

MFS MUNICIPAL INCOME TRUST
Form DEF 14A
August 09, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party Other Than the Registrant

Check the Appropriate Box:

- Preliminary Proxy Statement
- Confidential for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to sec. 240.14a-11(c) of sec. 240.14a-12

MFS CALIFORNIA MUNICIPAL FUND
MFS HIGH INCOME MUNICIPAL TRUST
MFS HIGH YIELD MUNICIPAL TRUST

MFS INVESTMENT GRADE

MUNICIPAL TRUST

MFS MUNICIPAL INCOME TRUST

(Names of Registrant as Specified in its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrants)

Payment of Filing Fee (Check the Appropriate Box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total Fee Paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

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MFS® CALIFORNIA MUNICIPAL FUND

MFS® HIGH INCOME MUNICIPAL TRUST

MFS® HIGH YIELD MUNICIPAL TRUST

MFS® INVESTMENT GRADE MUNICIPAL TRUST

MFS® MUNICIPAL INCOME TRUST

500 Boylston Street, Boston, Massachusetts 02116

Notice of Special Meeting of Municipal Auction Rate Cumulative Preferred Shareholders

To be held on August 31, 2012

A Special Meeting of Municipal Auction Rate Cumulative Preferred Shareholders (Preferred Shareholders) of each of the above referenced trusts (each, a Trust or Fund and collectively, the Trusts or Funds) will be held at 500 Boylston Street, Boston, Massachusetts 02116, at 10:30 a.m. on August 31, 2012, for the following purposes:

ITEM 1. To amend each Trust s bylaws to replace Standard & Poor s, a division of The McGraw-Hill Companies, Inc. (S&P), with Fitch, Inc. (Fitch) as a rating agency for the Trust s Municipal Auction Rate Cumulative Preferred Shares (ARPS) and make other noted changes.

ITEM 2. To transact such other business as may properly come before the meeting and any adjournment(s) or postponement(s) thereof.

THE TRUSTEES OF YOUR TRUST RECOMMEND THAT YOU VOTE IN FAVOR OF ITEM 1.

It is anticipated that each Trust will hold its meeting simultaneously with each other Trust. Preferred Shareholders of each Trust will vote separately on each item.

Only a Trust s Preferred Shareholders of record on July 2, 2012 will be entitled to receive notice of and to vote at that Trust s Special Meeting of Preferred Shareholders or any adjournment(s) or postponement(s) thereof.

By order of the Board of Trustees
Susan S. Newton
Assistant Secretary and Assistant Clerk

August 9, 2012

YOUR VOTE IS IMPORTANT. WE WOULD APPRECIATE YOUR PROMPTLY VOTING, SIGNING AND RETURNING THE ENCLOSED PROXY OR RECORDING YOUR VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE INTERNET SO THAT YOUR VOTING INSTRUCTIONS ARE RECEIVED BY 11:59 PM EASTERN TIME THE DAY PRIOR TO THE MEETING. THIS WILL HELP AVOID THE ADDITIONAL EXPENSE OF A SECOND SOLICITATION FOR EACH TRUST. THE ENCLOSED ADDRESSED ENVELOPE REQUIRES NO POSTAGE AND IS PROVIDED FOR YOUR CONVENIENCE.

MFS® CALIFORNIA MUNICIPAL FUND

MFS® HIGH INCOME MUNICIPAL TRUST

MFS® HIGH YIELD MUNICIPAL TRUST

MFS® INVESTMENT GRADE MUNICIPAL TRUST

MFS® MUNICIPAL INCOME TRUST

Proxy Statement

This Proxy Statement is furnished in connection with the solicitation of proxies by and on behalf of the Board of Trustees of MFS California Municipal Fund, MFS High Income Municipal Trust, MFS High Yield Municipal Trust, MFS Investment Grade Municipal Trust, and MFS Municipal Income Trust (each, a Trust or Fund and collectively, the Trusts or Funds) to be used at a Special Meeting of the Municipal Auction Rate Cumulative Preferred Shareholders (each a Preferred Shareholder and collectively, the Preferred Shareholders) of each Trust (each, a Meeting) to be held at 10:30 a.m. on August 31, 2012 at 500 Boylston Street, Boston, Massachusetts 02116, for the purposes set forth in the accompanying Notice of Special Meeting of Municipal Auction Rate Cumulative Preferred Shareholders (the Notice). If the enclosed form of proxy is executed and returned, it may nevertheless be revoked prior to its exercise by a signed writing filed with the proxy tabulation agent, AST Fund Solutions, LLC, 110 Wall Street, 5th Floor, New York, NY 10005 (AST), or delivered at a Meeting. On July 2, 2012, the following number of Municipal Auction Rate Cumulative Preferred Shares (ARPS) were outstanding for each Trust:

Trust	# of ARPS Outstanding
MFS California Municipal Fund	978
MFS High Income Municipal Trust	3,900
MFS High Yield Municipal Trust	3,000
MFS Investment Grade Municipal Trust	1,950
MFS Municipal Income Trust	4,550

Preferred Shareholders of record at the close of business on July 2, 2012 will be entitled to one vote for each ARPS share held. Each Trust will vote separately on each item; votes of multiple Trusts will not be aggregated.

The mailing address of each Trust is 500 Boylston Street, Boston, Massachusetts 02116. Solicitation of proxies is being made by the mailing of this Notice and Proxy Statement with its enclosures on or about August 9, 2012. In addition to soliciting proxies by mail, the Trustees of your Trust and employees of Massachusetts Financial Services Company (MFS), your Trust's investment adviser and administrator, may solicit proxies in person or by telephone. The expenses of the preparation of proxy statements and related materials, including printing and delivery costs, and vote solicitation are borne by each Trust.

The Trusts have engaged AST to provide shareholder meeting services including the distribution of this Proxy Statement and related materials to shareholders as well as vote solicitation and tracking. It is anticipated that the cost of these services will be \$6,000 for all of the Trusts and may increase substantially in the event that any vote is contested or increased solicitation efforts are required. Should you have any questions about this proxy statement, please contact Warren Antler, of AST, at 212-400-2605, Monday through Friday, from 9 a.m. to 5 p.m. Eastern time, or at wantler@astfundsolutions.com.

Important Notice Regarding the Availability of Proxy Materials for the Meetings To Be Held on August 31, 2012.

The proxy statement is available at www.MFS.com by clicking on the Trust's name under Closed-End Funds under the Products and Performance section of the MFS Web site. Directions to the Meetings in order to vote in person are available by telephoning toll-free (800) 225-2606. **If your shares are held by your broker, then in order to vote in person at the Meeting, you will need to obtain a Legacy Proxy from your broker and present it to the Inspector of Election at the Meeting. Also, in order to revoke your proxy, you may need to forward your written revocation or a later-dated proxy card to your broker rather than to the Fund.**

Summary of Items

Item No.	Item Description	Trust
1	To amend each Trust's bylaws to replace Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P), with Fitch, Inc. (Fitch) as a rating agency for the Trust's Municipal Auction Rate Cumulative Preferred Shares (ARPS) and make other noted changes.	MFS California Municipal Fund MFS High Income Municipal Trust MFS High Yield Municipal Trust

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MFS Investment Grade Municipal Trust

MFS Municipal Income Trust

ITEM 1 PROPOSED AMENDMENTS TO EACH TRUST S BYLAWS TO REPLACE S&P WITH FITCH AS A RATING AGENCY FOR THE TRUST S ARPS AND MAKE OTHER NOTED CHANGES.

As described in more detail below, the Board of Trustees of each Trust (each a Board) has approved amendments (the Amendments) to each Trust s Bylaws (as defined below) that would replace S&P with Fitch as one of the two rating agencies (along with Moody s Investors Service, Inc. (Moody s)) that provide credit ratings for the Trust s ARPS and make other noted changes. The Board of each Trust has recommended that its Preferred Shareholders vote to approve the

Amendments at their upcoming Meeting. A copy of the portion of the Bylaws of MFS Municipal Income Trust, comprised of the relevant sections of a Statement Creating Two Series of Municipal Auction Rate Cumulative Preferred Shares, marked to reflect the proposed Amendments, is included as Appendix A to this Proxy Statement, and a model copy of the relevant sections of the Bylaws, marked to reflect the proposed Amendments to the Bylaws of MFS California Municipal Fund, MFS High Income Municipal Trust, MFS High Yield Municipal Trust, and MFS Investment Grade Municipal Trust, is included as Appendix B to this Proxy Statement.

The Board of each Trust has approved the Amendments in connection with each Trust's intention to conduct a voluntary tender offer (each a Tender Offer) for up to 100% of its ARPS and to replace the tendered ARPS and associated leverage with a new type of preferred shares that would be issued by the Trust, to be designated Variable Rate Municipal Term Preferred Shares (VMTPS).

Each Trust's Tender Offer will be at a price equal to 95% of the ARPS per share liquidation preference of \$25,000 (\$23,750 per share) plus any unpaid dividends accrued through the expiration date of the Tender Offer. Each Trust's Tender Offer will be conditioned upon a minimum of 70% of the Trust's outstanding ARPS being tendered and the successful private placement of VMTPS in an amount equal to the aggregate liquidation preference of the ARPS accepted for payment in the Tender Offer, proceeds of which will be used by the Trust to purchase the tendered ARPS. In addition, each Trust's Tender Offer will be conditioned upon approval of this Proposal by the Trust's Preferred Shareholders at their upcoming Meeting.

The full details of the ARPS Tender Offers are available in documents filed by the Trusts under Schedule TO with the Securities and Exchange Commission.

Summary Description of the Amendments

The Statement Creating Two Series of Auction Rate Cumulative Preferred Shares of MFS Municipal Income Trust (the MFS Municipal Income Trust Statement) and, Article 12, Section 12.1 of the Bylaws of MFS California Municipal Fund, MFS High Income Municipal Trust, MFS High Yield Municipal Trust, and MFS Investment Grade Municipal Trust (each Bylaws, and together with the MFS Municipal Income Trust Statement, the Bylaws), designate and specify the rights and preferences of each Trust's ARPS.

In accordance with the Bylaws of each Trust, each Trust's ARPS currently receive credit ratings from S&P and Moody's, each a nationally recognized statistical rating organization (an NRSRO). Each Trust's ARPS have maintained the highest rating from S&P (a AAA rating) since their initial issuance. On July 12, 2012, Moody's announced that it downgraded its ratings of each Trust's ARPS from its highest rating of Aaa to Aa2 for all Trusts except MFS Investment Grade Municipal Trust, and from Aaa to Aa1 for MFS Investment Grade Municipal Trust pursuant to a revised ratings methodology, along with similar downgrades of its ratings of preferred shares of most applicable U.S. closed-end funds.

The ratings assigned by S&P (as well as by Moody's) to a Trust's ARPS bear on the dividend rates paid by the Trust to its Preferred Shareholders. The proposed Amendments would replace S&P with Fitch, also an NRSRO, as one of the two rating agencies that rate a Trust's ARPS. If approved by Preferred Shareholders, the Amendments will take effect for a Trust, subject to the Board's consideration of the rating to be assigned to the ARPS of the Trust by Fitch, as of the close of business on the date of the Special Meeting. If Preferred Shareholders do not approve the Amendments for a Trust, or if the Board of a Trust determines not to implement the Amendments, the Amendments will not take effect for the Trust and S&P will remain as a rating agency for the ARPS of the Trust.

S&P Asset Coverage Test. In connection with S&P's ratings of the Trusts' ARPS, the current Bylaws require each Trust to satisfy, among other tests, an S&P-specific asset coverage test with respect to its ARPS (S&P Asset Coverage). Satisfaction of S&P Asset Coverage generally requires a Trust to have eligible assets having in the aggregate a discounted value equal to or in excess of a Municipal Preferred Basic Maintenance Amount. Generally, the Municipal Preferred Basic Maintenance Amount includes the sum of (a) the aggregate liquidation preference of the Trust's preferred shares then outstanding (including ARPS) and (b) certain accrued and projected payment obligations of the Trust, including without limitation any accrued and projected dividends on its preferred shares then outstanding (including ARPS).

Each Trust's Bylaws include S&P-specific guidelines for calculating discounted value for purposes of determining whether the S&P Asset Coverage test is satisfied. These guidelines specify discount factors that a Trust must apply to various types of securities in its portfolio for purposes of calculating whether the discounted value of the Trust's eligible assets is at least equal to the Municipal Preferred Basic Maintenance Amount (with the level of discount generally becoming greater as the credit quality of a security becomes lower). In addition, under the S&P guidelines, securities other than those enumerated by S&P are not eligible for inclusion in the calculation of the discounted value of the Trust's portfolio. The S&P guidelines for calculating discounted value do not impose any limitations on the percentage of a Trust's assets that may be invested in ineligible assets, and the amount of ineligible assets included in a Trust's portfolio at any time may vary depending upon the rating, diversification and other characteristics of the S&P eligible assets included in the portfolio. Each Trust's Bylaws include a substantially similar (but not identical) Moody's-specific asset coverage test in connection with Moody's ratings of the ARPS.

A Trust's failure to satisfy S&P Asset Coverage gives rise to various consequences under its Bylaws, including prohibitions on declaring or paying common share dividends, and mandatory redemptions of ARPS by the Trust at their full liquidation preference in the event that non-compliance persists after a specified cure period.

ARPS Dividend Rate. The ARPS have complete priority over a Trust's common shares as to distribution of assets. The terms of the ARPS provide that they would ordinarily pay dividends at a rate set at auctions held every seven days, subject to a maximum rate calculated as a function of the ARPS then-current ratings and a reference interest rate as described below. However, the weekly auctions for the ARPS, as well as auctions for similar preferred shares of other closed-end funds across the U.S. industry, have failed since February 2008, and the dividend rates on the ARPS since that time have been paid at the maximum rate. The Trusts expect that the ARPS will continue to pay dividends at the maximum rate for the foreseeable future and that auctions are unlikely to re-start in the near future, if at all.

