-critical Outsouring* The mission-critical outsouring practice uses domain expertise to operate clients systems and processes vital to their businesses. The practice area offers professional services to perform business process and information technology outsourcing, sustaining engineering, logistics services, and call center operations.

Clients

We provide our services primarily to Federal Government clients such as the U.S. Air Force Space Command, the U.S. Army, U.S. Navy, the Department of State, the Department of Homeland Security, Department of Agriculture, National Institutes of Health, Federal Retirement Thrift Investment Board, and the defense intelligence community. In fiscal 2005, we derived approximately 98% of our total revenue from Federal Governmental agencies and approximately 2% of our total revenue from commercial clients.

Our largest client is the DoD. We derived approximately 47% of our total revenue in fiscal 2005 and approximately 53% of our total revenue in fiscal 2004 from the DoD and the Intelligence community. In fiscal 2005 and fiscal 2004, services we provided to the U.S. Air Force Space Command represented 23% and 26% of our total revenue, respectively. We also derived approximately 12% of our fiscal 2005 and 2004 revenue, respectively, from the Department of State. Each of these entities consists of a substantial number of separate offices, each of which typically exercises independent decision making and funding authority. We believe our contract base among these separate offices is well diversified. In fiscal 2005 and fiscal 2004, we derived approximately 75% and 81%, respectively, of our revenue from contracts on which we acted as prime contractor and derived approximately 25% and 19%, respectively, of our revenue from contracts on which we acted as a subcontractor.

We often subcontract portions of work to be performed under a contract or task order under which we are the prime contractor. Approximately 15% and 16%, respectively, of our total revenue in fiscal 2005 and fiscal 2004, respectively, was generated by work performed by subcontractors. The subcontractors are sometimes responsible for critical portions of the contracted services. Our subcontracting arrangements typically specify that all terms of the primary contract pass down to the subcontractor. We are not dependent upon any one subcontractor or group of subcontractors to provide a substantial degree of work for us. In addition, it is typical that a subcontractor on one engagement may be a competitor or a client in other situations. We believe that cultivating good relationships with our subcontractors is necessary to maintain our competitive position as well as to facilitate meeting performance obligations under our contracts.

Backlog

Backlog is our estimate of the amount of revenue we expect to realize over the remaining life of awarded contracts and task orders we have in hand as of the measurement date. Our total backlog consists of funded and unfunded backlog. We define funded backlog as estimated future revenue under government contracts and task orders for which funding has been appropriated by Congress and authorized for expenditure by the applicable agency, plus our estimate of the future revenue we expect to realize from our commercial contracts. Unfunded backlog is the difference between total backlog and funded backlog. Unfunded backlog reflects our estimate of future revenue under awarded government contracts and task orders for which either funding has not yet been appropriated or expenditure has not yet been authorized. Our total backlog does not include estimates of revenue from government-wide acquisition contracts, or GWAC contracts, or General Services Administration, or GSA, schedules beyond awarded or funded task orders, but our unfunded backlog does include estimates of revenue beyond awarded or funded task orders for other types of indefinite delivery, indefinite quantity, or ID/IQ, contracts, such as our contract with the U.S. Air Force Space Command.

Our total backlog as of December 31, 2005 was approximately $854 million, of which approximately $191 million was funded. There can be no assurance that we will receive the amounts we have included in our backlog or that we will ultimately recognize the full amount of our funded backlog as of December 31, 2005.

As of December 31, 2005, assuming that the acquisition of Zen had occurred on such date, our backlog was approximately $994 million, of which $233 million was funded.

We believe that backlog is not necessarily indicative of the future revenue that we will actually receive from contract awards that are included in calculating our backlog. We assess the potential value of contracts for purposes of backlog based upon several subjective factors. These subjective factors include our judgments regarding historical trends (i.e., how much revenue we have received from similar contracts in the past), competition (i.e., how likely are we to successfully keep all parts of the work to be performed under the contract) and budget availability (i.e., how likely is it that the entire contract will receive the necessary funding). If we do not accurately assess each of these factors, or if we do not include all of the variables that affect the revenue that we recognize from our contracts, the potential value of our contracts, and accordingly, our backlog, will not reflect the actual revenue received from contracts and task orders. As a result, there can be no assurance that we will receive amounts included in our backlog or that monies will be appropriated by Congress or otherwise made available to finance contracts and task orders included in our backlog. Many factors that affect the scheduling of projects could alter the actual timing of revenue on projects included in backlog. There is always the possibility that the contracts could be adjusted or cancelled. We adjust our backlog on a quarterly basis to reflect modifications to or renewals of existing contracts, awards of new contracts or approvals of expenditures. See Item 1A. Risk Factors The calculation of our backlog is subject to numerous uncertainties, and we may not receive the full amounts of revenue estimated under the contracts included in our backlog, which could reduce our revenue in future periods.

Employees

As of December 31, 2005, we had over 4,000 employees. Approximately 85% of our employees hold Federal Government security clearances or have passed National Agency Checks. Approximately 15% of our employees hold Top Secret security clearances. A significant portion of our employees who hold Top Secret security clearances also hold Sensitive Compartmental Information clearances, which permit us to bid on highly classified projects. We have no unionized employees and do not have any collective bargaining agreements. However, current contracts or contracts that we may pursue contracts may require us to have unionized employees. Furthermore, with our acquisition of Zen, we have added approximately 275 employees, of which 50% hold security clearances. We believe we have a good relationship with our employees.

In addition to attracting and retaining qualified technical personnel, we believe that our success will depend on the continued employment of our executive and senior management team and its ability to generate new business and execute projects successfully. We believe that the personal reputations of our management team members and the business relationships between individual members of our management team and governmental officials involved in the procurement process and related areas are critical elements of obtaining and maintaining client engagements in our industry, particularly with agencies performing classified operations. To create and maintain these client relationships, identify potential business opportunities and establish our reputation among our current and potential clients, we depend on our senior management team. The loss of any of our senior executives could cause us to lose client relationships or new business opportunities, which could materially adversely affect our business.

Competition

We operate in markets that are highly competitive and include a large number of participants. We compete with many companies, both large and small, for our contracts. We do not have a consistent number of competitors against whom we repeatedly compete. If we anticipate that our combined resources may create a competitive advantage, we may team with other companies to perform work under contracts. These and other companies in our market may compete more effectively than we can because they are larger, have greater financial and other resources, have better or more extensive relationships with governmental officials involved in the procurement process and have greater brand or name recognition.

As a result of the diverse requirements of the Federal Government and our commercial clients, we frequently form teams with the companies in our markets in order to compete for large procurements, while bidding against them in other situations.

In each of our practice areas, we generally bid against companies of varying sizes and specialties, from small businesses to multi-billion dollar corporations. Because of the current industry trend toward consolidation, some of these companies may emerge better able to compete with us. Therefore, it is essential that we differentiate ourselves from these companies. We believe that our technical abilities, client relationships, past performance, cost containment, reputation and ability to provide quality personnel give us a strong presence in the markets we serve. In addition, we believe that our culture of respect for and commitment to our clients and business partners greatly aids our business. While we believe these factors help to set us apart from other companies in our markets, we may not be able to continue to maintain our competitive position, as new companies enter the marketplace and alliances and consolidations among competitors emerge. Some companies in our markets have longer operating histories, greater financial and technological capabilities, greater brand or name recognition and/or larger client bases than we have.

Government Contracting and Regulatory Processes

For fiscal 2005, approximately 98% of our revenue was derived from work performed under Federal Government contracts. The government contracting process differs in many ways from commercial contracting, and involves a high degree of Federal Government regulation and oversight.

Historically, agencies of the Federal Government wishing to procure services from contractors have been required to prepare a request for proposal, known as an RFP, or some similar form of solicitation. The RFP is typically an extensive document describing the services desired and the terms and conditions that form the final agreement, including the criteria the soliciting agency will use to select the service provider. Interested parties submit proposals in response to the RFP, which the agency evaluate, often requesting additional information and multiple discussions with offerors prior to final award of the contract.

In recent years, the Federal Government has taken steps to streamline the procurement process. For example, in 1994, the enactment of FASA 94 made the procurement process substantially faster and less burdensome for companies that secure certain contracts. FASA 94 was the first of several statutory and regulatory changes in recent years that significantly altered government procurement practices by increasing the number and types of procurement contract vehicles available to Federal Government clients to satisfy their requirements. Federal Governmental agencies are now more likely to use flexible contract vehicles that permit a number of firms to compete for specific orders. The General Services Administration Multiple Award Schedule Program, or GSA MAS Program, is an example of a flexible contract vehicle employed by the Federal Government. Under the GSA MAS Program, GSA contracts with multiple vendors to provide goods and services, at predetermined prices, to specified authorized buyers. GSA schedules are listings of services and products, along with their respective prices, offered by approved contractors. The schedules are maintained by the GSA for use by any federal agency or other authorized entity. A contractor must successfully complete a pre-qualification process in order to be selected by the GSA for inclusion of the contractor s goods or services on a GSA Schedule. When an agency selects services under a GSA schedule contract, the soliciting agency, or the GSA on its behalf, conducts a bidding process, limited to qualified GSA schedule contractors. The process typically involves substantially less time and cost than the historical, non-GSA bidding process.

In addition to the GSA MAS Program, we also hold other ID/IQ contracts with other individual agencies, which are generally known as task order contracts. These are essentially umbrella contracts that set forth the basic terms and conditions under which the agency may order goods and services from one, and in some cases, more than one, contractor. Contractors undergo a competitive pre-selection process to become eligible to perform work under ID/IQ contracts. A procuring agency then issues task orders for goods or services to be performed or provided under a contract. When task orders are issued under multiple award ID/IQ contracts, each awardee typically has an opportunity to be considered for the task order. The agency desiring contract services may conduct a competition among the interested awardees, resulting in the issuance of a task order to a single contractor. These contracts have increased competition and pricing pressure by concentrating work under fewer contracts, and requiring competition both prior to the initial award of the contract and throughout the term of the contract in order to obtain task orders for the services we provide, requiring that we make sustained post-award marketing efforts to realize revenue under each such contract. Moreover, even if we are qualified to work on a particular new contract or a contract subject to renewal, we might not be awarded business because of the Federal Government s policy and practice of procuring goods and services from multiple contractors in order to maintain a diverse base of contractors. In addition, ID/IQ contracts do not obligate the Federal Government to purchase goods or services above the minimum levels set forth in the contract.

A task order calls for a specific set of services to be delivered by the contractor to a particular client agency. In our experience, the key factors in competing successfully for these task orders are technical

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merit, cost, relevant past performance considerations and client trust. From time to time we are also party to GWACs, which are ID/IQ contracts that permit the aggregation of multiple agencies requirements in a single contract, in order to encourage contractors to offer the best possible prices and to reduce the costs associated with multiple acquisitions.

For single-award large scale contracts, such as those targeted by our Major Program initiative, interested contractors submit information indicating their desire to perform the required services. The agency then solicits competitive proposals or bids from qualified contractors by providing them with a formal RFP or similar solicitation. The RFP typically describes the desired services, terms and conditions, and evaluation criteria the agency will use. Offerors then submit proposals in response to the RFP, and the agency evaluates the proposals and makes the award determination. Agencies are encouraged to award contracts on a best value basis. This means that the contractor selected for the award should, in the agency s judgment, provide the greatest overall benefit in response to the requirement, including technical merit, cost and relevant past performance considerations. The entire acquisition process can sometimes take a year or more.

The competitive process presents a number of risks, including the following:

- we expend substantial funds, managerial time and effort to prepare bids and proposals for contracts that we may not win;

- we may be unable to estimate accurately the resources and cost that will be required to service any contract we win, which could result in substantial cost overruns; and

- we may encounter expense and delay if our competitors protest or challenge awards of contracts to us in competitive bidding, and any such protest or challenge could result in a requirement to resubmit proposals on modified specifications or in the termination, reduction or modification of the awarded contract.

- we may be choosen as one of the contractors for a multiple awared GWAC, ID/IQ or GSA Schedule contract, but not be awarded a sufficient number of tasks under the contract to justify our time, effort, and expense in bidding on the contract and subsequent task orders.

- the government may intitially award a GWAC, ID/IQ, or GSA Schedule contract but fail to provide funding for the number of task orders necessary to justify our time, effort, and expense in bidding on the contract and subsequent task orders.

The government contracts for which we compete typically have multiple year terms, and if we are unable to win a particular contract, we generally will be foreclosed from competing again for that contract until its expiration several years later. In addition, upon the expiration of a contract, if the client requires further services of the type provided by the contract, there is frequently a competitive rebidding process.

Laws and Regulations Affecting Our Business

Federal Government contracts are subject to a number of federal laws and regulations, including the Federal Acquisition Regulation, or FAR, and Cost Accounting Standards. These statutes and regulations contain several rules that may affect us significantly.

The Anti-Deficiency Act prohibits Federal Government employees from committing government funds, by contract or otherwise, in excess or in advance of appropriations, unless authorized by a specific statute. Since Congress usually appropriates funds on a fiscal year basis, many of our contracts are funded by the applicable agency annually as Congress makes appropriations for future fiscal years. In addition, since funds are often allocated to agencies by the OMB, many of our contracts are incrementally funded.

Disappointed bidders and contractors excluded from competing for government contracts and task orders may submit a protest to a contracting officer or the GAO within time limits specified under FAR and GAO bid protest rules. The U.S. Court of Federal Claims also has bid protest jurisdiction. Performance under a contract being protested may be suspended while the protest is pending, and in cases where the contract is found to have been improperly awarded, the contract may be terminated.

Certain FAR clauses, such as the Limitation of Cost and Limitation of Funds clauses, limit the Federal Government s liability for expenditures or obligations beyond those authorized by the applicable contract. In many cases, contracts are awarded for only one year with a number of successive option years (in many cases, four). Agencies are not obligated to exercise these option years, but in our experience most renewal options under our contracts have been exercised. In addition, certain FAR clauses allow the Federal Government to terminate contracts for convenience (i.e., at will), although the Federal Government is obligated to pay for costs incurred.

Larger contracts may also be subject to the Truth in Negotiations Act and Cost Accounting Standards. The Truth in Negotiations Act requires us to provide current, accurate and complete cost or pricing data in connection with the negotiation of a contract, modification or task order that is not subject to full and open competition or other exceptions to the Act. Cost Accounting Standards are applicable to certain contracts and require the contractor to apply consistent accounting practices and comply with specific cost accounting criteria. The FAR Contract Cost Principles and Procedures sets forth the rules regarding the allocability and allowability of costs incurred in connection with Federal Government contracts.

The FAR restricts government contractors from participating in procurements when there is an Organizational Conflict of Interest, or OCI, and establishes rules for avoiding, mitigating and neutralizing conflicts of interest in the issuance of contracts by the Federal Government. Virtually all government contracts, including ours, are subject to the OCI rules. An OCI may arise because the nature of the work to be performed by a contractor has the potential, absent some restriction on future activities, to result in an unfair competitive advantage to the contractor or impair the contractor s objectivity in performing the contract or providing assistance or advice to the Federal Government. The government contracting officer is responsible for resolving any significant potential OCIs before a contract award is made. Federal Government contractors have an obligation to manage and, if necessary, report an OCI to the contracting officer. We have a company-wide policy regarding care in the acceptance of and compliance with contractual OCI provisions, which includes awareness training programs and coordination and reporting systems. We review new contracts and task orders at the time we receive them for potential OCI issues. Accordingly, we believe that as a result of the systems we have in place, our backlog will not be affected by OCI issues.

Our books and records are subject to audit by the Defense Contract Audit Agency, or DCAA, and other governmental audit agencies to ensure that the costs and hourly rates for which we invoice the Federal Government under cost reimbursable and time and materials contracts are in compliance with the Cost Principles, Cost Accounting Standards and FAR invoicing regulations. Each fiscal year, we must submit final cost data to the Federal Government indicating our actual costs incurred for the prior year, exclusive of certain costs that are not recoverable by Federal Government contractors. This data is audited, and subject to adjustments by the auditing agency based upon established guidance, which may affect our recovery on cost reimbursable contracts for prior fiscal years. These audits may also result in assessment of penalties, interest costs and, in extreme cases, debarment. The Federal Government retains a portion of the fee earned by us under cost reimbursable contracts until contract completion and audit by the DCAA. Audits of our business units by the DCAA have been completed for all fiscal years through 2001 without material adjustments. In the opinion of management, the audits for other fiscal years through fiscal year 2005 will not result in adjustments that would have a material adverse effect on our financial position or results of operations; however, future material adjustments are possible.

Our conduct and performance is also subject to the False Claims Act. The False Claims Act prohibits contractors from knowingly submitting false or fraudulent claims to the Federal Government. We have established standards of conduct for our employees and a reporting mechanism that any of our employees can use to report inappropriate or illegal activities.

From time to time we may engage in activities that require us to comply with the various, U.S. Government export control laws and regulations administered by the U.S. Department of State, U.S. Department of Commerce, U.S. Treasury Office of Foreign Assets Control, and the Bureau of Customs and Boarder Protection. We have dedicated personal assigned to maintain and coordinate our compliance activities in this area.

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934, as amended, are available free of charge on the Investor Relations section of our website at *www.si-intl.com* as soon as reasonably practicable after we electronically file the material with, or furnish the material to, the Securities and Exchange Commission, or SEC.

You may obtain a printed copy of any of the foregoing materials from us by writing to us at SI International, Inc., 12012 Sunset Hills Road, Suite 800, Reston, Virginia 20190, Attention: Investor Relations.

Item 1A. Risk Factors

Risks Related to Our Industry

We depend on contracts with the Federal Government for most of our revenue, and our business would be seriously harmed if the government ceased doing business with us or significantly decreased the amount of business it does with us.

We derived 98.1% and 96.6% of our total revenue in fiscal 2005 and in fiscal 2004, respectively, from Federal Government contracts, either as a prime contractor or a subcontractor. This includes 46.9% and 52.8% of our total revenue in fiscal 2005 and in fiscal 2004, respectively, that we derived, either as a prime contractor or a subcontractor, from contracts with agencies of the DoD and Intelligence community. We expect that we will continue to derive most of our revenue for the foreseeable future from work performed under Federal Government contracts. If we were suspended or otherwise prohibited from contracting with the Federal Government generally, or with any significant agency of the DoD or the Intelligence community, or if our reputation or relationship with the Federal Government or any significant agency of the DoD or the Intelligence community were impaired, or if any of the foregoing otherwise ceased doing business with us or significantly decreased the amount of business it does with us, our business, prospects, financial condition and operating results would be materially adversely affected.

The following chart provides certain information regarding our four largest contracts for fiscal year 2005, in terms of revenues:

Contract	Customer	Percent of Revenues in 2005	2004	Expiration Date
Command, Control, Communications, Computer, Intelligence, Information, Technology, Surveillance, and Reconnaissance (C4I2TSR)	U.S. Air Force Space Command	18.8	17.3	2013*
National Visa Center (NVC)	Department of State	9.1	9.2	2011*

* Includes option periods.

Our business could be adversely affected by changes in budgetary priorities of the Federal Government.

Because we derive a significant portion of our revenue from contracts with the Federal Government, we believe that the success and development of our business will continue to depend on our successful participation in Federal Government contract programs. Changes in Federal Government budgetary priorities could directly affect our financial performance. A significant decline in government expenditures, a shift of expenditures away from programs that call for the types of services that we provide, or a change in Federal Government contracting policies could cause Federal Governmental agencies to reduce their expenditures under contracts, to exercise their right to terminate contracts at any time without penalty, not to exercise options to extend contracts, or to delay or not enter into new contracts. Any of those actions could seriously harm our business, prospects, financial condition or operating results. Moreover, although our contracts with governmental agencies often contemplate that our services will be performed over a period of several years, Congress usually must approve funds for a given program each government fiscal year and may significantly reduce or eliminate funding for a program. Significant reductions in these appropriations by Congress could have a material adverse effect on our business. Additional factors that could have a serious adverse effect on our Federal Government contracting business include:

- changes in Federal Government programs or requirements;
- budgetary priorities limiting or delaying Federal Government spending generally, or by specific departments or agencies in particular, and changes in fiscal policies or available funding, including potential governmental shutdowns;

- reduction in the Federal Government s use of technology solutions firms; and
- an increase in the number of contracts reserved for small businesses which could result in our inability to compete directly for these prime contracts.

Our contracts with the Federal Government may be terminated or adversely modified prior to completion, which could adversely affect our business.

Federal Government contracts generally contain provisions, and are subject to laws and regulations, that give the Federal Government rights and remedies not typically found in commercial contracts, including provisions permitting the Federal Government to:

- terminate our existing contracts;
- reduce potential future income from our existing contracts;
- modify some of the terms and conditions in our existing contracts;
- suspend or permanently prohibit us from doing business with the Federal Government or with any specific government agency;
- impose fines and penalties;
- subject us to criminal prosecution;
- subject the award of some contracts to protest or challenge by competitors, which may require the contracting federal agency or department to suspend our performance pending the outcome of the protest or challenge and which may also require the government to solicit new proposals for the contract or result in the termination, reduction or modification of the awarded contract;
- suspend work under existing multiple year contracts and related task orders if the necessary funds are not appropriated by Congress;
- decline to exercise an option to extend an existing multiple year contract; and
- claim rights in technologies and systems invented, developed or produced by us.

The Federal Government may terminate a contract with us either for convenience (for instance, due to a change in its perceived needs or its desire to consolidate work under another contract) or if we default by failing to perform under the contract. If the Federal Government terminates a contract with us for convenience, we generally would be entitled to recover only our incurred or committed costs, settlement expenses and profit on the work completed prior to termination. If the Federal Government terminates a contract with us based upon our default, we generally would be denied any recovery for undelivered work, and instead may be liable for excess costs incurred by the Federal Government in procuring undelivered items from an alternative source and other damages as authorized by law. As is common with government contractors, we have experienced and continue to experience occasional performance issues under some of our contracts. We may in the future receive show-cause or cure notices under contracts that, if not addressed to the Federal Government s satisfaction, could give the government the right to terminate those contracts for default or to cease procuring our services under those contracts.

Our Federal Government contracts typically have terms of one or more base years and one or more option years. Many of the option periods cover more than half of the contract s potential term. Federal governmental agencies generally have the right not to exercise options to extend a contract. A decision to terminate or not to exercise options to extend our existing contracts could have a material adverse effect on our business, prospects, financial condition and results of operations.

Certain of our Federal Government contracts also contain organizational conflict of interest clauses that could limit our ability to compete for certain related follow-on contracts. For example, when we work

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on the design of a particular solution, we may be precluded from competing for the contract to install that solution. While we actively monitor our contracts to avoid these conflicts, we cannot guarantee that we will be able to avoid all organizational conflict of interest issues.

If we fail to establish and maintain important relationships with government entities and agencies, our ability to successfully bid for new business may be adversely affected.

To develop new business opportunities, we primarily rely on establishing and maintaining relationships with various government entities and agencies. We may be unable to successfully maintain our relationships with government entities and agencies, and any failure to do so could materially adversely affect our ability to compete successfully for new business.

We derive significant revenue from contracts and task orders awarded through a competitive acquisition process. If we are unable to win new awards or successfully compete for renewal contracts, our business and prospects may be adversely affected.

A significant number of our contracts and task orders with the Federal Government are awarded through a competitive process. We expect that much of the business that we will seek in the foreseeable future will continue to be awarded through competitive bidding of new contracts and task orders and contracts subject to renewal. Recently, members of Congress and administration officials have authorized changes to the procurement process intended to increase competition among suppliers to the Federal Government. Budgetary pressures and reforms in the procurement process have caused many Federal Government clients to increasingly purchase goods and services through ID/IQ, contracts, including GSA contracts, and other GWACs. These contracts have increased competition and pricing pressure by concentrating work under fewer contracts, and requiring competition both prior to the initial award of the contract and throughout the term of the contract in order to obtain task orders for the services we provide, requiring that we make sustained post-award marketing efforts to realize revenue under each such contract. These contracts generally approve particular contractors to provide specified goods and services to the applicable governmental agency but generally do not obligate the agency to purchase any particular amount of goods or services. To procure goods or services under the contract, the agency generally awards task orders to perform specified services or to supply specified goods pursuant to competition among approved contractors. Thus, the existence of a contract does not ensure future revenue; rather, the contract merely provides us the opportunity to compete for additional work. An agency may administer an ID/IQ contract in which it procures goods and services for itself. Under the same contract, other federal agencies may also procure goods and services. These contracts are known as GWACs. When multiple prime contractors hold GWACs for the same goods and services, all of them are eligible to supply goods and services under the contract. As a result, qualified contractors often compete with each other to obtain task orders under a GWAC. Similarly, GSA contracts, including contracts commonly known as GSA Schedule contracts, are procurement contracts administered by the GSA on behalf of the entire Federal Government. Like many other ID/IQ contracts, multiple contractors may be awarded GSA contracts for the same goods and services. As a result, an agency may procure goods and services from any contractor awarded the GSA contract at the prices and on the terms stated in the contract. Moreover, even if we are highly qualified to work on a particular new contract or a contract subject to renewal, we might not be awarded business because of the Federal Government s policy and practice of procuring goods and services from multiple contractors in order to maintain a diverse base of contractors.

The competitive process presents a number of risks, including the following:

- we expend substantial funds, managerial time and effort to prepare bids and proposals for contracts that we may not win;

- we may be unable to estimate accurately the resources and cost that will be required to service any contract we win, which could result in substantial cost overruns; and

- we may encounter expense and delay if our competitors protest or challenge awards of contracts to us in competitive bidding, and any such protest or challenge could result in a requirement to resubmit proposals on modified specifications or in the termination, reduction or modification of the awarded contract.

The government contracts for which we compete typically have multiple year terms, and if we are unable to win a particular contract, we generally will be foreclosed from competing again for that contract until its expiration several years later. If we are unable to win new contract awards, our business and prospects will be adversely affected. In addition, upon the expiration of a contract, if the client requires further services of the type provided by the contract, there is frequently a competitive rebidding process. Approximately 19.5% of our revenue recognized during fiscal 2005 was derived from contracts that, as of February 28, 2006, are, or are expected to become, subject to recompetition bids prior to the end of government fiscal 2006 (ending September 30, 2006). There can be no assurance that we will win any particular bid or recompetition bid, or that we will be able to replace business lost upon expiration or completion of a contract, and the termination or nonrenewal of any of our significant contracts or a substantial portion of our other contracts could materially adversely affect our operating results.

Our business may suffer if our facilities or our employees are unable to obtain or retain the security clearances or other qualifications needed to perform services for our clients.

Many of our Federal Government contracts require employees and facilities used in specific engagements to hold security clearances and to clear agency checks and Defense Security Service checks. Many of our contracts require us to employ personnel with specified levels of education, work experience and security clearances. Depending on the level of clearance, security clearances can be difficult and time-consuming to obtain. If our employees or our facilities lose or are unable to obtain necessary security clearances or successfully clear necessary agency or Defense Security Service checks, we may not be able to win new business and our existing clients could terminate their contracts with us or decide not to renew them. To the extent we cannot obtain or maintain the security clearances necessary for our facilities or our employees working on a particular contract or to the extent our facilities or our employees do not successfully clear necessary agency checks or Defense Security Service checks, we may not derive the revenue anticipated from the contract, and our operating results could be materially adversely affected.

We must comply with a variety of laws, regulations and procedures and our failure to comply could harm our operating results.

