SINGING MACHINE CO INC
Form 10-Q
August 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934
For quarter ended June 30, 2012

¨ 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	95-3795478
(State of Incorporation)	(IRS Employer I.D. No.)

6301 NW 5th Way, Suite 2900, Fort Lauderdale FL 33309

(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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "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 x

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

APPLICABLE ONLY TO ISSUES INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

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	37,960,794 as of August 6, 2012

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THE SINGING MACHINE COMPANY, INC. AND SUBSIDIARIES

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The Singing Machine Company, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	June 30, 2012 (Unaudited)	March 31, 2012 (Audited)
Assets		
Current Assets		
Cash and cash equivalents	$ 303,420	$ 267,465
Accounts receivable, net of allowances of $177,947 and $168,554, respectively	799,934	785,490
Due from related party - Starlight Consumer Electronics USA, Inc.	4,574	36,036
Due from related party - Starlight Electronics USA, Inc.	116,286	58,536
Due from related party - Cosmo Communications Canada, Ltd	39,565	68,291
Inventories, net	3,587,715	4,008,392
Prepaid expenses and other current assets	43,434	53,233
Total Current Assets	4,894,928	5,277,443
Property and Equipment, net	306,709	296,222
Other Non-Current Assets	159,956	159,674
Total Assets	$ 5,361,593	$ 5,733,339
Liabilities and Shareholders' Deficit		
Current Liabilities		
Accounts payable	$ 1,545,382	$ 1,303,395
Due to related party - Starlight Marketing Development, Ltd.	1,924,431	1,924,431
Due to related party - Ram Light Management, Ltd.	1,683,247	1,683,247
Due to related party - Starlight R&D, Ltd.	422,106	416,026
Due to related party - Cosmo Communications USA, Inc.	230,626	226,747
Due to related party - Starlight Electronics Co., Ltd.	153,944	103,545
Due to related parties - Other Starlight Group Companies	3,534	3,534
Accrued expenses	207,472	168,156
Obligations to clients for returns and allowances	166,072	242,379
Warranty provisions	61,481	219,760
Total Current Liabilities	6,398,295	6,291,220
Total Liabilities	6,398,295	6,291,220
Shareholders' Deficit		
Preferred stock, $1.00 par value; 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, Class A, $0.01 par value; 100,000 shares authorized; no shares issued and outstanding	-	-
	379,607	379,607

Common stock, $0.01 par value; 100,000,000 shares authorized; 37,960,794 and 37,960,794 shares issued and outstanding, respectively		
Additional paid-in capital	19,142,740	19,141,098
Accumulated deficit	(20,559,049)	(20,078,586)
Total Shareholders' Deficit	(1,036,702)	(557,881)
Total Liabilities and Shareholders' Deficit	$ 5,361,593	$ 5,733,339

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

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The Singing Machine Company, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For Three Months Ended	
	June 30, 2012	June 30, 2011
Net Sales	$ 1,762,705	$ 1,788,046
Cost of Goods Sold	1,318,627	1,359,503
Gross Profit	444,078	428,543
Operating Expenses		
Selling expenses	248,648	348,676
General and administrative expenses	643,118	555,612
Depreciation and amortization	32,775	32,078
Total Operating Expenses	924,541	936,366
Loss from Operations	(480,463)	(507,823)
Other Expenses		
Interest expense	-	(94)
Loss before provision for income taxes	(480,463)	(507,917)
Provision for income taxes	-	-
Net Loss	$ (480,463)	$ (507,917)
Loss per Common Share		
Basic and Diluted	$ (0.01)	$ (0.01)
Weighted Average Common and Common Equivalent Shares:		
Basic and Diluted	37,960,794	37,835,793

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 Three Months Ended	
	June 30, 2012	June 30, 2011
Cash flows from operating activities		
Net Loss	$(480,463)	$ (507,917)
Adjustments to reconcile net loss to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	32,775	32,078
Change in inventory reserve	(40,709)	1,004
Change in allowance for bad debts	2,143	(6,039)
Stock compensation	1,642	7,092
Warranty provisions	(158,279)	(80,690)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(16,587)	359,502
Inventories	461,386	39,267
Prepaid expenses and other current assets	9,799	18,605
Other non-current assets	(282)	-
Increase (Decrease) in:		
Accounts payable	241,987	479,543
Net due to related parties	62,796	(258,182)
Accrued expenses	39,316	(8,833)
Obligations to clients for returns and allowances	(76,307)	87,388
Net cash provided by operating activities	79,217	162,818
Cash flows from investing activities		
Purchase of property and equipment	(43,262)	(77,301)
Net cash used in investing activities	(43,262)	(77,301)
Cash flows from financing activities		
Payments on long-term financing obligation	-	(4,547)
Net cash used in financing activities	-	(4,547)
Change in cash and cash equivalents	35,955	80,970
Cash and cash equivalents at beginning of period	267,465	674,712
Cash and cash equivalents at end of period	$303,420	$ 755,682
Supplemental Disclosures of Cash Flow Information:		
Cash paid for Interest	$-	$ 94

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)

June 30, 2012

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 ended June 30, 2012 and 2011 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, 2012 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 defective 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.