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The maximum rate for the ARPS depends on the credit ratings assigned to such shares (currently by S&P and Moody's) and on whether the Trust has designated a special rate period. The maximum rate for any regular rate period (*i.e.*, (i) any rate period other than a special rate period or (ii) a period where the ARPS previously had a special rate period greater than 28 days, and a successful auction has not yet occurred following such special rate period) is the product of the reference rate

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and the applicable percentage of the rate multiple. The reference rate for a regular rate period is the higher of the Taxable Equivalent of the Short-Term Municipal Bond Rate and the AA Composite Commercial Paper Rate. For these purposes, the Taxable Equivalent of the Short-Term Municipal Bond Rate generally refers to the interest rate equivalent to 90% of the S&P Kenny 30 day High Grade Index, adjusted for Federal income tax purposes, and the AA Composite Commercial Paper Rate for a regular rate period generally refers to the interest equivalent of the 30-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated AA by S&P or the equivalent of such rating by S&P or another rating agency, as made available by the Federal Reserve Bank of New York. The applicable percentage of the rate multiple for any regular rate period will be determined based on the credit ratings assigned to the ARPS by S&P and Moody's on the auction date for such period. In addition, the rates may be further adjusted if the Trust has notified the auction agent of its intent to allocate any net capital gain or other income taxable for Federal income tax purposes to the ARPS prior to the auction.

The Amendments incorporate, in place of the current S&P criteria, ratings criteria issued by Fitch with respect to its ratings of debt and preferred stock issued by closed-end investment companies (the Fitch Criteria). Each Trust's current Bylaws include the specifics of the S&P ratings criteria, including eligible asset definitions, discount factors, asset coverage test formulas and reporting requirements, within the defined terms and related provisions of the Bylaws themselves. The Amendments instead incorporate the Fitch Criteria in full by reference as Exhibit 1 to each Trust's Bylaws and, through the use of defined terms and cross-references, look largely to the specifics and guidance provided in the Fitch Criteria for these purposes. In this regard, the Amendments contemplate interaction with Fitch for related interpretive guidance, including with respect to the treatment of securities or other assets which are not specifically referenced in the Fitch Criteria.¹

Fitch Asset Coverage Tests. Generally, the Fitch Criteria include two separate asset coverage tests (together, Fitch Asset Coverage) which differ from the single Municipal Preferred Basic Maintenance Amount test currently applicable to S&P's (as well as Moody's) ratings of the ARPS. Under the Fitch Criteria, a Trust must satisfy both a Fitch Total Overcollateralization Test (Fitch Total OC Test) and a Fitch Net Overcollateralization Test (Fitch Net OC Test), in each case to be consistent with a AAA rating from Fitch, to satisfy Fitch Asset Coverage.

According to Fitch, the Fitch Total OC Test is designed to measure whether a fund has sufficient asset coverage generally for the rated security (i.e., the ARPS in this case) and the Fitch Net OC Test to measure whether a fund has sufficient asset coverage for the rated security after first repaying liabilities that are legally or structurally more senior to the rated security in the fund's capital structure.

The Fitch Criteria define Fitch Total OC and Fitch Net OC as follows:

$$\text{Fitch Total OC} = \frac{\text{Total Net Discounted Assets at MV}^*}{\text{Fitch Rated Liability} + \text{Other Liabilities Pari Passu and Senior to Rated Liability}}$$

* Total net discounted assets at market value (MV) equal total portfolio assets at MV and accrued income, including assets held as collateral for other Fund liabilities, less current liabilities that settle in 10 days that are not part of a rolling leverage strategy (such as to-be-announced (TBA) securities, futures, forwards, among others), then discounted pursuant to the Fitch discount factors specified in the Fitch Criteria.

$$\text{Fitch Net OC} = \frac{\text{Available Net Discounted Assets}^*}{\text{Fitch Rated Liability} + \text{Other Liabilities That Are Pari Passu}}$$

* Available net discounted assets equals total portfolio assets at MV and accrued income minus all assets that are either held as collateral for other Fund liabilities and/or subject to a first claim of a senior liability in the capital structure minus current liabilities that settle in 10 days that are not part of a rolling leverage strategy (such as TBA security rolls, futures, forwards, among others), then discounted pursuant to the Fitch discount factors specified in the Fitch Criteria.

For these purposes, Pari Passu means ranking the same in preference and priority with respect to distribution of assets or payment of dividends or interest.

Pursuant to the Amendments, Fitch Asset Coverage is satisfied if, as of a particular date or time, a Trust has sufficient asset coverage with respect to its ARPS such that the Trust satisfies both the (i) Fitch Total OC Test and the (ii) Fitch Net OC Test as of such date or time. The Fitch Total OC Test and the Fitch Net OC Test are satisfied if a Trust has Fitch Total OC and Fitch Net OC, each in excess of one-hundred percent (100%) pursuant to the applicable formula above.

Other key components of the Fitch Criteria as cited by Fitch include, among others, asset discount factors (used in part to calculate Fitch Total OC and Fitch Net OC), issuer and industry diversification and concentration thresholds and guidelines and inclusion of leverage and derivatives when calculating asset coverage for purposes of determining Fitch Asset Coverage.

Based on the composition of a Trust's portfolio, there may potentially be scenarios in which a Trust could fail the S&P Asset Coverage test and at the same time satisfy the Fitch Asset Coverage tests, and vice versa, such that one cannot be said to be consistently more demanding than the other in all circumstances. However, on balance, MFS analysis indicates that Fitch Asset Coverage is generally more demanding than S&P Asset Coverage due, in part, to more stringent haircuts imposed by the Fitch tests if a Trust's portfolio exceeds specified issuer and industry/municipal sector diversification and concentration thresholds.

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Additional Amendments To The Bylaws. As noted above, under applicable provisions of each Trust's current Bylaws, a Trust subjects itself to various consequences in the event that it fails to satisfy S&P Asset Coverage, including prohibitions on declaring or paying common share dividends and mandatory ARPS redemptions

- ¹ The Amendments provide that the Fitch asset coverage tests shall be calculated in accordance with the applicable formula and related guidance provided in the Fitch Criteria and by Fitch (including with respect to discount factors, if any, or other treatment to be applied with respect to securities or other assets held by the Trust which are not specifically referenced in the Fitch Criteria), and the good faith determinations of the Trust or its agents of the two Fitch asset coverage tests and related interpretations of the Fitch Criteria shall be conclusive and binding on all parties.

following a cure period. The Amendments essentially retain these provisions and the related consequences from the current Bylaws. The provisions, however, have been revised to require satisfaction of both of the Fitch Asset Coverage tests under the Fitch Criteria (*i.e.*, Fitch Net OC Test and Fitch Total OC Test) in place of the current S&P Asset Coverage test. The Amendments also replace ratings assigned by S&P with equivalent ratings assigned by Fitch for purposes of calculating the maximum rate of dividends payable to Preferred Shareholders as discussed above, but do not otherwise modify these provisions.

The Bylaws currently contain restrictions on the degree to which the Trust may engage in certain types of transactions, including the use of certain derivative instruments, and take other actions without written confirmation from S&P (as well as Moody's) that its rating of the ARPS would not be impaired. The Amendments eliminate the application of these provisions to S&P and do not generally impose the specific restrictions with respect to Fitch's ratings of the ARPS. The Amendments do, however, require such confirmation from Fitch before the Trust may issue additional ARPS or any class or series of shares ranking prior to or on a parity with the ARPS. Fitch has indicated its ratings of the ARPS need not be dependent on its confirmation of specific transactions or actions taken by a Trust, and instead should be based on a Trust's observance of the Fitch Criteria taken as a whole. See Section 10 of Part I of the MFS Municipal Income Trust Statement and Section 10 of Part I of Article 12, Section 12.1 of the Bylaws for MFS California Municipal Fund, MFS High Income Municipal Trust, MFS High Yield Municipal Trust, and MFS Investment Grade Municipal Trust for further details regarding the S&P restrictions.

The Amendments provide that a Trust may, but is not required to, amend or restate the Fitch Criteria, as well as any defined terms in the Bylaws, from time to time, through an amendment or restatement of Exhibit 1 of the Bylaws or otherwise, to reflect revised criteria issued by Fitch, by resolution of the Board of Trustees of the Trust and without shareholder approval.

Amendment Regarding Optional ARPS Redemptions. A section of the Bylaws authorizes a Trust, at its option, to redeem the Trust's outstanding ARPS of any series, in whole or in part, at a redemption price per share of \$25,000 (the full liquidation preference) plus accumulated but unpaid dividends to the redemption date (an Optional Redemption). See Section 11(a) of Part I of the MFS Municipal Income Trust Statement and Section 11(a) of Part I of Article 12, Section 12.1 of the Bylaws for MFS California Municipal Fund, MFS High Income Municipal Trust, MFS High Yield Municipal Trust, and MFS Investment Grade Municipal Trust. The Amendments eliminate a proviso in this section which specifies that an Optional Redemption of a portion of a series of ARPS may not be conducted if after such partial redemption fewer than 500 shares of such series remain outstanding.

The foregoing provides only a summary of key aspects of the Amendments and is qualified in its entirety by reference to applicable sections of the Trusts Bylaws, as they are proposed to be amended by the Amendments, included as Appendix A and Appendix B to this Proxy Statement, including the full Fitch Criteria attached as Exhibit 1 to the Bylaws.

Basis for the Boards' Recommendation

Based on input and recommendations from MFS, the Board of each Trust has approved the proposed Amendments as being in the best interests of the Trusts and their shareholders, and recommends the same for approval by the Preferred Shareholders.

As noted above, the Trusts expect to purchase ARPS accepted for payment in the Tender Offers with proceeds of newly issued VMTPS, and the successful private placement of VMTPS in an amount equal to the aggregate liquidation preference of the ARPS accepted for payment in the Tender Offer is a condition to each Tender Offer being effected. It is expected that a condition to the purchaser's agreement to purchase the Trusts' VMTPS will be that the VMTPS be rated AAA by Fitch and Aaa to Aa3 by Moody's.

If less than 100% of a Trust's ARPS are tendered in its Tender Offer, the Trust would continue after its Tender Offer with both ARPS and VMTPS outstanding. In that case, and in the absence of the Amendments and replacement of S&P with Fitch as a rating agency for ARPS for a Trust, the Trust would then have three separate rating agencies rating its outstanding preferred shares (*i.e.*, S&P and Moody's for ARPS and Fitch and Moody's for VMTPS), each with ratings criteria and related requirements that differ in various respects. The Boards and MFS believe that having the same two rating agencies (Fitch and Moody's) rate both ARPS and VMTPS would continue to provide adequate protections for remaining Preferred Shareholders, with the benefit of reducing expenses and administrative burdens to the Trusts that would be associated with ensuring compliance with three separate sets of ratings criteria for the Trusts' outstanding preferred shares. The Boards and MFS also believe that observance of three separate sets of ratings criteria could unduly burden and restrict the efficient management of the Trusts' portfolios, with potential adverse effects on the Trusts' investment performance and returns for common shareholders.

The Boards took into account that Fitch is among the leading NRSROs in the industry, and currently provides ratings for preferred shares issued by approximately 215 U.S. registered closed-end investment companies representing approximately \$17 billion in preferred share assets. They also took into account that Fitch substantially modified and updated its ratings criteria for closed-end fund preferred stock and debt in August 2009, with further updates in August 2011.

The Boards and MFS also took into account that, in August 2010, S&P issued a release requesting comments on proposed changes to its methodologies and assumptions for rating market value securities, including preferred shares issued by U.S. registered closed-end funds. Among other changes, S&P proposed more conservative criteria for stress testing of asset coverage for preferred shares, including greater market value haircuts and new industry concentration limits for fund holdings, and a six-month minimum liquidation period for certain asset types. To date, S&P has not indicated publicly when it may adopt the proposed changes or how they might be modified from those summarized in the August 2010 release.

MFS' analysis of S&P's proposed changes in reference to the Trusts' current portfolios indicates that, if adopted as proposed, they would result in the ARPS of each Trust qualifying for a lower rating than their current AAA rating from S&P, in some cases qualifying for a BBB rating or lower. While it is unclear whether or when S&P might adopt the changes or, if so, whether or to what extent S&P would downgrade its ratings of any of the Trusts' ARPS based on current investment processes, any such downgrades (depending on the extent) could result in a Trust paying dividends at higher maximum rates to its Preferred Shareholders, thereby

increasing the costs of leverage to the Trust and reducing returns to the Trust's common shareholders and/or modifications to a Trust's investment processes that MFS would not otherwise effect.

The Boards and MFS believe that, in light of the uncertainty regarding the S&P proposals, and potential ARPS downgrades by S&P and possible resulting increases to the Trusts' leverage expenses and/or changes to a Trust's investment processes, replacing S&P with Fitch as a rating agency of the ARPS would be in the best interests of the Trusts.

The Boards and MFS also believe that the Amendments' elimination of the proviso in the Bylaws prohibiting a partial Optional Redemption of a series of ARPS if fewer than 500 shares of such series would remain outstanding is in the best interests of the Trusts because the change would provide additional flexibility to the Trusts and management to partially decrease, but not eliminate, leverage obtained through ARPS based on a Trust's then-current amount of leverage, portfolio holdings, market conditions and other factors.

Required Vote

With respect to each Trust, approval of this Proposal requires the affirmative vote of more than 50% of the Trust's outstanding ARPS.

THE BOARDS, INCLUDING THE INDEPENDENT TRUSTEES, UNANIMOUSLY RECOMMEND THAT THE SHAREHOLDERS OF EACH TRUST VOTE FOR THE PROPOSED AMENDMENTS TO EACH TRUST'S BYLAWS TO REPLACE S&P WITH FITCH AS A RATING AGENCY FOR THE TRUST'S ARPS AND MAKE OTHER NOTED CHANGES.

TRUST INFORMATION

This section provides certain information about each Trust, including information about its investment adviser and administrator and the identity of persons holding more than 5% of the outstanding shares of any class of any Trust.