We must observe laws and regulations relating to the formation, administration and performance of Federal Government contracts which affect how we do business with our clients and impose added costs on our business. For example, the Federal Acquisition Regulation and the industrial security regulations of the Department of Defense and related laws include provisions that:

- allow our Federal Government clients to terminate or not renew our contracts if we come under foreign ownership, control or influence;
- require us to disclose and certify cost and pricing data in connection with contract negotiations;
- require us to prevent unauthorized access to classified information; and
- require us to comply with laws and regulations intended to promote various social or economic goals.

Some of our activities are subject to the export control laws and regulations administered by the Department of State, Department of Commerce, Treasury Office of Foreign Assets Control, and the Bureau of Customs and Boarder Protection Additionally, we are subject to industrial security regulations of the DoD and other federal agencies that are designed to safeguard against foreigners access to classified information. If we were to come under foreign ownership, control or influence, we could lose our facility security clearances, which could result in our Federal Government customers terminating or deciding not to renew our contracts, and could impair our ability to obtain new contracts.

In addition, our employees often must comply with procedures required by the specific agency for which work is being performed, such as time recordation or prohibition on removal of materials from a location.

Our failure to comply with applicable laws, regulations or procedures, including federal procurement regulations and regulations regarding the protection of classified information, could result in contract termination, loss of security clearances, suspension or prohibition from contracting with the Federal Government, civil fines and damages and criminal prosecution and penalties, any of which could materially adversely affect our business.

The Federal Government may revise its procurement or other practices in a manner adverse to us.

The Federal Government may revise its procurement practices or adopt new contracting rules and regulations, such as cost accounting standards. It could also adopt new contracting methods relating to GSA contracts, GWACs or other government-wide contracts, or adopt new standards for contract awards intended to achieve certain social or other policy objectives, such as establishing new set-aside programs for small or minority-owned businesses. In addition, the Federal Government may face restrictions from new legislation or regulations, as well as pressure from government employees and their unions, on the nature and amount of services the Federal Government may obtain from private contractors. These changes could impair our ability to obtain new contracts or contracts under which we currently perform when those contracts are put up for recompetition bids. Any new contracting methods could be costly or administratively difficult for us to implement, and, as a result, could harm our operating results. For example, the Truthfulness, Responsibility and Accountability in Contracting Act, proposed in 2001, would have limited and severely delayed the Federal Government s ability to use private service contractors. Although this proposal was not enacted, it or similar legislation could be proposed at any time. Any reduction in the Federal Government s use of private contractors to provide federal information technology services could materially adversely impact our business.

Our contracts and administrative processes and systems are subject to audits and cost adjustments by the Federal Government, which could reduce our revenue, disrupt our business or otherwise adversely affect our results of operations.

Federal governmental agencies, including the DCAA, routinely audit and investigate government contracts and government contractors administrative processes and systems. These agencies review our performance on contracts, pricing practices and cost structure. They also review our compliance with applicable laws, government regulations, policies and standards and the adequacy of our internal control systems and policies, including our purchasing, property, estimating, compensation and management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed, and any such costs already reimbursed must be refunded. Moreover, if any of our administrative processes and systems are found not to comply with the applicable requirements, we may be subjected to increased government scrutiny or required to obtain additional governmental approvals that could delay or otherwise adversely affect our ability to compete for or perform contracts. Therefore, an unfavorable outcome to an audit by the DCAA or another government agency, such as the Defense Security Service, or DSS, which verifies security compliance, could materially adversely affect our

competitive position and result in a substantial reduction of our revenues. If a government investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or debarment from doing business with the Federal Government. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us.

Failure to maintain strong relationships with other government contractors could result in a decline in our revenue.

We derived 24.6% of our total revenue in fiscal 2005 and 19.4% of our total revenue in fiscal 2004 from contracts under which we acted as a subcontractor or from teaming arrangements in which we and other contractors bid together on particular contracts or programs. As a subcontractor or team member, we often lack control over fulfillment of a contract, and poor performance on the contract could tarnish our reputation, even when we perform as required. We expect to continue to depend on relationships with other contractors for a portion of our revenue in the foreseeable future. Moreover, our revenue and operating results could be materially adversely affected if any prime contractor or teammate chooses to offer a client services of the type that we provide or if any prime contractor or teammate teams with other companies to independently provide those services.

The calculation of our backlog is subject to numerous uncertainties, and we may not receive the full amounts of revenue estimated under the contracts included in our backlog, which could reduce our revenue in future periods.

Backlog is our estimate of the amount of revenue we expect to realize over the remaining life of the awarded contracts and task orders we have in hand as of the measurement date. Our total backlog consists of funded and unfunded backlog. We define funded backlog as estimated future revenues under government contracts and task orders for which funding has been appropriated by Congress and authorized for expenditure by the applicable agency under our contracts, plus estimated future revenues we expect to receive under signed purchase orders with commercial clients. Unfunded backlog is the difference between total backlog and funded backlog. Unfunded backlog reflects our estimate of future revenues under awarded government contracts and task orders for which either funding has not been appropriated or expenditures have not been authorized. Our total backlog does not include estimates of revenue from GWAC or GSA schedules beyond contract or task order awards, but our unfunded backlog does include estimates of revenue beyond contract or task order awards for other types of ID/IQ contracts, including our Command, Control, Communications, Computer, Intelligence, Information, Technology, Surveillance, and Reconnaissance (C4I2TSR) contract with the U.S. Air Force Space Command.

The calculation of backlog is highly subjective and is subject to numerous uncertainties and estimates, and there can be no assurance that we will in fact receive the amounts we have included in our backlog. Our assessment of a contract s potential value is based upon factors such as historical trends, competition and budget availability. In the case of contracts which may be renewed at the option of the applicable agency, we generally calculate backlog by assuming that the agency will exercise all of its renewal options; however, the applicable agency may elect not to exercise its renewal options. In addition, federal contracts typically are only partially funded at any point during their term, and all or some of the work to be performed under a contract may remain unfunded unless and until Congress makes subsequent appropriations and the procuring agency allocates funding to the contract. Our estimate of the portion of backlog from which we expect to recognize revenues in fiscal 2005 or any future period is likely to be inaccurate because the receipt and timing of any of these revenues is dependent upon subsequent appropriation and allocation of funding and is subject to various contingencies, such as timing of task orders, many of which are beyond our control. In addition, we may never receive revenues from some of the engagements that are included in our backlog and this risk is greater with respect to unfunded backlog.

The actual receipt of revenues on engagements included in backlog may never occur or may change because a program schedule could change, the program could be canceled, the governmental agency could elect not to exercise renewal options under a contract or could select other contractors to perform services, or a contract could be reduced, modified or terminated. We adjust our backlog on a quarterly basis to reflect modifications to or renewals of existing contracts or task orders, awards of new contracts or task orders, or approvals of expenditures. Additionally, the maximum contract value specified under a government contract or task order awarded to us is not necessarily indicative of the revenues that we will realize under that contract. We also derive revenues from ID/IQ contracts, which typically do not require the government to purchase a specific amount of goods or services under the contract other than a minimum quantity which is generally very small. If we fail to realize revenue included in our backlog, our revenues and operating results for the then current fiscal year as well as future reporting periods could be materially adversely affected.

Loss of our GSA contracts or GWACs would impair our ability to attract new business.

We are a prime contractor under several GSA contracts and GWAC schedule contracts. We believe that our ability to continue to provide services under these contracts will continue to be important to our business because of the multiple opportunities for new engagements each contract provides. If we were to lose our position as prime contractor on one or more of these contracts, we could lose substantial revenues and our operating results could suffer. GSA contracts and other GWACs typically have a one or two-year initial term with multiple options exercisable at the government client s discretion to extend the contract for one or more years. We cannot be assured that our government clients will continue to exercise the options remaining on our current contracts, nor can we be assured that our future clients will exercise options on any contracts we may receive in the future.

If subcontractors on our prime contracts are able to secure positions as prime contractors, we may lose revenue.

For each of the past several years, as the GSA schedule contracts and GWACs have increasingly been used as contract vehicles, we have received substantial revenue from government clients relating to work performed by other information technology providers acting as subcontractors to us. In some cases, companies that have not held GSA schedule contracts or secured positions as prime contractors on GWACs have approached us in our capacity as a prime contractor, seeking to perform services as our subcontractor for a government client. Some of these providers that are currently acting as subcontractors to us may in the future secure positions as prime contractors. If one or more of our current subcontractors are awarded prime contractor status in the future, it could reduce or eliminate our revenue for the work they were performing as subcontractors to us. Revenue derived from work performed by our subcontractors represented approximately 15% and 16%, respectively of our revenue for each of fiscal 2005 and 2004.

Risks Associated with International Operations

Our international business exposes us to additional risks including exchange rate fluctuations, foreign tax and legal regulations and political or economic instability that could materially adversely affect our operating results.

In connection providing services to our clients, we are sometimes required to engage in international operations (including international operations under U.S. government contracts). Conducting international business subjects us to risks associated with operating in and selling to foreign countries, including:

- devaluations and fluctuations in currency exchange rates;

- changes in or interpretations of foreign regulations that may adversely affect our ability to sell all of our products or repatriate profits to the United States;
- imposition of limitations on conversions of foreign currencies into dollars;
- imposition of limitations on or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries or joint ventures;
- compliance with U.S. laws and regulations that apply extraterritorially which may conflict, in whole or in part, with local laws and regulations in countries where we operate;
- compliance with the local labor laws of the countries in which we operate;
- hyperinflation or political instability in foreign countries;
- potential personal injury to our personnel who may be exposed to military conflict situations in foreign countries;
- imposition or increase of investment and other restrictions or requirements by foreign governments;
- compliance with U.S. export control laws and regulations, which may effect our ability to provide goods and services abroad.

To the extent that our customers request us to provide services and support outside of the United States, these and other risks associated with international operations are likely to increase. Although such risks have not harmed our operating results in the past, no assurance can be given that such risks will not materially adversely affect our operating results in the future.

Risks Related to Our Business

We may lose money or generate less than anticipated profits if we do not accurately estimate the cost of our performance under fixed price or time and materials contracts.

Some of our contracts require that we perform on a fixed price basis. We derived 26.2% of our total revenue in fiscal 2005 and 22.6% of our total revenue in fiscal 2004 from fixed price contracts. A fixed price contract generally provides that we will receive a specified price for our performance under the contract, regardless of the cost to us of such performance. This requires that we accurately estimate the cost that we will incur to perform our obligations under any contract at the time that we submit our proposal to the applicable government agency. When making proposals for engagements on a fixed price basis, we rely on our estimates of costs and timing for completing the projects. These estimates are subject to numerous variables and uncertainties, and there can be no assurance that the costs of performing under any fixed price contract will not exceed, perhaps substantially, our estimates. Any increased or unexpected costs or unanticipated delays in connection with the performance of fixed price contracts, including costs and delays caused by factors outside our control, could make these contracts less profitable than anticipated or could cause us to incur losses, which could be substantial, on these contracts. In the past, we have from time to time incurred losses on some fixed price contracts and our profits on some fixed price contracts have been less than anticipated. Our operating results could be materially adversely affected if the actual costs of performing under these contracts exceed our estimates.

Many of our contracts are performed on a time and materials basis. A time and materials contract typically provides that we are paid a fixed hourly rate for direct labor costs expended and reimbursed for allowable materials, costs and expenses. We derived 43.8% of our total revenues in fiscal 2005 and 46.3% of our total revenues for fiscal 2004 from time and materials contracts. While time and materials contracts are generally subject to less uncertainty than fixed price contracts, to the extent that our actual labor costs are higher than the contract rates, we may lose money on the contract.

Our margins and operating results may suffer if cost reimbursable contracts increase as a percentage of our total government contracts.

In general, cost reimbursable contracts are the least profitable of our government contracts. Our cost reimbursable contracts generally provide for reimbursement of costs, which are determined to be reasonable, allowable and allocable to the contract, as well as payment of a fee representing the profit margin negotiated between us and the contracting agency, which may be fixed or performance based. Our time and materials contracts generally are more profitable than our cost reimbursable contracts. Cost reimbursable contracts contributed 30.0% and 31.1% of our total revenues in fiscal 2005 and fiscal 2004, respectively. To the extent that cost reimbursable contracts represent an increased proportion of our total government contracts, our operating results could be materially adversely affected.

Our markets are highly competitive, and many of the companies we compete against have substantially greater resources.

We operate in highly competitive markets that include a large number of participants and involve intense competition to win contracts. Many of our competitors may compete more effectively than we can because they are larger, have greater financial and other resources, have better or more extensive relationships with government officials involved in the procurement process and have greater brand or name recognition. In order to stay competitive in our industry, we must attract and retain the highly skilled employees necessary to provide our services and keep pace with changing technologies and client preferences. In addition, some of our competitors have established alliances or strategic relationships among themselves or with third parties in order to increase their ability to address client needs. As a result, new competitors or alliances among competitors may emerge and compete more effectively than we can. There is also a significant industry trend towards consolidation which may result in the emergence of larger companies that may be better able to compete with us. If we are unable to compete effectively, our business could be materially adversely affected.

Our failure to attract and retain qualified employees, including our executive and senior management team, may adversely affect our business.

Our continued success depends to a substantial degree on our ability to recruit and retain the technically skilled personnel we need to serve our clients effectively. Our business involves the development of tailored technology solutions for our clients, a process that relies heavily upon the expertise and services of our employees. Competition for skilled personnel in the information technology services industry is intense, and technology service companies often experience high attrition among their skilled employees. Recruiting and training these employees require substantial resources. Our failure to attract and retain technical personnel could increase our costs of performing our contracts, reduce our ability to meet our clients needs, limit our ability to win new business and constrain our ability to grow.

Certain types of services are subject to the Service Contract Act and the Davis-Bacon Act. These Acts require that the contractor pay to all personnel assigned to the contract at least the prevailing wage and fringe benefits, as established by and in accordance with the regulations promulgated by the Department of Labor. We have an established policy pursuant to which we evaluate RFP s that include Service Contract Act and Davis-Bacon Act requirements and, in the event of an award to us, ensure our compliance with these requirements.

We may be affected by intellectual property infringement claims.

Our business operations may rely on intellectual property. Our employees develop some of the software solutions and other forms of intellectual property that we use to provide IT solutions to our customers, but we also may license technology from other entities. Typically, under Federal Government contracts, our customers may claim rights in the intellectual property we develop, making it impossible for

us to prevent their future use of our intellectual property. We are and may in the future be subject to claims from our employees or third parties who assert that software solutions and other forms of intellectual property that we used in delivering services and solutions to our customers infringe upon intellectual property rights of such employees or third parties. If our vendors, employees or third parties assert claims that we or our customers are infringing on their intellectual property, we could incur substantial costs to defend these claims. In addition, if any of these infringement claims are ultimately successful, we could be required to:

- cease selling or using products or services that incorporate the challenged software or technology;
- obtain a license or additional licenses; or
- redesign our products and services that rely on the challenged software or technology.

A substantial majority of our historical growth has been due to acquisitions and we may have difficulty identifying and executing future acquisitions on favorable terms, which may adversely affect our results of operations and stock price.

A substantial majority of our historical growth was the result of acquisitions, and the selective pursuit of acquisitions remains one of our key growth strategies. We cannot assure you that we will be able to identify and execute suitable acquisitions in the future on terms that are favorable to us, or at all.

We may encounter other risks in executing our acquisition strategy, including:

- increased competition for acquisitions which may increase the price of our acquisitions; and
- our failure to discover material liabilities during the due diligence process, including the failure of prior owners of any acquired businesses or their employees to comply with applicable laws or regulations such as the Federal Acquisition Regulation and health, safety, employment and environmental laws and regulations, or their failure to fulfill their contractual obligations to the Federal Government or other clients.

In connection with any future acquisitions, we may decide to consolidate the operations of any acquired business with our existing operations or to make other changes with respect to the acquired business, which could result in special charges or other expenses. Our results of operations also may be adversely affected by expenses we incur in making acquisitions and, in the event that any goodwill resulting from present or future acquisitions is found to be impaired, by goodwill impairment charges. As of December 31, 2005, assuming that the Zen acquisition had occurred on such date, we had approximately $225.3 million of goodwill resulting from acquisitions on our balance sheet and, to the extent we make future acquisitions, the amount of goodwill could increase, perhaps substantially. Any of the businesses we acquire may also have liabilities or adverse operating issues.

In addition, our ability to make future acquisitions may require us to obtain additional financing and we may be materially adversely affected if we cannot obtain additional financing for any future acquisitions. To the extent that we seek to acquire other businesses in exchange for our common stock, fluctuations in our stock price could have a material adverse effect on our ability to complete acquisitions and the issuance of common stock to acquire other businesses could be dilutive to our stockholders. To the extent that we use borrowings to acquire other businesses, our debt service obligations could increase substantially and relevant debt instruments may, among other things, impose additional restrictions on our operations, require us to comply with additional financial covenants or require us to pledge additional assets to secure our borrowings.

We may have difficulty integrating the operations of any companies we acquire, which may adversely affect our results of operations.

The success of our acquisition strategy will depend upon our ability to successfully integrate any businesses we may acquire in the future. The integration of these businesses into our operations may result in unforeseen events or operating difficulties, absorb significant management attention and require significant financial resources that would otherwise be available for the ongoing development of our business. These integration difficulties could include the integration of personnel with disparate business backgrounds, the transition to new information systems, coordination of geographically dispersed organizations, loss of key employees of acquired companies and reconciliation of different corporate cultures. For these or other reasons, we may be unable to retain key clients or to retain or renew contracts of acquired companies. Moreover, any acquired business may fail to generate the revenue or net income we expected or produce the efficiencies or cost-savings that we anticipated. Any of these outcomes could materially adversely affect our operating results.

If we are unable to manage our growth, our business may be adversely affected.

Sustaining our growth has placed significant demands on our management, as well as on our administrative, operational and financial resources. If we continue to grow, we must improve our operational, financial and management information systems and expand, motivate and manage our workforce. If we are unable to do so, or if new systems that we implement to assist in managing any future growth do not produce the expected benefits, our business, prospects, financial condition or operating results could be materially adversely affected.

Systems failures may disrupt our business and have an adverse effect on our results of operations.

Any systems failures, including failure of network, software or hardware systems, whether caused by us, a third-party service provider, unauthorized intruders and hackers, computer viruses, natural disasters, power shortages or terrorist attacks, could cause loss of data and interruptions or delays in our business or that of our clients. In addition, the failure or disruption of mail, communications or utilities could cause us to interrupt or suspend our operations or otherwise harm our business. Our property and business interruption insurance may be inadequate to compensate us for losses that may occur as a result of any system or operational failure or disruption, and insurance to cover these types of risks may not be available in the future on terms that we consider acceptable, if at all.

The systems and networks that we maintain for our clients, although redundant in their design, could also fail. If a system or network we maintain were to fail or experience service interruptions, we might experience loss of revenue or face claims for damages or contract termination. Our liability insurance may be inadequate to compensate us for damages that we might incur and liability insurance to cover these types of risks may not be available in the future on terms that we consider acceptable, or at all.

If our subcontractors fail to perform their contractual obligations, our performance as a prime contractor and our ability to obtain future business could be materially and adversely impacted.

Approximately 15% and 16%, respectively, of our total revenue in each of fiscal 2005 and fiscal 2004 was generated by work performed by subcontractors who perform a portion of the work we are obligated to deliver to our clients. A failure by one or more of our subcontractors to satisfactorily deliver on a timely basis the agreed-upon supplies and/or perform the agreed-upon services may materially and adversely affect our ability to perform our obligations as a prime contractor. In extreme cases, a subcontractor s performance deficiency could result in the Federal Government terminating our contract for default. A default termination could expose us to liability for excess costs of reprocurement by the government and have a material adverse effect on our ability to compete for future contracts and task orders.

Our indebtedness and debt service obligations may increase substantially and we will be subject to restriction under debt instruments.

As of December 31, 2005, we had approximately $99.3 million of debt outstanding under our Credit Agreement which had a borrowing capacity of $160 million, comprised of a $60 million five-year revolving credit facility and a $100 million six-year term loan facility. We further amended this Credit Agreement, pursuant to the First Amendment entered into contemporaneously with the closing of our acquisition of Zen on February 27, 2006, which increased the available term loan amount to approximately $129.3 million. We had approximately $129.3 million of debt outstanding under our Amended Credit Agreement on February 27, 2006 following the closing of our acquisition of Zen.

Our leverage may increase as a result of any future acquisitions and, accordingly, the amount of our indebtedness will likely increase, perhaps substantially.

Our indebtedness could have significant negative consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring that a substantial portion of our cash flow from operations be applied to pay our debt service obligations, thus reducing cash available for other purposes;
- limiting our flexibility in planning for or reacting to changes in our business or in the industry in which we compete; and
- placing us at a possible disadvantage compared to our competitors with less leverage or better access to capital.

Our Amended Credit Agreement bears interest at variable rates based upon prevailing market interest rates, which exposes us to the risk of increased interest rates. Also, our Amended Credit Agreement requires that we comply with various financial covenants and impose restrictions on us, including restrictions on, among other things, our ability to incur additional indebtedness or liens, make acquisitions and pay dividends on our capital stock.

Our ability to make scheduled payments of the principal of, to pay interest on, or to refinance, our debt will depend primarily on our future performance, which to a certain extent is subject to the economic, financial, competitive and other factors beyond our control. There can be no assurance that our business will continue to generate sufficient cash flow from operations in the future to service our debt or meet our other cash needs. If we are unable to generate this cash flow from our business, we may be required to refinance all or a portion of our existing debt, sell assets or obtain additional financing to meet our debt obligations and other cash needs. We cannot assure you that any such refinancing, sale of assets or additional financing would be possible on terms that we would find acceptable.

If we fail to comply with the financial covenants in our Amended Credit Agreement, our lenders may exercise remedies, including requiring immediate repayment of all outstanding amounts. These financial covenants are calculated according to the definition of terms contained in the Amended Credit Agreement, which may differ from calculations using generally accepted accounting principles, or GAAP. The financial covenants in our credit facility following the acquisition of Zen include the following:

- the First Amendment to Credit Agreement amended the leverage ratio that requires us to maintain a ratio of funded debt to consolidated EBITDA for such period as follows:

Period	Amended Term Loan Maximum Ratio
First Amendment Effective Date through fiscal quarter ending June 30, 2006	3.75 to 1.00
July 1, 2006 through fiscal quarter ending June 29, 2007	3.50 to 1.00
June 30, 2007 through fiscal quarter ending June 27, 2008	3.00 to 1.00
June 28, 2008 and thereafter	2.75 to 1.00

- a fixed charge coverage ratio that requires us to maintain a ratio, on a consolidated basis for the twelve month period ending on the last day of any fiscal quarter, of (i) consolidated EBITDA less consolidated capital expenditures for such period, to (ii) the sum of consolidated interest expense plus scheduled funded debt payments plus cash taxes for such period, of greater than or equal to 1.25 to 1.00; and

- the amount of consolidated capital expenditures made in cash during any fiscal year is limited to 2.00% of consolidated gross revenues plus the unused portion on consolidated capital expenditures that would have been permitted in the previous fiscal year in an amount not to exceed $1,000,000.

The borrowings and other amounts due under our Amended Credit Agreement are secured by substantially all of our current and future tangible and intangible assets, including accounts receivable, inventory and capital stock of our existing or future subsidiaries. Our ability to obtain other debt financing may therefore be adversely affected because the lenders under our Amended Credit Agreement will have a prior lien on our assets to secure amounts we owe to them. In addition, upon the occurrence of specified events of default under the Amended Credit Agreement, the lenders would be entitled to demand immediate repayment of all borrowings and other amounts outstanding under the Amended Credit Agreement and to realize upon the collateral pledged under the Amended Credit Agreement to satisfy our obligations to them.

The Amended Credit Agreement also requires us to comply with certain covenants, including, among others, provisions:

- relating to the maintenance of our assets securing the debt;

- restricting our ability to pledge assets or create other liens;

- restricting our ability to incur additional debt beyond certain levels and in certain circumstances;

- restricting our ability to make certain distributions, investments and restricted payments, including dividend payments on our equity securities;

- restricting our ability to alter the conduct of our business or corporate existence;

- restricting our ability to amend, modify, cancel, terminate or fail to renew material contracts;

- restricting our ability to enter into transactions with affiliates;

- restricting our ability to consolidate, merge, or sell our assets;

- restricting our ability to purchase property or assets other than in the ordinary course of business; and

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- restricting our ability to amend, modify or change our organizational documents, including our charter and bylaws.

Risks Related to Our Common Stock

Provisions of our charter and bylaws and Delaware law make a takeover of our company more difficult.

Our basic corporate documents and Delaware law contain provisions that might enable our management to resist an attempt to take over our company. For example, our Board of Directors can issue shares of common stock and preferred stock without stockholder approval, and the board could issue stock to dilute and adversely affect various rights of a potential acquiror. Other provisions of our charter and bylaws that could deter or prevent a third party from acquiring us include:

- the division of our Board of Directors into three separate classes serving staggered three-year terms;

- the absence of cumulative voting in the election of our directors, which means that the holders of a majority of the voting power of our outstanding capital stock have the power to elect all of our directors;

- limitations on the ability of our stockholders to remove directors and the provisions requiring that vacancies in our board of directors must be filled by the remaining directors;

- prohibitions on our stockholders from acting by written consent or calling special meetings; and

- procedures for advance notification of stockholder nominations.

We are subject to Section 203 of the Delaware General Corporation Law that, subject to exceptions, would prohibit us from engaging in any business combination with any interested stockholder, as defined in that section, for a period of three years following the date on which that stockholder became an interested stockholder.

The board could use these and other provisions to discourage, delay or prevent a change in the control of our company or a change in our management. These provisions might also discourage, delay or prevent an acquisition of our company at a price that you may find attractive. These provisions could also make it more difficult for you and our other stockholders to elect directors and take other corporate actions and could limit the price that investors might be willing to pay for shares of our common stock.

Future sales of shares of our common stock and the resulting dilution that would occur with such sales could cause the market price of our common stock to decline.

Sales of a substantial number of shares of common stock in the public market in the course of any offering made pursuant to a registration statement, including any subsequent registration statement, or the perception that such sales could occur, could materially adversely affect the market price of our common stock and make it more difficult for us to sell equity securities in the future at a time and price we deem appropriate. As of March 1, 2006, we had 11,426,232 shares of common stock outstanding.

Item 2. Properties

As of December 31, 2005, we leased 27 offices and 3 warehouse at various U.S. locations for an aggregate of 544,970 square feet in 15 states and the District of Columbia, of which we sublease 47,861 square feet to third parties.

Our corporate offices are located at 12012 Sunset Hills Road, Reston, Virginia in approximately 68,000 square feet of leased space.

Our other major offices are located in Colorado Springs, Colorado, Harrisonburg, Virginia, and in the Washington DC metropolitan area.

- Our Colorado Springs properties consist of approximately 35,000 square feet under a lease that expires in April 2006 and approximately 68,000 square feet under a lease that expires in November 2006. Both of these leased facilities are being replaced by a new 2-building office campus totaling 123,200 square feet. The lease of these campus buildings will begin in May 2006.

- In Harrisonburg, Virginia we occupy an office (15,507 sq ft under a lease that expires in November 2013) and a contract-committed warehouse (120,000 sq ft under a lease that expires August 2007).

- In Fairfax, Virginia we have an office consisting of approximately 37,000 square feet under a lease that expires in December 2009.

- In Arlington, Virginia, our office consists of approximately 14,100 square feet under a lease that expires in December 2012.

- In Rockville, Maryland, we have an office consisting of approximately 24,000 square feet under a lease expiring in November 2011.

- Our Columbia, Maryland office occupies 21,223 square feet under a lease expiring in 2012.

