JAMBA, INC.
Form 10-Q
November 05, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended October 2, 2012

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Jamba, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**001-32552**	**20-2122262**
(State or other jurisdiction of incorporation)	**(Commission File No.)**	**(I.R.S. Employer Identification No.)**

6475 Christie Avenue, Suite 150, Emeryville, California 94608

(Address of principal executive offices)

Registrant's telephone number, including area code: (510) 596-0100

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer£		Accelerated filer	S
Non-accelerated filer ¨	(Do not check if a smaller reporting company)	Smaller reporting company	£

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

The number of shares of common stock of Jamba, Inc. issued and outstanding as of October 26, 2012 was 77,333,489.

JAMBA, INC.

QUARTERLY REPORT ON FORM 10-Q

QUARTERLY PERIOD ENDED OCTOBER 2, 2012

Exhibits

EX-31.1
EX-31.2
EX-32.1
EX-32.2
EX-101

PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JAMBA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except share and per share amounts)	October 2, 2012	January 3, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$31,856	$19,607
Restricted cash	—	1,352
Receivables, net of allowances of $325 and $294	6,488	13,040
Inventories	2,637	2,228
Prepaid and refundable taxes	846	574
Prepaid rent	2,987	2,761
Prepaid expenses and other current assets	809	1,509
Total current assets	45,623	41,071
Property, fixtures and equipment, net	38,884	44,760
Goodwill	1,336	—
Trademarks and other intangible assets, net	1,439	1,130
Other long-term assets	1,375	1,332
Total assets	$88,657	$88,293
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$6,928	$4,155
Accrued compensation and benefits	4,292	6,566
Workers' compensation and health insurance reserves	1,161	1,092
Accrued jambacard liability	26,192	33,256
Other current liabilities	9,399	9,961
Total current liabilities	47,972	55,030
Deferred rent and other long-term liabilities	12,855	13,079
Total liabilities	60,827	68,109
Commitments and contingencies (Note 9)		
Series B redeemable preferred stock, $0.001 par value, 304,348 shares authorized; 72,889 and 168,389 shares issued and outstanding at October 2, 2012 and January 3, 2012,	7,882	17,880

respectively		
Stockholders' equity:		
Common stock, $0.001 par value, 150,000,000 shares authorized; 77,333,489 and 67,280,485 shares issued and outstanding at October 2, 2012 and January 3, 2012, respectively	78	68
Additional paid-in capital	379,449	369,027
Accumulated deficit	(359,579)	(366,791)
Total stockholders' equity	19,948	2,304
Total liabilities and stockholders' equity	$ 88,657	$ 88,293

See accompanying notes to condensed consolidated financial statements.

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JAMBA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except share and per share amounts)	13 Week Period Ended October 2, 2012	12 Week Period Ended October 4, 2011	39 Week Period Ended October 2, 2012	40 Week Period Ended October 4, 2011
Revenue:				
Company stores	$ 61,795	$ 54,102	$ 174,350	$ 173,274
Franchise and other revenue	3,687	2,976	10,223	8,834
Total revenue	65,482	57,078	184,573	182,108
Costs and operating expenses:				
Cost of sales	14,918	11,808	40,504	39,828
Labor	16,457	14,565	49,013	53,139
Occupancy	7,353	6,802	22,097	23,707
Store operating	9,328	8,539	26,158	25,728
Depreciation and amortization	2,793	2,805	8,528	9,621
General and administrative	9,663	7,398	29,125	25,881
Impairment of long-lived assets	75	312	637	1,214
Other operating, net	347	924	579	1,503
Total costs and operating expenses	60,934	53,153	176,641	180,621
Income from operations	4,548	3,925	7,932	1,487
Other expense, net:				
Interest income	21	99	61	126
Interest expense	(52)	(117)	(147)	(456)
Total other expense, net	(31)	(18)	(86)	(330)
Income before income taxes	4,517	3,907	7,846	1,157
Income tax benefit (expense)	(413)	217	(634)	380
Net income	4,104	4,124	7,212	1,537
Preferred stock dividends and deemed dividends	(1,123)	(489)	(2,076)	(1,854)
Net income available (loss attributable) to common stockholders	$ 2,981	$ 3,635	$ 5,136	$ (317)
Weighted-average shares used in the computation of earnings (loss) per share:				
Basic	70,672,511	67,042,745	68,450,782	66,024,576
Diluted	72,365,921	85,196,847	70,076,089	66,024,576
Earnings (loss) per share:				
Basic	$ 0.04	$ 0.05	$ 0.07	$ 0.00
Diluted	$ 0.04	$ 0.05	$ 0.07	$ 0.00

See accompanying notes to condensed consolidated financial statements.

JAMBA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

	Common Stock		Additional Paid-In	Accumulated	Stockholders'
(Dollars in thousands, except share amounts)	Shares	Amount	Capital	Deficit	Equity
Balance as of December 28, 2010	63,734,961	$ 64	$ 365,817	$ (358,493)	$ 7,388
Share-based compensation expense	—	—	830	—	830
Issuance of common stock pursuant to stock plans	141,003	—	145	—	145
Issuance of common stock pursuant to bonus plans	308,275	1	613	—	614
Conversion of preferred stock	2,909,600	3	3,343	—	3,346
Accretion of Series B preferred shares	—	—	(587)	—	(587)
Redeemable preferred stock dividends	—	—	(1,267)	—	(1,267)
Net income	—	—	—	1,537	1,537
Balance as of October 4, 2011	67,093,839	$ 68	$ 368,894	$ (356,956)	$ 12,006
Balance as of January 3, 2012	67,280,485	$ 68	$ 369,027	$ (366,791)	$ 2,304
Share-based compensation expense	—	—	1,431	—	1,431
Issuance of common stock pursuant to stock plans	211,002	—	97	—	97
Conversion of preferred stock	9,550,000	10	10,970	—	10,980
Accretion of Series B preferred shares	—	—	(985)	—	(985)
Redeemable preferred stock dividends	—	—	(1,091)	—	(1,091)
Exercise of warrant	292,002	—	—	—	—
Net income	—	—	—	7,212	7,212
Balance as of October 2, 2012	77,333,489	$ 78	$ 379,449	$ (359,579)	$ 19,948

See accompanying notes to condensed consolidated financial statements.

JAMBA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	39 Week Period Ended October 2, 2012	40 Week Period Ended October 4, 2011
Cash provided by operating activities:		
Net income	$ 7,212	$ 1,537
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	8,528	9,621
Impairment of long-lived assets	637	1,214
Store closure costs and gain on disposals	618	1,242
Share-based compensation	1,431	830
Jambacard breakage income	(2,075)	(2,804)
Bad debt and inventory reserves	596	27
Deferred rent	(698)	(208)
Deferred income taxes	—	39
Equity earnings from joint ventures	(128)	(57)
Changes in operating assets and liabilities:		
Receivables	6,463	(736)
Inventories	(826)	(274)
Prepaid rent	(226)	(2,166)
Prepaid and refundable taxes	(272)	(247)
Prepaid expenses and other current assets	700	722
Restricted cash from operating activities	1,352	397
Other long-term assets	(155)	605
Accounts payable	2,363	(1,205)
Accrued compensation and benefits	(2,274)	(283)
Workers' compensation and health insurance reserves	69	(170)
Accrued jambacard liability	(4,989)	(2,235)
Other accrued expenses	(535)	(1,974)
Other long-term liabilities	(785)	(1,245)
Cash provided by operating activities	$ 17,006	$ 2,630
Cash (used in) provided by investing activities:		
Capital expenditures	(3,414)	(8,789)
Acquisition of business	(391)	—
Proceeds from sale of stores	—	3,063
Capital distributions from investment, net	71	—
Cash used in investing activities	$ (3,734)	$ (5,726)
Cash (used in) provided by financing activities:		
Proceeds pursuant to stock plans	97	145
Preferred stock dividends paid	(1,120)	(1,233)
Payment on capital leases	—	(20)

Cash used in financing activities	$ (1,023)	$ (1,108)
Net increase (decrease) in cash and cash equivalents	12,249	(4,204)
Cash and cash equivalents at beginning of period	19,607	29,024
Cash and cash equivalents at end of period	$ 31,856	$ 24,820
Supplemental cash flow information:		
Cash paid for interest	$ 115	$ 238
Income taxes paid	233	28
Noncash investing and financing activities:		
Property, fixtures and equipment in accounts payable	$ 411	$ 10
Conversion of preferred stock	10,980	3,346
Accretion of preferred stock issuance costs	985	587
Dividend accruals	—	35
Note receivable from sale of stores	—	671
Contingent consideration	1,361	—

See accompanying notes to condensed consolidated financial statements.

JAMBA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Jamba, Inc., a Delaware corporation (the "Company") owns and franchises Jamba Juice stores through its wholly-owned subsidiary, Jamba Juice Company. Jamba Juice Company is a leading restaurant retailer of better-for-you, specialty beverage and food offerings, which include great tasting, whole fruit smoothies, fresh squeezed juices and juice blends, hot coffee and teas, hot oatmeal, breakfast wraps, sandwiches and mini-wraps, California Flatbreads™, frozen yogurt, and a variety of baked goods and snacks. Jamba, Inc. was incorporated in January 2005 and went public through an initial public offering later that year. As of October 2, 2012, there were 788 store locations globally. There were 301 Company owned and operated stores ("Company Stores") and 454 franchise operated stores ("Franchise Stores") in the United States, and 33 international franchise stores ("International Stores"). Jamba–branded consumer products ("CPG") for at-home enjoyment are also available through select retailers across the nation and in Jamba outlets in the United States.

Fiscal Quarter Change —Effective January 4, 2012, the Company changed its fiscal quarters to four 13 week periods. The Company's fiscal year end continues to be the Tuesday closest to December 31. Since the fiscal quarter change was made after the end of fiscal 2011, the Company will continue to report the prior year financial information based on its prior year fiscal calendar. The Company has not prepared financial information for the 13 week period ended September 27, 2011, though pro-forma information for the 13 week period for the prior year is included in the press release dated November 1, 2012. The Company's financial results for the 13 week period ended October 2, 2012 are compared to its results for the 12 week period ended October 4, 2011. The comparison of these two quarters is primarily affected by the difference of one week between the third quarter of fiscal 2012 and the third quarter of 2011.

Unaudited Interim Financial Information —The condensed consolidated balance sheet as of October 2, 2012, the condensed consolidated statements of operations for each of the 13 and 39 week periods ended October 2, 2012 and for each of the 12 and 40 week periods ended October 4, 2011 and the condensed statements of stockholders' equity and cash flows for the 39 and 40 week periods ended October 2, 2012 and October 4, 2011, respectively, have been prepared by the Company, without audit, and have been prepared on the same basis as the Company's audited consolidated financial statements. In the opinion of management, such statements include all adjustments (which include only normal recurring adjustments) considered necessary to present fairly the financial position as of October 2, 2012, and the results of operations and cash flows for the 13 and 39 week periods ended October 2, 2012 and the 12 and 40 week periods ended October 4, 2011. The condensed consolidated balance sheet as of January 3, 2012 has been derived from the Company's audited consolidated financial statements. Operating results for the 13 and 39 week periods ended October 2, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending January 1, 2013. The Company reports its results of operations on a 52-week or 53-week fiscal year, which is comprised of eight 4-week periods and four 5-week periods or eight 4-week periods, three 5-week periods and one 6-week period. The first, second and third fiscal quarters each are 13 weeks, and the fourth quarter is 13 or 14 weeks. There were 39 weeks in the first three quarters of fiscal 2012 and 40 weeks in the first three quarters of fiscal 2011.

Certain information and disclosures normally included in the notes to annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted from these interim financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, these interim financial statements should be read in conjunction with the Company's annual consolidated financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended January 3, 2012 ("2011 Annual Report").

Advertising Fund — The Company participates with its franchisees in an advertising fund established in fiscal 2010, to collect and administer funds contributed for use in advertising and promotional programs designed to increase sales and enhance the reputation of the Company and its franchise owners. Contributions to the advertising fund are required for company owned and traditional franchise stores and are generally based on a percent of store sales. The Company has control of the advertising fund. The fund is consolidated and the Company reports all assets and liabilities of the fund that it consolidates.

The advertising fund assets, consisting primarily of accounts receivable from franchisees, can only be used for selected purposes and are considered restricted. The advertising fund liabilities represent the corresponding obligation arising from the receipts of the marketing program. In accordance with ASC Topic 952-605-25, the receipts from the franchisees are recorded as a liability against which specified advertising costs are charged. The Company does not reflect franchisee contributions to the fund in its Consolidated Statements of Operations or Consolidated Statements of Cash Flows.

Advertising fund assets of $2.3 million and $1.5 million were recorded in accounts receivable on the consolidated balance sheet as of October 2, 2012 and January 3, 2012, respectively. Advertising fund liabilities of $0.5 million were recorded in accounts payable on the consolidated balance sheets as of October 2, 2012 and January 3, 2012.

Comprehensive Income —Comprehensive income is defined as the change in equity during a period from transactions and other events, excluding changes resulting from investments from owners and distributions to owners. Comprehensive income (loss) equals net income (loss) for all periods presented. No separate statement of comprehensive income is presented.

Earnings (Loss) Per Share —Earnings (loss) per share is computed in accordance with Accounting Standards Codification ("ASC") 260. Basic earnings (loss) per share is computed based on the weighted-average of common shares outstanding during the period. Diluted earnings (loss) per share is computed based on the weighted-average number of common shares and potentially dilutive securities, which includes preferred shares, outstanding warrants and outstanding options and restricted stock awards granted under the Company's stock option plans.

Anti-dilutive shares have been excluded from the calculation of diluted weighted-average shares outstanding. Anti-dilutive shares of 21.2 million and 2.9 million have been excluded from the calculation of diluted weighted-average shares outstanding in the 13 week period ended October 2, 2012 and in the 12 week period ended October 4, 2011, respectively. Anti-dilutive shares of 22.6 million and 24.3 million have been excluded from the calculation of diluted weighted-average shares outstanding in the 39 week period ended October 2, 2012 and in the 40 week period ended October 4, 2011, respectively.

For purposes of determining the net income available (loss attributable) to common stockholders used in the computation of earnings (loss) per share, the amount of the income (loss) is increased (decreased) by the preferred stock dividends and deemed dividends. The deemed dividend represents the accretion of the issuance costs and beneficial conversion feature of the Company's preferred stock. For the 13 week period ended October 2, 2012, the 39 week period ended October 2, 2012 and for the 40 week period ended October 4, 2011, the convertible preferred shares are anti-dilutive. Therefore, the dividends and deemed dividends related to the preferred stock have not been added back to the net income available to common stockholders. Also the number of preferred shares has not been included in the diluted earnings per share calculation. For the 12 week period ended October 4, 2011, the convertible preferred shares are dilutive, therefore the dividends and deemed dividends related to the preferred stock have been added back to the net income available to common stockholders and the number of preferred shares have been included in the diluted earnings per share calculation.

The number of incremental shares from the assumed exercise of restricted stock awards, warrants and options was calculated by applying the treasury stock method. The "if converted" method was used for the conversion of preferred stock. A reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations is as follows (in thousands, except shares):

	13 Week Period Ended October 2, 2012	12 Week Period Ended October 4, 2011	39 Week Period Ended October 2, 2012	40 Week Period Ended October 4, 2011
Net income available (loss attributable) to common stockholders (numerator for basic earnings (loss) per share)	$ 2,981	$ 3,635	$ 5,136	$ (317)
Preferred stock dividends and deemed dividends	—	489	—	—
Numerator for diluted earnings (loss) per share	$ 2,981	$ 4,124	$ 5,136	$ (317)
Basic weighted-average shares outstanding	70,672,511	67,042,745	68,450,782	66,024,576
Incremental shares from assumed conversion of Series B preferred shares	—	16,844,852	—	—
Incremental shares from assumed exercise of restricted stock awards, warrants and options	1,693,410	1,309,250	1,625,307	—
Diluted weighted-average shares outstanding	72,365,921	85,196,847	70,076,089	66,024,576

Fair value Measurement —The Company measures its cash equivalents at fair value. There is no difference between the fair value and cost of the Company’s cash equivalents. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1: Quoted prices are available in active markets for identical assets or liabilities.

Level 2: Inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable.

Level 3: Unobservable inputs that are supported by little or no market activity, therefore requiring an entity to develop its own assumptions

that market participants would use in pricing.

Impairment of long-lived assets —The Company evaluates long-lived assets for impairment when facts and circumstances indicate that the carrying values of long-lived assets may not be recoverable. The impairment evaluation is generally performed at the individual store asset group level. The Company first compares the carrying value of the asset to the asset's estimated future undiscounted cash flows. If the estimated future cash flows are less than the carrying value of the asset, the Company measures an impairment loss based on the asset's estimated fair value. The fair value of a store's assets is estimated using a discounted cash flow model based on internal projections and taking into consideration the view of a market participant. The estimate of cash flows is based on, among other things, certain assumptions about expected future operating performance. Factors considered during the impairment evaluation include factors related to actual operating cash flows, the period of time since a store has been opened or remodeled, refranchising expectations and the maturity of the relevant market.

Restricted Cash —The Company held no restricted cash at October 2, 2012. The Company held $1.4 million in restricted cash at January 3, 2012. Restricted cash represented cash held in money market accounts or certificates of deposits to collateralize the Company's letters of credit.

Recent Accounting Pronouncements

There has been no development to recently issued accounting pronouncements, including the expected dates of adoption and estimated effects on the Company's consolidated financial statements from that disclosed in the Company's Annual Report on Form 10-K.

2. ACQUISITION

On January 27, 2012, the Company completed its acquisition of certain assets of Talbott Teas, LLC ("Talbott"), a Chicago based boutique, premium tea company. The acquisition of Talbott is consistent with the Company's strategy for growth through lifestyle specialty brands that fit well with the Jamba brands and its positioning as a leading health and wellness company. The pro forma effect of the acquisition on the Company's results of operations is not significant. The revenue and earnings of Talbott, included in the Company's results since the January 27, 2012 acquisition, and acquisition related expenses included in the Company's Condensed Consolidated Statements of Operations are not significant.

This purchase was accounted for using the acquisition method of accounting and the purchase price comprises an upfront cash payment plus contingency payments based on the future performance (the "earn-out arrangement") of the assets acquired. The purchase price was determined to be the aggregate of the upfront payment and the fair value of the payments subject to the earn-out arrangement, and was allocated to the assets purchased based upon their estimated fair values at the date of acquisition. Identifiable intangible assets acquired include a trade name and customer relationships totaling $0.4 million and are included in trademarks and other intangible assets, net on the balance sheet. The excess purchase price over the net tangible and intangible assets acquired of $1.3 million was recorded as goodwill, which is expected to be deductible for tax purposes. The purchase price cash consideration paid by the Company at closing was $0.4 million and the fair value of the earn-out arrangement was recorded as a liability, at $1.4 million, as of January 27, 2012. There is no change in the fair value of the earn-out liability as of October 2, 2012.

3. REDEEMABLE PREFERRED STOCK

During the second quarter of fiscal 2009, the Company issued (i) 170,000 shares of its Series B-1 Convertible Preferred Stock, par value $0.001, (the "Series B-1 Preferred") to affiliates of Mistral Equity Partners at a price of $115 per share, for an aggregate purchase price of approximately $19.6 million, and (ii) 134,348 shares of its Series B-2 Convertible Preferred Stock, par value $0.001, (the "Series B-2 Preferred") to CanBa Investments, LLC at a price of $115 per share, for an aggregate purchase price of approximately $15.4 million. The issuance of shares of the Series B-1 and B-2 Preferred Stock (together the "Series B Preferred Stock" or "Preferred Stock") for $35 million, less approximately $3.1 million in total transaction costs, which includes $2.2 million in transaction fees and $885,000 paid to investors, was completed through a private placement to the purchasers as accredited investors and pursuant to the exemptions from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"). The shares of Preferred Stock and the shares of the Company's Common Stock issuable upon conversion of the Preferred Stock include legends restricting transfer other than pursuant to an effective registration statement under the Securities Act or in accordance with an exemption from registration. The holders of the Series B Preferred Stock have the right to require the Company to redeem all or a portion of the shares of the Preferred Stock on or after seven years from the date of issuance of the Preferred Stock.

The shares of Preferred Stock are convertible at the election of the holders, at any time, into shares of Common Stock at an initial conversion price of $1.15 per share. The conversion price for the Preferred Stock is subject to customary anti-dilution adjustments for stock splits, dividends or certain other equity restructurings. After a two year period from the original date of issuance, the Company will have the right to require that the shares of Preferred Stock be converted into shares of Common Stock if (i) the Common Stock trading volume averages 150,000 shares per trading day over a 30 trading day period and (ii) the daily volume weighted average price per share of the Common Stock exceeds the product of 2.5 times the then-applicable conversion price for any 20 of the preceding 30 trading days at any time these conditions continue to be satisfied and for a period of 10 trading days thereafter. Upon exercise of this right, the Preferred Stock will be converted at the then-applicable conversion rate and the Company will be obligated to pay any then-existing dividend arrearages in cash. The Shares of Preferred Stock are entitled to an 8% dividend, payable quarterly in cash.

During the 13 and 39 week periods ended October 2, 2012, holders converted 93,500 shares of outstanding Series B-1 Preferred Stock and 2,000 shares of outstanding Series B-2 Preferred Stock into an aggregate of 9,550,000 shares of common stock at the conversion price of $1.15 per share. During the 13 and 39 week periods, respectively, ended October 2, 2012, the Company paid cash dividends on the Series B Preferred Stock totaling $0.3 million and $1.1 million, respectively. Accretion related to the Series B Preferred Stock for the 13 and 39 week periods ended October 2, 2012 was $0.8 million and $1.0 million, respectively. Unamortized accretion as of October 2, 2012 was $0.5 million.

During the 12 week period ended October 4, 2011, holders converted 5,000 shares of outstanding Series B-2 Preferred Stock to an aggregate of 500,000 shares of common stock at the initial conversion price of $1.15 per share. During the 40 week period ended October 4, 2011, holders converted 18,400 shares of outstanding Series B-1 Preferred Stock and 10,696 shares of outstanding Series B-2 Preferred Stock to an aggregate of 2,909,600 shares of common stock at the initial conversion price of $1.15 per share. During the 12 and 40 week period ended October 4, 2011, the Company paid cash dividends on the Series B Preferred Stock totaling $0.4 million and $1.2 million, respectively. Accretion related to the Series B Preferred Stock for the 12 and 40 week periods ended October 4, 2011 was $0.1 million and $0.6 million, respectively.

4. SHARE-BASED COMPENSATION

The Company maintains three share-based compensation plans (collectively, the “Plans”). The Company’s Amended and Restated 2006 Employee, Director and Consultant Stock Plan, as amended (the “2006 Plan”) was approved by the Company’s stockholders on November 28, 2006, and provides for the granting of up to eight million shares of common stock in the form of nonqualified and incentive stock options, stock grants or other share-based awards to employees, nonemployee directors and consultants. The amendment and restatement to the 2006 Plan was approved by stockholders on May 20, 2010. In connection with the merger of Jamba, Inc. with Jamba Juice Company on November 28, 2006, the Company assumed the outstanding options under the Jamba Juice Company 1994 Stock Incentive Plan (the “1994 Plan”) and the Jamba Juice Company 2001 Equity Incentive Plan (the “2001 Plan”), both of which provided for the granting of nonqualified and incentive stock options to employees, nonemployee directors and consultants. No additional grants are available under the 2001 Plan and the 1994 Plan. As of October 2, 2012, there remained 981,454 shares available for grant under the Company's 2006 Plan. In December 2008, the Company also granted an option covering an aggregate of 1,500,000 shares of common stock under an inducement grant made outside of the Company's existing equity plans. A summary of stock option activity under the Plans as of October 2, 2012, and changes during the 39 week period then ended is presented below:

	Number of Options (in thousands)	Weighted-Average Exercise Price (per share)	Aggregate Intrinsic Value (dollars in thousands)
Options outstanding at January 3, 2012	6,178	$ 2.25	
Options granted	172	2.17	
Options exercised	(37)	1.45	
Options cancelled	(85)	3.31	
Options outstanding at October 2, 2012	6,228	$ 2.23	$ 5,291
Options vested or expected to vest at October 2, 2012	5,775	$ 2.26	$ 5,043
Options exercisable at October 2, 2012	3,882	$ 2.57	$ 3,606

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The fair value of options granted was estimated at the date of grant using a Black-Scholes option-pricing model. Option valuation models, including Black-Scholes, require the input of highly subjective assumptions, and changes in the assumptions used can materially affect the grant date fair value of an award. The risk-free rate of interest is based on the zero coupon U.S. Treasury rates appropriate for the expected term of the award. For expected life, the Company applies the guidance provided by the SEC Staff Accounting Bulletin No. 110. Expected dividends are zero based on a history of not paying cash dividends on the Company’s common stock and as the Company does not intend to pay dividends in the future. Expected volatility is based on historic daily stock price observations of the Company’s common stock since its inception. As required by authoritative guidance, the Company makes assumptions as to the expected forfeitures in determining share–based compensation expense.

The following are the weighted-average assumptions used to value option grants for the 13 and 39 week periods ended October 2, 2012 and for the 12 and 40 week periods ended October 4, 2011:

	13 Week Period Ended October 2, 2012		12 Week Period Ended October 4, 2011		39 Week Period Ended October 2, 2012		40 Week Period Ended October 4, 2011	
Weighted-average risk-free interest rate	0.65	%	0.90	%	0.90	%	1.77	%
Expected life of options (years)	6.25		6.25		6.25		6.25	
Expected stock volatility	68.3	%	63.8	%	69.2	%	63.9	%
Expected dividend yield	0	%	0	%	0	%	0	%

The estimated fair value per share of stock options granted during the 13 week period ended October 2, 2012 and for the 12 week period ended October 4, 2011, was $1.56 and $1.06, respectively. The estimated fair value per share of stock options granted during the 39 week period ended October 2, 2012 and for the 40 week period ended October 4, 2011, was $1.35 and $1.38, respectively.

On August 22, 2012, the Company granted 532,500 restricted stock units (“RSUs”) to participants in its 2012 Management Incentive Plan at grant date fair value of $2.54. These RSUs will vest over three years. In addition, 176,250 performance stock units (“PSUs”), which are RSUs with performance requirements, were granted on August 22, 2012 to plan participants at the levels of Vice President and above. Each PSU will vest on the one year anniversary of the grant date if the Company achieves predetermined EBITDA targets for the second half of 2012 fiscal year. The aggregate grant date fair value of the 532,500 RSUs granted during the quarter was $1.4 million. The aggregate intrinsic value of RSUs outstanding as of October 2, 2012 was $1.3 million. The aggregate grant date fair value of the 176,250 PSUs granted during the quarter was $0.5 million and the aggregate intrinsic value of those PSUs outstanding as of October 2, 2012 was $0.4 million. The Company has not met the criteria for recording compensation expense related to the PSUs as of October 2, 2012.

Share-based compensation expense, which is included in general and administrative expense, was $0.7 million and $0.3 million for the 13 week period ended October 2, 2012 and for the 12 week period ended October 4, 2011, respectively. Share-based compensation expense was $1.4 million and $0.8 million for the 39 week period ended October 2, 2012 and for the 40 week period ended October 4, 2011, respectively. At October 2, 2012, non-vested share-based compensation for stock options and restricted stock awards, net of forfeitures totaled $1.8 million. This expense will be recognized over the remaining weighted average vesting period. There was no income tax benefit related to share-based compensation expense during the 13 and 39 week periods ended October 2, 2012 and for the 12 and 40 week periods ended October 4, 2011.

5. FAIR VALUE MEASUREMENT

The following table presents the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of October 2, 2012 and January 3, 2012 by level within the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3
October 2, 2012			
Assets:			
Cash invested in money market fund	$—	$ —	$—
Liabilities:			
Contingent consideration(2)	—	—	1,361
January 3, 2012			
Assets:			
Cash invested in money market fund (1)	$1,352	$ —	$—

(1) $1.4 million included in restricted cash on the consolidated balance sheet at January 3, 2012.

(2) $1.0 million included in other long-term liabilities and $0.4 million included in other current liabilities on the consolidated balance sheet at October 2, 2012.

For assets that are measured using quoted prices in active markets, fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs. The Company had no cash invested in money market funds as of October 2, 2012 and $1.4 million as of January 3, 2012.

The following table presents the Company's assets that were accounted for at fair value on a non-recurring basis and remaining on our Condensed Consolidated Balance Sheets as of October 2, 2012 and January 3, 2012. Total losses include losses recognized from all non-recurring fair value measurements for the 39 week period ended October 2, 2012 and for the 40 week period ended October 4, 2011 (in thousands):

	Level 1	Level 2	Level 3
October 2, 2012			
Assets:			
Long-lived assets [1]	—	—	$ 477
Goodwill	—	—	1,336
Acquired trademark [2]	—	—	122
Acquired customer list [2]	—	—	301
Total losses recognized for all non-recurring fair value measures for the 13 week period ended October 2, 2012	—	—	75
Total losses recognized for all non-recurring fair value measures for the 39 week period ended October 2, 2012	—	—	637
January 3, 2012			
Assets:			
Long-lived assets [1]	—	—	$ 1,038
October 4, 2011			
Total losses recognized for all non-recurring fair value measures for the 12 week period ended October 4, 2011	—	—	312
Total losses recognized for all non-recurring fair value measures for the 40 week period ended October 4, 2011	—	—	1,214

(1) Included in property, fixtures and equipment, net on the consolidated balance sheet.
(2) Included in trademarks and other intangible assets, net on the consolidated balance sheet.

The Company classified the fair value of long-lived assets as level 3 because the value is based on unobservable inputs. The significant inputs to the fair value measurement of the long-lived assets are projected future operating results at the store level and the discount rates applied to calculate the present value of the these assets. The fair value of the contingent consideration is classified as level 3 because it is based on unobservable inputs. Significant inputs and assumptions are management's estimate of operating profits from the related business and the discount rate used to calculate the present value of the liability. Significant changes in any Level 3 input or assumption would result in increases or decreases to fair value measurements for future impairment of the long-lived assets and for contingent consideration.

6. CREDIT AGREEMENT

On February 14, 2012, the Company entered into a Credit Agreement (the “Credit Agreement”) with Wells Fargo Bank, National Association (the “Lender”) whereby the Lender provided the Company with a six million dollar revolving line of credit. The outstanding balance under the credit facility bears interest at a LIBOR Market Index Rate based upon the rate for one month U.S. dollar deposits, plus 3.75% per annum. Under the terms of the Credit Agreement, the Company is required to maintain minimum levels of trailing annual consolidated EBITDA and liquidity and is subject to limits on annual capital expenditures. The Credit Agreement terminates January 31, 2013 or may be terminated earlier by the Company or by the Lender. The credit facility is subject to customary affirmative and negative covenants for credit facilities of this type, including limitations on the Company with respect to liens, indebtedness, guaranties, investments, distributions, mergers and acquisitions and dispositions of assets. The credit facility is evidenced by a revolving note made by the Company in favor of the Lender, is guaranteed by the Company and is secured by substantially all of its assets including the assets of its subsidiaries and a pledge of stock of its subsidiaries. In addition, the credit agreement replaced the restricted cash requirements for the Company in prior periods, as the line of credit also collateralizes the Company’s outstanding letters of credit of $1.1 million as of October 2, 2012. During the period ended and as of October 2, 2012, there were no borrowings under the credit agreement. As of October 2, 2012, we were in compliance with all related covenants and the unused borrowing capacity under the agreement was $4.9 million.

7. IMPAIRMENT OF LONG LIVED ASSETS AND STORE LEASE TERMINATION AND CLOSURE COSTS

Impairment of long-lived assets

The Company reviews its entire portfolio on a regular basis. The review includes an analysis of each store’s past and present operating performance combined with projected future results. Impairment charges include the write-down of long-lived assets at stores that were assessed for impairment because of management’s intention to close the store or because of changes in circumstances that indicate the carrying value of an asset may not be recoverable. The Company recorded impairment charges of $0.1 million and $0.3 million for the 13 week period ended October 2, 2012 and for the 12 week period ended October 4, 2011, respectively. Impairment charges of $0.6 million and $1.2 million were recorded for the 39 week period ended October 2, 2012 and the 40 week period ended October 4, 2011, respectively.

