EATON VANCE MASSACHUSETTS MUNICIPAL INCOME TRUST
Form N-CSR
January 25, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act File Number: 811-09147

Eaton Vance Massachusetts Municipal Income Trust

(Exact Name of Registrant as Specified in Charter)

Two International Place, Boston, Massachusetts 02110

(Address of Principal Executive Offices)

Maureen A. Gemma

Two International Place, Boston, Massachusetts 02110

(Name and Address of Agent for Services)

(617) 482-8260

(Registrant s Telephone Number)

November 30

Date of Fiscal Year End

November 30, 2018

Date of Reporting Period

Item 1. Reports to Stockholders

Eaton Vance

Municipal Income Trusts

Annual Report

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California (CEV) Massachusetts (MMV) Michigan (EMI) New Jersey (EVJ)

New York (EVY) Ohio (EVO) Pennsylvania (EVP)

Important Note. Beginning on January 1, 2021, as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of each Fund s annual and semi-annual shareholder reports will no longer be sent by mail unless you specifically request paper copies of the reports. Instead, the reports will be made available on the Funds website (funds.eatonvance.com/closed-end-fund-and-term-trust-documents.php), and you will be notified by mail each time a report is posted and provided with a website address to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. If you hold shares at the Funds transfer agent, American Stock Transfer & Trust Company, LLC (AST), you may elect to receive shareholder reports and other communications from the Funds electronically by contacting AST. If you own your shares through a financial intermediary (such as a broker-dealer or bank), you must contact your financial intermediary to sign up.

You may elect to receive all future Fund shareholder reports in paper free of charge. If you hold shares at AST, you can inform AST that you wish to continue receiving paper copies of your shareholder reports by calling 1-866-439-6787. If you own these shares through a financial intermediary, you must contact your financial intermediary or follow instructions included with this disclosure, if applicable, to elect to continue to receive paper copies of your shareholder reports. Your election to receive reports in paper will apply to all funds held with AST or to all funds held through your financial intermediary, as applicable.

Commodity Futures Trading Commission Registration. Effective December 31, 2012, the Commodity Futures Trading Commission (CFTC) adopted certain regulatory changes that subject registered investment companies and advisers to regulation by the CFTC if a fund invests more than a prescribed level of its assets in certain CFTC-regulated instruments (including futures, certain options and swap agreements) or markets itself as providing investment exposure to such instruments. Each Fund has claimed an exclusion from the definition of the term commodity pool operator under the Commodity Exchange Act. Accordingly, neither the Funds nor the adviser with respect to the operation of the Funds is subject to CFTC regulation. Because of its management of other strategies, each Fund s adviser is registered with the CFTC as a commodity pool operator and a commodity trading advisor.

Fund shares are not insured by the FDIC and are not deposits or other obligations of, or guaranteed by, any depository institution. Shares are subject to investment risks, including possible loss of principal invested.

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Management s Discussion of Fund Performance[1]

Economic and Market Conditions

The fiscal year that began December 1, 2017, was characterized by a flattening of the municipal bond yield curve.[7] Driven by four federal funds rate hikes by the U.S. Federal Reserve Board (the Fed) starting in December 2017, and continuing in March, June, and September 2018 rates generally rose across the entire U.S. Treasury yield curve, more so at the short end of the curve.

In the opening month of the period, the municipal market experienced considerable volatility after the GOP-controlled House and Senate passed new tax legislation. The most significant change to the municipal market was the elimination of an issuer s ability to refinance debt prior to its call date through the issuance of advanced refunding bonds, which accounted for about 20% of new issuances over the previous decade. As a result, December 2017 witnessed the largest one-month issuance of new municipal debt, as issuers rushed to beat the December 31, 2017 deadline. Investors sold short maturity bonds to buy new-issue longer-maturity bonds in anticipation of lower supply going forward. The net result was a rise in prices on longer-term debt that drove a flattening of the yield curve in December 2017.

At the start of the new year, however, bond prices reversed direction. Signs of inflation, wage growth, and fears that new tax legislation might overheat the economy pushed short-term interest rates higher and longer-term bond prices lower. Upward pressure on short-term rates continued in March and June 2018 as the Fed delivered its first two rate hikes of the year. From April through the end of August 2018, fluctuating perceptions of geopolitical risk were a primary driver of rates at the long end of the curve. Investor sentiment toggled between concerns over a global trade war, optimism about economic growth, and uncertainties surrounding the strained relationship between the U.S. and North Korea.

In September 2018, the Fed hiked rates again and both U.S. Treasury and municipal rates rose across the curve. In October 2018, a strong U.S. employment report and easing concerns over Italy s national budget continued the upward pressure on longer-term rates. In the final month of the period, however, longer-term rates declined after the Fed made dovish comments about the future direction of interest rates and the Democrats won a majority in the House of Representatives, decreasing the possibility of further tax cuts in 2019.

During the 12-month period, the Bloomberg Barclays Municipal Bond Index (the Index),[2] a broad measure of the asset class, returned 1.13% as coupon income modestly outweighed the

negative effects of falling bond prices. While rates for AAA-rated[8] bonds rose across the yield curve, rate increases were greater at the shorter end of the curve.

On a total return basis, bonds with 15 years or less remaining to maturity generally outperformed bonds with 20 or more years to maturity. At the same time, lower-rated bonds generally outperformed higher-rated issues. Municipal bonds, in general, outperformed comparable U.S. Treasurys during the period, with the exception of the 30-year area of the curve where municipals performed in line with U.S. Treasurys.

