

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K/A

Amendment No. 1

(Mark one)

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

For the fiscal year ended March 31, 2010

OR

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 000-24968

THE SINGING MACHINE COMPANY, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-3795478
(I.R.S. Employer
Identification No.)

6601 LYONS ROAD, BUILDING A-7, COCONUT CREEK, FL 33073

(Address of principal executive offices)

(954) 596-1000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.01 Par Value Per Share

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.
Yes No R

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No R

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 requirements for the past 90 days. Yes No R

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to

submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company," in Rule 12b-2 of the Exchange Act):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
R

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

As of September 30, 2010, the aggregate market value of the issued and outstanding common stock held by non-affiliates of the registrant, based upon the closing price of the common stock as quoted on the Over the Counter Bulletin Board of \$0.05 was approximately \$681,224.70 (based on 13,624,494 shares outstanding to non-affiliates). For purposes of the above statement only, all directors, executive officers and 10% shareholders are assumed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

Number of shares of common stock outstanding as of July 1, 2010 was 37,585,794.

DOCUMENTS INCORPORATED BY REFERENCE – None

Explanatory Note

This annual report on Form 10-K/A is being filed to amend and expand disclosures for the Company's financing arrangements, obligations to customers for returns and allowances, warranty provisions and gross profit margin variations originally reported on the original Form 10-K for the year ended March 31, 2010, which was filed with the SEC on July 14, 2010. In addition, the Company changed the label of two line items on the Consolidated Balance Sheet and the Consolidated Statement of Cash Flows related to its obligations for returns and allowances and warranty provisions that are more descriptive of what the line items represent. The Company also revised its conclusion regarding Controls and Procedures to "not effective". Items 7 and 9A(T) of Part I, the Consolidated Balance Sheet (line item labels only), the Consolidated Statement of Cash Flows (line item labels only) and Notes to Consolidated Financial Statements are the only items of the original 10-K filed on July 14, 2010 that are being amended with this form 10-K/A. The amendments do not affect the previously reported financial results on the consolidated balance sheets, statements of operations, shareholders' equity and cash flows. Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as a result of this amended report, the certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, filed and furnished, respectively, as exhibits to the Form 10-K have been re-executed and re-filed as of the date of this Form 10-K/A and are included as exhibits hereto.

In Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations, the Company expanded its disclosures for the variations in gross profit margins in the periods reported to provide greater detail for the causes of the fluctuations of gross margin percentage to sales in the Gross Profit sections. The Company also expanded its disclosures relating to the ability of its parent company, the Starlight Group ("the Group"), to provide bridge financing to the Company, the funds made available by the Group and the estimated amounts of financing required from the Group.

In Item 9A(T) – Controls and Procedures, the Company revised its conclusion regarding the adequacy of its controls and procedures from "effective" to "not effective" due to disclosure of a material weakness due to lack of formalized financial closing procedures.

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

On the Consolidated Balance Sheet and Statements of Cash Flows, the name of the line item originally labeled "deferred gross profit on estimated returns" was changed to "warranty provisions". The amended label more appropriately describes the Company's reserves for its warranty policies. Note 17 of the Notes to Consolidated Financial Statements was added to provide description of the companies warranty policies and a table of obligations for the Company's obligations relating to its warranty polices as required by Financial Accounting Standards Codification (ASC) 460-10-50 Disclosure for Product Warranties.

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

THE SINGING MACHINE COMPANY, INC. AND SUBSIDIARIES

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Financial Statements and Notes filed herewith. Our fiscal year ends March 31. This document contains certain forward-looking statements regarding anticipated trends in our financial condition and results of operations and our business strategy. (See Part I, 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 (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.

Statements included in this Annual Report that do not relate to present or historical conditions are called "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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.

OVERVIEW

Our primary objectives for the fiscal year ended March 31, 2010 ("Fiscal 2010") were to:

- increase the revenues by expanding our product lines and customer base;
- continue to drive down the operating costs;
- turn the operations to profit;
- obtain better financing facilities; and
- raise additional equity.

We believe that our efforts to meet our goals in Fiscal 2010 were adversely affected by the decline in worldwide economic conditions. More specifically, we experienced continued increase in competitive pricing pressures, lack of stability and confidence in the retail market, and substantial decrease in direct import of goods due to significant decreases in both foreign and domestic business. During Fiscal 2010, our revenue and gross profit decreased by 33% and total operating expenses decreased by 13.0%. We experienced revenue declines across all of our market segments. The most significant drop was in our direct import business which decreased 78.7% due to declining consumer sentiment toward worldwide economic conditions. Foreign sales decreased by 50.9% due to excess inventories from prior year purchases at our major European customers. We reduced our operating expenses however the decrease was not totally commensurate with the decrease in sales.

In June 2010, and subsequent to our fiscal year end, the Company was notified by DBS Bank that our credit and factoring facilities totaling \$13.0M were being withdrawn effective upon receipt of amounts due on both factoring and accounts payable financing facilities. The Company is actively pursuing replacement financing facilities. Our parent

company, The Starlight Group, has committed to providing bridge financing until new facilities have been found.

Due to our net loss and reduced shareholders' equity in Fiscal 2010, we no longer met the minimum criteria to trade on the NYSE Amex Equities ("AMEX"). As a result the Company was de-listed from the AMEX effective July 6, 2009. The Company began trading on the Over the Counter Bulletin Board ("OTCBB") under the symbol "SMDM.OB" beginning July, 7, 2009.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain income and expense items expressed as a percentage of the Company's total revenues:

	2010	2009	2008
Total Revenues	100.0 %	100.0 %	100.0 %
Cost of Sales	81.3 %	81.3 %	77.5 %
Operating Expenses	32.6 %	25.1 %	22.1 %
Operating (Loss) Income	-13.9 %	-6.4 %	0.5 %
Other (Expenses), Income, net	-0.4 %	-0.4 %	-0.5 %
(Loss) Income before Taxes	-14.3 %	-6.8 %	0.1 %
(Provision) Benefit for Income Taxes	0.0 %	-0.1 %	0.0 %
Net (Loss) Income	-14.3 %	-6.9 %	0.1 %

FISCAL YEAR ENDED MARCH 31, 2010 COMPARED WITH FISCAL YEAR ENDED MARCH 31, 2009

NET SALES

Net sales for Fiscal 2010 were approximately \$21.3 million. This represents a decrease of approximately \$10.5 million as compared to approximately \$31.8 million in the fiscal year ended March 31, 2009 ("Fiscal 2009"). The decrease in net sales was primarily due to a \$10.6 million decrease in direct import sales to domestic customers. We believe this reduction is primarily due to continuing concern over the worldwide decline in economic conditions as "big-box" retail stores were very late in committing to purchases and dramatically cut their purchases for karaoke equipment. While the company did experience a slight increase in domestic shipments from our California facility of \$2.9 million to accommodate late season demand, this increase was offset by a decrease in sales to foreign customers of \$2.8 million where excess inventory of equipment purchased in the prior fiscal year adversely influenced sales in this market segment.

We continue to develop additional features to our karaoke line to maintain and grow this core product. In an attempt to regain revenue from the reduced sales of music CD+G discs we launched a music download program and improved our internet website. We are also seeking additional consumer electronic products that would allow us to take advantage of business relations with major retailers.

GROSS PROFIT

Gross profit for Fiscal 2010 was approximately \$4.0 million or 18.7% of total revenues compared to approximately \$5.9 million or 18.7% of sales for Fiscal 2009 (a decrease of \$1.9 million). This decrease was directly related to the decrease in sales which accounted for all of the decrease in gross profit.

Gross profit margin for the year ended March 31, 2010 compared to the same period ended March 31, 2009 remained the same at 18.7%. Pricing discounts increased as a percentage of sales during the period as worldwide economic conditions continued to deteriorate and contributed a 0.6 margin point decrease in gross profit margin during the year. This decrease was offset by an increase in percentage of sales to North American customers versus sales to international customers. Sales to North American customers yield higher gross profit margins than sales to international customers and the favorable percentage increase contributed 1.0 point of margin increase for the period. The remaining 0.4 margin decrease was primarily due to margin yields from the mix of product sold.

Our gross profit may not be comparable to those of other entities, since some entities include the costs of warehousing, inspection, freight charges and other distribution costs in their cost of sales. We account for the above expenses as operating expenses and classify them under the selling expenses.

OPERATING EXPENSES

Operating expenses, including depreciation and amortization, for Fiscal 2010 decreased from approximately \$8.0 million to approximately \$7.0 million, a decrease of approximately \$1.0 million or 12.5% compared to the same period last year. This decrease in operating expenses was primarily due to management's continued efforts to reduce general and administrative expenses commensurate with the decrease in sales volume. General and administrative expenses decreased approximately \$1.0 million as the company realized a decrease in logistics operations of \$300,000 due to efficiency improvements and decreased volume, wage reductions of \$100,000, decreased stock transfer fees of \$100,000 related to de-listing from AMEX, \$100,000 decrease in spending on travel and entertainment and \$400,000 of other expenses that were cut. Management continues to look for opportunities to reduce overhead spending in the future.

DEPRECIATION AND AMORTIZATION

Our depreciation and amortization expenses were \$439,432 for Fiscal 2010 compared to \$459,354 for Fiscal 2010. The fixed assets mainly consist of the tools and molds, which are depreciated with three years to 5 years straight-line method. During the past year we have invested in approximately \$268,000 in tooling for new karaoke models as well as approximately \$23,000 in warehouse equipment for the logistics operation and office equipment. Tools and molds purchased in prior years which were fully depreciated in Fiscal 2010 are the primary reason for the decrease in depreciation expense over the prior fiscal year.

