

SMITH MICRO SOFTWARE INC

Form 424B1

August 04, 2006

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This filing is made pursuant to Rule 424(b)(1)
under the Securities Act of 1933 in connection
with Registration No. 333-134611

Prospectus

384,897 Shares
SMITH MICRO SOFTWARE, INC.
Common Stock

This prospectus relates to the offering of a total of 384,897 shares of our common stock by the selling stockholders described herein. The selling stockholders acquired the shares held by them in connection with our acquisition of PhoTags, Inc. on April 5, 2006. This prospectus may be used by the former stockholders of PhoTags to resell shares of our common stock issued to them in the PhoTags acquisition.

The prices at which the selling stockholders may sell the shares offered by this prospectus will be determined by the prevailing market price for shares of our common stock or in negotiated transactions. We will not receive any of the proceeds from the sale of these shares.

Our common stock is quoted on The Nasdaq Capital Market under the symbol SMSI. On August 2, 2006, the last sale price for our common stock as reported on The Nasdaq Capital Market was \$11.27 per share.

Investing in our common stock involves risks. You should carefully consider the risk factors beginning on page 5 of this prospectus as well as the sections entitled Risk Factors in the documents we file with the Securities and Exchange Commission, which are incorporated by reference into this prospectus, before purchasing any of the common stock offered by this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission or other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is August 3, 2006.

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You should rely only on the information contained in or incorporated by reference into this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell, nor is it seeking an offer to buy, the securities offered by this prospectus in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC. You may read and copy any reports, statements or other information that we file at the SEC's public reference rooms at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public at the SEC's website at <http://www.sec.gov>.

We have filed with the SEC a registration statement on Form S-3 with respect to the shares of common stock offered for resale by the selling stockholders by this prospectus. Pursuant to SEC rules, this prospectus, which forms a part of the registration statement, does not contain all of the information in the registration statement and its exhibits and schedules. You may read or obtain a copy of the registration statement from the SEC in the manner described above.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference information into this prospectus, which means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference into this prospectus is deemed to be part of this prospectus, except for any information superseded by information contained directly in this prospectus or contained in another document filed with the SEC in the future which itself is incorporated into this prospectus. This prospectus incorporates by reference the documents listed below that we have previously filed with the SEC:

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2005 filed with the SEC on March 31, 2006;

Our Current Report on Form 8-K filed with the SEC on April 7, 2006;

Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 filed with the SEC on May 15, 2006; and

Our Registration Statement on Form 8-A (File No. 000-26536) filed with the SEC on July 31, 1995, together with Amendment No. 1 filed with the SEC on September 7, 1995.

We also incorporate by reference all reports and other documents that we file with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this prospectus and prior to the termination of this offering (except for information and exhibits furnished under our current reports on Form 8-K) and all such reports and documents will be deemed to be incorporated by reference herein and to be a part hereof from the date of filing of such reports and documents. Any statement incorporated herein shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We will provide without charge to each person to whom this prospectus is delivered, upon written or oral request of such person, a copy of any or all of the documents incorporated by reference into this prospectus. Requests for documents should be submitted in writing to the Secretary, at Smith Micro Software, Inc., 51 Columbia, Suite 200, Aliso Viejo, California 92656, or by telephone at (949) 362-5800. Our website is at <http://www.smithmicro.com>. Information available on our website does not constitute part of this prospectus.

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SMITH MICRO SOFTWARE, INC.

In this prospectus, the terms Smith Micro, company, we, us and our refer to Smith Micro Software, Inc. and its subsidiaries.

Smith Micro Software, Inc. is a diversified developer and marketer of wireless communications and utilities software products and services. Our primary focus and strategy for our products and services is directed to wireless communications, including wireless wide area network, or WWAN, software, handset phonebook management, managing the download of music to a handset, and Wi-Fi software. We sell our products and services to some of the world's leading companies as well as to consumers. Our specific wireless products include QuickLink Mobile, QuickLink Mobile Enterprise and QuickLink Mobile Phonebook. The proliferation of wireless technologies is providing new opportunities globally. The wireless infrastructures being implemented, such as 1xRTT, GPRS and the newer 3G technology, including EVDO UMTS and HSDPA, offer wider bandwidth wireless data services. This infrastructure combined with mobile platforms such as the basic mobile phone, notebook computing devices, or PCs, and personal communications devices, or PDAs, provide opportunities for new communications software products. Our core communications technology is designed to address this emerging wireless data market.

We manufacture, market and sell value-added wireless connectivity products targeted to the original equipment manufacturers, or OEM, market, particularly wireless service providers and mobile phone manufacturers, as well as direct to the consumer. We offer software products for Windows, Mac OSX, Unix and Linux operating systems. The underlying design concept is our long-standing purpose to enhance the out-of-box experience for the customer. Our custom engineering services bring more than 20 years of hardware and software experience, having shipped over 60 million copies of products to OEM's seeking to better market their products by adding product features, customizing existing features and translating applications into additional languages.

We were incorporated in California in November 1983, and we reincorporated in Delaware in June 1995. Our common stock is quoted on The Nasdaq Capital Market under the symbol SMSI. Our principal executive offices are located at 51 Columbia, Suite 200, Aliso Viejo, CA 92656, and our telephone number is (949) 362-5800. Our website is at <http://www.smithmicro.com>. Information available on our website does not constitute part of this prospectus.

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RISK FACTORS

Our future operating results are highly uncertain. Before deciding to invest in our common stock or to maintain or increase your investment, you should carefully consider the risks described below, in addition to the other information contained in this prospectus and in our other filings with the SEC, including our reports on Forms 10-K, 10-Q and 8-K, which are incorporated by reference into this prospectus. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. If any of these risks actually occur, that could seriously harm our business, financial condition or results of operations. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

Our quarterly operating results may fluctuate and cause the price of our common stock to fall.

Our quarterly revenue and operating results have fluctuated significantly in the past and may continue to vary from quarter to quarter due to a number of factors, many of which are not within our control. If our operating results do not meet the expectations of securities analysts or investors, our stock price may decline. Fluctuations in our operating results may be due to a number of factors, including the following:

the size and timing of orders from and shipments to our major customers;

the size and timing of any return product requests for our products;

our ability to maintain or increase gross margins;

variations in our sales channels or the mix of our product sales;

the gain or loss of a key customer;

our ability to specify, develop, complete, introduce, market and transition to volume production new products and technologies in a timely manner;

the availability and pricing of competing products and technologies and the resulting effect on sales and pricing of our products;

the effect of new and emerging technologies;

deferrals of orders by our customers in anticipation of new products, applications, product enhancements or operating systems; and

general economic and market conditions.

A large portion of our operating expenses, including rent, depreciation and amortization is fixed and difficult to reduce or change. Accordingly, if our total revenue does not meet our expectations, we may not be able to adjust our expenses quickly enough to compensate for the shortfall in revenue. In that event, our business, financial condition and results of operations would be materially and adversely affected.

Due to all of the foregoing factors, and the other risks discussed in this report, you should not rely on quarter-to-quarter comparisons of our operating results as an indication of future performance.

Although we have begun reporting backlog, our ability to predict our revenues and operating results is extremely limited.

We have historically operated with little backlog because we have generally shipped our software products and recognized revenue shortly after we received orders because our production cycle has traditionally been very

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short. As a result, our sales in any quarter were generally dependent on orders that were booked and shipped in that quarter. As our wireless business has evolved, production cycle time for items such as data kits has increased to the point that orders received towards the end of a quarter may not ship until the subsequent quarter. Additionally, customers may issue purchase orders that have extended delivery dates that may cause the shipment to fall in a subsequent quarter. These situations make it difficult for us to predict what our revenues and operating results will be in any quarter. Therefore, the level of backlog is not necessarily indicative of trends in our business. As of March 31, 2006, we had a backlog of approximately \$4.6 million.

We depend upon a small number of customers for a significant portion of our revenues.

In the past we have derived a substantial portion of our revenues from sales to a small number of customers and expect to continue to do so in the future. The agreements we have with these entities do not require them to purchase any minimum quantity of our products and may be terminated by the entity or us at any time for any reason upon minimal prior written notice. Accordingly, we cannot be certain that these customers will continue to place large orders for our products in the future, or purchase our products at all. Our largest OEM customer accounted for 71.0% and 55.1% of our net revenues in the three months ended March 31, 2006 and 2005, respectively. Our three largest OEM customers accounted for 77.8% and 47.9% in the three months ended March 31, 2006 and 2005, respectively.

Our customers may acquire products from our competitors or develop their own products that compete directly with ours. Any substantial decrease or delay in our sales to one or more of these entities in any quarter would have an adverse effect on our results of operations. In addition, certain of our customers have in the past and may in the future acquire competitors or be acquired by competitors, causing further industry consolidation. In the past, such acquisitions have caused the purchasing departments of the combined companies to reevaluate their purchasing decisions. If one of our major customers engages in an acquisition in the future, it could change its current purchasing habits. In that event, we could lose the customer, or experience a decrease in orders from that customer or a delay in orders previously made by that customer. Further, although we maintain allowances for doubtful accounts, the insolvency of one or more of our major customers could result in a substantial decrease in our revenues.

Competition within our product markets is intense and includes numerous established competitors, which could negatively affect our revenues.

We operate in markets that are extremely competitive and subject to rapid changes in technology. Specifically, Microsoft Corporation poses a significant competitive threat to us because Microsoft operating systems may include some capabilities now provided by certain of our OEM and retail software products. If users are satisfied relying on the capabilities of the Windows-based systems or other operating systems, or other vendors products, sales of our products are likely to decline. In addition, because there are low barriers to entry into the software market, we expect significant competition from both established and emerging software companies in the future. Furthermore, many of our existing and potential OEM customers may acquire or develop products that compete directly with our products.

Microsoft and many of our other current and prospective competitors have significantly greater financial, marketing, service, support, technical and other resources than we do. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products. There is also a substantial risk that announcements of competing products by large competitors such as Microsoft or other vendors could result in the cancellation of orders by customers in anticipation of the introduction of such new products. In addition, some of our competitors currently make complementary products that are sold separately. Such competitors could decide to enhance their competitive position by bundling their products to attract customers seeking integrated, cost-effective software applications. Some competitors have a retail emphasis and offer OEM products with a reduced set of features. The opportunity for retail upgrade sales may induce these and other competitors to make OEM products available at their own cost or even at a loss. We also expect competition to increase as a result of software industry consolidations, which may lead to the creation of additional large and well-financed competitors. Increased competition is likely to result in price reductions, fewer customer orders, reduced margins and loss of market share.

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Acquisitions of companies or technologies may disrupt our business and divert management attention and cause our current operations to suffer.

We recently acquired all the outstanding capital stock of Allume Systems, Inc. and PhoTags, Inc. We expect to continue to consider acquisitions of complementary companies, products or technologies. As part of any such acquisition, including that of Allume and PhoTags, we will be required to assimilate the operations, products and personnel of the acquired businesses and train, retain and motivate key personnel from the acquired businesses. We may be unable to maintain uniform standards, controls, procedures and policies if we fail in these efforts. Similarly, acquisitions may cause disruptions in our operations and divert management's attention from our company's day-to-day operations, which could impair our relationships with our current employees, customers and strategic partners. Acquisitions may also subject us to liabilities and risks that are not known or identifiable at the time of the acquisition.

We may also have to incur debt or issue equity securities in order to finance future acquisitions. The issuance of equity securities for any acquisition could be substantially dilutive to our existing stockholders. In addition, we expect our profitability could be adversely affected because of acquisition-related accounting costs and write offs. In consummating acquisitions, we are also subject to risks of entering geographic and business markets in which we have had limited or no prior experience. If we are unable to fully integrate acquired businesses, products or technologies within existing operations, we may not receive the intended benefits of acquisitions.