Store lease termination and closure costs

Lease termination costs consist primarily of the costs of future obligations related to closed store locations. Discounted liabilities for future lease costs net of expected income from related subleases of closed locations are recorded when the stores are closed. All other costs related to closed units are expensed as incurred. In assessing the discounted liabilities for future costs of obligations related to closed stores, the Company makes assumptions regarding amounts of future subleases. If these assumptions or their related estimates change in the future, the Company may be required to record additional exit costs or reduce exit costs previously recorded. Exit costs recorded for each of the periods presented include the effect of such changes in estimates. Lease obligations are payable through 2022, less sublease amounts. The charges are noted below (in thousands):

	13 Week Period Ended October 2, 2012	12 Week Period Ended October 4, 2011	39 Week Period Ended October 2, 2012	40 Week Period Ended October 4, 2011
Store lease terminations	$ 10	$ 90	$ 135	$ 316

A reconciliation of the beginning and ending store lease termination and closure accrual is as follows (in thousands):

	13 Week Period Ended October 2, 2012	12 Week Period Ended October 4, 2011	39 Week Period Ended October 2, 2012	40 Week Period Ended October 4, 2011
Balance, beginning of period	402	$ 1,144	$ 573	$ 3,016
Adjustments	10	90	135	316
Payments	(133)	(566)	(429)	(2,664)
Balance, end of period	$ 279	$ 668	$ 279	$ 668

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8. INCOME TAXES

At the end of each interim period, the Company calculates an estimated annual effective tax rate based on the Company’s best estimate of the tax expense (benefit) that will be provided for the full year. The year-to-date income tax expense (benefit) is a result of applying the estimated annual effective tax rate to the year-to-date actual pre-tax income (loss). The interim period tax expense (benefit) is the difference between the year-to-date amount and the amounts reported for previous interim periods and then adjusted for discrete tax items, if any.

A valuation allowance is recognized if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management has concluded that it is not more likely than not that the deferred tax assets will be realized and a full valuation allowance has been maintained against the Company’s net deferred tax assets.

The Company’s effective tax rate for the 13 and 39 week periods ended October 2, 2012 were 9.4% and 8.2%, respectively. The effective tax rates were affected by pretax income or loss, a change in the valuation allowance related to deductible temporary differences originating during the current year, the alternative minimum taxes and foreign withholding taxes.

As of October 2, 2012, there have been no material changes to the Company’s uncertain tax positions disclosure as provided in Note 12 in the Notes to the Financial Statements in the Company’s Annual Report on Form 10-K for the year ended January 3, 2012.

9. COMMITMENTS AND CONTINGENCIES

The Company is a defendant in litigation arising in the normal course of business. Although there can be no assurance as to the ultimate disposition of these matters, it is the opinion of the Company’s management, based upon the information available at this time, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the results of operations, liquidity or financial condition of the Company.

10. SUBSEQUENT EVENT

On November 1, 2012, the Company entered into an amendment to its Credit Agreement with Wells Fargo Bank, National Association (the “Lender”) whereby the Lender increased the revolving line of credit to ten million dollars. The outstanding balance under the amended credit facility bears interest at a LIBOR Market Index Rate based upon the rate for one month U.S. dollar deposits, plus 3.00% per annum. Under the terms of the amended Credit Agreement, the Company is required to maintain minimum levels of trailing annual consolidated EBITDA and liquidity and is subject to limits on annual capital expenditures. The amended Credit Agreement terminates January 31, 2014 or may be terminated earlier by the Company or by the Lender.

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

You should read the following discussion and analysis in conjunction with our financial statements and related notes included elsewhere in this report. Except for historical information, the discussion in this report contains certain forward-looking statements that involve risks and uncertainties. We have based these forward-looking statements on our current expectations and assumptions about future events. In some cases, you can identify forward-looking statements by terminology, such as "may," "should," "could," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," "forecast" and similar expressions (or the negative of such expressions.) Forward-looking statements include, but are not limited to, statements concerning projected new store openings, 2012 revenue growth rates, and capital expenditures. Forward-looking statements are based on our beliefs as well as assumptions based on information currently available to us, including financial and operational information, the volatility of our stock price, and current competitive conditions. As a result, these statements are subject to various risks and uncertainties. For a discussion of material risks and uncertainties that the Company faces, see the discussion titled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended January 3, 2012.

JAMBA, INC. OVERVIEW

Jamba, Inc., a Delaware corporation (the "Company") owns and franchises Jamba Juice stores through its wholly-owned subsidiary, Jamba Juice Company. Jamba Juice Company is a leading restaurant retailer of better-for-you, specialty beverage and food offerings, which include great tasting, whole fruit smoothies, fresh squeezed juices and juice blends, hot coffee and teas, hot oatmeal, breakfast wraps, sandwiches and mini-wraps, California Flatbreads™, frozen yogurt, and a variety of baked goods and snacks. As of October 2, 2012, there were 788 store locations globally. There were 301 Company owned and operated stores ("Company Stores") and 454 franchise operated stores ("Franchise Stores") in the United States, and 33 international franchise stores ("International Stores"). Jamba–branded consumer products ("CPG") for at-home enjoyment are also available through select retailers across the nation and in Jamba outlets in the United States.

EXECUTIVE OVERVIEW

Key Overall Strategies

The BLEND Plan continues to guide the Company's strategic plan to become a globally recognized healthy, active lifestyle brand. The key components of our plan for fiscal year 2012, are driving brand strength, improving store economics, accelerating store or unit development and expansion of our CPG program, and are captured in our

BLEND Plan 2.0:

- make Jamba a top-of-mind healthy food and beverage brand;
- embody a healthy, active lifestyle at store level and broadly across the enterprise;
- accelerate global retail growth through new and existing formats;
- build a global CPG platform in Jamba-relevant categories; and
- pursue new ways to reduce costs and drive productivity.

Change in Fiscal Quarter

Effective for fiscal 2012, the Company changed the end of its fiscal quarters. Each quarter has 13 weeks, resulting in a 12 period fiscal year. Prior to fiscal 2012, the first quarter had 16 weeks and each of the three subsequent quarters had 12 weeks. The Company's year-end continues to be the Tuesday closest to December 31.

The prior year comparative financial and other information reported in the financial statements herein continue to be presented based on our prior year fiscal quarter end calendar. Our results for the third quarter of fiscal 2012, which was the 13 week period ended October 2, 2012, are compared to our results for the third quarter of fiscal 2011, which was the 12 week period ended October 4, 2011. The comparison of these two quarters is primarily affected by the difference of one week between the third quarter of fiscal 2012 and the third quarter of 2011. There were 39 weeks in the first three quarters of fiscal 2012 and 40 weeks in the first three quarters of fiscal 2011. The most significant impacts of the fiscal quarter change occurred in the first fiscal quarter.

Although we have not submitted financial information for the 13 week period ended September 27, 2011 in this Form 10-Q, pro-forma information for the 13 week period for the prior year is included in the press release dated November 1, 2012.

2012 Third Quarter Financial Highlights

- Company Stores comparable sales increased 3.9%, Franchise Stores comparable sales increased 1.0% and system-wide comparable store sales increased 2.5%. System-wide comparable store sales, non-GAAP financial measure, represent the change in year-over-year sales for all Company and Franchise Stores opened for at least one full year.
- Net income was $4.1 million, and represents $0.04 diluted earnings per share for the third quarter, compared to net income of $4.1 million or $0.05 diluted earnings per share for the prior year third quarter.
- Investment during the quarter was accelerated in targeted customer value price promotions and several growth initiatives, including JambaGO®.
- General and administrative expense increased to $9.7 million from $7.4 million, resulting from the accelerated investment in growth initiatives and an additional week of expenses included in the 2012 fiscal third quarter.
- Cash and cash equivalents was $31.9 million as of October 2, 2012.
- Cash generated from operations for the 39 week period was $17.0 million, compared to $2.6 million for the 40 week period ended October 4, 2011.
- Eight new Franchise Stores were opened in the U.S. during the 13 weeks ended October 2, 2012.
- Four new International Stores were opened by our international partners during the 13 weeks ended October 2, 2012.

2012 Third Quarter Business Highlights

Make Jamba a Top of Mind Healthy Food and Beverage Brand

During the 13 week period ended October 2, 2012, sales at system-wide Jamba Juice Stores opened more than one full fiscal year increased 2.5% reflecting increases of 3.9% for Company Stores and 1.0% for Franchise Stores. For Company Stores, this increase represents two consecutive years of Company Store comparable sales growth. The increase in Company Store comparable sales during the quarter includes a 510 basis points increase in traffic and a 120 basis points decrease in average check as a result of our targeted “Dollar Days” marketing investment, designed to provide added consumer value during an ever challenging economy. The company continues to see sales growth in all four day-parts.

Product innovation continues to play a critical role in offering the consumer more relevant and habitual products. Make It Light™ smoothies were extended throughout the system, Talbott Teas® offerings and new food options including a toasted bistro sandwich were rolled out to Company Stores.

On October 1, 2012, we announced our first ever major theatrical motion picture partnership with Summit Entertainment, a LIONSGATE® company, for the release of its fifth installment of the TWILIGHT SAGA film franchise, “THE TWILIGHT SAGA: BREAKING DAWN – PART 2” in November 2012. We have planned special activities designed to engage fans, including special screenings and social-media promotions where one person could win a Grand Prize trip for two to attend the Los Angeles premiere of the movie on November 12. Additionally, we have created a nutritious and exclusive, Limited Time Only (LTO) movie-themed smoothie for fans to enjoy during the promotion period. Fans who purchase the LTO smoothie during the promotion period will receive a free special movie-branded premium item.

Embody a Healthy, Active Lifestyle

In August 2012, we announced the enhancement of our comprehensive eco-sustainability strategy. We formed a strategic relationship with the Global Green USA's Coalition Recovery (CoRR), an industry working group dedicated to accelerating waste diversion programs. Our alliance with CoRR is expected to help us reduce waste and energy consumption and increase use of more environmentally friendly materials. We plan to collaborate with CoRR during our work to phase out the use of polystyrene cups, currently used for cold beverages, during 2013.

Accelerate Global Retail Growth

We continue to grow our restaurant concept primarily through the development of new Franchise Stores. As of October 2, 2012, the Jamba system, globally, is comprised of approximately 62% Franchise Store locations and 38% Company Store locations. As of October 2, 2012, we had 788 Jamba Juice stores, globally, represented by 301 Company Stores and 454 Franchise Stores in the United States, and 33 International Stores.

Domestic

During the 13 week period ended October 2, 2012, franchisees developed and opened eight Franchise Stores, all of which were non-traditional stores. These new stores included our 21st airport location at McCarran International Airport in Las Vegas. All our recent new store openings are consistent with our initiative to launch flexible, non-traditional franchise formats in travel hubs, grocery outlets, malls and college and universities.

We also announced expansion plans into five new markets and five existing markets with new and existing franchise partners, to develop a total of 32 new Jamba Juice store locations in ten states, including New York, Wisconsin, Kentucky, California and Connecticut over the next five to seven years. We expect to open 40 to 50 stores in fiscal 2012 primarily through franchisees. During the 39 week period ended October 2, 2012, 19 Franchise Stores were opened. The actual number of openings may differ from our expectations due to various factors, including franchisee access to capital and economic conditions.

The expansion of our new growth concept, JambaGO, continued to progress in a variety of locations, including K-12 schools, convenience stores and grocery stores. This concept has enabled us to provide a healthy alternative for schools seeking solutions to combat childhood obesity. As of October 2, 2012, there were 169 JambaGO locations and we expect to open 400 to 500 locations during fiscal 2012.

International

During the 13 week period ended October 2, 2012, our master developers opened a total of four international locations, one in South Korea, two in Canada and one in the Philippines. We opened 16 international Jamba Juice store locations during the 39 week period ended October 2, 2012, and we continue to actively pursue international development opportunities.

Build a Global CPG Platform in Jamba-Relevant Categories

We are evolving our business model to assume more control over the development, manufacturing and distribution of our CPG products and to ultimately gain more of the profit pool. As an example of this, in June 2012 we finalized an agreement with Nestle to acquire the product formulation and intellectual property for the Jamba All-Natural Energy Drink, for which we continue to expand distribution in and beyond the current Northeast test geography.

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RESULTS OF OPERATIONS — 13 WEEK PERIOD ENDED OCTOBER 2, 2012 AS COMPARED TO 12 WEEK PERIOD ENDED OCTOBER 4, 2011 (UNAUDITED)

(In thousands)	13 Week Period Ended October 2, 2012	% [1]	12 Week Period Ended October 4, 2011	% [1]
Revenue:				
Company Stores	$ 61,795	94.4 %	$ 54,102	94.8 %
Franchise and other revenue	3,687	5.6 %	2,976	5.2 %
Total revenue	65,482	100.0%	57,078	100.0%
Costs and operating expenses:				
Cost of sales	14,918	24.1 %	11,808	21.8 %
Labor	16,457	26.6 %	14,565	26.9 %
Occupancy	7,353	11.9 %	6,802	12.6 %
Store operating	9,328	15.1 %	8,539	15.8 %
Depreciation and amortization	2,793	4.3 %	2,805	4.9 %
General and administrative	9,663	14.8 %	7,398	13.0 %
Impairment of long-lived assets	75	0.1 %	312	0.5 %
Other operating, net	347	0.5 %	924	1.6 %
Total costs and operating expenses	60,934	93.1 %	53,153	93.1 %
Income from operations	4,548	6.9 %	3,925	6.9 %
Other income (expense), net:				
Interest income	21	0.0 %	99	0.2 %
Interest expense	(52)	0.0 %	(117)	(0.2)%
Total other expense, net	(31)	0.0 %	(18)	0.0 %
Income before income taxes	4,517	6.9 %	3,907	6.9 %
Income tax benefit (expense)	(413)	(0.6)%	217	0.4 %
Net income	4,104	6.3 %	4,124	7.3 %
Preferred stock dividends and deemed dividends	(1,123)	(1.7)%	(489)	(0.9)%
Net income available to common stockholders	$ 2,981	4.6 %	$ 3,635	6.4 %

(1) Cost of sales, labor, occupancy and store operating percentages are calculated using Company Stores revenue. All other line items are calculated using total revenue.

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Revenue

(in 000's)

(In thousands)	13 Week Period Ended October 2, 2012	% of Total Revenue	12 Week Period Ended October 4, 2011	% of Total Revenue
Revenue:				
Company Stores	$ 61,795	94.4 %	$ 54,102	94.8 %
Franchise and other revenue	3,687	5.6 %	2,976	5.2 %
Total revenue	65,482	100.0 %	57,078	100.0 %

Total revenue is comprised of revenue from Company Stores, franchise royalties, fees and consumer packaged goods.

Total revenue for the 13 week period ended October 2, 2012 was $65.5 million, an increase of $8.4 million or 14.7%, compared to $57.1 million for the 12 week period ended October 4, 2011.

Company Store revenue

Company Store revenue for the 13 week period ended October 2, 2012 was $61.8 million, an increase of $7.7 million or 14.2% compared to $54.1 million for the 12 week period ended October 4, 2011. The increase in Company Store revenue was due primarily to one extra week in the 13 week period ended October 2, 2012 compared to the 12 week period ended October 4, 2011 and to Company Store comparable sales improvement as illustrated by the following table:

	Company Store Increase in Revenue (in 000's) Third quarter 2012 vs. Third quarter 2011
Due to one more week in 2012 third quarter (1)	$ 6,131
Company Store comparable sales increase	2,300
Reduction in the number of Company Stores, net	(738)
Total change in Company Store revenue	$ 7,693

(1) Calculated by inclusion of Company Store revenue for one additional week in the third quarter of fiscal 2011.

Company Store comparable sales increased $2.3 million for the 13 week period ended October 2, 2012, or 3.9% attributable to an increase of 5.1% in transaction count, partially offset by a decrease of 1.2% in average check resulting from our targeted customer value driven promotions. Company Store comparable sales represents the change in year-over-year sales for all Company Stores opened for at least a full fiscal year. As of October 2, 2012, 100% of our Company Stores had been open for at least one full fiscal year. The percentage change in Company Store comparable sales compares the sales of Company Stores during a 13 week period in 2012 to the sales from the same Company Stores for the equivalent 13 week period in the prior year.

Franchise and other revenue

Franchise and other revenue for the 13 week period ended October 2, 2012 was $3.7 million, an increase of $0.7 million, or 23.9%, compared to $3.0 million for the 12 week period ended October 4, 2011, primarily due to the net increase in the number of Franchise and International Stores and the effect of including 13 weeks in the fiscal 2012 third quarter compared to 12 weeks in the fiscal 2011 third quarter. CPG revenue was $0.6 million for fiscal 2012 third quarter compared to $0.3 million for fiscal 2011 third quarter.

The number of Franchise Stores and International Stores grew to 487 as of October 2, 2012 from 452 as of October 4, 2011.

Cost of sales

Cost of sales is mostly comprised of fruit, dairy, and other products used to make smoothies and juices, paper products, costs related to managing our procurement program and vendor rebates. As a percentage of Company Store revenue, cost of sales increased to 24.1% for the 13 week period ended October 2, 2012, compared to 21.8% for the 12 week period ended October 4, 2011. The increase of cost of sales as a percentage of Company Store revenue was primarily due the net impact of targeted customer value promotional activities (1.6%) and increases in commodity costs (0.9%). Cost of sales for the 13 week period ended October 2, 2012 was $14.9 million compared to $11.8 million for the 12 week period ended October 4, 2011. The change from a 12 week third quarter in fiscal 2011 to a 13 week third quarter in fiscal 2012 has resulted in an increase in Company Stores cost of sales attributed to the quarter.

Labor

Labor costs are comprised of store management salaries and bonuses, hourly team member payroll, training costs and other associated fringe benefits. As a percentage of Company Store revenue, labor costs decreased to 26.6% for the 13 week period ended October 2, 2012, compared to 26.9% for the 12 week period ended October 4, 2011. The 0.3% decrease of labor costs as a percentage of Company Store revenue was primarily due to labor efficiencies, improved sales volumes and more effective wage management achieved (2.1%), partially offset by targeted customer value promotional activities (1.8%). Labor costs for the 13 week period ended October 2, 2012 were $16.5 million, an increase of $1.9 million, or 13.0%, compared to $14.6 million for the 12 week period ended October 4, 2011. The change from a 12 week third quarter in fiscal 2011 to a 13 week third quarter in fiscal 2012 has resulted in an increase in Company Stores labor costs partially offset by labor efficiencies, improved sales volumes and more effective wage management.

Occupancy

Occupancy costs include both fixed and variable portions of rent, common area maintenance charges, property taxes, licenses and property insurance for all Company Store locations. As a percentage of Company Store revenue, occupancy costs decreased to 11.9% for the 13 week period ended October 2, 2012, compared to 12.6% for the 12 week period ended October 4, 2011. The decrease in occupancy costs as a percentage of Company Store revenue was primarily due to the impact of leverage as a result of the increase in Company Store comparable sales (approximately 0.6%). Occupancy costs for the 13 week period ended October 2, 2012 were $7.4 million, an increase of $0.6 million, or 8.1%, compared to $6.8 million for the 12 week period ended October 4, 2011. The change from a 12 week third quarter in fiscal 2011 to a 13 week third quarter in fiscal 2012 has resulted in an increase in Company Stores occupancy expenses attributable to the quarter.

Store operating

Store operating expenses consist primarily of various store-level costs such as utilities, marketing, repairs and maintenance, credit card fees and other store operating expenses. As a percentage of Company Store revenue, total store operating expenses decreased to 15.1% for the 13 week period ended October 2, 2012, compared to 15.8% for the 12 week period ended October 4, 2011. The decrease in total store operating expenses as a percentage of Company Store revenue was primarily due to a decrease in marketing expense (approximately 0.9%) resulting from a shift into targeted customer value promotions. Total store operating expenses for the 13 week period ended October 2, 2012 were $9.3 million, an increase of $0.8 million, or 9.2%, compared to $8.5 million for the 12 week period ended October 4, 2011. The change from a 12 week third quarter in fiscal 2011 to a 13 week third quarter in fiscal 2012 has resulted in an increase in Company Stores operating expenses attributable to the quarter.

Depreciation and amortization

Depreciation and amortization expenses include the depreciation of fixed assets and the amortization of intangible assets. As a percentage of total revenue, depreciation and amortization decreased to 4.3% for the 13 week period ended October 2, 2012, compared to 4.9% for the 12 week period ended October 4, 2011. The decrease in depreciation and amortization as a percentage of total revenue was primarily due to the impact of leverage as a result of the increase in Company Store comparable sales (approximately 0.3%) and of lower carrying value as previously impaired assets approach the end of their economic useful lives (approximately 0.3%). Depreciation and amortization for the 13 week period ended October 2, 2012 was $2.8 million, flat, compared to $2.8 million for the 12 week period ended October 4, 2011.

General and administrative

General and administrative ("G&A") expenses include costs associated with our corporate headquarters in Emeryville, CA, field supervision, bonuses, outside and contract services, accounting and legal fees, travel and travel-related expenses, share-based compensation and other. As a percentage of total revenue, total G&A expenses increased to 14.8% for the 13 week period ended October 2, 2012, compared to 13.0% for the 12 week period ended October 4, 2011. Total G&A expenses for the 13 week period ended October 2, 2012 were $9.7 million, an increase of $2.3 million, or 30.6%, compared to $7.4 million for the 12 week period ended October 4, 2011. The increase of total G&A expenses was primarily due to costs resulting from accelerated investment in new and expanded growth initiatives (approximately $0.9 million), the change to 13 weeks in the fiscal 2012 third quarter compared to 12 weeks in the fiscal 2011 third quarter (approximately $0.8 million) and increased non-cash share-based compensation (approximately $0.4 million).

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when indicators of impairment are present. Expected future cash flows associated with an asset, in addition to other quantitative and qualitative analyses, including certain assumptions about expected future operating performance and changes in economic conditions are the key factors in determining undiscounted future cash flows. If the sum of the undiscounted cash flows is less than the carrying value of the asset, we recognize an impairment loss equal to the amount by which carrying value exceeds the fair value of the asset.

Impairment of long-lived assets for the 13 week period ended October 2, 2012 was $0.1 million, a decrease of $0.2 million, or 76.0%, compared to $0.3 million for the 12 week period ended October 4, 2011. The decrease of impairment charge for long-lived assets was primarily due to fewer underperforming stores that had not been previously partially impaired compared to the prior year period.

Other operating, net

Other operating, net consists primarily of gain or loss on disposals, income from jambacard breakage, store lease termination and closure costs, pre-opening costs and franchise related expense, net. For the 13 week period ended October 2, 2012, other operating, net was $0.3 million of expense, compared to net expense of $0.9 million for the 12 week period ended October 4, 2011. The decrease in expense is primarily due to lower loss on disposal of fixed assets (approximately $0.2 million), decrease in charges for store closures and lease termination costs (approximately $0.2 million) and lower pre-opening costs (approximately $0.2 million); partially offset by lower jambacard breakage, net of related expense (approximately $0.1 million).

***Income tax expens*e**

We recorded income tax expense at an effective rate of 9.4% for the 13 week period ended October 2, 2012. This is due to the pretax income, a change in valuation allowance related to deductible temporary differences originating during the current year, the alternative minimum taxes and foreign withholding taxes.

We recorded income tax benefit at an effective rate of negative 5.6% for the 12 week period ended October 4, 2011. The effective tax rate was primarily affected by pretax income, a change in the valuation allowance related to deductible temporary differences originating during the current year, the release of uncertain tax benefits on certain unrecognized tax benefits related to deductions, state tax credits and related interest as the statutes have expired, and foreign withholding taxes in connection with foreign franchise revenue.

Preferred stock dividends and deemed dividends

For the 13 week period ended October 2, 2012, preferred stock dividends and deemed dividends were $1.1 million, compared to $0.5 million for the 12 week period ended October 4, 2011. The increase of $0.6 million is primarily due to recording accelerated accretion relating to the beneficial conversion feature and transaction costs, as a result of conversion of 95,500 shares of preferred stock during the quarter (approximately $0.7 million).

RESULTS OF OPERATIONS — 39 WEEK PERIOD ENDED OCTOBER 2, 2012 AS COMPARED TO 40 WEEK PERIOD ENDED OCOTBER 4, 2011 (UNAUDITED)

(In thousands)	39 Week Period Ended October 2, 2012	% (1)	40 Week Period Ended October 4, 2011	% (1)
Revenue:				
Company Stores	$ 174,350	94.5 %	$ 173,274	95.1 %
Franchise and other revenue	10,223	5.5 %	8,834	4.9 %
Total revenue	184,573	100.0%	182,108	100.0%
Costs and operating expenses:				
Cost of sales	40,504	23.2 %	39,828	23.0 %
Labor	49,013	28.1 %	53,139	30.7 %
Occupancy	22,097	12.7 %	23,707	13.7 %
Store operating	26,158	15.0 %	25,728	14.8 %
Depreciation and amortization	8,528	4.6 %	9,621	5.3 %
General and administrative	29,125	15.8 %	25,881	14.2 %
Impairment of long-lived assets	637	0.3 %	1,214	0.7 %
Other operating, net	579	0.3 %	1,503	0.8 %
Total costs and operating expenses	176,641	95.7 %	180,621	99.2 %
Income from operations	7,932	4.3 %	1,487	0.8 %
Other income (expense), net:				
Interest income	61	0.0 %	126	0.1 %
Interest expense	(147)	(0.1)%	(456)	(0.3)%
Total other expense, net	(86)	(0.1)%	(330)	(0.2)%
Income before income taxes	7,846	4.2 %	1,157	0.6 %
Income tax (expense) benefit	(634)	(0.3)%	380	0.2 %
Net income	7,212	3.9 %	1,537	0.8 %
Preferred stock dividends and deemed dividends	(2,076)	(1.1)%	(1,854)	(1.0)%
Net income available (attributable) to common stockholders	$ 5,136	2.8 %	$ (317)	(0.2)%

(1) Cost of sales, labor, occupancy and store operating percentages are calculated using Company Stores revenue. All other line items are calculated using total revenue.

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Revenue

(in 000's)

(In thousands)	39 Week Period Ended October 2, 2012	% of Total Revenue		40 Week Period Ended October 4, 2011	% of Total Revenue	
Revenue:						
Company Stores	$ 174,350	94.5	%	$ 173,274	95.1	%
Franchise and other revenue	10,223	4.5	%	8,834	4.9	%
Total revenue	$ 184,573	100.0	%	$ 182,108	100.0	%

Total revenue is comprised of revenue from Company Stores, franchise royalties, fees and consumer packaged goods.

Total revenue for the 39 week period ended October 2, 2012 was $184.6 million, an increase of $2.5 million or 1.4% compared to $182.1 million for the 40 week period ended October 4, 2011.

Company Store revenue

Company Store revenue for the 39 week period ended October 2, 2012 was $174.4 million, an increase of $1.1 million or 0.6% compared to $173.3 million for the prior year period. This increase in Company Store revenue is primarily due to the increase in comparable store sales, partially offset by a net reduction in Company Stores due to the refranchising initiative, and there being one fewer week on the 39 week period ended October 2, 2012 and as illustrated by the following table:

	Company Store Increase in Revenue (in 000's) **Year-to-date Q3 2012 Vs Year-to-date Q3 2011**		
Company Store comparable sales increase	$	10,758	
Reduction in number of Company Stores, net		(5,457	)
Due to one less week in 2012 fiscal year-to-date (1)		(4,225	)
Total change in Company Store revenue	$	1,076	

(1) Calculated by exclusion of Company Store revenue for the one additional week in the year to date period ended October 4, 2011.

Company Store comparable sales increased $10.8 million for the 39 week period ended October 2, 2012, or 6.7%, attributable to an increase of 4.5% in transaction count and 2.2% in average check. Company Store comparable sales represents the change in year-over-year sales for all Company Stores opened for at least one full fiscal year. As of October 2, 2012, 100% of our Company Stores had been open for at least one full fiscal year. The percentage change in Company Store comparable sales compares the sales of Company Stores during a 39 week period in 2012 to the sales from the same Company Stores for the equivalent 39 week period in the prior year.

Franchise and other revenue

Franchise and other revenue for the 39 week period ended October 2, 2012 was $10.2 million, an increase of $1.4 million, or 15.7%, compared to franchise and other revenue of $8.8 million for the 40 week period ended October 4, 2011 primarily due to the net increase in the number of Franchise and International Stores, partially offset by the effect of including 39 weeks in fiscal 2012 compared to 40 weeks in fiscal 2011.

Cost of sales

Cost of sales is mostly comprised of fruit, dairy, and other products used to make smoothies and juices, paper products, costs related to managing our procurement program and vendor rebates. As a percentage of Company Store revenue, cost of sales increased to 23.2% for the 39 week period ended October 2, 2012, compared to 23.0% for the 40 week period ended October 4, 2011. The increase of cost of sales as a percentage of Company Store revenue was primarily due to increases in commodity costs (approximately 0.5%), partially offset by a net favorable product mix shift (approximately 0.3%). Cost of sales for the 39 week period ended October 2, 2012 were $40.5 million, an increase of $0.7 million, or 1.7%, compared to $39.8 million for the 40 week period ended October 4, 2011. The increase in cost of sales was primarily due to an increase in sales.

Labor

Labor costs are comprised of store management salaries and bonuses, hourly team member payroll, training costs and other associated fringe benefits. As a percentage of Company Store revenue, labor costs decreased to 28.1% for the 39 week period ended October 2, 2012, compared to 30.7% for the 40 week period ended October 4, 2011. The 2.6% decrease of labor costs as a percentage of Company Store revenue was primarily due to labor efficiencies, improved sales volumes and more effective wage management achieved through a smaller, more geographically concentrated Company Store base. Labor costs for the 39 week period ended October 2, 2012 were $49.0 million, a decrease of $4.1 million, or 7.8%, compared to $53.1 million for the 40 week period ended October 4, 2011. Our refranchising initiative which ended in April 2011, has resulted in a decrease in the number of Company Stores and the related labor costs and expenses to operate, manage, and support these refranchised Company Stores. In addition, the change from a 40 week year-to-date period in fiscal 2011 to a 39 week year-to-date-period in fiscal 2012 has resulted in a decrease in Company Stores labor costs attributed to the period.

Occupancy

Occupancy costs include both fixed and variable portions of rent, common area maintenance charges, property taxes, licenses and property insurance for all Company Store locations. As a percentage of Company Store revenue, occupancy costs decreased to 12.7% for the 39 week period ended October 2, 2012, compared to 13.7% for the 40 week period ended October 4, 2011. The decrease in occupancy costs as a percentage of Company Store revenue was primarily due to the impact of leverage as a result of the increase in Company Store comparable sales (approximately 1.0%). Occupancy costs for the 39 week period ended October 2, 2012 were $22.1 million, a decrease of $1.6 million, or 6.8%, compared to $23.7 million for the 40 week period ended October 4, 2011. Our refranchising initiative has resulted in a decrease in the number of Company Stores and the related occupancy costs and expenses to operate, manage, and support these refranchised Company Stores. In addition, the change from a 40 week year-to-date period in fiscal 2011 to a 39 week year-to-date-period in fiscal 2012 has resulted in a decrease in Company Stores occupancy costs attributed to the period.

Store operating

Store operating expenses consist primarily of various store-level costs such as utilities, marketing, repairs and maintenance, credit card fees and other store operating expenses. As a percentage of Company Store revenue, total store operating expenses increased to 15.0% for the 39 week period ended October 2, 2012, compared to 14.8% for the 40 week period ended October 4, 2011. The increase in total store operating expenses as a percentage of Company Store revenue was primarily due to increased credit card usage as a percentage of Company Store sales (approximately 0.3%). Total store operating expenses for the 39 week period ended October 2, 2012 were $26.2 million, an increase of $0.4 million, or 1.7%, compared to $25.7 million for the 40 week period ended October 4, 2011.