NET OTHER INCOME (EXPENSES)

Net other expense was \$94,979 (interest expense) in Fiscal 2010 compared to net other expense of \$131,755 (interest expense) in Fiscal 2009. The decrease was primarily due to the decrease of our borrowing cost from our financing arrangement with DBS Bank.

INCOME BEFORE TAXES

We had a loss before taxes of \$3,050,807 in Fiscal 2010 compared to income before taxes of \$2,154,563 in Fiscal 2009. The decrease in profit was primarily due to declining worldwide economic conditions which lead to decreased sales in foreign and direct import sales. Despite management's efforts to reduce general and administrative expenses, the loss in gross profit from the 33% drop in worldwide sales exceeded our ability to reduce enough operating expenses to cover this loss.

INCOME TAX EXPENSE

Significant management judgment is required in developing our provisions for income taxes, including the determination of foreign tax liabilities, deferred tax assets and liabilities and any valuation allowances that might be required against 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 not likely to be realized. On March 31, 2010 and 2009, we had gross deferred tax assets of approximately \$ 4.0 million and approximately \$3.1 million, against which we recorded valuation allowances totaling approximately \$ 4.0 million and approximately \$3.1 million, respectively.

For Fiscal 2010 we did not record a provision for income taxes as the Company incurred a taxable loss for the period. For Fiscal 2009, the provision for income taxes increased by \$36,652 due to a payment made for alternative minimum tax. We did not record any additional income tax expense for Fiscal 2009 since the Company had taxable losses for the U.S. operations and the Macau subsidiary is exempt from income tax according to the Macau Offshore Company (MOC) regulations.

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 income taxes have been made.

NET LOSS/NET INCOME

As a result of the foregoing, we had net loss of approximately \$3,050,807 in Fiscal 2010 from operations as compared to a net loss of \$2,191,215 in Fiscal 2009.

FISCAL YEAR ENDED MARCH 31, 2009 COMPARED WITH FISCAL YEAR ENDED MARCH 31, 2008

NET SALES

Net sales for Fiscal 2009 were approximately \$31.8 million. This represents a decrease of approximately \$2.1 million as compared to approximately \$34.1 million in the fiscal year ended March 31, 2008 ("Fiscal 2008"). The decrease in net sales was primarily due to a \$2.4 million decrease in sales for our Bratz licensed products. We believe this reduction is primarily due to the ongoing litigation between Mattel and MGA Entertainment over the alleged intellectual property infringement of the "Bratz" dolls by MGA Entertainment. We did experience a slight increase in sales of karaoke products which partially offset the \$2.4 million reduction in revenue from licensed products, however we missed additional sales opportunities caused by late shipments from vendors and declining economic conditions which led to increased return and price concessions. In addition, the bankruptcy filing of Circuit City presented an additional lost revenue opportunity of approximately \$1.0 million.

We continue to develop additional features to our karaoke line to maintain and grow this core product. Music now accounts for less than 1% of total revenue due to the overall CD sales decline in the entire music industry. In an attempt to regain this revenue stream we have recently launched a music download program on our internet website to supplement our distribution of CDG discs.

GROSS PROFIT

Gross profit for Fiscal 2009 was approximately \$5.9 million or 18.7% of total revenues compared to approximately \$7.7 million or 22.5% of sales for Fiscal 2008 (a decrease of \$1.8 million). This decrease was primarily due to the decrease in sales which accounted for approximately \$400,000 of the decrease in gross profit with the 3.8% decline in gross margin accounting for the remaining decrease.

Gross profit margin for the fiscal years ended March 31, 2009 and 2008 were 18.7% and 22.5%, respectively. The 3.8% decrease in gross profit margin for the year ended March 31, 2009 compared to the same period ended March 31, 2008 was primarily due to pricing discounts granted to major customers to induce sales as economic conditions began to erode in the latter part of 2008. These pricing discounts contributed an estimated 1.6 margin points of the decrease. There were also discounted sales of Bratz licensed product which contributed approximately 0.6 points of the margin decrease. In addition there was an increase to cost of sales due to adjustments for impaired inventory accounting for an estimated 0.8 points of margin variation. The remaining 0.8 margin point decrease was primarily due to margin yields from the mix of product sold.

Our gross profit may not be comparable to those of other entities, since some entities include the costs of warehousing, inspection, freight charges and other distribution costs in their cost of sales. We account for the above expenses as operating expenses and classify them under the selling expenses.

OPERATING EXPENSES

Operating expenses, including depreciation and amortization, for Fiscal 2009 increased from approximately \$7.5 million to approximately \$8.0 million, an increase of approximately \$0.5 million or 5.9% compared to the same period last year. The increase in operating expenses consists of approximately \$0.2 million increase in selling expenses, which include advertising, commission, freight and royalty expenses. The increase is primarily due to an increase in freight expense associated with increased volume of returns from our customers. General and administrative expenses increased \$0.1 million and depreciation expenses increased approximately \$0.2 million accounting for the remaining increase in operating expenses.

DEPRECIATION AND AMORTIZATION

Our depreciation and amortization expenses were \$459,354 for Fiscal 2009 compared to \$311,273 for Fiscal 2008. The fixed assets mainly consist of the tools and molds, which are depreciated with three years straight-line method. During Fiscal 2009 we invested approximately \$500,000 in tooling for new karaoke models as well as approximately \$85,000 in warehouse equipment for the logistics operation as well as an additional \$132,000 for a new business computer system and accessories. These additions are the primary reason for the increase in depreciation expense over the prior fiscal year.

NET OTHER INCOME (EXPENSES)

Net other expense was \$131,755 in Fiscal 2009 compared to net other expense of \$154,672 in Fiscal 2008. The decrease was primarily due to the decrease of our borrowing cost from our new factoring arrangement with DBS Bank.

INCOME BEFORE TAXES

We had a loss before taxes of \$2,154,563 in Fiscal 2009 compared to income before taxes of \$1,712 in Fiscal 2008. The decrease in profit was primarily due to declining worldwide economic conditions which lead to decreased sales, decreased profit margins due to competitive pricing pressures and increased selling expenses associated with freight increases relating to increased returns.

INCOME TAX EXPENSE

Significant management judgment is required in developing our provisions for income taxes, including the determination of foreign tax liabilities, deferred tax assets and liabilities and any valuation allowances that might be required against 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 not likely to be realized. On March 31, 2009 and 2008, we had gross deferred tax assets of approximately \$ 3.1 million and approximately \$2.5 million, against which we recorded valuation allowances totaling approximately \$ 3.1 million and approximately \$2.5 million, respectively.

For Fiscal 2009, the provision for income taxes increased by \$36,652 as compared to Fiscal 2008 due to a payment made for alternative minimum tax. We did not record any additional income tax expense for Fiscal 2009. This occurred because the Company had taxable losses for the U.S. operations and the Macau subsidiary is exempt from income tax according to the Macau Offshore Company (MOC) regulations.

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 income taxes have been made.

NET LOSS/NET INCOME

As a result of the foregoing, we had net loss of approximately \$2,191,215 in Fiscal 2009 from operations as compared to a net income of \$1,712 in Fiscal 2008.

LIQUIDITY AND CAPITAL RESOURCES

On March 31, 2010, we had cash on hand of approximately \$900,000 compared to cash on hand of approximately \$1.0 million on March 31, 2009. The decrease of cash on hand was primarily due to the decrease in inventory of

approximately \$2.3 million offset by decreases in accounts payable, accrued expenses and customer deposits of approximately \$2.0 million and \$200,000 net payment on factor credit facilities. The decrease in the inventory was a result of management's focus on selling existing inventory on hand and aggressively addressing returned defective merchandise.

Cash deficit from operating activities Fiscal 2010 was \$758,004. The cash was generated primarily from increases in trade and related party accounts payable. We used vendor and related-party financing as well as accounts payable financing facilities from DBS Bank to offset portions of the cash requirement.

Cash used in investing activities for Fiscal 2010 was \$286,346. Cash used in investing activities was primarily for the purchase of tooling and molds.

Cash provided by financing activities was \$952,964 for Fiscal 2010, which was due primarily to short term borrowings from DBS bank on our accounts payable financing facility.

As of March 31, 2010, our working capital deficit was approximately \$1.3 million. Our current liabilities of approximately \$6.1million include:

- Customer credit on account of approximately \$742,009 – the amount will be offset by future purchases or refunds.

- Accounts payable of \$895,713 of which \$311,000 was due to two suppliers in China.
- Related party loan of \$3,033,801 due various parties within the Starlight Group.
- Short term borrowings of \$1,091,828 due to DBS bank for loans against our accounts payable financing facility.

As of July 1, 2010, our cash on hand is approximately \$100,000. Our average monthly operating expenses are approximately \$350,000 and we need approximately \$1.1 million to cover our operating expenses during the next three month period. Our primary expenses are normal operating costs including salaries, lease payments for our warehouse space in California and other operating costs.

