

SINGING MACHINE CO INC
Form 10-Q
November 14, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

FORM 10-Q

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

For quarter ended September 30, 2007

0 - 24968

Commission File Number

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.)

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

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

Securities registered pursuant to Section 12 (b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.001 Par Value Per Share

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 o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o 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	30,806,019 as of November 9, 2007

THE SINGING MACHINE COMPANY, INC. AND SUBSIDIARY

INDEX

PART I. FINANCIAL INFORMATION

	Page No.
Item 1. Financial Statements	
Consolidated Balance Sheets - September 30, 2007(Unaudited) and March 31, 2007	3
Consolidated Statements of Operations - Three Months and six months ended September 30, 2007 and 2006(Unaudited)	4
Consolidated Statements of Cash Flows - Six months Ended September 30, 2007 and 2006 (Unaudited)	5
Notes to Consolidated Financial Statements-September 30, 2007 (Unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3. Quantitative and Qualitative Disclosure About Market Risk	17
Item 4. Controls and Procedures	17
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	17
Item 1A. Risk Factors	17
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 3. Defaults Upon Senior Securities	23
Item 4. Submission of Matters to a Vote of Security Holders	23
Item 5. Other Information	23
Item 6. Exhibits	23
SIGNATURES	24

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

	September 30, 2007	March 31, 2007
	(Unaudited)	
<u>Assets</u>		
Current Assets		
Cash	\$ 1,668,432	\$ 1,188,900
Accounts receivable, net of allowances of \$164,222 and \$61,825, respectively	12,722,011	1,054,371
Due from factors	349,660	109,991
Inventories, net	5,397,240	2,280,083
Prepaid expenses and other current assets	433,316	521,891
Total Current Assets	20,570,659	5,155,236
Property and Equipment, net	492,632	446,510
Other Non-Current Assets	57,465	56,054
Total Assets	\$ 21,120,756	\$ 5,657,800
<u>Liabilities and Shareholders' Equity</u>		
Current Liabilities		
Accounts payable	\$ 9,549,668	\$ 903,243
Accounts payable - related party	3,927,610	199,316
Loan - related party	1,929,779	-
Accrued expenses	706,373	624,994
Customer credits on account	495,920	594,169
Deferred gross profit on estimated returns	228,678	213,718
Subordinated debt-related parties	225,000	225,000
Total Current Liabilities	17,063,028	2,760,440
Shareholders' Equity		
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, \$.01 par value; 100,000,000 shares authorized; 30,806,019 and 27,286,199 shares issued and outstanding	308,060	272,862
Additional paid-in capital	18,229,705	17,306,342
Accumulated deficit	(14,480,037)	(14,681,844)
Total Shareholders' Equity	4,057,728	2,897,360
Total Liabilities and Shareholders' Equity	\$ 21,120,756	\$ 5,657,800

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, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Net Sales	\$ 16,107,967	\$ 14,299,068	\$ 18,554,067	\$ 15,334,944
Cost of Goods Sold	12,915,137	11,253,423	15,021,885	12,162,827
Gross Profit	3,192,830	3,045,645	3,532,182	3,172,117
Operating Expenses				
Selling expenses	924,763	628,166	1,088,668	631,936
General and administrative expenses	1,132,294	1,442,980	2,092,571	2,608,677
Depreciation and amortization	61,989	179,392	124,186	287,401
Total Operating Expenses	2,119,046	2,250,538	3,305,425	3,528,014
Income (Loss) from Operations	1,073,784	795,107	226,757	(355,897)
Other Income (Expenses)				
Gain from disposal of assets	-	20,011	-	29,029
Interest expense	(19,661)	(8,686)	(24,950)	(17,788)
Net Other (Expenses) Income	(19,661)	11,325	(24,950)	11,241
Net Income (Loss)	\$ 1,054,123	\$ 806,432	\$ 201,807	\$ (344,656)
Income (Loss) per Common Share				
Basic	\$ 0.04	\$ 0.04	\$ 0.01	\$ (0.02)
Diluted	\$ 0.03	\$ 0.03	\$ 0.01	\$ (0.02)
Weighted Average Common and Common Equivalent Shares:				
Basic	29,937,618	22,962,092	29,677,218	16,898,228
Diluted	30,290,381	23,496,575	30,029,981	17,432,711

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	
	09/30/07	09/30/06
Cash flows from operating activities		
<i>Net Income (Loss)</i>	\$ 201,807	\$ (344,656)
Adjustments to reconcile net income (loss) to net cash and cash equivalents used in operating activities:		
Gain on disposal of assets	-	(29,029)
Depreciation and amortization	124,186	287,401
Change in inventory reserve	(19,748)	(76,242)
Change in allowance for bad debts	60,607	23,682
Stock compensation	20,891	110,856
Deferred gross profit on estimated sales returns	14,960	73,586
<i>Changes in assets and liabilities:</i>		
(Increase) Decrease in:		
Accounts receivable	(11,728,247)	(5,488,437)
Inventories	(3,097,409)	(1,406,893)
Prepaid expenses and other current assets	88,575	(147,531)
Other non-current assets	(1,411)	40,081
Increase (Decrease) in:		
Accounts payable	8,646,427	6,183,051
Accounts payable - related party	3,728,294	1,922,118
Accrued expenses	81,377	(119,414)
Customer credits on account	(98,250)	(622,706)
Net cash (used in) provided by operating activities	(1,977,941)	405,867
Cash flows from investing activities		
Purchase of property and equipment	(170,308)	(473,490)
Receipt of restricted cash	-	268,405
Proceeds from sales of assets	-	29,029
Net cash used in investing activities	(170,308)	(176,056)
Cash flows from financing activities		
Retention by factor, net	(239,669)	(3,576)
Proceeds from issuance of stock	937,671	2,000,500
Net loan proceeds (repayment to) related parties	1,929,779	(50,000)
Net cash provided by financing activities	2,627,781	1,946,924
Change in cash and cash equivalents	479,532	2,176,735
Cash and cash equivalents at beginning of period		
	1,188,900	423,548
Cash and cash equivalents at end of period	\$ 1,668,432	\$ 2,600,283
Supplemental Disclosures of Cash Flow Information:		
Cash paid for Interest	\$ 24,951	\$ 20,630
Non-Cash Financing Activities:		
Conversion of loan payable to equity	\$ -	\$ 2,000,000

Conversion of trade payable to equity	\$	300,000	\$	-
---------------------------------------	----	---------	----	---

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

**THE SINGING MACHINE COMPANY, INC AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

OVERVIEW

The Singing Machine Company, Inc., a Delaware corporation (the "Company," "SMC", or "The Singing Machine"), and wholly-owned Macau Subsidiary, SMC (Comercial Offshore De Macau) Limitada ("Macau Subsidiary") 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.

THE MANAGEMENT OF THE COMPANY BELIEVES THAT THE FOLLOWING ACCOUNTING POLICIES REQUIRE A HIGH DEGREE OF JUDGEMENT DUE TO THEIR COMPLEXITY:

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.

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 investment in inventories for such declines in value.

INCOME TAXES. Significant management judgment is required in developing The Singing Machine's 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 that the asset will not be realized.

The Company follows Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("SFAS No. 109"). Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. If it is more likely than not that some portion of a deferred tax asset will not be realized, a valuation allowance is recognized.