Investment Adviser and Administrator

Each Trust engages as its investment adviser and administrator MFS, a Delaware corporation with offices at 500 Boylston Street, Boston, Massachusetts 02116. MFS is a majority-owned (92.62% as of June 30, 2012) subsidiary of Sun Life of Canada (U.S.) Financial Services Holdings, Inc., 500 Boylston Street, Boston, Massachusetts 02116, which is a majority-owned (99.89% as of June 30, 2012) subsidiary of Sun Life Financial (U.S.) Investments LLC, One Sun Life Executive Park, Wellesley Hills, Massachusetts 02481, which is a wholly-owned subsidiary of Sun Life Financial (U.S.) Holdings, Inc., One Sun Life Executive Park, Wellesley Hills, Massachusetts 02481, which in turn is a wholly-owned subsidiary of Sun Life Assurance Company of Canada U.S. Operations Holdings, Inc. (Sun Life U.S. Operations), One Sun Life Executive Park, Wellesley Hills, Massachusetts 02481. Sun Life U.S. Operations is a wholly-owned subsidiary of Sun Life Global Investments, Inc., 150 King Street West, Toronto, Canada MSH 1J9, which in turn is a wholly-owned subsidiary of Sun Life Financial, Inc., 150 King Street West, Toronto, Canada MSH 1J9.

Interests of Certain Persons

Schedule A attached hereto sets forth, as of July 2, 2012, to the best knowledge of each Trust, the shareholders who beneficially owned more than 5% of the outstanding shares of any class of such Trust. The Trustees and executive officers of each Trust individually and as a group own beneficially less than 1% of the outstanding shares of each Trust.

FURTHER INFORMATION ABOUT VOTING AND THE MEETING

Manner of Voting Proxies

All proxies received by management will be voted on all matters presented at the Meeting, and if not limited to the contrary, will be voted FOR the proposed Amendments to each Trust's Bylaws to replace S&P with Fitch as a rating agency for the Trust's ARPS and make other noted changes.

All proxies received, including proxies that reflect (i) broker non-votes (i.e., shares held by brokers or nominees as to which (a) instructions have not been received from the beneficial owners or the persons entitled to vote, and (b) the broker or nominee does not have discretionary voting power on a particular matter), (ii) abstentions or (iii) the withholding of authority to vote for Item 1, will be counted as shares that are present on a particular matter for purposes of determining the presence of a quorum for that matter. A majority of the outstanding ARPS of MFS High Income Municipal Trust, MFS Investment Grade Municipal Trust, and MFS Municipal Income Trust entitled to be cast at the Meeting that are present in person or represented by proxy constitutes a quorum. Thirty percent (30%) of the outstanding ARPS of MFS California Municipal Fund and MFS High Yield Municipal Trust entitled to be cast at the Meeting that are present in person or represented by proxy constitutes a quorum. With respect to Item 1, broker non-votes, abstentions and withholding authority to vote will have the effect of a vote against the proposal.

In accordance with the rules of the New York Stock Exchange, with respect to each Trust, brokerage firms may vote for (or against) a proposal, on behalf of their clients who beneficially own the Trust's ARPS and from whom they have not received voting instructions, in the same proportion as votes for (and against) such proposal that have been received from Preferred Shareholders of the Trust if (i) a minimum of 30% of the outstanding ARPS of the Trust have been voted by the Preferred Shareholders and (ii) less than 10% of the outstanding ARPS of the Trust have voted against such proposal.

- ² The maximum rate payable to the Trusts' ARPS, while the ARPS are rated Aa3/AA- or higher is 110% of the higher of (i) the interest equivalent of a specified commercial paper rate or (ii) the taxable equivalent of a calculated short-term municipal bond rate. If the ARPS ratings are downgraded by S&P (or Moody's) to anywhere in the single A/a category, the 110% multiplier increases to 125%, and if downgraded to anywhere in the BBB/Baa category, the multiplier increases to 150%.

Each Preferred Shareholder of a Trust is entitled to one vote for each ARPS share of the Trust that such shareholder owns of record at the close of business on July 2, 2012, on each matter on which the shareholder is entitled to vote.

Each Trust will reimburse the record holders of its shares for their reasonable expenses incurred in sending proxy material to and obtaining voting instructions from beneficial owners.

Each Trust knows of no other matters to be brought before the Meeting. If, however, because of any unexpected occurrence, if any other matters properly come before the Meeting, it is each Trust's intention that proxies not limited to the contrary will be voted in accordance with the judgment of the persons named in the enclosed form of proxy.

Instructions for Voting Proxies

The giving of a proxy will not affect a shareholder's right to vote in person should the shareholder decide to attend the Meeting. To vote by mail, please mark, sign, date and return the enclosed proxy card following the instructions printed on the card. Please refer to your proxy card for instructions for voting by telephone or internet.

Submission of Proposals

Pursuant to each Trust's Bylaws, only the matters specified in the Notice will be considered at the Meeting of Preferred Shareholders of each Trust.

Additional Information

The Meeting of Preferred Shareholders of each Trust is called to be held at the same time as the Meetings of Preferred Shareholders of each of the other Trusts. It is anticipated that all Meetings will be held simultaneously.

If any Preferred Shareholder at the Meeting objects to the holding of a simultaneous Meeting and moves for an adjournment of the Meeting to a time promptly after the simultaneous Meetings, the persons named as proxies will vote in favor of such adjournment.

The expense of the preparation, printing and mailing of the enclosed form of proxy, the Notice and this Proxy Statement, and any tabulation costs, will be borne on a proportional basis by the Trusts.

Annual reports will be sent to shareholders of record of each Trust following each Trust's fiscal year end. A copy of each Trust's most recent annual report and semi-annual report may be obtained without charge at www.MFS.com or by contacting Computershare Trust Company, each Trust's transfer and shareholder servicing agent, 250 Royall Street, Canton, Massachusetts, 02021, or by telephoning toll-free (800) 637-2304 or by e-mail at mfs@computershare.com.

If you have any questions about this Proxy Statement or need additional copies of this Proxy Statement and you are the holder of record of your shares, please contact Warren Antler of AST, the Trust's proxy solicitor, at 212-400-2605, Monday through Friday, from 9 a.m. to 5 p.m. Eastern time, or at wantler@astfundsolutions.com.

A copy of this Proxy Statement is also available at www.MFS.com by clicking on the Trust's name under "Closed-End Funds" under the "Products and Performance" section of the MFS Web site. If your shares are held in broker street name please contact your financial intermediary to obtain additional copies of this Proxy Statement.

IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY

August 9, 2012

MFS® CALIFORNIA MUNICIPAL FUND
MFS® HIGH INCOME MUNICIPAL TRUST
MFS® HIGH YIELD MUNICIPAL TRUST
MFS® INVESTMENT GRADE MUNICIPAL TRUST
MFS® MUNICIPAL INCOME TRUST

Interests of Certain Persons

As of July 2, 2012, to the best knowledge of each Trust, the shareholders who beneficially owned more than 5% of the outstanding shares of any class of such Trust are as follows:

Trust	Name and Address of Beneficial Owner	Title of Class	Number of Outstanding Shares Beneficially Owned(1)	Percent of Outstanding Shares of Noted Class Owned
MFS California Municipal Fund	Wells Fargo & Company			
	420 Montgomery Street			
	San Francisco, CA 94163	Preferred	496(2)	50.72%
	Citigroup Global Markets Inc. 388 Greenwich Street New York, NY 10013	Preferred	318	32.50%
MFS High Income Municipal Trust	Morgan Stanley 1585 Broadway New York, NY 10036	Preferred	80	8.20%
	First Trust Portfolios L.P. 120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187	Common	196,801	7.10%
	Citigroup Global Markets Inc. 388 Greenwich Street New York, NY 10013	Preferred, Series T	1,236	31.70%
MFS High Yield Municipal Trust	Wells Fargo & Company			
	420 Montgomery Street			
	San Francisco, CA 94163	Preferred, Series T and Series W	645(2)	16.54%
	Morgan Stanley 1585 Broadway New York, NY 10036	Preferred, Series T	432	11.00%
	First Trust Portfolios L.P. 120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187	Common	3,708,950	11.80%
MFS High Yield Municipal Trust	Citigroup Global Markets Inc. 388 Greenwich Street New York, NY 10013	Preferred	1,315	43.80%
	Wells Fargo & Company			
	420 Montgomery Street			
	San Francisco, CA 94163	Preferred	505(2)	16.83%
MFS High Yield Municipal Trust	Morgan Stanley 1585 Broadway New York, NY 10036	Preferred	171	5.70%

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Trust	Name and Address of Beneficial Owner	Title of Class	Number of Outstanding Shares Beneficially Owned(1)	Percent of Outstanding Shares of Noted Class Owned
MFS Investment Grade Municipal Trust	Citigroup Global Markets Inc. 388 Greenwich Street New York, NY 10013 Wells Fargo & Company	Preferred	882	45.20%
	420 Montgomery Street San Francisco, CA 94163	Preferred	335(2)	17.18%
MFS Municipal Income Trust	Morgan Stanley 1585 Broadway New York, NY 10036	Preferred	308	15.80%
	Citigroup Global Markets Inc. 388 Greenwich Street New York, NY 10013 Wells Fargo & Company	Preferred, Series T	1,192	26.2%
	420 Montgomery Street San Francisco, CA 94163	Preferred, Series T and Series TH	1,133(2)	24.9%
	UBS AG Bahnhofstrasse 45 PO Box CH-8021 Zurich, Switzerland	Preferred, Series T and Series TH	467	10.26%
	First Trust Portfolios L.P. 120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187	Common	4,705,670	11.60%

(1) Except as set forth in footnote 2, amounts reflected are based on disclosure made in Schedule 13G as of December 31, 2011 and filed with the Securities and Exchange Commission.

(2) Amount is as of July 2, 2012, based on information obtained from AST Fund Solutions, LLC in connection with brokerage searches for each of the Trusts.

APPENDIX A

MFS MUNICIPAL INCOME TRUST

STATEMENT DATED DECEMBER 4, 2000

CREATING TWO SERIES OF MUNICIPAL AUCTION RATE

CUMULATIVE PREFERRED SHARES (STATEMENT)

WHEREAS the Board of Trustees of MFS Municipal Income Trust (the Trust) is expressly empowered pursuant to Section 6.1 of the Trust s Declaration of Trust to authorize the issuance of shares of the Trust in one or more classes and series, with such preferences, powers, restrictions, limitations or qualifications as determined by the Board of Trustees and as set forth in the resolution or resolutions providing for the issuance of such preferred shares; and

WHEREAS the Board of Trustees has determined that it is in the best interests of the Trust to issue one or more series of preferred shares of the Trust.

NOW THEREFORE, the Board of Trustees does hereby authorize the issuance of two series of preferred shares, without par value, liquidation preference \$25,000 per share plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared), to be designated respectively: Municipal Auction Rate Cumulative Preferred Shares, Series T and Municipal Auction Rate Cumulative Preferred Shares, Series TH. The preferences, voting powers, restrictions, limitations as to dividends, qualifications, and terms and conditions of redemption, of the preferred shares are as follows:

PART I

DESIGNATION

SERIES T: A series of 2,800 preferred shares, without par value, liquidation preference \$25,000 per share plus accumulated but unpaid dividends, if any, thereon (whether or not earned or declared), is hereby designated Municipal Auction Rate Cumulative Preferred Shares, Series T and is referred to below as Series T Municipal Preferred. Each share of Series T Municipal Preferred shall be issued on December 7, 2000; have an Applicable Rate for its Initial Rate Period equal to 4.30% per annum; have an initial Dividend Payment Date of Wednesday, December 13, 2000; and have such other preferences, limitations and relative voting and other rights, in addition to those required by applicable law or set forth in the Trust s Declaration of Trust, as are set forth in Part I and Part II of this Statement. Series T Municipal Preferred shall constitute a separate series of Municipal Preferred of the Trust.

SERIES TH: A series of 2,800 preferred shares, without par value, liquidation preference \$25,000 per share plus accumulated but unpaid dividends, if any, thereon (whether or not earned or declared), is hereby designated Municipal Auction Rate Cumulative Preferred Shares, Series TH and is referred to below as Series TH Municipal Preferred. Each share of Series TH Municipal Preferred shall be issued on December 7, 2000; have an Applicable Rate for its Initial Rate Period equal to 4.30% per annum; have an initial Dividend Payment Date of Friday, December 15, 2000; and have such other preferences, limitations and relative voting and other rights, in addition to those required by applicable law or set forth in the Trust s Declaration of Trust, as are set forth in Part I and Part II of this Statement. Series TH Municipal Preferred shall constitute a separate series of Municipal Preferred of the Trust.

The Board of Trustees of the Trust may, in their discretion, authorize the issuance of one or more additional series of Municipal Preferred and may, in their discretion, increase the number of shares of any series of Municipal Preferred so long as such issuance is permitted by paragraph 5 of this Part I of this Statement.

