

SINGING MACHINE CO INC
Form 10-Q/A
March 04, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q/A
Amendment No. 1

(Mark One)

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

For quarter ended September 30, 2010

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

For the transition period from _____ to _____.

Commission File Number 0 - 24968

THE SINGING MACHINE COMPANY, INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE
(State of Incorporation)

95-3795478
(IRS Employer I.D. No.)

6601 Lyons Road, Building A-7, Coconut Creek, FL 33073
(Address of principal executive offices)

(954) 596-1000
(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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

APPLICABLE ONLY TO ISSUES INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

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Indicated by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes " No "

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

CLASS	NUMBER OF SHARES OUTSTANDING
Common Stock, \$0.01 par value	37,835,793 as of November 12, 2010

Explanatory Note

This interim quarterly report on Form 10-Q/A is being filed to amend and expand disclosures for the Company's financing arrangements, obligations to customers for returns and allowances, warranty provisions and gross profit margin variations originally reported on the original Form 10-Q for the three and six months ended September 30, 2010 which was filed with the SEC on November 12, 2010. In addition, the Company changed the label of two line items on the Consolidated Balance Sheet and Consolidated Statement of Cash Flows related to its obligations for returns and allowances and warranty provisions that are more descriptive of what the line items represent. The Company also revised its conclusion regarding Controls and Procedures to "not effective". Items 2 and 4(T) of Part I, the Consolidated Balance Sheet (line item labels only), the Consolidated Statement of Cash Flows (line item labels only) and Notes to Consolidated Financial Statements are the only items of the original 10-Q filed on November 12, 2010 that are being amended with this form 10-Q/A. The amendments do not affect the previously reported financial results on the consolidated balance sheets, statements of operations and statements of cash flows. Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as a result of this amended report, the certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, filed and furnished, respectively, as exhibits to the Form 10-Q have been re-executed and re-filed as of the date of this Form 10-Q/A and are included as exhibits hereto.

In Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations, the Company expanded its disclosures for the variations in gross profit margins in the periods reported to provide greater detail for the causes of the fluctuations of gross margin percentage to sales in the Gross Profit sections. The Company also expanded its disclosures relating to the ability of its parent company, the Starlight Group ("the Group"), to provide bridge financing to the Company, the funds made available by the Group and the estimated amounts of financing required from the Group.

In Item 4(T) – Controls and Procedures, the Company revised its conclusion regarding the adequacy of its controls and procedures from "effective" to "not effective" due to disclosure of a material weakness due to lack of formalized financial closing procedures.

On the Consolidated Balance Sheet and Statements of Cash Flows, the name of the line item originally labeled "customer credit credits on account" was changed to "obligations to clients for returns and allowances". The amended label more appropriately describes the company's obligations to its customers arising from the Company's return and allowance policies. Note 7 of the Notes to Consolidated Financial Statements was amended to provide disclosure of the nature of this line item.

On the Consolidated Balance Sheet and Statements of Cash Flows, the name of the line item originally labeled "deferred gross profit on estimated returns" was changed to "warranty provisions". The amended label more appropriately describes the Company's reserves for its warranty policies. Note 14 of the Notes to Consolidated Financial Statements was added to provide description of the companies warranty policies and a table of obligations for the Company's obligations relating to its warranty polices as required by Financial Accounting Standards Codification (ASC) 460-10-50 Disclosure for Product Warranties.

Note 8 of the Notes to Consolidated Financial Statements which relates to the Company's financing was amended to provide expanded explanation relating to the ability of its parent company group to provide bridge financing to the Company, the funds made available by the group and the estimated amounts of financing required from the group.

THE SINGING MACHINE COMPANY, INC. AND SUBSIDIARIES

INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
Item 1.	Financial Statements
	Consolidated Balance Sheets – September 30, 2010(Unaudited) and March 31, 2010
	4
	Consolidated Statements of Operations - Three months and six months ended September 30, 2010 and 2009(Unaudited)
	5
	Consolidated Statements of Cash Flows - Six months ended September 30, 2010 and 2009 (Unaudited)
	6
	Notes to Consolidated Financial Statements- September 30, 2010 (Unaudited)
	7-14
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
	14-19
Item 4T.	Controls and Procedures
	19
PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings
	19
Item 1A.	Risk Factors
	20
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
	20
Item 3.	Defaults Upon Senior Securities
	20
Item 4.	Submission of Matters to a Vote of Security Holders
	20
Item 5.	Other Information
	20
Item 6.	Exhibits
	20
SIGNATURES	21