If the adoption of new technologies and services grows more slowly than anticipated in our product planning and development, our future sales and profits may be negatively affected.

If the adoption of new technologies and services does not grow or grows more slowly than anticipated in our product planning and development, demand for certain of our products and services will be reduced. For example, our new QuickLink Mobile and QuickLink Enterprise products provide notebook users with the ability to roam between wireless wide area networks and Wi-Fi hot spots. Therefore, future sales and any future profits from these and related products are substantially dependent upon the widespread acceptance and use of Wi-Fi as an effective medium of communication by consumers and businesses.

Our products may contain undetected software errors, which could negatively affect our revenues.

Our software products are complex and may contain undetected errors. In the past, we have discovered software errors in certain of our products and have experienced delayed or lost revenues during the period it took to correct these errors. Although we and our OEM customers test our products, it is possible that errors may be found in our new or existing products after we have commenced commercial shipment of those products. These undetected errors could result in adverse publicity, loss of revenues, delay in market acceptance of our products or claims against us by customers.

Technology and customer needs change rapidly in our market, which could render our products obsolete and negatively affect our revenue.

Our future success will depend on our ability to anticipate and adapt to changes in technology and industry standards. We will also need to continue to develop and introduce new and enhanced products to meet our customers changing demands, keep up with evolving industry standards, including changes in the Microsoft operating systems with which our products are designed to be compatible, and to promote those products successfully. The communications and utilities software markets in which we operate are characterized by rapid technological change, changing customer needs, frequent new product introductions, evolving industry standards and short product life cycles. Any of these factors could render our existing products obsolete and unmarketable. In addition, new products and product enhancements can require long development and testing periods as a result of the complexities inherent in today's computing environments and the performance demanded by customers. If our software markets do not develop as we anticipate, or our products do not gain widespread acceptance in these markets or if we are unable to develop new versions of our software products that can operate on future operating systems, our business, financial condition and results of operations could be materially and adversely affected.

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Delays or failure in deliveries from our component suppliers could cause our net revenue to decline and harm our results of operations.

We rely on third party suppliers to provide us with services and components for our product kits. These components include: compact discs; cables; printed manuals; and boxes. We do not have long-term supply arrangements with any vendor to obtain these necessary services and components for our products. If we are unable to purchase components from these suppliers or if the compact disc replication services that we use do not deliver our requirements on schedule, we may not be able to deliver products to our customers on a timely basis or enter into new orders because of a shortage in components. Any delays that we experience in delivering our products to customers could impair our customer relationships and adversely impact our reputation and our business. In addition, if our third party suppliers raise their prices for components or services, our gross margins would be reduced.

A shortage in the supply of wireless communication devices such as PC cards could adversely affect our revenues.

Our products are utilized with major wireless networks throughout the world that support data communications through the use of wireless communication devices such as PC cards. Because wireless network providers generally incorporate our products into the wireless communication devices that they sell directly to individual consumers, our future success depends upon the availability of such devices to consumers at reasonable prices. A shortage in the supply of wireless communication devices could put upward pressure on prices or limit the quantities available to individual consumers which could materially affect the revenues that we generate from our products.

We may be unable to adequately protect our intellectual property and other proprietary rights, which could negatively impact our revenues.

Our success is dependent upon our software code base, our programming methodologies and other intellectual properties and proprietary rights. In order to protect our proprietary technology, we rely on a combination of trade secret, nondisclosure and copyright and trademark law. We currently own U.S. trademark registrations for certain of our trademarks and U.S. patents for certain of our technologies. However, these measures afford us only limited protection. Furthermore, we rely primarily on shrink wrap licenses that are not signed by the end user and, therefore, may be unenforceable under the laws of certain jurisdictions. Accordingly, it is possible that third parties may copy or otherwise obtain our rights without our authorization. It is also possible that third parties may independently develop technologies similar to ours. It may be difficult for us to detect unauthorized use of our intellectual property and proprietary rights.

We may be subject to claims of intellectual property infringement as the number of trademarks, patents, copyrights and other intellectual property rights asserted by companies in our industry grows and the coverage of these patents and other rights and the functionality of software products increasingly overlap. From time to time, we have received communications from third parties asserting that our trade name or features, content, or trademarks of certain of our products infringe upon intellectual property rights held by such third parties. We have also received correspondence from third parties separately asserting that our fax products may infringe on certain patents held by each of the parties. Although we are not aware that any of our products infringe on the proprietary rights of others, third parties may claim infringement by us with respect to our current or future products. Infringement claims, whether with or without merit, could result in time-consuming and costly litigation, divert the attention of our management, cause product shipment delays or require us to enter into royalty or licensing agreements with third parties. If we are required to enter into royalty or licensing agreements, they may not be on terms that are acceptable to us. Unfavorable royalty or licensing agreements could seriously impair our ability to market our products.

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Our stock price is highly volatile. Accordingly, you may not be able to resell your shares of common stock at or above the price you paid for them.

The market price of our common stock has fluctuated substantially in the past and is likely to continue to be highly volatile and subject to wide fluctuations. These fluctuations have occurred and may continue to occur in response to various factors, many of which we cannot control, including:

quarter-to-quarter variations in our operating results;

announcements of technological innovations or new products by our competitors, customers or us;

market conditions within our retail and OEM software markets;

general global economic and political instability;

changes in earnings estimates or investment recommendations by analysts;

changes in investor perceptions; or

changes in expectations relating to our products, plans and strategic position or those of our competitors or customers.

In addition, the market prices of securities of high technology companies have been especially volatile. This volatility has significantly affected the market prices of securities of many technology companies. Accordingly, you may not be able to resell your shares of common stock at or above the price you paid. In the past, companies that have experienced volatility in the market price of their securities have been the subjects of securities class action litigation. If we were the object of a securities class action litigation, it could result in substantial losses and divert management's attention and resources from other matters.

If we are unable to retain key personnel, the loss of their services could materially and adversely affect our business, financial condition and results of operations.

Our future performance depends in significant part upon the continued service of our senior management and other key technical and consulting personnel. We do not have employment agreements with our key employees that govern the length of their service. The loss of the services of our key employees would materially and adversely affect our business, financial condition and results of operations. Our future success also depends on our ability to continue to attract, retain and motivate qualified personnel, particularly highly skilled engineers involved in the ongoing research and development required to develop and enhance our communication software products as well those in our highly specialized consulting business. Competition for these employees remains high and employee retention is a common problem in our industry. Our inability to attract and retain the highly trained technical personnel that are essential to our product development, consulting services, marketing, service and support teams may limit the rate at which we can generate revenue, develop new products or product enhancements and generally would have an adverse effect on our business, financial condition and results of operations. Additionally, retaining key employees during restructuring efforts is critical to our company's success.

We may need to raise additional capital in the future through the issuance of additional equity or convertible debt securities or by borrowing money, in order to meet our capital needs. Additional funds may not be available on terms acceptable to us to allow us to meet our capital needs.

We believe that the cash, cash equivalents and investments on hand and the cash we expect to generate from operations will be sufficient to meet our capital needs for at least the next twelve months. However, it is possible that we may need or choose to obtain additional financing to fund our activities. We could raise these funds by selling more stock to the public or to selected investors, or by borrowing money. We may not be able to obtain additional funds on favorable terms, or at all. If adequate funds are not available, we may be required to curtail our operations or other business activities significantly or to obtain funds through arrangements with strategic partners

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or others that may require us to relinquish right to certain technologies or potential markets. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of existing stockholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to those of the holders of our common stock. We currently have no established line of credit or other business borrowing facility in place.

It is possible that our future capital requirements may vary materially from those now planned. The amount of capital that we will need in the future will depend on many factors, including:

the market acceptance of our products;

the levels of promotion and advertising that will be required to launch our products and achieve and maintain a competitive position in the marketplace;

our business, product, capital expenditure and research and development plans and product and technology roadmaps;

the levels of inventory and accounts receivable that we maintain;

capital improvements to new and existing facilities;

technological advances;

our competitors' response to our products; and

our relationships with suppliers and customers.

In addition, we may require additional capital to accommodate planned growth, hiring, infrastructure and facility needs or to consummate acquisitions of other businesses, products or technologies.

Our business, financial condition and operating results could be adversely affected as a result of legal, business and economic risks specific to international operations.

Each year, a percentage of our revenues are derived from sales to customers outside the United States. This percentage can vary significantly from quarter to quarter and from year to year. We also frequently ship products to our domestic customers' international manufacturing divisions and subcontractors. In the future, we may expand these international business activities. International operations are subject to many inherent risks, including:

general political, social and economic instability;

trade restrictions;

the imposition of governmental controls;

exposure to different legal standards, particularly with respect to intellectual property;

burdens of complying with a variety of foreign laws;

import and export license requirements and restrictions of the United States and any other country in which we operate;

unexpected changes in regulatory requirements;

foreign technical standards;

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changes in tariffs;

difficulties in staffing and managing international operations;

difficulties in securing and servicing international customers;

difficulties in collecting receivables from foreign entities; and

potentially adverse tax consequences.

These conditions may increase our cost of doing business. Moreover, as our customers are adversely affected by these conditions, our business with them may be disrupted and our results of operations could be adversely affected. ***The market price of our common stock may be adversely affected by the sale of significant numbers of shares of our common stock by our principal stockholder.***

A large block of shares that are eligible for resale under Rule 144 is held by William W. Smith, Jr., our President and Chief Executive Officer, who held 3,522,115 shares at May 4, 2006. Overall, our trading volume fluctuates widely and at times is relatively limited. The market price for our common stock could decline as a result of the sale of a large number of the shares or the perception that such sales may occur. The sale of a large number of our common stock also might make it more difficult for us to sell equity or equity-related securities in the future at a time and at the prices that we deem appropriate.

We may be subject to regulatory scrutiny and may sustain a loss of public confidence if we are unable to satisfy regulatory requirements relating to internal controls over financial reporting.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to perform an evaluation of our internal controls over financial reporting and have our independent registered public accounting firm attest to such evaluation on an annual basis. Compliance with these requirements can be expensive and time-consuming. While we believe that we will be able to meet the required deadlines, no assurance can be given that we will meet the required deadlines in future years. If we fail to timely complete this evaluation, or if our auditors cannot timely attest to our evaluation, we may be subject to regulatory scrutiny and a loss of public confidence in our internal controls.

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

Our certificate of incorporation and bylaws contain provisions that may discourage or prevent a third party from acquiring us, even if doing so would be beneficial to our stockholders. For instance, our certificate of incorporation authorizes the board of directors to fix the rights and preferences of shares of any series of preferred stock, without action by our stockholders. As a result, the board can authorize and issue shares of preferred stock, which could delay or prevent a change of control because the rights given to the holders of such preferred stock may prohibit a merger, reorganization, sale or other extraordinary corporate transaction. In addition, we are organized under the laws of the State of Delaware and certain provisions of Delaware law may have the effect of delaying or preventing a change in our control.

We may be subject to additional risks.