- In Bethesda, Maryland, as a result of acquiring Zen, we have office space of approximately 10,738 square feet under a lease that expires November 30, 2008.

- In addition, we have employees who work on engagements at other smaller operating locations around the United States.

All of our offices are in new, or reasonably modern, well-maintained buildings. The facilities are substantially utilized and are adequate for present operations. We do not own any real estate.

Item 3. Legal Proceedings

From time to time, we are involved in litigation, claims and disputes that arise in the ordinary course of its business. In addition, we are subject to audit, review, and investigation by various agencies of the Federal Government to determine compliance with applicable federal statutes and regulations. As a Federal Government contractor, we are subject to audit by certain federal agencies to determine if our performance and administration of our government contracts are compliant with contractual requirements and applicable federal statutes and regulations. While we cannot predict the ultimate outcome of legal proceedings, government audits, investigations, claims and disputes to which we are or may be subject, we currently believe, based upon information available to us as of the date of this filing, that any ultimate liability arising out of these matters will not have a material adverse effect on our financial position, results of operations, or cash flows.

The SEI acquisition agreement provides for a purchase price adjustment based upon the working capital of SEI as of the closing date. Subsequent to the closing date, we received a payment of $1.6 million in connection with services performed prior to the closing date that SEI had not previously billed, and was

not authorized to bill, its customer as of the closing date. The SEI selling stockholders have asserted that they are entitled to a credit in connection with the calculation of working capital adjustment in an amount equal to the amount received by us for this post-closing payment. We believe that, in accordance with GAAP, the SEI selling stockholders should not receive the benefit of the post-closing payment. In accordance with the terms of the SEI acquisition agreement, the parties have jointly submitted the issue to an independent accounting firm for resolution. We anticipate that this matter will be resolved before the end of 2006.

Item 4. Submission of Matters To a Vote of Security Holders: The Company had no matters submitted to stockholders for their consideration during the fourth quarter ended December 31, 2005.

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PART II

Item 5. Market for the Company s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities: Since November 12, 2002, SI International s common stock has been publicly traded on the Nasdaq National Market under the symbol SINT. Prior to November 12, 2002, SI International s common stock was not publicly traded. The high and low sales prices of SI International s common stock for the time period indicated below, as reported by the Nasdaq National Market, were:

	High	Low
Year ended December 31, 2005:		
First Quarter	$ 31.29	$ 23.03
Second Quarter	$ 30.36	$ 22.31
Third Quarter	$ 33.64	$ 26.84
Fourth Quarter	$ 31.88	$ 24.80
Year ended December 25, 2004:		
First Quarter	$ 24.70	$ 16.25
Second Quarter	$ 28.77	$ 20.90
Third Quarter	$ 24.70	$ 16.93
Fourth Quarter	$ 32.64	$ 20.68

As of March 1, 2006, there were approximately 118 holders of record of our common stock. As of March 1, 2006, the closing price of our common stock was $32.61.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain earnings, if any, to support our growth strategy and do not anticipate paying cash dividends in the foreseeable future.

Item 6. Selected Financial Data: The selected financial data presented below for our 2005, 2004, and 2003 fiscal years are derived from our audited consolidated financial statements included in this Form 10-K. The selected financial data presented below for our 2002 and 2001 fiscal years are derived from our audited consolidated financial statements not included in this Form 10-K. You should read the selected financial data presented below in conjunction with the consolidated financial statements, the notes to the consolidated financial statements and with Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K. Our fiscal year is based on the calendar year and ends each year on the Saturday closest to December 31 of that year. **All fiscal years shown below, excluding 2005, include 52 weeks. Fiscal 2005 includes 53 weeks.**

	Fiscal Year SI International, Inc. 2005	**2004**	**2003**	**2002**	**2001**
	(dollars in thousands, except per share data)				
Statement of Operations Data:					
Revenue	$ 397,919	$ 262,306	$ 168,287	$ 149,351	$ 146,583
Costs and expenses:					
Direct costs	246,481	166,774	101,940	91,240	87,071
Indirect costs	113,015	71,917	51,569	49,404	49,495
Depreciation	2,161	2,231	2,009	1,988	1,653
Amortization	2,292	648			3,586
Total operating expenses	363,949	241,570	155,518	142,632	141,805
Income from operations	33,970	20,736	12,769	6,719	4,778
Other income (expense)	12	(1)			
Interest expense	(6,103)	(2,760)	(606)	(3,319)	(3,451)
Minority interests				(118)	(144)
Change in fair value of put warrants				640	(1,255)
Income (loss) before provision for income taxes	27,879	17,975	12,163	3,922	(72)
Provision for income taxes	10,942	7,098	4,784	1,439	657
Net income	16,937	10,877	7,379	2,483	(729)
Dividends on redeemable cumulative preferred stock				1,954	2,052
Net income (loss) attributable to common stockholders	$ 16,937	$ 10,877	$ 7,379	$ 529	$ (2,781)
Earnings (loss) per common share:					
Basic earnings (loss) per share	$ 1.51	$ 1.20	$ 0.87	$ 0.16	$ (1.06)
Diluted earnings (loss) per share	1.45	1.14	0.87	(0.03)	(1.06)
Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 26,160	$ 3,754	$ 12,302	$ 10,856	$ 470
Working capital	76,023	21,927	39,708	29,937	16,103
Total assets	335,695	212,107	106,627	92,315	80,461
Total debt, including capital lease obligations	99,542	29,291	530	658	40,082
Total stockholders equity (deficit)	167,869	145,070	81,547	73,977	(2,431)
Other Financial Data:					
EBITDA(1)	$ 38,423	$ 23,615	$ 14,778	$ 8,707	$ 10,017
Capital expenditures	2,727	1,225	1,291	1,653	2,577
Net cash provided by (used in) operations	26,599	(1,655)	16,079	5,680	(1,697)
Net cash used in investing activities	(74,821)	(86,665)	(12,241)	(1,653)	(2,577)
Net cash provided by (used in) financing activities	70,628	79,772	(2,392)	6,359	1,152

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(1) EBITDA is defined as GAAP net income (loss) plus other expense (income), interest expense, income taxes, depreciation and amortization, change in the value of put warrants and minority interest.

(2) EBITDA as calculated by us may be calculated differently than EBITDA for other companies. We have provided EBITDA because we believe it is a commonly used measure of financial performance in comparable companies and is provided to help investors evaluate companies on a consistent basis, as well as to enhance an understanding of our operating results. EBITDA should not be construed as either:

- an alternative to net income (loss), as an indicator of our operating performance; or
- as an alternative to cash flows as a measure of liquidity.

Reconciliation of Net Income to EBITDA is as follows:

	2005	2004	2003	2002	2001
Net income	$ 16,937	$ 10,877	$ 7,379	$ 2,483	$ (729)
Other expense (income)	(12)	1			
Interest expense	6,103	2,760	606	3,319	3,451
Minority interest				118	144
Change in fair value of put warrants				(640)	1,255
Provision for income taxes	10,942	7,098	4,784	1,439	657
Depreciation	2,161	2,231	2,009	1,988	1,653
Amortization	2,292	648			3,586
EBITDA	$ 38,423	$ 23,615	$ 14,778	$ 8,707	$ 10,017

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations: The following discussion and analysis should be read in conjunction with the Item 6. Selected Consolidated Financial Data, the consolidated financial statements and related notes included elsewhere in this Form 10-K, and the forward-looking disclaimer language in italics before Item 1. Business .

Our fiscal year is based on a calendar year and ends each year on the Saturday closest to December 31 of that year. As a result, our fiscal year may be comprised of 52 or 53 weeks. **Our 2005 fiscal year had 53 weeks. Our 2004 and 2003 fiscal years each had 52 weeks.**

Overview

We are, first and foremost, a provider of information technology and network solutions (IT) to the Federal Government. Our clients include the U.S. Air Force, U.S. Army, U.S. Navy, Department of State, Department of Homeland Security, Department of Energy, Department of Agriculture, National Institutes of Health, Federal Retirement Thrift Investment Board, National Guard Bureau, and the Intelligence community. We combine our technology and industry expertise to provide a full spectrum of state-of-the-practice solutions and services, from design and development to implementation and operations, which assist our clients in achieving mission success. We believe that our company is distinguishable from our peers within the federal IT sector in several important respects.

We employ a Rapid Response Rapid Deployment methodology that enables the rapid standing up of innovative solutions and the incorporation of additional capabilities in rapid succession. This capability allows us to respond to urgent IT imperatives quickly, often in a matter of months, and within a well defined budget. We can, therefore, provide solutions for current IT needs, while establishing a platform for advancing long-term transformational objectives. We possess a proven ability to respond to high priority information technology and network needs through innovation, and an enviable reputation for timely delivery of robust solutions on assignments where failure is not an option. Our Mission Critical, Mission Accomplished solutions enable clients to respond to new mandates, expand the scope of their missions, and reengineer underlying business processes. We have a demonstrated ability of turning troubled IT projects into winning outcomes and realized exceptional growth from high-quality client engagements. We also utilize mature and proven processes to manage and market large-scale ID/IQ contracts, such as C4I2TSR. We employ a diverse, innovative team that effectively utilizes small business partners unique skills and expertise for mission critical IT projects.

Fiscal 2005 Review and Fiscal 2006 Outlook

During the past year, we experienced continued growth in our four key focus areas: Defense Transformation, Homeland Defense, Federal IT Modernization, and Mission-Critical Outsourcing. In terms of customer concentration, the DoD continues to grow faster organically than our other customers, which is the result of ongoing defense transformation initiatives that require our specialty in rapidly performing mission-critical work. Virtually all of our engagements with the DoD either directly support, or are closely related to DoD Transformation goals. We will continue aligning our programs and capabilities along our focus areas of Homeland Defense, Federal IT Modernization, Mission-Critical Outsourcing, and Defense Transformation, given these sectors most accurately reflect our customer s highest priorities. The Federal Government s increased use of technology as a weapon in the war on terrorism and to enhance operational efficiency among federal agencies drove our growth in 2005. We expect that government initiatives involving information sharing, net-centric warfare, and business process transformation will be among our customer base s key focus areas in 2006.

With the SEI acquisition, our support to civilian agencies increased as a percentage of total revenue. SEI s largest client was the Department of Homeland Security. The national priority on securing our borders, along with urgent need for information sharing and other critical Department of Homeland

Security issues, will continue driving the demand for budget increases in homeland defense. With the Bridge acquisition, we expanded our presence in the Intelligence community. We believe that this ongoing need for improved intelligence collection will not diminish. For the foreseeable future, we anticipate that DoD s, Department of Homeland Security s, and the Intelligence community s IT and network requirements will be the largest drivers of our organic growth. Also, strategic acquisitions that add value will continue to impact our future customer mix. Finally, the recent Zen acquisition provides us with greater access to new customers and additional cross-selling opportunities for our portfolio of mission-critical solutions.

The addition of SEI and Bridge allowed us to continue supporting our existing customer base, while strengthening our position with the Deparment of Homeland Security and the Intelligence community. After consummating the SEI and Bridge acquisitions, we realigned our practice areas in 2005 to reflect the additional areas of expertise that we obtained from these two companies. Our eight practice areas now consist of program management & acquisition support, integrated solutions development, information security, records management, learning solutions, systems engineering, network solutions, and mission-critical outsourcing.

In 2005, Congress delayed approving the government fiscal 2006 appropriations bills. For us, this impact was largely confined to new project starts previously forecasted for our fourth quarter fiscal 2005. Even in years where Congress passed appropriations bills in a timely fashion, it is not uncommon for several months to pass before funding was actually issued. With the combination of the GSA s reorganization and recent contract award delays, we expect that government agencies will continue moving away from using GSA contract vehicles and start utilizing government-wide and agency-specific contract vehicles more frequently in 2006 until the GSA reorganization is complete.

In fiscal 2005 and fiscal 2004, we received 98.1% and 96.6%, respectively, of our revenues from services we provided to various departments and agencies of the Federal Government, both directly and through other prime contractors, and 1.9% and 3.4%, respectively, of our total revenues from work performed for commercial entities. The following table shows our revenues from the client groups listed as a percentage of total revenue. Revenue data for the DoD includes revenue generated from work performed under engagements for both the DoD and the Intelligence community.

	Fiscal Year		
	2005	**2004**	**2003**
Department of Defense	46.9 %	52.8 %	54.5 %
Federal civilian agencies	51.2 %	43.8 %	39.2 %
Commercial entities	1.9 %	3.4 %	6.3 %
Total revenue	100.0 %	100.0 %	100.0 %

As a result of the Zen acquisition, we believe that the percentage of our revenue attributable to the DoD and federal civilian agencies should increase, and the percentage of our revenue attributable to commercial entities, including international operations, should decrease marginally.

We have derived a substantial majority of our revenues from governmental contracts under which we act as a prime contractor. We also provide services indirectly as a subcontractor. The following table shows our revenues as prime contractor and as subcontractor as a percentage of our total revenue for the following periods:

	Fiscal Year		
	2005	**2004**	**2003**
Prime contract revenue	75.4 %	80.6 %	84.3 %
Subcontract revenue	24.6 %	19.4 %	15.7 %
Total revenue	100.0 %	100.0 %	100.0 %

As a result of the Zen acquisition, we believe the percentage of our prime contract revenue may increase marginally.

Our services are provided under three types of contracts: cost reimbursable, time and materials and fixed price contracts. The following table shows our revenues from each of these types of contracts as a percentage of our total revenue for the following periods:

	Fiscal Year		
	2005	**2004**	**2003**
Cost reimbursable	30.0 %	31.1 %	38.3 %
Time and materials	43.8 %	46.3 %	35.1 %
Fixed price	26.2 %	22.6 %	26.6 %
Total	100.0 %	100.0 %	100.0 %

As a result of the acquisition of Zen, we anticipate that during fiscal year 2006 that the percentage of our revenue attributable to time and materials and fixed price contracts may increase marginally.

Under cost reimbursable contracts, we are reimbursed for costs that are determined to be reasonable, allowable and allocable to the contract, and paid a fee representing the profit margin negotiated between us and the contracting agency, which may be fixed or performance based. Under cost reimbursable contracts we recognize revenues and an estimate of applicable fees earned as costs are incurred. We consider fixed fees under cost reimbursable contracts to be earned in proportion to the allowable costs incurred in performance of the contract. For performance-based fees under cost reimbursable contracts, we recognize the relevant portion of the expected fee to be awarded by the client at the time such fee can be reasonably estimated, based on factors such as our prior award experience and communications with the client regarding performance. In general, cost reimbursable contracts are the least profitable of our government contracts.

Under time and materials contracts, we are reimbursed for labor at fixed hourly rates and generally reimbursed separately for allowable materials, costs and expenses. To the extent that our actual labor costs under a time and materials contract are higher or lower than the billing rates under the contract, our profit under the contract may either be greater or less than we anticipated or we may suffer a loss under the contract. We recognize revenues under time and materials contracts by multiplying the number of direct labor hours expended by the contract billing rates and adding the effect of other billable direct costs. In general, we realize a higher profit margin on work performed under time and materials contracts than cost reimbursable contracts.

Under fixed price contracts, we perform specific tasks for a fixed price. Compared to cost reimbursable and time and materials contracts, fixed price contracts generally offer higher profit margin opportunities but involve greater financial risk because we bear the impact of cost overruns in return for the full benefit of any cost savings. We generally do not undertake complex, high-risk work, such as long-term software development, under fixed price terms. Fixed price contracts may include either a product delivery or specific service performance over a defined period. Revenue on fixed price contracts that provide for the Company to render services throughout a period is recognized as earned according to contract terms as the service is provided on a proportionate performance basis. While a substantial number of these contracts are generally less than six months in duration, we have several multi-year contracts of this type in which the customer has the option to extend the contractual term beyond the current term.

If we anticipate a loss on a contract, we provide for the full amount of anticipated loss at the time of that determination.

Our most significant expense is direct cost, which consists primarily of direct labor costs for program personnel and direct expenses incurred to complete contracts, including cost of materials and subcontract

efforts. Our ability to predict accurately the number and types of personnel, their salaries, and other costs, can have a significant impact on our direct cost.

The allowability of certain direct and indirect costs in federal contracts is subject to audit by the client, usually through the DCAA. Certain indirect costs are charged to contracts and paid by the client using provisional, or estimated, indirect rates, which are subject to later revision, based on the government audits of those costs.

Approximately 19.5% of our revenue recognized during fiscal 2005 was derived from contracts that, as of February 28, 2006, are, or are expected to become, subject to competitive bids prior to the end of government fiscal 2006. We actively monitor our relationships with our clients during our engagements, as well as the quality of the service we provide, to assist in our efforts to win recompetition bids. In addition, we strive to maintain good relationships with a wide variety of government contractors.

Recent Events

Zen Acqusition. *On February 27, 2006, we closed the acquisition of Zen. Zen is a provider of critical IT services, specializing in managed network services, information assurance, software development and systems engineering, database and systems administration and IT consulting to various U.S. Government agencies. Zen s largest clients include the Missile Defense Agency (MDA), Department of Defense s Washington Headquarters Services (WHS), Federal Communications Commission (FCC), the Pension Benefit Guaranty Corporation (PBGC), and the Federal Trade Commission (FTC). As a result of our acquisition of Zen, we gained approximately 275 employees, of which approximately 50% hold security clearances. The acquisition of Zen provides additional scale with existing customers as well as diversification with new government customers.*

Pursuant to the terms of the Zen Agreement we acquired all of the outstanding capital stock of Zen for $60 million in cash, of which we are withholding $6 million for 15 months in order to secure post-closing indemnity obligations of the sellers. The purchase price is subject to a two-way adjustment based upon whether the working capital of Zen as of the closing date was above or below the target working capital specified in the Zen Agreement. Each of the parties to the Zen Agreement has made customary representations and warranties and agreed to certain indemnification obligations. The transaction was funded through cash-on-hand, a subordinated Seller s Note in the amount of $6 million, and borrowing from our newly amended credit facility, which is described below. We expect the acquisition to be accretive to earnings. Zen s trailing twelve months revenue ended November 30, 2005, was approximately $38 million (unaudited).

Amendment to Credit Facility. On February 27, 2006, we entered into the First Amendment. The First Amendment provides new terms and conditions with respect to the term loan portion of the Credit Agreement and increased the available term loan amount to approximately $129.3 million from approximately $99.3 million. The funds borrowed under the new term loan were used to (a) refinance the initial term loan; (b) to finance the acquisition of Zen; and (c) to provide for working capital, capital expenditures and other general corporate purposes. The First Amendment amended the leverage ratio that requires us to maintain a ratio of funded debt to consolidated EBITDA for such period as follows:

Period	New Maximum Ratio	Prior Maximum Ratio
First Amendment Effective Date through fiscal quarter ending June 30, 2006	3.75 to 1.00	3.50 to 1.00
July 1, 2006 through fiscal quarter ending June 29, 2007	3.50 to 1.00	3.25 to 1.00
June 30, 2007 through fiscal quarter ending June 27, 2008	3.00 to 1.00	3.00 to 1.00
June 28, 2008 and thereafter	2.75 to 1.00	2.75 to 1.00

These ratios will be calculated in accordance with the definitions and terms contained in the Amended Credit Agreement, which may be different than calculations pursuant to GAAP.

NVC Contract Award. On January 31, 2006, in a recompetition for our expiring National Visa Center, or NVC, contract, we were awarded the successor contract for the NVC contract by the Department of State. Under the contract, we anticipate performing over 20 million immigrant visa transactions each year at the NVC in Portsmouth, New Hampshire and at the Kentucky Consular Center in Williamsburg, Kentucky. The prime contract has a one-year base period and four one-year options with a potential value of approximately $84 million, inclusive of the options. The prior NVC contract generated 9.1% of our total revenues in fiscal 2005 and 9.2% of our total revenues in fiscal 2004.

Acceleration of Vesting of Stock Options. On December 13, 2005, our Board of Directors approved the accelerated vesting of unvested stock options previously awarded to employees, officers and directors as of December 7, 2005 in light of new accounting regulations that were to come into effect January 1, 2006. Based on the Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R), the Board took the action to accelerate the unvested stock with the belief that it is in the best interest of stockholders, as it will reduce the Company s reported compensation expense in future periods.

Liquidity and Capital Resources

General. Short-term liquidity requirements are created by our use of funds for working capital, capital expenditures, and the need to provide debt service. We expect to meet these requirements through a combination of cash flow from operations and borrowings under our Amended Credit Agreement.

We anticipate that our long-term liquidity requirements, including any further acquisitions, will be funded through a combination of cash flow from operations, borrowings under our Amended Credit Agreement, additional secured or unsecured debt or the issuance of common or preferred stock, each of which may be initially funded through borrowings under our Amended Credit Agreement.

Cash and Cash Equivalents. We consider cash on deposit and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalents, including marketable securities, as of the end of fiscal 2005, fiscal 2004, and fiscal 2003 were $34.0 million, $5.8 million, and $23.3 million, respectively.

Cash Flow. The following table sets forth our sources and uses of cash for the years ended December 31, 2005, 2004 and 2003.

	Fiscal Year		
	2005	**2004**	**2003**
	(in thousands)		
Net cash provided by (used in) operations	$ 26,599	$ (1,655)	$ 16,079
Net cash used in investing activities	(74,821)	(86,665)	(12,241)
Net cash provided by (used in) financing activities	70,628	79,772	(2,392)
Net (decrease) increase in cash	$ 22,406	$ (8,548)	$ 1,446

Our operating cash flow is primarily affected by the overall profitability of our contracts, our ability to invoice and collect from our clients in a timely manner, and our ability to manage our vendor payments. We bill most of our clients monthly after services are rendered. Cash provided by operations in fiscal 2005 was attributable to net income of $16.9 million, plus depreciation, amortization and other non-cash items of $9.9 million. Cash used in operations in fiscal 2004 was attributable to an increase in working capital of $18.6 million, partially offset by net income of $10.9 million plus depreciation, amortization and other non-cash items of $6.0 million. Cash provided by operations in fiscal 2003 was attributable to net income of $7.4 million plus depreciation, amortization and other non-cash items of $2.6 million and a decrease in working capital of $6.1 million.

Our cash flow used in investing activities consists primarily of capital expenditures, the purchase and sale of marketable securities, and acquisitions. In fiscal 2005, we paid $74.0 million for SEI, purchased $42.1 million of marketable securities, and purchased capital assets totalling $2.7 million. We partially offset the cash use with $36.2 million of proceeds from the sale of marketable securities. In fiscal 2004, we paid $64.9 million and $29.5 million, respectively, for Matcom and Bridge acquisitions, purchased $2.1 million of marketable securities, and purchased capital assets totalling $1.2 million. We partially offset the cash use with $11.0 million of proceeds from the sale of marketable securities. In fiscal 2003 we purchased $35.6 million of marketable securities and invested $1.3 million in capital assets. We partially offset the cash use with $24.7 million of proceeds from the sale of marketable securities.

Our cash flow provided by financing activities consists primarily of borrowings under and payments on our credit facility. Cash provided by financing activities for fiscal year 2005 was attributable to proceeds of $100.0 million from the term loan portion of our credit facility, and proceeds of $3.7 million from the exercise of stock options. Cash provided by financing activities was partially offset by repayments of borrowings under the line of credit portion of our credit facility of $29.0 million, payment of debt issuance fees of $3.2 million, partial repayment of the term loan portion of our credit facility of $0.8 million, and repayments of capital leases of $0.1 million. Cash provided by financing activities for fiscal year 2004 was attributable to proceeds of $51.2 million from issuance of common stock from our underwritten public common stock offering, proceeds of $30.0 million from the term loan portion of our credit facility, proceeds of $29.0 million from borrowings on the line of credit portion of the credit facility, and proceeds of $0.9 million from the exercise of stock options. Cash provided by financing activities was partially offset by the repayment of $30.0 million for the term loan portion of our credit facility, payment of debt issuance fees of $1.2 million, and repayments of capital lease obligations of $0.1 million. Cash used in financing activities for fiscal year 2003 was attributable to repayments of bank overdrafts of $2.2 million, $0.1 million partial repayment of an outstanding note from the acquisition of Systems Technology Associates, and payments for our capital leases of $0.1million, partially offset by proceeds from the exercise of stock options of $0.1 million.

Results of Operations

The following table sets forth certain items from our consolidated statements of operations as a percentage of revenues for the periods indicated.

	Fiscal Year		
	2005	**2004**	**2003**
Revenue	100.0 %	100.0 %	100.0 %
Costs and expenses:			
Direct costs	61.9	63.6	60.6
Indirect costs	28.4	27.4	30.6
Depreciation	0.5	0.9	1.2
Amortization	0.6	0.2	0.0
Total operating expenses	91.4	92.1	92.4
Income from operations	8.6	7.9	7.6
Interest expense	(1.5)	(1.1)	(0.4)
Income before provision for income taxes	7.1	6.8	7.2
Provision for income taxes	2.8	2.7	2.8
Net income	4.3 %	4.1 %	4.4 %

Fiscal year 2005 compared with fiscal year 2004

Revenue. Substantially all of our revenue is derived from services and solutions provided to the Federal Government, primarily by our employees and, to a lesser extent, our subcontractors. Revenues from work under Federal Government contracts increased 54.0% to $390.3 million from $253.4 million for the same period in 2004. This increase was attributable to federal business acquired, new contract awards, successful recompetition wins on existing programs and growth within existing programs in our three focus areas: Federal IT Modernization/ Mission-Critical Outsourcing, Defense Transformation, and Homeland Defense. Commercial and other revenues decreased 14.5% to $7.6 million in 2005 from $8.9 million in 2004. This decrease was attributable to our continued focus on opportunities for the Federal Government. We expect revenue growth to continue primarily from Federal Government civilian and defense organizations.

Direct costs. Direct costs include direct labor and other direct costs, such as materials and subcontracts, incurred to provide our services and solutions to our customers. Generally, changes in direct costs are correlated to changes in revenue as resources are consumed in the production of that revenue. The increase in direct costs from fiscal 2004 to fiscal 2005 was attributable primarily to the increase in revenue. As a percentage of revenue, direct costs were 61.9% for fiscal 2005 as compared to 63.6% for fiscal 2004. Direct costs will continue to increase in conjunction to revenue growth.

Indirect costs. Indirect costs include facilities, selling, bid and proposal, indirect labor, fringe benefits and other discretionary costs. The increase in indirect costs from fiscal 2004 to fiscal 2005 was primarily attributable to the expected growth of support functions necessary to facilitate and administer the growth in direct costs. In fiscal 2005, indirect costs were 28.4% of revenue compared to 27.4% of revenue in fiscal 2004. However, we believe in future years, indirect costs will continue to grow, but should decrease as a percentage of sales.

Depreciation and Amortization. Depreciation and amortization includes the depreciation of computers, furniture and other equipment, the amortization of third party software we use internally, leasehold improvements and intangible assets. As a percentage of revenue, depreciation was 0.5% for fiscal 2005 as compared to 0.9% for the same period in fiscal 2004.

Amortization of Intangible Assets. Amortization of intangible assets includes the amortization of intangible assets acquired in connection with the acquisitions in accordance with SFAS 142, Goodwill and Other Intangible Assets. We discontinued the amortization of goodwill effective December 30, 2001. Identifiable intangible assets are amortized over their estimated useful lives. Non-compete agreements are generally amortized straight-line over the term of the agreement, while contracts and related client relationships are amortized proportionately against the acquired backlog. For the fiscal year ended December 31, 2005, we amortized $2.3 million of intangible assets which we capitalized in connection with the acquisitions of Bridge, SEI, and Matcom. For the fiscal year ended December 25, 2004, we amortized $0.6 million of intangible assets which we capitalized in connection with the acquisition of Matcom.