Fund Performance

For the fiscal year ended November 30, 2018, shares of the California, Massachusetts, Michigan, New York, Ohio, and Pennsylvania Trusts (the Funds) at net asset value (NAV) underperformed the 1.13% return of the Funds benchmark, the Index, while the New Jersey Trust at NAV outperformed the Index.

Each Fund s overall strategy is to invest primarily in investment grade bonds of the Fund s particular state. Management may hedge investments against the potential risk of volatility associated with the use of leverage and by investing in bonds at the long end of the yield curve using U.S.

Treasury futures.

As a risk management tactic within each individual Fund, interest rate hedging is used to moderate performance on both the upside and downside of the market. During this period of declining municipal bond prices, the Funds Treasury futures hedge mitigated some of the price declines, and contributed modestly to performance relative to the unhedged Index for the New Jersey and Pennsylvania Funds. The California, Massachusetts, Michigan, New York, and Ohio Funds did not employ a hedging strategy during the period.

During the fiscal year ended November 30, 2018, management employed leverage through Residual Interest Bond financing,[6] Auction Preferred Shares (APS) and Institutional MuniFund Term Preferred Shares (iMTP) to seek to enhance the Funds tax-exempt income. In general, the use of leverage has the effect of achieving additional exposure to the municipal market, and magnifying a Fund s exposure to its underlying investments in both up and down markets. During this period of rising rates and falling bond prices, the use of leverage amplified the relatively minor declines in the price of bonds owned by the Funds but also generated additional tax-exempt income. As of November 30, 2018, the Funds had no APS and iMTP Shares outstanding.

See Endnotes and Additional Disclosures in this report.

Past performance is no guarantee of future results. Returns are historical and are calculated by determining the percentage change in net asset value (NAV) or market price (as applicable) with all distributions reinvested and include management fees and other expenses. Fund performance at market price will differ from its results at NAV due to factors such as changing perceptions about the Fund, market conditions, fluctuations in supply and demand for Fund shares, or changes in Fund distributions. Investment return and principal value will fluctuate so that shares, when sold, may be worth more or less than their original cost. Performance less than or equal to one year is cumulative. Performance is for the stated time period only; due to market volatility, current Fund performance may be lower or higher than the quoted return. For performance as of the most recent month-end, please refer to eatonvance.com.

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Management s Discussion of Fund Performance continued

State-specific Results

Eaton Vance California Municipal Income Trust shares at NAV returned 0.70%, underperforming the 1.13% return of the Index. Detractors from Fund performance versus the Index included leveraged investments used by the Fund, and security selections in the health care sector and general obligation (GO) bonds. In contrast, performance relative to the Index was helped by security selection in A-rated and BBB-rated bonds, security selection and an overweight position in zero-coupon bonds, and security selection in insured Puerto Rico bonds.

Returns were supported by the relatively strong performance of Puerto Rico s debt structure during the period as ongoing bankruptcy negotiations signaled that bondholder recoveries may exceed initial expectations by the market. The Fund s insured Puerto Rico holdings were insured by various municipal bond insurers. It should be noted that most uninsured bonds issued by the Commonwealth of Puerto Rico and its conduit issuers were no longer included in the Index. As Puerto Rico continued to deal with its ongoing fiscal crisis during the period, bonds issued by different legal entities were influenced by a number of factors, including monetary default. As the period ended, Puerto Rico continued to negotiate with creditors to address its current debt structure under the Puerto Rico Oversight, Management, and Economic Stability Act passed by the U.S. Congress.

Eaton Vance Massachusetts Municipal Income Trust shares at NAV returned 0.82%, underperforming the 1.13% return of the Index. Leveraged investments used by the Fund, security selection in the education sector, and security selection in AA-rated bonds detracted from performance relative to the Index. During a period when lower-rated bonds outperformed higher-rated issues, an overweight in BBB-rated bonds and below contributed to performance versus the Index. Additional contributors to relative results included security selection and an overweight position in insured Puerto Rico bonds and holdings that were prerefunded during the period.

Eaton Vance Michigan Municipal Income Trust shares at NAV returned 0.20%, underperforming the 1.13% return of the Index. Detractors from performance relative to the Index included leveraged investments used by the Fund, an underweight in BBB-rated issues and security selection in the health care sector. In contrast, performance versus the Index was aided by an overweight position and security selection in insured Puerto Rico bonds, security selection in the water and sewer sector, and holdings that were prerefunded during the period.

Eaton Vance New Jersey Municipal Income Trust shares at NAV returned 1.53%, outperforming the 1.13% return of the Index. Security selection and an overweight position in insured and uninsured Puerto Rico bonds, security selection and an overweight position in BBB-rated bonds, and security selection in zero-coupon bonds all contributed to Fund performance versus the Index. Detractors from Fund performance relative to the Index included leveraged investments used by the Fund, security selection in state GO bonds, and security selection in AA-rated bonds.

Eaton Vance New York Municipal Income Trust shares at NAV returned 0.61%, underperforming the 1.13% return of the Index. Leveraged investments used by the Fund detracted from performance relative to the Index, as did security selection in the lease revenue/certificates of participation sector and security selection in 4.0% coupon bonds. Contributors to performance versus the Index included security selection in insured Puerto Rico bonds, an overweight position in BBB-rated bonds and below, and security selection in the housing sector.