The risks and uncertainties described above are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business operations.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference into this prospectus contain forward-looking statements regarding Smith Micro which include, but are not limited to, statements concerning projected revenues, expenses, gross profit and income, the competitive factors affecting our business, market acceptance of products, customer concentration, the success and timing of new product introductions, the protection of our intellectual property, and the need for additional capital. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs, and certain assumptions made by us. Words such as anticipates, expects, intends, plans, predicts, potential, believes, seeks, estimates, should, may, or other similar words or expressions are intended to identify forward-looking statements. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors. Such factors include, but are not limited to the following:

our ability to predict consumer needs, introduce new products, gain broad market acceptance for such products and ramp up manufacturing in a timely manner;

the intensity of the competition and our ability to successfully compete;

the pace at which the market for new products develop;

the response of competitors, many of whom are bigger and better financed than us;

our ability to successfully execute our business plan and control costs and expenses;

our ability to protect our intellectual property and our ability to not infringe on the rights of others;

our depressed market capitalization; and

those additional factors which are listed under the section "Risk Factors" beginning on page 5 of this prospectus as well as the sections entitled "Risk Factors" in the documents we file with the SEC, which are incorporated by reference into this prospectus.

We caution you not to place undue reliance on our forward-looking information and statements. We do not undertake any obligation to revise or update publicly any forward-looking information and statements for any reason. All forward-looking statements attributable to us are expressly qualified by our cautionary statements.

USE OF PROCEEDS

The shares of common stock offered by this prospectus will be sold by the selling stockholders, and the selling stockholders will receive all of the proceeds from sales of such shares. We will not receive any proceeds from sales of shares offered by this prospectus.

Table of Contents**SELLING STOCKHOLDERS**

The selling stockholders acquired the shares held by it and offered by this prospectus in connection with our acquisition of PhoTags, Inc. On April 3, 2006, we entered into an agreement and plan of merger with Tag Acquisition Corporation, or Merger Sub, Tag Acquisition Corporation II, or Merger Sub II, PhoTags, Harry Fox, as stockholders agent, and certain stockholders of PhoTags. The merger agreement provides for, among other things, the merger of Merger Sub with and into PhoTags and, immediately upon the completion thereof, the merger of PhoTags with and into Merger Sub II pursuant to which PhoTags shall become a wholly-owned subsidiary of our company. Under the merger agreement, we agreed to assume \$2,000,000 in liabilities of PhoTags and issue shares of our common stock with an aggregate fair market value of \$4,000,000 as consideration for the purchase of all of the outstanding shares of PhoTags. In addition, we agreed to pay an earn-out payment of up to an additional \$3,500,000 in either cash or shares of our common stock, at our sole election, if the PhoTags business line achieves certain milestones over a 15-month period beginning April 1, 2006. The transaction closed on April 5, 2006, and we issued at closing an aggregate of 384,897 shares of our common stock to the former stockholders of PhoTags as consideration for the merger.

In accordance with the merger agreement, an aggregate of 96,224 shares of our common stock were issued in the name of the selling stockholders and delivered into an indemnification escrow subject to the terms of an escrow agreement dated April 5, 2006. These escrowed shares are registered under the registration statement of which this prospectus forms a part and accordingly are covered by this prospectus. However, the selling stockholders will not have the right to sell the escrowed shares until they are released pursuant to the terms of the escrow agreement. Any shares we issue as part of the earn-out payment upon achievement of the milestones are not registered under the registration statement of which this prospectus forms a part and accordingly are not covered by this prospectus.

This prospectus also covers any additional shares of common stock which become issuable in connection with the shares being registered by reason of any stock dividend, stock split, recapitalization or other similar transaction effected without the receipt of consideration which results in an increase in the number of our outstanding shares of common stock.

The following table sets forth the number of shares of our common stock beneficially owned by the selling stockholder as of April 5, 2006, the date of closing of the acquisition, based on the selling stockholders' representations regarding their ownership. We cannot estimate the number of shares that will be held by the selling stockholders after completion of this offering because the selling stockholder may sell all or some of its shares and because there currently are no agreements, arrangements or understandings with respect to the sale of any of their shares. For purposes of the table below, we assume that all shares owned by the selling stockholder which are offered by this prospectus will be sold. On April 4, 2006, there were 22,645,661 shares of our common stock outstanding.

Except as indicated in this section, we are not aware of any material relationship between us and the selling stockholders within the past three years, other than as a result of the selling stockholders' beneficial ownership of our common stock or as a result of their employment with us as of the date of the closing of the PhoTags acquisition.

Selling Stockholder	Beneficially Owned Before Offering		Number of Shares Offered In Offering	Beneficially Owned After Offering (1)	
	Number of Shares	Percent		Number of Shares	Percent
C3 Development LLC (2)	154,465	*	154,465		
Au Sai Chuen (3)	50,644	*	50,644		
Advanced Strategies Corporation (4)	35,789	*	35,789		
Harry Fox (5)	33,763	*	33,763		
The Robert A. Ellis Revocable Trust (6)	24,900	*	24,900		
Flying Disc Investments (7)	24,900	*	24,900		

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Michael Katz (8)	17,726	*	17,726
Okoboji Trust, Jim Willenborg Trustee (9)	16,037	*	16,037

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	Beneficially Owned Before Offering		Number of Shares Offered In Offering	Beneficially Owned After Offering (1)	
	Number of Shares	Percent		Number of Shares	Percent
Selling Stockholder					
Pharaoh Ltd. (10)	11,817	*	11,817		
Estelle F. Cleary (11)	6,077	*	6,077		
Next Chapter Holdings (12)	3,376	*	3,376		
Joseph Abrams (13)	2,701	*	2,701		
Mark Gold (14)	2,701	*	2,701		
Total	384,897	1.7%	384,897		

* Less than one percent.

(1) This table assumes that all shares owned by the selling stockholders that are offered by this prospectus are being sold. The selling stockholders reserve the right to accept or reject, in whole or in part, any proposed sale of shares. The selling stockholders also may offer and sell less than the number of shares indicated. The selling stockholders are not making any representation that any shares covered by this

prospectus will
or will not be
offered for sale.

- (2) The address of C3 Development LLC is 300 Garden City Plaza, Suite 246, Garden City, New York 11530. Harry Fox is the sole managing member of C3 Development LLC and holds voting and dispositive power over these shares. The number of shares being offered in this offering includes 38,616 shares that have been deposited in an escrow account in order to secure the indemnification obligations of the selling stockholders under the merger agreement. The selling stockholder may not sell the escrowed shares until they are released pursuant to the terms of the escrow agreement.

(3) The address of Au Sai Chuen is 1 Kallang Sector #06-01, Kolam Ayer Industrial Estate, 349276, Singapore. The number of shares being offered in this offering includes 12,661 shares that have been deposited in an escrow account in order to secure the indemnification obligations of the selling stockholders under the merger agreement. The selling stockholder may not sell the escrowed shares until they are released pursuant to the terms of the escrow agreement.

(4) The address of Advanced Strategies Group is 300 Garden City Plaza, Suite 246, Garden City, New York 11530. Estelle Cleary is the executive vice president of Advanced Strategies

Corporation and holds voting and dispositive power over these shares.

The number of shares being offered in this offering includes 8,947 shares that have been deposited in an escrow account in order to secure the indemnification obligations of the selling stockholders under the merger agreement. The selling stockholder may not sell the escrowed shares until they are released pursuant to the terms of the escrow agreement.

- (5) The address of Harry Fox is 300 Garden City Plaza, Suite 246, Garden City, New York 11530. Harry Fox became an employee of our company from and after the closing of the PhoTags acquisition. The number of shares being offered in this

offering includes 8,441 shares that have been deposited in an escrow account in order to secure the indemnification obligations of the selling stockholders under the merger agreement. The selling stockholder may not sell the escrowed shares until they are released pursuant to the terms of the escrow agreement.

- (6) The address of The Robert A Ellis Revocable Trust is 10 Miller Place, #2400, San Francisco, California 94108. Robert A. Ellis is the sole trustee of the Robert A. Ellis Revocable Trust and holds voting and dispositive power over these shares. The number of shares being offered in this offering includes 6,225 shares that have been deposited in an escrow

account in order to secure the indemnification obligations of the selling stockholders under the merger agreement. The selling stockholder may not sell the escrowed shares until they are released pursuant to the terms of the escrow agreement.

- (7) The address of Flying Disc Investments is 777 East Blithedale Avenue, #362, Mill Valley, California 94941. Chris Kitz is the sole general partner of Flying Disc Investments and holds voting and dispositive power over these shares. The number of shares being offered in this offering includes 6,225 shares that have been deposited in an escrow account in order to secure the indemnification obligations of the selling stockholders

under the merger agreement. The selling stockholder may not sell the escrowed shares until they are released pursuant to the terms of the escrow agreement.

- (8) The address of Michael Katz is Harakevet Street 34, Apartment 17, Jerusalem, 93146, Israel. The number of shares being offered in this offering includes 4,431 shares that have been deposited in an escrow account in order to secure the indemnification obligations of the selling stockholders under the merger

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agreement. The selling stockholder may not sell the escrowed shares until they are released pursuant to the terms of the escrow agreement.

- (9) The address of Okoboji Trust is 2898 Broadway, San Francisco, California 94115. Jim Willenborg is the sole trustee of the Okoboji Trust and holds voting and dispositive power over these shares. The number of shares being offered in this offering includes 4,009 shares that have been deposited in an escrow account in order to secure the indemnification obligations of the selling stockholders under the merger agreement. The selling stockholder may not sell the escrowed shares until they are released pursuant to the terms of the escrow agreement.

(10)

The address of Pharaoh Ltd. is c/o/ Tony Kessler, Ark Professional Services, Ltd., 137 Brent Street, Hendon, London NW4 4DJ, United Kingdom. Karl Bekush holds sole voting and dispositive power over these shares.

The number of shares being offered in this offering includes 2,954 shares that have been deposited in an escrow account in order to secure the indemnification obligations of the selling stockholders under the merger agreement. The selling stockholder may not sell the escrowed shares until they are released pursuant to the terms of the escrow agreement.

- (11) The address of Estelle F. Cleary is 1838 Stuyvesant Avenue, East Meadow, New York 11554. The number of shares being offered in this offering includes 1,519 shares that have been deposited in

an escrow account in order to secure the indemnification obligations of the selling stockholders under the merger agreement. The selling stockholder may not sell the escrowed shares until they are released pursuant to the terms of the escrow agreement.

- (12) The address of Next Chapter Holdings is 600 Central Avenue, Highland Park, Illinois 60035. William Pattis is the sole general partner of Next Chapter Holdings and holds voting and dispositive power over these shares. The number of shares being offered in this offering includes 844 shares that have been deposited in an escrow account in order to secure the indemnification obligations of the selling stockholders under the merger agreement. The selling stockholder may

not sell the
escrowed shares
until they are
released pursuant
to the terms of the
escrow
agreement.

- (13) The address of
Joseph Abrams is
131 Laurel Grove
Avenue,
Kentfield,
California 94904.
The number of
shares being
offered in this
offering includes
675 shares that
have been
deposited in an
escrow account in
order to secure the
indemnification
obligations of the
selling
stockholders
under the merger
agreement. The
selling
stockholder may
not sell the
escrowed shares
until they are
released pursuant
to the terms of the
escrow
agreement.

- (14) The address of
Mark Gold is 7
Beech Lane,
Great Neck, New
York 11024. The
number of shares
being offered in
this offering
includes 675
shares that have
been deposited in
an escrow account

in order to secure
the
indemnification
obligations of the
selling
stockholders
under the merger
agreement. The
selling
stockholder may
not sell the
escrowed shares
until they are
released pursuant
to the terms of the
escrow
agreement.

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PLAN OF DISTRIBUTION

We are registering the shares of common stock covered by this prospectus on behalf of the selling stockholders, which, as used herein, includes donees, pledgees, transferees or other successors-in-interest selling shares of common stock or interests therein received after the date of this prospectus from a selling stockholder as a gift, pledge, partnership distribution or other transfer. We will not receive any of the proceeds from sales of the shares by the selling stockholders or their transferees.