Income from operations. This increase in income from operations from fiscal 2004 to fiscal 2005 was attributable primarily to the increase in revenue. As a percentage of revenue, income from operations was 8.6% for fiscal 2005 as compared to 7.9% in fiscal 2004. We anticipate continued improvement in our operating margin.

Interest expense. Interest expense is primarily related to interest expense incurred or accrued under our outstanding borrowings under our credit facility and, going forward, to a lesser extent, our interest rate swap agreement. The increase in interest expense from fiscal 2004 to fiscal 2005 was attributable primarily to the borrowing of debt subsequent to the acquisitions of Bridge, SEI and Matcom. As a percentage of revenue, interest expense was 1.5% for fiscal 2005 as compared to 1.1% for the same period in fiscal 2004. We anticipate an increase in interest expense in fiscal year 2006 due to increased borrowings under our

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Amended Credit Agreement made in connection with the Zen acquisition. Interest expense included $705,000 and $1,000,000 of amortization and write-off of deferred financing costs during fiscal 2005 and fiscal 2004.

Provision for income taxes. Our effective tax rate is typically greater than the federal statutory rate of 34% due primarily to state income tax rates and certain nondeductible expenses. Our fiscal year 2005 tax provision represents an effective tax rate of 39.5%. Our fiscal 2004 tax provision represents an effective tax rate of 39.3%.

Fiscal year 2004 compared with fiscal year 2003

Revenue. Revenues from work under Federal Government contracts increased 60.7% to $253.4 million from $157.7 million for the same period in 2003. This increase was attributable to federal business acquired, new contract awards, successful recompetition wins on existing programs and growth within existing programs in our four focus areas: Federal IT Modernization, Defense Transformation, Homeland Defense, and Mission-Critical Outsourcing. Commercial and other revenues decreased 16.0% to $8.9 million in 2004 from $10.6 million in 2003. This decrease was attributable to our continued focus on opportunities for the Federal Government.

Direct costs. The increase in direct costs from fiscal 2003 to fiscal 2004 was attributable primarily to the increase in revenue. As a percentage of revenue, direct costs were 63.6% for fiscal 2004 as compared to 60.6% for fiscal 2003.

Indirect costs. The increase in indirect costs from fiscal 2003 to fiscal 2004 was primarily attributable to the expected growth of support functions necessary to facilitate and administer the growth in direct costs.

Depreciation and Amortization. The increase in depreciation and amortization from fiscal 2003 to fiscal 2004 was attributed primarily to increased capital expenditures and the acquisition of Matcom. As a percentage of revenue, depreciation was 0.9% for fiscal 2004 as compared to 1.2% for the same period in fiscal 2003.

Amortization of Intangible Assets. For the fiscal year ended December 25, 2004, we amortized $0.6 million of intangible assets which we capitalized in connection with the acquisition of Matcom. There was no amortization of intangible assets for the fiscal year ended December 27, 2003.

Income from operations. The increase in income from operations from fiscal 2003 to fiscal 2004 was attributable primarily to the increase in revenue. As a percentage of revenue, income from operations was 7.9% for fiscal 2004 as compared to 7.6% in fiscal 2003.

Interest expense. The increase in interest expense from fiscal 2003 to fiscal 2004 was attributable primarily to the borrowing of debt subsequent to the acquisition of Matcom. As a percentage of revenue, interest expense was 1.1% for fiscal 2004 as compared to 0.4% for the same period in fiscal 2003. Interest expense included $1,000,000 and $379,000 of amortization and write-off of deferred financing costs during fiscal 2004 and fiscal 2003.

Provision for income taxes. Our fiscal year 2004 tax provision represents an effective tax rate of 39.5%. Our fiscal 2003 tax provision represents an effective tax rate of 39.3%.

The following table sets forth certain items from our consolidated statements of operations.

	Fiscal Year 2005	2004	2003	Percentage Change 2005 - 2004	2004 - 2003
Revenue	$ 397,919	$ 262,306	$ 168,287	51.7 %	55.9 %
Direct Costs	246,481	166,774	101,940	47.8 %	63.6 %
Indirect Costs	113,015	71,917	51,569	57.1 %	39.5 %
Depreciation/Amortization	2,161	2,231	2,009	(3.1 %)	11.0 %
Amortization of Intangible Assets	2,292	648		253.7 %	100.0 %
Income from Operations	33,970	20,736	12,769	63.8 %	62.4 %
Other Income (Expense)	12	(1)	0	0.0 %	0.0 %
Interest Expense	(6,103)	(2,760)	(606)	121.1 %	355.4 %
Provision for Income Taxes	10,942	7,098	4,784	54.2 %	48.4 %
Net Income	16,937	10,877	7,379	55.7 %	47.4 %

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Supplemental Quarterly Information

The following table sets forth quarterly unaudited consolidated financial data for the fiscal quarters of 2005 and 2004, expressed in dollars and as a percentage of total revenues for the respective periods. We believe that this unaudited financial information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for each period. All of the fiscal quarters reflected in the following table had thirteen weeks, except for the fourth quarter of fiscal 2005, which has fourteen weeks. Some unevenness of revenue from quarter to quarter exists primarily because of the timing of purchases of materials necessary to perform certain obligations under our C4I2SR contract with U.S. Air Force Space Command.

	Fiscal Year 2005				**Fiscal Year 2004**			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
	(dollars in thousands)							
Revenue	$ 83,717	$ 95,983	$ 101,775	$ 116,444	$ 55,970	$ 63,814	$ 72,926	$ 69,596
Costs and expenses:								
Direct costs	52,603	58,598	62,743	72,537	33,529	38,801	49,106	45,339
Indirect costs	23,580	27,929	28,723	32,783	17,309	19,049	17,615	17,943
Depreciation	551	531	504	575	589	598	516	527
Amortization	457	611	612	612	113	192	171	171
Total operating expenses	77,191	87,669	92,582	106,507	51,540	58,640	67,408	63,980
Income from operations	6,526	8,314	9,193	9,937	4,430	5,174	5,518	5,616
Other income (expense)	(99)	14	64	33			(62)	61
Interest expense	(1,097)	(1,659)	(1,690)	(1,657)	(534)	(738)	(693)	(796)
Provision for income taxes	2,106	2,633	2,989	3,214	1,539	1,752	1,881	1,926
Net income	$ 3,224	$ 4,036	$ 4,578	$ 5,099	$ 2,357	$ 2,684	$ 2,882	$ 2,955
Revenue	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Costs and expenses:								
Direct costs	62.8	61.1	61.6	62.3	59.9	60.8	67.2	65.1
Indirect costs	28.2	29.1	28.2	28.2	30.9	29.9	24.2	25.8
Depreciation	0.7	0.6	0.5	0.5	1.1	0.9	0.7	0.8
Amortization	0.5	0.6	0.6	0.5	0.2	0.3	0.2	0.2
Total operating expenses	92.2	91.4	90.9	91.5	92.1	91.9	92.3	91.9
Income from operations	7.8	8.6	9.1	8.5	7.9	8.1	7.7	8.1
Other income (expense).	(0.1)	0.0	0.1	0.0			(0.1)	0.1
Interest expense	(1.3)	(1.7)	(1.7)	(1.4)	(1.0)	(1.2)	(1.0)	(1.1)
Provision for income taxes	2.5	2.7	2.9	2.7	2.7	2.7	2.6	2.8
Net income	3.9 %	4.2 %	4.5 %	4.4 %	4.2 %	4.2 %	4.0 %	4.3 %

Tabular Disclosure of Contractual Obligations

Our contractual obligations as of December 31, 2005 are as follows (in thousands):

	Payment due by period				
Contractual Obligations	**Total**	**1 year**	**2 - 3 years**	**4 - 5 years**	**More than 5 years**
Capital Lease	324	116	160	48	
Operating Lease	41,029	8,373	12,387	12,092	8,177
Credit Agreement	99,250	1,000	2,000	2,000	94,250
Total	**140,603**	**9,489**	**14,547**	**14,140**	**102,427**

Purchase obligations related to existing contracts are with the Federal Government and, in the event any contracts are terminated, we would have the ability to submit a termination claim for outstanding purchases.

In connection with our acquisition of Zen, we borrowed approximately $129.3 million in long-term debt which will be repaid in consecutive quarterly payments of $323,125 each, starting from March 31, 2006 through December 31, 2010, and a final payment of approximately $122.8 million on February 9, 2011.

Effects of Inflation

We generally have been able to price our contracts in a manner to accommodate the rates of inflation experienced in recent years. Under our time and materials contracts, labor rates are usually adjusted annually by predetermined escalation factors. Our cost reimbursable contracts automatically adjust for changes in cost. Under our fixed-price contracts, we include a predetermined escalation factor, but we have generally have not been adversely affected by inflation.

Off-Balance Sheet Arrangements

During fiscal 2005, we were not a party to any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 2 to our accompanying consolidated financial statements. We consider the accounting policies related to revenue recognition to be critical to the understanding of our results of operations. Our critical accounting policies also include the areas where we have made what we consider to be particularly difficult, subjective or complex judgments in making estimates, and where these estimates can significantly impact our financial results under different assumptions and conditions. We prepare our financial statements in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. Actual results could be different from these estimates.

Revenue Recognition

We recognize revenue under its contracts when a contract has been executed, the contract price is fixed and determinable, delivery of services or products has occurred, and collectibility of the contract price is considered probable and can be reasonably estimated. Revenue is earned under cost reimbursable, time and materials and fixed price contracts. Direct contract costs are expensed as incurred.

Under cost reimbursable contracts, we are reimbursed for allowable costs, and paid a fee, which may be fixed or performance-based. Revenues on cost reimbursable contracts are recognized as costs are incurred plus an estimate of applicable fees earned. We consider fixed fees under cost reimbursable contracts to be earned in proportion of the allowable costs incurred in performance of the contract. For cost reimbursable contracts that include performance based fee incentives, we recognize the relevant portion of the expected fee to be awarded by the customer at the time such fee can be reasonably estimated, based on factors such as our prior award experience and communications with the customer regarding performance.

Revenue on time and materials contracts are recognized based on direct labor hours expended at contract billing rates and adding other billable direct costs.

Fixed price contracts may include either a product delivery or specific service performance throughout a period. For fixed price contracts that are based on unit pricing, we recognize revenue for the number of units delivered in any given fiscal period. For fixed price contracts that are based on the proportionate performance method and involve a specified number of similar acts, we recognize revenue based on the proportion of those acts completed compared to the number of total specified acts required by the contract. For fixed price contracts that are based on the proportionate performance method and involve a specified number of defined but not similar acts, we recognize revenue based on the proportion of the project s percentage total costs incurred compared to the estimated total costs associated with the entire transaction. For fixed price contracts that provide for the delivery of a specific product with related customer acceptance provisions, revenues and associated contract costs are recognized upon product delivery and customer acceptance.

Our contracts with agencies of the government are subject to periodic funding by the respective contracting agency. Funding for a contract may be provided in full at inception of the contract or ratably throughout the contract as the services are provided. In evaluating the probability of funding for purposes of assessing collectibility of the contract price, we consider our previous experiences with our customers, communications with our customers regarding funding status, and our knowledge of available funding for the contract or program. If funding is not assessed as probable, revenue recognition is deferred until realization is deemed probable.

Contract revenue recognition inherently involves estimation, including the contemplated level of effort to accomplish the tasks under contract, the cost of the effort, and an ongoing assessment of progress toward completing the contract. From time to time, as part of the normal management processes, facts develop that require revisions to estimated total costs or revenues expected. The cumulative impact of any revisions to estimates and the full impact of anticipated losses on any type of contract are recognized in the period in which they become known.

The allowability of certain costs under government contracts is subject to audit by the government. Certain indirect costs are charged to contracts using provisional or estimated indirect rates, which are subject to later revision based on government audits of those costs. Management is of the opinion that costs subsequently disallowed, if any, would not be significant.

Stock Based Compensation

We account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of our stock at the date of the grant over the exercise price of the related option. We have adopted the annual disclosure provisions of SFAS No. 148 in our financial reports for the year ended December 31, 2003. The disclosures determine compensation cost for our stock options based on SFAS No. 123, which reflects the fair value of each option estimated on the date of grant using the Black-Scholes option-pricing model.

In December 2004, the FASB issued FASB Statement No. 123(R) (revised 2004), *Share Based Payment.* Statement 123(R) addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. Statement 123(R) requires an entity to recognize the grant-date fair-value of stock options and other equity-based compensation issued to employees in the income statement. The revised Statement generally requires that an entity account for those transactions using the fair-value-based method, and eliminates the intrinsic value method of accounting in APB Opinion No. 25, *Accounting for Stock Issued to Employees*, which was permitted under Statement 123, as originally issued. The revised Statement requires entities to disclose information about the nature of the share-based payment transactions and the effects of those transactions on the financial statements. Statement 123(R) is effective for the Company beginning January 1, 2006. All public companies must use either the modified prospective or the modified retrospective transition method. (See Recent Events above for a discussion of changes to our Stock Option programs.)

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to certain financial market risks, the most predominant being fluctuations in interest rates for borrowings under our credit facility. Interest rate fluctuations are monitored by our management as an integral part of our overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on our results of operations. As part of this strategy, we may use interest rate swap arrangements to manage or hedge our interest rate risk. We do not use derivative financial instruments for speculative or trading purposes.

As of December 31, 2005, we had $99.25 million outstanding under our Credit Agreement. A 1% change in interest rates would have resulted in our interest expense fluctuating by approximately $250,000 for the three months ended December 31, 2005.

Effective February 14, 2006, an interest swap agreement came into effect which reduced our exposure associated with the market volatility of floating LIBOR interest rates. This agreement has a notional principal amount of $30.0 million and, as of December 31, 2005, had a rate ranging from 4.05% to 4.74%. This agreement is a hedge against term debt, which bears interest at LIBOR plus a margin which has a current overall rate of 5.78%. At stated monthly intervals the difference between the interest on the floating LIBOR-based debt and the interest calculated in the swap agreement are settled in cash.

In addition, historically, our investment positions have been relatively small and short-term in nature. We have typically made investments in a fund with an effective average maturity of fewer than 40 days and a portfolio make-up consisting primarily of commercial paper and notes, variable rate instruments, and, to a lesser degree, overnight securities and bank instruments. Since our initial public offering, the Board of Directors approved an investment policy that requires us to invest in relatively short-term, high quality, and high liquidity obligations.

Item 8. Financial Statements and Supplementary Data.

The consolidated financial statements of SI International, Inc. are submitted on pages F-1 through F-36 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Quarterly Assessment. We carried out an assessment as of December 31, 2005 of the effectiveness of the design and operation of our disclosure controls and procedures and our internal control over financial reporting. This assessment was done under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Rules adopted by the SEC require that we present the conclusions of our Chief Executive Officer and Chief Financial Officer about the effectiveness of our disclosure controls and procedures and the conclusions of our management about the effectiveness of our internal control over financial reporting as of the end of the period covered by this Annual Report on Form 10-K.

CEO and CFO Certifications. Included as Exhibits 31.1 and 31.2 to this Annual Report on Form 10-K are forms of Certification of our Chief Executive Officer and Chief Financial Officer. The forms of Certification are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002. This section of the Annual Report on Form 10-K that you are currently reading is the information concerning the assessment referred to in the Section 302 certifications and this information should be read in conjunction with the Section 302 certifications for a more complete understanding of the topics presented.

Disclosure Controls and Procedures and Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal control over financial reporting. Disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in our reports filed or submitted under the Exchange Act, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal control over financial reporting is a process designed by, or under the supervision of our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of management or our Board of Directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material adverse effect on our financial statements.

Limitations on the Effectiveness of Controls. Management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and

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the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no assessment of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management s override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Scope of the Assessments. The assessment by our Chief Executive Officer and Chief Financial Officer of our disclosure controls and procedures and the assessment by our management of our internal control over financial reporting included a review of procedures and discussions with our Disclosure Control Committee and others in the Company. In the course of the assessments, management sought to identify data errors, control problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken. Management used the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to assess the effectiveness of our internal control over financial reporting.

Our internal control over financial reporting is also assessed on an ongoing basis by management and other personnel in our Accounting and Internal Audit departments. Management s annual assessment of our internal control over financial reporting is audited by our independent registered public accounting firm. We consider the results of these various assessment activities as we monitor our disclosure controls and procedures and internal control over financial reporting and when deciding to make modifications as necessary. Management s intent in this regard is that the disclosure controls and procedures and the internal control over financial reporting will be maintained and updated (including with improvements and corrections) as conditions warrant. Among other matters, management sought in its assessment to determine whether there were any material weaknesses in the Company s internal control over financial reporting, or whether management had identified any acts of fraud involving senior management, management, or other personnel who have a significant role in our internal control over financial reporting. This information was important both for the assessment generally and because the Section 302 certifications require that our Chief Executive Officer and Chief Financial Officer disclose that information to the Audit Committee of the Board of Directors and to our independent auditors and to report on related matters in this section of the Annual Report on Form 10-K. In the Public Company Accounting Oversight Board s Auditing Standard No. 2, a material weakness is defined as a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. A significant deficiency is defined as a control deficiency, or a combination of control deficiencies, that adversely affects the ability to initiate, authorize, record, process or report external financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the annual or interim financial statements that is more than inconsequential will not be prevented or detected. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Management also sought to deal with other control matters in the assessment, and in each case if a problem was identified, management considered what revision, improvement and/or correction was necessary to be made in accordance with our on-going procedures.

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management,

including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures.

Management s Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2005 based upon the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

Management s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in their report that is included elsewhere herein.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting for the fiscal year ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control for financial reporting.

Item 9B. Other Information.

None.

PART III

The information required by Items 10, 11, 12, 13 and 14 of Part III of Form 10-K has been omitted in reliance on General Instruction G(3) and is incorporated herein by reference to the definitive proxy statement of SI International, Inc. for its 2006 annual meeting of stockholders to be filed with the SEC pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Documents filed as part of this Report

1. Financial Statements.

A. Report of Independent Registered Public Accounting Firm
B. Report of Independent Registered Public Accounting Firm on Internal Control over Finanacial Reporting
C. Consolidated Balance Sheets as of December 31, 2005 and December 25, 2004
D. Consolidated Statements of Operations for the fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003
E. Consolidated Statements of Stockholders Equity for the fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003
F. Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003
G. Notes to Consolidated Financial Statements

2. Financial Statement Schedules.

Schedule II Valuation and Qualifying Accounts

3. Exhibits.

The exhibits required by this item are set forth on the Index to Exhibits attached hereto.

(b) Exhibits.

See Item 15(a)(3) above.

(c) Not Applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 the 15th day of March, 2006.

SI INTERNATIONAL, INC.

By: /s/ S. BRADFORD ANTLE
S. Bradford Antle
President and Chief Executive Officer

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

Signatures	Title	Date
/s/ S. BRADFORD ANTLE **S. Bradford Antle**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2006
/s/ THOMAS E. DUNN **Thomas E. Dunn**	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 15, 2006
/s/ RAY J. OLESON **Ray J. Oleson**	Executive Chairman of the Board	March 15, 2006
/s/ CHARLES A. BOWSHER **Charles A. Bowsher**	Director	March 15, 2006
/s/ JAMES E. CRAWFORD, III **James E. Crawford, III**	Director	March 15, 2006
/s/ WALTER J. CULVER, JR. **Walter J. Culver, Jr.**	Director	March 15, 2006
/s/ WALTER C. FLORENCE **Walter C. Florence**	Director	March 15, 2006
/s/ GENERAL R. THOMAS MARSH **General R. Thomas Marsh (USAF-Ret.)**	Director	March 15, 2006
/s/ EDWARD H. SPROAT **Edward H. Sproat**	Director	March 15, 2006
/s/ JOHN P. STENBIT **John P. Stenbit**	Director	March 15, 2006

INDEX TO EXHIBITS

EXHIBIT NO.	**DESCRIPTION**
2.1	Stock Purchase Agreement among the Company, SEI, and the stockholders of SEI dated January 12, 2005 (filed as Exhibit 99.1 to the Company s Current Report on Form 8-K filed March 1, 2005 and incorporated by reference). (The appendices and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. SI International, Inc., hereby undertakes to furnish supplementally to the Securities and Exchange Commission copies of any omitted appendices and exhibits upon request by the Securities and Exchange Commission).
2.2	Stock Purchase Agreement among the Company, Zen, and the stockholders of Zen dated February 8, 2006(*). (The appendices and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. SI International, Inc., hereby undertakes to furnish supplementally to the Securities and Exchange Commission copies of any omitted appendices and exhibits upon request by the Securities and Exchange Commission).
3.1	Second Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Company s Registration Statement on Form S-1/A (File No. 333-87964) filed on October 25, 2002 (the Third Amendment) and incorporated herein by reference).
3.2	Amended and Restated Bylaws, as amended (filed as Exhibit 3.2 to the Company s Current Report on Form 8-K filed on October 11, 2005 and incorporated herein by reference).
4.1	Registration Rights Agreement, as amended (filed as Exhibit 4.1 to the Third Amendment and incorporated herein by reference).
4.2	Specimen Certificate of our common stock (filed as Exhibit 4.2 to the Company s Registration Statement on Form S-1/A (File No. 333-87964) filed on November 5, 2002 (the Fourth Amendment) and incorporated herein by reference).
4.3	Stock Purchase Agreement, as amended (filed as Exhibit 4.3 to the Company s Registration Statement on Form S-1/A (File No. 333-87964) filed on November 8, 2002 (the Fifth Amendment), and incorporated herein by reference).
4.4	Amendment to Stock Purchase Agreements (filed as Exhibit 4.4 to the Fourth Amendment and incorporated herein by reference).
10.1	2002 Amended and Restated Omnibus Stock Incentive Plan (filed as Annex B to the Company s Proxy Statement on Schedule 14A for the 2005 Annual Meeting of Stockholders filed on April 21, 2005 and incorporated herein by reference).
10.2	January 2001 Nonqualified Stock Option Plan (filed as Exhibit 10.2 to the Company s Registration Statement on Form S-1/A (File No. 333-87964) filed on June 24, 2002 (the First Amendment) and incorporated herein by reference).
10.3	SI International, Inc. 2001 Service Award Stock Option Plan (filed as Exhibit 10.3 to the First Amendment and incorporated herein by reference).
10.4	1998 Stock Option Plan (filed as Exhibit 10.5 to the First Amendment and incorporated herein by reference).
10.5	Non-Qualified Deferred Compensation Plan, as amended (filed as Exhibit 10.13 to the Company s Annual Report on Form 10-K for the fiscal year ended December 25, 2004 and incorporated herein by reference).
10.6	Form of SI International, Inc. Stock Option Agreement Evidencing Grant of Stock Options Under the SI International, Inc. 2002 Stock Incentive Plan, Including Notice of Stock Option Grant (filed as Exhibit 99.1 to the Company s Current Report on Form 8-K filed on March 17, 2006 and incorporated herein by reference).

10.7	Notice of Stock Option Acceleration of Vesting (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed on December 13, 2005 and incorporated herein by reference).
10.8	Amended and Restated Credit Agreement (filed as Exhibit 99.1 to the Company s Current Report on Form 8-K filed February 15, 2005 and incorporated herein by reference).
10.9	First Amendment to Amended and Restated Credit Agreement (filed as Exhibit 99.1 to the Company s Current Report on Form 8-K filed March 3, 2006 and incorporated herein by reference).
10.10	Executive Employment Agreement with S. Bradford Antle (filed as Exhibit 10.6 to the Third Amendment and incorporated herein by reference).
10.11	Executive Employment Agreement with Thomas E. Dunn (filed as Exhibit 10.8 to the Third Amendment and incorporated herein by reference).
10.12	Executive Employment Agreement with Thomas E. Lloyd (filed as Exhibit 10.9 to the Third Amendment and incorporated herein by reference).
10.13	Executive Employment Agreement with Ray J. Oleson (filed as Exhibit 10.10 to the Third Amendment and incorporated herein by reference).
10.14	Executive Employment Agreement with Paul R. Brubaker (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed on March 22, 2005 and incorporated herein by reference).
10.15	Executive Employment Agreement with Harry D. Gatanas (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K/A filed on November 14, 2005 and incorporated herein by reference).
10.16	Executive Employment Agreement with Marylynn Stowers (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K/A on February 2, 2006 and incorporated herein by reference).
10.17	Executive Employment Agreement with P. Michael Becraft (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K/A filed on February 24, 2006 and incorporated herein by reference).
10.18	Consulting Services Agreement with Walter J. Culver (filed as Exhibit 10.12 to the Company s Annual Report on Form 10-K for the fiscal year ended December 25, 2004 and incorporated herein by reference).
10.19	Form of Indemnification Agreement (filed as Exhibit 10.11 to the Third Amendment and incorporated herein by reference).
21.1	Subsidiaries of the registrant (*).
23.1	Consent of Ernst & Young LLP (*).
31.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a 14(a) as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 (*).
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 (*).

* Indicates filed herewith.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of SI International, Inc.

We have audited the accompanying consolidated balance sheets of SI International, Inc. and subsidiaries (as defined in Note 1) (the Company) as of December 31, 2005 and December 25, 2004, and the related consolidated statements of operations, stockholders equity, and cash flows for the fiscal years ended December 31, 2005, December 25, 2004, and December 27, 2003. Our audits also included the financial statement schedule listed in the index at Item 15. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SI International, Inc. and subsidiaries at December 31, 2005 and December 25, 2004, and the consolidated results of its operations and its cash flows for the fiscal years ended December 31, 2005, December 25, 2004, and December 27, 2003 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of SI International, Inc. and its subsidiaries internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
March 3, 2006

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of SI International, Inc.

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting that SI International, Inc. and subsidiaries (as defined in Note 1) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). SI International s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that SI International, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, SI International, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of SI International, Inc. and subsidiaries as of December 31, 2005 and December 25, 2004, and the related consolidated statements of operations, stockholders equity, and cash flows for the fiscal years ended December 31, 2005, December 25, 2004, and December 27, 2003 and our report dated March 3, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
March 3, 2006

SI International, Inc.
Consolidated balance sheets
As of December 31, 2005 and December 25, 2004
(Amounts in thousands, except share and per share data)

	December 31, 2005	December 25, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 26,160	$ 3,754
Marketable securities	7,850	2,000
Accounts receivable, net	93,633	65,710
Deferred tax asset	422	2,740
Other current assets	6,276	3,503
Total current assets	134,341	77,707
Property and equipment, net	5,908	4,971
Intangible assets, net	16,483	6,575
Other assets	5,655	2,142
Goodwill	173,308	120,712
Total assets	$ 335,695	$ 212,107
Liabilities and stockholders equity		
Current liabilities:		
Note Payable Line of Credit	$	$ 28,954
Current portion of long-term debt	1,000	
Accounts payable	25,364	11,225
Accrued expenses and other current liabilities	29,674	15,603
Note payable former owner of acquired business	2,280	
Total current liabilities	58,318	55,782
Long-term debt, net of current portion	98,250	
Note payable former owner of acquired business		2,280
Deferred income tax	5,221	5,046
Other long-term liabilities	6,037	3,929
Stockholders equity:		
Common stock $0.01 par value per share; 50,000,000 shares authorized; 11,341,222 and 11,047,533 shares issued and outstanding as of December 31, 2005 and December 25, 2004, respectively	114	111
Additional paid-in capital	133,843	128,192
Deferred compensation		(208)
Retained earnings	33,912	16,975
Total stockholders equity	167,869	145,070
Total liabilities and stockholders equity	$ 335,695	$ 212,107

The accompanying notes are an integral part of these consolidated balance sheets.