Due to the change of control of the Company in June 2006, the net operating loss carry over is subject to the IRS Section 382 limitation. As of September 30, 2007 and March 31, 2007, The Singing Machine had gross deferred tax assets of approximately \$2.6 million and \$2.7 million, respectively, against which the Company recorded valuation allowances totaling approximately \$2.6 million and \$2.7 million, respectively.

The Company files separate tax returns for the parent in the United States and for the Macau Subsidiary. The Macau Subsidiary has received approval from the Macau government to operate its business as a Macau Offshore Company (MOC), and is exempt from the Macau income tax. For the quarters ended September 30, 2007 and 2006, the Company recorded no tax provision. The Company has now exhausted its ability to carry back any further losses and therefore will only be able to recognize tax benefits to the extent that it has future taxable income.

USE OF OTHER ESTIMATES. The Singing Machine makes other estimates and assumptions in the ordinary course of business relating to sales returns and allowances, 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.

THE FOLLOWING ARE THE COMPANY'S REMAINING ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of The Singing Machine Company, Inc., its wholly-owned Macau Subsidiary, SMC (Comercial Offshore De Macau) Limitada ("Macau Subsidiary"), 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 and six months ended September 30, 2007 and 2006 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, 2007 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.

FOREIGN CURRENCY TRANSLATION

The functional currency of the Macau Subsidiary is the Hong Kong dollar. The financial statements of the subsidiaries 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. Such balances are not insured. The uninsured amounts at September 30, 2007 and March 31, 2007 are \$1,596,523 and \$240,682, respectively.

INVENTORY

Inventories are comprised of electronic karaoke equipment, accessories, and compact discs and are stated at the lower of cost or market, as determined using the first in, first out method.

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 of SFAS No. 123 (revised 2004), Share-Based Payments ("SFAS 123 (R)"), starting on January 1, 2006. SFAS 123 (R) which became effective after June 15, 2005, replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees. SFAS 123 (R) 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 SFAS 123 (R) using the modified prospective application, whereby compensation cost is only recognized in the consolidated statements of operations beginning with the first period that SFAS 123 (R) 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 SFAS 123 (R) 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 SFAS 123. The Company continues to use the Black-Scholes option valuation model to value stock options. As a result of the adoption of SFAS 123 (R), the Company recognized a charge of \$6,790 (included in selling, general and administrative expenses) for the three months ended September 30, 2007 associated with the expensing of stock options. For the three and six months ended September 30, 2007, the stock option expense was \$6,790 and \$13,580, respectively. Employee stock option compensation expense in fiscal years 2007 and 2006 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, 2007, the Company took into consideration guidance under SFAS 123 (R) and SEC Staff Accounting Bulletin No. 107 (SAB 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, 2007: expected dividend yield 0%, risk-free interest rate of 4.92%, volatility of 90.77% and expected term of three years.

- For the six months ended September 30, 2006: expected dividend yield 0%, risk-free interest rate of 4.6%, volatility 100.52% 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 purchase. 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, 2007 and 2006 was \$195,371 and \$89,242, 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 September 30, 2007 and 2006, these amounts totaled \$1,090 and \$25,588, respectively. For the six months ended September 30, 2007 and 2006, these amounts totaled \$7,975 and \$75,186, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," 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, loan-related party, customer credits on account, subordinated debt-related parties and accrued expenses approximates fair value due to the relatively short period to maturity for these instruments.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

On November 5, 2007, the SEC issued Staff Accounting Bulletin ("SAB") No. 109, which supersedes SAB No. 105, *Application of Accounting Principles to Loan Commitments*, and expresses the current view of the staff that, consistent with the guidance in SFAS No. 156, *Accounting for Servicing of Financial Assets*, and SFAS No. 159, *The Fair Value Option of Financial Assets and Financial Liabilities*, the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB 109 also retains the staff view expressed in SAB 105, that indicated that the staff believed that internally-developed intangible assets (such as customer relationship intangible assets) should not be recorded as part of the fair value of a derivative loan commitment and broadens its application to all written loan commitments that are accounted for at fair value through earnings. This SAB is applicable on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15,

2007. The Company will be evaluating the effect, if any, of the adoption of this recently issued accounting bulletin on its consolidated financial statements commencing on April 1, 2008.

NOTE 2 - INVENTORIES

Inventories are comprised of the following components:

	September 30, 2007	March 31, 2007
Finished Goods	\$ 4,834,174	\$ 2,334,381
Inventory in Transit	776,290	144,550
Less: Inventory Reserve	(213,224)	(198,848)
Net Inventories	\$ 5,397,240	\$ 2,280,083

8

Inventory consigned to customers at September 30, 2007 and March 31, 2007 were \$463,302 and \$418,598, respectively.

NOTE 3 - ACCOUNTS RECEIVABLE FACTORING AGREEMENT

The Company executed an agreement with CIT on August 13, 2007 to factor its receivables. CIT assumes the credit risk on approved accounts (factor risk accounts). For non-approved accounts, the Company will assume the credit risk (client risk accounts). The factoring fees, for the client risk accounts, are .3% of the gross invoice. For the factor risk accounts, the fees are .55% of the gross invoice. The annual minimum charge is \$24,000. The agreement will expire August 2008. After that date, each party will have to give 60 days written notice to terminate the agreement. CIT does not advance funds to the Company directly. On October 26, 2007, the Company entered into a four- party agreement with CIT(Factor), Standard Chartered Bank (Hong Kong), Limited (Lender) and Starlight Marketing Limited (Borrower). According to the agreement, the Company assigns the proceeds from customers to the Lender, the Lender advance the loan to the borrower (Starlight). The borrower sends the advance to the Company. Both the Borrower and the Company guarantee the repayment of the advance. The maximum amount for the advance is approximately \$4.5 million or 85% of the qualified accounts receivable, which ever is higher.

NOTE 4 - PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	USEFUL LIFE	September 30, 2007	March 31, 2007
Computer and office equipment	5 years	\$ 455,847	\$ 440,946
Furniture and fixtures	5-7 years	220,364	220,171
Leasehold improvements	*	211,492	209,004
Molds and tooling	3 years	774,234	621,508
		1,661,937	1,491,629
Less: Accumulated depreciation		(1,169,305)	(1,045,119)
		\$ 492,632	\$ 446,510

* Shorter of remaining term of lease or useful life

NOTE 5 - SUBORDINATED DEBT-RELATED PARTIES

The related party loans as of September 30, 2007, which total \$225,000 are due to a director and an individual and currently bear interest at 5.5%.

NOTE 6 - CUSTOMER CREDITS ON ACCOUNT

Customer credits on account represent customers that have received credits in excess of their accounts receivable balance. These balances were reclassified for financial statement purposes as current liabilities until paid or applied to future purchases.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

SYBERSOUND RECORDS, INC. V. UAV CORPORATION; MADACY ENTERTAINMENT L.P., AUDIO STREAM, INC., TOP TUNES, INC., SINGING MACHINE, INC., BCI ECLIPSE COMPANY, LLC, AMOS ALTER, DAVID ALTER, EDWARD GOETZ, DENNIS NORDEN, FRANK ROBERTSON, DOUGLAS VOGT AND RICHARD VOGT (UNITED STATES DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA, CV05-5861 JFW); (UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT (USCA DOCKET NO. 06-55221)

The federal court action filed on August 11, 2005 alleged violation of the Copyright Act and the Lanham Act by the defendants, and claims for unfair competition under California law. Sybersound was joined in the complaint by several publisher owners of musical compositions who alleged copyright infringement against all the defendants *except* The Singing Machine Company, Inc. On November 7, 2005, the district court ordered the publisher plaintiffs' copyright claims severed from the case. The Singing Machine Company, Inc. is not a party to the severed cases.