The selling stockholders named in this prospectus, or pledgees, donees, transferees or other successors-in-interest selling shares received from the selling stockholders as a gift, partnership distribution or other transfer after the date of this prospectus, may sell or otherwise dispose of these shares or interests therein from time to time. The selling stockholders will act independently from us in making decisions with respect to the timing, manner and size of each disposition. The dispositions may be made on one or more exchanges or in the over-the-counter market or otherwise at prices and at terms then prevailing or at prices related to the then current market price or in negotiated transactions. The selling stockholders may effect such transactions by selling their shares to or through broker-dealers. The shares may be sold by one or more of, or a combination of, the following:

a block trade in which the broker-dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by such broker-dealer for its account under this prospectus;

an exchange distribution in accordance with the rules of such exchange;

in transactions otherwise than on these exchanges or systems or in the over-the-counter market, including negotiated sales;

through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;

through the settlement of short sales entered into after the effective date of the registration statement of which this prospectus forms a part;

ordinary brokerage transactions and transactions in which the broker solicits purchasers; or

in privately negotiated transactions.

To the extent required, this prospectus may be amended or supplemented from time to time to describe a specific plan of distribution. In effecting sales, broker-dealers engaged by any selling stockholder may arrange for other broker-dealers to participate in such resales.

The selling stockholders may enter into hedging transactions with broker-dealers in connection with distributions of their shares or otherwise. In such transactions, broker-dealers may engage in short sales of the shares in the course of hedging the positions they assume with any selling stockholder. The selling stockholders also may sell shares short and redeliver the shares to close out such short positions. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction). The selling stockholders also may loan or pledge their shares to a broker-dealer. The broker-dealer may sell the shares so loaned, or upon a default the broker-dealer or other financial institution may sell the pledged shares under this prospectus (as supplemented or amended to reflect such transaction).

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Broker-dealers or agents may receive compensation in the form of commissions, discounts or concessions from the selling stockholders. Broker-dealers or agents may also receive compensation from the purchasers of the shares for whom they act as agents or to whom they sell as principals, or both. Compensation as to a particular broker-dealer might be in excess of customary broker-dealers or the selling stockholders may be deemed to be underwriters within the meaning of Section 2(11) of the Securities Act in connection with sales of the shares. Accordingly, any such commission, discount or concession received by them and any profit on the resale of the shares purchased by them may be deemed to be underwriting discounts or commissions under the Securities Act. Because the selling stockholders may be deemed to be underwriters within the meaning of Section 2(11) of the Securities Act, the selling stockholders will be subject to the prospectus delivery requirements of the Securities Act.

In addition, any securities covered by this prospectus which qualify for sale under Rule 144 promulgated under the Securities Act may be sold under Rule 144 rather than under this prospectus. The selling stockholders have advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their securities. There is no underwriter or coordinating broker acting in connection with the proposed sale of shares by the selling stockholders.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the shares may not simultaneously engage in market making activities with respect to our common stock for a period of two business days prior to the commencement of such distribution. In addition, the selling stockholders will be subject to applicable provisions of the Exchange Act and the associated rules and regulations under the Exchange Act, including Regulation M, which provisions may limit the timing of purchase and sales of shares of our common stock by the selling stockholders. We will make copies of this prospectus available to the selling stockholders and have informed them of the need for delivery of copies of this prospectus to purchasers at or prior to the time of any sale of the shares.

We will file a supplement to this prospectus, if required, under Rule 424(b) under the Securities Act upon being notified by a selling stockholder that any material arrangement has been entered into with a broker-dealer for the sale of shares through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer. Such supplement will disclose:

the name of each such selling stockholder and of the participating broker-dealer(s);

the number of shares involved;

the price at which such shares were sold;

the commissions paid or discounts or concessions allowed to such broker-dealer(s), where applicable;

that such broker-dealer(s) did not conduct any investigation to verify the information set out in or incorporated by reference into this prospectus; and

other facts material to the transaction.

In addition, upon being notified by a selling stockholder that a donee or pledgee intends to sell more than 500 shares under this prospectus, we will file a supplement to this prospectus.

We will bear all costs, expenses and fees in connection with the registration of the shares covered by this prospectus. The selling stockholders will bear all commissions and discounts, if any, attributable to the sales of their shares covered by this prospectus. The selling stockholders may agree to indemnify any broker-dealer or agent that participates in transactions involving sales of their shares covered by this prospectus against certain liabilities, including liabilities arising under the Securities Act. In addition, we have agreed to indemnify the selling stockholders and their affiliates against certain liabilities, including liabilities arising under the Securities Act. Neither the SEC nor any state securities commission has approved or disapproved of the shares covered by this prospectus.

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LEGAL MATTERS

The validity of the shares of our common stock offered by this prospectus will be passed upon for us by Morrison & Foerster LLP, Los Angeles, California.

EXPERTS

The financial statements and the related financial statement schedule as of and for the two years in the period ended December 31, 2004 incorporated in this prospectus by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2005 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

Our financial statements as of December 31, 2005 and for the year ended December 31, 2005 appearing in our Annual Report on Form 10-K for the year ended December 31, 2005, have been audited by Singer Lewak Greenbaum & Goldstein LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

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**384,897 Shares
SMITH MICRO SOFTWARE, INC.
COMMON STOCK**

PROSPECTUS

August 3, 2006

=**"font-family:ARIAL" SIZE="1">Building - 0.0%** Martin Marietta Materials, Inc., 4.25%, 7/02/24 \$82,000 \$82,052

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
Business Services - 0.5%		
Fidelity National Information Services, Inc., 3.875%, 6/05/24	\$ 1,000,000	\$ 966,010
Cable TV - 0.9%		
CCO Safari II LLC, 4.908%, 7/23/25 (n)	\$ 242,000	\$ 245,684
Comcast Corp., 4.2%, 8/15/34	96,000	95,166
Time Warner Cable, Inc., 8.25%, 4/01/19	1,000,000	1,157,620
Time Warner Cable, Inc., 4.5%, 9/15/42	100,000	81,120
		\$ 1,579,590
Chemicals - 0.3%		
Dow Chemical Co., 8.55%, 5/15/19	\$ 500,000	\$ 597,660
Computer Software - 0.1%		
Microsoft Corp., 3.125%, 11/03/25	\$ 124,000	\$ 124,626
Computer Software - Systems - 0.1%		
Apple, Inc., 4.375%, 5/13/45	\$ 121,000	\$ 121,364
Food & Beverages - 0.8%		
J.M. Smucker Co., 4.25%, 3/15/35	\$ 189,000	\$ 185,324
Kraft Foods Group, Inc., 6.125%, 8/23/18	960,000	1,060,825
Kraft Heinz Co., 5.2%, 7/15/45 (n)	120,000	124,874
Tyson Foods, Inc., 5.15%, 8/15/44	38,000	39,748
		\$ 1,410,771
Food & Drug Stores - 0.3%		
CVS Health Corp., 3.5%, 7/20/22	\$ 277,000	\$ 284,480
CVS Health Corp., 5.125%, 7/20/45	270,000	287,690
		\$ 572,170
Insurance - 0.1%		
American International Group, Inc., 4.7%, 7/10/35	\$ 108,000	\$ 108,018
Insurance - Health - 0.4%		
UnitedHealth Group, Inc., 4.625%, 7/15/35	\$ 672,000	\$ 709,070
Insurance - Property & Casualty - 0.1%		
Liberty Mutual Group, Inc., 4.85%, 8/01/44 (n)	\$ 99,000	\$ 95,278
Local Authorities - 1.1%		
Nashville & Davidson County, TN, Metropolitan Government Convention Center Authority (Build America Bonds), 6.731%, 7/01/43	\$ 580,000	\$ 745,143

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
Local Authorities - continued		
New Jersey Turnpike Authority Rev. (Build America Bonds), F , 7.414%, 1/01/40	\$ 32,000	\$ 45,571
State of California (Build America Bonds), 7.6%, 11/01/40	420,000	631,508
University of California Rev. (Build America Bonds), 5.77%, 5/15/43	450,000	552,091
		\$ 1,974,313
Major Banks - 1.1%		
Bank of America Corp., 7.625%, 6/01/19	\$ 170,000	\$ 199,210
Goldman Sachs Group, Inc., 3.625%, 1/22/23	446,000	457,962
Goldman Sachs Group, Inc., 4.8%, 7/08/44	94,000	95,015
Merrill Lynch & Co., Inc., 6.05%, 5/16/16	750,000	766,600
Morgan Stanley, 3.875%, 4/29/24	221,000	228,334
Morgan Stanley, 4%, 7/23/25	133,000	138,092
Morgan Stanley, 4.3%, 1/27/45	81,000	78,615
Wells Fargo & Co., 5.9% to 6/15/24, FRN to 12/29/49	100,000	101,875
		\$ 2,065,703
Medical & Health Technology & Services - 0.1%		
Becton, Dickinson and Co., 4.685%, 12/15/44	\$ 179,000	\$ 181,670
Laboratory Corp. of America Holdings, 4.7%, 2/01/45	106,000	96,918
		\$ 278,588
Medical Equipment - 0.4%		
Medtronic, Inc., 4.625%, 3/15/45	\$ 237,000	\$ 243,305
Zimmer Holdings, Inc., 4.45%, 8/15/45	607,000	561,877
		\$ 805,182
Metals & Mining - 0.2%		
Freeport-McMoRan Copper & Gold, Inc., 3.875%, 3/15/23	\$ 500,000	\$ 336,250
Midstream - 0.8%		
Energy Transfer Partners LP, 5.15%, 3/15/45	\$ 220,000	\$ 166,340
Enterprise Products Operating LLC, 3.9%, 2/15/24	29,000	28,190
Kinder Morgan Energy Partners LP, 6.85%, 2/15/20	1,000,000	1,053,580
Kinder Morgan Energy Partners LP, 5.4%, 9/01/44	358,000	268,193
		\$ 1,516,303
Mortgage-Backed - 47.0%		
Fannie Mae, 4.5%, 7/01/42	\$ 153,114	\$ 165,873
Fannie Mae, 3%, 10/01/30	1,536,682	1,592,670
Fannie Mae, 4%, 9/01/40 - 7/01/43	1,184,319	1,258,459
Fannie Mae, 5.399%, 2/01/16	86,351	86,237
Fannie Mae, 5.845%, 6/01/16	45,600	46,017