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SI International, Inc.
Consolidated statements of operations
For the fiscal years ended December 31, 2005, December 25, 2004, and December 27, 2003
(Amounts in thousands, except per share data)

	Fiscal Year 2005	2004	2003
Revenue	$ 397,919	$ 262,306	$ 168,287
Costs and expenses:			
Direct costs	246,481	166,774	101,940
Indirect costs	113,015	71,917	51,569
Depreciation	2,161	2,231	2,009
Amortization	2,292	648	
Total operating expenses	363,949	241,570	155,518
Income from operations	33,970	20,736	12,769
Other income (expense)	12	(1)	
Interest expense	(6,103)	(2,760)	(606)
Income before provision for income taxes	27,879	17,975	12,163
Provision for income taxes	10,942	7,098	4,784
Net income	$ 16,937	$ 10,877	$ 7,379
Earnings per common share:			
Basic net income per common share	$ 1.51	$ 1.20	$

Term Loan, 5.55%, (1 mo. USD LIBOR + 3.25%), Maturing May 14, 2022	43	43,310
David s Bridal, Inc.		
Term Loan, 6.32%, (3 mo. USD LIBOR + 4.00%), Maturing October 11, 2019	1,971	1,583,233
Evergreen Acqco 1 L.P.		
Term Loan, 6.22%, (3 mo. USD LIBOR + 3.75%), Maturing July 9, 2019	2,098	2,042,800
Global Appliance, Inc.		
Term Loan, 6.31%, (1 mo. USD LIBOR + 4.00%), Maturing September 29, 2024	941	934,622
Harbor Freight Tools USA, Inc.		
Term Loan, 4.80%, (1 mo. USD LIBOR + 2.50%), Maturing August 18, 2023	442	436,011
Hoya Midco, LLC		
Term Loan, 5.80%, (1 mo. USD LIBOR + 3.50%), Maturing June 30, 2024	2,002	1,995,906

Borrower/Tranche Description	**Principal Amount* (000 s omitted)**	**Value**
Retailers (Except Food and Drug) (continued)		
J. Crew Group, Inc.		
Term Loan, 5.35%, (USD LIBOR + 3.00%), Maturing March 5, 2021[(3)(4)]	2,855	$ 2,338,559
LSF9 Atlantis Holdings, LLC		
Term Loan, 8.28%, (1 mo. USD LIBOR + 6.00%), Maturing May 1, 2023	969	934,844
Neiman Marcus Group Ltd., LLC		
Term Loan, 5.53%, (1 mo. USD LIBOR + 3.25%), Maturing October 25, 2020	2,096	1,911,889
Party City Holdings, Inc.		
Term Loan, 5.06%, (1 mo. USD LIBOR + 2.75%), Maturing August 19, 2022	778	781,943
PetSmart, Inc.		
Term Loan, 5.28%, (1 mo. USD LIBOR + 3.00%), Maturing March 11, 2022	3,895	3,312,938
PFS Holding Corporation		
Term Loan, 5.78%, (1 mo. USD LIBOR + 3.50%), Maturing January 31, 2021	2,144	1,232,520
Pier 1 Imports (U.S.), Inc.		
Term Loan, 5.89%, (3 mo. USD LIBOR + 3.50%), Maturing April 30, 2021	503	375,759
Radio Systems Corporation		
Term Loan, 5.05%, (1 mo. USD LIBOR + 2.75%), Maturing May 2, 2024	420	420,737
Shutterfly, Inc.		
Term Loan, 5.06%, (1 mo. USD LIBOR + 2.75%), Maturing August 17, 2024	524	524,888
Staples, Inc.		
Term Loan, 6.34%, (3 mo. USD LIBOR + 4.00%), Maturing September 12, 2024	596	594,383
		$ 27,213,478
Steel 1.1%		
Atkore International, Inc.		
Term Loan, 5.14%, (3 mo. USD LIBOR + 2.75%), Maturing December 22, 2023	1,365	$ 1,367,246

GrafTech Finance, Inc.		
Term Loan, 5.80%, (1 mo. USD LIBOR + 3.50%), Maturing February 12, 2025	2,716	2,732,598
Neenah Foundry Company		
Term Loan, 8.84%, (2 mo. USD LIBOR + 6.50%), Maturing December 13, 2022	770	766,150
Phoenix Services International, LLC		
Term Loan, 6.03%, (1 mo. USD LIBOR + 3.75%), Maturing March 1, 2025	846	853,679

See Notes to Financial Statements.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Portfolio of Investments   continued

Borrower/Tranche Description		Principal Amount* (000 s omitted)	Value
Steel (continued)			
Zekelman Industries, Inc.			
Term Loan, 4.62%, (3 mo. USD LIBOR + 2.25%), Maturing June 14, 2021		659	$ 659,292
			$ 6,378,965
Surface Transport 0.8%			
Agro Merchants NAI Holdings, LLC			
Term Loan, 6.14%, (3 mo. USD LIBOR + 3.75%), Maturing December 6, 2024		372	$ 374,825
Hertz Corporation (The)			
Term Loan, 5.06%, (1 mo. USD LIBOR + 2.75%), Maturing June 30, 2023		992	988,046
Kenan Advantage Group, Inc.			
Term Loan, 5.30%, (1 mo. USD LIBOR + 3.00%), Maturing July 31, 2022		108	108,259
Term Loan, 5.30%, (1 mo. USD LIBOR + 3.00%), Maturing July 31, 2022		356	355,998
PODS, LLC			
Term Loan, 5.03%, (3 mo. USD LIBOR + 2.75%), Maturing December 6, 2024		619	615,967
Stena International S.a.r.l.			
Term Loan, 5.39%, (3 mo. USD LIBOR + 3.00%), Maturing March 3, 2021		1,504	1,466,522
XPO Logistics, Inc.			
Term Loan, 4.51%, (3 mo. USD LIBOR + 2.00%), Maturing February 24, 2025		600	602,166
			$ 4,511,783
Telecommunications 6.5%			
CenturyLink, Inc.			
Term Loan, 5.05%, (1 mo. USD LIBOR + 2.75%), Maturing January 31, 2025		5,062	$ 5,009,867
Colorado Buyer, Inc.			
Term Loan, 5.28%, (1 mo. USD LIBOR + 3.00%), Maturing May 1, 2024		1,609	1,607,652
Digicel International Finance Limited			
Term Loan, 5.57%, (1 mo. USD LIBOR + 3.25%), Maturing May 28, 2024		1,485	1,425,603
eircom Finco S.a.r.l.			
Term Loan, 3.25%, (1 mo. EURIBOR + 3.25%), Maturing April 19, 2024	EUR	1,900	2,168,042
Frontier Communications Corp.			
Term Loan, 6.06%, (1 mo. USD LIBOR + 3.75%), Maturing June 15, 2024		1,876	1,819,962
Gamma Infrastructure III B.V.			
Term Loan, 3.50%, (3 mo. EURIBOR + 3.50%), Maturing January 9, 2025	EUR	1,500	1,706,408

Borrower/Tranche Description	Principal Amount* (000 s omitted)	Value
Telecommunications (continued)		
Global Eagle Entertainment, Inc.		

Term Loan, 10.02%, (6 mo. USD LIBOR + 7.50%), Maturing January 6, 2023		2,057	$ 2,128,878
Intelsat Jackson Holdings SA			
Term Loan, Maturing November 27, 2023[5]		1,250	1,251,719
Term Loan, 6.79%, (1 mo. USD LIBOR + 4.50%), Maturing January 2, 2024		1,700	1,792,084
IPC Corp.			
Term Loan, 7.03%, (3 mo. USD LIBOR + 4.50%), Maturing August 6, 2021		1,127	1,087,254
Lumentum Holdings			
Term Loan, Maturing August 7, 2025[5]		575	577,875
Mitel Networks Corporation			
Term Loan, 6.05%, (1 mo. USD LIBOR + 3.75%), Maturing September 25, 2023		421	425,711
Onvoy, LLC			
Term Loan, 6.89%, (3 mo. USD LIBOR + 4.50%), Maturing February 10, 2024		1,699	1,648,151
Plantronics, Inc.			
Term Loan, 4.80%, (1 mo. USD LIBOR + 2.50%), Maturing July 2, 2025		1,325	1,323,550
Sprint Communications, Inc.			
Term Loan, 4.81%, (1 mo. USD LIBOR + 2.50%), Maturing February 2, 2024		3,398	3,396,099
Syniverse Holdings, Inc.			
Term Loan, 7.28%, (1 mo. USD LIBOR + 5.00%), Maturing March 9, 2023		970	975,461
TDC A/S			
Term Loan, 3.50%, (1 mo. EURIBOR + 3.50%), Maturing May 31, 2025	EUR	3,544	4,045,412
Telesat Canada			
Term Loan, 4.89%, (3 mo. USD LIBOR + 2.50%), Maturing November 17, 2023		4,547	4,554,148
			$ 36,943,876
Utilities 2.8%			
Brookfield WEC Holdings, Inc.			
Term Loan, 6.05%, (1 mo. USD LIBOR + 3.75%), Maturing August 1, 2025		2,200	$ 2,217,875
Calpine Construction Finance Company L.P.			
Term Loan, 4.80%, (1 mo. USD LIBOR + 2.50%), Maturing January 15, 2025		884	884,090
Calpine Corporation			
Term Loan, 4.89%, (3 mo. USD LIBOR + 2.50%), Maturing January 15, 2024		3,072	3,065,199

See Notes to Financial Statements.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Portfolio of Investments   continued

Borrower/Tranche Description	Principal Amount* (000 s omitted)		Value
Utilities (continued)			
Dayton Power & Light Company (The)			
Term Loan, 4.31%, (1 mo. USD LIBOR + 2.00%), Maturing August 24, 2022	540	$	542,401
Granite Acquisition, Inc.			
Term Loan, 5.89%, (3 mo. USD LIBOR + 3.50%), Maturing December 19, 2021	109		109,122
Term Loan, 5.90%, (3 mo. USD LIBOR + 3.50%), Maturing December 19, 2021	2,382		2,395,599
Lightstone Generation, LLC			
Term Loan, 6.05%, (1 mo. USD LIBOR + 3.75%), Maturing January 30, 2024	77		76,376
Term Loan, 6.05%, (1 mo. USD LIBOR + 3.75%), Maturing January 30, 2024	1,440		1,422,021
Longview Power, LLC			
Term Loan, 8.53%, (3 mo. USD LIBOR + 6.00%), Maturing April 13, 2021	2,685		2,334,109
Talen Energy Supply, LLC			
Term Loan, 6.30%, (1 mo. USD LIBOR + 4.00%), Maturing July 15, 2023	1,086		1,091,534
Term Loan, 6.30%, (1 mo. USD LIBOR + 4.00%), Maturing April 15, 2024	711		713,447
USIC Holdings, Inc.			
Term Loan, 5.55%, (1 mo. USD LIBOR + 3.25%), Maturing December 8, 2023	199		199,974
Vistra Energy Corp.			
Term Loan, 4.29%, (1 mo. USD LIBOR + 2.00%), Maturing December 31, 2025	1,047		1,045,411
		$	**16,097,158**
Total Senior Floating-Rate Loans (identified cost $803,947,366)		**$**	**793,619,099**

Corporate Bonds & Notes   5.1%

Security	Principal Amount* (000 s omitted)		Value
Aerospace and Defense 0.0%[7]			
Huntington Ingalls Industries, Inc.			
5.00%, 11/15/25[9]	10	$	10,365
TransDigm, Inc.			
6.00%, 7/15/22	85		85,638
6.50%, 7/15/24	80		81,067
		$	**177,070**

Security	Principal Amount*	Value

	(000 s omitted)	
Building and Development 0.1%		
Builders FirstSource, Inc.		
5.625%, 9/1/24[9]	6	$ 5,618
Hillman Group, Inc. (The)		
6.375%, 7/15/22[9]	53	46,905
Reliance Intermediate Holdings, L.P.		
6.50%, 4/1/23[9]	120	124,500
Standard Industries, Inc.		
6.00%, 10/15/25[9]	50	49,375
TRI Pointe Group, Inc./TRI Pointe Homes, Inc.		
4.375%, 6/15/19	45	45,169
5.875%, 6/15/24	18	16,897
		$ 288,464
Business Equipment and Services 0.3%		
First Data Corp.		
7.00%, 12/1/23[9]	155	$ 160,832
5.00%, 1/15/24[9]	20	19,875
FTI Consulting, Inc.		
6.00%, 11/15/22	40	40,874
ServiceMaster Co., LLC (The)		
7.45%, 8/15/27	45	47,250
Solera, LLC/Solera Finance, Inc.		
10.50%, 3/1/24[9]	10	10,900
Travelport Corporate Finance PLC		
6.00%, 3/15/26[9]	1,325	1,331,625
		$ 1,611,356
Cable and Satellite Television 0.2%		
Cablevision Systems Corp.		
5.875%, 9/15/22	15	$ 15,112
CCO Holdings, LLC/CCO Holdings Capital Corp.		
5.25%, 9/30/22	155	156,066
5.75%, 1/15/24	10	10,125
5.375%, 5/1/25[9]	95	93,219
5.75%, 2/15/26[9]	45	44,662
CSC Holdings, LLC		
5.25%, 6/1/24	10	9,662
DISH DBS Corp.		
6.75%, 6/1/21	20	20,250
5.875%, 7/15/22	25	23,719
5.875%, 11/15/24	5	4,269
Virgin Media Secured Finance PLC		
5.50%, 1/15/25[9]	550	537,625
		$ 914,709

See Notes to Financial Statements.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Portfolio of Investments — continued

Security	Principal Amount* (000's omitted)	Value
Chemicals and Plastics — 0.3%		
Hexion, Inc.		
6.625%, 4/15/20	1,900	$ 1,686,250
Platform Specialty Products Corp.		
6.50%, 2/1/22[9]	45	45,731
W.R. Grace & Co.		
5.125%, 10/1/21[9]	30	30,300
5.625%, 10/1/24[9]	10	10,213
		$ 1,772,494
Conglomerates — 0.0%[7]		
Spectrum Brands, Inc.		
6.625%, 11/15/22	30	$ 30,713
5.75%, 7/15/25	70	68,250
		$ 98,963
Consumer Products — 0.0%[7]		
Central Garden & Pet Co.		
6.125%, 11/15/23	25	$ 25,563
		$ 25,563
Containers and Glass Products — 0.8%		
Berry Global, Inc.		
6.00%, 10/15/22	25	$ 25,594
Owens-Brockway Glass Container, Inc.		
5.875%, 8/15/23[9]	35	35,000
6.375%, 8/15/25[9]	15	15,150
Reynolds Group Issuer, Inc./Reynolds Group Issuer, LLC		
5.75%, 10/15/20	3,755	3,759,986
5.936%, (3 mo. USD LIBOR + 3.50%), 7/15/21[9][10]	950	961,875
		$ 4,797,605
Drugs — 0.7%		
Bausch Health Cos., Inc.		
7.50%, 7/15/21[9]	25	$ 25,438
5.625%, 12/1/21[9]	30	29,662
6.50%, 3/15/22[9]	807	837,262
7.00%, 3/15/24[9]	1,049	1,101,125
5.50%, 11/1/25[9]	1,725	1,696,969
Jaguar Holding Co. II/Pharmaceutical Product Development, LLC		
6.375%, 8/1/23[9]	70	70,154

Security		Principal Amount* (000 s omitted)	Value
			$ 3,760,610
Ecological Services and Equipment 0.0%[7]			
Clean Harbors, Inc.			
5.125%, 6/1/21		25	$ 25,063
Covanta Holding Corp.			
5.875%, 3/1/24		25	25,000
			$ 50,063
Electric Utilities 0.0%[7]			
NRG Yield Operating, LLC			
5.375%, 8/15/24		11	$ 10,938
5.00%, 9/15/26		10	9,350
			$ 20,288
Electronics / Electrical 0.0%[7]			
Infor (US), Inc.			
6.50%, 5/15/22		50	$ 50,125
			$ 50,125
Financial Intermediaries 0.0%[7]			
Icahn Enterprises, L.P./Icahn Enterprises Finance Corp.			
6.25%, 2/1/22		40	$ 40,482
JPMorgan Chase & Co.			
Series S, 6.75% to 2/1/24[11][12]		80	85,420
Navient Corp.			
5.50%, 1/15/19		115	115,575
5.00%, 10/26/20		25	25,200
			$ 266,677
Food Products 0.1%			
Iceland Bondco PLC			
5.063%, (3 mo. GBP LIBOR + 4.25%), 7/15/20[9][10]	GBP	254	$ 325,000
Post Holdings, Inc.			
8.00%, 7/15/25[9]		15	16,406
			$ 341,406
Food Service 0.0%[7]			
1011778 B.C. Unlimited Liability Company/New Red Finance, Inc.			
4.625%, 1/15/22[9]		65	$ 64,586
			$ 64,586

See Notes to Financial Statements.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Portfolio of Investments continued

Security	Principal Amount* (000 s omitted)	Value
Health Care 1.2%		
Avantor, Inc.		
6.00%, 10/1/24[9]	1,375	$ 1,375,000
Centene Corp.		
4.75%, 5/15/22	20	20,125
CHS/Community Health Systems, Inc.		
6.25%, 3/31/23	1,500	1,385,175
HCA Healthcare, Inc.		
6.25%, 2/15/21	85	88,506
HCA, Inc.		
6.50%, 2/15/20	15	15,525
4.75%, 5/1/23	1,050	1,063,125
5.875%, 2/15/26	25	25,625
Hologic, Inc.		
4.375%, 10/15/25[9]	30	28,275
inVentiv Group Holdings, Inc./inVentiv Health, Inc./ inVentiv Health Clinical, Inc.		
7.50%, 10/1/24[9]	27	28,553
RegionalCare Hospital Partners Holdings, Inc.		
8.25%, 5/1/23[9]	1,750	1,857,187
Teleflex, Inc.		
5.25%, 6/15/24	20	20,300
Tenet Healthcare Corp.		
6.00%, 10/1/20	60	61,593
4.375%, 10/1/21	600	596,250
8.125%, 4/1/22	45	47,025
6.75%, 6/15/23	5	5,005
		$ 6,617,269
Insurance 0.0%[2]		
Alliant Holdings Intermediate, LLC/Alliant Holdings Co-Issuer		
8.25%, 8/1/23[9]	40	$ 41,445
		$ 41,445
Internet Software & Services 0.0%[2]		
Netflix, Inc.		
5.50%, 2/15/22	45	$ 46,120
5.875%, 2/15/25	55	56,031
Riverbed Technology, Inc.		
8.875%, 3/1/23[9]	40	36,850
		$ 139,001

Security	Principal Amount* (000 s omitted)	Value
Leisure Goods / Activities / Movies 0.1%		
National CineMedia, LLC		
6.00%, 4/15/22	700	$ 710,500
Sabre GLBL, Inc.		
5.375%, 4/15/23(9)	25	25,125
5.25%, 11/15/23(9)	40	39,695
Viking Cruises, Ltd.		
6.25%, 5/15/25(9)	40	40,200
		$ 815,520
Lodging and Casinos 0.1%		
ESH Hospitality, Inc.		
5.25%, 5/1/25(9)	30	$ 28,463
GLP Capital, L.P./GLP Financing II, Inc.		
4.875%, 11/1/20	75	76,031
MGM Growth Properties Operating Partnership, L.P./MGP Finance Co-Issuer, Inc.		
5.625%, 5/1/24	10	10,050
MGM Resorts International		
6.625%, 12/15/21	90	94,472
7.75%, 3/15/22	25	26,906
RHP Hotel Properties, L.P./RHP Finance Corp.		
5.00%, 4/15/23	30	29,850
Tunica-Biloxi Gaming Authority		
3.78%, 12/15/20(9)	161	44,941
		$ 310,713
Nonferrous Metals / Minerals 0.0%(7)		
Eldorado Gold Corp.		
6.125%, 12/15/20(9)	120	$ 112,200
Imperial Metals Corp.		
7.00%, 3/15/19(9)	25	17,250
New Gold, Inc.		
6.25%, 11/15/22(9)	30	26,250
		$ 155,700
Oil and Gas 0.2%		
Antero Resources Corp.		
5.375%, 11/1/21	100	$ 100,250
5.625%, 6/1/23	5	5,013
Canbriam Energy, Inc.		
9.75%, 11/15/19(9)	25	24,687
CITGO Petroleum Corp.		
6.25%, 8/15/22(9)	700	693,000

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Portfolio of Investments — continued

Security	Principal Amount* (000's omitted)		Value
Oil and Gas (continued)			
CVR Refining, LLC/Coffeyville Finance, Inc.			
6.50%, 11/1/22	125	$	126,406
Energy Transfer Equity, L.P.			
5.875%, 1/15/24	30		31,575
Gulfport Energy Corp.			
6.625%, 5/1/23	35		35,175
Newfield Exploration Co.			
5.625%, 7/1/24	120		123,900
Parsley Energy, LLC/Parsley Finance Corp.			
5.25%, 8/15/25[9]	10		9,713
PBF Logistics, L.P./PBF Logistics Finance Corp.			
6.875%, 5/15/23	45		46,012
Seven Generations Energy, Ltd.			
6.75%, 5/1/23[9]	60		61,770
6.875%, 6/30/23[9]	25		25,875
Williams Cos., Inc. (The)			
4.55%, 6/24/24	5		5,039
		$	**1,288,415**
Publishing — 0.0%[7]			
Tribune Media Co.			
5.875%, 7/15/22	35	$	35,613
		$	**35,613**
Radio and Television — 0.2%			
Clear Channel Worldwide Holdings, Inc.			
Series A, 6.50%, 11/15/22	50	$	50,437
Series B, 6.50%, 11/15/22	90		91,818
iHeartCommunications, Inc.			
9.00%, 12/15/19[6]	953		690,925
Nielsen Co. Luxembourg S.a.r.l. (The)			
5.50%, 10/1/21[9]	35		35,263
Sirius XM Radio, Inc.			
6.00%, 7/15/24[9]	85		87,108
Univision Communications, Inc.			
6.75%, 9/15/22[9]	241		246,422
		$	**1,201,973**
Retailers (Except Food and Drug) — 0.2%			
Fresh Market, Inc. (The)			
9.75%, 5/1/23[9]	1,175	$	863,625

Security	Principal Amount* (000 s omitted)		Value
Murphy Oil USA, Inc.			
6.00%, 8/15/23	135		138,375
Retailers (Except Food and Drug) (continued)			
Party City Holdings, Inc.			
6.125%, 8/15/23[9]	60	$	60,150
		$	**1,062,150**
Road & Rail 0.0%[7]			
Watco Cos., LLC/Watco Finance Corp.			
6.375%, 4/1/23[9]	45	$	45,788
		$	**45,788**
Software and Services 0.0%[7]			
IHS Markit, Ltd.			
5.00%, 11/1/22[9]	60	$	61,548
Infor Software Parent, LLC/Infor Software Parent, Inc.			
7.125%, (7.125% Cash or 7.875% PIK), 5/1/21[9][13]	65		65,650
		$	**127,198**
Surface Transport 0.0%[7]			
XPO Logistics, Inc.			
6.50%, 6/15/22[9]	56	$	57,610
		$	**57,610**
Telecommunications 0.4%			
CenturyLink, Inc.			
Series W, 6.75%, 12/1/23	40	$	40,900
CommScope Technologies, LLC			
6.00%, 6/15/25[9]	45		43,987
5.00%, 3/15/27[9]	5		4,500
Frontier Communications Corp.			
10.50%, 9/15/22	15		12,563
7.625%, 4/15/24	30		18,150
6.875%, 1/15/25	45		25,650
Intelsat Jackson Holdings SA			
5.50%, 8/1/23	25		22,438
Level 3 Financing, Inc.			
5.375%, 1/15/24	25		24,812
Sprint Communications, Inc.			
7.00%, 8/15/20	144		149,400
6.00%, 11/15/22	5		5,059
Sprint Corp.			
7.25%, 9/15/21	225		235,406
7.875%, 9/15/23	556		594,920
7.625%, 2/15/25	35		36,444

See Notes to Financial Statements.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Portfolio of Investments — continued

Security		Principal Amount* (000's omitted)		Value
Telecommunications (continued)				
T-Mobile USA, Inc.				
6.375%, 3/1/25		35	$	36,181
6.50%, 1/15/26		110		116,325
Wind Tre SpA				
2.75%, (3 mo. EURIBOR + 2.75%), 1/20/24[9][10]	EUR	575		604,415
			$	**1,971,150**
Utilities — 0.2%				
Calpine Corp.				
5.25%, 6/1/26[9]		1,050	$	968,625
Vistra Energy Corp.				
7.375%, 11/1/22		20		20,800
7.625%, 11/1/24		35		37,187
8.125%, 1/30/26[9]		25		27,125
			$	**1,053,737**
Total Corporate Bonds & Notes (identified cost $30,171,378)			**$**	**29,163,261**

Asset-Backed Securities — 2.8%

Security		Principal Amount (000's omitted)		Value
Ares CLO, Ltd.				
Series 2014-32RA, Class D, 8.164%, (3 mo. USD LIBOR + 5.85%), 5/15/30[9][10]	$	2,000	$	1,990,214
Series 2015-2A, Class E2, 7.709%, (3 mo. USD LIBOR + 5.20%), 7/29/26[9][10]		1,000		1,009,132
Carlyle Global Market Strategies CLO, Ltd.				
Series 2012-3A, Class DR, 9.886%, (3 mo. USD LIBOR + 7.45%), 10/14/28[9][10]		1,200		1,201,862
Series 2015-5A, Class D, 8.569%, (3 mo. USD LIBOR + 6.10%), 1/20/28[9][10]		500		502,228
Cent CLO, L.P.				
Series 2014-22A, Class D, 7.643%, (3 mo. USD LIBOR + 5.30%), 11/7/26[9][10]		1,000		1,000,010
Dryden XL Senior Loan Fund				
Series 2015-40A, Class ER, 8.064%, (3 mo. USD LIBOR + 5.75%), 8/15/31[9][10]		1,000		995,281
Galaxy CLO, Ltd.				
Series 2015-21A, Class ER, 7.719%, (3 mo. USD LIBOR + 5.25%), 4/20/31[9][10]		1,000		981,719
Golub Capital Partners CLO, Ltd.				
Series 2015-23A, Class ER, 8.219%, (3 mo. USD LIBOR + 5.75%), 1/20/31[9][10]		1,200		1,186,596
Security		**Principal**		**Value**

	Amount (000 s omitted)		Value
Oak Hill Credit Partners XI, Ltd.			
Series 2015-11A, Class E, 9.169%, (3 mo. USD LIBOR + 6.70%), 10/20/28[9][10]	$ 1,000	$	1,000,843
Palmer Square CLO, Ltd.			
Series 2015-2A, Class DR, 8.969%, (3 mo. USD LIBOR + 6.50%), 7/20/30[9][10]	1,200		1,211,769
Recette CLO, LLC			
Series 2015-1A, Class E, 8.169%, (3 mo. USD LIBOR + 5.70%), 10/20/27[9][10]	1,000		1,003,192
Voya CLO, Ltd.			
Series 2013-1A, Class DR, 8.916%, (3 mo. USD LIBOR + 6.48%), 10/15/30[9][10]	2,000		2,024,353
Westcott Park CLO, Ltd.			
Series 2016-1A, Class E, 9.669%, (3 mo. USD LIBOR + 7.20%), 7/20/28[9][10]	1,600		1,623,935
Total Asset-Backed Securities (identified cost $15,226,254)		**$**	**15,731,134**

Common Stocks 1.9%

Security	**Shares**		**Value**
Aerospace and Defense 0.1%			
IAP Global Services, LLC[3][14][15]	55	$	648,636
		$	**648,636**
Automotive 0.1%			
Dayco Products, LLC[14][15]	18,702	$	673,272
		$	**673,272**
Business Equipment and Services 0.0%			
Education Management Corp.[3][14][15]	3,185,850	$	0
		$	**0**
Electronics / Electrical 0.2%			
Answers Corp.[3][14][15]	93,678	$	682,913
		$	**682,913**
Health Care 0.0%[7]			
New Millennium Holdco, Inc.[14][15]	61,354	$	5,522
		$	**5,522**
Nonferrous Metals / Minerals 0.0%			
ASP United/GHX Holding, LLC[3][14][15]	76,163	$	0
		$	**0**

See Notes to Financial Statements.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Portfolio of Investments — continued

Security	Shares	Value
Oil and Gas — 0.7%		
AFG Holdings, Inc.[3][14][15]	29,086	$ 1,977,848
Fieldwood Energy, Inc.[14][15]	19,189	949,855
Nine Point Energy Holdings, Inc.[3][14][15][16]	758	841
Paragon Offshore Finance Company, Class A[14][15]	1,527	1,479
Paragon Offshore Finance Company, Class B[14][15]	764	30,369
Samson Resources II, LLC, Class A[14][15]	44,102	1,041,910
Southcross Holdings Group, LLC[3][14][15]	59	0
Southcross Holdings L.P., Class A[14][15]	59	34,663
		$ 4,036,965
Publishing — 0.7%		
ION Media Networks, Inc.[3][14][15]	3,990	$ 3,830,360
Tweddle Group, Inc.[3][14][15]	1,778	100,048
		$ 3,930,408
Radio and Television — 0.01%		
Cumulus Media, Inc.[14][15]	38,163	$ 555,653
		$ 555,653
Total Common Stocks (identified cost $4,505,500)		**$ 10,533,369**

Convertible Preferred Stocks — 0.0%[7]

Security	Shares	Value
Business Equipment and Services — 0.0%		
Education Management Corp., Series A-1, 7.50%[3][14][15]	3,545	$ 0
		$ 0
Oil and Gas — 0.0%[7]		
Nine Point Energy Holdings, Inc., Series A, 12.00%[3][14][16]	14	$ 20,552
		$ 20,552
Total Convertible Preferred Stocks (identified cost $264,194)		**$ 20,552**

Closed-End Funds — 1.8%

Security	Shares	Value
BlackRock Floating Rate Income Strategies Fund, Inc.	99,936	$ 1,296,170
Invesco Senior Income Trust	483,234	2,000,589
Nuveen Credit Strategies Income Fund	365,228	2,797,647

Nuveen Floating Rate Income Fund	148,079	1,474,867
Nuveen Floating Rate Income Opportunity Fund	103,281	1,036,941
Voya Prime Rate Trust	396,676	1,896,111
Total Closed-End Funds (identified cost $12,168,732)		**$ 10,502,325**

Miscellaneous 0.0%

Security	**Principal Amount**	**Value**
Telecommunications 0.0%		
Avaya, Inc., Escrow Certificates[3][14]	$ 25,000	$ 0
Total Miscellaneous (identified cost $0)		**$ 0**

Short-Term Investments 2.4%

Description	**Units**	**Value**
Eaton Vance Cash Reserves Fund, LLC, 2.28%[17]	13,604,187	$ 13,602,826
Total Short-Term Investments (identified cost $13,603,474)		**$ 13,602,826**
Total Investments 154.1% (identified cost $879,886,898)		**$ 873,172,566**
Less Unfunded Loan Commitments (0.1)%		**$ (385,496)**
Net Investments 154.0% (identified cost $879,501,402)		**$ 872,787,070**
Other Assets, Less Liabilities (40.6)%		**$ (230,481,257)**
Auction Preferred Shares Plus Cumulative Unpaid Dividends (13.4)%		**$ (75,815,611)**
Net Assets Applicable to Common Shares 100.0%		**$ 566,490,202**

The percentage shown for each investment category in the Portfolio of Investments is based on net assets applicable to common shares.