In September 2005, the defendants, including The Singing Machine Company, Inc., filed multiple motions to dismiss the original complaint. In October 2005, Sybersound filed a motion for summary judgment. On January 6, 2006, the court granted the motions of the defendants and denied the plaintiff's motion, thereby dismissing the case against the defendants, including The Singing Machine Company, Inc., with prejudice. The plaintiff Sybersound thereafter appealed the decision to the Ninth Circuit Court of Appeals. The case is currently under review by the appellate court.

Despite the confidence of The Singing Machine Company, Inc. that the ruling in its favor at the district court level will be affirmed on appeal, it is not possible to predict such outcomes with any degree of certainty.

The Company is also subject to various other legal proceedings and other claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability, if any, in excess of applicable insurance coverage, is not likely to have a material effect on the financial condition, results of operations or liquidity of the Company. However, as the outcome of litigation or other legal claims is difficult to predict, significant changes in the range of possible loss could occur, which could have a material impact on the Company's operations.

NON-COMPLIANCE NOTICE FROM AMEX

On September 13, 2007, the Company received a notice letter from The American Stock Exchange (the "Amex") indicating that the Company has fallen below the continued listing standards of the Amex and that its listing is being continued pursuant to an extension.

For the quarter ended June 30, 2007, the Company was not in compliance with Section 1003(a)(ii) of the Amex Company Guide with shareholders' equity of less than \$4,000,000 and net losses in three of its four most recent fiscal years.

In order to maintain its Amex listing, the Company was required to submit a plan of compliance to the American Stock Exchange by October 15, 2007 advising the Amex of actions it would take, which may allow it to regain compliance with all of the Exchange's continued listing standards by March 31, 2008. The Company has submitted the plan and indicated the Company's net equity has exceeded \$4,000,000. The Amex will need up to 45 days to review the plan and make the final decision.

The Listings Qualifications Department at Amex would evaluate the plan, including any supplemental information provided, and make a determination as to whether the Company has made a reasonable demonstration in the Plan of an ability to regain compliance. If the plan is accepted, the Company may be able to continue its listing during the plan period, during which time it will be subject to periodic review to determine whether it is making progress consistent with the Revised Plan. The Company may be subject to delisting proceedings if the plan is not accepted, or if the plan is accepted but the Company is not in compliance with all of the Exchange's continued listing standards within the time frame provided or does not make progress consistent with the plan during the plan period.

The Company was previously added to the list of issuers that are not in compliance with the Amex's continued listing standards, and the Company's trading symbol SMD remains subject to the extension ".BC" to denote its noncompliance. This indicator will remain in effect until such time as the Company has regained compliance with all applicable continued listing standards.

LEASES

The Company has entered into various operating lease agreements for office and warehouse facilities in Coconut Creek, Florida, Compton, California and Macau. The leases expire at varying dates. Rent expense for the six months ended September 30, 2007 and 2006 was \$123,839 and \$310,177, 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, 2007 are as follows:

For period	Property Lease	Equipment Lease
Less than 1 year	\$ 265,893	\$ 9,888
1 - 3 years	8,014	19,901
	\$ 273,907	\$ 29,789

10

NOTE 8 - STOCKHOLDERS' EQUITY

COMMON STOCK ISSUANCES

During the six months ended September 30, 2007 and 2006, the Company issued 3,519,820 and 15,214,601 shares of its common stock, respectively.

Included in these shares issued during the six months ended September 30, 2007, the Company issued 162,677 shares of common stock to various employees, as well as directors, at prices ranging from \$.32 per share to \$.93 per share according to employee stock option agreements.

On September 28, 2007, the Company issued 857,143 shares of common stock to koncept International Limited, a subsidiary of Starlight for \$300,000 (\$.350 per share). The fair value of the shares of \$300,000 was used to offset the trade payable to Starlight Marketing Macao.

On April 16, 2007, 2,500,000 warrants at \$0.233 were exercised by koncept International Limited, a subsidiary of Starlight, and the Company received a total of \$582,500.

On September 29, 2006, the Company issued 1,380,000 shares of common stock to Gentle Boss Investments LTD. for \$600,300 (\$.435 per share).

On September 29, 2006, the Company issued 920,000 shares of common stock to Timemate Industries Limited for \$400,200 (\$.435 per share).

On September 27, 2006, the Company issued 39,065 shares of common stock to members of the Board of Directors for services provided to the Company for fiscal year 2006, valued at \$12,501, which is included in the selling, general, and administrative expenses for the three months ended September 30, 2006.

On June 25, 2006, the Company issued 12,875,536 shares of common stock to koncept International Limited, a subsidiary of Starlight for a \$3 million investment (\$.233 per share).

EARNINGS PER SHARE

In accordance with SFAS No. 128, "Earnings per Share", basic (loss) earnings per share are computed by dividing the net (loss) earnings for the year by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net earnings for the year by the weighted average number of common shares outstanding including the effect of common stock equivalents.

For the six months ended September 30, 2007 and 2006, common stock equivalents to purchase 3,131,830 and 4,984,177 shares of stock were not included in the computation of diluted earnings per share because the exercise prices were greater than the average market price of the Company's common stock for the period.

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, 2007, 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, 2007, the Company had granted 1,603,620 options under the

Year 2001 Plan, leaving 346,380 options available to be granted. As of September 30, 2007, the Company had 13,050 options issued and no options available to be granted under the 1994 Plan, since the 1994 Plan has expired (after 10 years).

The exercise price of employee common stock option issuances in the quarters ended September 2007 and 2006 was equal to the fair market value on the date of grant. Accordingly, no compensation cost has been recognized for options issued under the Plan in these years prior to June 15, 2006. The Company adopted SFAS 123(R) for the reporting period ending after June 15, 2005 and recognized the fair value of the stock option as part of the general and administration expenses.

STOCK WARRANTS

As of September 30, 2007, the Company had a total of 2,500,000 stock purchase warrants outstanding. The exercise price of these warrants range from \$0.28 to \$0.35. The expiration date of these warrants range from July 25, 2009 to July 26, 2010.

NOTE 9 - GEOGRAPHICAL INFORMATION

The Company operates in one segment and maintains its records accordingly. The majority of sales to customers outside of the United States for the six months and three months ended September 30, 2007 were made by the Macau Subsidiary. The majority of sales to customers outside of the United States for the six and three months ended September 30, 2006 were made by International SMC (HK) Limited, the Company's former Hong Kong Subsidiary. Sales by geographic region for the period presented are as follows:

	FOR THE THREE MONTHS		FOR THE SIX MONTHS	
	ENDED		ENDED	
	September 30,		September 30,	
	2007	2006	2007	2006
North America	\$ 11,454,775	\$ 11,059,483	\$ 12,813,620	\$ 11,633,183
Europe	4,371,227	3,235,940	5,160,647	3,697,749
Others	281,965	3,645	579,800	4,012
	\$ 16,107,967	\$ 14,299,068	\$ 18,554,067	\$ 15,334,944

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

NOTE 10 - RELATED PARTY TRANSACTIONS

koncept International Limited, a subsidiary of Starlight International Holding Ltd, invested \$3 million in the Company. The investment was approved by the American Stock Exchange on July 25, 2006. Currently, koncept owns approximately 52.7% of the Company's outstanding common stock.