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
Mortgage-Backed - continued		
Fannie Mae, 6.5%, 11/01/16 - 2/01/37	\$ 899,984	\$ 1,036,778
Fannie Mae, 5.05%, 1/01/17	480,271	492,610
Fannie Mae, 5.3%, 4/01/17	520,791	539,960
Fannie Mae, 1.9%, 6/01/17	158,360	159,862
Fannie Mae, 6%, 8/01/17 - 7/01/37	1,595,124	1,806,197
Fannie Mae, 5.5%, 9/01/17 - 3/01/38	5,271,795	5,908,604
Fannie Mae, 4.88%, 3/01/20	145,786	156,426
Fannie Mae, 2.41%, 5/01/23	132,068	131,748
Fannie Mae, 2.55%, 5/01/23	113,743	114,469
Fannie Mae, 2.59%, 5/01/23	71,881	72,508
Fannie Mae, 3%, 4/01/27 - 4/01/30	755,409	784,552
Fannie Mae, 2.5%, 5/01/28 - 5/01/30	458,961	466,252
Fannie Mae, 5%, 6/01/35 - 3/01/42	875,241	968,178
Fannie Mae, 4.5%, 1/01/40 - 4/01/44	5,445,056	5,901,991
Fannie Mae, 4%, 12/01/40 - 2/01/45	8,306,070	8,822,468
Fannie Mae, 3.5%, 4/01/43	684,680	710,533
Fannie Mae, 3.5%, 3/01/45	242,704	251,565
Federal Home Loan Bank, 3.01%, 7/25/25	225,000	228,254
Federal Home Loan Bank, 3%, 8/01/45	610,000	612,404
Freddie Mac, 4%, 4/01/44 - 9/01/44	1,592,590	1,688,380
Freddie Mac, 2.699%, 5/25/18	800,000	820,632
Freddie Mac, 2.412%, 8/25/18	1,152,000	1,174,379
Freddie Mac, 2.303%, 9/25/18	275,000	279,574
Freddie Mac, 2.323%, 10/25/18	499,000	507,417
Freddie Mac, 2.13%, 1/25/19	1,575,000	1,591,590
Freddie Mac, 5.085%, 3/25/19	752,000	828,857
Freddie Mac, 2.456%, 8/25/19	383,000	391,847
Freddie Mac, 4.186%, 8/25/19	600,000	649,554
Freddie Mac, 3.808%, 8/25/20	219,000	236,517
Freddie Mac, 3.034%, 10/25/20	291,000	303,043
Freddie Mac, 2.856%, 1/25/21	400,000	413,284
Freddie Mac, 6%, 5/01/21 - 10/01/38	826,398	939,249
Freddie Mac, 2.791%, 1/25/22	517,000	530,652
Freddie Mac, 2.716%, 6/25/22	399,000	406,815
Freddie Mac, 2.682%, 10/25/22	189,000	191,823
Freddie Mac, 2.51%, 11/25/22	496,000	497,913
Freddie Mac, 3.32%, 2/25/23	433,000	456,709
Freddie Mac, 3.3%, 4/25/23	429,471	452,198
Freddie Mac, 3.06%, 7/25/23	181,000	187,764
Freddie Mac, 3.458%, 8/25/23	367,000	389,111
Freddie Mac, 4.5%, 9/01/24 - 8/01/40	1,070,007	1,156,321
Freddie Mac, 5.5%, 10/01/24 - 6/01/36	1,144,805	1,276,254

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
Mortgage-Backed - continued		
Freddie Mac, 2.67%, 12/25/24	\$ 827,000	\$ 819,741
Freddie Mac, 2.811%, 1/25/25	642,000	642,960
Freddie Mac, 3.329%, 5/25/25	678,000	706,007
Freddie Mac, 2.5%, 5/01/28 - 7/01/28	4,413,125	4,508,322
Freddie Mac, 6.5%, 5/01/37	211,630	241,285
Freddie Mac, 5%, 4/01/40	2,911,510	3,208,465
Freddie Mac, 3.5%, 5/01/42 - 9/01/45	7,628,340	7,907,760
Freddie Mac, 3%, 4/01/43 - 5/01/43	2,158,922	2,170,155
Freddie Mac, 4%, 11/01/43	421,886	447,420
Freddie Mac, TBA, 3%, 12/01/30	2,704,000	2,797,816
Freddie Mac, TBA, 3.5%, 1/01/46	1,200,000	1,238,625
Freddie Mac, TBA, 4%, 1/01/46	1,369,000	1,449,557
Ginnie Mae, 5.5%, 7/15/33 - 1/20/42	1,523,859	1,737,489
Ginnie Mae, 4%, 8/15/40 - 4/20/41	292,926	312,704
Ginnie Mae, 4.5%, 9/20/41	312,048	339,612
Ginnie Mae, 3.5%, 4/15/42 - 7/20/43	3,922,950	4,107,282
Ginnie Mae, 3%, 7/20/43	1,025,100	1,047,552
Ginnie Mae, 5.612%, 4/20/58	73,898	74,828
Ginnie Mae, 6.357%, 4/20/58	63,224	65,913
Ginnie Mae, TBA, 3.5%, 1/01/46	5,122,916	5,336,938
		\$ 86,844,929
Network & Telecom - 1.7%		
AT&T, Inc., 4.75%, 5/15/46	\$ 110,000	\$ 103,042
Verizon Communications, Inc., 5.05%, 3/15/34	1,500,000	1,528,725
Verizon Communications, Inc., 6.55%, 9/15/43	1,200,000	1,446,985
		\$ 3,078,752
Oils - 0.1%		
Valero Energy Corp., 4.9%, 3/15/45	\$ 130,000	\$ 117,051
Other Banks & Diversified Financials - 0.9%		
Capital One Bank (USA) N.A., 3.375%, 2/15/23	\$ 336,000	\$ 331,849
Citigroup, Inc., 3.75%, 6/16/24	223,000	228,939
Discover Bank, 4.25%, 3/13/26	1,000,000	1,011,700
		\$ 1,572,488
Pharmaceuticals - 0.9%		
AbbVie, Inc., 4.7%, 5/14/45	\$ 1,000,000	\$ 982,680
Actavis Funding SCS, 4.55%, 3/15/35	261,000	256,384
Actavis Funding SCS, 4.85%, 6/15/44	272,000	272,574
Gilead Sciences, Inc., 4.5%, 2/01/45	82,000	80,322

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
Pharmaceuticals - continued		
Gilead Sciences, Inc., 4.75%, 3/01/46	\$ 80,000	\$ 81,273
		\$ 1,673,233
Real Estate - Healthcare - 0.1%		
HCP, Inc., REIT, 3.875%, 8/15/24	\$ 267,000	\$ 259,495
Real Estate - Retail - 0.1%		
DDR Corp., REIT, 3.625%, 2/01/25	\$ 122,000	\$ 115,995
Supranational - 0.1%		
Inter-American Development Bank, 4.375%, 1/24/44	\$ 158,000	\$ 186,375
Tobacco - 0.7%		
Altria Group, Inc., 9.25%, 8/06/19	\$ 55,000	\$ 67,570
Altria Group, Inc., 4%, 1/31/24	14,000	14,621
Reynolds American, Inc., 8.125%, 6/23/19 (n)	583,000	687,242
Reynolds American, Inc., 4%, 6/12/22	295,000	306,783
Reynolds American, Inc., 4.45%, 6/12/25	276,000	289,758
		\$ 1,365,974
Transportation - Services - 0.0%		
ERAC USA Finance LLC, 3.85%, 11/15/24 (n)	\$ 34,000	\$ 34,273
U.S. Government Agencies and Equivalents - 2.9%		
AID-Tunisia, 2.452%, 7/24/21	\$ 235,000	\$ 237,297
AID-Ukraine, 1.844%, 5/16/19	444,000	444,753
AID-Ukraine, 1.847%, 5/29/20	330,000	330,481
Hashemite Kingdom of Jordan, 1.945%, 6/23/19	443,000	446,631
Hashemite Kingdom of Jordan, 2.503%, 10/30/20	418,000	430,225
Private Export Funding Corp., 2.25%, 3/15/20	86,000	86,744
Private Export Funding Corp., 2.3%, 9/15/20	360,000	363,400
Private Export Funding Corp., 1.875%, 7/15/18	460,000	464,790
Small Business Administration, 6.35%, 4/01/21	92,472	100,959
Small Business Administration, 6.34%, 5/01/21	81,107	88,396
Small Business Administration, 6.44%, 6/01/21	102,201	111,091
Small Business Administration, 6.625%, 7/01/21	96,960	105,741
Small Business Administration, 5.52%, 6/01/24	202,901	221,661
Small Business Administration, 2.21%, 2/01/33	274,983	271,745
Small Business Administration, 2.22%, 3/01/33	463,734	458,741
Small Business Administration, 3.15%, 7/01/33	395,930	412,203
Small Business Administration, 3.62%, 9/01/33	358,590	382,910
Tennessee Valley Authority, 1.75%, 10/15/18	292,000	295,707

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
U.S. Government Agencies and Equivalents - continued		
U.S. Department of Housing & Urban Development, 6.36%, 8/01/16	\$ 39,000	\$ 39,124
U.S. Department of Housing & Urban Development, 6.59%, 8/01/16	113,000	114,175
		\$ 5,406,774
U.S. Treasury Obligations - 23.0%		
U.S. Treasury Bonds, 5.25%, 2/15/29	\$ 1,448,000	\$ 1,906,156
U.S. Treasury Bonds, 4.75%, 2/15/37	336,000	447,392
U.S. Treasury Bonds, 4.375%, 2/15/38	4,842,000	6,132,504
U.S. Treasury Bonds, 4.5%, 8/15/39	5,097,100	6,545,395
U.S. Treasury Bonds, 3.125%, 2/15/43	453,700	466,194
U.S. Treasury Bonds, 2.875%, 5/15/43	1,697,100	1,658,651
U.S. Treasury Bonds, 2.5%, 2/15/45	520,000	468,000
U.S. Treasury Bonds, TIPS, 0.125%, 7/15/24	3,813,993	3,656,913
U.S. Treasury Notes, 0.875%, 12/31/16	550,000	550,666
U.S. Treasury Notes, 4.75%, 8/15/17 (f)	1,603,000	1,709,011
U.S. Treasury Notes, 2.625%, 4/30/18	2,272,000	2,357,111
U.S. Treasury Notes, 2.75%, 2/15/19	1,654,000	1,729,593
U.S. Treasury Notes, 3.125%, 5/15/19	300,000	317,719
U.S. Treasury Notes, 1%, 6/30/19	3,593,000	3,545,421
U.S. Treasury Notes, 2.625%, 8/15/20	162,000	169,075
U.S. Treasury Notes, 3.125%, 5/15/21	5,026,000	5,370,949
U.S. Treasury Notes, 1.75%, 5/15/22	508,000	501,709
U.S. Treasury Notes, 2.5%, 8/15/23	2,031,000	2,095,184
U.S. Treasury Notes, 2.75%, 2/15/24	827,000	866,476
U.S. Treasury Notes, 2.5%, 5/15/24	1,127,000	1,157,508
U.S. Treasury Notes, 2%, 8/15/25	901,000	883,015
		\$ 42,534,642
Total U.S. Bonds		\$ 178,893,404
Foreign Bonds - 4.8%		
Brazil - 0.1%		
Federative Republic of Brazil, 5.625%, 1/07/41	\$ 162,000	\$ 128,790
Vale Overseas Ltd., 6.875%, 11/10/39	165,000	120,986
		\$ 249,776
Canada - 0.1%		
Teck Resources Ltd., 6%, 8/15/40	\$ 200,000	\$ 97,000
Teck Resources Ltd., 5.4%, 2/01/43	300,000	138,000
		\$ 235,000