* In U.S. dollars unless otherwise indicated.

(1) Senior floating-rate loans (Senior Loans) often require prepayments from excess cash flows or permit the borrowers to repay at their election. The degree to which borrowers repay, whether as a contractual requirement or at their election, cannot be predicted with accuracy. As a result, the actual remaining maturity may be substantially less than the stated maturities shown. However, Senior Loans will typically have an expected average life of approximately two to four years. Senior Loans typically have rates of interest which are redetermined periodically by reference to a base lending rate, plus a spread. These base lending rates are primarily the London Interbank Offered Rate (LIBOR) and secondarily, the prime rate offered by one or more major United States banks (the Prime Rate). Base lending rates may be subject to a floor, or minimum rate.

(2) Unfunded or partially unfunded loan commitments. The stated interest rate reflects the weighted average of the reference rate and spread for the funded portion, if any, and the commitment fees on the portion of the loan that is unfunded. See Note 1F for description.

(3) For fair value measurement disclosure purposes, security is categorized as Level 3 (see Note 12).

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Portfolio of Investments continued

[4] The stated interest rate represents the weighted average interest rate at October 31, 2018 of contracts within the senior loan facility. Interest rates on contracts are primarily redetermined either weekly, monthly or quarterly by reference to the indicated base lending rate and spread and the reset period.

[5] This Senior Loan will settle after October 31, 2018, at which time the interest rate will be determined.

[6] Issuer is in default with respect to interest and/or principal payments. For a variable rate security, interest rate has been adjusted to reflect non-accrual status.

[7] Amount is less than 0.05%.

[8] Fixed-rate loan.

[9] Security exempt from registration pursuant to Rule 144A under the Securities Act of 1933, as amended. These securities may be sold in certain transactions in reliance on an exemption from registration (normally to qualified institutional buyers). At October 31, 2018, the aggregate value of these securities is $31,119,801 or 5.5% of the Trust s net assets applicable to common shares.

[10] Variable rate security. The stated dividend/interest rate represents the rate in effect at October 31, 2018.

[11] Perpetual security with no stated maturity date but may be subject to calls by the issuer.

[12] Security converts to floating rate after the indicated fixed-rate coupon period.

[13] Represents a payment-in-kind security which may pay interest in additional principal at the issuer s discretion.

[14] Non-income producing security.

[15] Security was acquired in connection with a restructuring of a Senior Loan and may be subject to restrictions on resale.

[16] Restricted security (see Note 7).

(17) Affiliated investment company, available to Eaton Vance portfolios and funds, which invests in high quality, U.S. dollar denominated money market instruments. The rate shown is the annualized seven-day yield as of October 31, 2018.

Forward Foreign Currency Exchange Contracts

Currency Purchased		Currency Sold		Counterparty	Settlement Date	Unrealized Appreciation	Unrealized (Depreciation)
USD	673,287	CAD	871,910	HSBC Bank USA, N.A.	11/30/18	$ 10,650	$
USD	491,541	EUR	425,000	JPMorgan Chase Bank, N.A.	11/30/18	9,124	
USD	15,966,615	EUR	13,543,540	State Street Bank and Trust Company	11/30/18	593,377	
USD	21,406,799	EUR	18,230,654	Goldman Sachs International	12/6/18	701,367	
USD	314,728	EUR	271,216	HSBC Bank USA, N.A.	12/6/18	6,695	
USD	523,580	EUR	450,000	State Street Bank and Trust Company	12/6/18	12,493	
USD	12,969,222	EUR	11,288,618	Goldman Sachs International	1/31/19	76,530	
USD	2,563,016	GBP	1,991,806	State Street Bank and Trust Company	1/31/19	4,924	
						$ 1,415,160	**$**

Abbreviations:

CIDOR	Canada Three Month Interbank Rate
EURIBOR	Euro Interbank Offered Rate
LIBOR	London Interbank Offered Rate
PIK	Payment In Kind

Currency Abbreviations:

CAD	Canadian Dollar
EUR	Euro
GBP	British Pound Sterling
USD	United States Dollar

See Notes to Financial Statements.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Statement of Assets and Liabilities

Assets	October 31, 2018
Unaffiliated investments, at value (identified cost, $865,897,928)	$ 859,184,244
Affiliated investment, at value (identified cost, $13,603,474)	13,602,826
Cash	3,142,704
Deposits for derivatives collateral forward foreign currency exchange contracts	1,260,097
Foreign currency, at value (identified cost, $2,272,263)	2,270,949
Interest and dividends receivable	2,473,750
Dividends receivable from affiliated investment	16,705
Receivable for investments sold	3,809,640
Receivable for open forward foreign currency exchange contracts	1,415,160
Prepaid upfront fees on notes payable	62,902
Prepaid expenses	57,909
Total assets	**$ 887,296,886**
Liabilities	
Notes payable	$ 222,000,000
Cash collateral due to broker	1,260,097
Payable for investments purchased	20,210,142
Payable to affiliates:	
Investment adviser fee	553,310
Trustees fees	3,184
Accrued expenses	964,340
Total liabilities	**$ 244,991,073**
Commitments and contingencies (see Note 13)	
Auction preferred shares (3,032 shares outstanding) at liquidation value plus cumulative unpaid dividends	**$ 75,815,611**
Net assets applicable to common shares	**$ 566,490,202**
Sources of Net Assets	
Common shares, $0.01 par value, unlimited number of shares authorized, 36,848,313 shares issued and outstanding	$ 368,483
Additional paid-in capital	566,478,764
Accumulated loss	(357,045)
Net assets applicable to common shares	**$ 566,490,202**
Net Asset Value Per Common Share	
($566,490,202 ÷ 36,848,313 common shares issued and outstanding)	**$ 15.37**

See Notes to Financial Statements.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Statement of Operations

	Year Ended
Investment Income	**October 31, 2018**
Interest and other income	$ 45,106,811
Dividends	671,690
Dividends from affiliated investment	200,118
Total investment income	**$ 45,978,619**
Expenses	
Investment adviser fee	$ 6,500,214
Trustees fees and expenses	36,395
Custodian fee	321,657
Transfer and dividend disbursing agent fees	17,885
Legal and accounting services	187,896
Printing and postage	74,309
Interest expense and fees	5,976,524
Preferred shares service fee	104,789
Miscellaneous	132,198
Total expenses	**$ 13,351,867**
Net investment income	**$ 32,626,752**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss)	
Investment transactions	$ 8,288,215
Investment transactions affiliated investment	2,605
Foreign currency transactions	(575,080)
Forward foreign currency exchange contracts	3,131,401
Net realized gain	**$ 10,847,141**
Change in unrealized appreciation (depreciation)	
Investments	$ (5,959,151)
Investments affiliated investment	(648)
Foreign currency	(60,758)
Forward foreign currency exchange contracts	958,618
Net change in unrealized appreciation (depreciation)	**$ (5,061,939)**
Net realized and unrealized gain	**$ 5,785,202**
Distributions to preferred shareholders	**$ (2,419,087)**
Discount on redemption and repurchase of auction preferred shares	$ 1,608,000
Net increase in net assets from operations	**$ 37,600,867**

See Notes to Financial Statements.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Year Ended October 31, 2018	2017
From operations		
Net investment income	$ 32,626,752	$ 33,078,197
Net realized gain (loss)	10,847,141	(2,391,364)
Net change in unrealized appreciation (depreciation)	(5,061,939)	15,458,354
Distributions to preferred shareholders	(2,419,087)	(1,270,609)
Discount on redemption and repurchase of auction preferred shares	1,608,000	
Net increase in net assets from operations	**$ 37,600,867**	**$ 44,874,578**
Distributions to common shareholders[1]	**$ (31,542,156)**	**$ (32,166,271)**
Capital share transactions		
Reinvestment of distributions to common shareholders	$	$ 102,895
Net increase in net assets from capital share transactions	**$**	**$ 102,895**
Net increase in net assets	**$ 6,058,711**	**$ 12,811,202**
Net Assets Applicable to Common Shares		
At beginning of year	$ 560,431,491	$ 547,620,289
At end of year	**$ 566,490,202**	**$ 560,431,491**[2]

[1] For the year ended October 31, 2017, the source of distributions was from net investment income.

[2] Includes accumulated undistributed net investment income of $2,230,327 at October 31, 2017. The requirement to disclose the corresponding amount as of October 31, 2018 was eliminated.

See Notes to Financial Statements.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Statement of Cash Flows

Cash Flows From Operating Activities	Year Ended October 31, 2018
Net increase in net assets from operations	$ 37,600,867
Distributions to preferred shareholders	2,419,087
Discount on redemption and repurchase of auction preferred shares	(1,608,000)
Net increase in net assets from operations excluding distributions to preferred shareholders and discount on redemption and repurchase of auction preferred shares	$ 38,411,954
Adjustments to reconcile net increase in net assets from operations to net cash provided by operating activities:	
Investments purchased	(279,813,266)
Investments sold and principal repayments	282,345,133
Increase in short-term investments, net	(7,701,724)
Net amortization/accretion of premium (discount)	(769,261)
Amortization of prepaid upfront fees on notes payable	107,457
Increase in deposits for derivatives collateral forward foreign currency exchange contracts	(1,090,097)
Decrease in interest and dividends receivable	389,952
Decrease in dividends receivable from affiliated investment	1,444
Increase in receivable for open forward foreign currency exchange contracts	(880,313)
Increase in prepaid expenses	(20,761)
Increase in cash collateral due to broker	1,120,097
Decrease in payable for open forward foreign currency exchange contracts	(78,305)
Increase in payable to affiliate for investment adviser fee	8,389
Decrease in payable to affiliate for Trustees fees	(801)
Increase in accrued expenses	238,748
Increase in unfunded loan commitments	98,750
Net change in unrealized (appreciation) depreciation from investments	5,959,799
Net realized gain from investments	(8,290,820)
Net cash provided by operating activities	**$ 30,036,375**
Cash Flows From Financing Activities	
Cash distributions paid to common shareholders	$ (31,542,156)
Cash distributions paid to preferred shareholders	(2,416,157)
Liquidation of auction preferred shares	(18,492,000)
Proceeds from notes payable	36,000,000
Repayments of notes payable	(13,000,000)
Payment of prepaid upfront fees on notes payable	(122,722)
Net cash used in financing activities	**$ (29,573,035)**
Net increase in cash*	**$ 463,340**
Cash at beginning of year[(1)]	**$ 4,950,313**
Cash at end of year[(1)]	**$ 5,413,653**
Supplemental disclosure of cash flow information:	
Cash paid for interest and fees on borrowings	$ 5,750,881

* Includes net change in unrealized appreciation (depreciation) on foreign currency of $(681).

(1) Balance includes foreign currency, at value.

See Notes to Financial Statements.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Financial Highlights

Selected data for a common share outstanding during the periods stated

	Year Ended October 31,				
	2018	**2017**	**2016**	**2015**	**2014**
Net asset value — Beginning of year (Common shares)	$ 15.210	$ 14.860	$ 14.350	$ 15.330	$ 15.810
Income (Loss) From Operations					
Net investment income[1]	$ 0.885	$ 0.898	$ 0.963	$ 0.943	$ 0.925
Net realized and unrealized gain (loss)	0.153	0.359	0.459	(0.979)	(0.414)
Distributions to preferred shareholders					
From net investment income[1]	(0.066)	(0.034)	(0.019)	(0.006)	(0.004)
Discount on redemption and repurchase of auction preferred shares[1]	0.044		0.048		
Total income (loss) from operations	**$ 1.016**	**$ 1.223**	**$ 1.451**	**$ (0.042)**	**$ 0.507**
Less Distributions to Common Shareholders					
From net investment income	$ (0.856)	$ (0.873)	$ (0.941)	$ (0.938)	$ (0.987)
Total distributions to common shareholders	**$ (0.856)**	**$ (0.873)**	**$ (0.941)**	**$ (0.938)**	**$ (0.987)**
Net asset value — End of year (Common shares)	**$ 15.370**	**$ 15.210**	**$ 14.860**	**$ 14.350**	**$ 15.330**
Market value — End of year (Common shares)	**$ 13.430**	**$ 14.550**	**$ 14.150**	**$ 12.970**	**$ 14.050**
Total Investment Return on Net Asset Value[2]	**7.25%**[3]	**8.54%**	**11.31%**[4]	**0.15%**	**3.60%**
Total Investment Return on Market Value[2]	**(2.04)%**	**9.04%**	**17.27%**	**(1.24)%**	**(4.99)%**

See Notes to Financial Statements.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Financial Highlights continued

Selected data for a common share outstanding during the periods stated

Ratios/Supplemental Data	Year Ended October 31, 2018	2017	2016	2015	2014
Net assets applicable to common shares, end of year (000 s omitted)	$ 566,490	$ 560,431	$ 547,620	$ 528,561	$ 564,827
Ratios (as a percentage of average daily net assets applicable to common shares):[5]					
Expenses excluding interest and fees[6]	1.31%	1.34%	1.38%	1.39%	1.36%
Interest and fee expense[7]	1.06%	0.75%	0.49%	0.42%	0.40%
Total expenses[6]	2.37%	2.09%	1.87%	1.81%	1.76%
Net investment income	5.78%	5.93%	6.84%	6.27%	5.89%
Portfolio Turnover	32%	42%	35%	32%	35%
Senior Securities:					
Total notes payable outstanding (in 000 s)	$ 222,000	$ 199,000	$ 198,000	$ 208,000	$ 210,000
Asset coverage per $1,000 of notes payable[8]	$ 3,893	$ 4,298	$ 4,250	$ 4,172	$ 4,315
Total preferred shares outstanding	3,032	3,836	3,836	5,252	5,252
Asset coverage per preferred share[9]	$ 72,558	$ 72,511	$ 71,584	$ 63,946	$ 66,374
Involuntary liquidation preference per preferred share[10]	$ 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

(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 92% of the per share liquidation preference. Absent this transaction, the total return based on net asset value would have been 6.94%.

(4) 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%.

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

(6) 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.

(7) Interest and fee expense relates to the notes payable incurred to partially redeem the Trust s APS (see Note 9).

(8) 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.

(9) 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 the preferred shares, and multiplying the result by the liquidation value of one preferred share. Such amount equates to 290%, 290%, 286%, 256% and 265% at October 31, 2018, 2017, 2016, 2015 and 2014, respectively.

(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.

	Year Ended October 31,				
	2018	**2017**	**2016**	**2015**	**2014**
Expenses excluding interest and fees	0.85%	0.87%	0.88%	0.86%	0.86%
Interest and fee expense	0.69%	0.49%	0.31%	0.26%	0.25%
Total expenses	1.54%	1.36%	1.19%	1.12%	1.11%
Net investment income	3.76%	3.85%	4.34%	3.90%	3.70%

See Notes to Financial Statements.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Notes to Financial Statements

1 Significant Accounting Policies

Eaton Vance Senior Floating-Rate Trust (the Trust) is a Massachusetts business trust registered under the Investment Company Act of 1940, as amended (the 1940 Act), as a diversified, closed-end management investment company. The Trust s primary 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 objective.

The following is a summary of significant accounting policies of the Trust. The policies are in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The Trust is an investment company and follows accounting and reporting guidance in the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 946.

A Investment Valuation The following methodologies are used to determine the market value or fair value of investments.

Senior Floating-Rate Loans. Interests in senior floating-rate loans (Senior Loans) for which reliable market quotations are readily available are valued generally at the average mean of bid and ask quotations obtained from a third party pricing service. Other Senior Loans are valued at fair value by the investment adviser under procedures approved by the Trustees. In fair valuing a Senior Loan, the investment adviser utilizes one or more of the valuation techniques described in (i) through (iii) below to assess the likelihood that the borrower will make a full repayment of the loan underlying such Senior Loan relative to yields on other Senior Loans issued by companies of comparable credit quality. If the investment adviser believes that there is a reasonable likelihood of full repayment, the investment adviser will determine fair value using a matrix pricing approach that considers the yield on the Senior Loan. If the investment adviser believes there is not a reasonable likelihood of full repayment, the investment adviser will determine fair value using analyses that include, but are not limited to: (i) a comparison of the value of the borrower s outstanding equity and debt to that of comparable public companies; (ii) a discounted cash flow analysis; or (iii) when the investment adviser believes it is likely that a borrower will be liquidated or sold, an analysis of the terms of such liquidation or sale. In certain cases, the investment adviser will use a combination of analytical methods to determine fair value, such as when only a portion of a borrower s assets are likely to be sold. In conducting its assessment and analyses for purposes of determining fair value of a Senior Loan, the investment adviser will use its discretion and judgment in considering and appraising relevant factors. Fair value determinations are made by the portfolio managers of the Trust based on information available to such managers. The portfolio managers of other funds managed by the investment adviser that invest in Senior Loans may not possess the same information about a Senior Loan borrower as the portfolio managers of the Trust. At times, the fair value of a Senior Loan determined by the portfolio managers of other funds managed by the investment adviser that invest in Senior Loans may vary from the fair value of the same Senior Loan determined by the portfolio managers of the Trust. The fair value of each Senior Loan is periodically reviewed and approved by the investment adviser s Valuation Committee and by the Trustees based upon procedures approved by the Trustees. Junior Loans (i.e., subordinated loans and second lien loans) are valued in the same manner as Senior Loans.

Debt Obligations. Debt obligations are generally valued on the basis of valuations provided by third party pricing services, as derived from such services pricing models. Inputs to the models may include, but are not limited to, reported trades, executable bid and asked prices, broker/dealer quotations, prices or yields of securities with similar characteristics, interest rates, anticipated prepayments, benchmark curves or information pertaining to the issuer, as well as industry and economic events. The pricing services may use a matrix approach, which considers information regarding securities with similar characteristics to determine the valuation for a security. Short-term debt obligations purchased with a remaining maturity of sixty days or less for which a valuation from a third party pricing service is not readily available may be valued at amortized cost, which approximates fair value.

Equity Securities. Equity securities listed on a U.S. securities exchange generally are valued at the last sale or closing price on the day of valuation or, if no sales took place on such date, at the mean between the closing bid and asked prices on the exchange where such securities are principally traded. Equity securities listed on the NASDAQ Global or Global Select Market generally are valued at the NASDAQ official closing price. Unlisted or listed securities for which closing sales prices or closing quotations are not available are valued at the mean between the latest available bid and asked prices or, in the case of preferred equity securities that are not listed or traded in the over-the-counter market, by a third party pricing service that uses various techniques that consider factors including, but not limited to, prices or yields of securities with similar characteristics, benchmark yields, broker/dealer quotes, quotes of underlying common stock, issuer spreads, as well as industry and economic events.

Derivatives. Forward foreign currency exchange contracts are generally valued at the mean of the average bid and average asked prices that are reported by currency dealers to a third party pricing service at the valuation time. Such third party pricing service valuations are supplied for specific settlement periods and

the Trust s forward foreign currency exchange contracts are valued at an interpolated rate between the closest preceding and subsequent settlement period reported by the third party pricing service.

Foreign Securities and Currencies. Foreign securities and currencies are valued in U.S. dollars, based on foreign currency exchange rate quotations supplied by a third party pricing service. The pricing service uses a proprietary model to determine the exchange rate. Inputs to the model include reported trades and implied bid/ask spreads.

Affiliated Fund. The Trust may invest in Eaton Vance Cash Reserves Fund, LLC (Cash Reserves Fund), an affiliated investment company managed by Eaton Vance Management (EVM). While Cash Reserves Fund is not a registered money market mutual fund, it conducts all of its investment activities in accordance with the requirements of Rule 2a-7 under the 1940 Act. Investments in Cash Reserves Fund are valued at the closing net asset value per unit on the valuation day. Cash Reserves Fund generally values its investment securities based on available market quotations provided by a third party pricing service.

Fair Valuation. Investments for which valuations or market quotations are not readily available or are deemed unreliable are valued at fair value using methods determined in good faith by or at the direction of the Trustees of the Trust in a manner that fairly reflects the security s value, or the amount that the Trust might reasonably expect to receive for the security upon its current sale in the ordinary course. Each such determination is based on a

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consideration of relevant factors, which are likely to vary from one pricing context to another. These factors may include, but are not limited to, the type of security, the existence of any contractual restrictions on the security s disposition, the price and extent of public trading in similar securities of the issuer or of comparable companies or entities, quotations or relevant information obtained from broker/dealers or other market participants, information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities), an analysis of the company s or entity s financial condition, and an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold.

B Investment Transactions Investment transactions for financial statement purposes are accounted for on a trade date basis. Realized gains and losses on investments sold are determined on the basis of identified cost.

C Income Interest income is recorded on the basis of interest accrued, adjusted for amortization of premium or accretion of discount. Fees associated with loan amendments are recognized immediately. Dividend income is recorded on the ex-dividend date for dividends received in cash and/or securities. Distributions from investment companies are recorded as dividend income, capital gains or return of capital based on the nature of the distribution.

D Federal Taxes The Trust s policy is to comply with the provisions of the Internal Revenue Code applicable to regulated investment companies and to distribute to shareholders each year substantially all of its net investment income, and all or substantially all of its net realized capital gains. Accordingly, no provision for federal income or excise tax is necessary.

As of October 31, 2018, the Trust had no uncertain tax positions that would require financial statement recognition, de-recognition, or disclosure. The Trust files a U.S. federal income tax return annually after its fiscal year-end, which is subject to examination by the Internal Revenue Service for a period of three years from the date of filing.

E Foreign Currency Translation Investment valuations, other assets, and liabilities initially expressed in foreign currencies are translated each business day into U.S. dollars based upon current exchange rates. Purchases and sales of foreign investment securities and income and expenses denominated in foreign currencies are translated into U.S. dollars based upon currency exchange rates in effect on the respective dates of such transactions. Recognized gains or losses on investment transactions attributable to changes in foreign currency exchange rates are recorded for financial statement purposes as net realized gains and losses on investments. That portion of unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed.

F Unfunded Loan Commitments The Trust may enter into certain loan agreements all or a portion of which may be unfunded. The Trust is obligated to fund these commitments at the borrower s discretion. These commitments are disclosed in the accompanying Portfolio of Investments. At October 31, 2018, the Trust had sufficient cash and/or securities to cover these commitments.

G Use of Estimates The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

H Indemnifications Under the Trust s organizational documents, its officers and Trustees may be indemnified against certain liabilities and expenses arising out of the performance of their duties to the Trust. Under Massachusetts law, if certain conditions prevail, shareholders of a Massachusetts business trust (such as the Trust) could be deemed to have personal liability for the obligations of the Trust. However, the Trust s Declaration of Trust contains an express disclaimer of liability on the part of Trust shareholders and the By-laws provide that the Trust shall assume the defense on behalf of any Trust shareholders. Moreover, the By-laws also provide for indemnification out of Trust property of any shareholder held personally liable solely by reason of being or having been a shareholder for all loss or expense arising from such liability. Additionally, in the normal course of business, the Trust enters into agreements with service providers that may contain indemnification clauses. The Trust s maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred.

I Forward Foreign Currency Exchange Contracts The Trust may enter into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. The forward foreign currency exchange contracts are adjusted by the daily exchange rate of the underlying currency and any gains or losses are recorded as unrealized until such time as the contracts have been closed. Risks may arise upon entering these contracts from the potential inability of counterparties to meet the terms of their contracts and from movements in the value of a foreign currency relative to the U.S. dollar.