Eaton Vance Ohio Municipal Income Trust shares at NAV returned 0.66%, underperforming the 1.13% return of the Index. Performance versus the Index was hurt by leveraged investments used by the Fund, security selection in local GO bonds, and an overweight and security selection in zero-coupon bonds. Contributors to results versus the Index included security selection and an overweight position in insured Puerto Rico bonds, security selection in the industrial development revenue sector, and security selection in the education sector.

Eaton Vance Pennsylvania Municipal Income Trust shares at NAV returned 0.05%, underperforming the 1.13% return of the Index. Leveraged investments used by the Fund, security selection in local GO bonds, and security selection in AAA-rated bonds all detracted from Fund performance versus the Index. Contributors to performance relative to the Index included security selection and an overweight position in insured Puerto Rico bonds, an overweight position in the health care sector, and holdings that were prerefunded during the period.

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Eaton Vance

California Municipal Income Trust

November 30, 2018

Performance[2,3]

Portfolio Manager Craig R. Brandon, CFA

% Average Annual Total Returns	Inception Date	One Year	Five Years	Ten Years
Fund at NAV	01/29/1999	0.70%	5.85%	9.05%
Fund at Market Price		4.76	4.89	8.01
Bloomberg Barclays Municipal Bond Index		1.13%	3.52%	4.88%

% Premium/Discount to NAV[4]	
	15.99%

Distributions[5]	
Total Distributions per share for the period	$ 0.465
Distribution Rate at NAV	3.85%
Taxable-Equivalent Distribution Rate at NAV	7.50%
Distribution Rate at Market Price	4.58%
Taxable-Equivalent Distribution Rate at Market Price	8.92%

% Total Leverage[6]	
Residual Interest Bond (RIB) Financing	38.72%

Fund Profile

Credit Quality (% of total investments)[8,9]

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Eaton Vance

Massachusetts Municipal Income Trust

November 30, 2018

Performance[2,3]

Portfolio Manager Craig R. Brandon, CFA

% Average Annual Total Returns	Inception Date	One Year	Five Years	Ten Years
Fund at NAV	01/29/1999	0.82%	5.23%	9.05%
Fund at Market Price		4.33	4.70	8.67
Bloomberg Barclays Municipal Bond Index		1.13%	3.52%	4.88%

% Premium/Discount to NAV[4]	
	15.00%

Distributions[5]	
Total Distributions per share for the period	$ 0.466
Distribution Rate at NAV	3.27%
Taxable-Equivalent Distribution Rate at NAV	5.82%
Distribution Rate at Market Price	3.85%
Taxable-Equivalent Distribution Rate at Market Price	6.85%

% Total Leverage[6]	
RIB Financing	35.02%

Fund Profile

Credit Quality (% of total investments)[8,9]

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Eaton Vance

Michigan Municipal Income Trust

November 30, 2018

Performance[2,3]

Portfolio Manager Cynthia J. Clemson

% Average Annual Total Returns	Inception Date	One Year	Five Years	Ten Years
Fund at NAV	01/29/1999	0.20%	6.76%	8.62%
Fund at Market Price		2.13	6.91	10.41
Bloomberg Barclays Municipal Bond Index		1.13%	3.52%	4.88%

% Premium/Discount to NAV[4]	
	14.16%

Distributions[5]	
Total Distributions per share for the period	$ 0.469
Distribution Rate at NAV	3.31%
Taxable-Equivalent Distribution Rate at NAV	5.84%
Distribution Rate at Market Price	3.85%
Taxable-Equivalent Distribution Rate at Market Price	6.79%

% Total Leverage[6]	
RIB Financing	38.68%

Fund Profile

Credit Quality (% of total investments)[8,9]

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Eaton Vance

New Jersey Municipal Income Trust

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Performance[2,3]

Portfolio Manager Adam A. Weigold, CFA

% Average Annual Total Returns	Inception Date	One Year	Five Years	Ten Years
Fund at NAV	01/29/1999	1.53%	5.58%	9.68%
Fund at Market Price		0.64	4.76	8.99
Bloomberg Barclays Municipal Bond Index		1.13%	3.52%	4.88%

% Premium/Discount to NAV[4]	
	15.08%

Depreciation and amortization expense for the three month periods ended December 31, 2011 and December 31, 2010 were $55,159 and $98,090, respectively. Depreciation and amortization expense for the nine month periods ended December 31, 2011 and December 31, 2010 were $116,550 and $339,858, respectively.

NOTE 6 - OBLIGATIONS TO CLIENTS FOR RETURNS AND ALLOWANCES

Due to the seasonality of the business and length of time clients are given to return defective product, it is not uncommon for clients to accumulate credits from the Company’s sales and allowance programs that are in excess of unpaid invoices in accounts receivable. All credit balances in clients’ accounts receivable are reclassified to obligations to clients for returns and allowances in current liabilities on the Consolidated Balance Sheet. Client requests for payment of a credit balance are reclassified from obligations to clients for returns and allowances to accounts payable on the Consolidated Balance Sheet. When new invoices are processed prior to settlement of the credit balance and the client accepts settlement of open credits with new invoices, then the excess of new invoices over credits are netted in accounts receivable. As of the periods ended December 31, 2011 and March 31, 2011 obligations to clients for returns and allowances reclassified from accounts receivable were

$291,294 and $435,341, respectively. There were no credit amounts requested by clients to be paid for the periods ended December 31, 2011 and March 31, 2011 and as such no amounts were reclassified from obligations to clients for returns and allowances to accounts payable.