WORKING CAPITAL REQUIREMENTS DURING THE SHORT AND LONG TERM

During the next twelve month period, we plan on financing our working capital needs from:

- 1) Equity investments – The Company is actively seeking equity financing to expand its business. We expect to raise additional capital as required for fiscal year ended March 31, 2011 (“Fiscal 2011”).
- 2) Vendor financing – Some of our key vendors in China have agreed to manufacture on behalf of the Company without advanced payments and have extended payment terms to the Company. The terms with the factories are sufficient to cover the factory direct sales, which generally account for more than 50% of the total revenues.
- 3) Factoring of accounts receivable - The Company is currently seeking a factoring facility for its accounts receivable for sales originated in the U.S to replace the facilities that were in place during Fiscal 2010 and were withdrawn by DBS bank in June 2010, subsequent to the company’s fiscal year end of March 31, 2010. The Starlight Group, our controlling shareholder, has agreed to provide short term bridge financing until a new factoring facility is consummated.
- 4) Cost reduction - The Company has reduced significant operating expenses in recent years with the exception of fiscal 2009. The cost reduction initiatives are part of our intensive effort to achieve a successful turn-around restructuring. The Company plans to resume its cost cutting efforts in Fiscal 2011.
- 5) Bridge Loan - We may be able to raise additional short term bridge capital from The Starlight Group, the parent of our major stockholder, koncepts, who is also one of our suppliers.
- 6) Reduce cost of operation – The Company maintains SMC-L as a wholly-owned subsidiary to operate our California warehouse. For Fiscal 2011, SMC-L will renew an agreement with the Starlight Group to handle the logistics and fulfillment of Starlight Groups’ domestic products for a service fee. This arrangement is expected to significantly offset the Company’s own logistics expenses.

Our sources of cash for working capital in the long term are the same as our sources during the short term. If we need additional financing, we intend to approach different financing companies or insiders. However, we cannot guarantee that our financing plan will succeed. 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 continue our operations.

On June 8, 2010, and subsequent to our fiscal year end, the Company was notified by DBS Bank that our credit and factoring facilities totaling \$13.0M were being withdrawn effective upon receipt of amounts due on both factoring and accounts payable financing facilities. The Company is actively pursuing replacement financing facilities.

In light of the loss of our financing facility, our parent company, the Starlight Group (“Group”), has expressed their willingness and ability to provide bridge financing and advance funds to us for key vendor payments as well as extending longer payment terms for goods they manufacture for us. We estimate our bridge financing requirements from the Group to be between \$1.5 million and \$2.0 million for the fiscal year ending March 31, 2011. These funds are expected to be made available by the Group primarily through extended terms for trade payables with the Group. Taking into account the Group’s proceeds of approximately \$9 million from an offering of their stock in May 2010, internally generated funds and credit facilities available to the Group, and proposed use of proceeds which includes up

to \$2.0 million of bridge financing for the Company, we have concluded that our parent will have sufficient working capital to provide bridge financing to us for at least the next 12 months.

During Fiscal 2011, we will strive to reduce additional operating costs. In order to reduce the need to maintain inventory in our warehouses in California we intend to continue to ship a significant portion of our total sales directly from SMC Macau. The goods shipped directly to our customers from ports in China are primarily backed by customer letters of credit. The customers take title to the merchandise at their consolidators in China and are responsible for the shipment, duty, clearance and freight charges to their locations. In order to keep our inventory low, we have been helping our customers forecast and manage their Singing Machine inventories. This will prevent the overstocking situation with customers.

Except for the foregoing, we do not have any present commitment that is likely to cause our liquidity to increase or decrease in any material way. In addition, except for the Company's need for additional capital to finance inventory purchases, the Company is not aware of any trend, additional demand, event or uncertainty that will result in, or that is reasonably likely to result in, the Company's liquidity increasing or decreasing in any material way. The Company is reliant upon our parent company, Starlight International, to provide bridge financing for operations until we secure alternate accounts receivable factoring facilities. There is no guarantee that we will be able to secure these facilities in the near future. Any significant change in Starlight International's ability to continue to provide bridge financing may have a material adverse effect on our ability to meet our financial obligations and continue our operations.

EXCHANGE RATES

We sell all of our products in U.S. dollars and pay for all of our manufacturing costs in either U.S. or Hong Kong dollars. Operating expenses of our former Hong Kong office were paid in Hong Kong dollars. Operating expenses of the Macau office are paid in either Hong Kong dollars or Macau currency (MOP) The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong government since 1983 at HK\$7.80 to U.S. \$1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. The exchange rate of the MOP to the U.S. dollar is MOP \$8.01 to U.S. \$1.00. We cannot assure you that the exchange rate between the United States, Macau and Hong Kong currencies will continue to be fixed or that exchange rate fluctuations will not have a material adverse effect on our business, financial condition or results of operations.

SEASONAL AND QUARTERLY RESULTS

Historically, our operations have been seasonal, with the highest net sales occurring in the second and third quarters (reflecting increased orders for equipment and music merchandise during the Christmas selling months) 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 89.0%, 92.0%, and 87.0% of net sales in Fiscal 2010, Fiscal 2009, and Fiscal 2008.

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 Company's operations. The Company has historically passed any price increases on to its customers since prices charged by the Company are generally not fixed by long-term contracts.

OFF BALANCE SHEET ARRANGEMENTS

None.

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 included accounts receivable allowance for doubtful accounts, reserves on inventory and income tax.

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 jurisdictions have been made.

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.

RECENT ACCOUNTING PRONOUNCEMENTS:

See "Note 2" to the attached financial statements.

ITEM 9A(T). CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, we conducted an evaluation as required by Rule 13a-15(b) and Rule 15d-15(b) of the Exchange Act, under the supervision and with the participation of our interim Chief Executive Officer and interim 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 interim Chief Executive Officer and interim Chief Financial Officer concluded that our disclosure controls and procedures were not effective.

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the relationship between the benefit of desired controls and procedures and the cost of implementing new controls and procedures.

(b) Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. This rule defines internal control over financial reporting as a process designed by, or under the supervision of Company management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Management has assessed the effectiveness of our internal control over financial reporting using the components established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A material weakness is any deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our company's annual or interim financial statements will not be prevented or detected on a timely basis.

Based upon this evaluation, our interim Chief Executive Officer and interim Chief Financial Officer concluded that our internal control over financial reporting was not effective as of the period covered by this Annual Report, as a result of material weaknesses.

The material weaknesses were primarily due to the following:

- Lack of formalized financial closing procedures. The Company and its subsidiaries do not currently have adequate formalized financial closing procedures as they relate to inventory valuation which would facilitate scheduled closing in a timely manner. As a result, the Company was required to make additional adjustments to inventory

reserves after the initial year-end closing that were material to the financial statements.

(c) Management's Plan for Remediation of Material Weaknesses

In light of the conclusion that our internal control over financial reporting was not effective, our management is in the process of implementing a plan intended to remediate such ineffectiveness and to strengthen our internal controls over financial reporting through the implementation of certain measures. For Fiscal 2011, management is committed to improve control and oversight relating to financial controls and will work with our Audit Committee to formulate written policies and procedures to address deficiencies described above. Management will address the above material weakness by formalizing a closing procedure which will include specific processes and formulas for evaluating the adequacy of inventory reserves for slow-moving items and lower of cost or market value of on hand inventory prior to the close of each quarter. Due to the seasonality of the business, Management is less likely to become aware of material impairments during the first half of the fiscal year compared to the second half of the fiscal year when customers have communicated product commitments to the Company.

(d) Changes in Internal Controls

In our Annual Report for Fiscal 2009, we concluded that our internal control over financial reporting was not effective and identified two material weaknesses. Since the filing of our last Annual Report, our financial controller noted that although a substantial majority of sales reported through our Macau subsidiary are direct import and payment is tendered via letter of credit or wire transfer in advance of shipment, there were a few customers that were shipped with credit terms. Since there were no formal policies and procedures relating to resolving disputed balances in a timely manner some accounts remained uncollected in excess of 90 days. Our controller has now set up more formalized policies with regards to resolution of all uncollected balances. As a result, the Macau subsidiary had no disputed or unresolved collection issues as of the end of Fiscal 2010. The controller also noted a lack of formal closing procedures for financial closings in a timely manner resulting in the Company's accounting department receiving supplemental information requiring adjustment after the initial closing takes place. The accounting department has now established closing requirements formalized times which require the timely submission by all subsidiaries of data to Corporate Accounting which address monthly, quarterly and annual requirements which would lead to supplemental information being provided by the Company's subsidiaries after initial closing.

There were no other changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2010, that materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting, other than the remediation measures described above.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this Annual Report.

ITEM 9B. OTHER INFORMATION

None.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. The following financial statements for The Singing Machine Company, Inc. and Subsidiaries are filed as a part of this report:

Consolidated Balance Sheets-- March 31, 2010 and 2009

Consolidated Statements of Operations--Years ended March 31, 2010, 2009 and 2008.

Consolidated Statements of Shareholders' (deficit) Equity--Years ended March 31, 2010, 2009 and 2008.

Consolidated Statements of Cash Flows--Years ended March 31, 2010, 2009 and 2008.

2. Notes to Consolidated Financial Statements

Schedules are omitted because of the absence of conditions under which they are required or because the information is included in the financial statements or notes thereto.

(b) Exhibits.