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Foreign Bonds - continued		
Chile - 0.7%		
E.CL S.A., 5.625%, 1/15/21	\$ 566,000	\$ 616,723
Empresa Nacional de Electricidad S.A., 4.25%, 4/15/24	20,000	19,951
Empresa Nacional del Petroleo, 6.25%, 7/08/19	214,000	234,442
GNL Quintero S.A., 4.634%, 7/31/29 (n)	200,000	193,949
Transelec S.A., 4.25%, 1/14/25	200,000	199,127
		\$ 1,264,192
China - 0.6%		
Baidu, Inc., 3.25%, 8/06/18	\$ 240,000	\$ 243,979
CNPC (HK) Overseas Capital Ltd., 4.5%, 4/28/21 (n)	226,000	239,483
State Grid Overseas Investment (2014) Ltd., 4.125%, 5/07/24 (n)	690,000	727,570
		\$ 1,211,032
Iceland - 0.1%		
Republic of Iceland, 4.875%, 6/16/16 (n)	\$ 215,000	\$ 219,294
Kazakhstan - 0.1%		
Republic of Kazakhstan, 5.125%, 7/21/25 (n)	\$ 201,000	\$ 203,322
Mexico - 1.5%		
Banco Inbursa S.A. Institucion de Banca Multiple Grupo Financiero Inbursa, 4.125%, 6/06/24 (n)	\$ 299,000	\$ 285,097
Comision Federal de Electricidad, 4.875%, 5/26/21	277,000	287,387
Pemex Project Funding Master Trust, 5.75%, 3/01/18	160,000	169,237
Petroleos Mexicanos, 8%, 5/03/19	228,000	258,529
Petroleos Mexicanos, 6%, 3/05/20	202,000	217,596
Petroleos Mexicanos, 5.5%, 1/21/21	130,000	136,338
Petroleos Mexicanos, 4.875%, 1/18/24	95,000	93,309
Petroleos Mexicanos, 4.25%, 1/15/25 (n)	15,000	14,092
Petroleos Mexicanos, 5.5%, 6/27/44 (n)	35,000	28,875
Petroleos Mexicanos, 5.625%, 1/23/46 (n)	23,000	19,320
Southern Copper Corp., 5.875%, 4/23/45	80,000	63,629
United Mexican States, 3.625%, 3/15/22	1,164,000	1,175,640
		\$ 2,749,049
Netherlands - 0.5%		
ING Bank N.V., 5.8%, 9/25/23 (n)	\$ 769,000	\$ 842,838
Peru - 0.3%		
El Fondo Mivivienda S.A., 3.5%, 1/31/23	\$ 226,000	\$ 215,265
Republic of Peru, 8.75%, 11/21/33	180,000	258,300
		\$ 473,565

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Foreign Bonds - continued		
Romania - 0.1%		
Republic of Romania, 4.375%, 8/22/23 (n)	\$ 36,000	\$ 37,835
Republic of Romania, 4.875%, 1/22/24 (n)	58,000	62,912
		\$ 100,747
Russia - 0.1%		
LUKOIL International Finance B.V., 4.563%, 4/24/23	\$ 213,000	\$ 194,895
Slovakia - 0.4%		
Republic of Slovakia, 4.375%, 5/21/22 (n)	\$ 639,000	\$ 712,281
South Korea - 0.0%		
Hyundai Capital America, 2.4%, 10/30/18 (n)	\$ 30,000	\$ 29,933
United Kingdom - 0.2%		
Imperial Tobacco Finance PLC, 3.75%, 7/21/22 (n)	\$ 266,000	\$ 269,526
Royal Bank of Scotland Group PLC, 6%, 12/19/23	124,000	135,048
		\$ 404,574
Uruguay - 0.0%		
Oriental Republic of Uruguay, 4.5%, 8/14/24	\$ 26,762	\$ 27,498
Oriental Republic of Uruguay, 4.375%, 10/27/27	47,300	46,827
		\$ 74,325
Total Foreign Bonds		\$ 8,964,823
Total Bonds (Identified Cost, \$179,821,457)		\$ 187,858,227
Money Market Funds - 3.7%		
MFS Institutional Money Market Portfolio, 0.14%, at Cost and Net Asset Value (v)	6,796,142	\$ 6,796,142
Total Investments (Identified Cost, \$186,617,599)		\$ 194,654,369
Other Assets, Less Liabilities - (5.3)%		(9,830,408)
Net Assets - 100.0%		\$ 184,823,961

(f) All or a portion of the security has been segregated as collateral for open futures contracts.

(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 \$5,073,678, representing 2.7% of net assets.

(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.

Table of Contents*Portfolio of Investments continued*

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

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

TBA To Be Announced

TIPS Treasury Inflation Protected Security

Derivative Contracts at 11/30/15**Futures Contracts at 11/30/15**

Description	Currency	Contracts	Value	Expiration Date	Unrealized Appreciation (Depreciation)
Liability Derivatives					
<i>Interest Rate Futures</i>					
U.S. Treasury Bond 30 yr (Short)	USD	47	\$7,238,000	March - 2016	\$(15,955)
U.S. Treasury Bond 10 yr (Short)	USD	14	1,770,125	March - 2016	(338)
					\$(16,293)

At November 30, 2015, the fund had liquid securities with an aggregate value of \$190,837 to cover any commitments for certain derivative contracts.

See Notes to Financial Statements

Table of Contents*Financial Statements***STATEMENT OF ASSETS AND LIABILITIES**

At 11/30/15

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, \$179,821,457)	\$187,858,227
Underlying affiliated funds, at cost and value	6,796,142
Total investments, at value (identified cost, \$186,617,599)	\$194,654,369
Receivables for	
Investments sold	419,406
TBA sale commitments	5,135,306
Interest	1,266,668
Other assets	2,698
Total assets	\$201,478,447
Liabilities	
Payables for	
Distributions	\$66,975
Daily variation margin on open futures contracts	6,469
Investments purchased	422,218
TBA purchase commitments	15,995,468
Payable to affiliates	
Investment adviser	11,159
Transfer agent and dividend disbursing costs	13,537
Payable for independent Trustees' compensation	34,855
Accrued expenses and other liabilities	103,805
Total liabilities	\$16,654,486
Net assets	\$184,823,961
Net assets consist of	
Paid-in capital	\$185,468,752
Unrealized appreciation (depreciation) on investments	8,020,477
Accumulated net realized gain (loss) on investments	(8,563,426)
Accumulated distributions in excess of net investment income	(101,842)
Net assets	\$184,823,961
Shares of beneficial interest outstanding	32,601,117
Net asset value per share (net assets of \$184,823,961 / 32,601,117 shares of beneficial interest outstanding)	\$5.67
See Notes to Financial Statements	

Table of Contents*Financial Statements***STATEMENT OF OPERATIONS**

Year ended 11/30/15

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	\$6,901,651
Dividends from underlying affiliated funds	7,835
Total investment income	\$6,909,486
Expenses	
Management fee	\$1,025,703
Transfer agent and dividend disbursing costs	83,417
Administrative services fee	39,866
Independent Trustees' compensation	38,350
Stock exchange fee	30,725
Custodian fee	31,251
Shareholder communications	100,229
Audit and tax fees	77,509
Legal fees	4,437
Miscellaneous	27,597
Total expenses	\$1,459,084
Fees paid indirectly	(51)
Net expenses	\$1,459,033
Net investment income	\$5,450,453
Realized and unrealized gain (loss) on investments	
Realized gain (loss) (identified cost basis)	
Investments	\$1,106,114
Futures contracts	(221,415)
Net realized gain (loss) on investments	\$884,699
Change in unrealized appreciation (depreciation)	
Investments	\$(5,469,465)
Futures contracts	108,521
Net unrealized gain (loss) on investments	\$(5,360,944)
Net realized and unrealized gain (loss) on investments	\$(4,476,245)
Change in net assets from operations	\$974,208
See Notes to Financial Statements	

Table of Contents*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	
	2015	2014
Change in net assets		
From operations		
Net investment income	\$5,450,453	\$5,870,851
Net realized gain (loss) on investments	884,699	731,254
Net unrealized gain (loss) on investments	(5,360,944)	2,439,289
Change in net assets from operations	\$974,208	\$9,041,394
Distributions declared to shareholders		
From net investment income	\$(6,353,702)	\$(6,965,359)
From tax return of capital	(7,627,955)	(7,581,593)
Total distributions declared to shareholders	\$(13,981,657)	\$(14,546,952)
Total change in net assets	\$(13,007,449)	\$(5,505,558)
Net assets		
At beginning of period	197,831,410	203,336,968
At end of period (including accumulated distributions in excess of net investment income of \$101,842 and \$113,820, respectively)	\$184,823,961	\$197,831,410

See Notes to Financial Statements

Table of Contents*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				
	2015	2014	2013	2012	2011
Net asset value, beginning of period	\$6.07	\$6.24	\$6.88	\$7.01	\$7.17
Income (loss) from investment operations					
Net investment income (d)	\$0.17	\$0.18	\$0.20	\$0.23	\$0.26
Net realized and unrealized gain (loss) on investments and foreign currency	(0.14)	0.10	(0.36)	0.15	0.09
Total from investment operations	\$0.03	\$0.28	\$(0.16)	\$0.38	\$0.35
Less distributions declared to shareholders					
From net investment income	\$(0.20)	\$(0.22)	\$(0.23)	\$(0.32)	\$(0.32)
From tax return of capital	(0.23)	(0.23)	(0.25)	(0.19)	(0.19)
Total distributions declared to shareholders	\$(0.43)	\$(0.45)	\$(0.48)	\$(0.51)	\$(0.51)
Net asset value, end of period (x)	\$5.67	\$6.07	\$6.24	\$6.88	\$7.01
Market value, end of period	\$5.26	\$5.80	\$5.62	\$6.76	\$6.85
Total return at market value (%)	(2.02)	11.46	(10.19)	6.12	3.36
Total return at net asset value (%) (j)(r)(s)(x)	0.92	5.06	(2.02)	5.54	5.48
Ratios (%) (to average net assets) and Supplemental data:					
Expenses before expense reductions (f)	0.76	0.75	0.75	0.78	0.80
Expenses after expense reductions (f)	N/A	0.75	0.75	0.78	0.80
Net investment income	2.84	2.93	3.04	3.36	3.75
Portfolio turnover	74	62	100	41	14
Net assets at end of period (000 omitted)	\$184,824	\$197,831	\$203,337	\$223,942	\$227,609

(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.

(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.

(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.

See Notes to Financial Statements

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NOTES TO FINANCIAL STATEMENTS

(1) Business and Organization

MFS Government Markets 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.

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 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. Futures contracts are generally valued at last posted settlement price as provided by a third-party pricing service on the market on which they are primarily traded. Futures contracts for which there were no trades that day for a particular position are generally valued at the closing bid quotation as provided by a third-party pricing service on the market on which such futures contracts are primarily traded. 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

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Notes to Financial Statements continued

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 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

Table of Contents*Notes to Financial Statements continued*

reflected in total investments, such as futures contracts. The following is a summary of the levels used as of November 30, 2015 in valuing the fund's assets or liabilities:

Investments at Value	Level 1	Level 2	Level 3	Total
U.S. Treasury Bonds & U.S. Government Agency & Equivalents	\$	\$61,111,592	\$	\$61,111,592
Non-U.S. Sovereign Debt		5,700,517		5,700,517
U.S. Corporate Bonds		22,060,161		22,060,161
Residential Mortgage-Backed Securities		86,844,929		86,844,929
Commercial Mortgage-Backed Securities		8,451,221		8,451,221
Asset-Backed Securities (including CDOs)		239,126		239,126
Foreign Bonds		3,450,681		3,450,681
Mutual Funds	6,796,142			6,796,142
Total Investments	\$6,796,142	\$187,858,227	\$	\$194,654,369

Other Financial Instruments

Futures Contracts	\$(16,293)	\$	\$	\$(16,293)
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For further information regarding security characteristics, see the Portfolio of Investments.

Inflation-Adjusted Debt Securities The fund invests in inflation-adjusted debt securities issued by the U.S. Treasury. The principal value of these debt securities is adjusted through income according to changes in the Consumer Price Index. These debt securities typically pay a fixed rate of interest, but this fixed rate is applied to the inflation-adjusted principal amount. The principal paid at maturity of the debt security is typically equal to the inflation-adjusted principal amount, or the security's original par value, whichever is greater. Other types of inflation-adjusted securities may use other methods to adjust for other measures of inflation.

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.

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

Table of Contents*Notes to Financial Statements continued*

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 futures 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, 2015 as reported in the Statement of Assets and Liabilities:

Risk	Derivative Contracts	Fair Value (a) Liability Derivatives
Interest Rate	Interest Rate Futures	\$(16,293)

(a) The value of futures contracts includes cumulative appreciation (depreciation) as reported in the fund's Portfolio of Investments. Only the current day 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, 2015 as reported in the Statement of Operations:

Risk	Futures Contracts
Interest Rate	\$(221,415)

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, 2015 as reported in the Statement of Operations:

Risk	Futures Contracts
Interest Rate	\$108,521

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 transaction 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

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Notes to Financial Statements continued

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.