1. **DEFINITIONS.** Unless the context or use indicates another or different meaning or intent, in Part I and Part II of this Statement the following terms have the following meanings, whether used in the singular or plural:

AA Composite Commercial Paper Rate, on any date for any Rate Period of shares of a series of Municipal Preferred, shall mean (i) (A) in the case of any Minimum Rate Period or any Special Rate Period of fewer than 49 Rate Period Days, the interest equivalent of the 30-day rate; *provided, however,* that if such Rate Period is a Minimum Rate Period and the AA Composite Commercial Paper Rate is being used to determine the Applicable Rate for shares of such series when all of the Outstanding shares of such series are subject to Submitted Hold Orders, then the interest equivalent of the seven-day rate, and (B) in the case of any Special Rate Period of (1) 49 or more but fewer than 70 Rate Period Days, the interest equivalent of the 60-day rate; (2) 70 or more but fewer than 85 Rate Period Days, the arithmetic average of the interest equivalent of the 60-day and 90-day rates; (3) 85 or more but fewer than 99 Rate Period Days, the interest equivalent of the 90-day rate; (4) 99 or more but fewer than 120 Rate Period Days, the arithmetic average of the interest equivalent of the 90-day and 120-day rates; (5) 120 or more but fewer than 141 Rate Period Days, the interest equivalent of the 120-day rate; (6) 141 or more but fewer than 162 Rate Period Days, the arithmetic average of the interest equivalent of the 120-day and 180-day rates; and (7) 162 or more but fewer than 183 Rate Period Days, the interest equivalent of the 180-day rate, in each case on commercial paper placed on behalf of issuers whose corporate bonds are rated AA by S&P or the equivalent of such rating by S&P or another rating agency, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day next preceding such date; or (ii) in the event that the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by the Commercial Paper Dealers to the Auction Agent for the close of business on the Business Day next preceding such date. If any Commercial Paper Dealer does not quote a rate required to determine the AA Composite Commercial Paper Rate, the AA Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers selected by the Trust to provide such rate or rates not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or, if the Trust does not select any such Substitute Commercial Paper Dealer or

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Substitute Commercial Paper Dealers, by the remaining

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Commercial Paper Dealer or Commercial Paper Dealers. For purposes of this definition, the interest equivalent of a rate stated on a discount basis (a discount rate) for commercial paper of a given days maturity shall be equal to the quotient (rounded upwards to the next higher one-thousandth (.001) of 1% of (A) the discount rate divided by (B) the difference between (x) 1.00 and (y) a fraction the numerator of which shall be the product of the discount rate times the number of days in which such commercial paper matures and the denominator of which shall be 360.

Accountant's Confirmation shall have the meaning specified in paragraph 7(c) of this Part I of this Statement.

Affiliate shall mean, for purposes of the definition of Outstanding, any Person known to the Auction Agent to be controlled by, in control of or under common control with the Trust; provided, however, that no Broker-Dealer controlled by, in control of or under common control with the Trust shall be deemed to be an Affiliate nor shall any corporation or any Person controlled by, in control of or under common control with such corporation, one of the trustees, directors or executive officers of which is a trustee of the Trust be deemed to be an Affiliate solely because such trustee, director or executive officer is also a trustee of the Trust.

Agent Member shall mean a member of or participant in the Securities Depository that will act on behalf of a Bidder.

~~Anticipation Notes shall mean Tax Anticipation Notes (TANs), Revenue Anticipation Notes (RANs), Tax and Revenue Anticipation Notes (TRANs), Grant Anticipation Notes (GANs) that are rated by S&P and Bond Anticipation Notes (BANs).~~

Applicable Rate shall have the meaning specified in paragraph 2(e)(i) of this Part I of this Statement.

Auction shall mean each periodic implementation of the Auction Procedures.

Auction Agency Agreement shall mean the agreement between the Trust and the Auction Agent which provides, among other things, that the Auction Agent will follow the Auction Procedures for purposes of determining the Applicable Rate for shares of a series of Municipal Preferred so long as the Applicable Rate for shares of such series is to be based on the results of an Auction.

Auction Agent shall mean the entity appointed as such by a resolution of the Board of Trustees in accordance with paragraph 6 of Part II of this Statement.

Auction Date, with respect to any Rate Period, shall mean the Business Day next preceding the first day of such Rate Period.

Auction Procedures shall mean the procedures for conducting Auctions set forth in Part II of this Statement.

Available Municipal Preferred shall have the meaning specified in paragraph 3(a) of Part II of this Statement.

Benchmark Rate shall have the meaning specified in paragraph 3(c) of Part II of this Statement.

Beneficial Owner with respect to shares of a series of Municipal Preferred, means a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as a holder of shares of such series.

Bid and Bids shall have the respective meanings specified in paragraph 1(a) of Part II of this Statement.

Bidder and Bidders shall have the respective meanings specified in paragraph 1(a) of Part II of this Statement; *provided, however*, that neither the Trust nor any affiliate thereof shall be permitted to be a Bidder in an Auction, except that any Broker-Dealer that is an affiliate of the Trust may be a Bidder in an Auction, but only if the Orders placed by such Broker-Dealer are not for its own account.

Board of Trustees shall mean the Board of Trustees of the Trust or any duly authorized committee thereof.

Broker-Dealer shall mean any broker-dealer, commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer in Part II of this Statement, that is a member of, or a participant in, the Securities Depository or is an affiliate of such member or participant, has been selected by the Trust and has entered into a Broker-Dealer Agreement that remains effective.

Broker-Dealer Agreement shall mean an agreement between the Auction Agent and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures specified in Part II of this Statement.

Business Day shall mean a day on which the New York Stock Exchange is open for trading, and which is neither a Saturday, Sunday nor any other day on which banks in The City of New York, New York are authorized by law to close.

By-laws means the Amended and Restated By-laws of the Trust, as may be further amended from time to time.

Code means the Internal Revenue Code of 1986, as amended from time to time.

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Commercial Paper Dealers means ~~Lehman Commercial Paper Incorporated, Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated~~ Barclays Capital, Inc., J.P. Morgan Securities LLC, HSBC Securities, Inc., and Goldman Sachs & Co. and such other commercial paper dealer or dealers as the Trust may from time to time ~~appoint~~ approve, or, in lieu of any thereof, their respective affiliates or successors.

Common Shares means the common shares of beneficial interest, without par value, of the Trust.

Cure Date shall have the meaning specified in paragraph 11(b) of this Part I of this Statement.

Date of Original Issue with respect to shares of a series of Municipal Preferred, shall mean the date on which the Trust originally issued such shares.

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Declaration shall mean the Amended and Restated Declaration of Trust dated ~~November 6, 2000~~ December 16, 2004 of the Trust, on file with the Secretary of The Commonwealth of Massachusetts and as hereafter restated or amended from time to time.

Deposit Securities shall mean cash and Municipal Obligations rated at least A-1+ or SP-1+ by S&P, except that, for purposes of subparagraph (a)(v) of paragraph 11 of Part I of this Statement, such Municipal Obligations shall be considered Deposit Securities only if they are also rated P-1, MIG-1 or VMIG-1 by Moody's.

Discounted Value, as of any Valuation Date, shall mean, ~~(i) with respect to an S&P Eligible Asset, the quotient of the Market Value thereof divided by the applicable S&P Discount Factor and~~ (ii) (a) with respect to a Moody's Eligible Asset that is not currently callable as of such Valuation Date at the option of the issuer thereof, the quotient of (1) the Market Value thereof divided by (2) the product of (A) the applicable Moody's Discount Factor multiplied by (B) the sum of 1 plus the Moody's Liquidity Factor; or (b) with respect to a Moody's Eligible Asset that is currently callable as of such Valuation Date at the option of the issuer thereof, the quotient of (1) the lesser of the Market Value or call price thereof, including any call premium, divided by (2) the product of (A) the applicable Moody's Discount Factor multiplied by (B) the sum of 1 plus the Moody's Liquidity Factor.

Dividend Payment Date, with respect to shares of a series of Municipal Preferred, shall mean any date on which dividends are payable on shares of such series pursuant to the provisions of paragraph 2(d) of Part I of this Statement.

Dividend Period, with respect to shares of a series of Municipal Preferred, shall mean the period from and including the Date of Original Issue of shares of such series to but excluding the initial Dividend Payment Date for shares of such series and any period thereafter from and including one Dividend Payment Date for shares of such series to but excluding the next succeeding Dividend Payment Date for shares of such series; provided, however, that the Dividend Periods for each of Series T Municipal Preferred and Series TH Municipal Preferred will never be co-extensive with the Dividend Period of the other series of Municipal Preferred unless the Trust has received an opinion of tax counsel that having such co-extensive periods will not affect the deductibility, for federal income tax purposes, of dividends paid on the different series of Municipal Preferred.

Escrowed Bonds means Municipal Obligations that (i) have been determined to be legally defeased in accordance with S&P/Moody's legal defeasance criteria, (ii) have been determined to be economically defeased in accordance with S&P's economic defeasance criteria and assigned a rating of AAA by S&P and a rating of Aaa by Moody's, (iii) are not rated by S&P but have been determined to be legally defeased by Moody's or not rated by Moody's but have been determined to be legally defeased by S&P, or (iv) have been determined to be economically defeased by Moody's and assigned a rating no lower than the rating that is Moody's equivalent of S&P's AAA rating or have been determined to be economically defeased by S&P and assigned a rating no lower than the rating that is S&P's equivalent of Moody's Aaa rating.

Existing Holder, with respect to shares of a series of Municipal Preferred, shall mean a Broker-Dealer (or any such other Person as may be permitted by the Trust) that is listed on the records of the Auction Agent as a holder of shares of such series.

Failure to Deposit, with respect to shares of a series of Municipal Preferred, shall mean a failure by the Trust to pay to the Auction Agent, not later than 12:00 noon, New York City time, (A) on any Dividend Payment Date for shares of such series, in funds available on such Dividend Payment Date in The City of New York, New York, the full amount of any dividend (whether or not earned or declared) to be paid on such Dividend Payment Date on any share of such series or (B) on any redemption date in funds available on such redemption date for shares of such series in The City of New York, New York, the Redemption Price to be paid on such redemption date for any shares of such series after notice of redemption is mailed pursuant to paragraph 11(c) of Part I of this Statement; *provided, however*, that the foregoing clause (B) shall not apply to the Trust's failure to pay the Redemption Price in respect of shares of Municipal Preferred when the related Notice of Redemption provides that redemption of such shares is subject to one or more conditions precedent and any such condition precedent shall not have been satisfied at the time or times and in the manner specified in such Notice of Redemption.

Federal Tax Rate Increase shall have the meaning specified in the definition of Moody's Volatility Factor.

Fitch means Fitch Ratings, part of the Fitch Group, which is a majority owned subsidiary of Fimalac, S.A., and any successor or successors thereto.

Fitch Criteria means the Closed-End Fund Criteria Report issued by Fitch entitled Rating Closed-End Fund Debt and Preferred Stock dated August 16, 2011 and attached to this Statement as Exhibit 1, which is hereby incorporated by reference into and made a part of this Statement. The Trust may, but is not required to, amend or restate the Fitch Criteria as well as any defined terms in this Statement that refer to or are based on the Fitch Criteria (including, without limitation, Fitch Municipal Preferred Asset Coverage, Fitch Municipal Preferred Asset Coverage Report, Fitch Net OC, Fitch Net OC Test, Fitch Total OC and Fitch Total OC Test) from time to time, through an amendment or restatement of this Statement, Exhibit 1 or otherwise, to reflect revised criteria issued by Fitch by resolution of the Board of Trustees of the Trust and without shareholder approval.

Fitch Municipal Preferred Asset Coverage means, as of a particular date or time, sufficient asset coverage with respect to shares of Municipal Preferred such that the Trust is satisfying both the (i) Fitch Total OC Test and the (ii) Fitch Net OC Test as of such date or time.

Fitch Municipal Preferred Asset Coverage Report means, with respect to Fitch Municipal Preferred Asset Coverage, a report including the information to be provided to Fitch as called for in the second bullet under Information Used to Determine a Rating Surveillance in the Fitch Criteria.

Fitch Net OC has the meaning given to such term in the Fitch Criteria to be consistent with a AAA rating of the Municipal Preferred by Fitch, and shall be calculated with respect to the Trust in accordance with the applicable formula and related guidance provided in the Fitch Criteria and by Fitch (including with respect to discount factors, if any, or other treatment to be applied with respect to securities or other assets held by the Trust which are not specifically referenced in the Fitch Criteria), and the good faith determinations of the Trust or its agents of the Fitch Net OC and related interpretations of the Fitch Criteria shall be

conclusive and binding on all parties.

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Fitch Net OC Test means an asset coverage test with respect to the Municipal Preferred that shall be satisfied as of a particular date or time if the Trust has Fitch Net OC in excess of one-hundred percent (100%) as of such date or time.

Fitch Total OC has the meaning given to such term in the Fitch Criteria to be consistent with a AAA rating of the Municipal Preferred by Fitch, and shall be calculated with respect to the Trust in accordance with the applicable formula and related guidance provided in the Fitch Criteria and by Fitch (including with respect to discount factors, if any, or other treatment to be applied with respect to securities or other assets held by the Trust which are not specifically referenced in the Fitch Criteria), and the good faith determinations of the Trust or its agents of Fitch Total OC and related interpretations of the Fitch Criteria at any time and from time to time shall be conclusive and binding on all parties.

Fitch Total OC Test means an asset coverage test with respect to the Municipal Preferred that shall be satisfied as of a particular date or time if the Trust has Fitch Total OC in excess of one-hundred percent (100%) as of such date or time.

Gross-up Payment in respect of any dividend means payment to a Holder of shares of a series of Municipal Preferred of an amount which, giving effect to the Taxable Allocations made with respect to such dividend, would cause such Holder's after-tax returns (taking into account both the Taxable Allocations and the Gross-up Payment) to be equal to the after-tax return the Holder would have received if no such Taxable Allocations had occurred. Such Gross-up Payment shall be calculated: (i) without consideration being given to the time value of money; (ii) assuming that no Holder of shares of Municipal Preferred is subject to the Federal alternative minimum tax with respect to dividends received from the Trust; and (iii) assuming that each Holder of shares of Municipal Preferred is taxable at the maximum marginal regular Federal individual income tax rate applicable to ordinary income or net capital gain, as applicable, or the maximum marginal regular Federal corporate income tax rate applicable to ordinary income or net capital gain, as applicable, whichever is greater, in effect at the time such Gross-up Payment is made.

Holder, with respect to shares of a series of Municipal Preferred, shall mean the Registered Holder of such shares as the same appears on the record books of the Trust.

Hold Order and Hold Orders shall have the respective meanings specified in paragraph 1(a) of Part II of this Statement.

Independent Accountant shall mean a nationally recognized accountant, or firm of accountants, that is, with respect to the Trust, an independent public accountant or firm of independent public accountants under the Securities Act of 1933, as amended from time to time.

Initial Margin means the amount of cash or securities deposited with a broker as a margin payment at the time of purchase or sale of a futures contract.