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NOTE 7 – FINANCING

As of December 31, 2011 and March 31, 2011 the Company owed amounts of $253,750 and $0, respectively to a financial institution. The Company received advance funds from the discounting of letters of credit issued as payment for goods by a major customer. The proceeds were used to pay Chinese manufacturing vendors. The amounts are due January 10, 2012 and were discounted at 1.20%.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

The Company is not aware of any outstanding legal matters at December 31, 2011.

INCOME TAXES

In a letter dated July 21, 2008 the Internal Revenue Service (“IRS”) notified the former foreign subsidiary of an unpaid tax balance on Income Tax Return of a Foreign Corporation (Form 1120-F) for the period ending March 31, 2003 for International SMC (HK) Limited (“ISMC (HK)”), a former subsidiary. According to the notice ISMC (HK) has an unpaid balance due in the amount of $241,639 that includes an interest assessment of $74,125. ISMC (HK) was sold in its entirety by the Company on September 25, 2006 to a British Virgin Islands company (“Purchaser”). The sale and purchase agreement with the Purchaser of ISMC (HK) specifies that the Purchaser would ultimately be responsible for any liabilities, including tax matters. On June 3, 2009 the IRS filed a federal tax lien in the amount of approximately $170,000 against ISMC (HK) under ISMC (HK)’s federal Tax ID. Management sought independent legal counsel to assess the potential liability, if any, on the Company. In a memorandum from independent counsel, the conclusion based on the facts presented was that the IRS would not prevail against the Company for collection of the ISMC (HK) income tax liability based on:

· The IRS’s asserted position that the Company is not the taxpayer.

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The 1120- F tax liability was recorded under the taxpayer identification number belonging to ISMC and not the Company's taxpayer identification number

- The IRS would be barred from recovery since it failed to assess or issue a notice of levy within the three year statute of limitations

Based on the conclusion reached in the legal memorandum, management does not believe that the Company will have any further liability with regards to this issue.

LEASES

The Company has entered into various operating lease agreements for office and warehouse facilities in Fort Lauderdale, Florida and City of Industry, California. The leases expire at varying dates. Rent expense for the nine months ended December 31, 2011 and 2010 was $605,687 and $587,544, respectively.

Future minimum lease payments under property and equipment leases with terms exceeding one year as of December 31, 2011 are as follows:

For period ending	Property Leases
2012	$ 714,915
2013	284,376
2014	59,637
2015	61,128
2016 and beyond	62,655
	$ 1,182,711

NOTE 9 - STOCKHOLDERS' EQUITY

COMMON STOCK ISSUANCES

During the nine months ended December 31, 2011 and December 31, 2010, the Company issued 125,001 and 249,999 shares of its common stock, respectively.

On December 2, 2011 the Company issued 125,001 shares of its common stock to our Board of Directors at $0.06 per share, pursuant to our annual director compensation plan.

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On August 31, 2010 the Company issued 249,999 shares of its common stock to our Board of Directors at $0.03 per share, pursuant to our annual director compensation plan.

STOCK OPTIONS

On June 1, 2001, the Board of Directors approved the 2001 Stock Option Plan ("Plan"), which replaced the 1994 Stock Option Plan, as amended, (the "1994 Plan"). The Plan was developed to provide a means whereby directors and selected employees, officers, consultants, and advisors of the Company may be granted incentive or non-qualified stock options to purchase common stock of the Company. As of December 31, 2011, the Plan is authorized to grant options up to an aggregate of 1,950,000 shares of the Company's common stock and up to 300,000 shares for any one individual grant in any quarter. As of December 31, 2011, the Company granted 1,623,895 options under the Year 2001 Plan with 1,191,380 options still outstanding, leaving 326,105 options available to be granted. There were no additional stock options issued during the nine months ended December 31, 2011. As of December 31, 2011, the Company has no options still issued and no options available to be granted under the 1994 Plan, since the 1994 Plan has expired (after 10 years).

NOTE 10 - GEOGRAPHICAL INFORMATION

The majority of sales to customers outside of the United States for the three and nine months ended December 31, 2011 and 2010 were made by the Macau Subsidiary. Sales by geographic region for the period presented are as follows:

	FOR THE THREE MONTHS ENDED December 31, 2011	2010	**FOR THE NINE MONTHS ENDED** December 31, 2011	2010
North America	$ 8,679,579	$ 6,935,843	$ 23,919,267	$ 17,114,562
Europe	(29,022)	-	668,900	270,580
	$ 8,650,557	$ 6,935,843	$ 24,588,167	$ 17,385,142

The geographic area of sales is based primarily on the location where the product is delivered.

NOTE 11 – DUE TO RELATED PARTIES, NET

As of December 31, 2011 and March 31, 2011 the Company had amounts due to related parties in the amounts of $6,339,988 and $4,615,961 respectively, consisting primarily of non-interest bearing trade payables due to Starlight affiliates. As of December 31, 2011 and March 31, 2011 the Company had amounts due from related parties in the amounts of $86,150 and $73,348 respectively, consisting primarily of non-interest bearing trade receivables due from Starlight affiliates.