The Company also purchased products from Starlight Marketing Macao, a subsidiary of Starlight International Holding Ltd. The purchases from Starlight for the six months ended September 30, 2007 were \$5,030,557. In addition, the Company also purchased molds and tooling from Starlight in the amount of \$269,700 in fiscal 2007 and is included in Property and Equipment in the accompanying Consolidated Balance Sheets.

On August 1, 2006, the Company entered into a service agreement with Starlight Electronics Co., Ltd, a subsidiary of Starlight International Holding Ltd, to provide shipping and engineering service to the Company at a charge of \$25,000 per month. Beginning on April 16, 2007, the monthly charge was increased to \$29,000 due to the hiring of additional staff. For the three and six months ended September 30, 2007, this service charge was \$87,000 and \$172,000, respectively, and is included in the general and administrative expenses in the accompanying consolidated statements of operations.

In addition, on October 1, 2006 the Company entered into a warehouse service agreement with Starlight Industrial Holding LTD, to provide them with warehousing services at the Company's Compton, California warehouse at a monthly service charge of \$26,000. The amount paid to the Company was \$78,000 and \$156,000, respectively, for the three and six months ended September 30, 2007. This amount was used to offset the Company's rent expense for the warehouse and is shown in the accompanying consolidated statements of operations as a component of general and administrative expenses.

On August 3, 2007, the Company entered into a three party Assignment Agreement in which Starlight Marketing Limited, a subsidiary of Starlight International Holding Ltd, provides financing to the Company. In return, the Company has agreed to assign to Starlight its rights to receive all monies from time to time due to it under the Factoring Agreement with CIT Group. The three party Assignment Agreement was replaced by the four party Assignment Agreement, in which, the Standard Charter Bank (Hong Kong) was added as the Lender. (see Note 3). The amount due to Starlight as of September 30, 2007 resulting from the Assignment Agreement is \$1,929,779.

The amount due to Starlight and its subsidiaries as of September 30, 2007, related to trade payables, is \$3,927,610.

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 in the Company's Annual Report on Form 10-K for the year ended March 31, 2007. 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.

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) various competitive market factors that may prevent us from competing successfully in the marketplace.

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, and its subsidiary (the "Singing Machine," "we," or "us") are primarily engaged in the design, marketing, and sale of consumer karaoke audio equipment, accessories, musical recordings and Bratz licensed electronic products. 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 Best Buy, Costco, Kohl's, J.C. Penney, Radio Shack, Wal-Mart and Sam's Club. Our Bratz products are sold in Toys R Us.

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, 2007 and 2006.

	For Three Months Ended		For Six Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	80.2%	78.7%	81.0%	79.3%
Gross Profit	19.8%	21.3%	19.0%	20.7%
Operating Expenses				
Selling expenses	5.7%	4.4%	5.9%	4.1%
General and administrative expenses	7.0%	10.1%	11.3%	17.0%
Depreciation and amortization	0.4%	1.3%	0.7%	1.9%
Total Operating Expenses	13.2%	15.7%	17.8%	23.0%
	6.7%	5.6%	1.2%	-2.3%

**Income (Loss) from
Operations****Other Income (Expenses)**

Gain from disposal of assets		0.1%		0.2%
Interest expense	-0.1%	-0.1%	-0.1%	-0.1%
Net Other Expenses (Income)	-0.1%	0.1%	-0.1%	0.1%
Net Income (Loss)	6.5%	5.6%	1.1%	-2.2%

**QUARTER ENDED SEPTEMBER 30, 2007 COMPARED TO THE QUARTER ENDED SEPTEMBER 30,
2006**

13

NET SALES

Net sales for the quarter ended September 30, 2007 increased to \$16,107,967 from \$14,299,068, an increase of \$1,808,899 as compared to the same period ended September 30, 2006. This increase can be primarily attributed to the additional revenues generated by the Bratz product line.

GROSS PROFIT

Our gross profit for the quarter ended September 30, 2007 increased to \$3,192,830 from \$3,045,645, an increase of \$147,185 as compared to the same period in the prior year. As a percentage of revenues, our gross profit for the three months ended September 30, 2007 decreased to 19.8% from 21.3% for the same period in 2006. The decrease of gross profit as a percentage of revenues was primarily due to the production cost increase and increased market competition.

OPERATING EXPENSES

For the three months ended September 30, 2007, total operating expenses decreased to \$2,119,046 from \$2,250,538 for the three months ended September 30, 2006, a decrease of \$131,492. Management has consistently reduced its operating expenses. This decrease of operating expenses is primarily due to the following factors:

- 1) Selling expense increased approximately \$297,000 which was primarily due to the increase of royalty expense for sales of licensed products as well as increased freight charges for a major customer.
- 2) General and administrative expenses decreased approximately \$311,000 which was primarily due to the reduction of compensation expenses, legal expense and warehouse and office rental.
- 3) Depreciation and amortization expense decreased approximately \$117,000 due to the reduction of new models in the past 3 years.

Our management will continue to implement cost cutting efforts in order to further reduce operating expenses for the remaining period of the current fiscal year.

OTHER INCOME/EXPENSES

Our net other expenses increased to \$19,661 (interest expense) from \$11,325 of income for the same period a year ago. For the quarter ended September 30, 2006, the Company recorded a gain from disposal of assets of \$20,011.

INCOME TAXES

For the three months ended September 30, 2007 and 2006, the Company did not record a tax provision because it expects sufficient future net losses to offset the income for these periods.

NET INCOME

Net income increased to \$1,054,123 from net income of \$806,432 for the same period a year ago. The increase of net income was a result of the increase in revenues and the cost reduction.

SIX MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THE SIX MONTHS ENDED SEPTEMBER 30, 2006

NET SALES

Net sales for the six months ended September 30, 2007 increased to \$18,554,067 from \$15,334,944, an increase of \$3,219,123 as compared to the same period ended September 30, 2006. This increase was similar to the one for three months ended September 30, 2007.

GROSS PROFIT

Our gross profit for the six months ended September 30, 2007 increased to \$3,532,182 from \$3,172,117, an increase of \$360,065 as compared to the same period in the prior year. As a percentage of revenues, our gross profit for the six months ended September 30, 2007 decreased to 19.0% from 20.7% for the same period in 2006. The decrease of gross profit as a percentage of revenues was similar to the one for three months ended September 30, 2007.

OPERATING EXPENSES

For the six months ended September 30, 2007, total operating expenses decreased to \$3,305,425 from \$3,528,014 for the six months ended September 30, 2006, a decrease of \$222,589. Management has consistently reduced its operating expenses. This decrease of operating expenses is the same as for the three month period.

OTHER INCOME/EXPENSES

Our net other expenses increased to \$24,950 (interest expense) from income of \$11,241 for the same period a year ago.

INCOME TAXES

For the six months ended September 30, 2007 and 2006, the Company did not record a tax provision because it has sufficient net operation loss from previous periods to offset the income for these periods.