Depreciation and amortization

Depreciation and amortization expenses include the depreciation of fixed assets and the amortization of intangible assets. As a percentage of total revenue, depreciation and amortization decreased to 4.6% for the 39 week period ended October 2, 2012, compared to 5.3% for the 40 week period ended October 4, 2011. The decrease in depreciation and amortization as a percentage of total revenue was primarily due to the impact of leverage as a result of the increase in Company Store comparable sales (approximately 0.4%). Depreciation and amortization for the 39 week period ended October 2, 2012 was $8.5 million, a decrease of $1.1 million, or 11.4%, compared to $9.6 million for the 40 week period ended October 4, 2011. Our refranchising initiative has resulted in a decrease in the number of Company Stores and related assets, resulting in a reduction in the carrying value of Company Store fixed assets. In addition, the change from a 40 week year-to-date period in fiscal 2011 to a 39 week year-to-date-period in fiscal 2012 has resulted in a decrease in Company Stores depreciation expense attributed to the period.

General and administrative

General and administrative ("G&A") expenses include costs associated with our corporate headquarters in Emeryville, CA, field supervision, bonuses, outside and contract services, accounting and legal fees, travel and travel-related expenses, share-based compensation and other. As a percentage of total revenue, total G&A expenses increased to 15.8% for the 39 week period ended October 2, 2012, compared to 14.2% for the 40 week period ended October 4, 2011. Total G&A expenses for the 39 week period ended October 2, 2012 were $29.1 million, an increase of $3.2 million, or 12.5 %, compared to $25.9 million for the 40 week period ended October 4, 2011. The increase of total G&A expenses was primarily due to costs resulting from accelerated investment in new and expanded growth initiatives (approximately $1.7 million), the increase in expenses for our semi-annual performance related incentives (approximately $1.3 million), and increased non-cash share-based compensation (approximately $0.6 million), partially offset by the change to 39 weeks in the fiscal 2012 year-to-date period compared to 40 weeks in the fiscal 2011 year-to-date period (approximately $0.6 million)

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when indicators of impairment are present. Expected future cash flows associated with an asset, in addition to other quantitative and qualitative analyses, including certain assumptions about expected future operating performance and changes in economic conditions are the key factors in determining undiscounted future cash flows. If the sum of the undiscounted cash flows is less than the carrying value of the asset, we recognize an impairment loss equal to the amount by which carrying value exceeds the fair value of the asset.

Impairment of long-lived assets for the 39 week period ended October 2, 2012 was $0.6 million, a decrease of $0.6 million, or 47.5%, compared to $1.2 million for the 40 week period ended October 4, 2011. The decrease of impairment charge for long-lived assets was primarily due to fewer underperforming stores that had not been previously partially impaired compared to the prior year period.

Other operating, net

Other operating, net consists primarily of gain or loss on disposals, income from jambacard breakage, store lease termination, and closure costs, pre-opening costs and franchise related expenses, net. For the 39 week period ended October 2, 2012, other operating, net was $0.6 million of expense, compared to expense of $1.5 million for the 40 week period ended October 4, 2011. The decrease in expense is primarily due to a decrease in pre-opening costs (approximately $0.4 million), lower loss on disposal of fixed assets as sale of Company Stores pursuant to our refranchising initiative ended in April 2011 (approximately $1.3 million), and a decline in expenses for store closures and store lease terminations (approximately $0.3 million), partially offset by lower jambacard breakage, net of related expense (approximately $0.8 million) and an increase in franchise related expense, net (approximately $0.3 million).

Interest expense

Interest expense for the 39 week period ended October 2, 2012 was $0.1 million compared to $0.5 million for the 40 week period ended October 4, 2011. In addition, during the 39 week period ended October 2, 2012 and the 40 week period ended October 4, 2011, we paid cash dividends on the Series B Preferred Stock totaling $1.1 million and $1.2 million, respectively.

Income tax expense

We have recorded an income tax expense at an effective rate of 8.2% for the 39 week period ended October 2, 2012. The effective tax rate was primarily due to the pretax income, a change in valuation allowance related to deductible temporary differences originating during the current year, the alternative minimum taxes and foreign withholding taxes.

We have recorded an income tax benefit at an effective rate of negative 32.8% for the 40 week period ended October 4, 2011. The effective tax rate was primarily affected by pretax income, a change in the valuation allowance related to deductible temporary differences originating during the accounting period, the release of uncertain tax benefits on certain tax deductions, state tax credits and related interest as the statutes have expired and foreign withholding taxes in connection with foreign franchise revenue.

KEY FINANCIAL METRICS AND NON-GAAP MEASURES

Management reviews and discusses its operations based on both financial and non-financial metrics. Among the key financial metrics upon which management focuses is reviewing the performance based on the Company's consolidated GAAP results, including Company Store comparable sales. Management also uses certain supplemental, non-GAAP financial metrics in evaluating financial results, including Franchise Store comparable sales and system-wide comparable sales.

Company Store comparable sales represent the change in year-over-year sales for all Company Stores opened for at least one full fiscal year.

Franchise Store comparable sales, a non-GAAP financial measure, represents the change in year-over-year sales for all Franchise Stores opened for at least one full fiscal year, as reported by franchisees and exclude International Stores.

System–wide comparable store sales, a non-GAAP financial measure, represents the change in year-over-year sales for all Company and Franchise Stores opened for at least one full fiscal year and are based on sales by both company-owned and franchise-operated stores, as reported by franchisees, which are in the store base. System-wide comparable store sales do not include International Stores and JambaGO locations.

Company-owned stores that were sold in refranchising transactions are included in the store base for each accounting period of the fiscal quarter in which the store was sold to the extent the sale is consummated at least three days prior to the end of such accounting period, but only for the days such stores have been company-owned. Thereafter, such stores are excluded from the store base until such stores have been franchise-operated for at least one full fiscal year at which point such stores are included in the store base and compared to sales in the comparable period of the prior year. Comparable store sales exclude closed locations.

Management reviews the increase or decrease in Company Store comparable store sales, Franchise Store comparable sales and system-wide comparable sales compared with the same period in the prior year to assess business trends and make certain business decisions. The Company believes that Franchise Store comparable sales and system-wide comparable sales data, non-GAAP, financial measures, are useful in assessing the overall performance of the Jamba brand and, ultimately, the performance of the Company.

The following table sets forth operating data that do not otherwise appear in our consolidated financial statements as of and for the 13 and 39 week periods ended October 2, 2012 and for the 12 and 40 week periods ended October 4, 2011, respectively:

	13 Week Period Ended October 2, 2012	12 Week Period Ended October 4, 2011	39 Week Period Ended October 2, 2012	40 Week Period Ended October 4, 2011
Percentage change in Company Store comparable sales (1)	3.9 %	3.3 %	6.7 %	3.2 %
Percentage change in Franchise Store comparable sales (2)	1.0 %	4.2 %	5.8 %	3.3 %
Percentage change in system-wide comparable sales (2)	2.5 %	3.7 %	6.2 %	3.3 %
Total Company Stores	301	310	301	310
Total Franchise Stores	454	442	454	442
Total International Stores	33	10	33	10
Total Stores	788	762	788	762

(1) Percentage change in Company Store comparable sales compares the sales of Company Stores during a 13 and 39 week period in 2012 to the sales from the same Company Stores for the equivalent period in the prior year. A Company Store is included in this calculation after one full fiscal year of operations. Sales from Franchise Stores are not included in the Company Store comparable sales.

(2) Percentage change in system-wide comparable sales compares the combined sales of Company and Franchise-operated Stores during a 13 and 39 week period in 2012 to the combined sales from the same Company and Franchise-operated Stores for the equivalent 13 and 39 week period in the prior year. A Company or Franchise-operated Store is included in this calculation after one full fiscal year of operations.

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The following table sets forth certain data relating to Company Stores, Franchise and International Stores for the periods indicated:

	39 Week Period Ended October 2, 2012		40 Week Period Ended October 4, 2011	
	Domestic	International	Domestic	International
Company Stores:				
Beginning of period	307		351	
Company Stores opened			9	
Company Stores closed	(5)		(8)	
Company Stores sold to franchisees	(1)		(42)	
Total Company Stores	301		310	
Franchise Stores:				
Beginning of period	443	19	391	1
Franchise Stores opened	19	16	20	9
Franchise Stores closed	(9)	(2)	(11)	
Franchise Stores purchased from Company	1		42	
Total Franchise Stores	454	33	442	10

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows Summary

The following table summarizes our cash flows for the 39 and 40 week periods ended October 2, 2012 and October 4, 2011 (in thousands):

	39 Week Period Ended October 2, 2012	40 Week Period Ended October 4, 2011
Net cash provided by operating activities	$ 17,006	$ 2,630
Net cash used in investing activities	(3,734)	(5,726)
Net cash used in financing activities	(1,023)	(1,108)
Net increase (decrease) in cash and cash equivalents	$ 12,249	$ (4,204)

Operating Activities

Net cash provided by operating activities was $17.0 million for the 39 week period ended October 2, 2012, compared to $2.6 million for the 40 week period ended October 4, 2011, reflecting a net increase of cash flows of $14.4 million. This increase was primarily due to improved cash flows related to receivables (approximately $7.2 million), an increase in net income adjusted for noncash items (approximately $4.7 million) and a net increase in cash flows related to prepaid rent, other operating assets and liabilities (approximately $2.5 million). Collections of receivables during the 39 week period ended October 2, 2012 included amounts (approximately $4.3 million) from Costco which were not included in the prior year period, as we recommenced our jambacard program in the fall of 2011. In the Costco jambacard program, we sell jambacards to Costco who resells them to its customers.

The amount of cash used in our operating activities during any particular quarter is highly subject to variations in the seasons, with the first and fourth quarters of the fiscal year encompassing the winter and holiday season when we traditionally generate our lowest revenue, and our second and third quarters of the fiscal year encompassing the warmer seasons where a significant portion of our revenue and cash flows are realized. For more information on seasonality, refer to the section below entitled “ *Seasonality and Quarterly Results* ..” We also expect to have increased expenditures during the first part of the fiscal year as we invest in product development and domestic expansion with the goal to have new products released and new stores open by mid-year to take advantage of the busier summer months.

Investing Activities

Net cash used in investing activities was $3.7 million for the 39 week period ended October 2, 2012, compared to $5.7 million for the 40 week period ended October 4, 2011. Net cash used in investing activities decreased $2.0 million for the 39 week period ended October 2, 2012, compared to the 40 week period ended October 4, 2011 primarily due to a decrease in spending for the purchase of property and equipment (approximately $5.4 million) partially offset by proceeds from our refranchising initiative which were included in the 40 week period ended October 4, 2011 (approximately $3.1 million) and which were not included in the current year period due to the completion of the refranchising initiative in April 2011.

In fiscal 2012, we expect to incur capital expenditures of about $6 million depending on our liquidity needs, including investing in improvements to our technology infrastructure and maintenance capital.

Financing Activities

Net cash used in financing activities was $1.0 million for the 39 week period ended October 2, 2012, compared to $1.1 million for the 40 week period ended October 4, 2011, primarily due to lower preferred stock dividend payments.

Capital Resources

As of October 2, 2012, we had cash and cash equivalents of $31.9 million compared to $19.6 million in cash and cash equivalents as of January 3, 2012. As of October 2, 2012 and January 3, 2012, we had no short term or long term debt. Our primary sources of liquidity are cash flows provided by operating activities. In addition, we have a revolving line of credit with Wells Fargo Bank, National Association for $10.0 million, which we may utilize as described below. In the future, and as permitted under the Securities Purchase Agreement for the Series B Preferred Stock, we may enter equipment leasing arrangements and incur additional indebtedness as necessary up to an aggregate amount of $10 million. We cannot assure, however, that such financing will be available on favorable terms or at all.

We expect that our cash on hand and future cash flows provided by operating activities will be sufficient to fund our working capital and general corporate needs, Series B Preferred Stock dividend payments and the non-discretionary capital expenditures for the foreseeable future. Our primary liquidity and capital requirements are for working capital and general corporate needs and the planned fiscal 2012 capital expenditures described above. The use of cash to fund discretionary capital expenditures will be based on the need to conserve our capital.

On February 14, 2012, we entered into a Credit Agreement with Wells Fargo Bank, National Association (the “Lender”) which, as amended on November 1, 2012 (as amended, the “Credit Agreement”), provides us with a revolving line of credit of up to $10.0 million. The outstanding balance under the amended credit facility bears interest at a LIBOR Market Index Rate based upon the rate for one month U.S. dollar deposits, plus 3.00% per annum. Under the terms of the Credit Agreement, we are required to maintain minimum levels of trailing annual consolidated EBITDA and liquidity and are subject to limits on annual capital expenditures. The Credit Agreement terminates January 31, 2014 or may be terminated earlier by us or by the Lender. This credit facility is subject to customary affirmative and negative covenants for credit facilities of this type, including limitations on us with respect to liens, indebtedness, guaranties, investments, distributions, mergers and acquisitions and dispositions of assets. The credit facility is evidenced by a revolving note made by us in favor of the Lender, is guaranteed by us and is secured by substantially all of our assets including the assets of our subsidiaries and a pledge of stock of our subsidiaries. In addition, the Credit Agreement replaced restricted cash requirements established in prior periods, as the line of credit also collateralizes our outstanding letters of credit of $1.1 million.

During the 39 week period ended and as of October 2, 2012, there were no borrowings under the Credit Agreement. To acquire the credit facility, we incurred upfront fees which are being amortized over the term of the credit agreement. As of October 2, 2012, the unamortized commitment fee amount was less than $0.1 million and is recorded in prepaid expenses and other current assets on the balance sheet. As of October 2, 2012, we were in compliance with all related covenants and the unused borrowing capacity under the agreement was $4.9 million.

The adequacy of our available funds will depend on many factors, including the macroeconomic environment, the operating performance of our Company Stores, the successful expansion of our franchise and licensing programs and the successful rollout and consumer acceptance of our new beverage and food initiatives. Given these factors, our foremost priorities for the near term continue to be preserving and generating cash sufficient to fund our liquidity needs.

Contractual Obligations

There have been no significant changes to our contractual obligations table as disclosed in our Annual Report on Form 10-K for the year ended January 3, 2012, other than obligations with respect to dividends payable in connection with, or payments for redemption of, our outstanding Series B-1 and Series B-2 Preferred Stock. The decreases in the obligations relating to our preferred stock were a result of voluntary conversions of some of the shares of previously outstanding preferred stock into common stock by the holders thereof that occurred after January 3, 2012.

	Payments Due by Period (in 000's)				
	Total	**Less Than 1 Year**	**1-2 Years**	**3-4 Years**	**5 or More Years**
Series B redeemable preferred stock redemption	$8,382	$ —	$ —	$ 8,382	$ —
Dividends for Series B redeemable preferred stock	$2,515	$ 670	$ 1,341	$ 504	$ —

COMMODITY PRICES, AVAILABILITY AND GENERAL RISK CONDITIONS

We contract for significant amounts of individually quick frozen fruit, fruit concentrate and dairy products to support the needs of both our Company Stores and Franchise Stores. The price and availability of these commodities directly impacts our results of operations and can be expected to impact our future results of operations.

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SEASONALITY AND QUARTERLY RESULTS

Our business is subject to seasonal fluctuations. We expect to realize significant portions of our revenue during the second and third quarters of the fiscal year, which align with the warmer summer season. In addition, quarterly results are affected by the timing of the opening of new stores and weather conditions. However, geographic diversification of our store locations may conceal or diminish the financial statement impact of such seasonal influences. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year or any subsequent quarter.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to adopt accounting policies and make significant judgments and estimates to develop amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a process to review the application of our accounting policies and to evaluate the appropriateness of the many estimates that we are required to make in order to prepare the financial statements. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information. There have been no significant changes to the policies and estimates as discussed in our Annual Report on Form 10-K for the year ended January 3, 2012.

Recent Accounting Pronouncements

See Recent Accounting Pronouncements section of Note 1 to our Notes to Condensed Consolidated Financial Statements for a summary of new accounting standards.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion of market risks contains forward-looking statements. Actual results may differ materially from the following discussion based on general conditions in the financial and commodity markets.

We purchase fruit based on short-term seasonal pricing agreements. These short-term agreements generally set the price of procured frozen fruit and 100% fruit juice concentrates for less than one year based on estimated annual requirements. In order to mitigate the effects of price changes in any one commodity on its cost structure, we contract with multiple suppliers both domestically and internationally. These agreements typically set the price for some or all of our estimated annual fruit requirements, protecting us from short-term volatility. Nevertheless, these agreements typically contain a *force majeure* clause, which, if utilized (such as when hurricanes in 2004 destroyed the Florida orange crop and more recently with the freeze that affected California citrus), may subject us to significant price increases.

Our pricing philosophy is not to attempt to change consumer prices with every move up or down of the commodity market, but to take a longer term view of managing margins and the value perception of our products in the eyes of our customers. Management’s objective is to maximize our revenue through increased customer frequency. However, management has the ability to increase certain menu prices in response to food commodity prices.

We do not purchase derivative instruments on the open market.

We are subject to changes in the risk free interest rate in connection with the cash we hold in interest bearing accounts.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We have established and maintain disclosure controls and procedures that are designed to ensure that material information relating to the Company and our subsidiaries required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial

Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We carried out an evaluation under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of October 2, 2012.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter ended October 2, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is party to various legal proceedings arising in the ordinary course of its business. Based on the information currently available, the Company is not currently a party to any legal proceeding that management believes would have a material adverse effect on the consolidated financial position or results of operations of the Company.

Item 1A. Risk Factors

The Company's risk factors are included in the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2012 and have not materially changed.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.					X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.					X
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 2nd day of November, 2012.

JAMBA, INC.

By: /s/ JAMES D. WHITE
James D. White
Chairman of the Board, Chief Executive Officer

and President (Duly Authorized Officer)

By: /s/ KAREN L. LUEY
Karen L. Luey
Chief Financial Officer, Chief Administrative Officer, Executive Vice President and Secretary (Principal Financial Officer and Chief

Accounting Officer)

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; Isle of Capri Casinos, Inc., 5.875%, 3/15/2021 $1,070,000 $1,113,469 MGM Resorts International, 6.625%, 12/15/2021 960,000 1,048,800 MGM Resorts International, 6%, 3/15/2023 1,205,000 1,295,375 Ryman Hospitality Properties, Inc., REIT, 5%, 4/15/2021 1,375,000 1,395,625 Ryman Hospitality Properties, Inc., REIT, 5%, 4/15/2023 535,000 541,688

$11,410,580 Industrial - 0.7% Dematic S.A., 7.75%, 12/15/2020 (n) $1,515,000 $1,576,812 Howard Hughes Corp., 6.875%, 10/01/2021 (n) 1,790,000 1,887,376

$3,464,188 Insurance - 0.3% American International Group, Inc., 4.875%, 6/01/2022 $187,000 $203,722 American International Group, Inc., 1.5%, 6/08/2023 EUR160,000 172,114 American International Group, Inc., 3.75%, 7/10/2025 $400,000 401,929 Aviva PLC, 3.375%, 12/04/2045 EUR260,000 263,313 CNP Assurances S.A., 6% to 9/14/2020, FRN to 9/14/2040 EUR200,000 235,287 Delta Lloyd N.V., FRN, 9%, 8/29/2042 EUR250,000 326,142

$1,602,507 Insurance - Health - 0.6% Aetna, Inc., 2.8%, 6/15/2023 $317,000 $309,843 Aetna, Inc., 4.25%, 6/15/2036 237,000 235,407 Centene Corp., 5.625%, 2/15/2021 495,000 509,850 Centene Corp., 6.125%, 2/15/2024 1,180,000 1,198,998 UnitedHealth Group, Inc., 2.7%, 7/15/2020 528,000 535,649

$2,789,747 Insurance - Property & Casualty - 0.5% Berkshire Hathaway, Inc., 2.75%, 3/15/2023 $234,000 $233,226 Berkshire Hathaway, Inc., 2.15%, 3/15/2028 EUR130,000 145,102 Berkshire Hathaway, Inc., 1.625%, 3/16/2035 EUR150,000 146,122 Chubb INA Holdings, Inc., 2.3%, 11/03/2020 $95,000 94,882 Chubb INA Holdings, Inc., 2.875%, 11/03/2022 221,000 222,962 Liberty Mutual Group, Inc., 4.25%, 6/15/2023 365,000 383,691 Liberty Mutual Group, Inc., 2.75%, 5/04/2026 (z) EUR100,000 109,016 Liberty Mutual Group, Inc., 4.85%, 8/01/2044 (n) $125,000 122,347 Marsh & McLennan Cos., Inc., 3.5%, 6/03/2024 159,000 162,435 QBE Capital Funding III Ltd., 7.5% to 5/24/2021, FRN to 5/24/2041 GBP200,000 276,276 ZFS Finance USA Trust V, 6.5% to 5/09/2017, FRN to 5/09/2067 (n) $627,000 632,643

$2,528,702

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Portfolio of Investments continued

Issuer		Shares/Par	Value ($)
Bonds - continued			
International Market Quasi-Sovereign - 0.1%			
Electricite de France S.A., 5.375% to 1/29/2025, FRN to 1/29/2049	EUR	200,000	$ 211,828
Electricite de France S.A., 6% to 1/29/26, FRN to 12/29/2049	GBP	100,000	121,530
			$ 333,358
International Market Sovereign - 10.0%			
Commonwealth of Australia, 5.75%, 5/15/2021	AUD	4,365,000	$ 3,721,545
Commonwealth of Australia, 3.75%, 4/21/2037	AUD	600,000	467,792
Federal Republic of Germany, 6.25%, 1/04/2030	EUR	442,000	814,789
Federal Republic of Germany, 2.5%, 7/04/2044	EUR	120,000	176,908
Government of Canada, 3.25%, 6/01/2021	CAD	187,000	153,045
Government of Canada, 2.5%, 6/01/2024	CAD	5,700,000	4,583,296
Government of Canada, 1.5%, 6/01/2026	CAD	4,718,000	3,489,241
Government of Canada, 5.75%, 6/01/2033	CAD	948,000	1,073,061
Government of Japan, 0.8%, 6/20/2023	JPY	500,000,000	4,620,078
Government of Japan, 0.3%, 12/20/2025	JPY	16,400,000	147,222
Government of Japan, 2.2%, 9/20/2027	JPY	787,000,000	8,466,347
Government of Japan, 2.4%, 3/20/2037	JPY	493,400,000	5,920,498
Government of Japan, 1.8%, 3/20/2043	JPY	81,000,000	926,163
Kingdom of Spain, 4.6%, 7/30/2019	EUR	1,130,000	1,337,499
Kingdom of Spain, 5.4%, 1/31/2023	EUR	1,416,000	1,911,286
Republic of France, 4.75%, 4/25/2035	EUR	468,000	782,933
Republic of Ireland, 4.5%, 4/18/2020	EUR	222,000	273,745
Republic of Italy, 3.75%, 3/01/2021	EUR	3,142,000	3,753,077
Republic of Italy, 5.5%, 9/01/2022	EUR	925,000	1,217,902
United Kingdom Treasury, 4.25%, 12/07/2027	GBP	938,000	1,496,255
United Kingdom Treasury, 4.25%, 3/07/2036	GBP	470,000	806,592
United Kingdom Treasury, 3.25%, 1/22/2044	GBP	850,000	1,331,869
			$ 47,471,143
Local Authorities - 0.1%			
Province of Alberta, 1.25%, 6/01/2020	CAD	188,000	$ 139,404
Province of Manitoba, 4.15%, 6/03/2020	CAD	166,000	135,206
			$ 274,610
Machinery & Tools - 1.3%			
Ashtead Capital, Inc., 5.625%, 10/01/2024 (n)	$	1,185,000	$ 1,232,400
CNH Industrial Capital LLC, 4.375%, 11/06/2020		1,930,000	1,961,845
CNH Industrial N.V., 4.5%, 8/15/2023		725,000	715,938
H&E Equipment Services Co., 7%, 9/01/2022		1,805,000	1,899,763
Light Tower Rentals, Inc., 8.125%, 8/01/2019 (a)(d)(n)		615,000	276,750
			$ 6,086,696

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Major Banks - 2.6%		
ABN AMRO North America Finance, Inc., 7.125%, 7/06/2022	EUR 150,000	$ 202,350
Bank of America Corp., 7.625%, 6/01/2019	$ 370,000	416,615
Bank of America Corp., 2.625%, 4/19/2021	370,000	367,994
Bank of America Corp., 3.248%, 10/21/2027	462,000	440,275
Bank of America Corp., FRN, 6.1%, 12/29/2049	1,677,000	1,677,000
Barclays Bank PLC, 6%, 1/14/2021	EUR 250,000	305,084
Barclays Bank PLC, 6.75% to 1/16/2018, FRN to 1/16/2023	GBP 100,000	130,493
Credit Agricole S.A., 7.375%, 12/18/2023	GBP 100,000	158,286
Credit Suisse Group AG, 6.5%, 8/08/2023 (n)	$ 200,000	211,750
Goldman Sachs Group, Inc., 2.625%, 4/25/2021	360,000	357,916
Goldman Sachs Group, Inc., 5.75%, 1/24/2022	500,000	564,679
Goldman Sachs Group, Inc., 1.625%, 7/27/2026	EUR 200,000	207,324
HSBC Holdings PLC, 4.375%, 11/23/2026	$ 269,000	267,878
JPMorgan Chase & Co., 6.3%, 4/23/2019	500,000	548,727
JPMorgan Chase & Co., 3.25%, 9/23/2022	478,000	483,443
JPMorgan Chase & Co., 2.95%, 10/01/2026	601,000	573,277
JPMorgan Chase & Co., 6.75% to 2/01/2024, FRN to 1/29/2049	215,000	231,125
JPMorgan Chase & Co., 6% to 8/01/2023, FRN to 12/29/2049	2,410,000	2,399,155
Morgan Stanley, 6.625%, 4/01/2018	391,000	414,928
Morgan Stanley, 2.2%, 12/07/2018	238,000	239,087
Morgan Stanley, 3.125%, 7/27/2026	303,000	290,280
Morgan Stanley, 3.95%, 4/23/2027	229,000	226,708
Nationwide Building Society, 0.5%, 10/29/2019	EUR 200,000	213,701
Nationwide Building Society, 1.25%, 3/03/2025	EUR 240,000	257,577
PNC Bank N.A., 2.6%, 7/21/2020	$ 295,000	297,977
Royal Bank of Scotland Group PLC, 7.5% to 8/10/2020, FRN to 12/29/2049	620,000	559,550
Royal Bank of Scotland Group PLC, 8.625% to 8/15/2021, FRN to 12/29/2049	350,000	344,313
Wells Fargo & Co., 4.1%, 6/03/2026	100,000	101,760
		$ 12,489,252
Medical & Health Technology & Services - 5.0%		
AmSurg Corp., 5.625%, 7/15/2022	$ 1,195,000	$ 1,220,394
Becton, Dickinson and Co., 2.675%, 12/15/2019	434,000	441,775
Becton, Dickinson and Co., 3.734%, 12/15/2024	516,000	528,542
CHS/Community Health Systems, Inc., 6.875%, 2/01/2022	1,240,000	826,925
DaVita, Inc., 5.125%, 7/15/2024	535,000	528,313
DaVita, Inc., 5%, 5/01/2025	1,115,000	1,087,125
Envision Healthcare Corp., 6.25%, 12/01/2024 (z)	440,000	455,400
HCA, Inc., 4.25%, 10/15/2019	145,000	149,350
HCA, Inc., 7.5%, 2/15/2022	2,660,000	2,959,250
HCA, Inc., 5.875%, 3/15/2022	1,770,000	1,900,538

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Medical & Health Technology & Services - continued		
HCA, Inc., 5%, 3/15/2024	$ 900,000	$ 902,250
HCA, Inc., 5.375%, 2/01/2025	1,085,000	1,061,944
HCA, Inc., 5.875%, 2/15/2026	415,000	413,444
HCA, Inc., 5.25%, 6/15/2026	215,000	215,232
HealthSouth Corp., 5.125%, 3/15/2023	1,180,000	1,162,300
HealthSouth Corp., 5.75%, 11/01/2024	960,000	962,400
Laboratory Corp. of America Holdings, 3.2%, 2/01/2022	200,000	201,316
Laboratory Corp. of America Holdings, 4.7%, 2/01/2045	310,000	308,318
LifePoint Health, Inc., 5.375%, 5/01/2024 (z)	785,000	753,109
MEDNAX, Inc., 5.25%, 12/01/2023 (n)	1,010,000	1,025,150
Quorum Health Corp., 11.625%, 4/15/2023 (n)	630,000	494,550
Tenet Healthcare Corp., 8%, 8/01/2020	2,015,000	1,930,622
Tenet Healthcare Corp., 8.125%, 4/01/2022	1,655,000	1,514,325
Tenet Healthcare Corp., 6.75%, 6/15/2023	890,000	760,950
Thermo Fisher Scientific, Inc., 3%, 4/15/2023	360,000	356,791
Universal Health Services, Inc., 7.625%, 8/15/2020	1,325,000	1,261,400
Universal Health Services, Inc., 5%, 6/01/2026 (n)	239,000	236,610
		$ 23,658,323
Medical Equipment - 0.8%		
Hologic, Inc., 5.25%, 7/15/2022 (n)	$ 1,065,000	$ 1,104,938
Medtronic, Inc., 3.5%, 3/15/2025	615,000	631,143
Teleflex, Inc., 5.25%, 6/15/2024	1,220,000	1,236,775
Teleflex, Inc., 4.875%, 6/01/2026	610,000	603,900
Zimmer Holdings, Inc., 4.25%, 8/15/2035	145,000	136,254
Zimmer Holdings, Inc., 4.45%, 8/15/2045	91,000	85,837
		$ 3,798,847
Metals & Mining - 3.4%		
Barrick Gold Corp., 4.1%, 5/01/2023	$ 172,000	$ 178,386
Barrick North America Finance LLC, 5.7%, 5/30/2041	17,000	17,934
Cameco Corp., 5.67%, 9/02/2019	CAD 262,000	208,328
Century Aluminum Co., 7.5%, 6/01/2021 (n)	$ 1,065,000	985,125
Commercial Metals Co., 4.875%, 5/15/2023	1,165,000	1,166,748
First Quantum Minerals Ltd., 7.25%, 10/15/2019 (n)	790,000	794,938
First Quantum Minerals Ltd., 7.25%, 5/15/2022 (n)	1,032,000	1,001,040
Freeport-McMoRan Copper & Gold, Inc., 3.875%, 3/15/2023	855,000	803,700
Freeport-McMoRan Oil & Gas LLC, 6.5%, 11/15/2020	135,000	138,983
Freeport-McMoRan Oil & Gas LLC, 6.875%, 2/15/2023	850,000	909,500
Freeport-McMoRan, Inc., 5.45%, 3/15/2043	415,000	354,825
Glencore Finance (Europe) S.A., 6.5%, 2/27/2019	GBP 50,000	68,316
Glencore Finance (Europe) S.A., 1.25%, 3/17/2021	EUR 330,000	344,679
GrafTech International Co., 6.375%, 11/15/2020	$ 680,000	537,200