NOTE 12 – RELATED PARTY TRANSACTIONS

During the nine months ended December 31, 2011 and December 31, 2010 the Company sold approximately $1,541,000 and $1,659,000 respectively to Starlight Electronics at a discounted price, similar to prices granted to major direct import customers shipped internationally with freight prepaid. The average gross profit margin on sales to Starlight Electronics for the nine months ended December 31, 2011 and December 31, 2010 was 7.6% and 10.8%, respectively. The product was drop shipped to Cosmo Communications of Canada (“Cosmo”), the Company’s primary distributor of its products to Canada. This amount was included as a component of cost of goods sold in the accompanying consolidated statements of operations

During the nine months ended December 31, 2011 and December 31, 2010 the Company sold approximately $50,000 and $234,000, directly to Cosmo at a gross profit margin of 10.2% and 15.9%, respectively. Sales to Cosmo were similar to prices granted to major direct import customers shipped internationally with freight prepaid. This amount was included as a component of cost of goods sold in the accompanying consolidated statements of operations.

The Company purchased products from Starlight Consumer Electronics Company, Ltd, (“SCE”) a subsidiary of Starlight International Holding Ltd. The purchases from SCE for the nine month period ended December 31, 2011 and 2010 were $7,231,641and $0, respectively. The Company purchased products from Starlight Marketing Development, Ltd, (“SMD”) a subsidiary of Starlight International Holding Ltd. The purchases from SMD for the nine month period ended December 31, 2011 and 2010 were $0 and $6,573,834, respectively.

During the nine month period ended December 31, 2011 and December 31, 2010 the Company purchased products from Cosmo Communications USA, Inc. ("Cosmo USA") in the amount of $171,551and $230,603, respectively.

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On August 1, 2010, SMC Logistics entered into a service and logistics agreement with affiliates Starlight Consumer Electronics (USA), Inc., Starlight Electronics USS, Inc, and Cosmo USA, Inc. to provide logistics, fulfillment, and warehousing services for these affiliates' domestic sales. The Company received $749,997 and $749,997 in service fees from these affiliates during the nine months ended December 31, 2011 and December 31, 2010, respectively. For the nine months ended December 31, 2011 and December 31, 2010, the Company additionally received reimbursements from both of these affiliates in the amount of $21,585 and $50,620, respectively for expenses and salaries incurred by SMC Logistics on their behalf. The current service and logistics agreement expired on July 31, 2011and on August 1, 2011, the Company entered into an extension of the current agreement for an additional twelve months. The current extension will expire on July 31, 2012.

NOTE 13 – WARRANTY PROVISIONS

A return program for defective goods is negotiated with each of our wholesale customers on a year-to-year basis. Customers are either allowed to return defective goods within a specified period of time after shipment (between 6 and 9 months) or granted a "defective allowance" consisting of a fixed percentage (between 1% and 5%) off of invoice price in lieu of returning defective products. The Company is also subject to returns of CDG music from sales made by our consignee. The Company records liabilities for its return goods programs and defective goods allowance program at the time of sale for the estimated costs that may be incurred. The liability for defective goods is included in warranty provisions on the Consolidated Balance Sheet.

Changes in the Company's obligations for return and allowance programs are presented in the following table:

	Three Months Ended		Nine Months Ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Estimated return and allowance liabilities at beginning of period	$438,368	$309,459	$144,021	$123,708
Costs accrued for new estimated returns and allowances	276,152	206,670	737,046	524,464
Return and allowance obligations honored	(225,728)	(131,623)	(392,275)	(263,666)
	$488,792	$384,506	$488,792	$384,506

Estimated return and allowance
liabilities at end of period

NOTE 14 – SUBSEQUENT EVENTS

We evaluated the effects of all subsequent events from the end of the third quarter ended December 31, 2011 through the date we filed our financial statements with the U.S. Securities and Exchange Commission. There were no events to report during this evaluation period.

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

FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes included elsewhere in this quarterly report. This document contains certain forward-looking statements including, among others, anticipated trends in our financial condition and results of operations and our business strategy. (See Part II, Item 1A, "Risk Factors "). These forward-looking statements are based largely on our current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements.

Statements included in this quarterly report that do not relate to present or historical conditions are called “forward-looking statements.” Such forward-looking statements involve known and unknown risks and uncertainties and other factors that could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. Forward-looking statements may include, without limitation, statements relating to our plans, strategies, objectives, expectations and intentions. Words such as “believes,” “forecasts,” “intends,” “possible,” “estimates,” “antic “expects,” “plans,” “should,” “could,” “will,” and similar expressions are intended to identi forward-looking statements. Our ability to predict or project future results or the effect of events on our operating results is inherently uncertain. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, such performance or results will be achieved.

Important factors to consider in evaluating such forward-looking statements include, but are not limited to: (i) changes in external factors or in our internal budgeting process which might impact trends in our results of operations; (ii) unanticipated working capital or other cash requirements; (iii) changes in our business strategy or an inability to execute our strategy due to unanticipated changes in the industries in which we operate; and (iv) the effects of adverse general economic conditions, both within the United States and globally, (v) vendor price increases and decreased margins due to competitive pricing during the economic downturn (vi)various competitive market factors that may prevent us from competing successfully in the marketplace and (vii) other factors described in the risk factors section of our Annual Report on Form 10-K, this Quarterly Report on 10-Q, or in our other filings made with the SEC.