NET LOSS/INCOME

Net income increased to \$201,807 from a net loss of \$344,656 for the same period a year ago. The increase of net income was primarily due to the increase in revenues and the cost reduction.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2007, Singing Machine had cash on hand of \$1,668,432 as compared to cash on hand of \$2,600,283 as of September 30, 2006. We had working capital of \$3,507,631 as of September 30, 2007.

Net cash used by operating activities was \$1,977,941 for the six months ended September 30, 2007, as compared to \$405,867 provided by operating activities the same period a year ago. The decrease of net cash from operating activities was a result of the following factors:

- Increase of account receivables due to the fact that the majority of the orders were shipped in late August and September;

- Higher inventory needed for the launch of the Bratz products.

- These increases were offset by the increase in the payable to the suppliers in Hong Kong.

Net cash used by investing activities for the six months ended September 30, 2007 was \$170,308 as compared to \$176,056 used by investing activities for the same period ended a year ago.

Net cash provided by financing activities was \$2,627,781 for the six months ended September 30, 2007, as compared to \$1,946,924 for the same period ended a year ago. This increase was primarily from the loan from the Starlight Marketing.

As of September 30, 2007, our unrestricted cash on hand was \$1,668,432. Our average monthly general and administrative expenses are approximately \$350,000. 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 foreign bank;

Short term loans from a major investor.

Our sources of cash for working capital in the long term, 12 months and beyond, are 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.

Our commitments for debt and other contractual obligations as of September 30, 2007 are summarized as follows:

	Total	Less than 1 year	1 - 3 years	3 - 5 years	Over 5 years
Property Leases	\$ 273,907	\$ 265,893	\$ 8,014	\$ -	\$ -
Equipment Leases	29,789	9,888	19,901	-	-
Subordinated Debt - Related Party	225,000	225,000	-	-	-
Licensing Agreement	341,500	228,500	113,000	-	-
Loan Payable-Related Party	1,929,779	1,929,779	-	-	-
Total	\$ 2,799,975	\$ 2,659,060	\$ 140,915	\$ -	\$ -

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 fiscal second and third 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 fiscal second and third quarter, combined, accounted for approximately 94% and 87.5% of net sales in fiscal 2007 and 2006, 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 karaoke category during the slow season to fulfill the revenue shortfall.

INFLATION

Inflation has not had a significant impact on The Singing Machine's operations. Singing Machine has historically passed any price increases on to its customers since prices charged by Singing Machine 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. 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.

RESERVES ON INVENTORIES. The Singing Machine establishes 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States and international borrowing rates and changes in foreign currency exchange rates. In addition, we are exposed to market risk in certain geographic areas that have experienced or remain vulnerable to an economic downturn, such as China. We purchase substantially our entire inventory from companies in China, and, therefore, we are subject to the risk that such suppliers will be unable to provide inventory at competitive prices. While we believe that, if such an event were to occur, we would be able to find alternative sources of inventory at competitive prices, we cannot assure you that we would be able to do so. These exposures are directly related to our normal operating and funding activities. Historically and as of September 30, 2007, we have not used derivative instruments or engaged in hedging activities to minimize market risk.

INTEREST RATE RISK

As of September 30, 2007, our exposure to market risk resulting from changes in interest rates is immaterial.

FOREIGN CURRENCY RISK

We have a wholly-owned subsidiary in Macau. Sales by this operation made on a FOB China or Hong Kong basis are dominated in U.S. dollars. However, purchases of inventory and Macau operating expenses are typically denominated in either Hong Kong dollars or the Macau currency ("MOP"), thereby creating exposure to changes in exchange rates. Changes in the Hong Kong dollar, U.S. dollar or MOP exchange rates may positively or negatively affect our gross margins, operating income and retained earnings. We do not believe that near-term changes in the exchange rates, if any, will result in a material effect on our future earnings, fair values or cash flows, and therefore, we have chosen not to enter into foreign currency hedging transactions. We cannot be assured that this approach will be successful, especially in the event of a significant and sudden change in the value of the MOP or Hong Kong dollar.

ITEM 4. 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

None.

ITEM 1A. RISK FACTORS

FACTORS THAT MAY AFFECT OUR FUTURE RESULTS AND THE MARKET PRICE OF OUR STOCK

RISKS ASSOCIATED WITH OUR BUSINESS

THE MUSIC INDUSTRY HAS BEEN EXPERIENCING A CONTINUED DECLINE OF COMPACT DISC (CD) SALES. OUR KARAOKE CD SALES COULD DECLINE FURTHER IN THE FUTURE.

Due to the expansion of the music download business, the sales of Compact Discs (CD) have been declining in recent years. Our karaoke CD sales have been declining since 2004 and may continue to decline in the future. Music revenue accounts for approximately 3% of our total revenues.

A SMALL NUMBER OF OUR CUSTOMERS ACCOUNT FOR A SUBSTANTIAL PORTION OF OUR REVENUES, AND THE LOSS OF ONE OR MORE OF THESE KEY CUSTOMERS COULD SIGNIFICANTLY REDUCE OUR REVENUES AND CASH FLOW.

We rely on a few large customers to provide a substantial portion of our revenues. As a percentage of total revenues, our net sales to our five largest customers during the year ended March 31, 2007 and year ended March 31, 2006 were approximately 57% and 55%, respectively. We do not have long-term contractual arrangements with any of our customers and they can cancel their orders at any time prior to delivery. A substantial reduction in or termination of orders from any of our largest customers would decrease our revenues and cash flow.

WE ARE RELYING ON ONE FACTORY TO MANUFACTURE AND PRODUCE THE MAJORITY OF OUR KARAOKE MACHINES FOR FISCAL 2008, AND IF THE RELATIONSHIP WITH THIS FACTORY IS DAMAGED OR INJURED IN ANY WAY, IT WOULD REDUCE OUR REVENUES AND PROFITABILITY.

We have worked out a written agreement with a factory in China to produce most of our karaoke machines for fiscal 2008. If the factory is unwilling or unable to deliver our karaoke machines to us, our business will be adversely affected. Because our cash on hand is minimal, we are relying on revenues received from the sale of our ordered karaoke machines to provide cash flow for our operations. If we do not receive cash from these sales, we may not be able to continue our business operations.

WE ARE RELYING ON ONE DISTRIBUTOR TO DISTRIBUTE OUR MUSIC PRODUCTS, IF THE DISTRIBUTION AGREEMENT IS TERMINATED, IT WOULD REDUCE OUR REVENUES AND PROFITABILITY.

We are relying on an exclusive distributor to distribute our music products in fiscal 2008, if the distribution agreement is terminated, our music revenues might decrease as well as our profitability.

WE ARE SUBJECT TO THE RISK THAT SOME OF OUR LARGE CUSTOMERS MAY RETURN KARAOKE PRODUCTS THAT THEY HAVE PURCHASED FROM US AND IF THIS HAPPENS, IT WOULD REDUCE OUR REVENUES AND PROFITABILITY.

In fiscal 2007 and 2006, a number of our customers and distributors returned karaoke products that they had purchased from us. Our customers returned goods valued at \$3.8 million or 14% of our net sales in fiscal 2007. Some of the returns resulted from customer's overstock of the products. Although we were not contractually obligated to accept return of the products, we accepted the returns because we value our relationship with our customers. Because we are dependent upon a few large customers, we are subject to the risk that any of these customers may elect to return unsold karaoke products to us in the future. If any of our customers were to return karaoke products to us, it would reduce our revenues and profitability.