The Singing Machine Company, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	September 30, 2010 (Unaudited)	March 31, 2010 (Audited)
Assets		
Current Assets		
Cash	\$ 1,094,647	\$ 865,777
Accounts receivable, net of allowances of \$208,638 and \$185,407, respectively	4,106,769	983,791
Due from factor	-	14,987
Inventories, net	4,665,720	2,804,848
Prepaid expenses and other current assets	82,522	118,465
Total Current Assets	9,949,658	4,787,868
Property and equipment, net	495,198	736,966
Other non-current assets	164,677	164,644
Total Assets	\$ 10,609,533	\$ 5,689,478
Liabilities and Shareholders' Deficit		
Current Liabilities		
Accounts payable	\$ 4,405,272	\$ 895,713
Due to related parties, net	5,671,181	3,033,801
Accrued expenses	485,217	227,257
Short-term loan - bank	-	1,091,828
Current portion of long-term financing obligation	13,640	18,186
Obligations to clients for returns and allowances	351,903	742,009
Warranty provisions	309,459	123,708
Total Current Liabilities	11,236,672	6,132,502
Long-term financing obligation, less current portion	-	4,547
Total Liabilities	11,236,672	6,137,049
Shareholders' Deficit		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, Class A, \$.01 par value; 100,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$0.01 par value; 100,000,000 shares authorized; 35,835,793 and 37,585,794 shares issued and outstanding	378,357	375,857
Additional paid-in capital	19,104,465	19,098,726
Accumulated deficit	(20,109,961)	(19,922,154)
Total Shareholders' Deficit	(627,139)	(447,571)
Total Liabilities and Shareholders' Deficit	\$ 10,609,533	\$ 5,689,478

The accompanying notes are an integral part of these consolidated financial statements.

The Singing Machine Company, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For Three Months Ended		For Six Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Net Sales	\$ 8,357,672	\$ 6,991,372	\$ 10,449,299	\$ 7,805,380
Cost of Goods Sold	6,664,996	5,607,768	8,180,730	6,707,398
Gross Profit	1,692,676	1,383,604	2,268,569	1,097,982
Operating Expenses				
Selling expenses	644,921	636,031	894,010	940,172
General and administrative expenses	634,033	930,353	1,309,609	1,790,607
Depreciation and amortization	119,716	102,513	241,768	202,265
Total Operating Expenses	1,398,670	1,668,897	2,445,387	2,933,044
Income (Loss) from Operations	294,006	(285,293)	(176,818)	(1,835,062)
Other Expenses				
Interest expense	(2,353)	(27,683)	(10,989)	(30,951)
Net Income (Loss)	\$ 291,653	\$ (312,976)	\$ (187,807)	\$ (1,866,013)
Income (Loss) per Common Share				
Basic and Diluted	\$ 0.01	\$ (0.01)	\$ (0.00)	\$ (0.05)
Weighted Average Common and Common Equivalent Shares:				
Basic and Diluted	37,668,211	37,449,332	37,627,003	37,449,332

The accompanying notes are an integral part of these consolidated financial statements.

The Singing Machine Company, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

For Six Months Ended
September 30, 2010 ~~September 30, 2009~~

Cash flows from operating activities		
Net Loss	\$(187,807)	\$ (1,866,013)
Adjustments to reconcile net loss to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	241,768	202,265
Inventory reserve charge	-	191,179
Change in allowance for bad debts	23,231	91,736
Stock based compensation	8,239	7,938
Warranty provisions	185,751	(156,854)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(2,526,642)	(3,084,916)
Inventories	(1,860,872)	(494,836)
Prepaid expenses and other current assets	35,943	122,882
Other non-current assets	(33)	(390)
Increase (Decrease) in:		
Accounts payable	3,509,559	1,796,035
Accounts payable - related party	2,637,380	605,140
Accrued expenses	257,960	75,207
Obligations to clients for returns and allowances	(390,106)	453,533
Net cash provided by (used in) operating activities	1,934,371	(2,057,094)
Cash flows from investing activities		
Purchase of property and equipment	-	(38,377)
Disposal of property and equipment	-	1,648
Net cash used in investing activities	-	(36,729)
Cash flows from financing activities		
Borrowings from factor, net	14,987	57,909
Net (repayments)proceeds pursuant to factoring facility	(619,567)	1,768,830
Net (repayments)proceeds from short-term bank loan	(1,091,828)	1,322,884
Payments on long-term financing obligation	(9,093)	(7,577)
Net cash (used in) provided by financing activities	(1,705,501)	3,142,046
Change in cash and cash equivalents	228,870	1,048,223
Cash and cash equivalents at beginning of period	865,777	957,163
Cash and cash equivalents at end of period	\$1,094,647	\$ 2,005,386
Supplemental Disclosures of Cash Flow Information:		
Cash paid for Interest	\$10,989	\$ 30,951

The accompanying notes are an integral part of these consolidated financial statements.

THE SINGING MACHINE COMPANY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2010

NOTE 1 – BASIS OF PRESENTATION

OVERVIEW

The Singing Machine Company, Inc., a Delaware corporation (the "Company," "SMC", "The Singing Machine", "we" or "us"), and wholly-owned subsidiaries SMC (Comercial Offshore De Macau) Limitada ("Macau Subsidiary"), SMC Logistics, Inc. ("SMC-L"), SMC-Music, Inc. ("SMC-M"), and Singing Machine Holdings Ltd. (a B.V.I. company) are primarily engaged in the development, marketing, and sale of consumer karaoke audio equipment, accessories, musical instruments and musical recordings. The products are sold directly to distributors and retail customers.