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Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements.

OVERVIEW

The Singing Machine Company, Inc., a Delaware corporation, (the “Singing Machine,” “we,” “us,” “our” or “the Company”) and our subsidiaries are primarily engaged in the desi marketing, and sale of consumer karaoke audio equipment, accessories and musical recordings. The Company’s products are sold directly to distributors and retail customers. Our electronic karaoke machines and audio software products are marketed under The Singing Machine(R) and Motown trademarks.

Our products are sold throughout North America and Europe, primarily through department stores, lifestyle merchants, mass merchandisers, direct mail catalogs and showrooms, music and record stores, national chains, specialty stores and warehouse clubs.

Our karaoke machines and karaoke software are currently sold in such major retail outlets as Costco, Kohl's, Toys R Us, Target and Wal-Mart. Our business has historically been subject to significant seasonal fluctuations causing our revenues to vary from period to period and between the same periods in different fiscal years. Thus, it may be difficult for an investor to project our results of operations for any given future period. We are uncertain of how significantly our business will be harmed by a prolonged economic recession but, we anticipate that continued contraction of consumer spending will negatively affect our revenues and profit margins.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items related to our consolidated statements of operations as a percentage of net sales for the three months and six months ended December 31, 2011 and 2010.

The Singing Machine Company, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	For Three Months Ended				For Nine Months Ended			
	December 31, 2011		December 31, 2010		December 31, 2011		December 31, 2010	
Net Sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost of Goods Sold	79.2	%	76.5	%	78.0	%	77.6	%
Gross Profit	20.8	%	23.5	%	22.0	%	22.4	%
Operating Expenses								
Selling expenses	9.8	%	11.8	%	9.1	%	9.8	%
General and administrative expenses	8.8	%	9.1	%	8.0	%	11.1	%
Depreciation and amortization	0.6	%	1.3	%	0.5	%	2.0	%
Total Operating Expenses	19.2	%	22.2	%	17.6	%	22.9	%
Income (Loss) from Operations	1.6	%	1.3	%	4.4	%	-0.5	%
Other Income (Expenses)								
Interest expense	-0.1	%	-0.1	%	0.0	%	-0.1	%
Provision for income taxes	0.0	%	0.0	%	0.0	%	0.0	%
Net Income (Loss)	1.5	%	1.2	%	4.4	%	-0.6	%

QUARTER ENDED DECEMBER 31, 2011 COMPARED TO THE QUARTER ENDED DECEMBER 31, 2010

NET SALES

Net sales for the quarter ended December 31, 2011 increased to $8,650,557 from $6,935,843, an increase of $1,714,714 as compared to the same period ended December 31, 2011. The increase in net sales is attributable to an approximate $800,000 increase in direct import business (47% of the increase) from two major retail customers that did not do direct import business with the Company in the quarter ended December 31, 2010. The increase is also due to approximately $800,000 more in domestic sales to a new major retail customer. The remaining increase was primarily due to the success of our expanded drop-ship program with these customers.

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GROSS PROFIT

Our gross profit for the quarter ended December 31, 2011 increased to $1,796,159 from $1,632,768 an increase of $163,391 as compared to the same period in the prior year. This increase is primarily due to the increase in revenue in the quarter as compared to the same quarter in the prior year.

Gross profit margin for the three month period ended December 31, 2011 was 20.8% compared to 23.5% for the three month period ended December 31, 2010. An increase in inventory reserves for slow moving inventory of approximately $148,000 was recorded in cost of sales during the three month period ended December 31, 2011 which accounted for 1.7 points of the gross profit margin decrease from the three month period ending December 31, 2010. The remaining 1.0 point decrease was primarily due to participation in a special holiday markdown program with one major retail customer.

OPERATING EXPENSES

For the quarter ended December 31, 2011, total operating expenses increased to $1,656,948. This represents an increase of $113,841 from the same period's quarter ended total operating expenses of $1,543,107. This increase was primarily due to an increase in sales and marketing salaries from new hires and other compensation of approximately $64,000 as well as an increase in defective repair costs of approximately $54,000 due to the increase in estimated defective returns from increased sales volume. The remaining selling and administrative expense increase of approximately $39,000 was primarily due variable expenses associated with the increase in net sales. These increases were offset by a decrease in depreciation expense of approximately $43,000 due to molds and tooling that were fully depreciated by the fiscal year ended March 31, 2011.

INCOME FROM OPERATIONS

Income from operations increased $49,550 this quarter, to $139,211 for the three months ended December 31, 2011 compared to net income from operations of $89,661 for the same period ended December 31, 2010. Increased sales and gross profit offset by increased variable selling and administrative expenses accounted for the increase in income from operations.

OTHER INCOME/EXPENSES

Our net other expenses (interest expense) decreased to $5,452 from $8,992 for the same period a year ago primarily related to discounted Letter's of Credit used to obtain short term bank funds during those periods.

INCOME TAXES

For the three months ended December 31, 2011 and 2010, the Company did not record a tax provision as it had sufficient net operation loss from previous periods to offset the income for the three months ended December 31, 2011.

NET INCOME

For the three months ended December 31, 2011 net income increased to $133,759 compared to net income of $80,669 for the same period a year ago. The increase in net income was primarily due to increased revenue which resulted in higher gross profit. This was somewhat offset by an increase variable selling and administrative expenses associated with net sales increase.