Exhibit No.	Description
3.1	Certificate of Incorporation of the Singing Machine filed with the Delaware Secretary of State on February 15, 1994 and amendments through April 15, 1999 (incorporated by reference to Exhibit 3.1 in the Singing Machine's registration statement on Form SB-2 filed with the SEC on March 7, 2000).
3.2	Certificate of Amendment of the Singing Machine filed with the Delaware Secretary of State on September 29, 2000 (incorporated by reference to Exhibit 3.1 in the Singing Machine's Quarterly Report on Form 10-QSB for the period ended September 30, 1999 filed with the SEC on November 14, 2000).
3.3	Certificates of Correction filed with the Delaware Secretary of State on March 29 and 30, 2001 correcting the Amendment to our Certificate of Incorporation dated April 20, 1998 (incorporated by reference to Exhibit 3.11 in the Singing Machine's registration statement on Form SB-2 filed with the SEC on April 11, 2000).
3.4	Amended By-Laws of the Singing Machine Singing Machine (incorporated by reference to Exhibit 3.14 in the Singing Machine's Annual Report on Form 10-KSB for the year ended March 31, 2001 filed with the SEC on June 29, 2001).
4.1	Form of Certificate Evidencing Shares of Common Stock (incorporated by reference to Exhibit 3.3. of the Singing Machine's registration statement on Form SB-2 filed with the SEC on March 7, 2000). File No. 333-57722)
10.1	Amended and Restated 1994 Management Stock Option Plan (incorporated by reference to Exhibit 10.6 to the Singing Machine's registration statement on Form SB-2 filed with the SEC on March 28, 2001, File No. 333-59684).
10.2	Year 2001 Stock Option Plan (incorporated by reference to Exhibit 10.1 of the Singing Machine's registration statement on Form S-8 filed with the SEC on September 13, 2002, File No. 333-99543).

10.3 Securities Purchase Agreement dated February 21, 2007, by and between The Singing Machine Company, Inc. and koncepts International Limited. (incorporated by reference to the Singing Machine's Current Report on Form 8-K filed with the SEC on February 27, 2007)

10.4 Registration Rights Agreement dated February 21, 2007, by and between The Singing Machine Company, Inc. and koncepts International Limited. (incorporated by reference to the Singing Machine's Current Report on Form 8-K filed with the SEC on February 27, 2007)

10.5 One Year Stock Purchase Warrant of The Singing Machine Company, Inc. dated February 21, 2007. (incorporated by reference to the Singing Machine's Current Report on Form 8-K filed with the SEC on February 27, 2007)

10.6 Three Year Stock Purchase Warrant of The Singing Machine Company, Inc. dated February 21, 2007. (incorporated by reference to the Singing Machine's Current Report on Form 8-K filed with the SEC on February 27, 2007)

10.7 Four Year Stock Purchase Warrant of The Singing Machine Company, Inc. dated February 21, 2007. (incorporated by reference to the Singing Machine's Current Report on Form 8-K filed with the SEC on February 27, 2007)

10.8 Bridge Loan Agreement dated March 8, 2007, by and between The Singing Machine Company, Inc. and Ever Solid Limited. (incorporated by reference to the Singing Machine's Current Report on Form 8-K filed with the SEC on March 14, 2007)

10.9 Collateral Security Agreement dated March 8, 2007, by and between The Singing Machine Company, Inc. and Ever Solid Limited. (incorporated by reference to the Singing Machine's Current Report on Form 8-K filed with the SEC on March 14, 2007)

10.10 Bridge Note of The Singing Machine Company, Inc. dated March 8, 2007. (incorporated by reference to the Singing Machine's Current Report on Form 8-K filed with the SEC on March 14, 2007)

10.11 Amendment to lease for executive offices dated April 3, 2008 by and between The Singing Machine Company, Inc. and Lyons Corporate Park, LLLP. (incorporated by reference to the Singing Machine's Annual Report on Form 10-K filed with the SEC on June 29, 2009)

10.12 Lease for City of Industry, CA warehouse by and between The Singing Machine Company, Inc. and Sun-Yin USA, Inc. (incorporated by reference to the Singing Machine's Annual Report on Form 10-K filed with the SEC on June 29, 2009)

10.13 Cosmo employee management agreement dated May 23, 2008 by and among The Singing Machine Company, Inc. and Cosmo Communications Corporation. (incorporated by reference to the Singing Machine's Annual Report on Form 10-K filed with the SEC on June 29, 2009)

10.14 Logistics Agreement dated May 23, 2008 by and among The Singing Machine Company, Inc. and Starlite Consumer Electronics (USA), Inc., Cosmo Communications Corp. (incorporated by reference to the Singing Machine's Annual Report on Form 10-K filed with the SEC on June 29, 2009)

10.15 DBS Banking Facility Agreement dated August 28, 2008 by and among The Singing Machine Company, Inc. and SMC (Comercial Offshore De Macau) Limitada. (incorporated by reference to the Singing Machine's Annual Report on Form 10-K filed with the SEC on June 29, 2009)

10.16 BB&T Factoring and Security Agreement dated September 19, 2008 by and among The Singing Machine Company, Inc. and Branch Banking and Trust Company. (incorporated by reference to the Singing Machine's Annual Report on Form 10-K filed with the SEC on June 29, 2009)

10.17 Assignment of Factoring Proceeds and Intercreditor Agreement dated September 19, 2008 by and among The Singing Machine Company, Inc., SMC (Comercial Offshore De Macau) Limitada, Branch Banking and Trust Company, and DBS Bank (Hong Kong) Limited. (incorporated by reference to the Singing Machine's Annual Report on Form 10-K filed with the SEC on June 29, 2009)

10.18 Hang Seng Bank Banking Facility dated February 12, 2008 by and among SMC (Comercial Offshore De Macau) Limitada and Hang Seng Bank. (incorporated by reference to the Singing Machine's Annual Report on Form 10-K filed with the SEC on June 29, 2009)

10.19 Licensing Agreement dated May 10, 2006 by and among The Singing Machine Company, Inc. and MGA Entertainment, Inc. (incorporated by reference to the Singing Machine's Annual Report on Form 10-K/A filed with the SEC on July 7, 2009)

10.20 Licensing Agreement dated November 21, 2006 by and among The Singing Machine Company, Inc. and MGA Entertainment, Inc. (incorporated by reference to the Singing Machine's Annual Report on Form 10-K filed with the SEC on July 7, 2009)

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

31.2 Certification of Carol Lau, 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 Section 906 of the Sarbanes-Oxley Act.*

32.2 Certifying Statement of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.*

* Filed herewith

+ Compensatory plan or arrangement.

SIGNATURES

In accordance with the requirements of Section 13 and 15(d) of the Securities Exchange Act of 1934, The Singing Machine Company, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE SINGING MACHINE COMPANY, INC.

Date: March 4 , 2011

By:

/s/ Gary Atkinson
Gary Atkinson
Interim Chief Executive Officer

In accordance with the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of The Singing Machine Company, Inc. and in the capacities and on the dates indicated.

SIGNATURE	CAPACITY	DATE
/s/ Gary Atkinson Gary Atkinson	Interim Chief Executive Officer	March 4, 2011
/s/ Carol Lau Carol Lau	Chief Financial Officer	March 4, 2011

THE SINGING MACHINE COMPANY, INC. AND SUBSIDIARIES

FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
The Singing Machine Company, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of The Singing Machine Company, Inc. and Subsidiaries (the "Company") as of March 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three year period ended March 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three year period ended March 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We have also audited Schedule II of the Company for the years ended March 31, 2010, 2009, 2008. In our opinion, this schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information therein.

/s/ Mallah Furman

Fort Lauderdale, Florida
June 23, 2010

THE SINGING MACHINE COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2010	March 31, 2009
Assets		
Current Assets		
Cash	\$ 865,777	\$ 957,163
Accounts receivable, net of allowances of \$185,407 and \$261,980, respectively	983,791	972,345
Due from factor	14,987	73,854
Inventories, net	2,804,848	4,729,667
Prepaid expenses and other current assets	118,465	526,563
Total Current Assets	4,787,868	7,259,592
Property and Equipment, net	736,966	886,770
Other Non-Current Assets	164,644	179,362
Total Assets	\$ 5,689,478	\$ 8,325,724
Liabilities and Shareholders' (Deficit) Equity		
Current Liabilities		
Accounts payable	\$ 895,713	\$ 2,588,769
Due to related parties - net	3,033,801	1,498,391
Accrued expenses	227,257	422,260
Short-term loan - bank	1,091,828	-
Current portion of long-term financing obligation	18,186	18,186
Obligations to clients for returns and allowances	742,009	908,449
Warranty provisions	123,708	288,039
Total Current Liabilities	6,132,502	5,724,094
Long-term financing obligation, less current portion	4,547	22,733
Total Liabilities	6,137,049	5,746,827
Shareholders' (Deficit) 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; 37,585,794 and 37,449,432 shares issued and outstanding	375,857	374,494
Additional paid-in capital	19,098,726	19,075,750
Accumulated deficit	(19,922,154)	(16,871,347)
Total Shareholders' (Deficit) Equity	(447,571)	2,578,897
Total Liabilities and Shareholders' (Deficit) Equity	\$ 5,689,478	\$ 8,325,724

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

THE SINGING MACHINE COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended
March 31, 2010 March 31, 2009 March 30, 2008