The preparation of The Singing Machine's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the period. Future events and their effects cannot be determined with absolute certainty; therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the Company's financial statements. Management evaluates its estimates and assumptions continually. These estimates and assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances.

NOTE 2-SUMMARY OF ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION. The accompanying consolidated financial statements include the accounts of the Company, Macau Subsidiary, SMC-L, SMC-M and The Singing Machine Holdings Ltd. (a B.V.I. company). All inter-company accounts and transactions have been eliminated in consolidation for all periods presented.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS. The consolidated financial statements for the three months and six months ended September 30, 2010 and 2009 are unaudited. In the opinion of management, such consolidated financial statements include all adjustments (consisting of normal recurring accruals) necessary for the fair presentation of the consolidated financial position and the consolidated results of operations. The consolidated results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. The consolidated balance sheet information as of March 31, 2010 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K. The interim consolidated financial statements should be read in conjunction with that report.

USE OF ESTIMATES. The Singing Machine makes estimates and assumptions in the ordinary course of business relating to sales returns and allowances, inventory reserves, warranty reserves, and reserves for promotional incentives that affect the reported amounts of assets and liabilities and of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Historically, past changes to these estimates have not had a material impact on the Company's financial condition. However, circumstances could change which may alter future expectations.

COLLECTIBILITY OF ACCOUNTS RECEIVABLE. The Singing Machine's allowance for doubtful accounts is based on management's estimates of the creditworthiness of its 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.

ACCOUNTS RECEIVABLE FACTORING. The Company's factoring facility, which was canceled on June 8, 2010, only financed non-recourse accounts receivable. Such receivables were considered to have been sold in accordance with Financial Accounting Standard Board ("FASB"), Accounting Standard Codification ("ASC") 860-30, Transfers and Servicing Secured Borrowing and Collateral. Accordingly, advances received pursuant to the factoring facility have been netted against the accounts receivable on the accompanying consolidated balance sheet for March 31, 2010.

RESERVES ON INVENTORIES. The Singing Machine reduces inventory on hand to its net realizable value 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 inventories for such declines in value.

FOREIGN CURRENCY TRANSLATION

The functional currency of the Macau Subsidiary is the Hong Kong dollar. Such financial statements are translated to U.S. dollars using year-end rates of exchange for assets and liabilities, and average rates of exchange for the year for revenues, costs, and expenses. Net gains and losses resulting from foreign exchange transactions and translations were not material during the periods presented.

CONCENTRATION OF CREDIT RISK

The Company maintains cash balances in foreign financial institutions. The amounts at September 30, 2010 and March 31, 2010 are \$664,648 and \$734,908, respectively. At times the Company maintains cash in United States bank accounts that are in excess of the Federal Deposit Insurance Corporation ("FDIC") insured amounts of up to \$250,000. As of September 30, 2010 and March 31, 2010 the amounts uninsured in United States banks was \$179,999 and \$0, respectively.

INVENTORY

Inventories are comprised of electronic karaoke equipment, accessories, electronic musical instruments, electronic toys and compact discs and are stated at the lower of cost or market, as determined using the first in, first out method. The Singing Machine reduces inventory on hand to its net realizable value 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.

REVENUE RECOGNITION

Revenue from the sale of equipment, accessories, and musical recordings are recognized upon the later of: (a) the time of shipment or (b) when title passes to the customers and all significant contractual obligations have been satisfied and collection of the resulting receivable is reasonably assured. Revenues from sales of consigned inventory are recognized upon sale of the product by the consignee. Net sales are comprised of gross sales net of actual and estimated future returns, discounts and volume rebates.

STOCK BASED COMPENSATION

The Company began to apply the provisions FASB ASC 718-20, Compensation – Stock Compensation Awards Classified as Equity ("ASC 718-20") starting on January 1, 2006. ASC 718-20 requires all share-based payments to employees including grants of employee stock options, be measured at fair value and expensed in the consolidated statement of operations over the service period (generally the vesting period). Upon adoption, the Company transitioned to ASC 718-20 using the modified prospective application, whereby compensation cost is only recognized in the consolidated statements of operations beginning with the first period that ASC 718-20 is effective and thereafter, with prior periods' stock-based compensation still presented on a pro forma basis. Under the modified prospective approach, the provisions of ASC 718-20 are to be applied to new employee awards and to employee awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of employee awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of employee awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under ASC 718-20. The Company continues to use the Black-Scholes option valuation model to value stock options. For the three and six months ended September 30, 2010, the stock option expense was \$369 and \$739, respectively. For the three and six months ended September 30, 2009, the stock option expense was \$3,936 and \$7,938, respectively. Employee stock option compensation expense in fiscal years 2010 and 2009 includes the estimated fair value of options granted, amortized on a straight-line basis over the requisite service period for the entire portion of the award.