NINE MONTHS ENDED DECEMBER 31, 2011 COMPARED TO THE NINE MONTHS ENDED DECEMBER 31, 2010

NET SALES

Net sales for the nine months ended December 31, 2011 increased to $24,588,167 from $17,385,142, an increase of $7,203,025 as compared to the same period ended December 31, 2010. This increase in sales is primarily due to increased demand in direct import goods from North American customers. For the nine months ended December 31, 2011 direct import sales to major North American customers increased by approximately $7,026,000 accounting for 98% of the increase.

GROSS PROFIT

Our gross profit for the nine months ended December 31, 2011 increased to $5,418,185 from $3,901,337, an increase of $1,516,848 as compared to the same period in the prior year primarily due to the increase in revenue for the comparable periods.

Gross profit margin for the nine month period ended December 31, 2011 was 22.0% compared to 22.4% for the nine month period ended December 31, 2010. During the nine month period ended December 31, 2011 we recorded approximately $300,000 of additional inventory reserves to cost of goods sold over the same period ended December 31, 2010 accounting for 1.2 gross profit margin points of the total decrease. This decrease in gross profit margin was offset by increased gross profit margin in several major retail customers due to price increases and from our expanded drop shipment program with several existing major retail customers.

OPERATING EXPENSES

For the nine months ended December 31, 2011, total operating expenses increased to $4,319,007 from $3,988,494 for the nine months ended December 31, 2010, an increase of $330,513. This increase was primarily due to variable selling expenses associated with the increase in net sales and was offset by decreased depreciation expense as more mature tooling and molds were fully depreciated.

Selling expenses increased approximately $521,000 for the nine months ended December 31, 2011 compared to the quarter ended December 31, 2010. This increase was primarily due to variable expenses associated with the 41% increase in net sales from the same nine month period ending December 31, 2010. Advertising allowance increased approximately $223,000 accounting for 43% of the increase. Sales commissions increased approximately $99,000 which yielded 19% of the increase. Royalties increased approximately $124,000 due to a one-time accrual of additional royalties for the settlement in the MGA legal matter and contributed to 24% of the increase with the remaining increase due to outbound freight expense on increased shipment volume.

General and administrative expenses increased approximately $33,000 for the nine months ended December 31, 2011 compared to same period ended December 31, 2010 due to increased product development charges for future product. Depreciation expense decreased approximately $180,000 primarily due to mature tooling and molds which were fully depreciated.

OTHER INCOME/EXPENSES

Our net other expenses (interest expense) decreased to $7,796 from $19,981 for the same period a year ago. The decrease in interest expense was primarily due to the termination of our financing facilities with DBS bank without negotiating any replacement financing.

INCOME TAXES

For the nine months ended December 31, 2011 and 2010, the Company did not record a tax provision as it had sufficient net operation loss from previous periods to offset the income for the nine months ended December 31, 2011.

NET LOSS/INCOME

We incurred a net income of $1,091,382 for the nine months ended December 31, 2011 compared to a net loss of $107,138 for the same period a year ago. The $1,198,520 increase in net income was primarily due to increased revenue resulting in gross profit increase of approximately $1,517,000 offset by an increase in operating expenses of approximately $331,000 due to variable selling expense increases commensurate with net sales increases.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2011, Singing Machine had cash on hand of $1,976,985 as compared to cash on hand of $1,312,239 as of December 31, 2010. We had a working capital deficit of $364,428 as of December 31, 2011.

Net cash provided by operating activities was $1,140,286 for the nine months ended December 31, 2011, as compared to $2,183,510 provided by operating activities the same period a year ago. The decrease in net cash provided was primarily a result of an increase in trade accounts receivable due to the increase in net sales during the three month period ended December 31, 2011

Net cash used by investing activities for the nine months ended December 31, 2011 was $87,216 as compared to $27,000 used by investing activities for the same period ended a year ago. This increase was caused by capital expenditures for molds and tooling in the current fiscal year.

Net provided by financing activities was $249,203 for the nine months ended December 31, 2011, as compared to cash used in financing activities of $1,710,148 for the same period ended a year ago. We obtained short term financing from financial institutions of approximately $254,000 during the nine months ended December 31, 2011 by discounting Letters of Credit provided as payment for direct import shipments from two major customers. Our credit facilities with DBS bank were terminated on June 8, 2010 and we were required to pay approximately $1,700,000 representing all outstanding balances on our banking facilities during the nine month period ending December 31, 2010 accounting for the significant increase in funds used by investing activities during that time period. Since we have not replaced our financing facility we have relied on related party and vendor financing as well as offering major customers additional discounts in exchange for reduced payment terms.

In light of the loss of our financing facility, our parent company, the Starlight Group (“Group”), has expressed their willingness and ability to provide bridge financing and advance funds to us for key vendor payments as well as extending longer payment terms for goods they manufacture for us. For the nine month period ended December 31, 2011 the Group provided $1,711,126 of financing primarily through trade payables with the Group. We estimate our bridge financing requirements from the Group to be between $0.5 million and $1.0 million for the fiscal year ending March 31, 2012. These funds have been made available by the Group primarily through extended terms for trade payables with the Group. Taking into account the internally generated funds and credit facilities available to the Group, and proposed use of proceeds which included up to $1.0 million of bridge financing for the Company, we have concluded that our parent will have sufficient working capital to provide bridge financing to us for at least the next 12 months.