Initial Rate Period, with respect to shares of a series of Municipal Preferred, shall mean the period from and including the Date of Original Issue for such series to but excluding the initial Dividend Payment Date for such series.

Interest Equivalent shall mean a yield on a 360-day basis of a discount basis security which is equal to the yield on an equivalent interest-bearing security.

Inverse Floater shall mean trust certificates or other instruments evidencing interests in one or more municipal securities that qualify as S&P Eligible Assets and Moody's Eligible Assets (and satisfy the issuer and size requirements of the definition of S&P Eligible Assets), the interest rates on which are adjusted at short-term intervals on a basis that is inverse to the simultaneous readjustment of the interest rates on corresponding floating rate trust certificates or other instruments issued by the same issuer, provided that the ratio of the aggregate dollar amount of floating rate instruments to inverse floating rate instruments issued by the same issuer does not exceed three to one at their time of original issuance unless the floating rate instrument has only one reset remaining until maturity.

Kenny Index shall have the meaning set forth under the definition of Taxable Equivalent of the Short-Term Municipal Bond Rate.

Liquidation Preference, with respect to a given number of shares of Municipal Preferred, means \$25,000 times that number.

Market Value of any asset of the Trust means the market value thereof determined by the Pricing Services. Market Value of any asset shall include any interest accrued thereon. The Pricing Services will use current industry standards to value portfolio securities. The Pricing Services may employ electronic data processing techniques or a matrix system, or both, to determine valuations. Futures contracts and options shall be valued at closing prices for such instruments established by the exchange or board of trade on which they are traded. Securities for which quotations are not readily available (Internally Priced Securities) shall be valued at fair value on a consistent basis using methods determined in good faith by the Board of Trustees.

Maximum Potential Gross-up Payment Liability, as of any Valuation Date, shall mean the aggregate amount of Gross-up Payments that would be due if the Trust were to make Taxable Allocations, with respect to any taxable year, estimated based upon dividends paid and the amount of undistributed realized net capital gains and other taxable income earned by the Trust, as of the end of the calendar month immediately preceding such Valuation Date, and assuming such Gross-up Payments are fully taxable.

Maximum Rate, for shares of a series of Municipal Preferred on any Auction Date for shares of such series, shall mean:

(i) in the case of any Auction Date which is not the Auction Date immediately prior to the first day of any proposed Special Rate Period designated by the Trust pursuant to paragraph 4 of Part I of this Statement, the product of (A) the Reference Rate on such Auction Date for the next Rate Period of shares of such series and (B) the Rate Multiple on such Auction Date, unless shares of such series have or had a Special Rate Period (other than a Special Rate Period of 28 Rate Period

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Days or fewer) and an Auction at which Sufficient Clearing Bids existed has not yet occurred for a Minimum Rate Period of shares of such series after such Special Rate Period, in which case the higher of:

(A) the dividend rate on shares of such series for the then-ending Rate Period; and

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(B) the product of (1) the higher of (x) the Reference Rate on such Auction Date for a Rate Period equal in length to the then-ending Rate Period of shares of such series, if such then-ending Rate Period was 364 Rate Period Days or fewer, or the Treasury Note Rate on such Auction Date for a Rate Period equal in length to the then-ending Rate Period of shares of such series, if such then-ending Rate Period was more than 364 Rate Period Days, and (y) the Reference Rate on such Auction Date for a Rate Period equal in length to such Special Rate Period of shares of such series, if such Special Rate Period was 364 Rate Period Days or fewer, or the Treasury Note Rate on such Auction Date for a Rate Period equal in length to such Special Rate Period, if such Special Rate Period was more than 364 Rate Period Days and (2) the Rate Multiple on such Auction Date; or

(ii) in the case of any Auction Date which is the Auction Date immediately prior to the first day of any proposed Special Rate Period designated by the Trust pursuant to paragraph 4 of Part I of this Statement, the product of (A) the highest of (1) the Reference Rate on such Auction Date for a Rate Period equal in length to the then-ending Rate Period of shares of such series, if such then-ending Rate Period was 364 Rate Period Days or fewer, or the Treasury Note Rate on such Auction Date for a Rate Period equal in length to the then-ending Rate Period of shares of such series, if such then-ending Rate Period was more than 364 Rate Period Days, (2) the Reference Rate on such Auction Date for the Special Rate Period for which the Auction is being held if such Special Rate Period is 364 Rate Period Days or fewer or the Treasury Note Rate on such Auction Date for the Special Rate Period for which the Auction is being held if such Special Rate Period is more than 364 Rate Period Days, and (3) the Reference Rate on such Auction Date for Minimum Rate Periods and (B) the Rate Multiple on such Auction Date.

Minimum Rate Period shall mean any Rate Period consisting of 7 Rate Period Days.

Moody's shall mean Moody's Investors Service, Inc., a Delaware corporation, and its successors.

Moody's Discount Factor shall mean, for purposes of determining the Discounted Value of any Moody's Eligible Asset, the percentage determined by reference to the rating on such asset and the shortest Exposure Period set forth opposite such rating that is the same length as or is longer than the Moody's Exposure Period, in accordance with the table set forth below:

Exposure Period	Rating Category							
	Aaa*	Aa*	A*	Baa*	Other**	(V)MIG-1***	SP-1+****	Unrated*****
7 weeks	151%	159%	166%	173%	187%	136%	148%	225%
8 weeks or less but greater than seven weeks	154	161	168	176	190	137	149	231
9 weeks or less but greater than eight weeks	156	163	170	177	192	138	150	240

* Moody's rating.

** Municipal Obligations not rated by Moody's but rated BBB by S&P.

*** Municipal Obligations rated MIG-1 or VMIG-1, which do not mature or have a demand feature at par exercisable in 30 days and which do not have a long-term rating.

**** Municipal Obligations not rated by Moody's but rated SP-1+ by S&P, which do not mature or have a demand feature at par exercisable in 30 days and which do not have a long-term rating.

***** Municipal Obligations rated less than Baa3 by Moody's or less than BBB by S&P or not rated by Moody's or S&P.

Notwithstanding the foregoing, (i) the Moody's Discount Factor for short-term Municipal Obligations will be 115%, so long as such Municipal Obligations are rated at least MIG-1, VMIG-1 or P-1 by Moody's and mature or have a demand feature at par exercisable in 30 days or less or 125% so long as such Municipal Obligations are rated at least A-1+/AA or SP-1+/AA by S&P and mature or have a demand feature at par exercisable in 30 days or less and (ii) no Moody's Discount Factor will be applied to cash or futures, options and similar instruments (to the extent such securities are Moody's Eligible Assets); *provided, however*, that for purposes of determining the Moody's Discount Factor applicable to a Municipal Obligation, any Municipal Obligation (excluding any short-term Municipal Obligation) not rated by Moody's but rated by S&P shall be deemed to have a Moody's rating which is one full rating category lower than its S&P rating.

Moody's Eligible Asset shall mean trade date cash, futures, options, U.S. Government Securities (which are valued for the purposes of meeting the Municipal Preferred Basic Maintenance Amount without application of any discount factor), and similar instruments (other than Inverse Floaters) or a Municipal Obligation that (i) pays interest in cash, (ii) does not have its Moody's rating, if applicable, suspended by Moody's, (iii) is part of an issue of Municipal Obligations of at least \$10,000,000 (including Escrowed Bonds that are legally defeased), and (iv) is not subject to a covered call or a covered put option written by the Trust. These eligible assets are valued or accounted for on a trade date basis assuming normal settlement for the Municipal Market. Municipal Obligations issued by any one issuer (excluding escrowed bonds) and not rated by Moody's or rated lower than Baa3 by Moody's and not rated by S&P or rated lower than BBB by S&P (Unrated Moody's Municipal Obligations), together with any Municipal Obligations issued by the same issuer and rated BBB by S&P may comprise no more than 4% of total Moody's Eligible Assets; such BBB-rated Municipal Obligations and Unrated Moody's Municipal Obligations, if any, together with any Municipal Obligations issued by the same issuer and rated Baa by Moody's or A by S&P may comprise no more than 6% of total Moody's Eligible Assets; such BBB, Baa and A rated Municipal Obligations and Unrated Moody's Municipal Obligations, if any, together with any Municipal Obligations issued by the same issuer and rated A by Moody's or AA by S&P, may comprise no more than 10% of total Moody's Eligible Assets; and such BBB, Baa, A and AA-rated Municipal Obligations and Unrated Moody's Municipal Obligations, if any, together with any Municipal Obligations issued by the same issuer and rated Aa by Moody's or AAA by S&P, may comprise no more than 20% of total Moody's Eligible Assets. For purposes of the foregoing sentence, any Municipal Obligation backed by the guaranty, letter of credit or insurance issued by a third party shall be deemed to be issued by such third party if the issuance of such third-party credit is the sole determinant of the rating on such Municipal Obligations.

Municipal Obligations issued by issuers located within a single state or territory (excluding escrowed bonds) and not rated by Moody's or rated lower than Baa3 by Moody's and not rated by S&P or rated lower than BBB by S&P, together with any Municipal Obligations issued by issuers located within the same state or territory and rated BBB by S&P may comprise no more than 12% of total Moody's Eligible Assets; such BBB-rated Municipal Obligations and Unrated Moody's Municipal Obligations, if any, together with any Municipal Obligations issued by issuers located within the same state or territory and rated Baa by Moody's or A by S&P, may comprise no more than 20% of total Moody's Eligible Assets; such BBB, Baa and A-rated Municipal Obligations and Unrated Moody's Municipal Obligations, if any, together with any Municipal Obligations issued by issuers located within the same state or territory and rated A by Moody's or AA by S&P, may comprise no more than 40% of total Moody's Eligible Assets; and such BBB, Baa, A and AA-rated Municipal Obligations and Unrated Moody's Municipal Obligations, if any, together with any Municipal Obligations issued by issuers located within the same state or territory and rated Aa by Moody's or AAA by S&P, may comprise no more than 60% of total Moody's Eligible Assets. Municipal Obligations which are not rated by Moody's or S&P may comprise no more than 40% of the aggregate Market Value of Moody's Eligible Assets; provided, however, that if the Market Value of such Municipal Obligations exceeds 40% of the aggregate Market Value of Moody's Eligible Assets, a portion of such Municipal Obligations (selected by the Trust) shall not be considered Moody's Eligible Assets, so that the Market Value of such Municipal Obligations (excluding such portion) does not exceed 40% of the aggregate Market Value of Moody's Eligible Assets; *provided, however*, that no such unrated Municipal Obligation shall be considered a Moody's Eligible Asset if such Municipal Obligation shall be in default, which term shall mean for purposes of this definition, either (a) the nonpayment by the issuer of interest or principal when due or (b) the notification of the Trust by the trustee under the underlying indenture or other governing instrument for such Municipal Obligation that the issuer will fail to pay when due principal or interest on such Municipal Obligation. For purposes of applying the foregoing requirements, a Municipal Obligation shall be deemed to be rated BBB by S&P if rated BBB-, BBB or BBB+ by S&P, and Municipal Obligations rated MIG-1, VMIG-1 or P-1 or, if not rated by Moody's, rated A-1+/AA or SP-1+/AA by S&P, shall be considered to have a long-term rating of A. When the Trust sells a Municipal Obligation and agrees to repurchase such Municipal Obligation at a future date, such Municipal Obligation shall be valued at its Discounted Value for purposes of determining Moody's Eligible Assets, and the amount of the repurchase price of such Municipal Obligation shall be included as a liability for purposes of calculating the Municipal Preferred Basic Maintenance Amount. When the Trust purchases a Moody's Eligible Asset and agrees to sell it at a future date, such Eligible Asset shall be valued at the amount of cash to be received by the Trust upon such future date, provided that the counterparty to the transaction has a long-term debt rating of at least A2 and a short-term debt rating of at least P1 from Moody's and the transaction has a term of no more than 30 days; otherwise such Eligible Asset shall be valued at the Discounted Value of such Eligible Asset. For purposes of determining the aggregate Discounted Value of Moody's Eligible Assets, such aggregate amount shall be reduced with respect to any futures contracts as set forth in paragraph 10(a) of this Part I.

Notwithstanding the foregoing, an asset will not be considered a Moody's Eligible Asset to the extent it is (i) subject to any material lien, mortgage, pledge, security interest or security agreement of any kind (collectively, Liens), except for (a) Liens which are being contested in good faith by appropriate proceedings and which Moody's has indicated to the Trust will not affect the status of such asset as a Moody's Eligible Asset, (b) Liens for taxes that are not then due and payable or that can be paid thereafter without penalty, (c) Liens to secure payment for services rendered or cash advanced to the Trust by Massachusetts Financial Services Company, State Street Bank and Trust or the Auction Agent, (d) Liens by virtue of any repurchase agreement or futures contract, and (e) Liens by virtue of the transfer of such asset that is a Municipal Obligation by the Trust to a special purpose issuer that, in turn, issues floating rate trust certificates or other instruments and corresponding Inverse Floaters that collectively evidence interests in such asset, provided that, for purposes of calculating the total market value of such asset, the accrued interest of such asset shall be derived from the accrued interest of the Inverse Floaters representing interests therein; or (ii) deposited irrevocably for the payment of any liabilities for purposes of determine the Municipal Preferred Basic Maintenance Amount. In addition, an asset will not be considered a Moody's Eligible Asset if it is an Internally Priced Security (as defined under Market Value).

Moody's Exposure Period shall mean the period commencing on a given Valuation Date and ending 49 days thereafter.

Moody's Liquidity Factor shall equal the product, expressed as a percentage, of (i) the quotient, expressed as a percentage, of (A) the aggregate value of the Municipal Obligations that are transferred by the Trust to special purpose issuers that, in turn, issue floating rate trust certificates or other instruments and corresponding Inverse Floaters that collectively evidence interests in such Municipal Obligations divided by (B) the total asset value of the Trust; multiplied by (ii) the quotient, measured at their time of original issuance, expressed as a percentage, of (A) the aggregate dollar amount of floating rate trust certificates or other instruments issued by the same issuer that issued, and corresponding to, the Inverse Floaters issued by the special purpose issuers referred to in clause (i)(A) of this definition divided by (B) the aggregate value calculated in clause (i)(A) of this definition; multiplied by (iii) 15%.