Net Sales	\$21,277,370	\$ 31,780,709	\$ 34,067,871
Cost of Goods Sold	17,291,011	25,836,586	26,389,070
Gross Profit	3,986,359	5,944,123	7,678,801
Operating Expenses			
Selling expenses	3,114,552	3,160,950	2,931,416
General and administrative expenses	3,388,203	4,346,627	4,279,728
Depreciation and amortization	439,432	459,354	311,273
Total Operating Expenses	6,942,187	7,966,931	7,522,417
(Loss) Income from Operations	(2,955,828)	(2,022,808)	156,384
Other Expenses			
Loss on sale of subsidiary and other assets	-	-	(27,654)
Interest expense	(94,979)	(131,755)	(127,018)
Net Other Expenses	(94,979)	(131,755)	(154,672)
(Loss) Income before provision for income taxes	(3,050,807)	(2,154,563)	1,712
Provision for income taxes	-	(36,652)	-
Net (Loss) Income	\$(3,050,807)	\$ (2,191,215)	\$ 1,712
(Loss) Income per Common Share			
Basic	\$(0.081)	\$ (0.067)	\$ 0.000
Diluted	\$(0.081)	\$ (0.067)	\$ 0.000
Weighted Average Common and Common Equivalent Shares:			
Basic	37,519,668	32,712,191	29,925,952
Diluted	37,519,668	32,712,191	30,910,424

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

THE SINGING MACHINE COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended
March 31, 2010 March 31, 2009 March 31, 2008

Cash flows from operating activities			
Net (Loss) Income	\$(3,050,807)	\$ (2,191,215)	\$ 1,712
Adjustments to reconcile (net loss) net income to net cash and cash equivalents used in operating activities:			
Depreciation and amortization	439,432	459,354	311,273
Change in inventory reserve	(396,319)	247,404	131,154
Change in allowance for bad debts	(76,573)	141,081	17,284
Stock compensation	24,339	32,826	38,112
Warranty provisions	(164,331)	70,227	4,094
Changes in assets and liabilities:			
(Increase) Decrease in:			
Accounts receivable	244,671	49,182	(924,634)
Inventories	2,321,139	(1,462,087)	(1,366,055)
Prepaid expenses and other current assets	408,098	(114,011)	109,339
Other non-current assets	14,718	(10,000)	(113,308)
Increase (Decrease) in:			
Accounts payable	(1,693,056)	1,670,341	441,906
Accounts payable - related party	1,535,410	1,992,407	-
Accrued expenses	(195,003)	12,845	(215,579)
Obligations to clients for returns and allowances	(166,440)	129,456	184,824
Net cash (used in) provided by operating activities	(754,722)	1,027,810	(1,379,878)
Cash flows from investing activities			
Purchase of property and equipment	(291,276)	(747,844)	(490,697)
Proceeds from disposal of property and equipment	1,648	-	27,654
Net cash used in investing activities	(289,628)	(747,844)	(463,043)
Cash flows from financing activities			
Borrowings from (retention by) factor, net	58,867	57,597	(21,460)
Proceeds from issuance of stock	-	-	630,881
Net proceeds from short-term bank obligation	1,091,828	-	-
(Payments) proceeds pursuant to factoring facility	(179,545)	799,113	-
Net (payments on) proceeds from long-term financing obligation	(18,186)	40,919	-
Net (payments to) advances from related parties	-	(668,248)	492,416
Net cash provided by financing activities	952,964	229,381	1,101,837
Change in cash and cash equivalents	(91,386)	509,347	(741,084)
Cash and cash equivalents at beginning of period			
	957,163	447,816	1,188,900
Cash and cash equivalents at end of period			
	\$865,777	\$ 957,163	\$ 447,816
Supplemental Disclosures of Cash Flow Information:			
Cash paid for Interest	\$94,979	\$ 136,826	\$ 78,898
Cash (refunded) paid for Income Taxes	\$(23,520)	\$ 60,322	\$ -
Non-Cash Financing Activities:			
Conversion of trade payable to equity	\$-	\$ 669,222	\$ 500,000

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 SHAREHOLDERS' (DEFICIT) EQUITY

	Preferred Stock		Common Stock		Additional Paid	Accumulated	Total
	Shares	Amount	Shares	Amount	in Capital	Deficit	
Balance at March 31, 2007	-	-	\$ 27,286,199	\$ 272,862	\$ 17,306,342	\$ (14,681,844)	\$ 2,897,360
Net Income	-	-	-	-	-	1,712	1,712
Employee compensation-stock option	-	-	-	-	24,010	-	24,010
Exercise of employee stock options	-	-	147,515	1,475	46,905	-	48,380
Director Fees	-	-	15,162	152	13,950	-	14,102
Issuances of common stock	-	-	4,309,524	43,095	1,039,405	-	1,082,500
Balance at March 31, 2008	-	-	31,758,400	317,584	18,430,612	(14,680,132)	4,068,064
Net Loss	-	-	-	-	-	(2,191,215)	(2,191,215)
Employee compensation-stock option	-	-	-	-	17,825	-	17,825
Director Fees	-	-	33,336	333	14,668	-	15,001
Issuances of common stock	-	-	5,657,696	56,577	612,645	-	669,222
Balance at March 31, 2009	-	-	37,449,432	374,494	19,075,750	(16,871,347)	2,578,897
Net Loss	-	-	-	-	-	(3,050,807)	(3,050,807)
Employee compensation-stock option	-	-	-	-	9,339	-	9,339
Director Fees	-	-	136,362	1,363	13,637	-	15,000
Balance at March 31, 2010	-	-	\$ 37,585,794	\$ 375,857	\$ 19,098,726	\$ (19,922,154)	\$ (447,571)

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

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

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 SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING STANDARDS CODIFICATION

In June 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") Subtopic 105-10, Generally Accepted Accounting Principles ("FASB ASC 105-10"). This Standard establishes an integrated source of existing authoritative accounting principles to be applied by all non-governmental entities and is effective for interim and annual periods ending after September 15, 2009. The adoption of FASB ASC 105-10 by the Company did not have a material impact on our financial statements and only resulted in modifications in accounting reference in our footnotes and disclosures.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company, its Macau Subsidiary, SMC-L, SMC-M and The Singing Machine Holdings Ltd. All inter-company accounts and transactions have been eliminated in consolidation for all periods presented.

USE OF ESTIMATES

The Singing Machine makes estimates and assumptions in the ordinary course of business relating to sales returns and allowances, warranty reserves, inventory 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% allowance for customers

in bankruptcy and other allowances based upon historical collection experience. Should business conditions deteriorate or any major customer default on its obligations to the Company, this allowance may need to be significantly increased, which would have a negative impact on operations.

ACCOUNTS RECEIVABLE FACTORING

The Company's factoring facility only finances non-recourse accounts receivable. Such receivables are considered to have been sold in accordance with Financial Accounting Standard Board ("FASB"), Accounting Standard Codification ("ASC") 860-30 Transfers and Servicing Secured Borrowing and Collateral. Accordingly, advances received pursuant to the factoring facility have been netted against the accounts receivable on the accompanying Consolidated Balance Sheets.

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. The insured amounts at foreign financial institutions at March 31, 2010 and March 31, 2009 are \$734,908 and \$666,643, 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.

INVENTORY

Inventories are comprised of electronic karaoke equipment, accessories, electronic musical instruments, electronic toys and compact discs and are stated at the lower of cost or market, as determined using the first in, first out method. The Singing Machine reduces inventory on hand to its net realizable value on an item-by-item basis when it is apparent that the expected realizable value of an inventory item falls below its original cost. A charge to cost of sales results when the estimated net realizable value of specific inventory items declines below cost. Management regularly reviews the Company's investment in inventories for such declines in value.

REVENUE RECOGNITION

Revenue from the sale of equipment, accessories, and musical recordings are recognized upon the later of: (a) the time of shipment or (b) when title passes to the customers and all significant contractual obligations have been satisfied and collection of the resulting receivable is reasonably assured. Revenues from sales of consigned inventory are recognized upon sale of the product by the consignee. Net sales are comprised of gross sales net of actual and estimated future returns, discounts and volume rebates. The total returns represent 12.4%, 9.4%, and 8.6% of the gross sales for the twelve months ended March 31, 2010, 2009, and 2008, respectively.

STOCK BASED COMPENSATION

The Company began to apply the provisions of FASB ASC 718-20, Compensation – Stock Compensation Awards Classified as Equity, 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. As a result of the adoption of the provisions of ASC 718-20, for the years ended March 31, 2010, 2009 and 2008, the stock option expense was \$9,340, \$17,825 and \$24,010, respectively. Employee stock option compensation expense in fiscal years 2010, 2009 and 2008 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. 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 year ended March 31, 2010: expected dividend yield 0%, risk-free interest rate of 0.41%, volatility 268.4% and expected term of three years.

- For the year ended March 31, 2009: expected dividend yield 0%, risk-free interest rate of 0.57% to 1.41%, volatility 70.22% and 80.07% and expected term of three years.
- For the year ended March 31, 2008: expected dividend yield 0%, risk-free interest rate of 3.3%, volatility of 67.41% 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 customers that specifically indicated that the customer 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 8% of the purchase. The customers have to advertise the Company's products in the customer's catalog, local newspaper and other advertising media. The customer 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 customer 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 years ended March 31, 2010, 2009 and 2008 was \$944,072, \$475,167 and \$470,671, 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 years ended March 31, 2010, 2009 and 2008, these amounts totaled \$45,146, \$51,634 and \$22,491, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS

We have adopted FASB ASC 825, Financial Instruments, 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.

RECLASSIFICATIONS

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

INCOME TAXES

The Company follows the provisions in FASB ASC 740 "Accounting for Income Taxes." Under the asset and liability method of ASC 740, 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 ASC 740, 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.