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Metals & Mining - continued		
Hudbay Minerals, Inc., 9.5%, 10/01/2020	$ 960,000	$ 1,010,400
Kaiser Aluminum Corp., 5.875%, 5/15/2024	1,220,000	1,259,613
Kinross Gold Corp., 5.125%, 9/01/2021	440,000	442,200
Kinross Gold Corp., 5.95%, 3/15/2024	855,000	876,375
Lundin Mining Corp., 7.5%, 11/01/2020 (n)	455,000	485,030
Lundin Mining Corp., 7.875%, 11/01/2022 (n)	930,000	1,004,400
Southern Copper Corp., 5.25%, 11/08/2042	250,000	227,051
Steel Dynamics, Inc., 5.125%, 10/01/2021	430,000	448,275
Steel Dynamics, Inc., 5.25%, 4/15/2023	775,000	804,063
Steel Dynamics, Inc., 5.5%, 10/01/2024	430,000	454,725
Suncoke Energy Partners LP/Suncoke Energy Partners Finance Corp., 7.375%, 2/01/2020	800,000	792,000
Suncoke Energy, Inc., 7.625%, 8/01/2019	127,000	117,475
TMS International Corp., 7.625%, 10/15/2021 (n)	865,000	707,138
		$ 16,138,447
Midstream - 5.1%		
APT Pipelines Ltd., 5%, 3/23/2035 (n)	$ 280,000	$ 272,790
Blue Racer Midstream LLC/Blue Racer Finance Corp., 6.125%, 11/15/2022 (n)	1,455,000	1,418,625
Crestwood Midstream Partners LP, 6%, 12/15/2020	1,035,000	1,053,113
Crestwood Midstream Partners LP, 6.125%, 3/01/2022	505,000	510,050
Crestwood Midstream Partners LP, 6.25%, 4/01/2023	350,000	355,250
Dominion Gas Holdings LLC, 2.8%, 11/15/2020	270,000	272,813
Energy Transfer Equity LP, 7.5%, 10/15/2020	2,025,000	2,262,938
EnLink Midstream Partners LP, 4.4%, 4/01/2024	1,060,000	1,031,861
Enterprise Products Operating LLC, 1.65%, 5/07/2018	296,000	294,664
Enterprise Products Operating LLC, 4.85%, 3/15/2044	74,000	70,558
Enterprise Products Partners LP, 6.3%, 9/15/2017	180,000	185,991
Ferrellgas LP/Ferrellgas Finance Corp., 6.5%, 5/01/2021	1,165,000	1,100,925
Ferrellgas LP/Ferrellgas Finance Corp., 6.75%, 1/15/2022	1,065,000	1,003,763
Kinder Morgan (Delaware), Inc., 7.75%, 1/15/2032	1,706,000	2,020,581
Kinder Morgan Energy Partners LP, 5.4%, 9/01/2044	140,000	133,803
MPLX LP, 5.5%, 2/15/2023	675,000	700,035
MPLX LP, 4.5%, 7/15/2023	1,150,000	1,151,355
Pembina Pipeline Corp., 4.81%, 3/25/2044	CAD 306,000	225,695
Sabine Pass Liquefaction LLC, 5.625%, 2/01/2021	$ 1,305,000	1,383,300
Sabine Pass Liquefaction LLC, 5.625%, 4/15/2023	1,890,000	1,975,050
Sabine Pass Liquefaction LLC, 5.75%, 5/15/2024	575,000	606,625
Sabine Pass Liquefaction LLC, 5.625%, 3/01/2025	1,074,000	1,119,645
Sabine Pass Liquefaction LLC, 5.875%, 6/30/2026 (n)	499,000	527,069
Spectra Energy Capital LLC, 8%, 10/01/2019	250,000	283,591

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Portfolio of Investments continued

Issuer		Shares/Par		Value ($)
Bonds - continued				
Midstream - continued				
Targa Resources Partners LP/Targa Resources Finance Corp., 4.125%, 11/15/2019	$	1,050,000	$	1,060,500
Targa Resources Partners LP/Targa Resources Finance Corp., 5.25%, 5/01/2023		585,000		582,075
Targa Resources Partners LP/Targa Resources Finance Corp., 5.375%, 2/01/2027 (n)		1,160,000		1,145,500
Williams Cos., Inc., 4.55%, 6/24/2024		1,395,000		1,360,125
			$	24,108,290
Mortgage - Backed - 1.2%				
Fannie Mae, 6%, 6/01/2017 - 2/01/2037	$	105,949	$	120,565
Fannie Mae, 5.5%, 9/01/2019 - 7/01/2035		368,946		400,861
Fannie Mae, 6.5%, 4/01/2032 - 1/01/2033		54,900		62,844
Fannie Mae, FRN, 0.781%, 5/25/2018		4,559,658		4,551,112
Freddie Mac, 2.673%, 3/25/2026		701,000		694,164
Freddie Mac, 6%, 8/01/2034		85,345		98,839
			$	5,928,385
Natural Gas - Distribution - 0.2%				
Gas Natural SDG S.A., 1.375%, 1/21/2025	EUR	200,000	$	214,476
GNL Quintero S.A., 4.634%, 7/31/2029 (n)	$	523,000		516,463
			$	730,939
Network & Telecom - 1.9%				
AT&T, Inc., 2.45%, 6/30/2020	$	277,000	$	274,337
AT&T, Inc., 5.65%, 2/15/2047		206,000		219,689
British Telecom PLC, 5.75%, 12/07/2028	GBP	150,000		245,492
Centurylink, Inc., 6.45%, 6/15/2021	$	1,215,000		1,253,728
Centurylink, Inc., 7.65%, 3/15/2042		960,000		812,640
Columbus International, Inc., 7.375%, 3/30/2021 (n)		200,000		212,750
Empresa Nacional de Telecomunicaciones S.A., 4.75%, 8/01/2026		300,000		295,694
Frontier Communications Corp., 6.25%, 9/15/2021		715,000		670,313
Frontier Communications Corp., 7.125%, 1/15/2023		690,000		598,575
Frontier Communications Corp., 9%, 8/15/2031		1,135,000		953,400
Telecom Italia Capital, 6%, 9/30/2034		305,000		285,175
Telecom Italia S.p.A., 5.303%, 5/30/2024 (n)		1,200,000		1,182,000
Telefonica Celular del Paraguay S.A., 6.75%, 12/13/2022		517,000		526,306
Verizon Communications, Inc., 4.5%, 9/15/2020		503,000		538,443
Verizon Communications, Inc., 5.15%, 9/15/2023		250,000		276,785
Verizon Communications, Inc., 1.375%, 11/02/2028	EUR	220,000		224,009
Verizon Communications, Inc., 6.4%, 9/15/2033	$	300,000		358,454
			$	8,927,790

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Oil Services - 0.4%		
Bristow Group, Inc., 6.25%, 10/15/2022	$ 783,000	$ 610,740
Odebrecht Offshore Drilling Finance Ltd., 6.75%, 10/01/2022 (n)	911,108	209,555
Weatherford International Ltd., 8.25%, 6/15/2023	1,220,000	1,189,500
		$ 2,009,795
Oils - 0.5%		
CITGO Holding, Inc., 10.75%, 2/15/2020 (n)	$ 645,000	$ 673,219
CITGO Petroleum Corp., 6.25%, 8/15/2022 (n)	1,445,000	1,466,675
Marathon Petroleum Corp., 4.75%, 9/15/2044	200,000	163,841
Valero Energy Corp., 4.9%, 3/15/2045	232,000	214,877
		$ 2,518,612
Other Banks & Diversified Financials - 1.5%		
Arion Banki, 2.5%, 4/26/2019	EUR 100,000	$ 109,737
Bank of Iceland, 1.75%, 9/07/2020	EUR 300,000	324,587
BBVA Bancomer S.A. de C.V., 6.75%, 9/30/2022 (n)	$ 1,004,000	1,072,839
Belfius Bank S.A., 3.125%, 5/11/2026	EUR 200,000	212,244
Capital One Financial Corp., 2.35%, 8/17/2018	$ 806,000	811,040
Citigroup, Inc., 3.2%, 10/21/2026	460,000	440,870
Citizens Bank N.A., 2.55%, 5/13/2021	250,000	248,774
Deutsche Bank AG London, 3.7%, 5/30/2024	170,000	158,839
Discover Bank, 7%, 4/15/2020	250,000	278,402
Discover Bank, 4.25%, 3/13/2026	148,000	151,630
Groupe BPCE S.A., 12.5% to 9/30/2019, FRN to 8/29/2049 (n)	1,513,000	1,860,990
Intesa Sanpaolo S.p.A., 5.25%, 1/28/2022	GBP 100,000	136,884
UBS Group AG, 6.875%, 12/29/2049	$ 1,220,000	1,180,574
UniCredit S.p.A., 2%, 3/04/2023	EUR 200,000	212,925
		$ 7,200,335
Personal Computers & Peripherals - 0.0%		
Equifax, Inc., 2.3%, 6/01/2021	$ 160,000	$ 157,005
Pharmaceuticals - 1.8%		
Celgene Corp., 2.875%, 8/15/2020	$ 524,000	$ 529,907
Endo Finance LLC/Endo Finco, Inc., 7.25%, 1/15/2022 (n)	1,775,000	1,697,344
Forest Laboratories, Inc., 4.375%, 2/01/2019 (n)	496,000	515,923
Gilead Sciences, Inc., 2.35%, 2/01/2020	52,000	52,272
Gilead Sciences, Inc., 4.75%, 3/01/2046	203,000	208,610
Mallinckrodt International Finance S.A., 5.75%, 8/01/2022 (n)	1,250,000	1,165,625
Mallinckrodt International Finance S.A., 5.5%, 4/15/2025 (n)	690,000	586,500
Shire Acquisitions Investments Ireland, 2.4%, 9/23/2021	685,000	662,461
Valeant Pharmaceuticals International, Inc., 7%, 10/01/2020 (n)	1,570,000	1,358,050
Valeant Pharmaceuticals International, Inc., 7.5%, 7/15/2021 (n)	525,000	443,625

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Portfolio of Investments continued

Issuer	Shares/Par		Value ($)
Bonds - continued			
Pharmaceuticals - continued			
Valeant Pharmaceuticals International, Inc., 7.25%, 7/15/2022 (n)	$	1,555,000	$ 1,275,100
			$ 8,495,417
Precious Metals & Minerals - 0.6%			
Eldorado Gold Corp., 6.125%, 12/15/2020 (n)	$	1,770,000	$ 1,783,275
Teck Resources Ltd., 4.5%, 1/15/2021		465,000	473,719
Teck Resources Ltd., 8%, 6/01/2021 (n)		420,000	461,328
Teck Resources Ltd., 3.75%, 2/01/2023		290,000	275,500
			$ 2,993,822
Printing & Publishing - 1.0%			
Nielsen Finance LLC, 5%, 4/15/2022 (n)	$	1,680,000	$ 1,713,600
Outdoor Americas Capital LLC/Outfront Media Capital Corp., 5.625%, 2/15/2024		1,090,000	1,119,975
TEGNA, Inc., 5.125%, 7/15/2020		260,000	268,450
TEGNA, Inc., 4.875%, 9/15/2021 (n)		430,000	442,363
TEGNA, Inc., 6.375%, 10/15/2023		1,385,000	1,456,854
			$ 5,001,242
Real Estate - Apartment - 0.1%			
Vonovia SE, REIT, 2.125%, 7/09/2022	EUR	225,000	$ 254,911
Real Estate - Healthcare - 0.6%			
MPT Operating Partnership LP, REIT, 6.375%, 2/15/2022	$	1,490,000	$ 1,529,113
MPT Operating Partnership LP, REIT, 5.25%, 8/01/2026		1,225,000	1,148,438
			$ 2,677,551
Real Estate - Office - 0.1%			
Boston Properties, Inc., REIT, 3.125%, 9/01/2023	$	250,000	$ 245,660
Merlin Properties SOCIMI S.A., REIT, 2.225%, 4/25/2023	EUR	250,000	269,823
			$ 515,483
Real Estate - Other - 0.6%			
DuPont Fabros Technology LP, REIT, 5.875%, 9/15/2021	$	1,210,000	$ 1,262,938
Felcor Lodging LP, REIT, 5.625%, 3/01/2023		1,240,000	1,261,700
Fibra Uno, REIT, 6.95%, 1/30/2044 (n)		200,000	180,000
			$ 2,704,638
Real Estate - Retail - 0.2%			
Hammerson PLC, REIT, 2%, 7/01/2022	EUR	200,000	$ 218,509
Simon International Finance S.C.A., REIT, 1.25%, 5/13/2025	EUR	200,000	212,452
Simon Property Group, Inc., REIT, 10.35%, 4/01/2019	$	360,000	433,025
			$ 863,986

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Portfolio of Investments continued

Issuer		Shares/Par	Value ($)
Bonds - continued			
Restaurants - 0.2%			
KFC Holding Co./Pizza Hut Holdings LLC/Taco Bell of America LLC, 5.25%, 6/01/2026 (n)	$	885,000	$ 893,850
Retailers - 1.5%			
Bed Bath & Beyond, Inc., 5.165%, 8/01/2044	$	145,000	$ 133,338
Best Buy Co., Inc., 5.5%, 3/15/2021		347,000	380,197
Dollar Tree, Inc., 5.75%, 3/01/2023		1,770,000	1,889,475
DriveTime Automotive Group, Inc./DT Acceptance Corp., 8%, 6/01/2021 (n)		806,000	769,730
Hanesbrands, Inc., 4.875%, 5/15/2026 (n)		840,000	837,732
Home Depot, Inc., 3%, 4/01/2026		310,000	308,192
Home Depot, Inc., 4.875%, 2/15/2044		200,000	224,800
Kering S.A., 1.25%, 5/10/2026	EUR	200,000	210,435
Rite Aid Corp., 9.25%, 3/15/2020	$	515,000	538,819
Rite Aid Corp., 6.75%, 6/15/2021		385,000	405,816
Rite Aid Corp., 6.125%, 4/01/2023 (n)		575,000	614,618
Sally Beauty Holdings, Inc., 5.625%, 12/01/2025		825,000	855,938
			$ 7,169,090
Specialty Chemicals - 0.7%			
Chemtura Corp., 5.75%, 7/15/2021	$	1,890,000	$ 1,965,600
Ecolab, Inc., 2.625%, 7/08/2025	EUR	100,000	117,660
Univar USA, Inc., 6.75%, 7/15/2023 (n)	$	1,260,000	1,282,050
			$ 3,365,310
Specialty Stores - 0.6%			
Argos Merger Sub, Inc., 7.125%, 3/15/2023 (n)	$	1,065,000	$ 1,090,294
Group 1 Automotive, Inc., 5%, 6/01/2022		1,155,000	1,126,125
Michaels Stores, Inc., 5.875%, 12/15/2020 (n)		745,000	766,978
			$ 2,983,397
Supermarkets - 0.3%			
Albertsons Cos. LLC/Safeway, Inc., 6.625%, 6/15/2024 (n)	$	1,115,000	$ 1,152,464
Loblaw Cos. Ltd., 4.86%, 9/12/2023	CAD	262,000	219,900
William Morrison Supermarkets PLC, 3.5%, 7/27/2026	GBP	100,000	126,732
			$ 1,499,096
Supranational - 1.8%			
European Investment Bank, 1.75%, 3/15/2017	$	8,000,000	$ 8,014,512
International Bank for Reconstruction and Development, 2.8%, 1/13/2021	AUD	170,000	126,631
International Bank for Reconstruction and Development, 4.25%, 6/24/2025	AUD	210,000	168,487
International Finance Corp., 3.25%, 7/22/2019	AUD	305,000	230,937

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Supranational - continued		
West African Development Bank, 5.5%, 5/06/2021 (n)	$ 210,000	$ 216,563
		$ 8,757,130
Telecommunications - Wireless - 3.9%		
Altice Luxembourg S.A., 7.75%, 5/15/2022 (n)	$ 615,000	$ 644,213
Altice Luxembourg S.A., 7.625%, 2/15/2025 (n)	1,040,000	1,066,000
America Movil S.A.B. de C.V., 1.5%, 3/10/2024	EUR 140,000	148,764
American Tower Corp., REIT, 3.5%, 1/31/2023	$ 465,000	465,733
Crown Castle International Corp., 3.7%, 6/15/2026	157,000	152,487
Digicel Group Ltd., 8.25%, 9/30/2020 (n)	1,046,000	876,025
Digicel Group Ltd., 6%, 4/15/2021 (n)	680,000	590,668
Digicel Group Ltd., 7.125%, 4/01/2022 (n)	640,000	475,200
Digicel Group Ltd., 6.75%, 3/01/2023 (n)	1,150,000	989,000
Millicom International Cellular S.A., 6.625%, 10/15/2021 (n)	410,000	431,136
SBA Tower Trust, 2.898%, 10/15/2044 (n)	220,000	222,083
SFR Group S.A., 7.375%, 5/01/2026 (z)	1,100,000	1,097,250
Sprint Capital Corp., 6.875%, 11/15/2028	1,625,000	1,563,088
Sprint Corp., 7.875%, 9/15/2023	980,000	1,011,850
Sprint Corp., 7.125%, 6/15/2024	1,655,000	1,645,699
Sprint Nextel Corp., 9%, 11/15/2018 (n)	880,000	966,900
Sprint Nextel Corp., 6%, 11/15/2022	835,000	805,399
T-Mobile USA, Inc., 6.125%, 1/15/2022	135,000	141,356
T-Mobile USA, Inc., 6.5%, 1/15/2024	615,000	657,084
T-Mobile USA, Inc., 6.25%, 4/01/2021	2,590,000	2,700,075
T-Mobile USA, Inc., 6.633%, 4/28/2021	515,000	537,531
T-Mobile USA, Inc., 6%, 4/15/2024	382,000	401,100
T-Mobile USA, Inc., 6.5%, 1/15/2026	775,000	837,000
		$ 18,425,641
Telephone Services - 0.5%		
Level 3 Financing, Inc., 5.375%, 1/15/2024	$ 360,000	$ 361,800
Level 3 Financing, Inc., 5.375%, 5/01/2025	1,645,000	1,636,775
TDC A.S., 1.75%, 2/27/2027	EUR 300,000	308,968
TELUS Corp., 5.05%, 7/23/2020	CAD 265,000	218,279
		$ 2,525,822
Tobacco - 0.2%		
Imperial Tobacco Finance PLC, 4.25%, 7/21/2025 (n)	$ 455,000	$ 468,326
Philip Morris International, Inc., 4.875%, 11/15/2043	174,000	186,651
Reynolds American, Inc., 8.125%, 6/23/2019	92,000	105,650
Reynolds American, Inc., 3.25%, 6/12/2020	41,000	42,158
Reynolds American, Inc., 4.45%, 6/12/2025	98,000	103,821
Reynolds American, Inc., 5.7%, 8/15/2035	118,000	135,348
		$ 1,041,954

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Portfolio of Investments continued

Issuer		Shares/Par	Value ($)
Bonds - continued			
Transportation - Services - 0.9%			
Autostrade per L Italia S.p.A., 1.75%, 6/26/2026	EUR	250,000	$ 268,343
Compagnie Financial et Indus Unternehmensanleihe, 0.75%, 9/09/2028	EUR	200,000	196,688
Delhi International Airport, 6.125%, 10/31/2026 (n)	$	200,000	205,723
ERAC USA Finance LLC, 6.375%, 10/15/2017 (n)		400,000	416,337
ERAC USA Finance LLC, 7%, 10/15/2037 (n)		250,000	315,516
Heathrow Funding Ltd., 4.625%, 10/31/2046	GBP	100,000	155,919
Navios Maritime Acquisition Corp., 8.125%, 11/15/2021 (n)	$	1,409,000	1,158,903
Navios Maritime Holding, Inc., 7.375%, 1/15/2022 (n)		985,000	586,075
Navios South American Logistics, Inc./Navios Logistics Finance (U.S.), Inc., 7.25%, 5/01/2022		130,000	111,800
Stagecoach Group PLC, 4%, 9/29/2025	GBP	150,000	201,138
Syncreon Group BV/Syncre, 8.625%, 11/01/2021 (n)	$	670,000	489,100
			$ 4,105,542
U.S. Government Agencies and Equivalents - 2.7%			
Fannie Mae, 1.125%, 4/27/2017	$	8,000,000	$ 8,015,432
Freddie Mac, 0.875%, 2/22/2017		5,000,000	5,004,585
			$ 13,020,017
U.S. Treasury Obligations - 5.7%			
U.S. Treasury Bonds, 5.25%, 2/15/2029	$	874,000	$ 1,124,797
U.S. Treasury Bonds, 5.375%, 2/15/2031		286,200	383,475
U.S. Treasury Bonds, 4.5%, 2/15/2036		95,000	120,995
U.S. Treasury Bonds, 4.75%, 2/15/2037 (f)		1,885,200	2,470,496
U.S. Treasury Bonds, 3.125%, 2/15/2043 (f)		2,920,000	2,986,269
U.S. Treasury Notes, 0.875%, 11/30/2017		20,000,000	19,996,880
			$ 27,082,912
Utilities - Electric Power - 2.9%			
American Electric Power Co., Inc., 1.65%, 12/15/2017	$	185,000	$ 185,144
Calpine Corp., 5.375%, 1/15/2023		350,000	337,894
Calpine Corp., 5.5%, 2/01/2024		1,765,000	1,685,575
Calpine Corp., 5.75%, 1/15/2025		820,000	783,100
Covanta Holding Corp., 7.25%, 12/01/2020		1,830,000	1,882,613
Covanta Holding Corp., 6.375%, 10/01/2022		310,000	307,675
Covanta Holding Corp., 5.875%, 3/01/2024		755,000	736,125
Dominion Resources, Inc., 2.5%, 12/01/2019		250,000	252,987
Dynegy, Inc., 7.375%, 11/01/2022		1,465,000	1,391,750
Dynegy, Inc., 8%, 1/15/2025 (z)		290,000	266,800
E.ON International Finance B.V., 6.375%, 6/07/2032	GBP	50,000	86,059
EDP Finance B.V., 5.25%, 1/14/2021 (n)	$	200,000	210,961
Emera U.S. Finance LP, 2.7%, 6/15/2021 (n)		98,000	97,433
Emera U.S. Finance LP, 3.55%, 6/15/2026 (n)		112,000	109,900

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Utilities - Electric Power - continued		
Enersis Americas S.A., 4%, 10/25/2026	$ 12,000	$ 11,514
Engie Energia Chile S.A., 5.625%, 1/15/2021	757,000	813,437
Engie Energia Chile S.A., 4.5%, 1/29/2025 (n)	512,000	506,249
Greenko Dutch B.V., 8%, 8/01/2019 (n)	378,000	399,735
Innogy Finance B.V., 4.75%, 1/31/2034	GBP 100,000	142,776
NRG Energy, Inc., 6.625%, 3/15/2023	$ 1,985,000	1,975,075
NRG Energy, Inc., 7.25%, 5/15/2026 (n)	410,000	400,775
PG&E Corp., 2.4%, 3/01/2019	166,000	167,151
PPL Capital Funding, Inc., 3.1%, 5/15/2026	379,000	364,700
PPL WEM Holdings PLC, 5.375%, 5/01/2021 (n)	250,000	270,339
Southern Co., 2.95%, 7/01/2023	224,000	221,805
Southern Co., 4.4%, 7/01/2046	339,000	332,415
		$ 13,939,987
Total Bonds (Identified Cost, $560,826,124)		**$ 550,700,139**
Floating Rate Loans (g)(r) - 1.4%		
Aerospace - 0.1%		
TransDigm, Inc., Term Loan C, 3.82%, 2/28/2020	$ 532,569	$ 532,449
Broadcasting - 0.1%		
Nexstar Broadcasting, Inc., Term Loan B, 0%, 9/23/2023 (o)	$ 408,104	$ 409,634
Chemicals - 0.1%		
GCP Applied Technologies, Inc., Term Loan B, 4.08%, 2/03/2022	$ 357,968	$ 360,653
Computer Software - Systems - 0.1%		
Sabre, Inc., Term Loan B, 0%, 2/19/2019 (o)	$ 331,400	$ 333,126
Conglomerates - 0.0%		
Entegris, Inc., Term Loan B, 3.5%, 4/30/2021	$ 173,986	$ 174,856
Consumer Products - 0.1%		
Spectrum Brands, Inc., Term Loan, 0%, 6/23/2022 (o)	$ 331,400	$ 333,430
Containers - 0.1%		
Berry Plastics Holding Corp., Term Loan G, 3.5%, 1/06/2021	$ 325,292	$ 325,924
Entertainment - 0.1%		
Cedar Fair LP, Term Loan B, 3.25%, 3/06/2020	$ 324,093	$ 324,701
Six Flags Theme Parks, Inc., Term Loan B, 0%, 6/30/2022 (o)	331,400	332,919
		$ 657,620

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Floating Rate Loans (g)(r) - continued		
Food & Beverages - 0.1%		
Pinnacle Foods Finance LLC, Term Loan I, 3.33%, 1/13/2023 (o)	$ 330,567	$ 332,633
Gaming & Lodging - 0.1%		
Hilton Worldwide Finance LLC, Term Loan B1, 3.5%, 10/25/2020	$ 451,965	$ 453,337
Medical & Health Technology & Services - 0.2%		
DaVita HealthCare Partners, Inc., Term Loan B, 3.5%, 6/24/2021	$ 1,275,980	$ 1,275,582
Printing & Publishing - 0.0%		
Outfront Media Capital LLC, Term Loan B, 3%, 1/31/2021	$ 80,495	$ 80,378
Retailers - 0.0%		
Rite Aid Corp., Second Lien Term Loan, 4.87%, 6/21/2021	$ 44,587	$ 44,688
Transportation - Services - 0.3%		
Commercial Barge Line Co., First Lien Term Loan, 9.75%, 11/12/2020	$ 1,461,358	$ 1,366,370
Utilities - Electric Power - 0.0%		
Calpine Construction Finance Co. LP, Term Loan B1, 3.09%, 5/03/2020	$ 120,645	$ 119,227
Total Floating Rate Loans (Identified Cost, $6,841,363)		**$ 6,799,907**
Common Stocks - 0.1%		
Energy - Independent - 0.1%		
Pacific Exploration & Production Corp. (Identified Cost, $1,424,573) (a)	7,668	$ 299,678
Money Market Funds - 2.0%		
MFS Institutional Money Market Portfolio, 0.46% (v) (Identified Cost, $9,305,595)	9,305,595	$ 9,305,595

Issuer/Expiration Date/Strike Price	Number of Contracts	
Put Options Purchased - 0.0%		
iShares iBoxx $ High Yield Corporate Bond ETF - January 2017 @ $81(Premiums Paid, $70,980)	845	$ 21,970
Total Investments (Identified Cost, $578,468,635)		**$ 567,127,289**
Other Assets, Less Liabilities - (18.9)%		(90,005,531)
Net Assets - 100.0%		**$ 477,121,758**

(a) Non-income producing security.
(d) In default.

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Portfolio of Investments continued

(f) All or a portion of the security has been segregated as collateral for open futures contracts.
(g) The rate shown represents a weighted average coupon rate on settled positions at period end, unless otherwise indicated.
(i) Interest only security for which the fund receives interest on notional principal (Par amount). Par amount shown is the notional principal and does not reflect the cost of the security.
(n) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be sold in the ordinary course of business in transactions exempt from registration, normally to qualified institutional buyers. At period end, the aggregate value of these securities was $146,450,516, representing 30.7% of net assets.
(o) All or a portion of this position has not settled. Upon settlement date, interest rates for unsettled amounts will be determined. The rate shown, if any, represents the weighted average coupon rate for settled amounts.
(p) Payment-in-kind security for which interest income may be received in additional securities and/or cash. During the period, no interest income was received in additional securities and/or cash.
(r) Remaining maturities of floating rate loans may be less than stated maturities shown as a result of contractual or optional prepayments by the borrower. Such prepayments cannot be predicted with certainty. These loans may be subject to restrictions on resale. Floating rate loans generally have rates of interest which are determined periodically by reference to a base lending rate plus a premium.
(v) Underlying affiliated fund that is available only to investment companies managed by MFS. The rate quoted for the MFS Institutional Money Market Portfolio is the annualized seven-day yield of the fund at period end.
(z) Restricted securities are not registered under the Securities Act of 1933 and are subject to legal restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are subsequently registered. Disposal of these securities may involve time-consuming negotiations and prompt sale at an acceptable price may be difficult. The fund holds the following restricted securities:

Restricted Securities	Acquisition Date	Cost	Value
Alliance Data Systems Corp., 5.875%, 11/01/2021	10/24/16-11/09/16	$1,229,500	$1,228,063
Alliance Data Systems Corp., 5.375%, 8/01/2022	11/29/16	229,800	228,600
Bayview Financial Revolving Mortgage Loan Trust, FRN, 2.134%, 12/28/2040	3/01/06	535,797	407,955
CBS Radio, Inc., 7.25%, 11/01/2024	10/07/16-11/18/16	554,766	567,335
Crown European Holdings S.A., 3.375%, 5/15/2025	4/28/15	384,073	369,389
Dynegy, Inc., 8%, 1/15/2025	10/06/16	291,433	266,800
Envision Healthcare Corp., 6.25%, 12/01/2024	11/16/16-11/18/16	443,031	455,400
Gulfport Energy Corp., 6%, 10/15/2024	10/06/16-10/21/16	1,003,348	997,150
Liberty Mutual Group, Inc., 2.75%, 5/04/2026	4/26/16	112,099	109,016
LifePoint Health, Inc., 5.375%, 5/01/2024	10/24/16-11/21/16	782,692	753,109
Loomis, Sayles & Co., CLO, A1 , FRN, 2.41%, 10/15/2027	7/27/16	2,513,875	2,520,026
Republic of Indonesia, 2.875%, 7/08/2021	7/02/14	237,852	193,449
SFR Group S.A., 7.375%, 5/01/2026	11/29/16-11/30/16	1,100,000	1,097,250

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Portfolio of Investments continued

Restricted Securities - continued	**Acquisition Date**	**Cost**	**Value**
ServiceMaster Co. LLC, 5.125%, 11/15/2024	11/03/16-11/09/16	$1,119,564	$1,117,788
Total Restricted Securities			$10,311,330
% of Net assets			2.2%

The following abbreviations are used in this report and are defined:

CDO	Collateralized Debt Obligation
CLO	Collateralized Loan Obligation
ETF	Exchange-Traded Fund
FRN	Floating Rate Note. Interest rate resets periodically and the current rate may not be the rate reported at period end.
PLC	Public Limited Company
REIT	Real Estate Investment Trust

Abbreviations indicate amounts shown in currencies other than the U.S. dollar. All amounts are stated in U.S. dollars unless otherwise indicated. A list of abbreviations is shown below:

AUD	Australian Dollar
BRL	Brazilian Real
CAD	Canadian Dollar
CHF	Swiss Franc
CNH	Chinese Yuan Renminbi (Offshore)
DKK	Danish Krone
EUR	Euro
GBP	British Pound
HKD	Hong Kong Dollar
IDR	Indonesian Rupiah
JPY	Japanese Yen
KRW	Korean Won
MXN	Mexican Peso
MYR	Malaysian Ringgit
NOK	Norwegian Krone
NZD	New Zealand Dollar
SEK	Swedish Krona
SGD	Singapore Dollar
THB	Thailand Baht
ZAR	South African Rand

Derivative Contracts at 11/30/16

Forward Foreign Currency Exchange Contracts at 11/30/16

Type	**Currency**	**Counter-party**	**Contracts to Deliver/ Receive**	**Settlement Date Range**	**In Exchange For**	**Contracts at Value**	**Unrealized Appreciation (Depreciation)**
Asset Derivatives							
SELL	AUD	Merrill Lynch International	869,000	12/09/16	$647,552	$641,574	$5,978
SELL	AUD	UBS AG	4,001,106	12/09/16	3,050,127	2,953,976	96,151
SELL	AUD	Westpac Banking Corp.	1,534,000	12/09/16	1,143,382	1,132,537	10,845

BUY	BRL	Citibank N.A.	6,283,674	12/02/16	1,841,100	1,857,948	16,848

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Portfolio of Investments continued

Forward Foreign Currency Exchange Contracts at 11/30/16 - continued

Type	Currency	Counter-party	Contracts to Deliver/ Receive	Settlement Date Range	In Exchange For	Contracts at Value	Unrealized Appreciation (Depreciation)
Asset Derivatives - continued							
BUY	BRL	Goldman Sachs International	6,600,209	12/02/16	$1,943,124	$1,951,541	$8,417
SELL	BRL	Goldman Sachs International	6,600,209	12/02/16	2,003,402	1,951,541	51,861
SELL	CAD	Citibank N.A.	197,000	12/09/16	147,182	146,661	521
SELL	CAD	JPMorgan Chase Bank N.A.	4,873,578	12/09/16	3,643,462	3,628,245	15,217
SELL	CAD	Merrill Lynch International	13,368,959	12/09/16	10,136,830	9,952,824	184,006
SELL	CHF	UBS AG	918	12/09/16	950	903	47
SELL	CNH	JPMorgan Chase Bank N.A.	15,698,000	4/26/17	2,356,880	2,242,539	114,341
SELL	EUR	Brown Brothers Harriman	200,875	12/09/16	219,864	212,945	6,919
SELL	EUR	Citibank N.A.	197,067	12/09/16	215,308	208,908	6,400
SELL	EUR	Goldman Sachs International	27,931,500	12/09/16	31,387,287	29,609,896	1,777,391
SELL	EUR	JPMorgan Chase Bank N.A.	37,000	12/09/16	39,331	39,223	108
SELL	EUR	UBS AG	218,458	12/09/16	238,445	231,585	6,860
BUY	GBP	Citibank N.A.	381,000	12/09/16	474,191	476,749	2,558
BUY	GBP	Goldman Sachs International	219,000	12/09/16	266,796	274,037	7,241
BUY	GBP	JPMorgan Chase Bank N.A.	1,369,546	12/09/16	1,669,251	1,713,726	44,475
SELL	GBP	Merrill Lynch International	8,791,571	12/09/16	11,443,768	11,000,977	442,791
SELL	HKD	JPMorgan Chase Bank N.A.	19,073,000	12/09/16	2,459,542	2,459,052	490
SELL	IDR	Barclays Bank PLC	6,380,692,500	12/16/16	487,821	469,938	17,883