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 in foreign financial institutions at June 30, 2012 and March 31, 2012 are $87,915 and $66,398, 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 June 30, 2012 and March 31, 2012 the amounts uninsured in United States banks were $215,505 and $201,067 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.

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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 defective returns, discounts and volume rebates.

STOCK BASED COMPENSATION

The Company began to apply the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 months ended June 30, 2012 and June 30, 2011 the stock option expense was $1,642 and $7,092, respectively. Employee stock option compensation expense in fiscal years 2012 and 2011 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 June 30, 2012 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. Set forth below are the assumptions used in the periods presented:

- For the three months ended June 30, 2012: expected dividend yield 0%, risk-free interest rate of 0.19%, volatility 341.4% and expected term of three years.
- For the three months ended June 30, 2011: expected dividend yield 0%, risk-free interest rate of 0.22% to 0.30%, volatility 283.9% and expected term of three years.

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 three months ended June 30, 2012 and 2011 was $155,814 and $86,976, 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 three months ended June 30, 2012 and 2011, these amounts totaled $15,067 and $7,648, 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income (“ASU 2011-05”). This accounting update requires entities to present comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The option to present components of other comprehensive income (“OCI”) as part of the statement of changes in shareholders’ equity has been eliminated. In addition, the amended guidance requires entities to show the effects of items reclassified from OCI to net income on the face of the financial statements. This guidance is effective for the Company’s fiscal year beginning April 1, 2012. The Company adopted ASU 2011-05 during the first quarter ended June 30, 2012. The adoption of ASU 2011-05 did not have any impact on our consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, regarding disclosures about offsetting assets and liabilities. This update requires entities to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. Disclosures are required for derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. This update is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company does not expect the adoption of ASU 2011-11 to have any impact on its consolidated financial statements.

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 June 30, 2012 the Company did not have any tax positions that resulted in any adjustment to the Company’s provision for income taxes.

As of June 30, 2012 and March 31, 2012, The Singing Machine had gross deferred tax assets of approximately $4.1 million and $3.9 million, respectively, against which the Company recorded valuation allowances totaling approximately $4.1 million and $3.9 million, respectively.

As of June 30, 2012 the Company is subject to U.S. Federal income tax examinations for the tax years ended March 31, 2009 through March 31, 2012.

NOTE 4- INVENTORIES

Inventories are comprised of the following components:

	June 30, 2012 (unaudited)	March 31, 2012
Finished Goods	$4,210,006	$4,224,395
Inventory in Transit	-	446,997
Less: Inventory Reserve	(622,291)	(663,000)
Net Inventories	$3,587,715	$4,008,392

Inventory consigned to customers at June 30, 2012 and March 31, 2012 were $353,201 and $353,201, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	USEFUL LIFE	June 30, 2012 (unaudited)	March 31, 2012
Computer and office equipment	5 years	$277,995	$276,332
Leasehold improvements	*	5,500	5,500
Warehouse equipment	7 years	101,521	101,521
Molds and tooling	3-5 years	1,966,244	1,924,645
		2,351,260	2,307,998
Less: Accumulated depreciation		(2,044,551)	(2,011,776)
		$306,709	$296,222

* Shorter of remaining term of lease or useful life

Depreciation expense for the three months ended June 30, 2012 and June 30, 2011 was $32,775 and $32,078, 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 June 30, 2012 and March 31, 2012 obligations to clients for returns and allowances reclassified from accounts receivable were $166,072 and $242,379 respectively. As of June 30, 2012 there was one major customer requesting payment of their credit balance in the amount of $449,518 which was reclassified form obligations to clients for returns and allowances to accounts payable. Except as identified, there were no additional credit amounts requested by clients to be paid for the periods ended June 30, 2012 and March 31, 2012 and as such no

additional amounts were reclassified from obligations to clients for returns and allowances to accounts payable.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

Management is currently not aware of any legal proceedings.

INCOME TAXES

In a letter dated July 21, 2008 the Internal Revenue Service ("IRS") notified International SMC (HK) Limited "ISMC (HK)", a 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. 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. On June 30, 2011 the IRS filed an updated federal tax lien in the amount of approximately $293,000 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:

- IRS'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 and has not accrued any liability in this matter.