WE ARE SUBJECT TO PRESSURE FROM OUR CUSTOMERS RELATING TO PRICE REDUCTION AND FINANCIAL INCENTIVES AND IF WE ARE PRESSURED TO MAKE THESE CONCESSIONS TO OUR CUSTOMERS, IT WILL REDUCE OUR REVENUES AND PROFITABILITY.

Because there is intense competition in the karaoke industry, we are subject to pricing pressure from our customers. Many of our customers have demanded that we lower our prices or they will buy our competitor's products. If we do not meet our customer's demands for lower prices, we will not sell as many karaoke products. In the fiscal year ended March 31, 2007, our sales to customers in the United States decreased because of increased price competition. We are also subject to pressure from our customers regarding certain financial incentives, such as return credits or large advertising or cooperative advertising allowances, which effectively reduce our profit. We gave advertising

allowances of approximately \$200,000 during fiscal 2007 and fiscal 2006. We have historically offered advertising allowances to our customers because it is standard practice in the retail industry.

WE EXPERIENCE DIFFICULTY FORECASTING THE DEMAND FOR OUR KARAOKE PRODUCTS AND IF WE DO NOT ACCURATELY FORECAST DEMAND, OUR REVENUES, NET INCOME AND CASH FLOW MAY BE AFFECTED.

Because of our reliance on manufacturers in China for our machine production, our production lead times range from one to four months. Therefore, we must commit to production in advance of customers orders. It is difficult to forecast customer demand because we do not have any scientific or quantitative method to predict this demand. Our forecasting is based on management's general expectations about customer demand, the general strength of the retail market and management's historical experiences. We overestimated demand for our products in fiscal 2003 and 2004 and had \$5.9 million in inventory as of March 31, 2004. Because of this excess inventory, we had liquidity problems in fiscal 2005 and our revenues, net income and cash flow were adversely affected.

WE ARE SUBJECT TO THE COSTS AND RISKS OF CARRYING INVENTORY FOR OUR CUSTOMERS AND IF WE HAVE TOO MUCH INVENTORY, IT WILL AFFECT OUR REVENUES AND NET INCOME.

Many of our customers place orders with us several months prior to the holiday season, but they schedule delivery two or three weeks before the holiday season begins. As such, we are subject to the risks and costs of carrying inventory during the time period between the placement of the order and the delivery date, which reduces our cash flow. As of September 30, 2007 we had \$5.4 million in inventory on hand, as compared to \$3.2 million in inventory at September 30, 2006. The increase in inventory resulted from the introduction of the Bratz product line. We might need to lower the selling price of these products in order to reduce inventory levels. It is important that we sell this inventory during fiscal 2008, so we have sufficient cash flow for operations.

OUR GROSS PROFIT MARGINS HAVE DECREASED OVER THE PAST YEAR AND WE EXPECT A COMPETITIVE MARKET.

Over the past year, our gross profit margins have generally decreased due to the competition except for fiscal 2005 when we had developed several new models, which were in demand and yielded higher profit margins. We expect that our gross profit margin might decrease under downward pressure in fiscal 2008.

OUR BUSINESS IS SEASONAL AND THEREFORE OUR ANNUAL OPERATING RESULTS WILL DEPEND, IN LARGE PART, ON OUR SALES DURING THE RELATIVELY BRIEF HOLIDAY SEASON.

Sales of consumer electronics and toy products in the retail channel are highly seasonal, with a majority of retail sales occurring during the period from September through December in anticipation of the holiday season, which includes Christmas. A substantial majority of our sales occur during the second quarter ending September 30 and the third quarter ending December 31. Sales in our second and third quarter, combined, accounted for approximately 94.0%, 87.5% and 86.7% of net sales in fiscal 2007, 2006 and 2005, respectively.

IF WE ARE UNABLE TO COMPETE IN THE KARAOKE PRODUCTS CATEGORY, OUR REVENUES AND NET PROFITABILITY WILL BE REDUCED.

Our major competitors for karaoke machines and related products are Memorex and GPX. We believe that competition for karaoke machines is based primarily on price, product features, reputation, delivery times, and customer support. Our primary competitors for producing karaoke music are Compass, Pocket Songs, Sybersound, UAV and Sound Choice. We believe that competition for karaoke music is based primarily on popularity of song titles, price, reputation, and delivery times. To the extent that we lower prices to attempt to enhance or retain market share, we may adversely impact our operating margins. Conversely, if we opt not to match competitor's price reductions we may lose market share, resulting in decreased volume and revenue. To the extent our leading competitors reduce prices on their karaoke machines and music; we must remain flexible to reduce our prices. If we are forced to reduce our prices, it will result in lower margins and reduced profitability. Because of intense competition in the karaoke industry in the United States during fiscal 2007, we expect that the intense pricing pressure in the low end of the market will continue in the karaoke market in the United States in fiscal 2008. In addition, we must compete with all the other existing forms of entertainment including, but not limited to: motion pictures, video arcade games, home video games, theme parks, nightclubs, television, prerecorded tapes, CD's, and video cassettes.

IF WE ARE UNABLE TO DEVELOP NEW KARAOKE PRODUCTS, OUR REVENUES MAY NOT CONTINUE TO GROW.

The karaoke industry is characterized by rapid technological change, frequent new product introductions and enhancements and ongoing customer demands for greater performance. In addition, the average selling price of any karaoke machine has historically decreased over its life, and we expect that trend to continue. As a result, our products may not be competitive if we fail to introduce new products or product enhancements that meet evolving customer demands. The development of new products is complex, and we may not be able to complete development in a timely manner. To introduce products on a timely basis, we must:

- accurately define and design new products to meet market needs;
- design features that continue to differentiate our products from those of our competitors;
- transition our products to new manufacturing process technologies;
- identify emerging technological trends in our target markets;

- anticipate changes in end-user preferences with respect to our customers' products;
- bring products to market on a timely basis at competitive prices; and
- respond effectively to technological changes or product announcements by others.

We believe that we will need to continue to enhance our karaoke machines and develop new machines to keep pace with competitive and technological developments and to achieve market acceptance for our products. At the same time, we need to identify and develop other products which may be different from karaoke machines.

OUR PRODUCTS ARE SHIPPED FROM CHINA AND ANY DISRUPTION OF SHIPPING COULD PREVENT OR DELAY OUR CUSTOMERS' RECEIPT OF INVENTORY.

We rely principally on four contract ocean carriers to ship virtually all of the products that we import to our warehouse facility in Compton, California. Retailers that take delivery of our products in China rely on a variety of carriers to import those products. Any disruptions in shipping, whether in California or China, caused by labor strikes, other labor disputes, terrorism, and international incidents may prevent or delay our customers' receipt of inventory. If our customers do not receive their inventory on a timely basis, they may cancel their orders or return products to us. Consequently, our revenues and net income would be reduced.

OUR MANUFACTURING OPERATIONS ARE LOCATED IN THE PEOPLE'S REPUBLIC OF CHINA, SUBJECTING US TO RISKS COMMON IN INTERNATIONAL OPERATIONS. IF THERE IS ANY PROBLEM WITH THE MANUFACTURING PROCESS, OUR REVENUES AND NET PROFITABILITY MAY BE REDUCED.