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Portfolio of Investments continued

Forward Foreign Currency Exchange Contracts at 11/30/16 - continued

Type	Currency	Counter-party	Contracts to Deliver/ Receive	Settlement Date Range	In Exchange For	Contracts at Value	Unrealized Appreciation (Depreciation)
Asset Derivatives - continued							
SELL	IDR	Merrill Lynch International	6,380,692,500	12/16/16	$487,225	$469,938	$17,287
SELL	JPY	Brown Brothers Harriman	262,499,000	12/09/16	2,464,108	2,294,944	169,164
SELL	JPY	Citibank N.A.	257,501,000	12/09/16	2,417,521	2,251,248	166,273
SELL	JPY	Goldman Sachs International	2,346,071,459	12/09/16	23,460,363	20,510,944	2,949,419
SELL	JPY	JPMorgan Chase Bank N.A.	7,373,000	12/09/16	67,875	64,460	3,415
BUY	KRW	Barclays Bank PLC	44,218,500	12/16/16	37,660	37,824	164
SELL	NOK	Deutsche Bank AG	19,533,594	12/09/16	2,395,674	2,294,415	101,259
SELL	NZD	Westpac Banking Corp.	6,187,827	12/09/16	4,503,668	4,380,983	122,685
SELL	SGD	JPMorgan Chase Bank N.A.	66,859	12/09/16	49,200	46,647	2,553
							$6,349,567
Liability Derivatives							
SELL	BRL	Citibank N.A.	6,283,674	12/02/16	$1,849,935	$1,857,948	$(8,013)
BUY	CAD	JPMorgan Chase Bank N.A.	636,000	12/09/16	473,773	473,485	(288)
BUY	DKK	Barclays Bank PLC	31,438	12/09/16	4,737	4,479	(258)
BUY	EUR	BNP PARIBAS SA	711,000	12/09/16	779,816	753,724	(26,092)
BUY	EUR	Citibank N.A.	997,340	12/09/16	1,096,098	1,057,270	(38,828)
BUY	EUR	Goldman Sachs International	306,012	12/09/16	335,802	324,400	(11,402)
BUY	EUR	JPMorgan Chase Bank N.A.	259,163	12/09/16	285,564	274,736	(10,828)

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Portfolio of Investments continued

Forward Foreign Currency Exchange Contracts at 11/30/16 - continued

Type	Currency	Counter-party	Contracts to Deliver/ Receive	Settlement Date Range	In Exchange For	Contracts at Value	Unrealized Appreciation (Depreciation)
Liability Derivatives - continued							
BUY	EUR	UBS AG	416,064	12/09/16	$459,561	$441,065	$(18,496)
SELL	EUR	Citibank N.A.	134,508	12/09/16	142,079	142,590	(511)
BUY	GBP	Brown Brothers Harriman	16,313	12/09/16	20,837	20,413	(424)
SELL	GBP	Citibank N.A.	147,000	12/09/16	179,642	183,943	(4,301)
SELL	GBP	JPMorgan Chase Bank N.A.	246,000	12/09/16	307,666	307,822	(156)
SELL	GBP	UBS AG	18,000	12/09/16	22,401	22,524	(123)
BUY	HKD	Citibank N.A.	13,000,000	12/09/16	1,676,217	1,676,070	(147)
BUY	HKD	Deutsche Bank AG	59,436,000	12/09/16	7,670,235	7,662,991	(7,244)
BUY	IDR	JPMorgan Chase Bank N.A.	12,421,413,777	12/16/16	918,404	914,838	(3,566)
BUY	JPY	Brown Brothers Harriman	188,499,000	12/09/16	1,831,387	1,647,986	(183,401)
BUY	JPY	Citibank N.A.	162,431,000	12/09/16	1,577,389	1,420,082	(157,307)
BUY	JPY	Goldman Sachs International	38,024,000	12/09/16	366,776	332,432	(34,344)
BUY	JPY	JPMorgan Chase Bank N.A.	155,750,000	12/09/16	1,513,306	1,361,672	(151,634)
BUY	MXN	JPMorgan Chase Bank N.A.	398,094	12/09/16	20,320	19,330	(990)
BUY	MYR	JPMorgan Chase Bank N.A.	444,000	12/07/16	106,783	99,400	(7,383)
BUY	NOK	UBS AG	38,340,506	12/09/16	4,636,926	4,503,474	(133,452)
BUY	NZD	Goldman Sachs International	3,418,000	12/09/16	2,490,969	2,419,945	(71,024)
BUY	NZD	Westpac Banking Corp.	2,803,321	12/09/16	2,040,297	1,984,752	(55,545)
BUY	SEK	Goldman Sachs International	23,862,119	12/09/16	2,776,215	2,588,015	(188,200)

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Portfolio of Investments continued

Forward Foreign Currency Exchange Contracts at 11/30/16 - continued

Type	Currency	Counter-party	Contracts to Deliver/ Receive	Settlement Date Range	In Exchange For	Contracts at Value	Unrealized Appreciation (Depreciation)
Liability Derivatives - continued							
BUY	THB	JPMorgan Chase Bank N.A.	29,000	1/23/17	$817	$813	$(4)
BUY	ZAR	JPMorgan Chase Bank N.A.	569,852	12/09/16	41,784	40,427	(1,357)
							$(1,115,318)

Futures Contracts at 11/30/16

Description	Currency	Contracts	Value	Expiration Date	Unrealized Appreciation (Depreciation)
Asset Derivatives					
Interest Rate Futures					
U.S. Treasury Bond 30 yr (Short)	USD	4	$605,125	March - 2017	$641
U.S. Treasury Note 10 yr (Short)	USD	635	79,067,422	March - 2017	187,198
					$187,839
Liability Derivatives					
Interest Rate Futures					
Euro-Bobl 5 yr (Long)	EUR	38	$5,293,250	December - 2016	$(20,620)
Euro-Bund 10 yr (Long)	EUR	69	11,778,258	December - 2016	(313,872)
Euro-Buxl 30 yr (Long)	EUR	17	3,159,539	December - 2016	(293,360)
U.K. Gilt 10 yr (Long)	GBP	35	5,401,741	March - 2017	(17,626)
U.S. Treasury Note 5 yr (Short)	USD	50	5,892,188	March - 2017	(958)
					$(646,436)

At November 30, 2016, the fund had liquid securities with an aggregate value of $1,624,957 to cover any commitments for certain derivative contracts.

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STATEMENT OF ASSETS AND LIABILITIES

At 11/30/16

This statement represents your fund s balance sheet, which details the assets and liabilities comprising the total value of the fund.

Assets	
Investments	
Non-affiliated issuers, at value (identified cost, $569,163,040)	$557,821,694
Underlying affiliated funds, at value (identified cost, $9,305,595)	9,305,595
Total investments, at value (identified cost, $578,468,635)	$567,127,289
Cash	606,659
Foreign currency, at value (identified cost, $36)	37
Receivables for	
Forward foreign currency exchange contracts	6,349,567
Daily variation margin on open futures contracts	318,615
Investments sold	3,110,900
Interest	6,749,661
Other assets	151,696
Total assets	$584,414,424
Liabilities	
Notes payable	$100,000,000
Payables for	
Distributions	193,350
Forward foreign currency exchange contracts	1,115,318
Investments purchased	4,907,715
Capital shares reacquired	780,915
Payable to affiliates	
Investment adviser	15,791
Transfer agent and dividend disbursing costs	1,532
Payable for independent Trustees compensation	16,228
Accrued interest expense	88,632
Accrued expenses and other liabilities	173,185
Total liabilities	$107,292,666
Net assets	$477,121,758
Net assets consist of	
Paid-in capital	$512,294,926
Unrealized appreciation (depreciation) on investments and translation of assets and liabilities in foreign currencies	(6,595,683)
Accumulated net realized gain (loss) on investments and foreign currency	(20,373,962)
Accumulated distributions in excess of net investment income	(8,203,523)
Net assets	$477,121,758
Shares of beneficial interest outstanding (51,737,147 shares authorized less 236,000 capital shares)	51,501,147
Net asset value per share (net assets of $477,121,758 / 51,501,147 shares of beneficial interest outstanding)	$9.26

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STATEMENT OF OPERATIONS

Year ended 11/30/16

This statement describes how much your fund earned in investment income and accrued in expenses. It also describes any gains and/or losses generated by fund operations.

Net investment income	
Income	
Interest	$28,466,578
Dividends	192,701
Other	9,485
Dividends from underlying affiliated funds	63,733
Foreign taxes withheld	(51)
Total investment income	$28,732,446
Expenses	
Management fee	$2,897,280
Transfer agent and dividend disbursing costs	59,425
Administrative services fee	84,050
Independent Trustees compensation	67,165
Stock exchange fee	51,364
Custodian fee	59,782
Reimbursement of custodian expenses	(138,270)
Shareholder communications	173,016
Audit and tax fees	77,595
Legal fees	126,239
Interest expense	1,181,854
Miscellaneous	110,574
Total expenses	$4,750,074
Net investment income	$23,982,372
Realized and unrealized gain (loss) on investments and foreign currency	
Realized gain (loss) (identified cost basis)	
Investments:	
Non-affiliated issuers	$(18,746,903)
Underlying affiliated funds	207
Futures contracts	3,348,057
Foreign currency	(720,626)
Net realized gain (loss) on investments and foreign currency	$(16,119,265)
Change in unrealized appreciation (depreciation)	
Investments (net of $19,911 decrease in deferred country tax)	$31,267,298
Futures contracts	(1,169,068)
Translation of assets and liabilities in foreign currencies	2,213,364
Net unrealized gain (loss) on investments and foreign currency translation	$32,311,594
Net realized and unrealized gain (loss) on investments and foreign currency	$16,192,329
Change in net assets from operations	$40,174,701

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Financial Statements

STATEMENTS OF CHANGES IN NET ASSETS

These statements describe the increases and/or decreases in net assets resulting from operations, any distributions, and any shareholder transactions.

	Years ended 11/30 2016	2015
Change in net assets		
From operations		
Net investment income	$23,982,372	$26,043,728
Net realized gain (loss) on investments and foreign currency	(16,119,265)	7,736,737
Net unrealized gain (loss) on investments and foreign currency translation	32,311,594	(43,891,358)
Change in net assets from operations	$40,174,701	$(10,110,893)
Distributions declared to shareholders		
From net investment income	$(25,680,863)	$(42,997,287)
From tax return of capital	(12,631,474)	
Total distributions declared to shareholders	$(38,312,337)	$(42,997,287)
Change in net assets from fund share transactions	$(8,777,369)	$(11,385,348)
Total change in net assets	$(6,915,005)	$(64,493,528)
Net assets		
At beginning of period	484,036,763	548,530,291
At end of period (including accumulated distributions in excess of net investment income of $8,203,523 and $2,757,909, respectively)	$477,121,758	$484,036,763

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STATEMENT OF CASH FLOWS

Year ended 11/30/16

This statement provides a summary of cash flows from investment activity for the fund.

Cash flows from operating activities:	
Change in net assets from operations	$40,174,701
Adjustments to reconcile change in net assets from operations to net cash provided by operating activities:	
Purchase of investment securities	(292,092,954)
Proceeds from disposition of investment securities	287,489,151
Proceeds from disposition of short-term investments, net	23,753,898
Realized gain/loss on investments	18,859,655
Unrealized appreciation/depreciation on investments	(31,247,387)
Unrealized appreciation/depreciation on foreign currency contracts	(2,210,302)
Net amortization/accretion of income	1,761,806
Decrease in interest receivable	1,005,826
Decrease in accrued expenses and other liabilities	(121,605)
Increase in receivable for daily variation margin on open futures contracts	(318,615)
Decrease in payable for daily variation margin on open futures contracts	(28,449)
Increase in other assets	(147,212)
Increase in interest payable	8,286
Net cash provided by operating activities	$46,886,799
Cash flows from financing activities:	
Distributions paid in cash	(38,305,969)
Repurchase of shares of beneficial interest	(7,996,454)
Net cash used by financing activities	$(46,302,423)
Net increase in cash	$584,376
Cash:	
Beginning of period	$22,320
End of period (including foreign currency of $37)	$606,696
Supplemental disclosure of cash flow information:	

Cash paid during the year ended November 30, 2016 for interest was $1,173,568.

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Financial Statements

FINANCIAL HIGHLIGHTS

The financial highlights table is intended to help you understand the fund s financial performance for the past 5 years. Certain information reflects financial results for a single fund share. The total returns in the table represent the rate by which an investor would have earned (or lost) on an investment in the fund share class (assuming reinvestment of all distributions) held for the entire period.

	Years ended 11/30				
	2016	**2015**	**2014**	**2013**	**2012**
Net asset value, beginning of period	$9.20	$10.17	$10.17	$10.40	$9.59
Income (loss) from investment operations					
Net investment income (d)	$0.46(c)	$0.49	$0.52	$0.57	$0.62
Net realized and unrealized gain (loss) on investments and foreign currency	0.32	(0.68)	0.04	(0.18)	0.84
Total from investment operations	$0.78	$(0.19)	$0.56	$0.39	$1.46
Less distributions declared to shareholders					
From net investment income	$(0.50)	$(0.81)	$(0.58)	$(0.62)	$(0.65)
From tax return of capital	(0.24)				
Total distributions declared to shareholders	$(0.74)	$(0.81)	$(0.58)	$(0.62)	$(0.65)
Net increase from repurchase of capital shares	$0.02	$0.03	$0.02	$0.00(w)	$
Net asset value, end of period (x)	$9.26	$9.20	$10.17	$10.17	$10.40
Market value, end of period	$8.35	$7.92	$8.81	$8.97	$10.19
Total return at market value (%)	15.19	(1.28)	4.68	(6.13)	21.92
Total return at net asset value (%) (j)(r)(s)(x)	9.97(c)	(0.66)	6.58	4.28	15.87
Ratios (%) (to average net assets) and Supplemental data:					
Expenses before expense reductions (f)	0.99(c)	0.90	0.87	0.92	0.98
Expenses after expense reductions (f)	N/A	N/A	0.87	0.92	0.98
Net investment income	5.01(c)	5.01	5.09	5.53	6.12
Portfolio turnover	43	37	44	52	45
Net assets at end of period (000 omitted)	$477,122	$484,037	$548,530	$557,238	$570,716
Supplemental Ratios (%):					
Ratio of expenses to average net assets after expense reductions and excluding interest expense and fees (f)	0.73(c)	0.73	0.72	0.75	0.79
Senior Securities:					
Total notes payable outstanding (000 omitted)	$100,000	$100,000	$100,000	$100,000	$100,000
Asset coverage per $1,000 of indebtedness (k)	$5,771	$5,840	$6,485	$6,572	$6,707

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Financial Highlights continued

(c) Amount reflects a one-time reimbursement of expenses by the custodian (or former custodian) without which net investment income and performance would be lower and expenses would be higher. See Note 2 in the Notes to Financial Statements for additional information.
(d) Per share data is based on average shares outstanding.
(f) Ratios do not reflect reductions from fees paid indirectly, if applicable.
(j) Total return at net asset value is calculated using the net asset value of the fund, not the publicly traded price and therefore may be different than the total return at market value.
(k) Calculated by subtracting the fund s total liabilities (not including notes payable) from the fund s total assets and dividing this number by the notes payable outstanding and then multiplying by 1,000.
(r) Certain expenses have been reduced without which performance would have been lower.
(s) From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.
(w) Per share amount was less than $0.01.
(x) The net asset values and total returns at net asset value have been calculated on net assets which include adjustments made in accordance with U.S. generally accepted accounting principles required at period end for financial reporting purposes.

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NOTES TO FINANCIAL STATEMENTS

(1) Business and Organization

MFS Charter Income Trust (the fund) is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended, as a diversified closed-end management investment company.

The fund is an investment company and accordingly follows the investment company accounting and reporting guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 946 Financial Services Investment Companies.

(2) Significant Accounting Policies

General The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates. In the preparation of these financial statements, management has evaluated subsequent events occurring after the date of the fund s Statement of Assets and Liabilities through the date that the financial statements were issued. The fund invests in high-yield securities rated below investment grade. Investments in high-yield securities involve greater degrees of credit and market risk than investments in higher-rated securities and tend to be more sensitive to economic conditions. The fund invests in foreign securities. Investments in foreign securities are vulnerable to the effects of changes in the relative values of the local currency and the U.S. dollar and to the effects of changes in each country s legal, political, and economic environment.

In October 2016, the Securities and Exchange Commission (SEC) released its Final Rule on Investment Company Reporting Modernization (the Rule). The Rule, which introduces two new regulatory reporting forms for investment companies Form N-PORT and Form N-CEN also contains amendments to Regulation S-X which impact financial statement presentation, particularly the presentation of derivative investments. Although still evaluating the impacts of the Rule, management believes that many of the Regulation S-X amendments are consistent with the fund s current financial statement presentation and expects that the fund will be able to comply with the Rule s Regulation S-X amendments by the August 1, 2017 compliance date.

In November 2016, FASB issued Accounting Standards Update 2016-18, Statement of Cash Flows (Topic 230) Restricted Cash (ASU 2016-18). For entities that have restricted cash and are required to present a statement of cash flows, ASU 2016-18 changes the cash flow presentation for restricted cash. Although still evaluating the potential impacts of ASU 2016-18, management expects that the effects of the fund s adoption will be limited to the reclassification of restricted cash on the fund s Statement of Cash Flows and the addition of disclosures regarding the nature of the restrictions on restricted cash. ASU 2016-18 would first be effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods.

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Notes to Financial Statements continued

Balance Sheet Offsetting The fund s accounting policy with respect to balance sheet offsetting is that, absent an event of default by the counterparty or a termination of the agreement, the International Swaps and Derivatives Association (ISDA) Master Agreement does not result in an offset of reported amounts of financial assets and financial liabilities in the Statement of Assets and Liabilities across transactions between the fund and the applicable counterparty. The fund s right to setoff may be restricted or prohibited by the bankruptcy or insolvency laws of the particular jurisdiction to which a specific master netting agreement counterparty is subject. Balance sheet offsetting disclosures, to the extent applicable to the fund, have been included in the fund s Significant Accounting Policies note under the captions for each of the fund s in-scope financial instruments and transactions.

Investment Valuations Equity securities, including restricted equity securities, are generally valued at the last sale or official closing price on their primary market or exchange as provided by a third-party pricing service. Equity securities, for which there were no sales reported that day, are generally valued at the last quoted daily bid quotation on their primary market or exchange as provided by a third-party pricing service. Debt instruments and floating rate loans, including restricted debt instruments, are generally valued at an evaluated or composite bid as provided by a third-party pricing service. Short-term instruments with a maturity at issuance of 60 days or less may be valued at amortized cost, which approximates market value. Exchange-traded options are generally valued at the last sale or official closing price on their primary exchange as provided by a third-party pricing service. Exchange-traded options for which there were no sales reported that day are generally valued at the last daily bid quotation on their primary exchange as provided by a third-party pricing service. Options not traded on an exchange are generally valued at a broker/dealer bid quotation. Foreign currency options are generally valued at valuations provided by a third-party pricing service. Futures contracts are generally valued at last posted settlement price on their primary exchange as provided by a third-party pricing service. Futures contracts for which there were no trades that day for a particular position are generally valued at the closing bid quotation on their primary exchange as provided by a third-party pricing service. Forward foreign currency exchange contracts are generally valued at the mean of bid and asked prices for the time period interpolated from rates provided by a third-party pricing service for proximate time periods. Open-end investment companies are generally valued at net asset value per share. Securities and other assets generally valued on the basis of information from a third-party pricing service may also be valued at a broker/dealer bid quotation. Values obtained from third-party pricing services can utilize both transaction data and market information such as yield, quality, coupon rate, maturity, type of issue, trading characteristics, and other market data. The values of foreign securities and other assets and liabilities expressed in foreign currencies are converted to U.S. dollars using the mean of bid and asked prices for rates provided by a third-party pricing service.

The Board of Trustees has delegated primary responsibility for determining or causing to be determined the value of the fund s investments (including any fair valuation) to the adviser pursuant to valuation policies and procedures approved by the Board. If the adviser determines that reliable market quotations are not readily available, investments are valued at fair value as determined in good faith by the adviser in accordance with

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Notes to Financial Statements continued

such procedures under the oversight of the Board of Trustees. Under the fund s valuation policies and procedures, market quotations are not considered to be readily available for most types of debt instruments and floating rate loans and many types of derivatives. These investments are generally valued at fair value based on information from third-party pricing services. In addition, investments may be valued at fair value if the adviser determines that an investment s value has been materially affected by events occurring after the close of the exchange or market on which the investment is principally traded (such as foreign exchange or market) and prior to the determination of the fund s net asset value, or after the halting of trading of a specific security where trading does not resume prior to the close of the exchange or market on which the security is principally traded. The adviser generally relies on third-party pricing services or other information (such as the correlation with price movements of similar securities in the same or other markets; the type, cost and investment characteristics of the security; the business and financial condition of the issuer; and trading and other market data) to assist in determining whether to fair value and at what value to fair value an investment. The value of an investment for purposes of calculating the fund s net asset value can differ depending on the source and method used to determine value. When fair valuation is used, the value of an investment used to determine the fund s net asset value may differ from quoted or published prices for the same investment. There can be no assurance that the fund could obtain the fair value assigned to an investment if it were to sell the investment at the same time at which the fund determines its net asset value per share.

Various inputs are used in determining the value of the fund s assets or liabilities. These inputs are categorized into three broad levels. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fund s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes other significant observable market-based inputs (including quoted prices for similar securities, interest rates, prepayment speed, and credit risk). Level 3 includes unobservable inputs, which may include the adviser s own assumptions in determining the fair value of investments. Other financial instruments are derivative instruments not reflected in total investments, such as futures contracts and forward foreign currency

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Notes to Financial Statements continued

exchange contracts. The following is a summary of the levels used as of November 30, 2016 in valuing the fund s assets or liabilities:

Investments at Value	Level 1	Level 2	Level 3	Total
Equity Securities	$321,648	$	$	$321,648
U.S. Treasury Bonds & U.S. Government Agency & Equivalents		40,102,929		40,102,929
Non-U.S. Sovereign Debt		80,098,299		80,098,299
U.S. Corporate Bonds		327,012,351		327,012,351
Residential Mortgage-Backed Securities		5,928,385		5,928,385
Commercial Mortgage-Backed Securities		14,913,525		14,913,525
Asset-Backed Securities (including CDOs)		7,832,675		7,832,675
Foreign Bonds		74,811,975		74,811,975
Floating Rate Loans		6,799,907		6,799,907
Mutual Funds	9,305,595			9,305,595
Total Investments	$9,627,243	$557,500,046	$	$567,127,289
Other Financial Instruments				
Futures Contracts	$(458,597)	$	$	$(458,597)
Forward Foreign Currency Exchange Contracts		5,234,249		5,234,249

For further information regarding security characteristics, see the Portfolio of Investments.

The following is a reconciliation of level 3 assets for which significant unobservable inputs were used to determine fair value. The fund s policy is to recognize transfers between the levels as of the end of the period. The table presents the activity of level 3 securities held at the beginning and the end of the period.

	Foreign Bonds
Balance as of 11/30/15	$270,914
Realized gain (loss)	(347,180)
Change in unrealized appreciation (depreciation)	117,420
Sales	(41,154)
Balance as of 11/30/16	$

Foreign Currency Translation Purchases and sales of foreign investments, income, and expenses are converted into U.S. dollars based upon currency exchange rates prevailing on the respective dates of such transactions or on the reporting date for foreign denominated receivables and payables. Gains and losses attributable to foreign currency exchange rates on sales of securities are recorded for financial statement purposes as net realized gains and losses on investments. Gains and losses attributable to foreign exchange rate movements on receivables, payables, income and expenses are recorded for financial statement purposes as foreign currency transaction gains and losses. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed.

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Derivatives The fund uses derivatives for different purposes, primarily to increase or decrease exposure to a particular market or segment of the market, or security, to increase or decrease interest rate or currency exposure, or as alternatives to direct investments. Derivatives are used for hedging or non-hedging purposes. While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. When the fund uses derivatives as an investment to increase market exposure, or for hedging purposes, gains and losses from derivative instruments may be substantially greater than the derivative s original cost.

The derivative instruments used by the fund were purchased options, futures contracts, and forward foreign currency exchange contracts. The fund s period end derivatives, as presented in the Portfolio of Investments and the associated Derivative Contract tables, generally are indicative of the volume of its derivative activity during the period.

The following table presents, by major type of derivative contract, the fair value, on a gross basis, of the asset and liability components of derivatives held by the fund at November 30, 2016 as reported in the Statement of Assets and Liabilities:

		Fair Value (a)	
Risk	**Derivative Contracts**	**Asset Derivatives**	**Liability Derivatives**
Interest Rate	Interest Rate Futures	$187,839	$(646,436)
Foreign Exchange	Forward Foreign Currency Exchange	6,349,567	(1,115,318)
Equity	Purchased Equity Options	21,970	
Total		$6,559,376	$(1,761,754)

(a) The value of purchased options outstanding is included in total investments, at value, within the fund s Statement of Assets and Liabilities. The value of futures contracts includes cumulative appreciation (depreciation) as reported in the fund s Portfolio of Investments. Only the current day net variation margin for futures contracts is separately reported within the fund s Statement of Assets and Liabilities.

The following table presents, by major type of derivative contract, the realized gain (loss) on derivatives held by the fund for the year ended November 30, 2016 as reported in the Statement of Operations:

Risk	**Futures Contracts**	**Foreign Currency**	**Investments (Purchased Options)**
Interest Rate	$3,348,057	$	$
Foreign Exchange		(726,903)	
Equity			49,006
Total	$3,348,057	$(726,903)	$49,006

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Notes to Financial Statements continued

The following table presents, by major type of derivative contract, the change in unrealized appreciation (depreciation) on derivatives held by the fund for the year ended November 30, 2016 as reported in the Statement of Operations:

Risk	Futures Contracts	Translation of Assets and Liabilities in Foreign Currencies	Investments (Purchased Options)
Interest Rate	$(1,169,068)	$	$
Foreign Exchange		2,210,303	
Equity			(49,010)
Total	$(1,169,068)	$2,210,303	$(49,010)

Derivative counterparty credit risk is managed through formal evaluation of the creditworthiness of all potential counterparties. On certain, but not all, uncleared derivatives, the fund attempts to reduce its exposure to counterparty credit risk whenever possible by entering into an ISDA Master Agreement on a bilateral basis. The ISDA Master Agreement gives each party to the agreement the right to terminate all transactions traded under such agreement if there is a certain deterioration in the credit quality of the other party. Upon an event of default or a termination of the ISDA Master Agreement, the non-defaulting party has the right to close out all transactions traded under such agreement and to net amounts owed under each agreement to one net amount payable by one party to the other. This right to close out and net payments across all transactions traded under the ISDA Master Agreement could result in a reduction of the fund s credit risk to such counterparty equal to any amounts payable by the fund under the applicable transactions, if any.

Collateral and margin requirements differ by type of derivative. Margin requirements are set by the clearing broker and the clearing house for cleared derivatives (e.g., futures contracts, cleared swaps, and exchange-traded options) while collateral terms are contract specific for uncleared derivatives (e.g., forward foreign currency exchange contracts, uncleared swap agreements, and uncleared options). For derivatives traded under an ISDA Master Agreement, which contains a collateral support annex, the collateral requirements are netted across all transactions traded under such agreement and one amount is posted from one party to the other to collateralize such obligations. Cash that has been segregated to cover the fund s collateral or margin obligations under derivative contracts, if any, will be reported separately in the Statement of Assets and Liabilities as Restricted cash or Deposits with brokers. Securities pledged as collateral or margin for the same purpose, if any, are noted in the Portfolio of Investments. The fund may be required to make payments of interest on uncovered collateral or margin obligations with the broker. Any such payments are included in Interest Expense in the Statement of Operations.

Purchased Options The fund purchased put options for a premium. Purchased put options entitle the holder to buy and sell a specified number of shares or units of a particular security, currency or index at a specified price at a specified date or within a specified period of time. Purchasing put options may hedge against an anticipated decline in the value of portfolio securities or currency or decrease the fund s exposure to an underlying instrument.

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Notes to Financial Statements continued

The premium paid is initially recorded as an investment in the Statement of Assets and Liabilities. That investment is subsequently marked-to-market daily with the difference between the premium paid and the market value of the purchased option being recorded as unrealized appreciation or depreciation. Premiums paid for purchased put options which have expired are treated as realized losses on investments in the Statement of Operations. Upon the exercise or closing of a purchased put option, the premium paid is offset against the proceeds on the sale of the underlying security or financial instrument in order to determine the realized gain or loss on investments.

Whether or not the option is exercised, the fund s maximum risk of loss from purchasing an option is the amount of premium paid. All option contracts involve credit risk if the counterparty to the option contract fails to perform. For uncleared options, this risk is mitigated in cases where there is an ISDA Master Agreement between the fund and the counterparty providing for netting as described above and, where applicable, by the posting of collateral by the counterparty to the fund to cover the fund s exposure to the counterparty under such ISDA Master Agreement.

Futures Contracts The fund entered into futures contracts which may be used to hedge against or obtain broad market exposure, interest rate exposure, currency exposure, or to manage duration. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the fund is required to deposit with the broker, either in cash or securities, an initial margin in an amount equal to a certain percentage of the notional amount of the contract. Subsequent payments (variation margin) are made or received by the fund each day, depending on the daily fluctuations in the value of the contract, and are recorded for financial statement purposes as unrealized gain or loss by the fund until the contract is closed or expires at which point the gain or loss on futures contracts is realized.

The fund bears the risk of interest rates, exchange rates or securities prices moving unexpectedly, in which case, the fund may not achieve the anticipated benefits of the futures contracts and may realize a loss. While futures contracts may present less counterparty risk to the fund since the contracts are exchange traded and the exchange s clearinghouse guarantees payments to the broker, there is still counterparty credit risk due to the insolvency of the broker. The fund s maximum risk of loss due to counterparty credit risk is equal to the margin posted by the fund to the broker plus any gains or minus any losses on the outstanding futures contracts.

Forward Foreign Currency Exchange Contracts The fund entered into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. These contracts may be used to hedge the fund s currency risk or for non-hedging purposes. For hedging purposes, the fund may enter into contracts to deliver or receive foreign currency that the fund will receive from or use in its normal investment activities. The fund may also use contracts to hedge against declines in the value of foreign currency denominated securities due to unfavorable exchange rate movements. For non-hedging purposes, the fund may enter into contracts with the intent of changing the relative exposure of the fund s portfolio of securities to different currencies to take advantage of anticipated exchange rate changes.

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Notes to Financial Statements continued

Forward foreign currency exchange contracts are adjusted by the daily exchange rate of the underlying currency and any unrealized gains or losses are recorded as a receivable or payable for forward foreign currency exchange contracts until the contract settlement date. On contract settlement date, any gain or loss on the contract is recorded as realized gains or losses on foreign currency.

Risks may arise upon entering into these contracts from unanticipated movements in the value of the contract and from the potential inability of counterparties to meet the terms of their contracts. Generally, the fund s maximum risk due to counterparty credit risk is the unrealized gain on the contract due to the use of Continuous Linked Settlement, a multicurrency cash settlement system for the centralized settlement of foreign transactions. This risk is mitigated in cases where there is an ISDA Master Agreement between the fund and the counterparty providing for netting as described above and, where applicable, by the posting of collateral by the counterparty to the fund to cover the fund s exposure to the counterparty under such ISDA Master Agreement.