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LEASES

The Company has entered into various operating lease agreements for office and warehouse facilities in Fort Lauderdale, Florida, City of Industry, California and Macau. The leases expire at varying dates. Rent expense for the three months ended June 30, 2012 and 2011 was $197,147 and $189,382, 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 June 30, 2012 are as follows:

For period ending	Property Leases
2013	$619,864
2014	68,524
2015	60,376
2016	61,885
2017 and beyond	31,586
	$842,235

NOTE 8 - STOCKHOLDERS' EQUITY

COMMON STOCK ISSUANCES

During the three months ended June 30, 2012 and 2011, the Company did not issue any shares of its common stock.

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 June 30, 2012, 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 June 30, 2012 the Company granted 1,683,895 options under the Year 2001 Plan with 1,251,380 options still outstanding, leaving 266,105 options available to be granted. During the three months ended June 30, 2012 and 2011 there were no stock options issued.

NOTE 9 - GEOGRAPHICAL INFORMATION

All sales to customers outside of the United States for the three months ended June 30, 2012 were made by the Macau Subsidiary. Sales by geographic region for the period presented are as follows:

	FOR THE THREE MONTHS ENDED June 30,	
	2012	2011
North America	$1,712,445	$1,668,121
Europe	50,260	119,925
	$1,762,705	$1,788,046

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

NOTE 10 – DUE TO RELATED PARTIES, NET

As of June 30, 2012 and March 31, 2012 the Company had amounts due to related parties in the amounts of $4,417,888 and $4,357,530 respectively, consisting primarily of non-interest bearing trade payables due to Starlight affiliates. As of June 30, 2012 and March 31, 2012 the Company had amounts due from related parties in the amounts of $160,425 and $162,863 respectively, consisting primarily of non-interest bearing trade receivables due from Starlight affiliates.

NOTE 11 – RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2012 and June 30, 2011 the Company sold $260,457 and $151,866 respectively to Starlight Electronics Company, Ltd 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 three months ended June 30, 2012 and June 30, 2011 was 9.2% and 9.1%, respectively. The product was drop shipped to Cosmo Communications of Canada ("Cosmo"), the Company's primary distributor of its products to Canada. During the three months ended June 30, 2012 and June 30, 2011 we sold an additional $54,265 and $0, respectively of product to Cosmo from our California warehouse facility. These amounts were included as a component of cost of goods sold in the accompanying consolidated statements of operations.

The Company purchased products from Starlight Marketing Development, Ltd, ("SMD") a subsidiary of Starlight International Holding Ltd. The purchases from SMD for the three month period ended June 30, 2012 and 2011 were $35,504 and $48,228 respectively.

During the three month period ended June 30, 2012 and June 30, 2011 the Company purchased products from Cosmo Communications USA, Inc. ("Cosmo USA") in the amount of $0 and $23,000, respectively.

On August 1, 2011, SMC-L entered into a service and logistics agreement with affiliates Starlight Consumer Electronics (USA), Inc., Starlight USA, Inc. and Cosmo USA to provide logistics, fulfillment, and warehousing services for these affiliates' domestic sales. The Company received $249,999 and $249,999 in service fees from these affiliates during the three months ended June 30, 2012 and June 30, 2011, respectively. For the three months ended June 30, 2012 and 2011, the Company additionally received reimbursements from both of these affiliates in the amount of $0 and $7,679, respectively for expenses and salaries incurred by SMC-L on their behalf.

NOTE 12 – 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	
	June 30, 2012	June 30, 2011
Estimated return and allowance liabilities at beginning of period	$219,760	$144,021
Costs accrued for new estimated returns and allowances	59,932	55,245
Return and allowance obligations honored	(218,211)	(135,933)
Estimated return and allowance liabilities at end of period	$61,481	$63,333

NOTE 13 – SUBSEQUENT EVENTS

In accordance with FASB ASC 855, Subsequent Events, we evaluated the effects of all subsequent events from the end of the first quarter ended June 30, 2012 through August 9, 2012, the date we filed our financial statements with the U.S. Securities and Exchange Commission. There were no additional 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") a 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 ended June 30, 2012 and 2011.

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

	For three months ended June 30, 2012	June 30, 2011
Net Sales	100.0%	100.0%
Cost of Goods Sold	74.8 %	76.0 %
Gross Profit	25.2 %	24.0 %
Operating Expenses		
Selling expenses	14.1 %	19.5 %
General and administrative expenses	36.5 %	31.1 %
Depreciation and amortization	1.9 %	1.8 %
Total Operating Expenses	52.5 %	52.4 %
Loss from Operations	-27.3 %	-28.4 %
Other Income (Expenses)		
Interest expense	0.0 %	0.0 %
Loss before provision for income taxes	-27.3 %	-28.4 %
Provision for income taxes	0.0 %	0.0 %
Net Loss	-27.3 %	-28.4 %

QUARTER ENDED JUNE 30, 2012 COMPARED TO THE QUARTER ENDED JUNE 30, 2011

NET SALES

Net sales for the quarter ended June 30, 2012 decreased to $1,762,705 from to $1,788,046, a decrease of $25,341 as compared to the same period ended June 30, 2011. This decrease was primarily due to a decrease of $69,665 in direct import sales to one major customer in Europe offset by an increase in North American sales of $95,006.