We are using eight factories in the People's Republic of China to manufacture the majority of our karaoke machines. These factories will be producing nearly all of our karaoke products in fiscal 2008. Our arrangements with these factories are subject to the risks of doing business abroad, such as import duties, trade restrictions, work stoppages, and foreign currency fluctuations, limitations on the repatriation of earnings and political instability, which could have an adverse impact on our business. Furthermore, we have limited control over the manufacturing processes. As a result, any difficulties encountered by our third-party manufacturers that result in product defects, production delays, cost overruns or the inability to fulfill orders on a timely basis could adversely affect our revenues, profitability and cash flow. Also, since we do not have written agreements with any of these factories, we are subject to additional uncertainty if the factories do not deliver products to us on a timely basis.

WE DEPEND ON THIRD PARTY SUPPLIERS FOR PARTS FOR OUR KARAOKE MACHINES AND RELATED PRODUCTS, AND IF WE CANNOT OBTAIN SUPPLIES AS NEEDED, OUR OPERATIONS WILL BE SEVERELY DAMAGED.

Our growth and ability to meet customer demand depends in part on our capability to obtain timely deliveries of karaoke machines and our electronic products. We rely on third party suppliers to produce the parts and materials we use to manufacture and produce these products. If our suppliers are unable to provide our factories with the parts and supplies, we will be unable to produce our products. We cannot guarantee that we will be able to purchase the parts we need at reasonable prices or in a timely fashion. In the last several years, there have been shortages of certain chips that we use in our karaoke machines. If we are unable to anticipate any shortages of parts and materials in the future, we may experience severe production problems, which would impact our sales.

CONSUMER DISCRETIONARY SPENDING MAY AFFECT KARAOKE PURCHASES AND IS AFFECTED BY VARIOUS ECONOMIC CONDITIONS AND CHANGES.

Our business and financial performance may be damaged more than most companies by adverse financial conditions affecting our business or by a general weakening of the economy. Purchases of karaoke machines and music are considered discretionary for consumers. Our success will therefore be influenced by a number of economic factors affecting discretionary and consumer spending, such as employment levels, business, interest rates, and taxation rates, all of which are not under our control. Additionally, other extraordinary events such as terrorist attacks or military engagements, which adversely affect the retail environment may restrict consumer spending and thereby adversely affect our sales growth and profitability.

WE MAY HAVE INFRINGED THE COPYRIGHTS OF CERTAIN MUSIC PUBLISHERS AND IF WE VIOLATE FEDERAL COPYRIGHT LAWS, WE WILL BE SUBJECT TO MONETARY PENALTIES.

Over the past several years, the Singing Machine (like its competitors) has received notices from certain music publishers alleging that the full range of necessary rights in their copyrighted works has not been properly licensed in order to sell those works as part of products known as "compact discs with graphics" ("CDG's). CDG's are compact discs which contain the musical recordings of karaoke songs and graphics which contain the lyrics of the songs. Singing Machine has negotiated licenses with the complaining parties, or is in the process of settling such claims, with each one of the complaining copyright owners. As with any alleged copyright violations, unlicensed users may be subject to damages under the U.S. Copyright Act. Such damages and claims could have a negative effect on Singing Machine's ability to sell its music products to its customers. This is the reason the Singing Machine pursues licenses so diligently.

WE MAY BE SUBJECT TO CLAIMS FROM THIRD PARTIES FOR UNAUTHORIZED USE OF THEIR PROPRIETARY TECHNOLOGY, COPYRIGHTS OR TRADE SECRETS AND ANY CLAIMS ASSERTED AGAINST US COULD AFFECT OUR NET PROFITABILITY.

We believe that we independently developed the technology used in our electronic and audio software products and that it does not infringe on the proprietary rights, copyrights or trade secrets of others. However, we cannot be sure that we have not infringed on the proprietary rights of third parties or those third parties will not make infringement violation claims against us. During fiscal 2000, Tanashin Denki, Ltd., a Japanese company that holds a patent on a cassette tape drive mechanism alleged that some of our karaoke machines violated their patents. We settled the matters with Tanashin in December 1999. Subsequently in December 2002, Tanashin again alleged that some of our karaoke machines violated their patents. We entered into another settlement agreement with them in May 2003. In addition to Tanashin, we could receive infringement claims from other third parties. Any infringement claims may have a negative effect on our profitability and financial condition.

WE ARE EXPOSED TO THE CREDIT RISK OF OUR CUSTOMERS, WHO ARE EXPERIENCING FINANCIAL DIFFICULTIES, AND IF THESE CUSTOMERS ARE UNABLE TO PAY US, OUR REVENUES AND PROFITABILITY WILL BE REDUCED.

We sell products to retailers, including department stores, lifestyle merchants, direct mail catalogs and showrooms, national chains, specialty stores, and warehouse clubs. Some of these retailers have engaged in leveraged buyouts or transactions in which they incurred a significant amount of debt, and operated under the protection of bankruptcy laws. Deterioration in the financial condition of our customers could result in bad debt expense to us and have a material adverse effect on our revenues and future profitability.

A DISRUPTION IN THE OPERATION OF OUR WAREHOUSE CENTERS IN CALIFORNIA OR FLORIDA COULD IMPACT OUR ABILITY TO DELIVER MERCHANDISE TO OUR CUSTOMERS, WHICH COULD ADVERSELY AFFECT OUR REVENUES AND PROFITABILITY.

A significant amount of our merchandise is shipped to our customers from one of our two warehouses, which are located in Compton, California, and Coconut Creek, Florida. Events such as fire or other catastrophic events, any malfunction or disruption of our centralized information systems or shipping problems may result in delays or disruptions in the timely distribution of merchandise to our customers, which could substantially decrease our revenues and profitability.

OUR BUSINESS OPERATIONS COULD BE DISRUPTED IF THERE ARE LABOR PROBLEMS ON THE WEST COAST.

During fiscal 2007, approximately 40% of our sales were domestic warehouse sales, which were made from our warehouses in California and Florida. During the third quarter of fiscal 2003, the dock strike on the West Coast affected sales of two of our karaoke products and we estimate that we lost between \$3 and \$5 million in orders because we could not get the containers of these products off the pier. If another strike or work slow-down occurs and we do not have a sufficient level of inventory, a strike or work slow-down would result in increased costs to us and may reduce our profitability.

CURRENCY EXCHANGE RATE RISK

Our major suppliers are located in China. The Chinese local currency has depreciated approximately 5% against the US dollar in 2007. If this trend continues, our costs may increase in the future. This may decrease our profit margin.

RISKS ASSOCIATED WITH OUR CAPITAL STRUCTURE

THE MARKET PRICE OF OUR COMMON STOCK MAY BE VOLATILE WHICH MAY CAUSE INVESTORS TO LOSE ALL OR A PORTION OF THEIR INVESTMENT.

From December 1, 2004 through September 30, 2007, our common stock has traded between a high of \$1.60 and a low of \$0.21. During this period, we had liquidity problems and incurred a net loss of \$1.9 million in fiscal 2006 and a net loss of \$3.6 million in fiscal 2005. Our stock price may continue to be volatile based on similar or other adverse developments in our business. In addition, the stock market periodically experiences significant adverse price and volume fluctuations which may be unrelated to the operating performance of particular companies.

IF INVESTORS SHORT OUR SECURITIES, IT MAY CAUSE OUR STOCK PRICE TO DECLINE.