Loans and Other Direct Debt Instruments The fund invests in loans and loan participations or other receivables. These investments may include standby financing commitments, including revolving credit facilities, which contractually obligate the fund to supply additional cash to the borrower on demand. The fund generally provides this financial support in order to preserve its existing investment or to obtain a more senior secured interest in the assets of the borrower. Loan participations involve a risk of insolvency of the lending bank or other financial intermediary.

Statement of Cash Flows Information on financial transactions which have been settled through the receipt or disbursement of cash is presented in the Statement of Cash Flows. The cash amount shown in the Statement of Cash Flows is the amount included within the fund s Statement of Assets and Liabilities and includes cash on hand at its custodian bank and does not include any short-term investments.

Indemnifications Under the fund s organizational documents, its officers and Trustees may be indemnified against certain liabilities and expenses arising out of the performance of their duties to the fund. Additionally, in the normal course of business, the fund enters into agreements with service providers that may contain indemnification clauses. The fund s maximum exposure under these agreements is unknown as this would involve future claims that may be made against the fund that have not yet occurred.

Investment Transactions and Income Investment transactions are recorded on the trade date. Interest income is recorded on the accrual basis. All premium and discount is amortized or accreted for financial statement purposes in accordance with U.S. generally accepted accounting principles. The fund earns certain fees in connection with its floating rate loan purchasing activities. These fees are in addition to interest payments earned and may include amendment fees, commitment fees, facility fees, consent fees, and prepayment fees. Commitment fees are recorded on an accrual basis as income in the accompanying financial statements. Dividends received in cash are recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded when the fund is informed of the dividend if such information is obtained subsequent to the ex-dividend date. Dividend and interest payments received in additional securities are recorded on the ex-dividend or ex-interest date in an amount equal to the value of the security on such date. Debt obligations may be placed on non-accrual status or set to accrue at a rate of interest less than the contractual coupon when the collection of all or a portion of interest has become doubtful. Interest income for those debt obligations may be further reduced by the write-off of the related interest receivables when deemed uncollectible.

The fund may receive proceeds from litigation settlements. Any proceeds received from litigation involving portfolio holdings are reflected in the Statement of Operations in realized gain/loss if the security has been disposed of by the fund or in unrealized gain/loss if the security is still held by the fund. Any other proceeds from litigation not related to portfolio holdings are reflected as other income in the Statement of Operations.

The fund invests a significant portion of its assets in asset-backed and/or mortgage-backed securities. The value of these securities may depend, in part, on the issuer s or borrower s credit quality or ability to pay principal and interest when due and that value may fall if an issuer or borrower defaults on its obligation to pay principal or interest or if the instrument s credit rating is downgraded by a credit rating agency. U.S. Government securities not supported as to the payment of principal or interest by the U.S. Treasury, such as those issued by Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, are subject to greater credit risk than are U.S. Government securities supported by the U.S. Treasury, such as those issued by Ginnie Mae.

The fund purchased or sold debt securities on a when-issued or delayed delivery basis, or in a To Be Announced (TBA) or forward commitment transaction with delivery or payment to occur at a later date beyond the normal settlement period. At the time a fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the security acquired is reflected in the fund s net asset value. The price of such security and the date that the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. No interest accrues to the fund until payment takes place. At the time that a fund enters into this type of transaction, the fund is required to have sufficient cash and/or liquid securities to cover its commitments. Losses may arise due to changes in the value of the underlying securities or if the counterparty does not perform under the contract s terms, or if the issuer does not issue the securities due to political, economic or other factors. Additionally, losses may arise due to declines in the value of the securities prior to settlement date.

To mitigate this risk of loss on TBA securities and other types of forward settling mortgage-backed securities, the fund whenever possible enters into a Master Securities Forward Transaction Agreement (MSFTA) on a bilateral basis with each of the counterparties with whom it undertakes a significant volume of transactions. The MSFTA gives each party to the agreement the right to terminate all transactions traded under such agreement if there is a certain deterioration in the credit quality of the other party. Upon an event of default or a termination of the MSFTA, the non-defaulting party has the right to close out all transactions traded under such agreement and to net amounts owed under each transaction to one net amount payable by one party to the other. This right to close out and net payments across all

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Notes to Financial Statements continued

transactions traded under the MSFTA could result in a reduction of the fund s credit risk to such counterparty equal to any amounts payable by the fund under the applicable transactions, if any.

For mortgage-backed securities traded under a MSFTA, the collateral and margining requirements are contract specific. Collateral amounts across all transactions traded under such agreement are netted and one amount is posted from one party to the other to collateralize such obligations. Cash that has been pledged to cover the fund s collateral or margin obligations under a MSFTA, if any, will be reported separately on the Statement of Assets and Liabilities as restricted cash. Securities pledged as collateral or margin for the same purpose, if any, are noted in the Portfolio of Investments.

Reimbursement of Expenses by Custodian In December 2015, the fund s custodian (or former custodian), State Street Bank and Trust Company, announced that it intended to reimburse its asset servicing clients for expense amounts that it billed in error during the period 1998 through 2015. The amount of this one-time reimbursement attributable to the fund is reflected as Reimbursement of custodian expenses in the Statement of Operations.

Tax Matters and Distributions The fund intends to qualify as a regulated investment company, as defined under Subchapter M of the Internal Revenue Code, and to distribute all of its taxable income, including realized capital gains. As a result, no provision for federal income tax is required. The fund s federal tax returns, when filed, will remain subject to examination by the Internal Revenue Service for a three year period. Management has analyzed the fund s tax positions taken on federal and state tax returns for all open tax years and does not believe that there are any uncertain tax positions that require recognition of a tax liability. Foreign taxes, if any, have been accrued by the fund in the accompanying financial statements in accordance with the applicable foreign tax law. Foreign income taxes may be withheld by certain countries in which the fund invests. Additionally, capital gains realized by the fund on securities issued in or by certain foreign countries may be subject to capital gains tax imposed by those countries.

Distributions to shareholders are recorded on the ex-dividend date. The fund seeks to pay monthly distributions based on an annual rate of 8.00% of the fund s average monthly net asset value. As a result, distributions may exceed actual earnings which may result in a tax return of capital or, to the extent the fund has long-term gains, distributions of current year long-term gains may be recharacterized as ordinary income. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles. Certain capital accounts in the financial statements are periodically adjusted for permanent differences in order to reflect their tax character. These adjustments have no impact on net assets or net asset value per share. Temporary differences which arise from recognizing certain items of income, expense, gain or loss in different periods for financial statement and tax purposes will reverse at some time in the future. Distributions from other sources, in excess of net investment income or net realized gains are temporary overdistributions for financial statement purposes resulting from differences in the recognition or classification of income or distributions for financial statement and tax purposes.

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Notes to Financial Statements continued

Book/tax differences primarily relate to defaulted bonds, amortization and accretion of debt securities, straddle loss deferrals, and derivative transactions.

The tax character of distributions declared to shareholders for the last two fiscal years is as follows:

	11/30/16	11/30/15
Ordinary income (including any short-term capital gains)	$25,680,863	$42,997,287
Tax return of capital (b)	12,631,474	
Total distributions	$38,312,337	$42,997,287

(b) Distributions in excess of tax basis earnings and profits are reported in the financial statements as a tax return of capital.

The federal tax cost and the tax basis components of distributable earnings were as follows:

As of 11/30/16	
Cost of investments	$582,833,558
Gross appreciation	7,712,717
Gross depreciation	(23,418,986)
Net unrealized appreciation (depreciation)	$(15,706,269)
Capital loss carryforwards	(15,835,075)
Other temporary differences	(3,631,824)

Under the Regulated Investment Company Modernization Act of 2010 (the Act), net capital losses recognized for fund fiscal years beginning after November 30, 2011 may be carried forward indefinitely, and their character is retained as short-term and/or long-term losses (post-enactment losses). Previously, net capital losses were carried forward for eight years and treated as short-term losses (pre-enactment losses). As a transition rule, the Act requires that all post-enactment net capital losses be used before pre-enactment net capital losses.

As of November 30, 2016, the fund had capital loss carryforwards available to offset future realized gains as follows:

Pre-enactment losses which expire as follows:	
11/30/17	$(2,351,795)
Post-enactment losses which are characterized as follows:	
Short-Term	$(2,549,119)
Long-Term	(10,934,161)
Total	$(13,483,280)

(3) Transactions with Affiliates

Investment Adviser The fund has an investment advisory agreement with MFS to provide overall investment management and related administrative services and facilities to the fund. The management fee is computed daily and paid monthly at an annual rate of 0.32% of the fund s average daily net assets and 4.57% of gross

Notes to Financial Statements continued

income less interest expense from leveraging. Gross income is calculated based on tax elections that generally include the accretion of discount and exclude the amortization of premium, which may differ from investment income reported in the Statement of Operations. The management fee, from net assets and gross income, incurred for the year ended November 30, 2016 was equivalent to an annual effective rate of 0.60% of the fund s average daily net assets.

Transfer Agent The fund engages Computershare Trust Company, N.A. (Computershare) as the sole transfer agent for the fund. MFS Service Center, Inc. (MFSC) monitors and supervises the activities of Computershare for an agreed upon fee approved by the Board of Trustees. For the year ended November 30, 2016, these fees paid to MFSC amounted to $17,194.

Administrator MFS provides certain financial, legal, shareholder communications, compliance, and other administrative services to the fund. Under an administrative services agreement, the fund reimburses MFS the costs incurred to provide these services. The fund is charged an annual fixed amount of $17,500 plus a fee based on average daily net assets. The administrative services fee incurred for the year ended November 30, 2016 was equivalent to an annual effective rate of 0.0175% of the fund s average daily net assets.

Trustees and Officers Compensation The fund pays compensation to independent Trustees in the form of a retainer, attendance fees, and additional compensation to Board and Committee chairpersons. The fund does not pay compensation directly to Trustees or officers of the fund who are also officers of the investment adviser, all of whom receive remuneration for their services to the fund from MFS. Certain officers and Trustees of the fund are officers or directors of MFS and MFSC.

Prior to December 31, 2001, the fund had an unfunded defined benefit plan (DB plan) for independent Trustees. As of December 31, 2001, the Board took action to terminate the DB plan with respect to then-current and any future independent Trustees, such that the DB plan covers only certain of those former independent Trustees who retired on or before December 31, 2001. The DB plan resulted in a pension expense of $2,058 and is included in Independent Trustees compensation in the Statement of Operations for the year ended November 30, 2016. The liability for deferred retirement benefits payable to certain independent Trustees under the DB plan amounted to $16,213 at November 30, 2016, and is included in Payable for independent Trustees compensation in the Statement of Assets and Liabilities.

Other This fund and certain other funds managed by MFS (the funds) have entered into a service agreement (the ISO Agreement) which provides for payment of fees solely by the funds to Tarantino LLC in return for the provision of services of an Independent Senior Officer (ISO) for the funds. Frank L. Tarantino serves as the ISO and is an officer of the funds and the sole member of Tarantino LLC. The funds can terminate the ISO Agreement with Tarantino LLC at any time under the terms of the ISO Agreement. For the year ended November 30, 2016, the fee paid by the fund under this agreement was $978 and is included in Miscellaneous expense in the Statement of Operations. MFS has agreed to bear all expenses associated with office space, other administrative support, and supplies provided to the ISO.

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Notes to Financial Statements continued

The fund invests in the MFS Institutional Money Market Portfolio which is managed by MFS and seeks current income consistent with preservation of capital and liquidity. This money market fund does not pay a management fee to MFS.

The fund is permitted to engage in purchase and sale transactions (cross-trades) with funds and accounts for which MFS serves as investment adviser or sub-adviser pursuant to a policy adopted by the Board of Trustees. This policy has been designed to ensure that cross-trades conducted by the fund comply with Rule 17a-7 under the Investment Company Act of 1940. Under this policy, cross-trades are effected at current market prices with no remuneration paid in connection with the transaction. During the year ended November 30, 2016, the fund engaged in purchase and sale transactions pursuant to this policy, which amounted to $341,609 and $3,974,847, respectively. The sales transactions resulted in net realized gains (losses) of $75,891.

(4) Portfolio Securities

For the year ended November 30, 2016, purchases and sales of investments, other than purchased option transactions and short-term obligations, were as follows:

	Purchases	Sales
U.S. Government securities	$21,914,589	$3,252,479
Investments (non-U.S. Government securities)	$224,151,784	$237,484,822

(5) Shares of Beneficial Interest

The fund s Declaration of Trust permits the Trustees to issue an unlimited number of full and fractional shares of beneficial interest. The Trustees have authorized the repurchase by the fund of up to 10% annually of its own shares of beneficial interest. The fund repurchased 1,084,828 shares of beneficial interest during the year ended November 30, 2016 at an average price per share of $8.09 and a weighted average discount of 10.85% per share. As of December 19, 2016, the fund retired 1,084,828 shares of beneficial interest. The fund repurchased and retired 1,328,634 shares of beneficial interest during the year ended November 30, 2015 at an average price per share of $8.57 and a weighted average discount of 11.80% per share. Other transactions in fund shares were as follows:

	Year ended 11/30/16		Year ended 11/30/15	
	Shares	Amount	Shares	Amount
Capital shares reacquired	(1,084,828)	$(8,777,369)	(1,328,634)	$(11,385,348)

(6) Loan Agreement

The fund has a credit agreement with a bank for a revolving secured line of credit that can be drawn upon up to $100,000,000. This credit agreement matured on August 19, 2016. The trustees approved a new revolving secured line of credit up to the amount of $100,000,000 on substantially similar terms with a different bank for a 365 day period which matures on August 19, 2017. At November 30, 2016, the fund had outstanding borrowings under this agreement in the amount of $100,000,000, which are secured by a lien on the fund s assets. The loan s carrying value in the fund s Statement of Assets and Liabilities approximates its fair value. The loan value as of the reporting date is considered level 2 under the fair value hierarchy. Borrowing under the agreement can be made for liquidity or leverage purposes. Interest is charged at a rate per annum equal to LIBOR plus an agreed upon spread or an alternate rate, at the option of the borrower, stated as the greater of the daily one month LIBOR or the

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Notes to Financial Statements continued

Overnight Federal Funds Rate each plus an agreed upon spread. The fund incurred interest expense of $1,168,740 during the period, which is included in Interest expense in the Statement of Operations, in connection with this loan agreement. In addition, the fund incurred an up-front fee equal to $50,000 during the period, which is included in Miscellaneous expense in the Statement of Operations. The fund may also be charged a commitment fee based on the average daily unused portion of the revolving secured line of credit. The fund did not incur a commitment fee during the period. For the year ended November 30, 2016, the average loan balance was $100,000,000 at a weighted average annual interest rate of 1.17%. The fund is subject to certain covenants including, but not limited to, requirements with respect to asset coverage, portfolio diversification and liquidity.

(7) Transactions in Underlying Affiliated Funds-Affiliated Issuers

An affiliated issuer may be considered one in which the fund owns 5% or more of the outstanding voting securities, or a company which is under common control. For the purposes of this report, the fund assumes the following to be an affiliated issuer:

Underlying Affiliated Fund	**Beginning Shares/Par Amount**	**Acquisitions Shares/Par Amount**	**Dispositions Shares/Par Amount**	**Ending Shares/Par Amount**
MFS Institutional Money Market Portfolio	33,059,493	164,851,114	(188,605,012)	9,305,595

Underlying Affiliated Fund	**Realized Gain (Loss)**	**Capital Gain Distributions**	**Dividend Income**	**Ending Value**
MFS Institutional Money Market Portfolio	$207	$	$63,733	$9,305,595

(8) Legal Proceedings

In May 2015, the Motors Liquidation Company Avoidance Action Trust (hereafter, AAT) served upon the fund a complaint in an adversary proceeding in the U.S. Bankruptcy Court for the Southern District of New York, captioned *Motors Liquidation Company Avoidance Action Trust v. JPMorgan Chase Bank, N.A., et al.* (No. 09-00504 (REG)). The complaint, which was originally filed in 2009 but not served on the fund until 2015, names as defendants over 500 entities (including the fund) that held an interest in a $1.5 billion General Motors (GM) term loan in 2009, when GM filed for bankruptcy. The AAT alleges that the fund and the other term loan lenders were improperly treated as secured lenders with respect to the term loan shortly before and immediately after GM s bankruptcy, receiving full principal and interest payments under the loan. The AAT alleges that the fund and other term loan lenders should have been treated as unsecured (or partially unsecured) creditors because the main lien securing the collateral was allegedly not perfected at the time of GM s bankruptcy due to an erroneous filing in October 2008 that terminated the financing statement perfecting the lien. The AAT seeks to claw back payments made to the fund and the other term loan lenders after, and during the 90 days before, GM s June 2009 bankruptcy petition. During that time period, the fund received term loan payments of approximately $1,280,000. The fund cannot predict the outcome of this proceeding. Among other things, it is unclear whether the AAT s claims will succeed; what the fund would be entitled to as an unsecured (or partially unsecured) creditor, given the existence of other collateral not impacted by the erroneous October 2008 filing;

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Notes to Financial Statements continued

whether third parties responsible for the erroneous October 2008 filing would bear some or all of any liability; and the degree to which the fund may be entitled to indemnification from a third party for any amount required to be disgorged. The fund has and will continue to incur legal expenses associated with the defense of this action and in related claims against third parties.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of MFS Charter Income Trust:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of MFS Charter Income Trust (the Fund) as of November 30, 2016, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of November 30, 2016, by correspondence with the custodian and others or by other appropriate auditing procedures where replies from others were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of MFS Charter Income Trust at November 30, 2016, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts

January 13, 2017

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RESULTS OF SHAREHOLDER MEETING

(unaudited)

At the annual meeting of shareholders of MFS Charter Income Trust, which was held on October 1, 2016, the following action was taken:

Item 1: To elect the following individuals as Trustees:

	Number of Shares	
Nominee	**For**	**Withheld Authority**
Maureen R. Goldfarb	34,998,023.803	10,339,043.788
Robert J. Manning	34,864,527.803	10,472,539.788
Maryanne L. Roepke	34,997,430.960	10,339,636.631
Laurie J. Thomsen	34,966,095.960	10,370,971.631

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TRUSTEES AND OFFICERS IDENTIFICATION AND BACKGROUND

The Trustees and Officers of the Trust, as of January 1, 2017, are listed below, together with their principal occupations during the past five years. (Their titles may have varied during that period.) The address of each Trustee and Officer is 111 Huntington Avenue, Boston, Massachusetts 02199-7618.

Name, Age	Position(s) Held with Fund	Trustee/Officer Since [h]	Term Expiring [l]	Principal Occupations During the Past Five Years	Other Directorships [j]
INTERESTED TRUSTEES					
Robert J. Manning [k] (age 53)	Trustee	February 2004	2019	Massachusetts Financial Services Company, Executive Chairman	N/A
Robin A. Stelmach [k] (age 55)	Trustee	January 2014	2018	Massachusetts Financial Services Company, Vice Chair	N/A
INDEPENDENT TRUSTEES					
David H. Gunning (age 74)	Trustee and Chair of Trustees	January 2004	2018	Private investor	Lincoln Electric Holdings, Inc., Director; Development Alternatives, Inc., Director/Non-Executive Chairman
Steven E. Buller (age 65)	Trustee	February 2014	2017	Chairman, Financial Accounting Standards Advisory Council (until 2015); Standing Advisory Group, Public Company Accounting Oversight Board, Member (until 2014); BlackRock, Inc. (investment management), Managing Director (until 2014), BlackRock Finco UK (investment management), Director (until 2014)	N/A
Maureen R. Goldfarb (age 61)	Trustee	January 2009	2019	Private investor	N/A

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Trustees and Officers — continued

Name, Age	Position(s) Held with Fund	Trustee/Officer Since [h]	Term Expiring [l]	Principal Occupations During the Past Five Years	Other Directorships [j]
Michael Hegarty (age 72)	Trustee	December 2004	2017	Private investor	Rouse Properties Inc., Director; Capmark Financial Group Inc., Director (until 2015)
John P. Kavanaugh (age 62)	Trustee and Vice Chair of Trustees	January 2009	2017	Private investor	N/A
Maryanne L. Roepke (age 60)	Trustee	May 2014	2019	American Century Investments (investment management), Senior Vice President and Chief Compliance Officer (until 2014)	N/A
Laurie J. Thomsen (age 59)	Trustee	March 2005	2019	Private investor	The Travelers Companies, Director; Dycom Industries, Inc., Director
OFFICERS					
Christopher R. Bohane [k] (age 42)	Assistant Secretary and Assistant Clerk	July 2005	N/A	Massachusetts Financial Services Company, Vice President and Assistant General Counsel	N/A
Kino Clark [k] (age 48)	Assistant Treasurer	January 2012	N/A	Massachusetts Financial Services Company, Vice President	N/A
Thomas H. Connors [k] (age 57)	Assistant Secretary and Assistant Clerk	September 2012	N/A	Massachusetts Financial Services Company, Vice President and Senior Counsel; Deutsche Investment Management Americas Inc. (financial service provider), Director and Senior Counsel (until 2012)	N/A
Ethan D. Corey [k] (age 53)	Assistant Secretary and Assistant Clerk	July 2005	N/A	Massachusetts Financial Services Company, Senior Vice President and Associate General Counsel	N/A

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Trustees and Officers continued

Name, Age	Position(s) Held with Fund	Trustee/Officer Since [h]	Term Expiring [l]	Principal Occupations During the Past Five Years	Other Directorships [j]
David L. DiLorenzo [k] (age 48)	President	July 2005	N/A	Massachusetts Financial Services Company, Senior Vice President	N/A
Brian E. Langenfeld [k] (age 43)	Assistant Secretary and Assistant Clerk	June 2006	N/A	Massachusetts Financial Services Company, Vice President and Senior Counsel	N/A
Susan A. Pereira [k] (age 46)	Assistant Secretary and Assistant Clerk	July 2005	N/A	Massachusetts Financial Services Company, Vice President and Senior Counsel	N/A
Kasey L. Phillips [k] (age 46)	Assistant Treasurer	September 2012	N/A	Massachusetts Financial Services Company, Vice President; Wells Fargo Funds Management, LLC, Senior Vice President, Fund Treasurer (until 2012)	N/A
Mark N. Polebaum [k] (age 64)	Secretary and Clerk	January 2006	N/A	Massachusetts Financial Services Company, Executive Vice President, General Counsel and Secretary	N/A
Matthew A. Stowe [k] (age 42)	Assistant Secretary and Assistant Clerk	October 2014	N/A	Massachusetts Financial Services Company, Vice President and Assistant General Counsel	N/A
Frank L. Tarantino (age 72)	Independent Senior Officer	June 2004	N/A	Tarantino LLC (provider of compliance services), Principal	N/A
Richard S. Weitzel [k] (age 46)	Assistant Secretary and Assistant Clerk	October 2007	N/A	Massachusetts Financial Services Company, Senior Vice President and Associate General Counsel	N/A

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Trustees and Officers   continued

Name, Age	Position(s) Held with Fund	Trustee/Officer Since [h]	Term Expiring [l]	Principal Occupations During the Past Five Years	Other Directorships [j]
Martin J. Wolin [k] (age 49)	Chief Compliance Officer	July 2015	N/A	Massachusetts Financial Services Company, Senior Vice President and Chief Compliance Officer (since July 2015); Mercer (financial service provider), Chief Risk and Compliance Officer, North America and Latin America (until June 2015)	N/A
James O. Yost [k] (age 56)	Treasurer	September 1990	N/A	Massachusetts Financial Services Company, Senior Vice President	N/A

(h) Date first appointed to serve as Trustee/officer of an MFS Fund. Each Trustee has served continuously since appointment unless indicated otherwise. For the period from December 15, 2004 until February 22, 2005, Mr. Manning served as Advisory Trustee. Prior to January 2012, Messrs. DiLorenzo and Yost served as Assistant Treasurers of the Funds. From January 2012 through December 2016, Messrs. DiLorenzo and Yost served as Treasurer and Deputy Treasurer of the Funds, respectively.

(j) Directorships or trusteeships of companies required to report to the Securities and Exchange Commission (i.e., public companies).

(k) Interested person of the Trust within the meaning of the Investment Company Act of 1940 (referred to as the 1940 Act), which is the principal federal law governing investment companies like the fund, as a result of a position with MFS. The address of MFS is 111 Huntington Avenue, Boston, Massachusetts 02199-7618.

(l) Under the terms of the Boards retirement policy, an Independent Trustee shall retire at the end of the calendar year in which he or she reaches the earlier of 75 years of age or 15 years of service on the Board (or, in the case of any Independent Trustee who joined the Board prior to 2015, 20 years of service on the Board).

The Trust holds annual shareholder meetings for the purpose of electing Trustees, and Trustees are elected for fixed terms. The Board of Trustees is currently divided into three classes, each having a term of three years which term expires on the date of the third annual meeting following the election to office of the Trustee s class. Each year the term of one class expires. Each Trustee and officer will serve until next elected or his or her earlier death, resignation, retirement or removal.

Messrs. Buller and Kavanaugh and Ms. Roepke are members of the Fund s Audit Committee.

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Trustees and Officers continued

Each of the Fund s Trustees and officers holds comparable positions with certain other funds of which MFS or a subsidiary is the investment adviser or distributor, and, in the case of the officers, with certain affiliates of MFS. As of January 1, 2017, the Trustees served as board members of 138 funds within the MFS Family of Funds.

Investment Adviser
Massachusetts Financial Services Company
111 Huntington Avenue
Boston, MA 02199-7618

Portfolio Managers
Richard Hawkins
William Adams
Ward Brown
David Cole
Pilar Gomez-Bravo
Joshua Marston
Robert Persons
Matt Ryan
Robert Spector
Erik Weisman

Custodian
State Street Bank and Trust Company
1 Lincoln Street
Boston, MA 02111-2900

Independent Registered Public Accounting Firm
Ernst & Young LLP
200 Clarendon Street
Boston, MA 02116

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BOARD REVIEW OF INVESTMENT ADVISORY AGREEMENT

The Investment Company Act of 1940 requires that both the full Board of Trustees and a majority of the non-interested (independent) Trustees, voting separately, annually approve the continuation of the Fund s investment advisory agreement with MFS. The Trustees consider matters bearing on the Fund and its advisory arrangements at their meetings throughout the year, including a review of performance data at each regular meeting. In addition, the independent Trustees met several times over the course of three months beginning in May and ending in July, 2016 (contract review meetings) for the specific purpose of considering whether to approve the continuation of the investment advisory agreement for the Fund and the other investment companies that the Board oversees (the MFS Funds). The independent Trustees were assisted in their evaluation of the Fund s investment advisory agreement by independent legal counsel, from whom they received separate legal advice and with whom they met separately from MFS during various contract review meetings. The independent Trustees were also assisted in this process by the MFS Funds Independent Senior Officer, a senior officer appointed by and reporting to the independent Trustees.

In connection with their deliberations regarding the continuation of the investment advisory agreement, the Trustees, including the independent Trustees, considered such information and factors as they believed, in light of the legal advice furnished to them and their own business judgment, to be relevant. The investment advisory agreement for the Fund was considered separately, although the Trustees also took into account the common interests of all MFS Funds in their review. As described below, the Trustees considered the nature, quality, and extent of the various investment advisory, administrative, and shareholder services performed by MFS under the existing investment advisory agreement and other arrangements with the Fund.

In connection with their contract review meetings, the Trustees received and relied upon materials that included, among other items: (i) information provided by Broadridge Financial Solutions, Inc. (Broadridge), an independent third party, on the investment performance (based on net asset value) of the Fund for various time periods ended December 31, 2015 and the investment performance (based on net asset value) of a group of funds with substantially similar investment classifications/objectives (the Lipper performance universe), (ii) information provided by Broadridge on the Fund s advisory fees and other expenses and the advisory fees and other expenses of comparable funds identified by Broadridge (the Broadridge expense group), (iii) information provided by MFS on the advisory fees of portfolios of other clients of MFS, including institutional separate accounts and other clients, (iv) information as to whether and to what extent applicable expense waivers, reimbursements or fee breakpoints are observed for the Fund, (v) information regarding MFS financial results and financial condition, including MFS and certain of its affiliates estimated profitability from services performed for the Fund and the MFS Funds as a whole, and compared to MFS institutional business, (vi) MFS views regarding the outlook for the mutual fund industry and the strategic business plans of MFS, (vii) descriptions of various functions performed by MFS for the Funds, such as compliance monitoring and portfolio trading practices, and (viii) information regarding the overall organization of MFS, including information about MFS senior management and other personnel

Board Review of Investment Advisory Agreement continued

providing investment advisory, administrative and other services to the Fund and the other MFS Funds. The comparative performance, fee and expense information prepared and provided by Broadridge was not independently verified and the independent Trustees did not independently verify any information provided to them by MFS.

The Trustees conclusion as to the continuation of the investment advisory agreement was based on a comprehensive consideration of all information provided to the Trustees and not the result of any single factor. Some of the factors that figured particularly in the Trustees deliberations are described below, although individual Trustees may have evaluated the information presented differently from one another, giving different weights to various factors. It is also important to recognize that the fee arrangements for the Fund and other MFS Funds are the result of years of review and discussion between the independent Trustees and MFS, that certain aspects of such arrangements may receive greater scrutiny in some years than in others, and that the Trustees conclusions may be based, in part, on their consideration of these same arrangements during the course of the year and in prior years.

Based on information provided by Broadridge and MFS, the Trustees reviewed the Fund s total return investment performance as well as the performance of peer groups of funds over various time periods. The Trustees placed particular emphasis on the total return performance of the Fund s common shares in comparison to the performance of funds in its Lipper performance universe over the three-year period ended December 31, 2015, which the Trustees believed was a long enough period to reflect differing market conditions. The total return performance of the Fund s common shares ranked 11th out of a total of 20 funds in the Lipper performance universe for this three-year period (a ranking of first place out of the total number of funds in the performance universe indicating the best performer and a ranking of last place out of the total number of funds in the performance universe indicating the worst performer). The total return performance of the Fund s common shares ranked 11th out of a total of 24 funds for the one-year period and 12th out of a total of 18 funds for the five-year period ended December 31, 2015. Given the size of the Lipper performance universe and information previously provided by MFS regarding differences between the Fund and the other funds in its Lipper performance universe, the Trustees also reviewed the Fund s performance in comparison to a custom benchmark developed by MFS. The Fund under-performed its custom benchmark for the one-year period ended December 31, 2015 and out-performed its benchmark for the three- and five-year periods ended December 31, 2015 (one-year: 1.7% total return for the Fund versus -1.3% total return for the benchmark; three-year: 2.4% total return for the Fund versus 1.8% total return for the benchmark; five-year: 5.3% total return for the Fund versus 4.5% total return for the benchmark). Because of the passage of time, these performance results may differ from the performance results for more recent periods, including those shown elsewhere in this report.

In the course of their deliberations, the Trustees took into account information provided by MFS in connection with the contract review meetings, as well as during investment review meetings conducted with portfolio management personnel during the course of the year regarding the Fund s performance. After reviewing these and

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Board Review of Investment Advisory Agreement continued

related factors, the Trustees concluded, within the context of their overall conclusions regarding the investment advisory agreement, that they were satisfied with MFS responses and efforts relating to investment performance.

In assessing the reasonableness of the Fund s advisory fee, the Trustees considered, among other information, the Fund s advisory fee and the total expense ratio of the Fund s common shares as a percentage of average daily net assets and the advisory fee and total expense ratios of peer groups of funds based on information provided by Broadridge. The Trustees considered that, according to the data provided by Broadridge (which takes into account any fee reductions or expense limitations that were in effect during the Fund s last fiscal year), the Fund s effective advisory fee rate and total expense ratio were each lower than the Broadridge expense group median.

The Trustees also considered the advisory fees charged by MFS to any institutional separate accounts advised by MFS (separate accounts) and unaffiliated investment companies for which MFS serves as subadviser (subadvised funds) that have comparable investment strategies to the Fund. In comparing these fees, the Trustees considered information provided by MFS as to the generally broader scope of services provided by MFS to the Fund, as well as the more extensive regulatory burdens imposed on MFS in managing the Fund, in comparison to separate accounts and subadvised funds.