J When-Issued Securities and Delayed Delivery Transactions The Trust may purchase or sell securities on a delayed delivery or when-issued basis. Payment and delivery may take place after the customary settlement period for that security. At the time the transaction is negotiated, the price of the security that will be delivered is fixed. The Trust maintains cash and/or security positions for these commitments such that sufficient liquid assets will be available to make payments upon settlement. Securities purchased on a delayed delivery or when-issued basis are marked-to-market daily and begin earning interest on settlement date. Losses may arise due to changes in the market value of the underlying securities or if the counterparty does not perform under the contract.

K Statement of Cash Flows The cash amount shown in the Statement of Cash Flows of the Trust is the amount included in the Trust s Statement of Assets and Liabilities and represents the unrestricted cash on hand at its custodian and does not include any short-term investments.

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2 Auction Preferred Shares

The Trust issued Auction Preferred Shares (APS) on January 26, 2004 in a public offering. Dividends on the APS, which accrue daily, are cumulative at rates which are reset weekly for Series A and Series B, and approximately monthly for Series C and Series D by an auction, unless a special dividend period has been set. Series of APS are identical in all respects except for the reset dates of the dividend rates. If the APS auctions do not successfully clear, the dividend payment rate over the next period for the APS holders is set at a specified maximum applicable rate until such time as the APS auctions are successful. Auctions have not cleared since February 13, 2008 and the rate since that date has been the maximum applicable rate (see Note 3). The maximum applicable rate on the APS is 150% of the AA Financial Composite Commercial Paper Rate at the date of the auction. The stated spread over the reference benchmark rate is determined based on the credit rating of the APS.

On June 29, 2018, the Fund announced a tender offer to purchase up to 21% of its outstanding APS at a price per share equal to 92% of the APS liquidation preference of $25,000 per share (or $23,000 per share), plus any accrued but unpaid APS dividends. The tender offer expired on September 14, 2018. The number of APS redeemed pursuant to the tender offer and the redemption amount (excluding the final dividend payment) during the year ended October 31, 2018 and the number of APS issued and outstanding at October 31, 2018 are as follows:

	APS Redeemed During the Year	**Redemption Amount**	**APS Issued and Outstanding**
Series A	220	$ 5,060,000	739
Series B	196	4,508,000	763
Series C	221	5,083,000	738
Series D	167	3,841,000	792

The APS are redeemable at the option of the Trust at a redemption price equal to $25,000 per share, plus accumulated and unpaid dividends, on any dividend payment date. The APS are also subject to mandatory redemption at a redemption price equal to $25,000 per share, plus accumulated and unpaid dividends, if the Trust is in default for an extended period on its asset maintenance requirements with respect to the APS. If the dividends on the APS remain unpaid in an amount equal to two full years dividends, the holders of the APS as a class have the right to elect a majority of the Board of Trustees. In general, the holders of the APS and the common shares have equal voting rights of one vote per share, except that the holders of the APS, as a separate class, have the right to elect at least two members of the Board of Trustees. The APS have a liquidation preference of $25,000 per share, plus accumulated and unpaid dividends. The Trust is required to maintain certain asset coverage with respect to the APS as defined in the Trust s By-Laws and the 1940 Act. The Trust pays an annual fee up to 0.15% of the liquidation value of the APS to broker/dealers as a service fee if the auctions are unsuccessful; otherwise, the annual fee is 0.25%.

3 Distributions to Shareholders and Income Tax Information

The Trust intends to make monthly distributions of net investment income to common shareholders, after payment of any dividends on any outstanding APS. 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). 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. The dividend rates for the APS at October 31, 2018, and the amount of dividends accrued (including capital gains, if any) to APS shareholders, average APS dividend rates, and dividend rate ranges for the year then ended were as follows:

	APS Dividend Rates at October 31, 2018	Dividends Accrued to APS Shareholders	Average APS Dividend Rates	Dividend Rate Ranges (%)
Series A	3.40%	$ 608,607	2.62%	1.65 3.40
Series B	3.40	611,819	2.62	1.65 3.40
Series C	3.32	596,189	2.56	1.80 3.32
Series D	3.40	602,472	2.57	1.65 3.40

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 table above reflects such maximum dividend rate for each series as of October 31, 2018.

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Distributions to shareholders are determined in accordance with income tax regulations, which may differ from U.S. GAAP. As required by U.S. GAAP, only distributions in excess of tax basis earnings and profits are 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.

The tax character of distributions declared for the years ended October 31, 2018 and October 31, 2017 was as follows:

	Year Ended October 31,	
	2018	**2017**
Ordinary income	$ 33,961,243	$ 33,436,880

During the year ended October 31, 2018, accumulated loss was decreased by $20,942,999 and paid-in capital was decreased by $20,942,999 due to expired capital loss carryforwards and differences between book and tax accounting, primarily for tax straddle transactions and investments in partnerships. These reclassifications had no effect on the net assets or net asset value per share of the Trust.

As of October 31, 2018, the components of distributable earnings (accumulated loss) on a tax basis were as follows:

Undistributed ordinary income	$ 6,049,984
Capital loss carryforwards	$ (811,704)
Net unrealized depreciation	$ (5,595,325)

At October 31, 2018, the Trust, for federal income tax purposes, had capital loss carryforwards of $811,704 which would reduce its taxable income arising from future net realized gains on investment transactions, if any, to the extent permitted by the Internal Revenue Code, and thus would reduce the amount of distributions to shareholders, which would otherwise be necessary to relieve the Trust of any liability for federal income or excise tax. The capital loss carryforwards will expire on October 31, 2019 and their character is short-term. Under tax regulations, capital losses incurred in taxable years beginning after December 2010 are considered deferred capital losses and are treated as arising on the first day of the Trust s next taxable year, retaining the same short-term or long-term character as when originally deferred. Deferred capital losses are required to be used prior to capital loss carryforwards, which carry an expiration date. As a result of this ordering rule, capital loss carryforwards may be more likely to expire unused.

During the year ended October 31, 2018, capital loss carryforwards of $6,042,781 were utilized to offset net realized gains by the Trust.

The cost and unrealized appreciation (depreciation) of investments, including open derivative contracts, of the Trust at October 31, 2018, as determined on a federal income tax basis, were as follows:

Aggregate cost	**$ 878,239,491**
Gross unrealized appreciation	$ 12,024,658
Gross unrealized depreciation	(17,477,079)
Net unrealized depreciation	**$ (5,452,421)**

4 Investment Adviser Fee and Other Transactions with Affiliates

The investment adviser fee is earned by EVM as compensation for management and investment advisory services rendered to the Trust. The fee is computed at an annual rate of 0.75% of the Trust s average daily gross assets and is payable monthly. Gross assets as referred to herein represent net assets plus obligations attributable to investment leverage. For the year ended October 31, 2018, the Trust s investment adviser fee amounted to $6,500,214. The Trust invests its cash in Cash Reserves Fund. EVM does not currently receive a fee for advisory services provided to Cash Reserves Fund. EVM also serves as administrator of the Trust, but receives no compensation.

Trustees and officers of the Trust who are members of EVM s organization receive remuneration for their services to the Trust out of the investment adviser fee. Trustees of the Trust who are not affiliated with EVM may elect to defer receipt of all or a percentage of their annual fees in accordance with the terms of the Trustees Deferred Compensation Plan. For the year ended October 31, 2018, no significant amounts have been deferred. Certain officers and Trustees of the Trust are officers of EVM.

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5 Purchases and Sales of Investments

Purchases and sales of investments, other than short-term obligations and including maturities, paydowns and principal repayments on Senior Loans, aggregated $277,063,312 and $280,409,393, respectively, for the year ended October 31, 2018.

6 Common Shares of Beneficial Interest and Shelf Offering

The Trust may issue common shares pursuant to its dividend reinvestment plan. There were no common shares issued by the Trust for the year ended October 31, 2018. Common shares issued by the Trust pursuant to its dividend reinvestment plan for the year ended October 31, 2017 were 6,778.

Pursuant to a registration statement filed with the SEC, the Trust is authorized to issue up to an additional 4,084,905 common shares through an equity shelf offering program (the shelf offering). Under the shelf offering, the Trust, subject to market conditions, may raise additional capital from time to time and in varying amounts and offering methods at a net price at or above the Trust s net asset value per common share. During the years ended October 31, 2018 and October 31, 2017, there were no shares sold by the Trust pursuant to its shelf offering.

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. There were no repurchases of common shares by the Trust for the years ended October 31, 2018 and October 31, 2017.

7 Restricted Securities

At October 31, 2018, the Trust owned the following securities (representing less than 0.01% of net assets applicable to common shares) which were restricted as to public resale and not registered under the Securities Act of 1933 (excluding Rule 144A securities). The Trust has various registration rights (exercisable under a variety of circumstances) with respect to these securities. The value of these securities is determined based on valuations provided by brokers when available, or if not available, they are valued at fair value using methods determined in good faith by or at the direction of the Trustees.

Description	Date of Acquisition	Shares	Cost	Value
Common Stocks				
Nine Point Energy Holdings, Inc.	7/15/14	758	$ 34,721	$ 841
Convertible Preferred Stocks				
Nine Point Energy Holdings, Inc., Series A, 12.00%	5/26/17	14	$ 14,000	$ 20,552
Total Restricted Securities			**$ 48,721**	**$ 21,393**

8 Financial Instruments

The Trust may trade in financial instruments with off-balance sheet risk in the normal course of its investing activities. These financial instruments may include forward foreign currency exchange contracts and may involve, to a varying degree, elements of risk in excess of the amounts recognized for financial statement purposes. The notional or contractual amounts of these instruments represent the investment the Trust has in particular classes of financial instruments and do not necessarily represent the amounts potentially subject to risk. The measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are considered. A summary of obligations under these financial instruments at October 31, 2018 is included in the Portfolio of Investments. At October 31, 2018, the Trust had sufficient cash and/or securities to cover commitments under these contracts.

The Trust is subject to foreign exchange risk in the normal course of pursuing its investment objectives. Because the Trust holds foreign currency denominated investments, the value of these investments and related receivables and payables may change due to future changes in foreign currency exchange rates. To hedge against this risk, the Trust enters into forward foreign currency exchange contracts.

The Trust enters into forward foreign currency exchange contracts that may contain provisions whereby the counterparty may terminate the contract under certain conditions, including but not limited to a decline in the Trust s net assets below a certain level over a certain period of time, which would trigger a payment by the Trust for those derivatives in a liability position. At October 31, 2018, the Trust had no open derivatives with credit-related contingent features in a net liability position.

The over-the-counter (OTC) derivatives in which the Trust invests are subject to the risk that the counterparty to the contract fails to perform its obligations under the contract. To mitigate this risk, the Trust has entered into an International Swaps and Derivatives Association, Inc. Master Agreement (ISDA Master Agreement) or similar agreement with substantially all its derivative counterparties. An ISDA Master Agreement is a bilateral agreement between

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the Trust and a counterparty that governs certain OTC derivatives and typically contains, among other things, set-off provisions in the event of a default and/or termination event as defined under the relevant ISDA Master Agreement. Under an ISDA Master Agreement, the Trust may, under certain circumstances, offset with the counterparty certain derivative financial instruments payables and/or receivables with collateral held and/or posted and create one single net payment. The provisions of the ISDA Master Agreement typically permit a single net payment in the event of default including the bankruptcy or insolvency of the counterparty. However, bankruptcy or insolvency laws of a particular jurisdiction may impose restrictions on or prohibitions against the right of offset in bankruptcy or insolvency. Certain ISDA Master Agreements allow counterparties to OTC derivatives to terminate derivative contracts prior to maturity in the event the Trust s net assets decline by a stated percentage or the Trust fails to meet the terms of its ISDA Master Agreements, which would cause the counterparty to accelerate payment by the Trust of any net liability owed to it.

The collateral requirements for derivatives traded under an ISDA Master Agreement are governed by a Credit Support Annex to the ISDA Master Agreement. Collateral requirements are determined at the close of business each day and are typically based on changes in market values for each transaction under an ISDA Master Agreement and netted into one amount for such agreement. Generally, the amount of collateral due from or to a counterparty is subject to a minimum transfer threshold amount before a transfer is required, which may vary by counterparty. Collateral pledged for the benefit of the Trust and/or counterparty is held in segregated accounts by the Trust s custodian and cannot be sold, re-pledged, assigned or otherwise used while pledged. The portion of such collateral representing cash, if any, is reflected as deposits for derivatives collateral and, in the case of cash pledged by a counterparty for the benefit of the Trust, a corresponding liability on the Statement of Assets and Liabilities. Securities pledged by the Trust as collateral, if any, are identified as such in the Portfolio of Investments. The carrying amount of the liability for cash collateral due to brokers at October 31, 2018 approximated its fair value. If measured at fair value, such liability would have been considered as Level 2 in the fair value hierarchy (see Note 12) at October 31, 2018.

The fair value of open derivative instruments (not considered to be hedging instruments for accounting disclosure purposes) and whose primary underlying risk exposure is foreign exchange risk at October 31, 2018 was as follows:

	Fair Value	
Derivative	**Asset Derivative[(1)]**	**Liability Derivative**
Forward foreign currency exchange contracts	$ 1,415,160	$

(1) Statement of Assets and Liabilities location: Receivable for open forward foreign currency exchange contracts.

The Trust s derivative assets and liabilities at fair value by type, which are reported gross in the Statement of Assets and Liabilities, are presented in the table above. The following table presents the Trust s derivative assets by counterparty, net of amounts available for offset under a master netting agreement and net of the related collateral received by the Trust for such assets as of October 31, 2018.

Counterparty	**Derivative Assets Subject to Master Netting Agreement**	**Derivatives Available for Offset**	**Non-cash Collateral Received[(a)]**	**Cash Collateral Received[(a)]**	**Net Amount of Derivative Assets[(b)]**
Goldman Sachs International	$ 777,897	$	$	$ (777,897)	$
HSBC Bank USA, N.A.	17,345				17,345

JPMorgan Chase Bank, N.A.	9,124				9,124
State Street Bank and Trust Company	610,794		(556,930)		53,864
	$ 1,415,160	**$**	**$ (556,930)**	**$ (777,897)**	**$ 80,333**

[a] In some instances, the total collateral received and/or pledged may be more than the amount shown due to overcollateralization.

[b] Net amount represents the net amount due from the counterparty in the event of default.

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The effect of derivative instruments (not considered to be hedging instruments for accounting disclosure purposes) on the Statement of Operations and whose primary underlying risk exposure is foreign exchange risk for the year ended October 31, 2018 was as follows:

Derivative	**Realized Gain (Loss) on Derivatives Recognized in Income**[1]	**Change in Unrealized Appreciation (Depreciation) on Derivatives Recognized in Income**[2]
Forward foreign currency exchange contracts	$ 3,131,401	$ 958,618

[1] Statement of Operations location: Net realized gain (loss) Forward foreign currency exchange contracts.

[2] Statement of Operations location: Change in unrealized appreciation (depreciation) Forward foreign currency exchange contracts.

The average notional amount of forward foreign currency exchange contracts (based on the absolute value of notional amounts of currency purchased and currency sold) outstanding during the year ended October 31, 2018, which is indicative of the volume of this derivative type, was approximately $49,155,000.

9 Credit Agreement

The Trust has entered into a Credit Agreement (the Agreement) with a bank to borrow up to a limit of $255 million ($235 million prior to September 13, 2018 and $230 million prior to March 20, 2018) pursuant to a 364-day revolving line of credit. Borrowings under the Agreement are secured by the assets of the Trust. Interest is generally charged at a rate above the London Interbank Offered Rate (LIBOR) and is payable monthly. Under the terms of the Agreement, in effect through March 19, 2019, the Trust pays a facility fee of 0.15% on the borrowing limit. In connection with the increase of the borrowing limit on September 13, 2018 and renewal of the Agreement on March 20, 2018, the Trust paid upfront fees of $5,222 and $117,500, respectively, which are being amortized to interest expense through March 19, 2019. The unamortized balance at October 31, 2018 is approximately $63,000 and is included in prepaid upfront fees on notes payable on the Statement of Assets and Liabilities. The Trust is required to maintain certain net asset levels during the term of the Agreement. At October 31, 2018, the Trust had borrowings outstanding under the Agreement of $222,000,000 at an interest rate of 3.07%. Based on the short-term nature of the borrowings under the Agreement and the variable interest rate, the carrying amount of the borrowings at October 31, 2018 approximated its fair value. If measured at fair value, borrowings under the Agreement would have been considered as Level 2 in the fair value hierarchy (see Note 12) at October 31, 2018. For the year ended October 31, 2018, the average borrowings under the Agreement and the average interest rate (excluding fees) were $209,345,205 and 2.61%, respectively.

10 Risks Associated with Foreign Investments

Investing in securities issued by companies whose principal business activities are outside the United States may involve significant risks not present in domestic investments. For example, there is generally less publicly available information about foreign companies, particularly those not subject to the disclosure and reporting requirements of the U.S. securities laws. Certain foreign issuers are generally not bound by uniform accounting, auditing, and financial reporting requirements and standards of practice comparable to those applicable to domestic issuers. Investments in foreign securities also involve the risk of possible adverse changes in investment or exchange control regulations, expropriation or confiscatory taxation, limitation on the removal of funds or other assets of the Trust, political or financial instability or diplomatic and other developments which could affect such investments. Foreign securities markets, while growing in volume and sophistication, are generally not as developed as those in the United States, and securities of some foreign issuers (particularly those located in developing countries) may be less liquid and more volatile than securities of comparable U.S. companies. In general, there is less overall governmental supervision and regulation of foreign securities markets, broker/dealers and issuers than in the United States.

11 Credit Risk

The Trust invests primarily in below investment grade floating-rate loans, which are considered speculative because of the credit risk of their issuers. Changes in economic conditions or other circumstances are more likely to reduce the capacity of issuers of these securities to make principal and interest payments. Such companies are more likely to default on their payments of interest and principal owed than issuers of investment grade bonds. An economic downturn generally leads to a higher non-payment rate, and a loan or other debt obligation may lose significant value before a default occurs. Lower rated investments also may be subject to greater price volatility than higher rated investments. Moreover, the specific collateral used to secure a loan may decline in value or become illiquid, which would adversely affect the loan s value.

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12 Fair Value Measurements

Under generally accepted accounting principles for fair value measurements, a three-tier hierarchy to prioritize the assumptions, referred to as inputs, is used in valuation techniques to measure fair value. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

Level 1   quoted prices in active markets for identical investments

Level 2   other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3   significant unobservable inputs (including a fund s own assumptions in determining the fair value of investments)

In cases where the inputs used to measure fair value fall in different levels of the fair value hierarchy, the level disclosed is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

At October 31, 2018, the hierarchy of inputs used in valuing the Trust s investments and open derivative instruments, which are carried at value, were as follows:

Asset Description	**Level 1**	**Level 2**	**Level 3***	**Total**
Senior Floating-Rate Loans (Less Unfunded Loan Commitments)	$	$ 790,331,468	$ 2,902,135	$ 793,233,603
Corporate Bonds & Notes		29,163,261		29,163,261
Asset-Backed Securities		15,731,134		15,731,134
Common Stocks	555,653	2,737,070	7,240,646	10,533,369
Convertible Preferred Stocks			20,552	20,552
Closed-End Funds	10,502,325			10,502,325
Miscellaneous			0	0
Short-Term Investments		13,602,826		13,602,826
Total Investments	**$ 11,057,978**	**$ 851,565,759**	**$ 10,163,333**	**$ 872,787,070**
Forward Foreign Currency Exchange Contracts	$	$ 1,415,160	$	$ 1,415,160
Total	**$ 11,057,978**	**$ 852,980,919**	**$ 10,163,333**	**$ 874,202,230**

* None of the unobservable inputs for Level 3 assets, individually or collectively, had a material impact on the Trust.

Level 3 investments at the beginning and/or end of the period in relation to net assets were not significant and accordingly, a reconciliation of Level 3 assets for the year ended October 31, 2018 is not presented.

13 Legal Proceedings

In May 2015, the Trust was served with an amended complaint filed in an adversary proceeding in the United States Bankruptcy Court for the Southern District of New York. The adversary proceeding was filed by the Motors Liquidation Company Avoidance Action Trust (AAT) against the former holders of a $1.5 billion term loan issued by General Motors Corp. (GM) in 2006 (the Term Loan Lenders) who received a full repayment of the term loan pursuant to a court order in the GM bankruptcy proceeding. The court order was made with the understanding that the term loan was fully secured at the time of GM s bankruptcy filing in June 2009. The AAT is seeking (1) a determination from the Bankruptcy Court that the security interest held by the Term Loan Lenders was not perfected at the time GM filed for Chapter 11 Bankruptcy protection and thus the Term Loan Lenders should have been treated in the same manner as GM s unsecured creditors, (2) disgorgement of any interest payments made to the Term Loan Lenders within ninety days of GM s filing for Chapter 11 Bankruptcy protection, and (3) disgorgement of the $1.5 billion term loan repayment that was made to the Term Loan Lenders. The value of the payment received under the term loan agreement by the Trust is approximately $3,470,000 (equal to 0.61% of net assets applicable to common shares at October 31, 2018). The Trust cannot predict the outcome of these proceedings or the effect, if any, on the Trust s net asset value. The attorneys fees and costs related to these actions are expensed by the Trust as incurred.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Report of Independent Registered Public Accounting Firm

To the Trustees and Shareholders of Eaton Vance Senior Floating-Rate Trust:

Opinion on the Financial Statements and Financial Highlights

We have audited the accompanying statement of assets and liabilities of Eaton Vance Senior Floating-Rate Trust (the Trust), including the portfolio of investments, as of October 31, 2018, the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, the financial highlights for each of the five years in the period then ended, and the related notes. In our opinion, the financial statements and financial highlights present fairly, in all material respects, the financial position of the Trust as of October 31, 2018, and the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements and financial highlights are the responsibility of the Trust s management. Our responsibility is to express an opinion on the Trust s financial statements and financial highlights based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement, whether due to error or fraud. The Trust is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Trust s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements and financial highlights, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements and financial highlights. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and financial highlights. Our procedures included confirmation of securities and senior loans owned as of October 31, 2018, by correspondence with the custodian, brokers, and selling or agent banks; when replies were not received from brokers and selling or agent banks, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

December 14, 2018

We have served as the auditor of one or more Eaton Vance investment companies since 1959.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Federal Tax Information (Unaudited)

The Form 1099-DIV you receive in February 2019 will show the tax status of all distributions paid to your account in calendar year 2018. Shareholders are advised to consult their own tax adviser with respect to the tax consequences of their investment in the Trust. As required by the Internal Revenue Code and/or regulations, shareholders must be notified regarding the status of qualified dividend income for individuals.

Qualified Dividend Income. For the fiscal year ended October 31, 2018, the Trust designates approximately $671,690, or up to the maximum amount of such dividends allowable pursuant to the Internal Revenue Code, as qualified dividend income eligible for the reduced tax rate of 15%.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Annual Meeting of Shareholders (Unaudited)

The Trust held its Annual Meeting of Shareholders on August 16, 2018. The following action was taken by the shareholders:

Item 1: The election of Helen Frame Peters, Susan J. Sutherland and Harriett Tee Taggart as Class III Trustees of the Trust for a three-year term expiring in 2021. Ms. Peters was elected solely by APS shareholders.

Nominee for Trustee	Number of Shares	
Elected by All Shareholders	**For**	**Withheld**
Susan J. Sutherland	32,590,152	661,236
Harriett Tee Taggart	32,496,267	755,121

Nominee for Trustee	Number of Shares	
Elected by APS Shareholders	**For**	**Withheld**
Helen Frame Peters	3,293	45

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Dividend Reinvestment Plan

The Trust offers a dividend reinvestment plan (Plan) pursuant to which shareholders may elect to have distributions automatically reinvested in common shares (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) as dividend paying agent. On the distribution payment date, if the NAV per Share is equal to or less than the market price per Share plus estimated brokerage commissions, then new Shares will be issued. The number of Shares shall be determined by the greater of the NAV per Share or 95% of the market price. Otherwise, Shares generally will be purchased on the open market by AST, the Plan agent (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 the Trust s transfer agent re-register your Shares in your name or you will not be able to participate.

The Agent s service fee for handling distributions will be paid by the Trust. Plan participants 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 Agent at the address noted on the following page. If you withdraw, you will receive Shares in your name for all Shares credited to your account under the Plan. If a participant elects by written notice to the Agent to sell part or all of his or her Shares and remit the proceeds, the Agent is authorized to deduct a $5.00 fee plus brokerage commissions from the proceeds.

If you wish to participate in the Plan and your Shares are held in your own name, you may complete the form on the following page and deliver it to the Agent. Any inquiries regarding the Plan can be directed to the Agent at 1-866-439-6787.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Application for Participation in Dividend Reinvestment Plan

This form is for shareholders who hold their common shares in their own names. If your common shares are held in the name of a brokerage firm, bank, or other nominee, you should contact your nominee to see if it will participate in the Plan on your behalf. If you wish to participate in the Plan, but your brokerage firm, bank, or nominee is unable to participate on your behalf, you should request that your common shares be re-registered in your own name which will enable your participation in the Plan.

The following authorization and appointment is given with the understanding that I may terminate it at any time by terminating my participation in the Plan as provided in the terms and conditions of the Plan.

Please print exact name on account

Shareholder signature Date

Shareholder signature Date

Please sign exactly as your common shares are registered. All persons whose names appear on the share certificate must sign.

YOU SHOULD NOT RETURN THIS FORM IF YOU WISH TO RECEIVE YOUR DISTRIBUTIONS IN CASH. THIS IS NOT A PROXY.

This authorization form, when signed, should be mailed to the following address:

Eaton Vance Senior Floating-Rate Trust

c/o American Stock Transfer & Trust Company, LLC

P.O. Box 922

Wall Street Station

New York, NY 10269-0560

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Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Management and Organization

Fund Management. The Trustees of Eaton Vance Senior Floating-Rate Trust (the Trust) are responsible for the overall management and supervision of the Fund s affairs. The Trustees and officers of the Fund are listed below. Except as indicated, each individual has held the office shown or other offices in the same company for the last five years. The Noninterested Trustees consist of those Trustees who are not interested persons of the Fund, as that term is defined under the 1940 Act. The business address of each Trustee and officer is Two International Place, Boston, Massachusetts 02110. As used below, EVC refers to Eaton Vance Corp., EV refers to Eaton Vance, Inc., EVM refers to Eaton Vance Management, BMR refers to Boston Management and Research and EVD refers to Eaton Vance Distributors, Inc. EVC and EV are the corporate parent and trustee, respectively, of EVM and BMR. EVD is a wholly-owned subsidiary of EVC. Each officer affiliated with Eaton Vance may hold a position with other Eaton Vance affiliates that is comparable to his or her position with EVM listed below. Each Trustee oversees 174 portfolios in the Eaton Vance Complex (including all master and feeder funds in a master feeder structure). Each officer serves as an officer of certain other Eaton Vance funds. Each Trustee serves for a three year term. Each officer serves until his or her successor is elected.