The Company also follows the provisions in FASB ASC 740, Accounting for Uncertainty in Income Taxes. ASC 740 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 March 31, 2010 this position did not result in any adjustment to the Company's provision for income taxes.

As of March 31, 2010 and March 31, 2009, The Singing Machine had gross deferred tax assets of approximately \$4.0 million and \$3.1 million, respectively, against which the Company recorded valuation allowances totaling approximately \$4.0 million and \$3.1 million, respectively.

As of March 31, 2010 the Company is subject to U.S. Federal income tax examinations for the tax years ended March 31, 2007 through March 31, 2009.

LONG-LIVED ASSETS

The Company reviews long-lived assets for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recoverable. If the undiscounted future cash flows attributable to the related assets are less than the carrying amount, the carrying amounts are reduced to fair value and an impairment loss is recognized in accordance with FASB ASC 360-10-05, "Accounting for the Impairment or Disposal of Long-Lived Assets."

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, less accumulated depreciation and amortization. Expenditures for repairs and maintenance are charged to expense as incurred. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to their estimated useful lives using accelerated and straight-line methods.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalent balances at March 31, 2010 and March 31, 2009 were \$865,777 and \$957,163, respectively.

SHIPPING AND HANDLING COSTS

Shipping and handling costs are classified as a component of selling expenses and those billed to customers are recorded as a reduction of expense in the statement of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

Beginning with the quarter ended June 30, 2009 we adopted the provisions of FASB ASC 855, Subsequent Events (“ASC 855”). The purpose of ASC 855 is to establish a general standard of accounting for the disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement outlines the following:

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

The adoption of ASC 855 did not have any impact on our consolidated financial statements.

NOTE 3 - INVENTORIES

Inventories are comprised of the following components:

	March 31, 2010	March 31, 2009
Finished Goods	\$ 3,153,917	\$ 5,475,056
Less: Inventory Reserve	(349,069)	(745,389)
Total Inventories	\$ 2,804,848	\$ 4,729,667

Inventory consigned to a distribution center at March 31, 2010 and March 31, 2009 was \$353,557 and \$352,214, respectively.

NOTE 4 - ACCOUNTS RECEIVABLE FACTORING AGREEMENT

On June 8, 2010 and subsequent to our fiscal year end, the Company was notified by DBS Bank that our credit and factoring facilities totaling \$13.0M were being withdrawn effective upon receipt of amounts due on both factoring and accounts payable financing facilities. As of the financial statement date of issue, the Company had an outstanding balance of approximately \$232,224 in short term borrowings against the accounts payable financing facility and \$0 amount due under the accounts receivable factoring facility. Our parent company, The Starlight Group, has committed to provide bridge financing until the Company secures a new financing facility.

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

Under the factor agreement, the Factor assumed credit risk on approved accounts (factor risk accounts). For non-approved accounts, the Company assumed the credit risk (client risk accounts). The factoring fees were .675% of the gross invoice for both client risk (recourse) and factor risk (non-recourse) accounts. As of March 31, 2010 there was a total of \$1,462,525 of open accounts receivable assigned to the Factor. The Company assumed credit risk (recourse) in the amount of \$83,276. Credit risk on the remaining factor assigned receivables in the amount of \$1,379,249 was assumed by the Factor (non-recourse). As of March 31, 2010 and 2009 there were outstanding amounts due from BB&T of \$14,987 and \$73,854 respectively. These amounts represent excess of customer payments received by BB&T that had yet to be transferred to DBS bank. As of March 31, 2010 and 2009 the outstanding amount under the factoring facility with DBS Bank was \$619,567 and \$799,112 respectively. This amount represents advances made by the Bank on non-recourse receivables and have been offset against accounts receivable in the accompanying consolidated balance sheet.

NOTE 5 - PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

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	USEFUL LIFE	MARCH 31, 2010	MARCH 31, 2009
Computer and office equipment	5 years	\$ 660,948	\$ 652,235
Furniture and fixtures	5-7 years	217,875	220,315
Leasehold improvement	*	151,503	153,993
Warehouse equipment	7 years	101,521	86,599
Molds and tooling	3-5 years	1,820,106	1,552,465
		2,951,953	2,665,607
Less: Accumulated depreciation and amortization			
		(2,214,987)	(1,778,837)
		\$ 736,966	\$ 886,770

* Shorter of remaining term of lease or useful life

Depreciation and amortization for fiscal years ended 2010, 2009, and 2008 was \$439,432, \$459,354, and \$311,273, respectively.

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NOTE 6 – DUE TO RELATED PARTIES, NET

As of March 31, 2010 the Company had \$3,033,801 due to related parties consisting primarily of trade payables for karaoke hardware to Starlight Marketing Macao Commercial Offshore Ltd in the amount of \$2,441,055, trade payables for consumer electronic product of \$440,608 due to Cosmo, and \$431,653 due to Starlight R&D for tooling and tooling modifications. These amounts were offset by net trade receivables of \$279,515 from other Starlight Group affiliates.

As of March 31, 2009 the Company had \$1,498,391 due to related parties consisting primarily of trade payables for karaoke hardware to Starlight Marketing Macao Commercial Offshore Ltd in the amount of \$1,580,601, offset by net accounts receivable of \$61,060 from other Starlight Group affiliates and trade receivables of \$21,150 from Cosmo Communications Corp.

NOTE 7 - OBLIGATIONS TO CLIENTS FOR RETURNS AND ALLOWANCES

Due to the seasonality of the business and length of time clients are given to return defective product, it is not uncommon for clients to accumulate credits from the Company's sales and allowance programs that are in excess of unpaid invoices in accounts receivable. All credit balances in clients' accounts receivable are reclassified to obligations to clients for returns and allowances in current liabilities on the Consolidated Balance Sheet. Client requests for payment of a credit balance are reclassified from obligations to clients for returns and allowances to accounts payable on the Consolidated Balance Sheet. When new invoices are processed prior to settlement of the credit balance and the client accepts settlement of open credits with new invoices, then the excess of new invoices over credits are netted in accounts receivable. As of the periods ended March 31, 2010 and March 31, 2009 obligations to clients for returns and allowances reclassified from accounts receivable were \$742,009 and \$908,449, respectively. There were no credit amounts requested by clients to be paid for the periods ended March 31, 2010 and March 31, 2009 and as such no amounts were reclassified from obligations to clients for returns and allowances to accounts payable.

NOTE 8 – FINANCING

As of March 31, 2010 and March 31, 2009 the Company owed DBS Bank \$1,091,828 and \$0 respectively pursuant to an accounts payable financing facility. The proceeds were used to pay China manufacturing vendors. The accounts payable facility loans are secured with corporate guarantees from the Company as well as a guarantee from Starlight and bear interest at 1.75%. The amounts are due to DBS Bank as follows:

Amount	Due Date	Interest Rate
\$ 290,629	28-Apr-10	1.75 %
\$ 102,181	4-May-10	1.75 %
\$ 232,224	10-May-10	1.75 %
\$ 25,914	13-May-10	1.75 %
\$ 74,131	13-May-10	1.75 %
\$ 37,908	9-Jun-10	1.75 %
\$ 232,224	24-Jun-10	1.75 %
\$ 96,617	27-May-10	1.75 %
\$ 1,091,828		

This accounts payable financing facility is pursuant to a three-party Banking Facility agreement between the Macau Subsidiary ("Borrower"), DBS Bank (Hong Kong) Limited ("Lender") and BB&T ("Factor") executed on August 28, 2008. The agreement provided for credit facilities to a maximum of \$13.0 million consisting of the following:

- Maximum of \$7.0 million on 80% of qualified accounts receivable.
- Maximum letter of credit facility of \$4.0 million for accounts payable financing.
- Maximum \$2.0 million negotiation of export bills under letter of credit.

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

On June 8, 2010 and subsequent to our fiscal year end, the Company was notified by DBS Bank that our credit and factoring facilities totaling \$13.0M were being withdrawn effective upon receipt of amounts due on both factoring and accounts payable financing facilities. As of issuing date of the financial statements, the Company was not delinquent on any payments for amounts due on this facility.

In light of the loss of our financing facility, our parent company, the Starlight Group (“Group”), has expressed their willingness and ability to provide bridge financing and advance funds to us for key vendor payments as well as extending longer payment terms for goods they manufacture for us. We estimate our bridge financing requirements from the Group to be between \$1.5 million and \$2.0 million for the fiscal year ending March 31, 2011. These funds are expected to be made available by the Group primarily through extended terms for trade payables with the Group. Taking into account the Group’s proceeds of approximately \$9 million from an offering of their stock in May 2010, internally generated funds and credit facilities available to the Group, and proposed use of proceeds which includes up to \$2.0 million of bridge financing for the Company, we have concluded that our parent will have sufficient working capital to provide bridge financing to us for at least the next 12 months.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

MGA ENTERTAINMENT, INC. v. THE SINGING MACHINE COMPANY, INC. (SUPERIOR COURT OF THE STATE OF CALIFORNIA COUNTY OF LOS ANGELES – CENTRAL, CASE NO. BC436007)

On May 10, 2006, we entered into a two-year license agreement with MGA Entertainment, Inc. to produce and distribute a variety of karaoke products based on MGA's BRATZ™ franchise. These karaoke products include a TFT DVD karaoke system, sing-a-long cassette players, deluxe microphones, electronic keyboards and an electronic drum. The license agreement contains a minimum guarantee payment term. This licensing agreement expired on December 31, 2009.