Moody's Municipal Preferred Asset Coverage means, as of a particular date or time, sufficient asset coverage with respect to the Municipal Preferred such that the Trust has Moody's Eligible Assets having an aggregate Discounted Value equal to or greater than the Municipal Preferred Basic Maintenance Amount as of such date or time.

Moody's Municipal Preferred Asset Coverage Report means, with respect to Moody's Municipal Preferred Asset Coverage, a report signed by the President, Treasurer, Secretary, Assistant Treasurer or Assistant Secretary of the Trust which sets forth, as of the related Valuation Date, the assets of the Trust, the Market Value and the Discounted Value thereof (seriatim and in aggregate), and the Municipal Preferred Basic Maintenance Amount.

Moody's Volatility Factor shall mean, as of any Valuation Date, (i) in the case of any Minimum Rate Period, any Special Rate period of 28 Rate Period Days or fewer, or any Special Rate Period of 57 Rate Period Days or more, a multiplicative factor equal to 275%, except as otherwise provided in the last sentence of this definition; (ii) in the case of any Special Rate Period of more than 28 but fewer than 36 Rate Period Days, a multiplicative factor equal to 203%; (iii) in the case of any Special Rate Period of more than 35 but fewer than 43 Rate Period Days, a multiplicative factor equal to 217%; (iv) in the case of any Special Rate Period of more than 42 but fewer than 50 Rate Period Days, a multiplicative factor equal to 226%; and (v) in the case of any Special Rate Period of more than 49 but fewer than 57 Rate Period Days, a multiplicative factor equal to 235%. If, as a result of the enactment of changes to the Code, the greater of the maximum marginal Federal

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individual income tax rate applicable to ordinary income and the maximum marginal Federal corporate income tax rate applicable to ordinary income will increase, such increase being rounded up to the next five percentage points (the Federal Tax Rate Increase), until the effective date of such increase, the Moody's Volatility Factor in the case of any Rate Period described in (i) above in this definition instead shall be determined by reference to the following table:

Federal Tax Rate Increase	Volatility Factor
5%	295%
10%	317%
15%	341%
20%	369%
25%	400%
30%	436%
35%	477%
40%	525%

Municipal Obligations shall mean Municipal Obligations as defined in the Trust's registration statement on Form N-2 as filed with the Securities and Exchange Commission on ~~August 6, 2008, July 27, 2000 and November 28, 2000~~ (the Registration Statement).

Municipal Preferred shall mean the Municipal Auction Rate Cumulative Preferred Shares, Series T and/or Series TH without par value, liquidation preference \$25,000 per share, of the Trust.

Municipal Preferred Basic Maintenance Amount, as of any Valuation Date, shall mean the dollar amount equal to the sum of (i) (A) the product of the number of shares of Municipal Preferred outstanding on such date multiplied by \$25,000 (plus the product of the number of shares of any other series of Preferred Shares outstanding on such date multiplied by the liquidation preference of such shares), plus any redemption premium applicable to shares of Municipal Preferred (or other Preferred Shares) then subject to redemption; (B) the aggregate amount of dividends that will have accumulated at the respective Applicable Rates (whether or not earned or declared) to (but not including) the first respective Dividend Payment Dates for shares of Municipal Preferred outstanding that follow such Valuation Date (plus the aggregate amount of dividends, whether or not earned or declared, that will have accumulated in respect of other outstanding Preferred Shares to, but not including, the first respective dividend payment dates for such other shares that follow such Valuation Date); (C) the aggregate amount of dividends that would accumulate on shares of each series of Municipal Preferred outstanding from such first respective Dividend Payment Date thereafter through the 49th day after such Valuation Date, at the Maximum Rate (calculated as if such Valuation Date were the Auction Date for the Rate Period commencing on such Dividend Payment Date) for a Minimum Rate Period of shares of such series to commence on such Dividend Payment Date, assuming, solely for purposes of the foregoing, that if on such Valuation Date the Trust shall have delivered a Notice of Special Rate Period to the Auction Agent pursuant to paragraph 4(d)(i) of this Part I with respect to shares of such series, such Maximum Rate shall be the higher of (a) the Maximum Rate for the Special Rate Period of shares of such series to commence on such Dividend Payment Date and (b) the Maximum Rate for a Minimum Rate Period of shares of such series to commence on such Dividend Payment Date, multiplied by the Volatility Factor applicable to a Minimum Rate Period, or, in the event the Trust shall have delivered a Notice of Special Rate Period to the Auction Agent pursuant to paragraph 4(d)(i) of this Part I with respect to shares of such series designating a Special Rate Period consisting of 49 Rate Period Days or more, the Volatility Factor applicable to a Special Rate Period of that length (plus the aggregate amount of dividends that would accumulate at the maximum dividend rate or rates on any other Preferred Shares outstanding from such respective dividend payment dates through the 49th day after such Valuation Date, as established by or pursuant to the respective statements establishing and fixing the rights and preferences of such other Preferred Shares) (except that (1) if such Valuation Date occurs at a time when a Failure to Deposit (or, in the case of Preferred Shares other than Municipal Preferred, a failure similar to a Failure to Deposit) has occurred that has not been cured, the dividend for purposes of calculation would accumulate at the current dividend rate then applicable to the shares in respect of which such failure has occurred and (2) for those days during the period described in this subparagraph (C) in respect of which the Applicable Rate in effect immediately prior to such Dividend Payment Date will remain in effect (or, in the case of the Preferred Shares other than Municipal Preferred, in respect of which the dividend rate or rates in effect immediately prior to such respective dividend payment dates will remain in effect), the dividend for purposes of calculation would accumulate at such Applicable Rate (or other rate or rates, as the case may be) in respect of those days); (D) the amount of anticipated expenses of the Trust for the 90 days subsequent to such Valuation Date; (E) the amount of the Trust's Maximum Potential Gross-up Payment Liability in respect of shares of Municipal Preferred (and similar amounts payable in respect of other Preferred Shares pursuant to provisions similar to those contained in paragraph 3 of Part I of this Statement) as of such Valuation Date; (F) only for purposes of paragraph 7(a)(ii) of Part I of this Statement, the total market value of the floating rate trust certificates or other instruments corresponding to the Inverse Floaters held by the Trust as of such Valuation Date and issued by the same issuer that issued such Inverse Floaters, provided that the total market value of each such floating rate trust certificate or other instrument is calculated as the sum of (i) its principal amount and (ii) the difference of (a) the accrued interest of the municipal security or securities underlying such floating rate trust certificate or other instrument and the corresponding Inverse Floater less (b) the accrued interest of the corresponding Inverse Floater; and (G) any current liabilities as of such Valuation Date to the extent not reflected in any of (i) (A) through (i)(F) (including, without limitation, any payables for Municipal Obligations purchased as of such Valuation Date and any liabilities incurred for the purpose of clearing securities transactions) less (ii) the value (i.e., for purposes of current Moody's guidelines, the face value of cash and short-term Municipal Obligations rated MIG-1, VMIG-1 or P-1, provided in each case that such securities mature on or prior to the date upon which any of (i) (A) through (i)(G) become payable, otherwise the Moody's Discounted Value or for purposes of current S&P guidelines, the face value of cash and short-term municipal securities rated A-1+ or SP-1+ and mature or have a demand feature exercisable in 30 days or less, provided in each case that such securities mature on or prior to the date upon which any of (i)(A) through (i)(G) become payable, otherwise S&P's Discounted Value) of any of the Trust's assets irrevocably deposited by the Trust for the payment of any of (i) (A) through (i)(G).

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~~Municipal Preferred Basic Maintenance Cure Date~~, with respect to the failure by the Trust to satisfy the ~~Municipal Preferred Basic Maintenance Amount~~ (as required by paragraph 7(a) of Part I of this Statement) as of a given Valuation Date, shall mean the second Business Day following such Valuation Date.

~~Municipal Preferred Basic Maintenance Report~~ shall mean a report signed by the President, Treasurer, Secretary, Assistant Treasurer or Assistant Secretary of the Trust which sets forth, as of the related Valuation Date, the assets of the Trust, the Market Value and the Discounted Value thereof (seriatim and in aggregate), and the ~~Municipal Preferred Basic Maintenance Amount~~.

1940 Act shall mean the Investment Company Act of 1940, as amended from time to time.

1940 Act Cure Date, with respect to the failure by the Trust to maintain the 1940 Act Municipal Preferred Asset Coverage (as required by paragraph 6 of this Part I of this Statement) as of the last Business Day of each month, shall mean the last Business Day of the following month.

1940 Act Municipal Preferred Asset Coverage shall mean asset coverage, as defined in Section 18(h) of the 1940 Act, of at least 200% with respect to all outstanding senior securities of the Trust which are shares of beneficial interest, including all outstanding shares of Municipal Preferred (or such other asset coverage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities which are shares or stock of a closed-end investment company as a condition of declaring dividends on its common shares or stock).

Notice of Redemption shall mean any notice with respect to the redemption of shares of Municipal Preferred pursuant to paragraph 11(c) of this Part I of this Statement.

Notice of Special Rate Period shall mean any notice with respect to a Special Rate Period of shares of Municipal Preferred pursuant to paragraph 4(d)(i) of this Part I of this Statement.

Order and Orders shall have the respective meanings specified in paragraph 1(a) of Part II of this Statement.

Outstanding shall mean, as of any Auction Date with respect to shares of any series of Municipal Preferred, the number of shares of such series theretofore issued by the Trust except, without duplication, (i) any shares of such series theretofore canceled or delivered to the Auction Agent for cancellation or redeemed by the Trust, (ii) any shares of such series as to which the Trust or any Affiliate thereof shall be an Existing Holder and (iii) any shares of such series represented by any certificate in lieu of which a new certificate has been executed and delivered by the Trust.

Persons shall mean and include an individual, a partnership, a corporation, a trust, an unincorporated association, a joint venture or other entity or a government or any agency or political subdivision thereof.

~~Pricing Services~~ shall mean those pricing services which are designated from time to time by the Board of Trustees and approved from time to time for use by S&P (the pricing services approved for use by S&P as of the date of this Statement are Bloomberg, Bridge Information Services, Interactive Data Corporation, Merrill Lynch Securities Pricing Service, Standard and Poor's, JJ Kenny (Municipal securities only) and CIBC Wood Gundy (Canadian government and provincial securities only)).

Potential Beneficial Owner, with respect to shares of a series of Municipal Preferred, shall mean a customer of a Broker-Dealer that is not a Beneficial Owner of shares of such series but that wishes to purchase shares of such series, or that is a Beneficial Owner of shares of such series that wishes to purchase additional shares of such series.

Potential Holder, with respect to shares of a series of Municipal Preferred, shall mean a Broker-Dealer (or any such other person as may be permitted by the Trust) that is not an Existing Holder of shares of such series or that is an Existing Holder of shares of such series that wishes to become the Existing Holder of additional shares of such series.

Preferred Shares shall mean the preferred shares, without par value, of the Trust, and includes the shares of Municipal Preferred.

Quarterly Valuation Date shall mean the last Business Day of each January, April, July and October of each year, commencing on January 31, 2001 with respect to Series T Municipal Preferred and Series TH Municipal Preferred.

Rate Multiple, for shares of a series of Municipal Preferred on any Auction Date for shares of such series, shall mean the percentage, determined as set forth below (depending on whether the Trust has notified the Auction Agent of its intent to allocate any net capital gain or other income taxable for Federal income tax purposes to shares of such series prior to the Auction establishing the Applicable Rate for shares of such series as provided in this Statement), based on the prevailing rating of shares of such series in effect at the close of business on the Business Day next preceding such Auction Date:

	Applicable	Applicable
	Percentage-	Percentage-
Prevailing Rating	No Notification	Notification

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aa3 /AA- or higher	110%	150%
a3 /A-	125%	160%
baa3 /BBB-	150%	250%
ba3 /BB-	200%	275%
Below ba3 /BB-	250%	300%

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For purposes of this definition, the prevailing rating of shares of a series of Municipal Preferred shall be (i) aa3 /AA- or higher if such shares have a rating of aa3 or better by Moody's and AA- or better by S&P Fitch or the equivalent of such ratings by such agencies or a substitute rating agency or substitute rating agencies selected as provided below, (ii) if not aa3 /AA- or higher, then a3 /A- if such shares have a rating of a3 or better by Moody's and A- or better by S&P Fitch or the equivalent of such ratings by such agencies or a substitute rating agency or substitute rating agencies selected as provided below, (iii) if not aa3 /AA- or higher or a3 /A-, then baa3 /BBB- if such shares have a rating of baa3 or better by Moody's and BBB- or better by S&P Fitch or the equivalent of such ratings by such agencies or a substitute rating agency or substitute rating agencies selected as provided below, (iv) if not aa3 /AA- or higher, a3 /A- or baa3 /BBB-, then ba3 /BB- if such shares have a rating of ba3 or better by Moody's and BB- or better by S&P Fitch or the equivalent of such ratings by such agencies or a substitute rating agency or substitute rating agencies selected as provided below, and (v) if not aa3 /AA- or higher, a3 /A-, baa3 /BBB-, or ba3 /BB-, then below ba3 /BB-; *provided however*, that if such shares are rated by only one rating agency, the prevailing rating will be determined without reference to the rating of any other rating agency. The Trust shall take all reasonable action necessary to enable either S&P Fitch or Moody's to provide a rating for shares of Municipal Preferred. If neither S&P Fitch nor Moody's shall make such a rating available, Salomon Smith Barney Inc. or its successor shall select at least one nationally recognized statistical rating organization (as that term is used in the rules and regulations of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended from time to time) to act as a substitute rating agency in respect of shares of such series of Municipal Preferred, and the Trust shall take all reasonable action to enable such rating agency to provide a rating for such shares.