GROSS PROFIT

Our gross profit for the quarter ended June 30, 2012 increased to $444,078 from $428,543 an increase of $15,535 as compared to the same period in the prior year. This increase is primarily due to the increase in higher margin North American revenue in the quarter as compared to the same quarter in the prior year. As a percentage of revenues, our gross profit margin for the three months ended June 30, 2012 was 25.2% compared to 24.0% for the three months ended June 30, 2011. This 1.2 increase in gross profit margin points was primarily due to a decrease in landing costs of inventory which accounted for .8 points of the increase with the remaining .4 points relating to a favorable inventory cost adjustment.

OPERATING EXPENSES

For the quarter ended June 30, 2012, total operating expenses decreased to $924,541. This represents a decrease of $11,825 from the same period's quarter ended total operating expenses of $936,366. Selling expenses decreased by $100,028 primarily due to the absence of a one-time charge to royalty expense of approximately $160,000 in the prior year quarter ended June 30, 2011 for settlement of a legal matter. This one-time charge to selling expense was offset by increased variable selling expenses which were higher by approximately $60,000 due primarily to an increase in marketing expenses associated with the company's future branding strategy of approximately $45,000 and approximately $24,000 increase in advertising co-op programs offered to major North American customers. The remaining variance in selling expenses was due to other variable selling expenses associated with sales. The expense decrease of approximately $100,000 in selling expenses was offset by an increase in administrative expenses of approximately $88,000 primarily due to increases in repair charges of approximately $53,000 commensurate with increased returns of defective products and the remaining $35,000 variance due other various administrative expenses.

LOSS FROM OPERATIONS

Loss from operations decreased $27,360 this quarter, to $480,463 for the three months ended June 30, 2012 compared to a loss from operations of $507,823 for the same period ended June 30, 2011. The primary reason for the decrease in loss from operations was due to increased gross profit of approximately $15,000 due to favorable product sales mix to North American customers and the reduction in total operating expenses of approximately $12,000 as discussed in the operating expenses section above.

INCOME TAXES

For the three months ended June 30, 2012 and 2011, 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 LOSS

For the three months ended June 30, 2012 net loss decreased to $480,463 compared to a net loss of $507,917 for the same period a year ago. The decrease in net income was primarily due to the same reasons discussed in loss from operations.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2012, Singing Machine had cash on hand of $303,420 as compared to cash on hand of $267,465 as of March 31, 2012. We had a working capital deficit of $1,503,367 as of June 30, 2012.

Net cash provided by operating activities was $79,217 for the three months ended June 30, 2012, as compared to $162,818 provided by operating activities the same period a year ago. The decrease in net cash provided was primarily due to the net decrease of approximately $163,000 in obligations to clients for returns and allowances due to the settlement of a major customer’s credit balance from the prior fiscal year.

Net cash used by investing activities for the three months ended June 30, 2012 was $43,262 as compared to $77,301 used by investing activities for the same period ended a year ago. This decrease was due to a decrease in investment of tooling and molds for new products.

Net cash used in financing activities was $0 for the three months ended June 30, 2012, as compared to net cash used in financing activities of $4,547 for the same period ended a year ago. The company paid off the remaining capital lease for forklifts during fiscal 2012 and did not incur any additional debt subsequent to settlement of this amount.

In light of the Company’s lack of financing facilities, our parent company, the Starlight Group (“Group”), has expressed their willingness and ability to provide financing to us for key vendor payments primarily by extending longer payment terms for goods they manufacture for us. We do not believe we will require any bridge financing from the Group for the fiscal year ending March 31, 2013, however we will continue to take advantage of extended terms for trade payables with the Group throughout the year. As of June 30, 2012, our related party debt increased by approximately $63,000 since the fiscal year ended March 31, 2012. Taking into account internally generated funds and credit facilities available to the Group, we have concluded that our parent will have sufficient working capital to provide extended trade payable terms to us for at least the next 12 months.

As of June 30, 2012, our cash on hand was $303,420. Our average monthly general and administrative expenses are approximately $200,000. We expect that we will require approximately $600,000 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 defective returns and maintain the appropriate level of inventory. We believe that our warranty provision reflects the proper amount of reserves to cover potential defective sales 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 87.9% and 79.8% of net sales in fiscal 2012 and 2011, 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 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

Management is currently not aware of any legal proceedings.

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 Lionel Marquis, 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: August 9, 2012 By: /s/ Gary Atkinson
Gary Atkinson
Chief Executive Officer

/s/ Lionel Marquis
Lionel Marquis
Chief Financial Officer