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As of December 31, 2011, our unrestricted cash on hand was $1,976,985. Our average monthly general and administrative expenses are approximately $253,000. We expect that we will require approximately $1 million for working capital during the next three-month period.

During the next 12 month period, we plan on financing our operation needs by:

- Raising additional working capital;
- Collecting our existing accounts receivable;
- Selling existing inventory;
- Vendor financing;
- Borrowing from factoring bank;
- Short term loans from our majority shareholder;
- Fees for fulfillment, delivery and returns services from related parties.

Our sources of cash for working capital in the long term, 12 months and beyond are essentially the same as our sources during the short term. We are actively seeking additional financing facilities and capital investments to maintain and grow our business. If we need to obtain additional financing and fail to do so, it may have a material adverse effect on our ability to meet our financial obligations and to continue as a going concern.

INVENTORY SELL THROUGH

We monitor the inventory levels and sell through activity of our major customers to properly anticipate returns and maintain the appropriate level of inventory. We believe that we have proper return reserves to cover potential returns based on historical return ratios and information available from the customers.

SEASONAL AND QUARTERLY RESULTS

Historically, our operations have been seasonal, with the highest net sales occurring in our second and third fiscal quarters (reflecting increased orders for equipment and music merchandise during the Christmas holiday season) and to a lesser extent the first and fourth quarters of the fiscal year. Sales in our second and third fiscal quarters, combined, accounted for approximately 79.8% and 89.0% of net sales in fiscal 2011 and 2010, respectively.

Our results of operations may also fluctuate from quarter to quarter as a result of the amount and timing of orders placed and shipped to customers, as well as other factors. The fulfillment of orders can therefore significantly affect results of operations on a quarter-to-quarter basis.

We are currently developing and considering selling products other than those within the karaoke category during the slow season to fulfill the revenue shortfall.

INFLATION

Inflation has not had a significant impact on our operations. We generally have adjusted our prices to track changes in the Consumer Price Index since prices we charge are generally not fixed by long-term contracts.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

CRITICAL ACCOUNTING POLICIES

We prepared our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. As such, management is required to make certain estimates, judgments and assumptions that it believes are reasonable based on the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented. The significant accounting policies which management believes are the most critical to aid in fully understanding and evaluating our reported financial results include: accounts receivable allowance for doubtful accounts, reserves on inventory, deferred tax assets and our Macau income tax exemption.

COLLECTIBILITY OF ACCOUNTS RECEIVABLE. Our allowance for doubtful accounts is based on management's estimates of the creditworthiness of our customers, current economic conditions and historical information, and, in the opinion of management, is believed to be an amount sufficient to respond to normal business conditions. Management sets 100% reserves for customers in bankruptcy and other reserves based upon historical collection experience. Should business conditions deteriorate or any major customer default on its obligations to the Company, this allowance may need to be significantly increased, which would have a negative impact on operations.

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RESERVES ON INVENTORIES. We establish a reserve on inventory based on the expected net realizable value of inventory on an item-by-item basis when it is apparent that the expected realizable value of an inventory item falls below its original cost. A charge to cost of sales results when the estimated net realizable value of specific inventory items declines below cost. Management regularly reviews the Company's investment in inventories for such declines in value.

INCOME TAXES. Significant management judgment is required in developing our provision for income taxes, including the determination of foreign tax liabilities, deferred tax assets and liabilities and any valuation allowances that might be required against the deferred tax assets. Management evaluates its ability to realize its deferred tax assets on a quarterly basis and adjusts its valuation allowance when it believes that it is more likely than not that the asset will not be realized.

We operate within multiple taxing jurisdictions and are subject to audit in those jurisdictions. Because of the complex issues involved, any claims can require an extended period to resolve. In management's opinion, adequate provisions for potential income taxes in the jurisdiction have been made.

USE OF OTHER ESTIMATES. We make other estimates in the ordinary course of business relating to sales returns and allowances, warranty reserves, and reserves for promotional incentives. Historically, past changes to these estimates have not had a material impact on our financial condition. However, circumstances could change which may alter future expectations.

ITEM 4T. CONTROLS AND PROCEDURES

(a) ***Evaluation of Disclosure Controls and Procedures.*** As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) ***Changes in Internal Controls.*** There was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 under the Exchange Act that occurred during the end of the period covered by this report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There were no pending proceedings as of the period ended December 31, 2011.

ITEM 1A. RISK FACTORS

RISKS ASSOCIATED WITH OUR BUSINESS

CURRENT LEVELS OF SECURITIES AND FINANCIAL MARKET VOLATILITY ARE UNPRECEDENTED.

The capital and credit markets have been experiencing volatility and disruption for more than 12 months. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers. We believe these credit market disruptions have likely decreased our ability to access debt and equity financing. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

RISKS ASSOCIATED WITH OUR CAPITAL STRUCTURE

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

We are not currently in default upon any of our senior securities.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

None.

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ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1 Certification of Gary Atkinson, Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.*

31.2 Certification of Carol Lau, Interim Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.*

32.1 Certifying Statement of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.*

32.2 Certifying Statement of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.*

* Filed herewith

SIGNATURES

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

THE SINGING MACHINE COMPANY, INC.

Date: February 9, 2012 By: /s/ Gary Atkinson
Gary Atkinson
Chief Executive Officer

/s/ Carol Lau
Carol Lau
Interim Chief Financial Officer

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