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the assumptions outlined below. For the quarter ended September 30, 2009, the Company took into consideration guidance under ASC 718-20 and SEC Staff Accounting Bulletin No. 107 when reviewing and updating

assumptions. The expected volatility is based upon historical volatility of our stock and other contributing factors. The expected term is based upon observation of actual time elapsed between date of grant and exercise of options for all employees. Previously such assumptions were determined based on historical data.

- For the six months ended September 30, 2010: expected dividend yield 0%, risk-free interest rate of 0.41%, volatility 268.4% and expected term of three years.
- For the six months ended September 30, 2009: expected dividend yield 0%, risk-free interest rate of 0.57% to 1.41%, volatility 70.22% and 80.07% and expected term of one year.

ADVERTISING

Costs incurred for producing and publishing advertising of the Company are charged to operations as incurred. The Company has entered into cooperative advertising agreements with its major clients that specifically indicated that the client has to spend the cooperative advertising fund upon the occurrence of mutually agreed events. The percentage of the cooperative advertising allowance ranges from 2% to 5% of the clients' inventory purchases. The clients have to advertise the Company's products in the client's catalog, local newspaper and other advertising media. The client must submit the proof of the performance (such as a copy of the advertising showing the Company's products) to the Company to request for the allowance. The client does not have the ability to spend the allowance at their discretion. The Company believes that the identifiable benefit from the cooperative advertising program and the fair value of the advertising benefit is equal or greater than the cooperative advertising expense. Advertising expense for the six months ended September 30, 2010 and 2009 was \$389,496 and \$282,369, respectively.

RESEARCH AND DEVELOPMENT COSTS

All research and development costs are charged to results of operations as incurred. These expenses are shown as a component of selling, general and administrative expenses in the consolidated statements of operations. For the six months ended September 30, 2010 and 2009, these amounts totaled \$15,025 and \$39,762, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS

We have adopted FASB ASC 825, which requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate that value. For purposes of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The carrying amounts of the Company's short-term financial instruments, including accounts receivable, due from factors, accounts payable, customer credits on account, accrued expenses and loans payable to related parties approximates fair value due to the relatively short period to maturity for these instruments.

SUBSEQUENT EVENTS

We adopted the provisions of FASB ASC 855, Subsequent Events ("ASC 855"). The purpose of ASC 855 is to establish a general standard of accounting for the disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement outlines the following:

- The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements
- The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements
- The disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

NOTE 3- INCOME TAXES

The Company follows FASB ASC 740 10-25, Accounting for Uncertainty in Income Taxes, which defines a recognition threshold and measurement attribute for financial statement recognition and measurements of tax positions taken or expected to be taken in a tax return. As of September 30, 2010 this position did not result in any adjustment to the Company's provision for income taxes.

As of September 30, 2010 and March 31, 2010, The Singing Machine had gross deferred tax assets of approximately \$4.1 million and \$4.0 million, respectively, against which the Company recorded valuation allowances totaling approximately \$4.1 million and \$4.0 million, respectively.

As of September 30, 2010 the Company is subject to U.S. Federal income tax examinations for the tax years ended March 31, 2007 through March 31, 2010.

NOTE 4- INVENTORIES

Inventories are comprised of the following components:

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September 30, March 31,
2010 2010
(unaudited)

Finished Goods	\$ 3,615,172	\$ 3,153,917
Inventory in Transit	1,399,617	-
Less: Inventory Reserve	(349,069)	(349,069)
 Net Inventories	 \$ 4,665,720	 \$ 2,804,848

Inventory consigned to customers at September 30, 2010 and March 31, 2010 were \$353,557 and \$353,557, respectively.

NOTE 5 - ACCOUNTS RECEIVABLE FACTORING FACILITY

On June 8, 2010 the Company was notified by DBS Bank (Hong Kong) Limited (“DBS” or “Lender”) that our credit and factoring facilities totaling \$13.0M were being withdrawn effective upon receipt of amounts due on both factoring and accounts payable financing facilities. As of September 30, 2010, the Company had no outstanding amounts due to DBS with respect to the financing facility.

The factoring facility was established on August 28, 2008, pursuant to a three-party Banking Facility agreement between the Company’s wholly owned subsidiary SMC (Commercial Offshore De Macau) Limitada (“Borrower”), DBS and Branch Banking and Trust Company (“BB&T” or “Factor”). The agreement was comprised of three facilities including a maximum of \$7.0 million on 80% of qualified accounts receivable, a maximum letter of credit facility of \$4.0 million for accounts payable financing and a maximum of \$2.0 million for the negotiation of export bills under letter of credit.