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.

Dollar Roll Transactions The fund enters into dollar roll transactions, with respect to mortgage-backed securities issued by Ginnie Mae, Fannie Mae, and Freddie Mac, in which the fund sells mortgage-backed securities to financial institutions and simultaneously agrees to purchase similar (same issuer, type and coupon) securities at a later date at an agreed-upon price. During the period between the sale and repurchase in a dollar roll transaction the fund will not be entitled to receive interest and principal payments on the securities sold but is compensated by interest earned on the proceeds of the initial sale and by a lower purchase price on the securities to be repurchased which enhances the fund's total return. The fund accounts for dollar roll transactions as purchases and sales and realizes gains and losses on these transactions.

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.

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Notes to Financial Statements continued

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. Some securities may be purchased on a when-issued or forward delivery basis, which means that the securities will be delivered to the fund at a future date, usually beyond customary settlement time. Inflation-indexed bonds are fixed-income securities whose principal value is periodically adjusted upward or downward based on the rate of inflation. Interest is accrued based on the principal value, which is adjusted for inflation. Any increase or decrease in the principal amount of an inflation-indexed bond is generally recorded as an increase or decrease in interest income, respectively, even though the adjusted principal is not received until maturity. Interest payments received in additional securities are recorded on the ex-interest date in an amount equal to the value of the security on such date.

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. TBA securities resulting from these transactions are included in the Portfolio of Investments. TBA purchase and sale commitments are held at carrying amount, which approximates fair value and are categorized as level 2 within the fair value hierarchy. 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.

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Notes to Financial Statements continued

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 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.

Fees Paid Indirectly Prior to October 1, 2015, the fund's custody fee could be reduced by a credit earned under an arrangement that measured the value of U.S. dollars deposited with the custodian by the fund. The amount of the credit, for the year ended November 30, 2015, is shown as a reduction of total 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 7.25% 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

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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.

Book/tax differences primarily relate to expiration of capital loss carryforwards, amortization and accretion of debt securities, and straddle loss deferrals.

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

	11/30/15	11/30/14
Ordinary income (including any short-term capital gains)	\$6,353,702	\$6,965,359
Tax return of capital (b)	7,627,955	7,581,593
Total distributions	\$13,981,657	\$14,546,952

(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 11/30/15	
Cost of investments	\$191,454,897
Gross appreciation	8,037,321
Gross depreciation	(4,837,849)
Net unrealized appreciation (depreciation)	\$3,199,472
Capital loss carryforwards	(1,767,228)
Other temporary differences	(2,077,035)

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.

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As of November 30, 2015, the fund had capital loss carryforwards available to offset future realized gains as follows:

Pre-enactment losses which expire as follows:

11/30/16	\$(766,085)
11/30/17	(129,764)
11/30/18	(199,149)
Total	\$(1,094,998)

Post-enactment losses which are characterized as follows:

Long-Term	\$(672,230)
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(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 5.33% of gross income. 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. MFS has agreed to reduce its management fee to the lesser of the contractual management fee as set forth above or 0.85% of the fund's average daily net assets. This written agreement will continue until modified by the fund's Board of Trustees, but such agreement will continue at least until November 30, 2016. For the year ended November 30, 2015, the fund's average daily net assets and gross income did not meet the thresholds required to waive the management fee under this agreement. The management fee, from net assets and gross income, incurred for the year ended November 30, 2015 was equivalent to an annual effective rate of 0.53% of the fund's average daily net assets.

The investment adviser has agreed in writing to pay a portion of the fund's total annual operating expenses, excluding interest, taxes, extraordinary expenses, brokerage and transaction costs, and investment-related expenses, such that total annual operating expenses do not exceed 0.80% annually of the fund's average daily net assets. This written agreement will continue until modified by the fund's Board of Trustees, but such agreement will continue at least until November 30, 2016. For the year ended November 30, 2015, the fund's actual operating expenses did not exceed the limit and therefore, the investment adviser did not pay any portion of the fund's expenses related to this agreement.

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, 2015, these fees paid to MFSC amounted to \$26,165.

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

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average daily net assets. The administrative services fee incurred for the year ended November 30, 2015 was equivalent to an annual effective rate of 0.0208% 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 \$3,450 and is included in Independent Trustees compensation in the Statement of Operations for the year ended November 30, 2015. The liability for deferred retirement benefits payable to certain independent Trustees under the DB plan amounted to \$34,188 at November 30, 2015, 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, 2015, the fee paid by the fund under this agreement was \$777 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.

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. Income earned on this investment is included in Dividends from underlying affiliated funds in the Statement of Operations. This money market fund does not pay a management fee to MFS.

(4) Portfolio Securities

For the year ended November 30, 2015, purchases and sales of investments, other than short-term obligations, were as follows:

	Purchases	Sales
U.S. Government securities	\$131,126,864	\$129,539,062
Investments (non-U.S. Government securities)	\$13,021,955	\$19,952,245

(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

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repurchase by the fund of up to 10% annually of its own shares of beneficial interest. During the years ended November 30, 2015 and November 30, 2014, there were no transactions in fund shares.

(6) Line of Credit

The fund and certain other funds managed by MFS participate in a \$1.25 billion unsecured committed line of credit, subject to a \$1 billion sublimit, provided by a syndication of banks under a credit agreement. Borrowings may be made for temporary financing needs. Interest is charged to each fund, based on its borrowings, generally at a rate equal to the higher of the Overnight Federal Reserve funds rate or daily one month LIBOR plus an agreed upon spread. A commitment fee, based on the average daily, unused portion of the committed line of credit, is allocated among the participating funds at the end of each calendar quarter. In addition, the fund and other funds managed by MFS have established unsecured uncommitted borrowing arrangements with certain banks for temporary financing needs. Interest is charged to each fund, based on its borrowings, at a rate equal to the Overnight Federal Reserve funds rate plus an agreed upon spread. For the year ended November 30, 2015, the fund's commitment fee and interest expense were \$652 and \$0, respectively, and are included in Miscellaneous expense in the Statement of Operations.

(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:

	Beginning Shares/Par Amount	Acquisitions Shares/Par Amount	Dispositions Shares/Par Amount	Ending Shares/Par Amount
Underlying Affiliated Fund				
MFS Institutional Money Market Portfolio	15,361,860	44,239,755	(52,805,473)	6,796,142
	Realized Gain (Loss)	Capital Gain Distributions	Dividend Income	Ending Value
Underlying Affiliated Fund				
MFS Institutional Money Market Portfolio	\$	\$	\$7,835	\$6,796,142

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and the Shareholders of MFS Government Markets Income Trust:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of MFS Government Markets Income Trust (the Fund) as of November 30, 2015, and the related statement of operations 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. The Fund is not required to have, nor were we engaged to perform, an audit of its 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of November 30, 2015, by correspondence with the custodian and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of MFS Government Markets Income Trust as of November 30, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Boston, Massachusetts

January 15, 2016

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(unaudited)

At the annual meeting of shareholders of MFS Government Markets Income Trust, which was held on October 1, 2015, the following action was taken:

Item 1: To elect the following individuals as Trustees:

Nominee	For	Number of Shares	Withheld Authority
Robert E. Butler	22,037,835.494		5,570,239.197
David H. Gunning	22,005,271.970		5,602,802.721
Robin A. Stelmach	21,967,552.638		5,640,522.053

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Table of Contents**TRUSTEES AND OFFICERS IDENTIFICATION AND BACKGROUND**

The Trustees and Officers of the Trust, as of January 1, 2016, 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	Trustee/Officer	Term	Principal Occupations During	Other
	with Fund	Since ^(h)	Expiring	the Past Five Years	Directorships ^(j)
INTERESTED TRUSTEES					
Robert J. Manning ^(k) (age 52)	Trustee	February 2004	2016	Massachusetts Financial Services Company, Co-Chairman, Chief Executive Officer and Director	N/A
Robin A. Stelmach ^(k) (age 54)	Trustee and President	January 2014	2018	Massachusetts Financial Services Company, Executive Vice President and Chief Operating Officer	N/A
INDEPENDENT TRUSTEES					
David H. Gunning (age 73)	Trustee and Chair of Trustees	January 2004	2018 ^(m)	Private investor	Lincoln Electric Holdings, Inc., Director; Development Alternatives, Inc., Director/Non-Executive Chairman
Steven E. Buller (age 64)	Trustee	February 2014	2017	Chairman, Financial Accounting Standards Advisory Council; 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
Robert E. Butler (age 74)	Trustee	January 2006	2018 ⁽ⁿ⁾	Consultant investment company industry regulatory and compliance matters	N/A

Table of Contents*Trustees and Officers continued*

Name, Age	Position(s) Held	Trustee/Officer	Term	Principal Occupations During	Other
	with Fund	Since ^(h)	Expiring	the Past Five Years	Directorships ^(j)
Maureen R. Goldfarb (age 60)	Trustee	January 2009	2016	Private investor	N/A
William R. Gutow (age 74)	Trustee	December 1993	2017 ⁽ⁿ⁾	Private investor and real estate consultant; Capitol Entertainment Management Company (video franchise), Vice Chairman	Texas Donuts, Vice Chairman (until 2010)
Michael Hegarty (age 71)	Trustee	December 2004	2017	Private investor	Rouse Properties Inc., Director; Capmark Financial Group Inc., Director
John P. Kavanaugh (age 61)	Trustee	January 2009	2017	Private investor	N/A
Maryanne L. Roepke (age 59)	Trustee	May 2014	2016	American Century Investments (investment management), Senior Vice President and Chief Compliance Officer (until 2014)	N/A
Laurie J. Thomsen (age 58)	Trustee	March 2005	2016	Private investor	The Travelers Companies, Director; Dycom Industries, Inc., Director
Robert W. Uek (age 74)	Trustee	January 2006	2017 ⁽ⁿ⁾	Consultant to investment company industry	N/A
OFFICERS					
Christopher R. Bohane ^(k) (age 41)	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 47)	Assistant Treasurer	January 2012	N/A	Massachusetts Financial Services Company, Vice President	N/A
Kristin V. Collins ^(k) (age 42)	Assistant Secretary and Assistant Clerk	September 2015	N/A	Massachusetts Financial Services Company, Vice President and Assistant General Counsel	N/A

Table of Contents*Trustees and Officers continued*

Name, Age	Position(s) Held	Trustee/Officer Since ^(h)	Term Expiring	Principal Occupations During the Past Five Years	Other Directorships ⁽ⁱ⁾
Thomas H. Connors ^(k) (age 56)	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 52)	Assistant Secretary and Assistant Clerk	July 2005	N/A	Massachusetts Financial Services Company, Senior Vice President and Associate General Counsel	N/A
David L. DiLorenzo ^(k) (age 47)	Treasurer	July 2005	N/A	Massachusetts Financial Services Company, Senior Vice President	N/A
Brian E. Langenfeld ^(k) (age 42)	Assistant Secretary and Assistant Clerk	June 2006	N/A	Massachusetts Financial Services Company, Vice President and Senior Counsel	N/A
Kenneth Paek ^(k) (age 41)	Assistant Treasurer	February 2015	N/A	Massachusetts Financial Services Company, Vice President; Cohen & Steers, Vice President/Head of Fund Administration (until 2014)	N/A
Susan A. Pereira ^(k) (age 45)	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 45)	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

Table of Contents*Trustees and Officers continued*

Name, Age	Position(s) Held	Trustee/Officer	Term	Principal Occupations During	Other
	with Fund	Since ^(h)	Expiring	the Past Five Years	Directorships ^(j)
Mark N. Polebaum ^(k) (age 63)	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 41)	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 71)	Independent Senior Officer	June 2004	N/A	Tarantino LLC (provider of compliance services), Principal	N/A
Richard S. Weitzel ^(k) (age 45)	Assistant Secretary and Assistant Clerk	October 2007	N/A	Massachusetts Financial Services Company, Senior Vice President and Associate General Counsel	N/A
Martin J. Wolin ^(k) (age 48)	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 55)	Deputy 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. Ms. Stelmach was appointed as President of the Funds as of October 1, 2014.