The Trustees considered that, as a closed-end fund, the Fund is unlikely to experience meaningful asset growth. As a result, the Trustees did not view the potential for realization of economies of scale as the Fund s assets grow to be a material factor in their deliberations. The Trustees noted that they would consider economies of scale in the future in the event the Fund experiences significant asset growth, such as through an offering of preferred shares (which is not currently contemplated) or a material increase in the market value of the Fund s portfolio securities.

The Trustees also considered information prepared by MFS relating to MFS costs and profits with respect to the Fund, the MFS Funds considered as a group, and other investment companies and accounts advised by MFS, as well as MFS methodologies used to determine and allocate its costs to the MFS Funds, the Fund and other accounts and products for purposes of estimating profitability.

After reviewing these and other factors described herein, the Trustees concluded, within the context of their overall conclusions regarding the investment advisory agreement, that the advisory fees charged to the Fund represent reasonable compensation in light of the services being provided by MFS to the Fund.

In addition, the Trustees considered MFS resources and related efforts to continue to retain, attract and motivate capable personnel to serve the Fund. The Trustees also considered current and developing conditions in the financial services industry, including the presence of large and well-capitalized companies which are spending, and appear to be prepared to continue to spend, substantial sums to engage personnel and to provide services to competing investment companies. In this regard, the Trustees also considered the financial resources of MFS and its ultimate parent, Sun Life Financial Inc. The Trustees also considered the advantages and possible disadvantages to the Fund of having an adviser that also serves other investment companies as well as other accounts.

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Board Review of Investment Advisory Agreement continued

The Trustees also considered the nature, quality, cost, and extent of administrative services provided to the Fund by MFS under agreements other than the investment advisory agreement. The Trustees also considered the nature, extent and quality of certain other services MFS performs or arranges for on the Fund s behalf, which may include securities lending programs, directed expense payment programs, class action recovery programs, and MFS interaction with third-party service providers, principally custodians and sub-custodians. The Trustees concluded that the various non-advisory services provided by MFS and its affiliates on behalf of the Fund were satisfactory.

The Trustees also considered benefits to MFS from the use of the Fund s portfolio brokerage commissions, if applicable, to pay for investment research and various other factors. Additionally, the Trustees considered so-called fall-out benefits to MFS such as reputational value derived from serving as investment manager to the Fund.

Based on their evaluation of factors that they deemed to be material, including those factors described above, the Board of Trustees, including the independent Trustees, concluded that the Fund s investment advisory agreement with MFS should be continued for an additional one-year period, commencing August 1, 2016.

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PROXY VOTING POLICIES AND INFORMATION

MFS votes proxies on behalf of the fund pursuant to proxy voting policies and procedures that are available without charge, upon request, by calling 1-800-225-2606, by visiting *mfs.com* (once you have selected Individual Investor as your role, click on Individual Investor Home in the top navigation and then select Learn More About Proxy Voting under the I want to... header on the left hand column of the page), or by visiting the SEC s Web site at *http://www.sec.gov*.

Information regarding how the fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available by August 31 of each year without charge by visiting mfs.com (once you have selected Individual Investor as your role, click on Individual Investor Home in the top navigation and then select Learn More About Proxy Voting under the I want to... header on the left hand column of the page), or by visiting the SEC s Web site at *http://www.sec.gov*.

QUARTERLY PORTFOLIO DISCLOSURE

The fund will file a complete schedule of portfolio holdings with the Securities and Exchange Commission (the Commission) for the first and third quarters of each fiscal year on Form N-Q. A shareholder can obtain the quarterly portfolio holdings report at mfs.com. The fund s Form N-Q is also available on the EDGAR database on the Commission s Internet Web site at *http://www.sec.gov*, and may be reviewed and copied at the:

Public Reference Room

Securities and Exchange Commission

100 F Street, NE, Room 1580

Washington, D.C. 20549

Information on the operation of the Public Reference Room may be obtained by calling the Commission at 1-800-SEC-0330. Copies of the Fund s Form N-Q also may be obtained, upon payment of a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov or by writing the Public Reference Section at the above address.

FURTHER INFORMATION

From time to time, MFS may post important information about the fund or the MFS funds on the MFS web site *(mfs.com)*. This information is available by visiting the Market Commentary and Announcements sub sections in the Market Outlooks section of *mfs.com* or by clicking on the fund s name under Closed-End Funds in the Products section of *mfs.com*.

Additional information about the fund (e.g. performance, dividends and the fund s price history) is also available by clicking on the fund s name under Closed-End Funds in the Products section of *mfs.com*.

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INFORMATION ABOUT FUND CONTRACTS AND LEGAL CLAIMS

The fund has entered into contractual arrangements with an investment adviser, administrator, transfer agent, and custodian who each provide services to the fund. Unless expressly stated otherwise, shareholders are not parties to, or intended beneficiaries of these contractual arrangements, and these contractual arrangements are not intended to create any shareholder right to enforce them against the service providers or to seek any remedy under them against the service providers, either directly or on behalf of the fund.

Under the Trust s By-Laws and Declaration of Trust, any claims asserted against or on behalf of the MFS Funds, including claims against Trustees and Officers, must be brought in state and federal courts located within the Commonwealth of Massachusetts.

FEDERAL TAX INFORMATION (unaudited)

The fund will notify shareholders of amounts for use in preparing 2016 income tax forms in January 2017.

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FACTS	**WHAT DOES MFS DO WITH YOUR PERSONAL INFORMATION?**
Why?	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
What?	The types of personal information we collect and share depend on the product or service you have with us. This information can include: Social Security number and account balances Account transactions and transaction history Checking account information and wire transfer instructions When you are *no longer* our customer, we continue to share your information as described in this notice.
How?	All financial companies need to share customers personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers personal information; the reasons MFS chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does MFS share?	Can you limit this sharing?
For our everyday business purposes such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
For our marketing purposes to offer our products and services to you	No	We don t share
For joint marketing with other financial companies	No	We don t share
For our affiliates everyday business purposes information about your transactions and experiences	No	We don t share
For our affiliates everyday business purposes	No	We don t share

information about your creditworthiness		
For nonaffiliates to market to you	No	We don t share

Questions? Call **800-225-2606** or go to **mfs.com**.

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Who we are

Who is providing this notice?	MFS Funds, MFS Investment Management, MFS Institutional Advisors, Inc., and MFS Heritage Trust Company.

What we do

How does MFS protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include procedural, electronic, and physical safeguards for the protection of the personal information we collect about you.
How does MFS collect my personal information?	We collect your personal information, for example, when you open an account or provide account information direct us to buy securities or direct us to sell your securities make a wire transfer We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.
Why can t I limit all sharing?	Federal law gives you the right to limit only sharing for affiliates everyday business purposes information about your creditworthiness affiliates from using your information to market to you sharing for nonaffiliates to market to you State laws and individual companies may give you additional rights to limit sharing.

Definitions

Affiliates	Companies related by common ownership or control. They can be financial and nonfinancial companies.

	MFS does not share personal information with affiliates, except for everyday business purposes as described on page one of this notice.
Nonaffiliates	Companies not related by common ownership or control. They can be financial and nonfinancial companies.
	MFS does not share with nonaffiliates so they can market to you.
Joint marketing	A formal agreement between nonaffiliated financial companies that together market financial products or services to you.
	MFS doesn t jointly market.

Other important information

If you own an MFS product or receive an MFS service in the name of a third party such as a bank or broker-dealer, their privacy policy may apply to you instead of ours.

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CONTACT US

TRANSFER AGENT, REGISTRAR, AND

DIVIDEND DISBURSING AGENT

CALL

1-800-637-2304

9 a.m. to 5 p.m. Eastern time

WRITE

Computershare Trust Company, N.A.

P.O. Box 43078

Providence, RI 02940-3078

New York Stock Exchange Symbol: **MCR**

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ITEM 2. CODE OF ETHICS.

The Registrant has adopted a Code of Ethics pursuant to Section 406 of the Sarbanes-Oxley Act and as defined in Form N-CSR that applies to the Registrant s principal executive officer and principal financial and accounting officer. During the period covered by this report, the Registrant has not amended any provision in its Code of Ethics (the Code) that relates to an element of the Code s definition enumerated in paragraph (b) of Item 2 of this Form N-CSR. However, effective January 1, 2017, the Code was amended to (i) clarify that the term for profit company as used in Section II.B of the Code excludes the investment adviser and its subsidiaries and pooled investment vehicles sponsored by the investment adviser or its subsidiaries, (ii) align the Code s provisions regarding receipt of gifts and entertainment in Section II.B of the Code with the gifts and entertainment policy of the Funds investment adviser, and (iii) make other administrative changes. During the period covered by this report, the Registrant did not grant a waiver, including an implicit waiver, from any provision of the Code.

A copy of the Code of Ethics amended effective as of January 1, 2017 is filed as an exhibit to this Form N-CSR.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Messrs. Steven E. Buller and John P. Kavanaugh and Ms. Maryanne L. Roepke, members of the Audit Committee, have been determined by the Board of Trustees in their reasonable business judgment to meet the definition of audit committee financial expert as such term is defined in Form N-CSR. In addition, Messrs. Buller and Kavanaugh and Ms. Roepke are independent members of the Audit Committee (as such term has been defined by the Securities and Exchange Commission in regulations implementing Section 407 of the Sarbanes-Oxley Act of 2002). The Securities and Exchange Commission has stated that the designation of a person as an audit committee financial expert pursuant to this Item 3 on the Form N-CSR does not impose on such a person any duties, obligations or liability that are greater than the duties, obligations or liability imposed on such person as a member of the Audit Committee and the Board of Trustees in the absence of such designation or identification.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Items 4(a) through 4(d) and 4(g):

The Board of Trustees has appointed Ernst & Young LLP (E&Y) to serve as independent accountants to the Registrant (hereinafter the Registrant or the Fund). The tables below set forth the audit fees billed to the Fund as well as fees for non-audit services provided to the Fund and/or to the Fund s investment adviser, Massachusetts Financial Services Company (MFS), and to various entities either controlling, controlled by, or under common control with MFS that provide ongoing services to the Fund (MFS Related Entities).

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For the fiscal years ended November 30, 2016 and 2015, audit fees billed to the Fund by E&Y were as follows:

	Audit Fees 2016	Audit Fees 2015
Fees billed by E&Y:		
MFS Charter Income Trust	55,056	55,056

For the fiscal years ended November 30, 2016 and 2015, fees billed by E&Y for audit-related, tax and other services provided to the Fund and for audit-related, tax and other services provided to MFS and MFS Related Entities were as follows:

	Audit-Related Fees[1]		Tax Fees[2]		All Other Fees[3]	
	2016	2015	2016	2015	2016	2015
Fees billed by E&Y:						
To MFS Charter Income Trust	11,027	11,027	10,303	10,269	1,200	1,027

	Audit-Related Fees[1]		Tax Fees[2]		All Other Fees[3]	
	2016	2015	2016	2015	2016	2015
Fees billed by E&Y:						
To MFS and MFS Related Entities of MFS Charter Income Trust*	1,412,499	1,120,675	0	0	116,023	99,446

	Aggregate Fees for Non-audit Services	
	2016	2015
Fees Billed by E&Y:		
To MFS Charter Income Trust, MFS and MFS Related Entities#	1,676,652	1,493,444

* This amount reflects the fees billed to MFS and MFS Related Entities for non-audit services relating directly to the operations and financial reporting of the Fund (portions of which services also related to the operations and financial reporting of other funds within the MFS Funds complex).

\# This amount reflects the aggregate fees billed by E&Y for non-audit services rendered to the Fund and for non-audit services rendered to MFS and the MFS Related Entities.

1 The fees included under Audit-Related Fees are fees related to assurance and related services that are reasonably related to the performance of the audit or review of financial statements, but not reported under Audit Fees, including accounting consultations, agreed-upon procedure reports, attestation reports, comfort letters and internal control reviews.

2 The fees included under Tax Fees are fees associated with tax compliance, tax advice and tax planning, including services relating to the filing or amendment of federal, state or local income tax returns, regulated investment company qualification reviews and tax distribution and analysis.

3 The fees included under All Other Fees are fees for products and services provided by E&Y other than those reported under Audit Fees, Audit-Related Fees and Tax Fees, including fees for services related to review of internal controls and review of Rule 38a-1 compliance program.

Item 4(e)(1):

Set forth below are the policies and procedures established by the Audit Committee of the Board of Trustees relating to the pre-approval of audit and non-audit related services:

To the extent required by applicable law, pre-approval by the Audit Committee of the Board is needed for all audit and permissible non-audit services rendered to the Fund and all permissible non-audit services rendered to MFS or MFS Related Entities if the services relate directly to the operations and financial reporting of the Registrant. Pre-approval is currently on an engagement-by-engagement basis. In the event pre-approval of such services is necessary between regular meetings of the Audit Committee and it is not practical to wait to seek pre-approval at the next regular meeting of the Audit Committee, pre-approval of such services may be referred to the Chair of the Audit Committee for approval; provided that the Chair may not pre-approve any individual engagement for such services exceeding $50,000 or multiple engagements for such services in the aggregate exceeding $100,000 between such regular meetings of the Audit Committee. Any engagement pre-approved by the Chair between regular meetings of the Audit Committee shall be presented for ratification by the entire Audit Committee at its next regularly scheduled meeting.

Item 4(e)(2):

None, or 0%, of the services relating to the Audit-Related Fees, Tax Fees and All Other Fees paid by the Fund and MFS and MFS Related Entities relating directly to the operations and financial reporting of the Registrant disclosed above were approved by the audit committee pursuant to paragraphs (c)(7)(i)(C) of Rule 2-01 of Regulation S-X (which permits audit committee approval after the start of the engagement with respect to services other than audit, review or attest services, if certain conditions are satisfied).

Item 4(f): Not applicable.

Item 4(h): The Registrant s Audit Committee has considered whether the provision by a Registrant s independent registered public accounting firm of non-audit services to MFS and MFS Related Entities that were not pre-approved by the Committee (because such services were provided prior to the effectiveness of SEC rules requiring pre-approval or because such services did not relate directly to the operations and financial reporting of the Registrant) was compatible with maintaining the independence of the independent registered public accounting firm as the Registrant s principal auditors.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

The Registrant has an Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the Audit Committee are Messrs. Steven E. Buller and John P. Kavanaugh and Ms. Maryanne L. Roepke.

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ITEM 6. SCHEDULE OF INVESTMENTS

A schedule of investments of the Registrant is included as part of the report to shareholders of the Registrant under Item 1 of this Form N-CSR.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

MASSACHUSETTS FINANCIAL SERVICES COMPANY

PROXY VOTING POLICIES AND PROCEDURES

February 1, 2016

Massachusetts Financial Services Company, MFS Institutional Advisors, Inc., MFS International (UK) Limited, MFS Heritage Trust Company, MFS Investment Management (Canada) Limited, MFS Investment Management Company (Lux) S.à r.l., MFS International Singapore Pte. Ltd., MFS Investment Management K.K., and MFS other subsidiaries that perform discretionary investment management activities (collectively, MFS) have adopted proxy voting policies and procedures, as set forth below (MFS Proxy Voting Policies and Procedures), with respect to securities owned by the clients for which MFS serves as investment adviser and has the power to vote proxies, including the pooled investment vehicles sponsored by MFS (the MFS Funds). References to clients in these policies and procedures include the MFS Funds and other clients of MFS, such as funds organized offshore, sub-advised funds and separate account clients, to the extent these clients have delegated to MFS the responsibility to vote proxies on their behalf under the MFS Proxy Voting Policies and Procedures.

The MFS Proxy Voting Policies and Procedures include:

A. Voting Guidelines;

B. Administrative Procedures;

C Records Retention; and

D. Reports.

A. VOTING GUIDELINES

1. General Policy; Potential Conflicts of Interest

MFS policy is that proxy voting decisions are made in what MFS believes to be the best long-term economic interests of MFS clients, and not in the interests of any other party or in MFS corporate interests, including interests such as the distribution of MFS Fund shares and institutional client relationships.

MFS reviews corporate governance issues and proxy voting matters that are presented for shareholder vote by either management or shareholders of public companies. Based on the overall principle that all votes cast by MFS on behalf of its clients must be in what MFS believes to be the best long-term economic interests of such clients, MFS has adopted proxy voting guidelines, set forth below, that govern how MFS generally will vote on specific matters presented for shareholder vote.

As a general matter, MFS votes consistently on similar proxy proposals across all shareholder meetings. However, some proxy proposals, such as certain excessive executive compensation, environmental, social and governance matters, are analyzed on a case-by-case basis in light of all the relevant facts and circumstances of the proposal. Therefore, MFS may vote similar proposals differently at different shareholder meetings based on the specific facts and circumstances of the issuer or the terms of the proposal. In addition, MFS also reserves the right to override the guidelines with respect to a particular proxy proposal when such an override is, in MFS best judgment, consistent with the overall principle of voting proxies in the best long-term economic interests of MFS clients.

MFS also generally votes consistently on the same matter when securities of an issuer are held by multiple client accounts, unless MFS has received explicit voting instructions to vote differently from a client for its own account. From time to time, MFS may also receive comments on the MFS Proxy Voting Policies and Procedures from its clients. These comments are carefully considered by MFS when it reviews these guidelines and revises them as appropriate.

These policies and procedures are intended to address any potential material conflicts of interest on the part of MFS or its subsidiaries that are likely to arise in connection with the voting of proxies on behalf of MFS clients. If such potential material conflicts of interest do arise, MFS will analyze, document and report on such potential material conflicts of interest (see Sections B.2 and D below), and shall ultimately vote the relevant proxies in what MFS believes to be the best long-term economic interests of its clients. The MFS Proxy Voting Committee is responsible for monitoring and reporting with respect to such potential material conflicts of interest.

MFS is also a signatory to the United Nations Principles for Responsible Investment. In developing these guidelines, MFS considered environmental, social and corporate governance issues in light of MFS fiduciary obligation to vote proxies in the best long-term economic interest of its clients.

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2. MFS Policy on Specific Issues
Election of Directors

MFS believes that good governance should be based on a board with at least a simple majority of directors who are independent of management, and whose key committees (e.g., compensation, nominating, and audit committees) consist entirely of independent directors. While MFS generally supports the board s nominees in uncontested or non-contentious elections, we will not support a nominee to a board of a U.S. issuer (or issuer listed on a U.S. exchange) if, as a result of such nominee being elected to the board, the board would consist of a simple majority of members who are not independent or, alternatively, the compensation, nominating (including instances in which the full board serves as the compensation or nominating committee) or audit committees would include members who are not independent.

MFS will also not support a nominee to a board if we can determine that he or she attended less than 75% of the board and/or relevant committee meetings in the previous year without a valid reason stated in the proxy materials or other company communications. In addition, MFS may not support some or all nominees standing for re-election to a board if we can determine: (1) the board or its compensation committee has re-priced or exchanged underwater stock options since the last annual meeting of shareholders and without shareholder approval; (2) the board or relevant committee has not taken adequately responsive action to an issue that received majority support or opposition from shareholders; (3) the board has implemented a poison pill without shareholder approval since the last annual meeting and such poison pill is not on the subsequent shareholder meeting s agenda, (including those related to net-operating loss carry-forwards); (4) the board or relevant committee has failed to adequately oversee risk by allowing the hedging and/or significant pledging of company shares by executives; or (5) there are governance concerns with a director or issuer.

MFS may not support certain board nominees of U.S. issuers under certain circumstances where MFS deems compensation to be egregious due to pay-for-performance issues and/or poor pay practices. Please see the section below titled MFS Policy on Specific Issues - Advisory Votes on Executive Compensation for further details.

MFS evaluates a contested or contentious election of directors on a case-by-case basis considering the long-term financial performance of the company relative to its industry, management s track record, the qualifications of all nominees, and an evaluation of what each side is offering shareholders.

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Majority Voting and Director Elections

MFS votes for reasonably crafted proposals calling for directors to be elected with an affirmative majority of votes cast and/or the elimination of the plurality standard for electing directors (including binding resolutions requesting that the board amend the company s bylaws), provided the proposal includes a carve-out for a plurality voting standard when there are more director nominees than board seats (*e.g.,* contested elections) (Majority Vote Proposals).

Classified Boards

MFS generally supports proposals to declassify a board (i.e.; a board in which only one-third of board members is elected each year) for all issuers other than for certain closed-end investment companies. MFS generally opposes proposals to classify a board for issuers other than for certain closed-end investment companies.

Proxy Access

MFS believes that the ability of qualifying shareholders to nominate a certain number of directors on the company s proxy statement (Proxy Access) may have corporate governance benefits. However, such potential benefits must be balanced by its potential misuse by shareholders. Therefore, we support Proxy Access proposals at U.S. issuers that establish an ownership criteria of 3% of the company held continuously for a period of 3 years. In our view, such qualifying shareholders should have the ability to nominate at least 2 directors. Companies should be mindful of imposing any undue impediments within its bylaws that may render Proxy Access impractical.

MFS analyzes all other proposals seeking Proxy Access on a case-by-case basis. In its analysis, MFS will consider the proposed ownership criteria for qualifying shareholders (such as ownership threshold and holding period) as well as the proponent s rationale for seeking Proxy Access.

Stock Plans

MFS opposes stock option programs and restricted stock plans that provide unduly generous compensation for officers, directors or employees, or that could result in excessive dilution to other shareholders. As a general guideline, MFS votes against restricted stock, stock option, non-employee director, omnibus stock plans and any other stock plan if all such plans for a particular company involve potential dilution, in the aggregate, of more than 15%. However, MFS will also vote against stock plans that involve potential dilution, in aggregate, of more than 10% at U.S. issuers that are listed in the Standard and Poor s 100 index as of December 31 of the previous year. In the cases where a stock plan amendment is seeking qualitative changes and not additional shares, MFS will vote its shares on a case-by-case basis.

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MFS also opposes stock option programs that allow the board or the compensation committee to re-price underwater options or to automatically replenish shares without shareholder approval. MFS also votes against stock option programs for officers, employees or non-employee directors that do not require an investment by the optionee, that give free rides on the stock price, or that permit grants of stock options with an exercise price below fair market value on the date the options are granted. MFS will consider proposals to exchange existing options for newly issued options, restricted stock or cash on a case-by-case basis, taking into account certain factors, including, but not limited to, whether there is a reasonable value-for-value exchange and whether senior executives are excluded from participating in the exchange.

MFS supports the use of a broad-based employee stock purchase plans to increase company stock ownership by employees, provided that shares purchased under the plan are acquired for no less than 85% of their market value and do not result in excessive dilution.

Shareholder Proposals on Executive Compensation

MFS believes that competitive compensation packages are necessary to attract, motivate and retain executives. However, MFS also recognizes that certain executive compensation practices can be excessive and not in the best, long-term economic interest of a company s shareholders. We believe that the election of an issuer s board of directors (as outlined above), votes on stock plans (as outlined above) and advisory votes on pay (as outlined below) are typically the most effective mechanisms to express our view on a company s compensation practices.

MFS generally opposes shareholder proposals that seek to set rigid restrictions on executive compensation as MFS believes that compensation committees should retain some flexibility to determine the appropriate pay package for executives. Although we support linking executive stock option grants to a company s performance, MFS also opposes shareholder proposals that mandate a link of performance-based pay to a specific metric. MFS generally supports reasonably crafted shareholder proposals that (i) require the issuer to adopt a policy to recover the portion of performance-based bonuses and awards paid to senior executives that were not earned based upon a significant negative restatement of earnings unless the company already has adopted a satisfactory policy on the matter, (ii) expressly prohibit the backdating of stock options, and (iii) prohibit the acceleration of vesting of equity awards upon a broad definition of a change-in-control (e.g.; single or modified single-trigger).

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Advisory Votes on Executive Compensation

MFS will analyze advisory votes on executive compensation on a case-by-case basis. MFS will vote against an advisory vote on executive compensation if MFS determines that the issuer has adopted excessive executive compensation practices and will vote in favor of an advisory vote on executive compensation if MFS has not determined that the issuer has adopted excessive executive compensation practices. Examples of excessive executive compensation practices may include, but are not limited to, a pay-for-performance disconnect, employment contract terms such as guaranteed bonus provisions, unwarranted pension payouts, backdated stock options, overly generous hiring bonuses for chief executive officers, unnecessary perquisites, or the potential reimbursement of excise taxes to an executive in regards to a severance package. In cases where MFS (i) votes against consecutive advisory pay votes, or (ii) determines that a particularly egregious excessive executive compensation practice has occurred, then MFS may also vote against certain or all board nominees. MFS may also vote against certain or all board nominees if an advisory pay vote for a U.S. issuer is not on the agenda, or the company has not implemented the advisory vote frequency supported by a plurality/ majority of shareholders.

MFS generally supports proposals to include an advisory shareholder vote on an issuer s executive compensation practices on an annual basis.

Golden Parachutes

From time to time, MFS may evaluate a separate, advisory vote on severance packages or golden parachutes to certain executives at the same time as a vote on a proposed merger or acquisition. MFS will support an advisory vote on a severance package on a on a case-by-case basis, and MFS may vote against the severance package regardless of whether MFS supports the proposed merger or acquisition.

Shareholders of companies may also submit proxy proposals that would require shareholder approval of severance packages for executive officers that exceed certain predetermined thresholds. MFS votes in favor of such shareholder proposals when they would require shareholder approval of any severance package for an executive officer that exceeds a certain multiple of such officer s annual compensation that is not determined in MFS judgment to be excessive.

Anti-Takeover Measures

In general, MFS votes against any measure that inhibits capital appreciation in a stock, including proposals that protect management from action by shareholders. These types of proposals take many forms, ranging from poison pills and shark repellents to super-majority requirements.

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MFS generally votes for proposals to rescind existing poison pills and proposals that would require shareholder approval to adopt prospective poison pills, unless the company already has adopted a clearly satisfactory policy on the matter. MFS may consider the adoption of a prospective poison pill or the continuation of an existing poison pill if we can determine that the following two conditions are met: (1) the poison pill allows MFS clients to hold an aggregate position of up to 15% of a company s total voting securities (and of any class of voting securities); and (2) either (a) the poison pill has a term of not longer than five years, provided that MFS will consider voting in favor of the poison pill if the term does not exceed seven years and the poison pill is linked to a business strategy or purpose that MFS believes is likely to result in greater value for shareholders; or (b) the terms of the poison pill allow MFS clients the opportunity to accept a fairly structured and attractively priced tender offer (e.g. a chewable poison pill that automatically dissolves in the event of an all cash, all shares tender offer at a premium price). MFS will also consider on a case-by-case basis proposals designed to prevent tenders which are disadvantageous to shareholders such as tenders at below market prices and tenders for substantially less than all shares of an issuer.

MFS will consider any poison pills designed to protect a company s net-operating loss carryforwards on a case-by-case basis, weighing the accounting and tax benefits of such a pill against the risk of deterring future acquisition candidates.

Proxy Contests

From time to time, a shareholder may express alternative points of view in terms of a company s strategy, capital allocation, or other issues. Such shareholder may also propose a slate of director nominees different than the slate of director nominees proposed by the company (a Proxy Contest). MFS will analyze Proxy Contests on a case-by-case basis, taking into consideration the track record and current recommended initiatives of both company management and the dissident shareholder(s). Like all of our proxy votes, MFS will support the slate of director nominees that we believe is in the best, long-term economic interest of our clients.

Reincorporation and Reorganization Proposals

When presented with a proposal to reincorporate a company under the laws of a different state, or to effect some other type of corporate reorganization, MFS considers the underlying purpose and ultimate effect of such a proposal in determining whether or not to support such a measure. MFS generally votes with management in regards to these types of proposals, however, if MFS believes the proposal is in the best long-term economic interests of its clients, then MFS may vote against management (e.g. the intent or effect would be to create additional inappropriate impediments to possible acquisitions or takeovers).

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Issuance of Stock

There are many legitimate reasons for the issuance of stock. Nevertheless, as noted above under Stock Plans, when a stock option plan (either individually or when aggregated with other plans of the same company) would substantially dilute the existing equity (e.g. by approximately 10-15% as described above), MFS generally votes against the plan. In addition, MFS typically votes against proposals where management is asking for authorization to issue common or preferred stock with no reason stated (a blank check) because the unexplained authorization could work as a potential anti-takeover device. MFS may also vote against the authorization or issuance of common or preferred stock if MFS determines that the requested authorization is excessive or not warranted.

Repurchase Programs

MFS supports proposals to institute share repurchase plans in which all shareholders have the opportunity to participate on an equal basis. Such plans may include a company acquiring its own shares on the open market, or a company making a tender offer to its own shareholders.

Cumulative Voting

MFS opposes proposals that seek to introduce cumulative voting and for proposals that seek to eliminate cumulative voting. In either case, MFS will consider whether cumulative voting is likely to enhance the interests of MFS clients as minority shareholders.

Written Consent and Special Meetings

The right to call a special meeting or act by written consent can be a powerful tool for shareholders. As such, MFS supports proposals requesting the right for shareholders who hold at least 10% of the issuer s outstanding stock to call a special meeting. MFS also supports proposals requesting the right for shareholders to act by written consent.

Independent Auditors

MFS believes that the appointment of auditors for U.S. issuers is best left to the board of directors of the company and therefore supports the ratification of the board s selection of an auditor for the company. Some shareholder groups have submitted proposals to limit the non-audit activities of a company s audit firm or prohibit *any* non-audit services by a company s auditors to that company. MFS opposes proposals recommending the prohibition or limitation of the performance of non-audit services by an auditor, and proposals recommending the removal of a company s auditor due to the performance of non-audit work for the company by its auditor. MFS believes that the board, or its audit committee, should have the discretion to hire the company s auditor for specific pieces of non-audit work in the limited situations permitted under current law.

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Other Business

MFS generally votes against other business proposals as the content of any such matter is not known at the time of our vote.

Adjourn Shareholder Meeting

MFS generally supports proposals to adjourn a shareholder meeting if we support the other ballot items on the meeting s agenda. MFS generally votes against proposals to adjourn a meeting if we do not support the other ballot items on the meeting s agenda.

Environmental, Social and Governance (ESG) Issues

MFS believes that a company s ESG practices may have an impact on the company s long-term economic financial performance and will generally support proposals relating to ESG issues that MFS believes are in the best long-term economic interest of the company s shareholders. For those ESG proposals for which a specific policy has not been adopted, MFS considers such ESG proposals on a case-by-case basis. As a result, it may vote similar proposals differently at various shareholder meetings based on the specific facts and circumstances of such proposal.

MFS generally supports proposals that seek to remove governance structures that insulate management from shareholders (*i.e.,* anti-takeover measures) or that seek to enhance shareholder rights. Many of these governance-related issues, including compensation issues, are outlined within the context of the above guidelines. In addition, MFS typically supports proposals that require an issuer to reimburse successful dissident shareholders (who are not seeking control of the company) for reasonable expenses that such dissident incurred in soliciting an alternative slate of director candidates. MFS also generally supports reasonably crafted shareholder proposals requesting increased disclosure around the company s use of collateral in derivatives trading. MFS typically supports proposals for an independent board chairperson. However, we may not support such proposals if we determine there to be an appropriate and effective counter-balancing leadership structure in place (e.g.; a strong, independent lead director with an appropriate level of powers and duties). For any governance-related proposal for which an explicit guideline is not provided above, MFS will consider such proposals on a case-by-case basis and will support such proposals if MFS believes that it is in the best long-term economic interest of the company s shareholders.

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MFS generally supports proposals that request disclosure on the impact of environmental issues on the company s operations, sales, and capital investments. However, MFS may not support such proposals based on the facts and circumstances surrounding a specific proposal, including, but not limited to, whether (i) the proposal is unduly costly, restrictive, or burdensome, (ii) the company already provides publicly-available information that is sufficient to enable shareholders to evaluate the potential opportunities and risks that environmental matters pose to the company s operations, sales and capital investments, or (iii) the proposal seeks a level of disclosure that exceeds that provided by the company s industry peers. MFS will analyze all other environmental proposals on a case-by-case basis and will support such proposals if MFS believes such proposal is in the best long-term economic interest of the company s shareholders.