Under the factor agreement, the Factor assumed credit risk on approved accounts (factor risk accounts). For non-approved accounts, the Company assumed the credit risk (client risk accounts). The factoring fees were .675% of the gross invoice for both client risk (recourse) and factor risk (non-recourse) accounts. As of September 30, 2010 there were no open accounts receivable assigned to the Factor. As of September 30, 2010 and March 31, 2010 there were outstanding amounts due from BB&T of \$0 and \$14,987 respectively. These amounts represent excess of customer payments received by BB&T that had yet to be transferred to DBS. As of September 30, 2010 and March 31, 2010 the outstanding amount under the factoring facility with DBS was \$0 and \$619,567 respectively. This amount represents advances made by DBS on non-recourse receivables and have been offset against accounts receivable in the accompanying consolidated balance sheet for March 31, 2010.

NOTE 6 - PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	USEFUL LIFE	September 30, 2010 (unaudited)	March 31, 2010
Computer and office equipment	5 years	\$ 660,948	\$ 660,948
Furniture and fixtures	5-7 years	217,875	217,875
Leasehold improvements	*	151,503	151,503
Warehouse equipment	7 years	101,521	101,521
Molds and tooling	3-5 years	1,820,106	1,820,106
		2,951,953	2,951,953
Less: Accumulated depreciation		(2,456,755)	(2,214,987)
		\$ 495,198	\$ 736,966

* Shorter of remaining term of lease or useful life

NOTE 7 - 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 September 30, 2010 and March 31, 2010 obligations to clients for returns and allowances reclassified from accounts receivable were \$351,903 and \$742,009, respectively. There were no credit amounts requested by clients to be paid for the periods ended September 30, 2010 and March 31, 2010 and as such no amounts were reclassified from obligations to clients for returns and allowances to accounts payable.

NOTE 8 – FINANCING

As of September 30, 2010 and March 31, 2010 the Company owed DBS \$0 and \$1,091,828 respectively pursuant to an accounts payable financing facility. The proceeds were used to pay China manufacturing vendors. The accounts payable facility loans were secured with corporate guarantees from the Company as well as a guarantee from Starlight.

This accounts payable financing facility was pursuant to the three-party Banking Facility agreement discussed in Note 5.

Interest on letter of credit facilities and discounting charges on accounts receivable advances were charged at a rate of 1.5% per annum over LIBOR (London Interbank Offered Rate). The credit facility was secured with corporate guarantees from the Company as well as a \$2.0 million guarantee from Starlight International Holdings Limited, a related party. This agreement replaced a previous four-party agreement between the Company, Starlight Marketing Limited (a related party), Standard Chartered Bank (Hong Kong), Limited and CIT.

On June 8, 2010 the Company was notified by DBS that our credit and factoring facilities totaling \$13.0M were being withdrawn effective upon receipt of amounts due on both factoring and accounts payable financing facilities. As of issuing date of the financial statements, the Company did not have amounts due on this facility.

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 six month period ended September 30, 2010 the Group provided \$2,637,380 of financing primarily through trade payables with the Group. We estimate our bridge financing requirements from the Group to be between \$1.5million and \$2.0 million for the fiscal year ending March 31, 2011. These funds are expected to be made available by the Group primarily through extended terms for trade payables with the Group. Taking into account the Group’s proceeds of approximately \$9 million from an offering of their stock on the Hong Kong Exchange during May 2010, internally generated funds and credit facilities available to the Group, and proposed use of proceeds which included up to \$2.0 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.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

MGA ENTERTAINMENT, INC. v. THE SINGING MACHINE COMPANY, INC. (CENTRAL DISTRICT COURT OF CALIFORNIA, CASE CV 10-03761 DOC (RNBX))

MGA Entertainment, Inc. (“MGA”) filed an action against the Company on April 16, 2010 alleging breach of contract, breach of implied covenant of good faith and fair dealing, and conversion claims relating to two licensing agreements between the parties entered into on May 10, 2006 and November 21, 2006. The two licensing agreements involved the manufacture, distribution and marketing of “Bratz” branded merchandise.

The Company has responded to the above captioned case and has removed the case to federal court, case no. CV 10-03761 DOC (RNBX). Based upon legal opinion from outside Counsel, the Company believes it has defenses to the claims raised by MGA. However, at the time of this filing, the case is still in early stages of litigation and the outcome is unknown.

The Company has also filed a class-action lawsuit on behalf of itself and all similarly situated licensees against MGA in the Central District Court of California, case no. CV 10-4536-DOC(RNBX). The Company alleges breach of contract, failure of consideration for the licensing agreements, and other claims based on various state and federal laws. Both pending cases between MGA and SMC were mutually stayed, pending the outcome of the Mattel and MGA litigation, however on October 26, 2010 the District Court re-opened both cases sua sponte.

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 Internal Revenue Service’s asserted position that the Company is not the taxpayer.
- 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 Coconut Creek, Florida and City of Industry, California. The leases expire at varying dates. Rent expense for the six months ended September 30, 2010 and 2009 was \$401,138 and \$439,717, respectively.

In addition, the Company maintains various warehouse equipment and computer equipment operating leases.