During the past year, a number of investors have held a short position in our common stock. As of October 10, 2007, investors held a short position of approximately 32,400 shares of our common stock which represented 0.10% of our public float. The anticipated downward pressure on our stock price due to actual or anticipated sales of our stock by some institutions or individuals who engage in short sales of our common stock could cause our stock price to decline. Additionally, if our stock price declines, it may be more difficult for us to raise capital.

OUR COMMON STOCK MAY BE DELISTED FROM THE AMERICAN STOCK EXCHANGE, WHICH MAY HAVE A MATERIAL ADVERSE IMPACT ON THE PRICING AND TRADING OF OUR COMMON STOCK.

On September 13, 2007, the Company received notice from The American Stock Exchange (the "Amex") that the Company has fallen below the continued listing standards of the Amex and that its listing is being continued pursuant

to an extension.

Specifically, for the quarter ended June 30, 2007, the Company was not in compliance with Section 1003(a)(ii) of the Amex Company Guide with shareholders' equity of less than \$4,000,000 and net losses in three of its four most recent fiscal years. The Company was required to submit a plan by October 15, 2007 advising the AMEX of the action it has taken, or will take, that would bring it into compliance with all the continued listing standards.

The Company has requested additional time to respond and submitted the business plan to AMEX on October 24. AMEX would need up to 45 days to review and approve the plan.

The Company was previously added to the list of issuers that are not in compliance with the Amex's continued listing standards, and the Company's trading symbol SMD remains subject to the extension .BC to denote its noncompliance. This indicator will remain in effect until such time as the Company has regained compliance with all applicable continued listing standards.

If our common stock is removed from listing on Amex, it may become more difficult for us to raise funds through the sales of our common stock or securities.

IF OUR OUTSTANDING DERIVATIVE SECURITIES ARE EXERCISED OR CONVERTED, OUR EXISTING SHAREHOLDERS WILL SUFFER DILUTION.

As of September 30, 2007, there were outstanding stock options to purchase an aggregate of 1,184,155 shares of common stock at exercise prices ranging from \$.32 to \$11.09 per share, not all of which are immediately exercisable. The weighted average exercise price of the outstanding stock options is approximately \$1.39 per share. As of September 30, 2007, there were outstanding and immediately exercisable options to purchase an aggregate of 984,593 shares of our common stock. There were outstanding stock warrants to purchase 2,500,000 shares of common stock at exercise prices ranging from \$.28 to \$.35 per share, all of which are exercisable. The weighted average exercise price of the outstanding stock warrants is approximately \$0.315 per share.

FUTURE SALES OF OUR COMMON STOCK HELD BY CURRENT STOCKHOLDERS AND INVESTORS MAY DEPRESS OUR STOCK PRICE.

As of September 30, 2007 there were 30,806,019 shares of our common stock outstanding. We have filed two registration statements registering an aggregate 3,794,250 of shares of our common stock (a registration statement on Form S-8 to register the sale of 1,844,250 shares underlying options granted under our 1994 Stock Option Plan and a registration statement on Form S-8 to register 1,950,000 shares of our common stock underlying options granted under our Year 2001 Stock Option Plan). An additional registration statement on Form S-1 was filed in October 2003, registering an aggregate of 2,795,465 shares of our common stock. The market price of our common stock could drop due to the sale of large number of shares of our common stock, such as the shares sold pursuant to the registration statements or under Rule 144, or the perception that these sales could occur.

OUR STOCK PRICE MAY DECREASE IF WE ISSUE ADDITIONAL SHARES OF OUR COMMON STOCK.

Our Certificate of Incorporation authorizes the issuance of 100,000,000 shares of common stock as amended in January 2006. As of September 30, 2007 we had 30,806,019 shares of common stock issued and outstanding and an aggregate of 3,684,155 shares issuable under our outstanding options and warrants. As such, our Board of Directors has the power, without stockholder approval, to issue up to 65,509,826 shares of common stock.

Any issuance of additional shares of common stock, whether by us to new stockholders or the exercise of outstanding warrants or options, may result in a reduction of the book value or market price of our outstanding common stock. Issuance of additional shares will reduce the proportionate ownership and voting power of our then existing stockholders.

PROVISIONS IN OUR CHARTER DOCUMENTS AND DELAWARE LAW MAKE IT DIFFICULT FOR A THIRD PARTY TO ACQUIRE OUR COMPANY AND COULD DEPRESS THE PRICE OF OUR COMMON STOCK.

Delaware law and our certificate of incorporation and bylaws contain provisions that could delay, defer or prevent a change in control of our Company or a change in our management. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors and take other corporate actions. These provisions of our restated certificate of incorporation include: authorizing our board of directors to issue additional preferred stock, limiting the persons who may call special meetings of stockholders, and establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

IF WE FAIL TO MAINTAIN EFFECTIVE INTERNAL CONTROLS OVER FINANCIAL REPORTING, THE PRICE OF OUR COMMON STOCK MAY BE ADVERSELY AFFECTED.

Our internal controls over financial reporting may have weaknesses and conditions that need to be addressed, the disclosure of which may have an adverse impact on the price of our common stock. We are required to establish and maintain appropriate internal controls over financial reporting. Failure to establish those controls, or any failure of those controls once established, could adversely impact our public disclosures regarding our business, financial condition or results of operations. In addition, our management's assessment of internal controls over financial reporting may identify weaknesses and conditions that need to be addressed in our internal controls over financial reporting or other matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in our internal controls over financial reporting, disclosure of our management's assessment of our internal controls over financial reporting or disclosure of our public accounting firm's attestation to or report on management's assessment of the Company's internal controls over financial reporting may have an adverse impact on the price of our common stock. Management will have to assess internal controls in accordance with Section 404 of the Sarbanes-Oxley Act for the fiscal year ending March 31, 2008.

THE MARKET PRICE OF OUR COMMON STOCK MAY BE ADVERSELY AFFECTED BY SEVERAL FACTORS.

The market price of our common stock could fluctuate significantly in response to various factors and events, including:

- our ability to execute our business plan;

- operating results below expectations;
- loss of any strategic relationship;
- industry developments;
- economic and other external factors; and
- period-to-period fluctuations in its financial results.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

WE HAVE NOT PAID CASH DIVIDENDS IN THE PAST AND DO NOT EXPECT TO PAY CASH DIVIDENDS IN THE FUTURE. ANY RETURN ON INVESTMENT MAY BE LIMITED TO THE VALUE OF OUR STOCK.

We have never paid cash dividends on our stock and do not anticipate paying cash dividends on our stock in the foreseeable future. The payment of cash dividends on our stock will depend on our earnings, financial condition and other business and economic factors affecting us at such time as the board of directors may consider relevant. If we do not pay cash dividends, our stock may be less valuable because a return on your investment will only occur if our stock price appreciates.

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

On September 28, 2007, the company entered a Security Purchase Agreement with its major shareholder Konzept International Limited. The Company has authorized the sale and issuance of an aggregate of up to 857,143 shares (the "Shares") of the Company's Common Stock with a par value \$0.01 to Konzept International Limited at \$0.35 per share for a total payment of \$300,000.00. The transaction is subject to the approval from the American Stock Exchange.

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 Anton Handal, Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.*

31.2 Certification of Danny Zheng, 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

23

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: November 14, 2007

By: */s/ Anton H. Handal*

Anton H. Handal
Chief Executive Officer

/s/ Danny Zheng

Danny Zheng
Chief Financial Officer