Name and Year of Birth	Position(s) with the Trust	Term Expiring; Trustee Since[(1)]	Principal Occupation(s) and Directorships During Past Five Years and Other Relevant Experience
Interested Trustee			
Thomas E. Faust Jr. 1958	Class II Trustee	Until 2020. Trustee since 2007.	Chairman, Chief Executive Officer and President of EVC, Director and President of EV, Chief Executive Officer and President of EVM and BMR, and Director of EVD. Trustee and/or officer of 174 registered investment companies. Mr. Faust is an interested person because of his positions with EVM, BMR, EVD, EVC and EV, which are affiliates of the Trust. **Directorships in the Last Five Years.[(2)]** Director of EVC and Hexavest Inc. (investment management firm).
Noninterested Trustees			
Mark R. Fetting 1954	Class II Trustee	Until 2020. Trustee since 2016.	Private investor. Formerly held various positions at Legg Mason, Inc. (investment management firm) (2000-2012), including President, Chief Executive Officer, Director and Chairman (2008-2012), Senior Executive Vice President (2004-2008) and Executive Vice President (2001-2004). Formerly, President of Legg Mason family of funds (2001-2008). Formerly, Division President and Senior Officer of Prudential Financial Group, Inc. and related companies (investment management firm) (1991-2000). **Directorships in the Last Five Years.** None.
Cynthia E. Frost 1961	Class I Trustee	Until 2019. Trustee since 2014.	Private investor. Formerly, Chief Investment Officer of Brown University (university endowment) (2000-2012). Formerly, Portfolio Strategist for Duke Management Company (university endowment manager) (1995-2000). Formerly, Managing Director, Cambridge Associates (investment consulting company) (1989-1995). Formerly, Consultant, Bain and Company (management consulting firm) (1987-1989). Formerly, Senior Equity Analyst, BA Investment Management Company (1983-1985).

			Directorships in the Last Five Years. None.
George J. Gorman 1952	Class II Trustee(3)	Until 2020. Trustee since 2014.	Principal at George J. Gorman LLC (consulting firm). Formerly, Senior Partner at Ernst & Young LLP (a registered public accounting firm) (1974-2009). **Directorships in the Last Five Years.** Formerly, Trustee of the BofA Funds Series Trust (11 funds) (2011-2014) and of the Ashmore Funds (9 funds) (2010-2014).
Valerie A. Mosley 1960	Class I Trustee	Until 2019. Trustee since 2014.	Chairwoman and Chief Executive Officer of Valmo Ventures (a consulting and investment firm). Former Partner and Senior Vice President, Portfolio Manager and Investment Strategist at Wellington Management Company, LLP (investment management firm) (1992-2012). Former Chief Investment Officer, PG Corbin Asset Management (1990-1992). Formerly worked in institutional corporate bond sales at Kidder Peabody (1986-1990). **Directorships in the Last Five Years.**(2) Director of Dynex Capital, Inc. (mortgage REIT) (since 2013).

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Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Management and Organization continued

Name and Year of Birth	Position(s) with the Trust	Term Expiring; Trustee Since[1]	Principal Occupation(s) and Directorships During Past Five Years and Other Relevant Experience
Noninterested Trustees (continued)			
William H. Park 1947	Chairperson of the Board and Class II Trustee	Until 2020. Chairperson of the Board since 2016 and Trustee since 2003.	Private investor. Formerly, Consultant (management and transactional) (2012-2014). Formerly, Chief Financial Officer, Aveon Group L.P. (investment management firm) (2010-2011). Formerly, Vice Chairman, Commercial Industrial Finance Corp. (specialty finance company) (2006-2010). Formerly, President and Chief Executive Officer, Prizm Capital Management, LLC (investment management firm) (2002-2005). Formerly, Executive Vice President and Chief Financial Officer, United Asset Management Corporation (investment management firm) (1982-2001). Formerly, Senior Manager, Price Waterhouse (now PricewaterhouseCoopers) (a registered public accounting firm) (1972-1981). **Directorships in the Last Five Years.[2]** None.
Helen Frame Peters 1948	Class III Trustee[3]	Until 2021. Trustee since 2008.	Professor of Finance, Carroll School of Management, Boston College. Formerly, Dean, Carroll School of Management, Boston College (2000-2002). Formerly, Chief Investment Officer, Fixed Income, Scudder Kemper Investments (investment management firm) (1998-1999). Formerly, Chief Investment Officer, Equity and Fixed Income, Colonial Management Associates (investment management firm) (1991-1998). **Directorships in the Last Five Years.[2]** None.
Keith Quinton[4] 1958	Class III Trustee	Until 2021. Trustee since 2018.	Independent Investment Committee Member at New Hampshire Retirement System (since 2017). Advisory Committee member at Northfield Information Services, Inc. (risk management analytics provider) (since 2016). Formerly, Portfolio Manager and Senior Quantitative Analyst at Fidelity Investments (investment management firm) (2001-2014). **Directorships in the Last Five Years.** Director of New Hampshire Municipal Bond Bank (since 2016).
Marcus L. Smith[4] 1966	Class III Trustee	Until 2021. Trustee since 2018.	Member of Posse Boston Advisory Board (foundation) (since 2015); Trustee at University of Mount Union (since 2008). Formerly, Portfolio Manager at MFS Investment Management (investment management firm) (1994-2017). **Directorships in the Last Five Years.** Director of MSCI Inc. (global provider of investment decision support tools) (since 2017). Director of DCT Industrial Trust Inc. (logistics real estate company) (since 2017).
Susan J. Sutherland 1957	Class III Trustee	Until 2021. Trustee since 2015.	Private investor. Formerly, Associate, Counsel and Partner at Skadden, Arps, Slate, Meagher & Flom LLP (law firm) (1982-2013).

			Directorships in the Last Five Years. Formerly, Director of Montpelier Re Holdings Ltd. (global provider of customized insurance and reinsurance products) (2013-2015).
Harriett Tee Taggart 1948	Class III Trustee	Until 2021. Trustee since 2011.	Managing Director, Taggart Associates (a professional practice firm). Formerly, Partner and Senior Vice President, Wellington Management Company, LLP (investment management firm) (1983-2006). Ms. Taggart has apprised the Board of Trustees that she intends to retire as a Trustee of all Eaton Vance Funds effective December 31, 2018. **Directorships in the Last Five Years.**[(2)] Director of Albemarle Corporation (chemicals manufacturer) (since 2007) and The Hanover Group (specialty property and casualty insurance company) (since 2009).
Scott E. Wennerholm 1959	Class I Trustee	Until 2019. Trustee since 2016.	Formerly, Trustee at Wheelock College (postsecondary institution) (2012-2018). Formerly, Consultant at GF Parish Group (executive recruiting firm) (2016-2017). Formerly, Chief Operating Officer and Executive Vice President at BNY Mellon Asset Management (investment management firm) (2005-2011). Formerly, Chief Operating Officer and Chief Financial Officer at Natixis Global Asset Management (investment management firm) (1997-2004). Formerly, Vice President at Fidelity Investments Institutional Services (investment management firm) (1994-1997). **Directorships in the Last Five Years.** None.

Eaton Vance

Senior Floating-Rate Trust

October 31, 2018

Management and Organization continued

Name and Year of Birth	Position(s) with the Trust	Officer Since[5]	Principal Occupation(s) During Past Five Years
Principal Officers who are not Trustees			
Payson F. Swaffield 1956	President	2003	Vice President and Chief Income Investment Officer of EVM and BMR. Also Vice President of Calvert Research and Management (CRM).
Maureen A. Gemma 1960	Vice President, Secretary and Chief Legal Officer	2005	Vice President of EVM and BMR. Also Vice President of CRM.
James F. Kirchner 1967	Treasurer	2007	Vice President of EVM and BMR. Also Vice President of CRM.
Richard F. Froio 1968	Chief Compliance Officer	2017	Vice President of EVM and BMR since 2017. Formerly Deputy Chief Compliance Officer (Adviser/Funds) and Chief Compliance Officer (Distribution) at PIMCO (2012-2017) and Managing Director at BlackRock/Barclays Global Investors (2009-2012).

[1] Year first appointed to serve as Trustee for a fund in the Eaton Vance family of funds. Each Trustee has served continuously since appointment unless indicated otherwise. Each Trustee holds office until the annual meeting for the year in which his or her term expires and until his or her successor is elected and qualified, subject to a prior death, resignation, retirement, disqualification or removal.

[2] During their respective tenures, the Trustees (except for Mmes. Frost and Sutherland and Messrs. Fetting, Gorman and Wennerholm) also served as Board members of one or more of the following funds (which operated in the years noted): eUnits™ 2 Year U.S. Market Participation Trust: Upside to Cap / Buffered Downside (launched in 2012 and terminated in 2014); eUnits™ 2 Year U.S. Market Participation Trust II: Upside to Cap / Buffered Downside (launched in 2012 and terminated in 2014); and Eaton Vance National Municipal Income Trust (launched in 1998 and terminated in 2009). However, Ms. Mosley did not serve as a Board member of eUnits™ 2 Year U.S. Market Participation Trust: Upside to Cap / Buffered Downside (launched in 2012 and terminated in 2014).

[3] APS Trustee

[4] Messrs. Quinton and Smith began serving as Trustees effective October 1, 2018.

[5] Year first elected to serve as officer of a fund in the Eaton Vance family of funds when the officer has served continuously. Otherwise, year of most recent election as an officer of a fund in the Eaton Vance family of funds. Titles may have changed since initial election.

Eaton Vance Funds

IMPORTANT NOTICES

Privacy. 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 Advisers International Ltd., 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 advisor/broker-dealer, it is likely that only such advisor 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.

Delivery of Shareholder Documents. The Securities and Exchange Commission (SEC) permits funds to deliver only one copy of shareholder documents, including prospectuses, proxy statements and shareholder reports, to fund investors with multiple accounts at the same residential or post office box address. This practice is often called householding and it helps eliminate duplicate mailings to shareholders. *American Stock Transfer & Trust Company, LLC (AST), the closed-end funds transfer agent, or your financial advisor, may household the mailing of your documents indefinitely unless you instruct AST, or your financial advisor, otherwise.* If you would prefer that your Eaton Vance documents not be householded, please contact AST or your financial advisor. Your instructions that householding not apply to delivery of your Eaton Vance documents will typically be effective within 30 days of receipt by AST or your financial advisor.

Portfolio Holdings. Each Eaton Vance Fund and its underlying Portfolio(s) (if applicable) will file a schedule of portfolio holdings on Form N-Q with the SEC for the first and third quarters of each fiscal year. The Form N-Q will be available on the Eaton Vance website at www.eatonvance.com, by calling Eaton Vance at 1-800-262-1122 or in the EDGAR database on the SEC s website at www.sec.gov. Form N-Q may also be reviewed and copied at the SEC s public reference room in Washington, D.C. (call 1-800-732-0330 for information on the operation of the public reference room).

Proxy Voting. From time to time, funds are required to vote proxies related to the securities held by the funds. The Eaton Vance Funds or their underlying Portfolios (if applicable) vote proxies according to a set of policies and procedures approved by the Funds and Portfolios Boards. You may obtain a description of these policies and procedures and information on how the Funds or Portfolios voted proxies relating to portfolio securities during the most recent 12-month period ended June 30, without charge, upon request, by calling 1-800-262-1122 and by accessing the SEC s website at www.sec.gov.

Share Repurchase Program. The Fund s Board of Trustees has approved a share repurchase program authorizing the Fund to repurchase up to 10% of its outstanding common shares as of the approved date in open-market transactions at a discount to net asset value. The repurchase program does not obligate the Fund to purchase a specific amount of shares. The Fund s repurchase activity, including the number of shares purchased, average price and average discount to net asset value, is disclosed in the Fund s annual and semi-annual reports to shareholders.

Additional Notice to Shareholders. If applicable, a Fund may also redeem or purchase its outstanding preferred shares in order to maintain compliance with regulatory requirements, borrowing or rating agency requirements or for other purposes as it deems appropriate or necessary.

Closed-End Fund Information. Eaton Vance closed-end funds make fund performance data and certain information about portfolio characteristics available on the Eaton Vance website shortly after the end of each month. Other information about the funds is available on the website. The funds net asset value per share is readily accessible on the Eaton Vance website. Portfolio holdings for the most recent month-end are also posted to the website approximately 30 days following the end of the month. This information is available at www.eatonvance.com on the fund information pages under Individual Investors Closed-End Funds .

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Investment Adviser and Administrator

Eaton Vance Management

Two International Place

Boston, MA 02110

Custodian

State Street Bank and Trust Company

State Street Financial Center, One Lincoln Street

Boston, MA 02111

Transfer Agent

American Stock Transfer & Trust Company, LLC

6201 15th Avenue

Brooklyn, NY 11219

Independent Registered Public Accounting Firm

Deloitte & Touche LLP

200 Berkeley Street

Boston, MA 02116-5022

Fund Offices

Two International Place

Boston, MA 02110

2025 10.31.18

Item 2. Code of Ethics

The registrant has adopted a code of ethics applicable to its Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer. The registrant undertakes to provide a copy of such code of ethics to any person upon request, without charge, by calling 1-800-262-1122. The registrant has not amended the code of ethics as described in Form N-CSR during the period covered by this report. The registrant has not granted any waiver, including an implicit waiver, from a provision of the code of ethics as described in Form N-CSR during the period covered by this report.

Item 3. Audit Committee Financial Expert

The registrant s Board has designated George J. Gorman and William H. Park, each an independent trustee, as audit committee financial experts. Mr. Gorman is a certified public accountant who is the Principal at George J. Gorman LLC (a consulting firm). Previously, Mr. Gorman served in various capacities at Ernst & Young LLP (a registered public accounting firm), including as Senior Partner. Mr. Gorman also has experience serving as an independent trustee and audit committee financial expert of other mutual fund complexes. Mr. Park is a certified public accountant who is a private investor. Previously, he served as a consultant, as the Chief Financial Officer of Aveon Group, L.P. (an investment management firm), as the Vice Chairman of Commercial Industrial Finance Corp. (specialty finance company), as President and Chief Executive Officer of Prizm Capital Management, LLC (investment management firm), as Executive Vice President and Chief Financial Officer of United Asset Management Corporation (an institutional investment management firm) and as a Senior Manager at Price Waterhouse (now PricewaterhouseCoopers) (a registered public accounting firm).

Item 4. Principal Accountant Fees and Services

(a)-(d)

The following table presents the aggregate fees billed to the registrant for the registrant s fiscal years ended October 31, 2017 and October 31, 2018 by D&T for professional services rendered for the audit of the registrant s annual financial statements and fees billed for other services rendered by D&T during such periods.

Fiscal Years Ended	**10/31/17**	**10/31/18**
Audit Fees	$ 94,744	$ 94,000
Audit-Related Fees[1]	$ 0	$ 0
Tax Fees[2]	$ 18,299	$ 18,299
All Other Fees[3]	$ 0	$ 0
Total	$ 113,043	$ 112,299

(1) Audit-related fees consist of the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit of the registrant s financial statements and are not reported under the category of audit fees and specifically include fees for the performance of certain agreed-upon procedures relating to the registrant s auction preferred shares.

(2) Tax fees consist of the aggregate fees billed for professional services rendered by the principal accountant relating to tax compliance, tax advice, and tax planning and specifically include fees for tax return preparation and other related tax compliance/planning matters.

(3) All other fees consist of the aggregate fees billed for products and services provided by the registrant s principal accountant other than audit, audit-related, and tax services.

(e)(1) The registrant s audit committee has adopted policies and procedures relating to the pre-approval of services provided by the registrant s principal accountant (the Pre-Approval Policies). The Pre-Approval Policies establish a framework intended to assist the audit committee in the proper discharge of its pre-approval responsibilities. As a general matter, the Pre-Approval Policies (i) specify certain types of audit, audit-related, tax, and other services determined to be pre-approved by the audit committee; and (ii) delineate specific procedures governing the mechanics of the pre-approval process, including the approval and monitoring of audit and non-audit service fees. Unless a service is specifically pre-approved under the Pre-Approval Policies, it must be separately pre-approved by the Audit Committee.

The Pre-Approval Policies and the types of audit and non-audit services pre-approved therein must be reviewed and ratified by the registrant s audit committee at least annually. The registrant s audit committee maintains full responsibility for the appointment, compensation, and oversight of the work of the registrant s principal accountant.

(e)(2) No services described in paragraphs (b)-(d) above were approved by the registrant s audit committee pursuant to the de minimis exception set forth in Rule 2-01 (c)(7)(i)(C) of Regulation S-X.

(f) Not applicable.

(g) The following table presents (i) the aggregate non-audit fees (i.e., fees for audit-related, tax, and other services) billed to the registrant by D&T for the registrant s fiscal years ended October 31, 2017 and October 31, 2018; and (ii) the aggregate non-audit fees (i.e., fees for audit-related, tax, and other services) billed to the Eaton Vance organization by D&T for the same time periods.

Fiscal Years Ended	**10/31/17**	**10/31/18**
Registrant	$ 18,299	$ 18,299
Eaton Vance[(1)]	$ 148,018	$ 126,485

(1) Certain subsidiaries of Eaton Vance Corp. provide ongoing services to the registrant.

(h) The registrant s audit committee has considered whether the provision by the registrant s principal accountant of non-audit services to the registrant s investment adviser and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant that were not pre-approved pursuant to Rule 2-01(c)(7)(ii) of Regulation S-X is compatible with maintaining the principal accountant s independence.

Item 5. Audit Committee of Listed Registrants

The registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities and Exchange Act of 1934, as amended. George J. Gorman (Chair), Valerie A. Mosley, William H. Park and Scott E. Wennerholm are the members of the registrant s audit committee.

Item 6. Schedule of Investments

Please see schedule of investments contained in the Report to Stockholders included under Item 1 of this Form N-CSR.

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

The Board of Trustees of the Trust has adopted a proxy voting policy and procedure (the Fund Policy), pursuant to which the Trustees have delegated proxy voting responsibility to the Fund s investment adviser and adopted the investment adviser s proxy voting policies and procedures (the Policies) which are described below. The Trustees will review the Fund s proxy voting records from time to time and will annually consider approving the Policies for the upcoming year. In the event that a conflict of interest arises between the Fund s shareholders and the investment adviser, the administrator, or any of their affiliates or any affiliate of the Fund, the investment adviser will generally refrain from voting the proxies related to the companies giving rise to such conflict until it consults with the Board s Special Committee except as contemplated under the Fund Policy. The Board s Special Committee will instruct the investment adviser on the appropriate course of action.

The Policies are designed to promote accountability of a company s management to its shareholders and to align the interests of management with those shareholders. An independent proxy voting service (Agent), currently Institutional Shareholder Services, Inc., has been retained to assist in the voting of proxies through the provision of vote analysis, implementation and recordkeeping and disclosure services. The investment adviser will generally vote proxies through the Agent. The Agent is required to vote all proxies and/or refer them back to the investment adviser pursuant to the Policies. It is generally the policy of the investment adviser to vote in accordance with the recommendation of the Agent. The Agent shall refer to the investment adviser proxies relating to mergers and restructurings, and the disposition of assets, termination, liquidation and mergers contained in mutual fund proxies. The investment adviser will normally vote against anti-takeover measures and other proposals designed to limit the ability of shareholders to act on possible transactions, except in the case of closed-end management investment companies. The investment adviser generally supports management on social and environmental proposals. The investment adviser may abstain from voting from time to time where it determines that the costs associated with voting a proxy outweighs the benefits derived from exercising the right to vote or the economic effect on shareholders interests or the value of the portfolio holding is indeterminable or insignificant.

In addition, the investment adviser will monitor situations that may result in a conflict of interest between the Fund s shareholders and the investment adviser, the administrator, or any of their affiliates or any affiliate of the Fund by maintaining a list of significant existing and prospective corporate clients. The investment adviser s personnel responsible for reviewing and voting proxies on behalf of the Fund will report any proxy received or expected to be received from a company included on that list to the personnel of the investment adviser identified in the Policies. If such personnel expect to instruct the Agent to vote such proxies in a manner inconsistent with the guidelines of the Policies or the recommendation of the Agent, the personnel will consult with members of senior management of the investment adviser to determine if a material conflict of interests exists. If it is determined that a material conflict does exist, the investment adviser will seek instruction on how to vote from the Special Committee.

Information on how the Fund voted proxies relating to portfolio securities during the most recent 12 month period ended June 30 is available (1) without charge, upon request, by calling 1-800-262-1122, and (2) on the Securities and Exchange Commission s website at http://www.sec.gov.

Item 8. Portfolio Managers of Closed-End Management Investment Companies

Eaton Vance Management (EVM or Eaton Vance) is the investment adviser of the Trust. Scott H. Page and Craig P. Russ 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 EVM, has been a portfolio manager of the Trust since November 2003 and is Co-Director of EVM s Floating-Rate Loan Group. Mr. Russ is a Vice President of EVM, has been a portfolio manager of the Trust since November 2003 and is Co-Director of EVM s Floating-Rate Loan Group. Messrs. Page and Russ

have managed other Eaton Vance portfolios for more than five years. This information is provided as of the date of filing this report.

The following table shows, as of the Trust s most recent fiscal year end, the number of accounts each portfolio manager managed in each of the listed categories and the total assets (in millions of dollars) in the accounts managed within each category. The table also shows the number of accounts with respect to which the advisory fee is based on the performance of the account, if any, and the total assets (in millions of dollars) in those accounts.

	Number of All Accounts	Total Assets of All Accounts	Number of Accounts Paying a Performance Fee	Total Assets of Accounts Paying a Performance Fee
Scott H. Page				
Registered Investment Companies	13	$ 34,501.8	0	$ 0
Other Pooled Investment Vehicles	13	$ 8,957.7	1	$ 2.4
Other Accounts	6	$ 5,912.7	0	$ 0
Craig P. Russ				
Registered Investment Companies	9	$ 30,521.1	0	$ 0
Other Pooled Investment Vehicles	5	$ 6,629.6	0	$ 0
Other Accounts	8	$ 6,971.9	0	$ 0

The following table shows the dollar range of Trust shares beneficially owned by each portfolio manager as of the Trust s most recent fiscal year end.

Portfolio Manager	Dollar Range of Equity Securities Beneficially Owned in the Trust
Scott H. Page	$ 100,001 - $500,000
Craig P. Russ	$ 100,001 - $500,000

Potential for Conflicts of Interest. It is possible that conflicts of interest may arise in connection with a portfolio manager s management of the Fund s investments on the one hand and the investments of other accounts for which a portfolio manager is responsible on the other. For example, a portfolio manager may have conflicts of interest in allocating management time, resources and investment opportunities among the Fund and other accounts he advises. In addition, due to differences in the investment strategies or restrictions between the Fund and the other accounts, the portfolio manager may take action with respect to another account that differs from the action taken with respect to the Fund. In some cases, another account managed by a portfolio manager may compensate the investment adviser based on the performance of the securities held by that account. The existence of such a performance based fee may create additional conflicts of interest for the portfolio manager in the allocation of management time, resources and investment opportunities. Whenever conflicts of interest arise, the portfolio manager will endeavor to exercise his discretion in a manner that he believes is equitable to all interested persons. EVM has adopted several policies and procedures designed to address these potential conflicts including a code of ethics and policies that govern the investment adviser s trading practices, including among other things the aggregation and allocation of trades among clients, brokerage allocations, cross trades and best execution.

Compensation Structure for EVM

Compensation of EVM s portfolio managers and other investment professionals has three primary components: (1) a base salary, (2) an annual cash bonus, (3) annual non-cash compensation consisting of options to purchase shares of EVC nonvoting common stock and/or restricted shares of EVC nonvoting common stock that generally are subject to a vesting schedule and (4) (for equity portfolio managers) a Deferred Alpha Incentive Plan, which pays a deferred cash award tied to future excess returns in certain equity strategy portfolios. EVM s investment professionals also receive certain retirement, insurance and other benefits that are broadly available to EVM s employees. Compensation of EVM s investment professionals is reviewed primarily on an annual basis. Cash bonuses, stock-based compensation awards, and adjustments in base salary are typically paid or put into effect at or shortly after the October 31st fiscal year end of EVC.

Method to Determine Compensation. EVM compensates its portfolio managers based primarily on the scale and complexity of their portfolio responsibilities and the total return performance of managed funds and accounts versus the benchmark(s) stated in the prospectus, as well as an appropriate peer group (as described below). In addition to rankings within peer groups of funds on the basis of absolute performance, consideration may also be given to relative risk-adjusted performance. Risk-adjusted performance measures include, but are not limited to, the Sharpe ratio (Sharpe ratio uses standard deviation and excess return to determine reward per unit of risk). Performance is normally based on periods ending on the September 30th preceding fiscal year end. Fund performance is normally evaluated primarily versus peer groups of funds as determined by Lipper Inc. and/or Morningstar, Inc. When a fund s peer group as determined by Lipper or Morningstar is deemed by EVM s management not to provide a fair comparison, performance may instead be evaluated primarily against a custom peer group or market index. In evaluating the performance of a fund and its manager, primary emphasis is normally placed on three-year performance, with secondary consideration of performance over longer and shorter periods. For funds that are tax-managed or otherwise have an objective of after-tax returns, performance is measured net of taxes. For other funds, performance is evaluated on a pre-tax basis. For funds with an investment objective other than total return (such as current income), consideration will also be given to the fund s success in achieving its objective. For managers responsible for multiple funds and accounts, investment performance is evaluated on an aggregate basis, based on averages or weighted averages among managed funds and accounts. Funds and accounts that have performance-based advisory fees are not accorded disproportionate weightings in measuring aggregate portfolio manager performance. A portion of the compensation payable to equity portfolio managers and investment professionals will be determined based on the ability of one or more accounts managed by such manager to achieve a specified target average annual gross return over a three year period in excess of the account benchmark. The cash award to be payable at the end of the three year term will be established at the inception of the term and will be adjusted positively or negatively to the extent that the average annual gross return varies from the specified target return.

The compensation of portfolio managers with other job responsibilities (such as heading an investment group or providing analytical support to other portfolios) will include consideration of the scope of such responsibilities and the managers performance in meeting them.

EVM seeks to compensate portfolio managers commensurate with their responsibilities and performance, and competitive with other firms within the investment management industry. EVM participates in investment-industry compensation surveys and utilizes survey data as a factor in determining salary, bonus and stock-based compensation levels for portfolio managers and other investment professionals. Salaries, bonuses and stock-based compensation are also influenced by the operating performance of EVM and its parent company. The overall annual cash bonus pool is generally based on a substantially fixed percentage of pre-bonus adjusted operating income. While the salaries of EVM s portfolio managers are comparatively fixed, cash bonuses and stock-based compensation may fluctuate significantly from year to year, based on changes in manager performance and other factors as described herein. For a high performing portfolio manager, cash bonuses and stock-based compensation may represent a substantial portion of total compensation.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers

No such purchases this period.

Item 10. Submission of Matters to a Vote of Security Holders

No material changes.

Item 11. Controls and Procedures

(a) It is the conclusion of the registrant s principal executive officer and principal financial officer that the effectiveness of the registrant s current disclosure controls and procedures (such disclosure controls and procedures having been evaluated within 90 days of the date of this filing) provide reasonable assurance that the information required to be disclosed by the registrant has been recorded, processed, summarized and reported within the time period specified in the Commission s rules and forms and that the information required to be disclosed by the registrant has been accumulated and communicated to the registrant s principal executive officer and principal financial officer in order to allow timely decisions regarding required disclosure.

(b) There have been no changes in the registrant s internal controls over financial reporting during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

Item 12. Disclosure of Securities Lending Activities for Closed-End Management Investment Companies

The Fund does not engage in securities lending.

Item 13. Exhibits

(a)(1)	Registrant s Code of Ethics Not applicable (please see Item 2).
(a)(2)(i)	Treasurer s Section 302 certification.
(a)(2)(ii)	President s Section 302 certification.
(b)	Combined Section 906 certification.

Signatures

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

Eaton Vance Senior Floating-Rate Trust

By: /s/ Payson F. Swaffield
Payson F. Swaffield
President

Date: December 21, 2018

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

By: /s/ James F. Kirchner
James F. Kirchner
Treasurer

Date: December 21, 2018

By: /s/ Payson F. Swaffield
Payson F. Swaffield
President

Date: December 21, 2018