Future minimum lease payments under property and equipment leases with terms exceeding one year as of September 30, 2010 are as follows:

	Property Leases	Equipment Leases
For year ending September 30,		
2011	\$ 395,321	\$ 2,416
2012	675,460	-
2013	671,044	-
2014	57,384	-
	\$ 1,799,209	\$ 2,416

NOTE 10 - STOCKHOLDERS' EQUITY

COMMON STOCK ISSUANCES

During the six months ended September 30, 2010 and 2009, the Company issued 249,999 and 0 shares of its common stock, respectively.

On August 31, 2010 the Company issued 249,999 shares of its common stock to our Board of Directors at \$.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 September 30, 2010, 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 September 30, 2010, the Company granted 1,043,895 options under the Year 2001 Plan with 611,380 options still outstanding, leaving 906,105 options available to be granted. There were no additional stock options issued during the six months ended September 30, 2010. As of September 30, 2010, 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 11 - GEOGRAPHICAL INFORMATION

The majority of sales to customers outside of the United States for the three and six months ended September 30, 2010 and 2009 were made by the Macau Subsidiary. Sales by geographic region for the period presented are as follows:

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
North America	\$ 8,087,092	\$ 5,302,263	10,178,719	\$ 6,116,271
Europe	270,580	1,664,806	270,580	1,664,806
Others	-	24,303	-	24,303
	\$ 8,357,672	\$ 6,991,372	\$ 10,449,299	\$ 7,805,380

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

NOTE 12 – DUE TO RELATED PARTIES, NET

As of September 30, 2009 and March 31, 2009 the Company had amounts due to related parties in the amounts of \$5,671,181 and \$3,033,801, respectively, consisting primarily of non-interest bearing trade payables due to Starlight affiliates.

NOTE 13 – RELATED PARTY TRANSACTIONS

During the six months ended September 30, 2010 and September 30, 2009 the Company sold approximately \$1,219,000 and \$0, respectively to Starlight Electronics at discounted pricing granted to direct import major

distributors. The average gross profit margin on sales to Starlight Electronics for the six months ended September 30, 2010 yielded 9%. 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 six months ended September 30, 2010 and September 30, 2009 the Company sold directly to Cosmo approximately \$234,000 and \$790,000, respectively at a gross profit margin of 15.9% and 11.1%, respectively. Sales to Cosmo were at discounted pricing granted to major distributors shipped domestically 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 Marketing Macao, a subsidiary of Starlight International Holding Ltd. The purchases from Starlight Marketing Macao for the six month period ended September 30, 2010 and 2009 were \$3,764,672 and \$1,982,868 respectively.

During the six month period ended September 30, 2010 and September 30, 2009 the Company purchased products from Cosmo in the amount of \$182,013 and \$328,429, respectively.

On August 1, 2010, SMC Logistics entered into a service and logistics agreement with affiliates Starlight Consumer Electronics (USA), Inc. and Cosmo to provide logistics, fulfillment, and warehousing services for these affiliates’ domestic sales. The Company received \$499,998 and \$622,938 in service fees from these affiliates during the six months ended September 30, 2010 and September 30, 2009, respectively. For the six months ended September 30, 2010 and 2009, the Company additionally received reimbursements from Cosmo in the amount of \$42,965 and \$62,305, respectively for expenses and salaries incurred by SMC Logistics on behalf of Cosmo.

NOTE 14 – 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		Six Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Estimated defective return liabilities at beginning of period	\$ 120,412	\$ 73,125	\$ 123,708	\$ 288,039
Costs accrued for new estimated defective returns	254,824	118,930	317,794	181,473
Defective return obligations honored	(65,777)	(60,870)	(132,043)	(338,327)
Estimated defective return liabilities at end of period	\$ 309,459	\$ 131,185	\$ 309,459	\$ 131,185

NOTE 15 – SUBSEQUENT EVENTS

We evaluated the effects of all subsequent events from the end of the second quarter ended September 30, 2010 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,” “anticipates,” “expects,” “plans,” “should,” “could,” “will,” and similar expressions are intended to identify

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.

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 design, 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, J.C. Penney, Toys R Us, 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 September 30, 2010 and 2009.

The Singing Machine Company, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

	For Three Months Ended		For Three Months Ended		For Six Months Ended		For Six Months Ended	
	September 30, 2010		September 30, 2009		September 30, 2010		September 30, 2009	
Net Sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost of Goods Sold	79.7	%	80.2	%	78.3	%	85.9	%
Gross Profit	20.3	%	19.8	%	21.7	%	14.1	%
Operating Expenses								
Selling expenses	7.7	%	9.1	%	8.6	%	12.0	%
General and administrative expenses	7.6	%	13.3	%	12.5	%	22.9	%
Depreciation and amortization	1.4	%	1.5	%	2.3	%	2.6	%
Total Operating Expenses	16.7	%	23.9	%	23.4	%	37.6	%
Income (Loss) from Operations	3.5	%	-4.1	%	-1.7	%	-23.5	%
Other Income (Expenses)								
Interest expense	0.0	%	-0.4	%	-0.1	%	-0.4	%
Net Other Expenses (Income)	0.0	%	-0.4	%	-0.1	%	-0.4	%