(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.

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Trustees and Officers continued

- (m) With respect to Mr. Gunning, the Board had agreed to a one-year extension of his ability to serve as a Trustee from January 1, 2016 through December 31, 2016, subject to Board approval for a second one-year extension for the 2017 calendar year pursuant to the retirement policy.
- (n) With respect to Messrs. Butler, Gutow and Uek, the Board has agreed to a one-year extension of each Trustee's ability to serve as a Trustee from January 1, 2016 through December 31, 2016 pursuant to the retirement policy.

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, Butler, Kavanaugh, Uek and Ms. Roepke are members of the Fund's Audit Committee.

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, 2016, the Trustees served as board members of 137 funds within the MFS Family of Funds.

Investment Adviser

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

Portfolio Managers

Geoffrey Schechter
Ward Brown
Robert Persons
Matthew Ryan

Custodian

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

Independent Registered Public Accounting Firm

Deloitte & Touche LLP
200 Berkeley 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, 2015 (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 Lipper Inc., an independent third party, on the investment performance (based on net asset value) of the Fund for various time periods ended December 31, 2014 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 Lipper Inc. on the Fund s advisory fees and other expenses and the advisory fees and other expenses of comparable funds identified by Lipper Inc. (the Lipper expense group), (iii) information provided by MFS on the advisory fees of comparable 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 providing investment

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Board Review of Investment Advisory Agreement continued

advisory, administrative and other services to the Fund and the other MFS Funds. The comparative performance, fee and expense information prepared and provided by Lipper Inc. 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 Lipper Inc. 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, 2014, 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 9th out of a total of 10 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 6th out of a total of 10 funds for the one-year period and 9th out of a total of 9 funds for the five-year period ended December 31, 2014. 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 out-performed its custom benchmark for the one- and three-year periods ended December 31, 2014 (one-year: 5.9% total return for the Fund versus 5.8% total return for the benchmark; three-year: 2.5% total return for the Fund versus 2.4% total return for the benchmark) and matched its custom benchmark for the five-year period (4.2% total return for each of the Fund and 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.

The Trustees expressed continued concern to MFS about the substandard investment performance of the Fund. 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, as to MFS' efforts to improve the Fund's performance. In addition, the Trustees requested that they receive a separate update on the Fund's performance at each of their regular meetings. The Trustees observed

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Board Review of Investment Advisory Agreement continued

that there were significant limitations to the usefulness of the comparative data provided by Lipper, Inc., noting that the applicable Lipper universe for the Fund included funds that pursue substantially different investment programs as compared to that pursued by the Fund. After reviewing these and related factors, the Trustees concluded, within the context of their overall conclusions regarding the investment advisory agreement, that MFS' responses and efforts and plans to improve investment performance were sufficient to support approval of the continuance of the investment advisory agreement for an additional one-year period, but that they would continue to closely monitor the performance of the Fund.

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 Lipper Inc. The Trustees considered that MFS has agreed in writing to reduce its advisory fee, and that MFS currently observes an expense limitation for the Fund, each of which may not be changed without the Trustees' approval. The Trustees also considered that, according to the Lipper data (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 approximately at the Lipper 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.

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Board Review of Investment Advisory Agreement continued

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.

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, 2015.

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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 the Proxy Voting section of *mfs.com* 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 without charge by visiting the Proxy Voting section of *mfs.com* 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*.

FEDERAL TAX INFORMATION (unaudited)

The fund will notify shareholders of amounts for use in preparing 2015 income tax forms in January 2016.

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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 information about your creditworthiness	No	We don't share

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., MFS Fund Distributors, Inc., MFS Heritage Trust Company, and MFS Service Center, Inc.

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 and 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.

Nonaffiliates

MFS does not share personal information with affiliates, except for everyday business purposes as described on page one of this notice.

Companies not related by common ownership or control. They can be financial and nonfinancial companies.

Joint Marketing

MFS does not share with nonaffiliates so they can market to you.

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: **MGF**

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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. 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 is filed as an exhibit to this Form N-CSR.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Messrs. Robert E. Butler, John P. Kavanaugh and Robert W. Uek and Ms. Maryanne L. Roepke and Laurie J. Thomsen, 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. Butler, Kavanaugh and Uek, and Ms. Roepke and Thomsen 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. Effective January 1, 2016 Mr. Steven E. Buller became a member of the Audit Committee and has 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 Mr. Buller is an "independent" member 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). Effective January 1, 2016, Ms. Laurie J. Thomsen is no longer a member of the Audit Committee.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

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

The Board of Trustees has appointed Deloitte & Touche LLP ("Deloitte") 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, 2015 and 2014, audit fees billed to the Fund by Deloitte were as follows:

	Audit Fees	
	2015	2014
Fees billed by Deloitte:		
MFS Government Markets Income Trust	59,720	58,470

For the fiscal years ended November 30, 2015 and 2014, fees billed by Deloitte 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	
	2015	2014	2015	2014	2015	2014
Fees billed by Deloitte:						
To MFS Government Markets Income Trust	10,000	10,000	6,474	6,366	39	2,034

	Audit-Related Fees ¹		Tax Fees ²		All Other Fees ³	
	2015	2014	2015	2014	2015	2014
Fees billed by Deloitte:						
To MFS and MFS Related Entities of MFS Government Markets Income Trust*	186,019	1,945,771	0	0	5,000	0

	Aggregate Fees for Non-audit Services	
	2015	2014
Fees Billed by Deloitte:		
To MFS Government Markets Income Trust, MFS and MFS Related Entities [#]	207,532	1,967,509

* 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 Deloitte 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 Deloitte 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.

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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. Robert E. Butler, John P. Kavanaugh, and Robert W. Uek and Ms. Maryanne L. Roepke and Laurie J. Thomsen. Effective January 1, 2016, Mr. Steven E. Buller became a member of the Audit Committee and Ms. Laurie J. Thomsen is no longer a member of the Audit Committee.

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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, 2015

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.

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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. 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.

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).

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.

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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.

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.

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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.

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.

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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 Corporate Governance Code). 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.

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.

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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 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.

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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.

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

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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, (iv) a vote recommendation is requested from an MFS portfolio manager or investment analyst (e.g. mergers and acquisitions); or (v) MFS evaluates a director nominee who also serves as a director of the MFS Funds (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.

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. (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. Gathering Proxies

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.

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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) 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.

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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 limited types of votes (e.g. mergers and acquisitions, capitalization matters, potentially excessive executive compensation issues, or shareholder proposals relating to environmental and social issues), a representative of MFS Proxy Voting Committee may consult with or seek recommendations from MFS portfolio managers or investment analysts.² However, the MFS Proxy Voting Committee would 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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Information regarding the portfolio manager(s) of the MFS Government Markets 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
Geoffrey L. Schechter	Lead and U.S. Government Securities Portfolio Manager	2006	Investment Officer of MFS; employed in the investment area of MFS since 1993.
Ward Brown	Emerging Markets Debt Instruments Portfolio Manager	2012	Investment Officer of MFS; Employed in the investment area of MFS since 2005
Robert D. Persons	Investment Grade Debt Instruments Portfolio Manager	2012	Investment Officer of MFS; Employed in the investment area of MFS since 2000
Matthew W. Ryan	Emerging Markets Debt Instruments Portfolio Manager	2012	Investment Officer of MFS; Employed in the investment area of MFS since 1997

Compensation

Portfolio manager compensation is reviewed annually. As of December 31, 2014, 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.

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, 2014, the following benchmarks were used to measure the following portfolio manager's performance for the Fund:

Fund	Portfolio Manager	Benchmark(s)
MFS Government Markets Income Trust	Geoffrey L. Schechter	Barclays U.S. Credit Bond Index
		Barclays U.S. Government/Mortgage Bond Index
	Ward Brown	JPMorgan Emerging Markets Bond Index Global
	Robert D. Persons	Barclays U.S. Government/Mortgage Bond Index
	Matthew W. Ryan	JPMorgan Emerging Markets Bond Index Global

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Additional or different benchmarks, including versions of indices, custom indices, and linked indices that combine performance of different indices for different portions of the time period, may also be used. Primary weight is given to portfolio performance over a three-year time period with lesser consideration given to portfolio performance over one- and five-year periods (adjusted as appropriate if the portfolio manager has served for less than five years).

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.

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.

Table of Contents**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, 2015. 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
Geoffrey L. Schechter	N
Ward Brown	N
Robert D. Persons	N
Matthew W. Ryan	N

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, 2015:

Name	Registered Investment Companies*		Other Pooled Investment Vehicles		Other Accounts	
	Number of Accounts	Total Assets	Number of Accounts	Total Assets	Number of Accounts	Total Assets
Geoffrey L. Schechter	12	\$ 14.2 billion	2	\$ 543.9 million	0	N/A
Ward Brown	10	\$ 9.4 billion	5	\$ 3.7 billion	5	\$ 1.5 billion
Robert D. Persons	13	\$ 15.6 billion	6	\$ 3.8 billion	2	\$ 258.5 million
Matthew W. Ryan	12	\$ 10.1 billion	6	\$ 4.5 billion	5	\$ 1.5 billion

* 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

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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.

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 Government Markets Income Trust

Period	(a) Total number of Shares Purchased	(b) Average Price Paid per Share	(c)	(d)
			Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased under the Plans or Programs
12/01/14-12/31/14	0	N/A	0	3,260,111
1/01/15-1/31/15	0	N/A	0	3,260,111
2/01/15-2/28/15	0	N/A	0	3,260,111
3/01/15-3/31/15	0	N/A	0	3,260,111
4/01/15-4/30/15	0	N/A	0	3,260,111
5/01/15-5/31/15	0	N/A	0	3,260,111
6/01/15-6/30/15	0	N/A	0	3,260,111
7/01/15-7/31/15	0	N/A	0	3,260,111
8/01/15-8/31/15	0	N/A	0	3,260,111
9/1/15-9/30/15	0	N/A	0	3,260,111
10/1/15-10/31/15	0	N/A	0	3,260,111
11/1/15-11/30/15	0	N/A	0	3,260,111
Total	0		0	

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Note: The Board of Trustees approves procedures to repurchase shares annually. The notification to shareholders of the program is part of the semi-annual and annual reports sent to shareholders. These annual programs begin on March 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 (March 1 through the following February 28) to 10% of the Registrant's outstanding shares as of the first day of the plan year (March 1). The aggregate number of shares available for purchase for the March 1, 2015 plan year is 3,260,111.

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 GOVERNMENT MARKETS INCOME TRUST

By (Signature and Title)* ROBIN A. STELMACH
Robin A. Stelmach, President

Date: January 15, 2016

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)* ROBIN A. STELMACH
Robin A. Stelmach, President

(Principal Executive Officer)

Date: January 15, 2016

By (Signature and Title)* DAVID L. DILORENZO
David L. DiLorenzo, Treasurer

(Principal Financial Officer

and Accounting Officer)

Date: January 15, 2016

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