Rate Period, with respect to shares of a series of Municipal Preferred, shall mean the Initial Rate Period of shares of such series and any Subsequent Rate Period, including any Special Rate Period, of shares of such series.

Rate Period Days, for any Rate Period or Dividend Period, means the number of days that would constitute such Rate Period or Dividend Period but for the application of paragraph 2(d) of Part I of this Statement or paragraph 4(b) of Part I of this Statement.

Rating Agency shall mean, as of any date and in respect of a series of Municipal Preferred, (i) each of Moody's and Fitch and (ii) any other nationally recognized statistical rating organization designated as a Rating Agency on such date, in each case above, only if it maintains a current credit rating for the shares of Municipal Preferred of such series on such date and the Board of Trustees has not terminated its designation as a Rating Agency.

Rating Agency Municipal Preferred Asset Coverage means, (i) with respect to the asset coverage specifications of Fitch, Fitch Municipal Preferred Asset Coverage and (ii) with respect to the asset coverage specifications of Moody's, Moody's Municipal Preferred Asset Coverage.

Rating Agency Municipal Preferred Asset Coverage Cure Date, with respect to the failure by the Trust to satisfy Fitch Municipal Preferred Asset Coverage or Moody's Municipal Preferred Asset Coverage (as required by paragraph 7(a) of Part I of this Statement) as of a given Valuation Date, shall mean the second Business Day following such Valuation Date.

Rating Agency Municipal Preferred Asset Coverage Report means a Moody's Municipal Preferred Asset Coverage Report, a Fitch Municipal Preferred Asset Coverage Report or a similar report to be provided to another Rating Agency, as applicable.

Redemption Price shall mean the applicable redemption price specified in paragraph 11(a) or (b) of Part I of this Statement.

Reference Rate shall mean (i) the higher of the Taxable Equivalent of the Short-Term Municipal Bond Rate and the AA Composite Commercial Paper Rate in the case of Minimum Rate Periods and Special Rate Periods of 28 Rate Period Days or fewer; (ii) the AA Composite Commercial Paper Rate in the case of Special Rate Periods of more than 28 Rate Period Days but fewer than 183 Rate Period Days; and (iii) the Treasury Bill Rate in the case of Special Rate Periods of more than 182 Rate Period Days but fewer than 365 Rate Period Days.

Registration Statement has the meaning specified in the definition of Municipal Obligations.

S&P means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

~~S&P Discount Factor shall mean, for purposes of determining the Discounted Value of any S&P Eligible Asset, the percentage determined by reference to the rating on such asset and the shortest S&P Exposure Period set forth opposite such rating that is the same length as or is longer than the S&P Exposure Period, in accordance with the table set forth below:~~

Exposure Period	Rating Category					
	AAA [Ⓢ]	AA [Ⓢ]	A [Ⓢ]	BBB [Ⓢ]	Unrated ^{ⓈⓈ}	Zeros ^{ⓈⓈⓈ}
45 Business Days	190%	195%	210%	250%	220%	572%
25 Business Days	170	175	190	230	220	496
10 Business Days	155	160	175	215	220	426
7 Business Days	150	155	170	210	220	411
3 Business Days	130	135	150	190	220	388

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~~§~~ ~~S&P rating.~~

~~§§~~ ~~S&P Eligible Assets not rated by S&P or rated less than BBB by S&P and not rated at least the equivalent of an A rating by another nationally recognized credit rating agency.~~

~~§§§~~ ~~Municipal Obligations which are not interest bearing or do not pay interest at least semi-annually and that are rated AAA by S&P.~~

Notwithstanding the foregoing, (i) the S&P Discount Factor for short term Municipal Obligations will be 115%, so long as such Municipal Obligations are rated A-1+ or SP-1+ by S&P and mature or have a demand feature exercisable within 30 days or less, 120% if such Municipal Obligations are rated A-1 or SP-1 by S&P and mature or have a demand feature exercisable within 30 days or less, or 125% if such Municipal Obligations are not rated by S&P but are rated VMIG-1, P-1 or MIG-1 by Moody's; provided, however, that any such Moody's rated short term Municipal Obligations which have demand features exercisable within 30 days or less must be backed by a letter of credit, liquidity facility or guarantee from a bank or other financial institution with a short term rating of at least A-1+ from S&P; (ii) no S&P Discount Factor will be applied to cash; (iii) the S&P Discount Factor for Inverse Floaters shall be equal to the product of (A) the discount factor determined by reference to the table above and (B) the ratio, at their time of original issuance, expressed as a fraction, of (1) the aggregate dollar amount of floating rate trust certificates or other instruments corresponding to and issued by the same issuer as issued such Inverse Floaters to (2) the aggregate dollar amount of such Inverse Floaters; and (iv) except as set forth in clause (i) above, in the case of any Municipal Obligation that is not rated by S&P or rated less than BBB by S&P but qualifies as an S&P Eligible Asset pursuant to clause (iii) of that definition, such Municipal Obligation will be deemed to have an S&P rating one full rating category lower than the S&P rating category that is the equivalent of the rating category in which such Municipal Obligation is placed by such other nationally recognized credit rating agency. For purposes of the foregoing, Anticipation Notes rated SP-1+ or, if not rated by S&P, rated MIG-1 or VMIG-1 by Moody's, which do not mature or have a demand feature at par exercisable in 30 days and which do not have a long term rating, shall be considered to be short term Municipal Obligations. In calculating the Discounted Value of the Trust's portfolio, a Discount Factor of 441.8% will be applied to Municipal Obligations rated AAA by S&P which are not interest bearing or do not pay interest at least semi-annually.

—S&P Eligible Asset— shall mean trade date cash (excluding any cash irrevocably deposited by the Trust for the payment of any liabilities within the meaning of Municipal Preferred Basic Maintenance Amount), futures, options, Inverse Floaters, U.S. Government Securities (which are valued for the purposes of meeting the Municipal Preferred Basic Maintenance Amount without application of any discount factor) and similar instruments or a Municipal Obligation owned by the Trust that (i) is interest bearing and pays interest at least semi-annually (except as stated in number four (4) below); (ii) is payable with respect to principal and interest in U.S. Dollars; (iii) in the case of Anticipation Notes that are Grant Anticipation Notes or Bond Anticipation Notes be rated by S&P; (iv) is not part of a private placement of Municipal Obligations (except in the case of Inverse Floaters); (v) is part of an issue of Municipal Obligations (excluding Escrowed Bonds that are legally defeased) with an original issue size of at least \$20 million or, if of an issue with an original issue size below \$20 million (but in no event below \$10 million), is issued by an issuer with a total of at least \$50 million of securities outstanding; and (vi) is not subject to a covered call or covered put option written by the Trust. These eligible assets are valued or accounted for on a trade date basis assuming normal settlement for the Municipal Market. S&P Eligible Assets shall not include Internally Priced Securities (as defined under Market Value). Solely for purposes of this definition, the term Municipal Obligation means any obligation the interest on which is exempt from regular Federal income taxation and which is issued by any of the fifty United States, the District of Columbia or any of the territories of the United States, their subdivisions, counties, cities, towns, villages, school districts and agencies (including authorities and special districts created by the states), and federally sponsored agencies such as local housing authorities. Notwithstanding the foregoing limitations:

(1) Municipal Obligations (excluding Escrowed Bonds) of any one issuer or guarantor (excluding bond insurers) shall be considered S&P Eligible Assets only to the extent the Market Value of such Municipal Obligations does not exceed 10% of the aggregate Market Value of S&P Eligible Assets, provided that 2% is added to the applicable S&P Discount Factor for every 1% by which the Market Value of such Municipal Obligations exceeds 5% of the aggregate Market Value of S&P Eligible Assets, and provided that Municipal Obligations (excluding Escrowed Bonds) not rated by S&P or rated less than BBB by S&P and not rated at least A by another nationally recognized credit rating agency of any one issuer or guarantor (excluding bond insurers) shall constitute S&P Eligible Assets only to the extent the Market Value of such Municipal Obligations does not exceed 5% of the aggregate Market Value of S&P Eligible Assets;

(2) Municipal Obligations not rated at least BBB or not rated by S&P and not rated at least A by another nationally recognized credit rating agency shall be considered S&P Eligible Assets only to the extent the Market Value of such Municipal Obligations does not exceed 50% of the aggregate Market Value of S&P Eligible Assets; provided, however, that if the Market Value of such Municipal Obligations exceeds 50% of the aggregate Market Value of S&P Eligible Assets, a portion of such Municipal Obligations (selected by the Trust) shall not be considered S&P Eligible Assets, so that the Market Value of such Municipal Obligations (excluding such portion) does not exceed 50% of the aggregate Market Value of S&P Eligible Assets;

(3) Long term Municipal Obligations (excluding Escrowed Bonds) issued by issuers in any one state or territory shall be considered S&P Eligible Assets only to the extent that the Market Value of such Municipal Obligations does not exceed 25% of the aggregate Market Value of S&P Eligible Assets;

(4) Municipal Obligations which are not interest bearing or do not pay interest at least semi-annually shall be considered S&P Eligible Assets if rated AAA by S&P; and

(5) A Municipal Obligation that is transferred by the Trust to a special purpose issuer that, in turn, issues floating rate trust certificates or other instruments and corresponding Inverse Floaters that collectively evidence interests in such Municipal Obligation shall not be considered a S&P Eligible Asset.

For purposes of determining the aggregate Discounted Value of S&P's Eligible Assets, such aggregate amount shall be reduced with respect to any futures contracts as set forth in paragraph 10(a) of this Part I.

—S&P Exposure Period— shall mean the period commencing on a given Valuation Date and ending three business days thereafter.

—S&P Volatility Factor— shall mean, as of any Valuation Date, a multiplicative factor equal to (i) 305% in the case of any Minimum Rate Period or any Special Rate Period of 28 Rate Period Days or fewer; (ii) 268% in the case of any Special Rate Period of more than 28 Rate Period Days but fewer than 182 Rate Period Days; and (iii) 204% in the case of any Special Rate Period of more than 182 Rate Period Days.

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Securities Depository shall mean The Depository Trust Company and its successors and assigns or any other securities depository selected by the Trust which agrees to follow the procedures required to be followed by such securities depository in connection with shares of Municipal Preferred.

Sell Order and Sell Orders shall have the respective meanings specified in paragraph 1(a) of Part II of this Statement.

Special Rate Period, with respect to shares of a series of Municipal Preferred, shall have the meaning specified in paragraph 4(a) of Part I of this Statement.

Special Redemption Provisions shall have the meaning specified in paragraph 11(a)(i) of Part I of this Statement.

Submission Deadline shall mean 1:30 P.M., New York City time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

Submitted Bid and Submitted Bids shall have the respective meanings specified in paragraph 3(a) of Part II of this Statement.

Submitted Hold Order and Submitted Hold Orders shall have the respective meanings specified in paragraph 3(a) of Part II of this Statement.

Submitted Order and Submitted Orders shall have the respective meanings specified in paragraph 3(a) of Part II of this Statement.

Submitted Sell Order and Submitted Sell Orders shall have the respective meanings specified in paragraph 3(a) of Part II of this Statement.

Subsequent Rate Period, with respect to shares of a series of Municipal Preferred, shall mean the period from and including the first day following the Initial Rate Period of shares of such series to but excluding the next Dividend Payment Date for shares of such series and any period thereafter from and including one Dividend Payment Date for shares of such series to but excluding the next succeeding Dividend Payment Date for shares of such series; *provided, however*, that if any Subsequent Rate Period is also a Special Rate Period, such term shall mean the period commencing on the first day of such Special Rate Period and ending on the last day of the last Dividend Period thereof.

Substitute Commercial Paper Dealer shall mean ~~CS First Boston or Morgan Stanley & Co. Incorporated~~ Merrill Lynch, Pierce, Fenner & Smith, Inc., Citigroup Global Markets, Inc., Credit Suisse New York, or Morgan Stanley & Co. or their respective affiliates or successors, if such entity is a commercial paper dealer; *provided, however*, that none of such entities shall be a Commercial Paper Dealer.

Substitute U.S. Government Securities Dealer shall mean ~~CS First Boston and Merrill Lynch, Pierce, Fenner & Smith Incorporated~~ Goldman, Sachs & Co., Citigroup Global Markets, Inc., Nomura Securities International, and Barclays Capital, Inc. or their respective affiliates or successors, if such entity is a U.S. Government securities dealer; *provided, however*, that none of such entities shall be a U.S. Government Securities Dealer.

Sufficient Clearing Bids shall have the meaning specified in paragraph 3(a) of Part II of this Statement.

Taxable Allocation shall have the meaning specified in paragraph 3 of Part I of this Statement.

Taxable Equivalent of the Short-Term Municipal Bond Rate, on any date for any Minimum Rate Period or Special Rate Period of 28 Rate Period Days or fewer, shall mean 90% of the quotient of (A) the per annum rate expressed on an interest equivalent basis equal to the S&P Kenny 30 day High Grade Index or any successor index (the Kenny Index) (provided, however, that any such successor index must be approved by Moody's (if Moody's is then rating the shares of Municipal Preferred) and S&P Fitch (if S&P Fitch is then rating the shares of Municipal Preferred)), made available for the Business Day immediately preceding such date but in any event not later than 8:30 A.M., New York City time, on such date by S&P J.J. Kenny Evaluation Services or any successor thereto, based upon 30-day yield evaluations at par of short-term bonds the interest on which is excludable for regular Federal income tax purposes under the Code, of high grade component issuers selected by S&P J.J. Kenny Evaluation Services or any such successor from time to time in its discretion, which component issuers shall include, without limitation, issuers of general obligation bonds, but shall exclude any bonds the interest on which constitutes an item of tax preference under Section 57(a)(5) of the Code, or successor provisions, for purposes of the alternative minimum tax, divided by (B) 1.00 minus the maximum marginal regular Federal individual income tax rate applicable to ordinary income or the maximum marginal regular Federal corporate income tax rate applicable to ordinary income (in each case expressed as a decimal), whichever is greater; provided, however, that if the Kenny Index is not made so available by 8:30 A.M., New York City time, on such date by S&P J.J. Kenny Evaluation Services or any successor, the Taxable Equivalent of the Short-Term Municipal Bond Rate shall mean the quotient of (A) the per annum rate expressed on an interest equivalent basis equal to the most recent Kenny Index so made available for any preceding Business Day, divided by (B) 1.00 minus the maximum marginal regular Federal individual income tax rate applicable to ordinary income or the maximum marginal regular Federal corporate income tax rate applicable to ordinary income (in each case expressed as a decimal), whichever is greater.