MFS will analyze social proposals on a case-by-case basis. MFS will support such proposals if MFS believes that such proposal is in the best long-term economic interest of the company s shareholders. Generally, MFS will support shareholder proposals that (i) seek to amend a company s equal employment opportunity policy to prohibit discrimination based on sexual orientation and gender identity; and (ii) request additional disclosure regarding a company s political contributions (including trade organizations and lobbying activity) (unless the company already provides publicly-available information that is sufficient to enable shareholders to evaluate the potential opportunities and risks that such contributions pose to the company s operations, sales and capital investments).

The laws of various states or countries may regulate how the interests of certain clients subject to those laws (e.g. state pension plans) are voted with respect to social issues. Thus, it may be necessary to cast ballots differently for certain clients than MFS might normally do for other clients.

Foreign Issuers

MFS generally supports the election of a director nominee standing for re-election in uncontested or non-contentious elections unless it can be determined that (1) he or she failed to attend at least 75% of the board and/or relevant committee meetings in the previous year without a valid reason given in the proxy materials; (2) since the last annual meeting of shareholders and without shareholder approval, the board or its compensation committee has re-priced underwater stock options; or (3) since the last annual meeting, the board has either implemented a poison pill without shareholder approval or has not taken responsive action to a majority shareholder approved resolution recommending that the poison pill be rescinded. In such circumstances, we will vote against director nominee(s). Also, certain markets outside of the U.S. have adopted best practice guidelines relating to corporate governance matters (*e.g*. the United Kingdom s and Japan Corporate Governance Codes). Many of these guidelines operate on a comply or explain basis. As such, MFS will evaluate any explanations by companies relating to their compliance with a particular corporate governance guideline on a case-by-case basis and may vote against the board nominees or other relevant ballot item if such explanation is not satisfactory. In some circumstances, MFS may submit a vote to abstain from certain director nominees or the relevant ballot items if we have concerns with the nominee or ballot item, but do not believe these concerns rise to the level where a vote against is warranted.

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MFS generally supports the election of auditors, but may determine to vote against the election of a statutory auditor in certain markets if MFS reasonably believes that the statutory auditor is not truly independent.

Some international markets have also adopted mandatory requirements for all companies to hold shareholder votes on executive compensation. MFS will vote against such proposals if MFS determines that a company s executive compensation practices are excessive, considering such factors as the specific market s best practices that seek to maintain appropriate pay-for-performance alignment and to create long-term shareholder value. We may alternatively submit an abstention vote on such proposals in circumstances where our executive compensation concerns are not as severe.

Many other items on foreign proxies involve repetitive, non-controversial matters that are mandated by local law. Accordingly, the items that are generally deemed routine and which do not require the exercise of judgment under these guidelines (and therefore voted with management) for foreign issuers include, but are not limited to, the following: (i) receiving financial statements or other reports from the board; (ii) approval of declarations of dividends; (iii) appointment of shareholders to sign board meeting minutes; (iv) discharge of management and supervisory boards; and (v) approval of share repurchase programs (absent any anti-takeover or other concerns). MFS will evaluate all other items on proxies for foreign companies in the context of the guidelines described above, but will generally vote against an item if there is not sufficient information disclosed in order to make an informed voting decision. For any ballot item where MFS wishes to express a more moderate level of concern than a vote of against, we will cast a vote to abstain.

In accordance with local law or business practices, some foreign companies or custodians prevent the sale of shares that have been voted for a certain period beginning prior to the shareholder meeting and ending on the day following the meeting (share blocking). Depending on the country in which a company is domiciled, the blocking period may begin a stated number of days prior or subsequent to the meeting (e.g. one, three or five days) or on a date established by the company. While practices vary, in many countries the block period can be continued for a longer period if the shareholder meeting is adjourned and postponed to a later date. Similarly, practices vary widely as to the ability of a shareholder to have the block restriction lifted early (e.g. in some countries shares generally can be unblocked up to two days prior to the meeting whereas in other countries the removal of the block appears to be discretionary with the issuer s transfer agent). Due to these restrictions, MFS must balance the benefits to its clients of voting proxies against the potentially serious portfolio management

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consequences of a reduced flexibility to sell the underlying shares at the most advantageous time. For companies in countries with share blocking periods or in markets where some custodians may block shares, the disadvantage of being unable to sell the stock regardless of changing conditions generally outweighs the advantages of voting at the shareholder meeting for routine items. Accordingly, MFS will not vote those proxies in the absence of an unusual, significant vote that outweighs the disadvantage of being unable to sell the stock.

From time to time, governments may impose economic sanctions which may prohibit us from transacting business with certain companies or individuals. These sanctions may also prohibit the voting of proxies at certain companies or on certain individuals. In such instances, MFS will not vote at certain companies or on certain individuals if it determines that doing so is in violation of the sanctions.

In limited circumstances, other market specific impediments to voting shares may limit our ability to cast votes, including, but not limited to, late delivery of proxy materials, untimely vote cut-off dates, power of attorney and share re-registration requirements, or any other unusual voting requirements. In these limited instances, MFS votes securities on a best efforts basis in the context of the guidelines described above.

B. ADMINISTRATIVE PROCEDURES

1. MFS Proxy Voting Committee

The administration of these MFS Proxy Voting Policies and Procedures is overseen by the MFS Proxy Voting Committee, which includes senior personnel from the MFS Legal and Global Investment Support Departments. The Proxy Voting Committee does not include individuals whose primary duties relate to client relationship management, marketing, or sales. The MFS Proxy Voting Committee:

a. Reviews these MFS Proxy Voting Policies and Procedures at least annually and recommends any amendments considered to be necessary or advisable;

b. Determines whether any potential material conflict of interest exists with respect to instances in which MFS (i) seeks to override these MFS Proxy Voting Policies and Procedures; (ii) votes on ballot items not governed by these MFS Proxy Voting Policies and Procedures; (iii) evaluates an excessive executive compensation issue in relation to the election of directors; or (iv) requests a vote recommendation from an MFS portfolio manager or investment analyst (e.g. mergers and acquisitions); and

c. Considers special proxy issues as they may arise from time to time.

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2. ***Potential Conflicts of Interest***

The MFS Proxy Voting Committee is responsible for monitoring potential material conflicts of interest on the part of MFS or its subsidiaries that could arise in connection with the voting of proxies on behalf of MFS clients. Due to the client focus of our investment management business, we believe that the potential for actual material conflict of interest issues is small. Nonetheless, we have developed precautions to assure that all proxy votes are cast in the best long-term economic interest of shareholders.[1] Other MFS internal policies require all MFS employees to avoid actual and potential conflicts of interests between personal activities and MFS client activities. If an employee (including investment professionals) identifies an actual or potential conflict of interest with respect to any voting decision (including the ownership of securities in their individual portfolio), then that employee must recuse himself/herself from participating in the voting process. Any significant attempt by an employee of MFS or its subsidiaries to unduly influence MFS voting on a particular proxy matter should also be reported to the MFS Proxy Voting Committee.

In cases where proxies are voted in accordance with these MFS Proxy Voting Policies and Procedures, no material conflict of interest will be deemed to exist. In cases where (i) MFS is considering overriding these MFS Proxy Voting Policies and Procedures, (ii) matters presented for vote are not governed by these MFS Proxy Voting Policies and Procedures, (iii) MFS evaluates a potentially excessive executive compensation issue in relation to the election of directors or advisory pay or severance package vote, or (iv) a vote recommendation is requested from an MFS portfolio manager or investment analyst (e.g. mergers and acquisitions); (collectively, Non-Standard Votes); the MFS Proxy Voting Committee will follow these procedures:

a. Compare the name of the issuer of such proxy against a list of significant current (i) distributors of MFS Fund shares, and (ii) MFS institutional clients (the MFS Significant Distributor and Client List);

b. If the name of the issuer does not appear on the MFS Significant Distributor and Client List, then no material conflict of interest will be deemed to exist, and the proxy will be voted as otherwise determined by the MFS Proxy Voting Committee;

c. If the name of the issuer appears on the MFS Significant Distributor and Client List, then the MFS Proxy Voting Committee will be apprised of that fact and each member of the MFS Proxy Voting Committee will carefully evaluate the proposed vote in order to ensure that the proxy ultimately is voted in what MFS believes to be the best long-term economic interests of MFS clients, and not in MFS corporate interests; and

[1] For clarification purposes, note that MFS votes in what we believe to be the best, long-term economic interest of our clients entitled to vote at the shareholder meeting, regardless of whether other MFS clients hold short positions in the same issuer.

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d. For all potential material conflicts of interest identified under clause (c) above, the MFS Proxy Voting Committee will document: the name of the issuer, the issuer s relationship to MFS, the analysis of the matters submitted for proxy vote, the votes as to be cast and the reasons why the MFS Proxy Voting Committee determined that the votes were cast in the best long-term economic interests of MFS clients, and not in MFS corporate interests. A copy of the foregoing documentation will be provided to MFS Conflicts Officer.

The members of the MFS Proxy Voting Committee are responsible for creating and maintaining the MFS Significant Distributor and Client List, in consultation with MFS distribution and institutional business units. The MFS Significant Distributor and Client List will be reviewed and updated periodically, as appropriate.

For instances where MFS is evaluating a director nominee who also serves as a director of the MFS Funds, then the MFS Proxy Voting Committee will adhere to the procedures described in section (d) above regardless of whether the portfolio company appears on our Significant Distributor and Client List.

If an MFS client has the right to vote on a matter submitted to shareholders by Sun Life Financial, Inc. or any of its affiliates (collectively Sun Life), MFS will cast a vote on behalf of such MFS client pursuant to the recommendations of Institutional Shareholder Services, Inc. s (ISS) benchmark policy, or as required by law.

Except as described in the MFS Fund s prospectus, from time to time, certain MFS Funds (the top tier fund) may own shares of other MFS Funds (the underlying fund). If an underlying fund submits a matter to a shareholder vote, the top tier fund will generally vote its shares in the same proportion as the other shareholders of the underlying fund. If there are no other shareholders in the underlying fund, the top tier fund will vote in what MFS believes to be in the top tier fund s best long-term economic interest. If an MFS client has the right to vote on a matter submitted to shareholders by a pooled investment vehicle advised by MFS, MFS will cast a vote on behalf of such MFS client in the same proportion as the other shareholders of the pooled investment vehicle.

3. <u>Gathering Proxies</u>

Most proxies received by MFS and its clients originate at Broadridge Financial Solutions, Inc. (Broadridge). Broadridge and other service providers, on behalf of custodians, send proxy related material to the record holders of the shares beneficially owned by MFS clients, usually to the client s proxy voting administrator or, less commonly, to the client itself. This material will include proxy ballots reflecting the shareholdings of Funds and of clients on the record dates for such shareholder meetings, as well as proxy materials with the issuer s explanation of the items to be voted upon.

MFS, on behalf of itself and certain of its clients (including the MFS Funds) has entered into an agreement with an independent proxy administration firm pursuant to which the proxy administration firm performs various proxy vote related administrative services such as vote processing and recordkeeping functions. Except as noted below, the proxy administration firm for MFS and its clients, including the MFS Funds, is ISS. The proxy administration firm for MFS Development Funds, LLC is Glass, Lewis & Co., Inc. (Glass Lewis ; Glass Lewis and ISS are each hereinafter referred to as the Proxy Administrator).

The Proxy Administrator receives proxy statements and proxy ballots directly or indirectly from various custodians, logs these materials into its database and matches upcoming meetings with MFS Fund and client portfolio holdings, which are input into the Proxy Administrator s system by an MFS holdings data-feed. Through the use of the Proxy Administrator system, ballots and proxy material summaries for all upcoming shareholders meetings are available on-line to certain MFS employees and members of the MFS Proxy Voting Committee.

It is the responsibility of the Proxy Administrator and MFS to monitor the receipt of ballots. When proxy ballots and materials for clients are received by the Proxy Administrator, they are input into the Proxy Administrator s on-line system. The Proxy Administrator then reconciles a list of all MFS accounts that hold shares of a company s stock and the number of shares held on the record date by these accounts with the Proxy Administrator s list of any upcoming shareholder s meeting of that company. If a proxy ballot has not been received, the Proxy Administrator contacts the custodian requesting the reason as to why a ballot has not been received.

4. ***Analyzing Proxies***

Proxies are voted in accordance with these MFS Proxy Voting Policies and Procedures. The Proxy Administrator, at the prior direction of MFS, automatically votes all proxy matters that do not require the particular exercise of discretion or judgment with respect to these MFS Proxy Voting Policies and Procedures as determined by MFS. With respect to proxy matters that require the particular exercise of discretion or judgment, the MFS Proxy Voting Committee considers and votes on those proxy matters. MFS also receives research and recommendations from the Proxy Administrator which it may take into account in deciding how to vote. MFS uses the research of ISS to identify (i) circumstances in which a board may have approved excessive executive compensation, (ii) environmental and social proposals that warrant further consideration or (iii)

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circumstances in which a non-U.S. company is not in compliance with local governance or compensation best practices. In those situations where the only MFS fund that is eligible to vote at a shareholder meeting has Glass Lewis as its Proxy Administrator, then we will utilize research from Glass Lewis to identify such issues. MFS analyzes such issues independently and does not necessarily vote with the ISS or Glass Lewis recommendations on these issues. MFS may also use other research tools in order to identify the circumstances described above. Representatives of the MFS Proxy Voting Committee review, as appropriate, votes cast to ensure conformity with these MFS Proxy Voting Policies and Procedures.

As a general matter, portfolio managers and investment analysts have little involvement in most votes taken by MFS. This is designed to promote consistency in the application of MFS voting guidelines, to promote consistency in voting on the same or similar issues (for the same or for multiple issuers) across all client accounts, and to minimize the potential that proxy solicitors, issuers, or third parties might attempt to exert inappropriate influence on the vote. In certain types of votes (e.g. mergers and acquisitions, proxy contests, capitalization matters, potentially excessive executive compensation issues, or certain shareholder proposals) a representative of MFS Proxy Voting Committee may consult with or seek recommendations from MFS investment analysts and/or portfolio managers.[2] However, the MFS Proxy Voting Committee will ultimately determine the manner in which all proxies are voted.

As noted above, MFS reserves the right to override the guidelines when such an override is, in MFS best judgment, consistent with the overall principle of voting proxies in the best long-term economic interests of MFS clients. Any such override of the guidelines shall be analyzed, documented and reported in accordance with the procedures set forth in these policies.

5. Voting Proxies

In accordance with its contract with MFS, the Proxy Administrator also generates a variety of reports for the MFS Proxy Voting Committee, and makes available on-line various other types of information so that the MFS Proxy Voting Committee or proxy team may review and monitor the votes cast by the Proxy Administrator on behalf of MFS clients.

For those markets that utilize a record date to determine which shareholders are eligible to vote, MFS generally will vote all eligible shares pursuant to these guidelines regardless of whether all (or a portion of) the shares held by our clients have been sold prior to the meeting date.

[2] From time to time, due to travel schedules and other commitments, an appropriate portfolio manager or research analyst may not be available to provide a vote recommendation. If such a recommendation cannot be obtained within a reasonable time prior to the cut-off date of the shareholder meeting, the MFS Proxy Voting Committee may determine to abstain from voting.

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6. *Securities Lending*

From time to time, the MFS Funds or other pooled investment vehicles sponsored by MFS may participate in a securities lending program. In the event MFS or its agent receives timely notice of a shareholder meeting for a U.S. security, MFS and its agent will attempt to recall any securities on loan before the meeting s record date so that MFS will be entitled to vote these shares. However, there may be instances in which MFS is unable to timely recall securities on loan for a U.S. security, in which cases MFS will not be able to vote these shares. MFS will report to the appropriate board of the MFS Funds those instances in which MFS is not able to timely recall the loaned securities. MFS generally does not recall non-U.S. securities on loan because there may be insufficient advance notice of proxy materials, record dates, or vote cut-off dates to allow MFS to timely recall the shares in certain markets on an automated basis. As a result, non-U.S. securities that are on loan will not generally be voted. If MFS receives timely notice of what MFS determines to be an unusual, significant vote for a non-U.S. security whereas MFS shares are on loan, and determines that voting is in the best long-term economic interest of shareholders, then MFS will attempt to timely recall the loaned shares.

7. Engagement

The MFS Proxy Voting Policies and Procedures are available on www.mfs.com and may be accessed by both MFS clients and the companies in which MFS clients invest. From time to time, MFS may determine that it is appropriate and beneficial for representatives from the MFS Proxy Voting Committee to engage in a dialogue or written communication with a company or other shareholders regarding certain matters on the company s proxy statement that are of concern to shareholders, including environmental, social and governance matters. A company or shareholder may also seek to engage with representatives of the MFS Proxy Voting Committee in advance of the company s formal proxy solicitation to review issues more generally or gauge support for certain contemplated proposals.

C. RECORDS RETENTION

MFS will retain copies of these MFS Proxy Voting Policies and Procedures in effect from time to time and will retain all proxy voting reports submitted to the Board of Trustees of the MFS Funds for the period required by applicable law. Proxy solicitation materials, including electronic versions of the proxy ballots completed by representatives of the MFS Proxy Voting Committee, together with their respective notes and comments, are maintained in an electronic format by the Proxy Administrator and are accessible on-line by the MFS Proxy Voting Committee. All proxy voting materials and supporting documentation, including records generated by the Proxy Administrator s system as to proxies processed, including the dates when proxy ballots were received and submitted, and the votes on each company s proxy issues, are retained as required by applicable law.

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D. REPORTS

U.S. Registered MFS Funds

MFS publicly discloses the proxy voting records of the U.S. registered MFS Funds on a quarterly basis. MFS will also report the results of its voting to the Board of Trustees of the U.S. registered MFS Funds. These reports will include: (i) a summary of how votes were cast (including advisory votes on pay and golden parachutes) ; (ii) a summary of votes against management s recommendation; (iii) a review of situations where MFS did not vote in accordance with the guidelines and the rationale therefore; (iv) a review of the procedures used by MFS to identify material conflicts of interest and any matters identified as a material conflict of interest; (v) a review of these policies and the guidelines; (vi) a review of our proxy engagement activity; (vii) a report and impact assessment of instances in which the recall of loaned securities of a U.S. issuer was unsuccessful; and (viii) as necessary or appropriate, any proposed modifications thereto to reflect new developments in corporate governance and other issues. Based on these reviews, the Trustees of the U.S. registered MFS Funds will consider possible modifications to these policies to the extent necessary or advisable.

Other MFS Clients

MFS may publicly disclose the proxy voting records of certain other clients (including certain MFS Funds) or the votes it casts with respect to certain matters as required by law. A report can also be printed by MFS for each client who has requested that MFS furnish a record of votes cast. The report specifies the proxy issues which have been voted for the client during the year and the position taken with respect to each issue and, upon request, may identify situations where MFS did not vote in accordance with the MFS Proxy Voting Policies and Procedures.

Except as described above, MFS generally will not divulge actual voting practices to any party other than the client or its representatives because we consider that information to be confidential and proprietary to the client. However, as noted above, MFS may determine that it is appropriate and beneficial to engage in a dialogue with a company regarding certain matters. During such dialogue with the company, MFS may disclose the vote it intends to cast in order to potentially effect positive change at a company in regards to environmental, social or governance issues.

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ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.
Portfolio Manager(s)

Information regarding the portfolio manager(s) of the MFS Charter Income Trust (the Fund) is set forth below. Each portfolio manager is primarily responsible for the day-to-day management of the Fund.

Portfolio Manager	Primary Role	Since	Title and Five Year History
Richard Hawkins	Lead Portfolio Manager	2004	Investment Officer of MFS; employed in the investment area of MFS since 1988.
William Adams	Below Investment Grade Debt Instruments Portfolio Manager	2011	Investment Officer of MFS; employed in the investment area of MFS since 2009.
Ward Brown	Emerging Markets Debt Instruments Portfolio Manager	2012	Investment Officer of MFS; Employed in the investment area of MFS since 2005
David Cole	Below Investment Grade Debt Instruments Portfolio Manager	2006	Investment Officer of MFS; employed in the investment area of MFS since 2004.
Pilar Gomez-Bravo	Investment Grade Debt Instruments Portfolio Manager	2013	Investment Officer of MFS; employed in the investment area of MFS since 2013; Imperial Capital from May 2012 to March 2013; Negentropy Capital from June 2011 to April 2012; Marengo Asset Management from June 2010 to April 2011.
Joshua Marston	Structured Securities Portfolio Manager	2012	Investment Officer of MFS; Employed in the investment area of MFS since 1999
Robert Persons	Investment Grade Debt Instruments Portfolio Manager	2013	Investment Officer of MFS; employed in the investment area of MFS since 2000
Matt Ryan	Emerging Markets Debt Instruments Portfolio Manager	2004	Investment Officer of MFS; employed in the investment area of MFS since 1997.
Robert Spector	Global Debt Instruments Portfolio Manager	2015	Investment Office of MFS; employed in the investment area of MFS since 2011; Portfolio Manager and Chief Economist of McLean Budden from March 2005 to September 2011.
Erik Weisman	Sovereign Debt Instruments Portfolio Manager	2012	Investment Officer of MFS; Employed in the investment area of MFS since 2002

Compensation

Portfolio manager compensation is reviewed annually. As of December 31, 2015, portfolio manager total cash compensation is a combination of base salary and performance bonus:

Base Salary Base salary represents a smaller percentage of portfolio manager total cash compensation than performance bonus.

Performance Bonus Generally, the performance bonus represents more than a majority of portfolio manager total cash compensation.

The performance bonus is based on a combination of quantitative and qualitative factors, generally with more weight given to the former and less weight given to the latter.

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The quantitative portion is based on the pre-tax performance of assets managed by the portfolio manager over one-, three-, and five-year periods relative to peer group universes and/or indices (benchmarks). As of December 31, 2015, the following benchmarks were used to measure the following portfolio manager s performance for the Fund:

Fund	Portfolio Manager	Benchmark(s)
MFS Charter Income Trust	Richard Hawkins	Citigroup World Government Bond Non-Dollar Hedged Index JPMorgan Emerging Markets Bond Index Global Bloomberg Barclay s U.S. High-Yield Corporate Bond 2% Issuer Capped Index Bloomberg Barclay s U.S. Credit Bond Index Bloomberg Barclay s U.S. Government/Mortgage Bond Index
	William Adams	Bloomberg Barclays U.S. High-Yield Corporate Bond Index
	Ward Brown	JPMorgan Emerging Markets Bond Index Global
	David Cole	Bloomberg Barclays U.S. High-Yield Corporate Bond Index
	Pilar Gomez-Bravo	Bloomberg Barclays Global Aggregate Credit Bond Index
	Joshua Marston	Bloomberg Barclays U.S. Government/Mortgage Bond Index
	Robert Persons	Bloomberg Barclays Global Aggregate Credit Bond Index
	Matt Ryan	JPMorgan Emerging Markets Bond Index Global
	Robert Spector	Citigroup World Government Bond Non-Dollar Hedged Index JPMorgan Emerging Markets Bond Index Global Bloomberg Barclay s U.S. High-Yield Corporate Bond 2% Issuer Capped Index Bloomberg Barclay s U.S. Credit Bond Index Bloomberg Barclay s U.S. Government/Mortgage Bond Index
	Erik Weisman	Citigroup World Government Bond Non-Dollar Hedged Index

Additional or different benchmarks, including versions and components of indices, custom indices, and linked indices that combine performance of different indices for different portions of the time period, may also be used. Consideration is given to portfolio performance over one, three, and five years with emphasis placed on the longer periods. For portfolio managers who have served for more than five years, additional longer-term performance periods are also considered. For portfolio managers who have served for less than five years, performance periods are adjusted as appropriate.

The qualitative portion is based on the results of an annual internal peer review process (conducted by other portfolio managers, analysts, and traders) and management s assessment of overall portfolio manager contributions to investor relations and the investment process (distinct from fund and other account performance). This performance bonus may be in the form of cash and/or a deferred cash award, at the discretion of management. A deferred cash award is issued for a cash value and becomes payable over a three-year vesting period if the portfolio manager remains in the continuous employ of MFS or its affiliates. During the vesting period, the value of the unfunded deferred cash award will fluctuate as though the portfolio manager had invested the cash value of the award in an MFS Fund(s) selected by the portfolio manager. A selected fund may be, but is not required to be, a fund that is managed by the portfolio manager.

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Portfolio managers also typically benefit from the opportunity to participate in the MFS Equity Plan. Equity interests are awarded by management, on a discretionary basis, taking into account tenure at MFS, contribution to the investment process, and other factors.

Finally, portfolio managers also participate in benefit plans (including a defined contribution plan and health and other insurance plans) and programs available generally to other employees of MFS. The percentage such benefits represent of any portfolio manager s compensation depends upon the length of the individual s tenure at MFS and salary level, as well as other factors.

Ownership of Fund Shares

The following table shows the dollar range of equity securities of the Fund beneficially owned by the Fund s portfolio manager(s) as of the Fund s fiscal year ended November 30, 2016. The following dollar ranges apply:

N. None

A. $1 $10,000

B. $10,001 $50,000

C. $50,001 $100,000

D. $100,001 $500,000

E. $500,001 $1,000,000

F. Over $1,000,000

Name of Portfolio Manager	Dollar Range of Equity Securities in Fund
Richard Hawkins	N
William Adams	N
Ward Brown	N
David Cole	N
Pilar Gomez-Bravo	N
Joshua Marston	N
Robert Persons	N
Matt Ryan	N
Robert Spector	N
Erik Weisman	N

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Other Accounts

In addition to the Fund, each portfolio manager of the Fund is named as a portfolio manager of certain other accounts managed or subadvised by MFS or an affiliate. The number and assets of these accounts were as follows as of November 30, 2016:

Name	Registered Investment Companies* Number of Accounts	Registered Investment Companies* Total Assets	Other Pooled Investment Vehicles Number of Accounts	Other Pooled Investment Vehicles Total Assets	Other Accounts Number of Accounts	Other Accounts Total Assets
Richard Hawkins	11	$ 19.4 billion	5	$ 3.9 billion	2	$ 360.5 million
William Adams	12	$ 8.9 billion	6	$ 1.0 billion	1	$ 144.7 million
Ward Brown	9	$ 11.0 billion	6	$ 3.4 billion	5	$ 1.7 billion
David Cole	11	$ 8.8 billion	4	$ 914.8 million	1	$ 144.6 million
Pilar Bravo-Gomez	5	$ 4.2 billion	4	$ 2.9 billion	1	$ 329.6 million
Joshua Marston	10	$ 20.3 billion	8	$ 1.7 billion	12	$ 302.7 million
Robert Persons	13	$ 16.6 billion	8	$ 4.4 billion	3	$ 430.5 million
Matt Ryan	11	$ 11.7 billion	7	$ 4.1 billion	5	$ 1.7 billion
Robert Spector	4	$ 3.8 billion	9	$ 4.7 billion	50	$ 1.9 billion
Erik Weisman	8	$ 6.0 billion	4	$ 3.0 billion	1	$ 329.6 million

* Includes the Fund.

Advisory fees are not based upon performance of any of the accounts identified in the table above.

Potential Conflicts of Interest

MFS seeks to identify potential conflicts of interest resulting from a portfolio manager s management of both the Fund and other accounts, and has adopted policies and procedures designed to address such potential conflicts.

The management of multiple funds and accounts (including proprietary accounts) gives rise to conflicts of interest if the funds and accounts have different objectives and strategies, benchmarks, time horizons and fees as a portfolio manager must allocate his or her time and investment ideas across multiple funds and accounts. In certain instances there are securities which are suitable for the Fund s portfolio as well as for accounts of MFS or its subsidiaries with similar investment objectives. The Fund s trade allocation policies may give rise to conflicts of interest if the Fund s orders do not get fully executed or are delayed in getting executed due to being aggregated with those of other accounts of MFS or its subsidiaries. A portfolio manager may execute transactions for another fund or account that may adversely affect the value of the Fund s investments. Investments selected for funds or accounts other than the Fund may outperform investments selected for the Fund.

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When two or more clients are simultaneously engaged in the purchase or sale of the same security, the securities are allocated among clients in a manner believed by MFS to be fair and equitable to each. Allocations may be based on many factors and may not always be pro rata based on assets managed. The allocation methodology could have a detrimental effect on the price or volume of the security as far as the Fund is concerned.

MFS and/or a portfolio manager may have a financial incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor accounts other than the Fund, for instance, those that pay a higher advisory fee and/or have a performance adjustment and/or include an investment by the portfolio manager.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

MFS Charter Income Trust

Period	(a) Total number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased under the Plans or Programs
12/01/15-12/31/15	0	N/A	0	4,508,198
1/01/16-1/31/16	443,003	7.64	443,003	4,065,195
2/01/16-2/28/16	0	N/A	0	4,065,195
3/01/16-3/31/16	0	N/A	0	5,214,297
4/01/16-4/30/16	132,441	8.26	132,441	5,081,856
5/01/16-5/31/16	0	N/A	0	5,081,856
6/01/16-6/30/16	0	N/A	0	5,081,856
7/01/16-7/31/16	0	N/A	0	5,081,856
8/01/16-8/31/16	0	N/A	0	5,081,856
9/1/16-9/30/16	0	N/A	0	5,081,856
10/1/16-10/31/16	183,707	8.56	183,707	5,017,346
11/1/16-11/30/16	325,677	8.36	325,677	4,691,669
Total	***1,084,828***	8.09	***1,084,828***	

Note: The Board approved procedures to repurchase shares and reviews the results periodically. The notification to shareholders of the program is part of the semi-annual and annual reports sent to shareholders. These annual programs begin on October 1st of each year. The programs conform to the conditions of Rule 10b-18 of the Securities Exchange Act of 1934 and limit the aggregate number of shares that may be purchased in each annual period (October 1 through the following September 30) to 10% of the Registrant s outstanding shares as of the first day of the plan year (October 1). The aggregate number of shares available for purchase for the October 1, 2016 plan year is 5,201,053.

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ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no material changes to the procedures by which shareholders may send recommendations to the Board for nominees to the Registrant s Board since the Registrant last provided disclosure as to such procedures in response to the requirements of Item 407 (c)(2)(iv) of Regulation S-K or this Item.

ITEM 11. CONTROLS AND PROCEDURES.

(a) Based upon their evaluation of the registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the Act)) as conducted within 90 days of the filing date of this Form N-CSR, the registrant s principal financial officer and principal executive officer have concluded that those disclosure controls and procedures provide reasonable assurance that the material information required to be disclosed by the registrant on this report is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

(b) There were no changes in the registrant s internal controls over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the second fiscal quarter covered by the report that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

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ITEM 12. EXHIBITS.

(a) File the exhibits listed below as part of this form. Letter or number the exhibits in the sequence indicated.

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

(2) A separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Act (17 CFR 270.30a-2): Attached hereto.

(3) Notices to Trust s common shareholders in accordance with Investment Company Act Section 19(a) and Rule 19a-1.

(b) If the report is filed under Section 13(a) or 15(d) of the Exchange Act, provide the certifications required by Rule 30a-2(b) under the Act (17 CFR 270.30a-2(b)), Rule 13a-14(b) or Rule 15d-14(b) under the Exchange Act (17 CFR 240.13a-14(b) or 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) as an exhibit. A certification furnished pursuant to this paragraph will not be deemed filed for the purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference: Attached hereto.

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Notice

A copy of the Amended and Restated Declaration of Trust of the Registrant is on file with the Secretary of State of the Commonwealth of Massachusetts and notice is hereby given that this instrument is executed on behalf of the Registrant by an officer of the Registrant as an officer and not individually and the obligations of or arising out of this instrument are not binding upon any of the Trustees or shareholders individually, but are binding only upon the assets and property of the respective constituent series of the Registrant.

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SIGNATURES

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

Registrant MFS CHARTER INCOME TRUST

By (Signature and Title)*	DAVID L. DILORENZO David L. DiLorenzo, President
Date: January 13, 2017	

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

By (Signature and Title)*	DAVID L. DILORENZO David L. DiLorenzo, President (Principal Executive Officer)
Date: January 13, 2017	

By (Signature and Title)*	JAMES O. YOST James O. Yost, Treasurer (Principal Financial Officer and Accounting Officer)
Date: January 13, 2017	

* Print name and title of each signing officer under his or her signature.