Net Income (Loss)	3.5	%	-4.5	%	-1.8	%	-23.9	%
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QUARTER ENDED SEPTEMBER 30, 2010 COMPARED TO THE QUARTER ENDED SEPTEMBER 30, 2009

NET SALES

Net sales for the quarter ended September 30, 2010 increased to \$8,357,672 from \$6,991,372, an increase of \$1,366,300 as compared to the same period ended September 30, 2009. This increase in sales is primarily due to increased demand and earlier purchasing commitments from North American customers. For the quarter ended September 30, 2010 sales to international customers decreased by approximately \$1,394,000 as European customers have excess inventory from the prior year to sell off during the current year. The decrease in international customer sales was offset by \$2,785,000 increase in domestic customers due to increased demand and earlier purchasing commitments compared to the same period in the prior year.

GROSS PROFIT

Our gross profit for the quarter ended September 30, 2010 increased to \$1,692,676 from \$1,383,604 an increase of \$309,072 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 September 30, 2010 was 20.3% compared to 19.8% for the three month period ended September 30, 2009. There was an increase in pricing concessions of approximately \$122,000 during the three months ended September 30, 2010 which contributed approximately 1.5% decrease in gross margin percentage compared to the three months ended September 30, 2009. This decrease was offset by price increases implemented in the first quarter of the current fiscal year, increased percentage of sales to North American customers versus sales to international customers. Sales to North American customers yield higher gross profit margins than sales to international customers and the favorable percentage increase and margin yield on mix of products sold accounted for the remaining variation in gross profit margin.

OPERATING EXPENSES

For the quarter ended September 30, 2010, total operating expenses decreased to \$1,398,670. This represents a decrease of \$270,227 from the same period's quarter ended total operating expenses of \$1,668,897. This decrease was primarily due to general administrative expenses associated with expense reductions implemented by management at the beginning of the current fiscal year.

General and administrative expenses decreased \$296,320 for the quarter ended September 30, 2010 compared to the quarter ended September 30, 2009. The decrease was primarily due to an estimated \$111,000 decrease in compensation expense and employee benefits due to reduction in workforce. The remaining decrease was due to continued management efforts to reduce expenses commensurate with sales.

INCOME FROM OPERATIONS

Income from operations increased \$579,299 this quarter, to \$294,006 for the three months ended September 30, 2010 compared to a net loss from operations of \$285,293 for the same period ended September 30, 2009. Increased sales and gross profit accounted for approximately 53% of the improvement in income from operations while reductions in operating expenses accounted for the remaining 47%.

OTHER INCOME/EXPENSES

Our net other expenses (interest expense) decreased to \$2,353 from \$27,683 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 three months ended September 30, 2010 and 2009, the Company did not record a tax provision because it expects current year-to-date losses and sufficient future net losses to offset the income for these periods.

NET INCOME

For the three months ended September 30, 2010 net income increased to \$291,653 compared to net loss of \$312,976 for the same period a year ago. The increase in net income was primarily due to increased revenue and resulting gross

profit increase combined with management's continued efforts to reduce administrative expenses commensurate with sales volume.

SIX MONTHS ENDED SEPTEMBER 30, 2010 COMPARED TO THE SIX MONTHS ENDED SEPTEMBER 30, 2009

NET SALES

Net sales for the six months ended September 30, 2009 increased to \$10,449,299 from \$7,805,380, an increase of \$2,643,919 as compared to the same period ended September 30, 2009. This increase in sales is primarily due to increased demand and earlier purchasing commitments from North American customers. For the six months ended September 30, 2010 sales to international customers decreased by approximately \$1,394,000 as European customers have excess inventory from the prior year to sell off during the current year. The decrease in international customer sales was offset by approximately \$4,062,000 increase in domestic customers due to increased demand and earlier purchasing commitments compared to the same period in the prior year.

GROSS PROFIT

Our gross profit for the six months ended September 30, 2010 increased to \$2,268,569 from \$1,097,982, an increase of \$1,170,587 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 six month period ended September 30, 2010 was 21.7% compared to 14.1% for the six month period ended September 30, 2009. There were no one-time charges for impaired inventory during the first six months of the period ended September 30, 2010 as compared to a one-time charge of approximately \$181,000 for impaired Bratz licensed inventory to lower of cost or market during the six months ended September 30, 2009 which contributed to approximately 2.2 margin points of the variation. There was approximately \$91,000 less in price concessions during the six months ended September 30, 2010 compared to same period in the prior year which contributed approximately 1.1 margin points of the variation. For the six months ended September 30, 2010, there was an increase in percentage of sales to North American customers versus sales to international customers. Sales to North American customers yield higher gross profit margins than sales to international customers and the favorable percentage increase contributed 2.9 points of margin increase for the period. The remaining 1.4 margin point variance was due primarily to the price increases initiated at the beginning of the current fiscal year and margin yield on mix of products sold.