On November 21, 2006 we also entered into a three-year license agreement with MGA Entertainment, Inc. to produce and distribute a variety of consumer electronic products based on MGA's BRATZ™ franchise. These consumer electronic products include boom boxes, clock radios and portable DVDs. The license agreement contains a minimum guarantee payment term. This licensing agreement expired on December 31, 2009.

As of March 31, 2010 the total amount due to MGA Entertainment, Inc. was \$304,216. This amount includes: \$62,216 of additional royalties due in excess of guaranteed minimum advances on the karaoke products licensing agreement and \$242,000 for guaranteed minimum advances on the consumer electronic agreement. These amounts have not been included in the consolidated financial statements since it would be considered a “gross-up” of the balance sheet. The amounts due have not been paid due to litigation between Mattel Inc. and MGA Entertainment Inc. wherein Mattel has legally challenged MGA’s trademark rights to the BRATZ™ franchise. On July 17, 2008 Mattel was awarded a jury verdict in the Central District of California.

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

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

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.

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. Management sought independent legal counsel to assess the potential liability, if any, on the Company. In a memorandum from independent counsel, the conclusion based on the facts presented was that the IRS would not prevail against the Company for collection of the ISMC (HK) income tax liability based on:

- The Internal Revenue Service's asserted position that the Company is not the taxpayer.
- The 1120- F tax liability was recorded under the taxpayer identification number belonging to ISMC and not the Company's taxpayer identification number
- The IRS would be barred from recovery since it failed to assess or issue a notice of levy within the three year statute of limitations

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

LEASES

The Company has entered into various operating lease agreements for office and warehouse facilities in Coconut Creek, Florida, City of Industry, California and Macau. The leases expire at varying dates. Rent expense for the years ended March 31, 2010, 2009 and 2008 was \$864,523, \$961,226 and \$201,270, 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 March 31, 2010 are as follows:

	Property Leases	Equipment Leases
For period ending		
2011	\$ 732,616	\$ 5,717
2012	675,460	-
2013	671,044	-
2014	57,384	-
2015 and beyond	-	-
	\$ 2,136,504	\$ 5,717

The above property lease payments are gross payments which are not net of supplemental sublease fees we receive. During fiscal years 2010, 2009 and 2008 the Company received fees of approximately \$45,000, \$45,000 and \$543,000 respectively, for sublease of warehouse space and warehousing services provided to affiliated entities out of its California warehouse.

Such fees have been offset against rent expense in the consolidated statements of operations.

NOTE 10 - SHAREHOLDERS' EQUITY

COMMON STOCK ISSUANCES

During the years ended March 31, 2010, 2009, and 2008, the Company issued the following common stock shares:

2010:

On September 25, 2009 the Company issued 136,362 shares of its common stock to our Board of Directors at \$.11 per share, pursuant to our annual director compensation plan.

2009:

During the fiscal year ended March 31, 2009 the Company issued 5,691,032 shares of its common stock.

On March 25, 2009, the Company issued 2,267,220 shares of common stock to Arts Electronics, Ltd for \$226,722 (\$0.10 per share) to offset a trade payable.

On March 25, 2009, the Company issued 2,450,000 shares of common stock to koncepts International Limited for \$245,000 (\$0.10 per share) to offset a trade payable.

On October 9, 2008 the Company issued 33,336 shares of common stock to our Board of Directors at \$0.45 per share, pursuant to our annual director compensation plan.

On April 1, 2008 the Company issued 940,476 shares of common stock to Starlight Industrial Holdings, Ltd. for \$197,500 (\$.21 per share) to offset a trade payable.

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2008:

During the year ended March 31, 2008, 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 pursuant to employee stock option agreements.

On March 12, 2008, the Company issued 952,381 shares of common stock to Arts Electronics for \$200,000 (\$0.21 per share) as payment for a trade payable.

On September 28, 2007, the Company issued 857,143 shares of common stock to koncept International Limited, a subsidiary of Starlight for \$300,000 (\$.35 per share) as payment for certain payables owed by the Company 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.

EARNINGS PER SHARE

In accordance with FASB ASC 210, "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 years ended March 31, 2010, 2009 and 2008, common stock equivalents to purchase 1,836,710, 3,209,965 and 2,544,824 shares of stock, respectively, 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 March 31, 2010, the Plan is authorized to grant options up to an aggregate of 1,950,000 shares of the Company's common stock and up to 300,000 shares for any one individual grant in any fiscal year. As of March 31, 2010, the Company had 870,775 options available to be granted under the 2001 Plan. As of March 31, 2010, the Company had 343,050 options available to be granted under the 1994 Plan.

The Company adopted ASC 713-10 for the reporting periods ending after June 15, 2005 and thereafter has recognized the fair value of the stock option as part of the selling, general and administration expense. Accordingly, no compensation cost has been recognized for options issued under the Plan in periods prior to June 15, 2005. A summary of stock option activity for each of the years presented is summarized below.

	Fiscal 2010		Fiscal 2009		Fiscal 2008	
	Weighted Average Number of Options	Exercise Price	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options
Stock Options:						

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Balance at beginning of period	1,133,215	\$ 0.64	1,247,815	\$ 1.25	1,382,890	\$ 1.26
Granted	60,000	\$ 0.11	420,000	\$ 0.13	120,000	\$ 0.45
Exercised	-	-	-	-	(147,515)	\$ 0.33
Forfeited	(546,505)	\$ 0.53	(534,600)	\$ 1.90	(107,560)	\$ 1.27
Balance at end of period	646,710	\$ 0.56	1,133,215	\$ 0.58	1,247,815	\$ 1.25
Options exercisable at end of period	586,710	\$ 0.62	709,965	\$ 0.83	1,029,296	\$ 1.44

The following table summarizes information about employee stock options outstanding at March 31, 2010:

Range of Exercise Price	Number Outstanding at March 31, 2010	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable at March 31, 2010	Weighted Average Exercise Price
\$.03 - \$.77	589,000	6.87	\$ 0.41	529,000	\$ 0.45
\$.93 - \$9.00	57,710	4.02	\$ 2.11	57,710	\$ 2.11
	646,710			586,710	

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Prior to April 1, 2005, in accordance with ASC 713-10, for options issued to employees, the Company applied the intrinsic value method.

STOCK WARRANTS

As of March 31, 2010, the Company had a total of 1,250,000 stock purchase warrants outstanding. The exercise price of these warrants is \$0.35 with an expiration date of July 26, 2010.

NOTE 11 - INCOME TAXES

The Company files separate tax returns in the United States and in Macau. 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 fiscal years ended March 31, 2010, 2009 and 2008, the Macau Subsidiary 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.

Due to the change of control of the Company, the net operating loss carry over is subject to the IRS Section 382 limitation. As of March 31, 2010, 2009 and 2008, The Singing Machine had net deferred tax assets of approximately \$4.1 million, \$3.1 million, and \$2.5 million, respectively, against which the Company recorded valuation allowances totaling approximately \$4.1 million, \$3.1 million, and \$2.5 million, respectively.

The income tax expense (benefit) for federal, foreign, and state income taxes in the consolidated statement of operations consisted of the following components for 2010, 2009, and 2008:

	2010	2009	2008
Current:			
U.S. Federal	\$ (999,213)	\$ (878,241)	\$ 9,181
State	(96,851)	(77,918)	944
Deferred	1,096,064	992,811	(10,125)
	\$ -	\$ 36,652	\$ -

The United States and foreign components of income (loss) before income taxes are as follows:

	2010	2009	2008
United States	\$ (2,938,861)	\$ (2,583,061)	\$ 27,002
Foreign	(111,226)	428,498	(25,290)
	\$ (3,050,087)	\$ (2,154,563)	\$ 1,712

The actual tax expense differs from the "expected" tax expense for the years ended March 31, 2010, 2009, and 2008 (computed by applying the U.S. Federal Corporate tax rate of 34 percent to income before taxes) as follows:

	2010	2009	2008
Expected tax (benefit) expense	\$ (1,037,030)	\$ (732,551)	\$ 582
State income taxes, net of Federal income tax benefit	(96,852)	(77,919)	943
Permanent differences	3,430	6,447	5,829
Change in valuation allowance	983,094	652,738	(194,062)

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Tax rate differential on foreign earnings	37,817	(145,689)	8,600
Other	109,541	333,627	178,108
Actual tax (benefit) expense	-	\$ 36,652	\$ -

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The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities are as follows:

	2010	2009	2008
Deferred tax assets:			
Federal net operating loss carryforward	2,822,902	1,616,816	\$ 1,490,139
State net operating loss carryforward	606,284	509,378	518,077
AMT credit carryforward	70,090	70,090	70,090
Inventory differences	263,103	445,109	169,382
Allowance for doubtful accounts	63,038	89,073	41,105
Reserve for sales returns	42,061	97,933	74,056
Charitable contributions	60,700	60,700	60,700
Accrued Vacation	12,385	12,568	-
Depreciation and amortization	149,478	197,614	-
Amortization of reorganization intangible	22,993	30,658	53,652
Total deferred tax assets	4,113,034	3,129,940	2,477,201
Net deferred tax assets before valuation allowance			
	4,113,034	3,129,940	2,477,201
Valuation allowance	(4,113,034)	(3,129,940)	(2,477,201)
Net deferred tax assets	\$ -	\$ -	\$ -

At March 31, 2010, the Company has federal tax net operating loss carry forwards in the amount of approximately \$8.3 million, which expire beginning in the year 2023. In addition, state tax net operating loss carry forwards in the amount of approximately \$6.4 million expire beginning in 2013. The Company is no longer subject to income tax examinations for fiscal years before 2007.