Taxable Income shall have the meaning specified in paragraph 3(c) of Part II of this Statement.

Treasury Bill shall mean a direct obligation of the U.S. Government having a maturity at the time of issuance of 364 days or less.

Treasury Bill Rate, on any date for any Rate Period, shall mean (i) the bond equivalent yield, calculated in accordance with prevailing industry convention, of the rate on the most recently auctioned Treasury Bill with a remaining maturity closest to the length of such Rate Period, as quoted in *The Wall Street Journal* on such date for the Business Day next preceding such date; or (ii) in the event that any such rate is not published in *The Wall Street Journal*, then the bond equivalent yield, calculated in accordance with prevailing industry convention, as calculated by reference to the arithmetic average of the bid price quotations of the most

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recently auctioned Treasury Bill with a remaining maturity closest to the length of such Rate Period, as determined by bid price quotations as of the close of business on the Business Day immediately preceding such date obtained from the U.S. Government Securities Dealers to the Auction Agent.

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Treasury Note shall mean a direct obligation of the U.S. Government having a maturity at the time of issuance of five years or less but more than 364 days.

Treasury Note Rate, on any date for any Rate Period, shall mean (i) the yield on the most recently auctioned Treasury Note with a remaining maturity closest to the length of such Rate Period, as quoted in *The Wall Street Journal* on such date for the Business Day next preceding such date; or (ii) in the event that any such rate is not published in *The Wall Street Journal*, then the yield as calculated by reference to the arithmetic average of the bid price quotations of the most recently auctioned Treasury Note with a remaining maturity closest to the length of such Rate Period, as determined by bid price quotations as of the close of business on the Business Day immediately preceding such date obtained from the U.S. Government Securities Dealers to the Auction Agent. If any U.S. Government Securities Dealer does not quote a rate required to determine the Treasury Bill Rate of the Treasury Note Rate, the Treasury Bill Rate or the Treasury Note Rate shall be determined on the basis of the quotation or quotations furnished by the remaining U.S. Government Securities Dealer or U.S. Government Securities Dealers and any Substitute U.S. Government Securities Dealers selected by the Trust to provide such rate or rates not being supplied by any U.S. Government Securities Dealer or U.S. Government Securities Dealers, as the case may be, or, if the Trust does not select any such Substitute U.S. Government Securities Dealer or Substitute U.S. Government Securities Dealers, by the remaining U.S. Government Securities Dealer or U.S. Government Securities Dealers.

U.S. Government Securities shall mean bonds or other debt obligations issued by, or whose principal or interest payments are guaranteed by, the U.S. government or one of its agencies or instrumentalities. U.S. Government Securities also include interests in trust or other entities representing interests in obligations that are issued or guaranteed by the U.S. Government, its agencies, authorities or instrumentalities.

U.S. Government Securities Dealer shall mean ~~Lehman Government Securities Incorporated, Goldman Sachs & Co., Salomon Smith Barney Inc. and Morgan Guaranty Trust Company of New York~~ J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith, Inc., RBS Securities, Inc., and HSBC Bank USA or their respective affiliates or successors, if such entity is a U.S. government securities dealer.

Valuation Date shall mean, for purposes of determining whether the Trust is maintaining the ~~Municipal Preferred Basic Maintenance Amount~~ Rating Agency Municipal Preferred Asset Coverage, each Business Day.

Variation Margin means, in connection with an outstanding futures contract owned or sold by the Trust, the amount of cash or securities paid to or received from a broker (subsequent to the Initial Margin payment) from time to time as the price of such futures contract fluctuates.

Volatility Factor shall mean, as of any Valuation Date, ~~the greater of the Moody's Volatility Factor and the S&P Volatility Factor.~~

Voting Period shall have the meaning specified in paragraph 5(b) of this Part I of this Statement.

Winning Bid Rate shall have the meaning specified in paragraph 3(a) of Part II of this Statement.

2. DIVIDENDS.

(a) RANKING. The shares of a series of Municipal Preferred shall rank on a parity with each other, with shares of any other series of Municipal Preferred and with shares of any other series of Preferred Shares as to the payment of dividends by the Trust.

(b) CUMULATIVE CASH DIVIDENDS. The Holders of shares of Municipal Preferred of any series shall be entitled to receive, when, as and if declared by the Board of Trustees, out of funds legally available therefor in accordance with the Declaration, this Statement and applicable law, cumulative cash dividends at the Applicable Rate for shares of such series, determined as set forth in subparagraph (e) of this paragraph 2, and no more (except to the extent set forth in paragraph 3 of this Part I), payable on the Dividend Payment Dates with respect to shares of such series determined pursuant to subparagraph (d) of this paragraph 2. Holders of shares of Municipal Preferred shall not be entitled to any dividend, whether payable in cash, property or shares, in excess of full cumulative dividends, as herein provided, on shares of Municipal Preferred. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on shares of Municipal Preferred which may be in arrears, and, except to the extent set forth in subparagraph (e)(i) of this paragraph 2, no additional sum of money shall be payable in respect of any such arrearage.

(c) DIVIDENDS CUMULATIVE FROM DATE OF ORIGINAL ISSUE. Dividends on shares of Municipal Preferred of any series shall accumulate at the Applicable Rate for shares of such series from the Date of Original Issue thereof.

(d) DIVIDEND PAYMENT DATES AND ADJUSTMENTS THEREOF. The Dividend Payment Dates with respect to shares of a series of Municipal Preferred shall be Wednesday, December 13, 2000 and each Wednesday thereafter with respect to shares of Series T Municipal Preferred and Friday, December 15, 2000 and each Friday thereafter with respect to shares of Series TH Municipal Preferred; *provided, however*, that

(i) if the Wednesday or Friday, as the case may be, on which dividends would otherwise be payable on shares of such series is not a Business Day, then such dividends shall be payable on shares of such series on the first Business Day that falls after such Wednesday or Friday, as the case may be; and

(ii) notwithstanding the foregoing provisions of this paragraph 2(d), the Trust in its discretion may establish the Dividend Payment Dates in respect of any Special Rate Period of shares of a series of Municipal Preferred consisting of more than 28 Rate Period Days; provided, however, that such dates shall be set forth in the Notice of Special Rate Period relating to such Special Rate Period, as delivered to the Auction Agent, which Notice of Special Rate Period shall be filed with the Secretary of the Trust; and further provided that (1) any such Dividend Payment Date shall be a Business Day and (2) the last Dividend Payment Date in respect of such Special Rate Period shall be the Business Day immediately following the last day thereof, as such last day is determined in accordance with subparagraph (b) of paragraph 4 of Part I of this Statement.

(e) DIVIDEND RATES AND CALCULATION OF DIVIDENDS.

(i) DIVIDEND RATES. The dividend rate on shares of Municipal Preferred of any series during the period from and after the Date of Original Issue of shares of such series to and including the last day of the Initial Rate Period of shares of such series shall be equal to the rate per annum set forth with respect to shares of such series under Designation in this Part I. For each Subsequent Rate Period of shares of such series thereafter, the dividend rate on shares of such series shall be equal to the rate per annum that results from an Auction for shares of such series on the Auction Date next preceding such Subsequent Rate Period; *provided, however, that if:*

(A) an Auction for any such Subsequent Rate Period is not held for any reason other than as described below, the dividend rate on shares of such series for such Subsequent Rate Period will be the Maximum Rate for shares of such series on the Auction Date therefor;

(B) any Failure to Deposit shall have occurred with respect to shares of such series during any Rate Period thereof (other than any Special Rate Period consisting of more than 364 Rate Period Days or any Rate Period succeeding any Special Rate Period consisting of more than 364 Rate Period Days during which a Failure to Deposit occurred that has not been cured), but, prior to 12:00 Noon, New York City time, on the third Business Day next succeeding the date on which such Failure to Deposit occurred, such Failure to Deposit shall have been cured in accordance with subparagraph (f) of this paragraph 2, no Auction will be held in respect of shares of such series for the Subsequent Rate Period thereof and the dividend rate for shares of such series for such Subsequent Rate Period will be the Maximum Rate for shares of such series on the Auction Date for such Subsequent Rate Period;

(C) any Failure to Deposit shall have occurred with respect to shares of such series during any Rate Period thereof (other than any Special Rate Period consisting of more than 364 Rate Period Days or any Rate Period succeeding any Special Rate Period consisting of more than 364 Rate Period Days during which a Failure to Deposit occurred that has not been cured), and, prior to 12:00 Noon, New York City time, on the third Business Day next succeeding the date on which such Failure to Deposit occurred, such Failure to Deposit shall not have been cured in accordance with subparagraph (f) of this paragraph 2, no Auction will be held in respect of shares of such series for the first Subsequent Rate Period thereof thereafter (or for any Rate Period thereof thereafter to and including the Rate Period during which such Failure to Deposit is cured in accordance with subparagraph (f) of this paragraph 2, no later than 12:00 Noon, New York City time, on the fourth Business Day prior to the end of such Rate Period), and the dividend rate for shares of such series for each such Subsequent Rate Period shall be a rate per annum equal to the Maximum Rate for shares of such series on the Auction Date for such Subsequent Rate Period (but with the prevailing rating for shares of such series, for purposes of determining such Maximum Rate, being deemed to be Below ba3 /BB-); or

(D) any Failure to Deposit shall have occurred with respect to shares of such series during a Special Rate Period thereof consisting of more than 364 Rate Period Days, or during any Rate Period thereof succeeding any Special Rate Period consisting of more than 364 Rate Period Days during which a Failure to Deposit occurred that has not been cured, and, prior to 12:00 Noon, New York City time, on the fourth Business Day preceding the Auction Date for the Rate Period subsequent to such Rate Period, such Failure to Deposit shall not have been cured in accordance with subparagraph (f) of this paragraph 2, no Auction will be held in respect of shares of such series for such Subsequent Rate Period (or for any Rate Period thereof thereafter to and including the Rate Period during which such Failure to Deposit is cured in accordance with subparagraph (f) of this paragraph 2, no later than 12:00 Noon, New York City time, on the fourth Business Day prior to the end of such Rate Period), and the dividend rate for shares of such series for each such Subsequent Rate Period shall be a rate per annum equal to the Maximum Rate for shares of such series on the Auction Date for such Subsequent Rate Period (but with the prevailing rating for shares of such series, for purposes of determining such Maximum Rate, being deemed to be Below ba3 /BB-) (the rate per annum of which dividends are payable on shares of a series of Municipal Preferred for any Rate Period thereof being herein referred to as the Applicable Rate for shares of such series).

(ii) CALCULATION OF DIVIDENDS. The amount of dividends per share payable on shares of a series of Municipal Preferred on any date on which dividends shall be payable on shares of such series shall be computed by multiplying the Applicable Rate for shares of such series in effect for such Dividend Period or Dividend Periods or part thereof for which dividends have not been paid by a fraction, the numerator of which shall be the number of days in such Dividend Period or Dividend Periods or part thereof and the denominator of which shall be 365 if such Dividend Period consists of 7 Rate Period Days and 360 for all other Dividend Periods, and applying the rate obtained against \$25,000.

(f) CURING A FAILURE TO DEPOSIT. A Failure to Deposit with respect to shares of a series of Municipal Preferred shall have been cured (if such Failure to Deposit is not solely due to the willful failure of the Trust to make the required payments to the Auction Agent) with respect to any Rate Period of shares of such series if, within the respective time periods described in subparagraph (e)(i) of this paragraph 2, the Trust shall have paid to the Auction Agent (A) all accumulated and unpaid dividends on shares of such series and (B) without duplication, the Redemption Price for shares, if any, of such series for which Notice of Redemption has been mailed by the Trust pursuant to paragraph 11(c) of Part I of this Statement; *provided, however, that the foregoing clause (B) shall not apply to the Trust's failure to pay the Redemption Price in respect of shares of Municipal Preferred when the related Redemption Notice provides that redemption of such shares is subject to one or more conditions precedent and any such condition precedent shall not have been satisfied at the time or times and in the manner specified in such Notice of Redemption.*

(g) DIVIDEND PAYMENTS BY TRUST TO AUCTION AGENT. The Trust shall pay to the Auction Agent, not later than 12:00 Noon, New York City time, on each Dividend Payment Date for shares of a series of Municipal Preferred, an aggregate amount of federal funds or similar same-day funds in The City of New York, New York, equal to the dividends to be paid to all Holders of shares of such series on such Dividend Payment Date.

(h) AUCTION AGENT AS TRUSTEE OF DIVIDEND PAYMENTS BY TRUST. All moneys paid to the Auction Agent for the payment of dividends shall be held in trust for the payment of such dividends by the Auction Agent for the benefit of the Holders specified in subparagraph (i) of this paragraph 2. Any moneys paid to the Auction Agent in accordance with the foregoing but not applied by the Auction Agent to the payment of dividends will, to the extent permitted by law, be repaid to the Trust at the end of 90 days from the date on which such moneys were so to have been applied.

(i) DIVIDENDS PAID TO HOLDERS. Each dividend on shares of Municipal Preferred shall be paid on the Dividend Payment Date therefor to the Holders thereof as their names appear on the record books of the Trust on the Business Day next preceding such Dividend Payment Date.

(j) DIVIDENDS CREDITED AGAINST EARLIEST ACCUMULATED BUT UNPAID DIVIDENDS. Any dividend payment m