OPERATING EXPENSES

For the six months ended September 30, 2010, total operating expenses decreased to \$2,445,387 from \$2,933,044 for the six months ended September 30, 2009, a decrease of \$487,657. This decrease was primarily due to management's continued efforts to reduce administrative expenses and improve operating efficiencies. General and administrative expenses decreased approximately \$481,000 of which wage reductions and associated employee benefits due to reduction in workforce accounted for approximately \$256,000 of the decrease. The remaining decrease was due to continued management efforts to reduce administrative expenses commensurate with sales.

OTHER INCOME/EXPENSES

Our net other expenses (interest expense) decreased to \$10,989 from \$30,951 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 six months ended September 30, 2010 and 2009, the Company did not record a tax provision because it had a net operating loss for the six months ended September 30, 2010 and had sufficient net operation loss from previous periods to offset the income for the six months ended September 30, 2009.

NET LOSS/INCOME

We incurred a net loss of \$187,807 for the six months ended September 30, 2010 compared to a net loss of \$1,866,013 for the same period a year ago. The \$1,678,206 decrease in net loss was primarily due to increased revenue and resulting gross profit increase combined with management's continued efforts to reduce administrative expenses commensurate with sales volume. In addition there were no one-time charges to cost of goods sold during the six months ended September 30, 2010 compared to the same period ended September 30, 2009 where one-time pricing discounts totaling \$235,440 for slow moving and defective product and a one-time charge of \$181,142 to adjust certain Bratz licensed products and musical instruments to lower of cost or market value were recognized

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2010, Singing Machine had cash on hand of \$1,094,647 as compared to cash on hand of \$2,005,386 as of September 30, 2009. We had a working capital deficit of \$1,287,014 as of September 30, 2010.

Net cash provided by operating activities was \$1,934,371 for the six months ended September 30, 2010, as compared to \$2,057,094 used in operating activities the same period a year ago. The increase in net cash provided was a result of the following factors: increase in trade accounts payable and an increase in related party debt offset by increase in inventory required for fourth quarter shipments and an increase in accounts receivable due to the increase in sales.

Net cash used by investing activities for the six months ended September 30, 2010 was \$0 as compared to \$36,729 used by investing activities for the same period ended a year ago. This decrease was caused primarily by \$0 capital expenditures for the current fiscal year.

Net cash used in financing activities was \$1,705,501 for the six months ended September 30, 2010, as compared to cash provided by financing activities of \$3,142,046 for the same period ended a year ago. Our facilities with DBS bank were terminated on June 8, 2010 and we were required to pay off all outstanding balances during the six month period ending September 30, 2010 accounting for the significant increase in funds used by investing activities. During the six months ended September 30, 2009 we made use of available credit facilities from DBS bank and reduced our reliance on related party and vendor financing during that 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 six month period ended September 30, 2010 the Group provided \$2,637,380 of financing primarily through trade payables with the Group. We estimate our bridge financing requirements from the Group to be between \$1.5million and \$2.0 million for the fiscal year ending March 31, 2011. These funds are expected to be made available by the Group primarily through extended terms for trade payables with the Group. Taking into account the Group's proceeds of approximately \$9 million from an offering of their stock on the Hong Kong Exchange during May 2010, internally generated funds and credit facilities available to the Group, and proposed use of proceeds which included up to \$2.0 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.

As of September 30, 2010, our unrestricted cash on hand was \$1,094,647. Our average monthly general and administrative expenses are approximately \$211,000. 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 89.0% and 92.0% of net sales in fiscal 2010 and 2009, 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.

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. We reported certain material weaknesses in our internal controls over financial reporting in our annual report on Form 10-K for the year ended March 31, 2010. The Company is still in the process of addressing these material weaknesses and will continue to update the Exchange as to our remediation progress.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

MGA ENTERTAINMENT, INC. v. THE SINGING MACHINE COMPANY, INC. (CENTRAL DISTRICT COURT OF CALIFORNIA, CASE CV 10-03761 DOC (RNBX))

MGA Entertainment, Inc. ("MGA") filed an action against the Company on April 16, 2010 alleging breach of contract, breach of implied covenant of good faith and fair dealing, and conversion claims relating to two licensing agreements between the parties entered into on May 10, 2006 and November 21, 2006. The two licensing agreements involved the manufacture, distribution and marketing of "Bratz" branded merchandise.

The Company has responded to the above captioned case and has removed the case to federal court, case no. CV 10-03761 DOC (RNBX). Based upon legal opinion from outside Counsel, the Company believes it has defenses to the claims raised by MGA. However, at the time of this filing, the case is still in early stages of litigation and the outcome is unknown.

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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.

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: March 4, 2011

By:

/s/ Gary Atkinson
Gary Atkinson
Chief Executive Officer

/s/ Carol Lau
Carol Lau
Interim Chief Financial Officer