NOTE 12 - SEGMENT INFORMATION

The Company operates in one segment and maintains its records accordingly. The majority of sales to customers outside of the United States are made by the Macau Subsidiary and Hong Kong Subsidiary, until its date of sale. Sales by geographic region for the period presented are as follows:

	FOR THE FISCAL YEARS ENDED		
	March 31,		
	2010	2009	2008
North America	\$ 18,512,225	\$ 26,154,402	\$ 27,085,841
Europe	2,740,842	4,813,309	6,314,126
Others	24,303	812,998	667,904
	\$ 21,277,370	\$ 31,780,709	\$ 34,067,871

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

NOTE 13 - EMPLOYEE BENEFIT PLANS

The Company has a 401(k) plan for its employees to which the Company makes contributions at rates dependent on the level of each employee's contributions. Contributions made by the Company are limited to the maximum allowable for federal income tax purposes. The amounts charged to operations for contributions to this plan and administrative costs during the years ended March 31, 2010, 2009, and 2008 totaled \$15,749, \$17,825 and \$21,674, respectively. The amounts are included as a component of general and administrative expense in the accompanying Consolidated Statements of Operations. The Company does not provide any post employment benefits to retirees.

NOTE 14 - CONCENTRATIONS OF CREDIT RISK, CUSTOMERS, AND SUPPLIERS

The Company derives a majority of its revenues from retailers of products in the United States. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of accounts receivable. The Company's allowance for doubtful accounts is based upon management's estimates and historical experience and reflects the fact that accounts receivable are concentrated with several large customers whose credit worthiness have been evaluated by management. At March 31, 2010, 57% of accounts receivable were due from two customers in North America. Accounts receivable from customers that individually owed over 10% of total accounts receivable was 42% and 15% at March 31, 2010. Accounts receivable from customers that individually owed over 10% of total accounts receivable was 55% 15% and 11% at March 31, 2009. The Company performs ongoing credit evaluations of its customers.

Revenues derived from five customers in 2010, 2009, and 2008 were 74%, 61% and 62% of total revenues, respectively. Revenues derived from top three customers in 2010, 2009 and 2008 as percentage of the total revenue were 28%, 17% and 13%; 21%, 18% and 10%; and 22%, 11% and 11%, respectively. The loss of any of these customers can have an adverse impact on the financial position of the Company.

Net sales derived from the Hong Kong and Macau Subsidiaries aggregated \$3.6 million in 2010, \$17.1 million in 2009 and \$17.3 million in 2008.

The Company is dependent upon foreign companies for the manufacture of all of its electronic products. The Company's arrangements with manufacturers are subject to the risk of doing business abroad, such as import duties, trade restrictions, work stoppages, foreign currency fluctuations, political instability, and other factors, which could have an adverse impact on its business. The Company believes that the loss of any one or more of their suppliers would not have a long-term material adverse effect because other manufacturers with whom the Company does business would be able to increase production to fulfill their requirements. However, the loss of certain suppliers in the short-term could adversely affect business until alternative supply arrangements are secured.

During fiscal years 2010, 2009, and 2008, manufacturers in the People's Republic of China ("China") accounted for approximately 99%, 99% and 99%; respectively of the Company's total product purchases, including all of the Company's hardware purchases.

The Company primary relied on DBS Bank to finance its accounts receivable for Fiscal 2010. Due to the subsequent loss of the factoring facility we will be reliant on our parent company, The Starlight Group, to provide bridge financing until a replacement factoring agreement is secured. Any change in the ability of The Starlight Group to provide financing or the company's inability to secure a replacement factoring agreement could adversely affect our ability to pay vendors and receive product to fill customer orders.

NOTE 15 - QUARTERLY FINANCIAL DATA - UNAUDITED

The following financial information reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of the results of the interim periods. The quarterly unaudited results for the years 2010, 2009, and 2008 are set forth in the following table:

	Sales (In thousands)	Gross Profit (In thousands)	Net Earnings (Loss) (In thousands)	Basic Earnings (Loss) Per Share	Diluted Earnings (Loss) Per Share
2010					
First quarter	\$ 814	\$ (286)	\$ (1,553)	\$(0.04)	\$(0.04)
Second quarter	6,991	1,384	(313)	(0.01)	(0.01)
Third quarter	11,976	2,994	247	0.01	0.01
Fourth quarter	1,496	(196)	4,670	(0.04)	(0.04)
Fiscal Year 2009	\$ 21,277	\$ 3,896	\$ 3,051	\$(0.08)	\$(0.08)
2009					
First quarter	\$ 1,770	\$ 203	\$ (1,050)	\$(0.03)	\$(0.03)
Second quarter	12,616	2,021	103	-	-
Third quarter	16,612	3,772	464	0.01	0.01

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Fourth quarter	783	(52)	(1,708)	(0.03)	(0.03)
Fiscal Year 2009	\$ 31,781	\$ 5,944	\$ (2,191)	\$(0.07)	\$(0.07)
2008					
First quarter	\$ 2,446	\$ 339	\$ (852)	\$(0.03)	\$(0.03)
Second quarter	16,108	3,193	1,054	0.04	0.03
Third quarter	13,784	3,747	767	0.03	0.03
Fourth quarter	1,730	400	(967)	(0.03)	(0.03)
Fiscal Year 2008	\$ 34,068	\$ 7,679	\$ 2	\$-	\$-

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NOTE 16 – RELATED PARTY TRANSACTIONS

TRADE

On August 1 2009, our subsidiary SMC-L entered into a service and logistics agreement with Starlite Consumer Electronics (USA), Inc. (“Starlite USA”), an indirect wholly-owned subsidiary of Starlight International, and Cosmo to provide logistics, fulfillment, and warehousing services for Starlite USA and Cosmo Communications (“Cosmo”), domestic sales. For these services, Starlite USA and Cosmo have agreed to pay the Company an annual service fee of \$1,000,000 payable monthly beginning August 1, 2009. This agreement generated approximately \$667,000 for Fiscal 2010 and is projected to generate \$333,000 in fees for Fiscal 2011. These amounts were used to offset logistics expenses for the warehouse and are shown in the accompanying Consolidated Statements of Operations as a component of general and administrative expenses. This agreement terminates on July 31, 2010 at which time another annual agreement is expected to be signed for approximately the same amount.

During Fiscal 2010 the Company sold approximately \$877,000 of product to Cosmo at discounted pricing granted to major distributors. The average gross profit margin on sales to Cosmo yielded 10.6% as compared to an overall gross profit margin of 18.7%. Cosmo is the Company’s primary distributor of its products to Canada. This amount was included as a component of cost of goods sold in the accompanying Consolidated Statements of Operations.

On May 23, 2008, SMC-L entered into a service and logistics agreement with affiliates Starlight and Cosmo to provide logistics, fulfillment, and warehousing services for Starlight and Cosmo’s domestic sales. The agreement expired on June 30, 2009. The Agreement generated approximately \$800,000 for fiscal year 2009 and \$300,000 for fiscal year 2010. These amounts were used to offset logistics expenses for the warehouse and are shown in the accompanying Consolidated Statements of Operations as a component of general and administrative expenses.

The Company purchased products from Starlight Marketing Macao Commercial Offshore Limited (“Starlight Macao”), an indirect wholly-owned subsidiary of Starlight International. The purchases from Starlight Macao for Fiscal 2010 and Fiscal 2009 were \$4,716,956 and \$10,170,825, respectively. In addition, the Company also purchased molds and tooling from Starlight R&D, an indirect wholly-owned subsidiary of Starlight International, in the amount of \$252,900 and \$235,000 in Fiscal 2010 and Fiscal 2009, respectively, which are included in Property and Equipment in the accompanying Consolidated Balance Sheets.

On August 1, 2006, our subsidiary SMC Macao entered into a service agreement with Star Light Electronics Company Limited, an indirect wholly-owned subsidiary of Starlight International, to provide shipping and engineering services to us for a fee of \$25,000 per month. This amount increased to \$29,000 per month effective July 1, 2008 however, due to a decrease in services provided to us in Fiscal 2009, the fee was temporarily reduced for a period of time. Effective July 1, 2009 this amount was permanently reduced to \$14,000 per month. For Fiscal 2010 and Fiscal 2009, this service charge was \$216,000 and \$261,000, 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 services agreement with Starlight Industrial Holding LTD, to provide them with warehousing services at the Company’s California warehouse at a monthly service charge of \$26,000. In May 2008, that amount was increased to \$39,000 per month. This amount was used to offset logistics expenses for the warehouse and is shown in the accompanying Consolidated Statements of Operations as a component of general and administrative expenses. This agreement was terminated on June 30, 2009.

NOTE 17 – 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:

	Fiscal Year Ended	
	March 31, 2010	March 31, 2009
Estimated defective return liabilities at beginning of period	\$ 288,039	\$ 217,812
Costs accrued for new estimated defective returns	727,534	570,661
Defective return obligations honored	(891,865)	(500,434)
Estimated defective return liabilities at end of period	\$ 123,708	\$ 288,039

NOTE 18 – SUBSEQUENT EVENTS

MGA Entertainment, Inc. (MGA) filed an action against the Company on April 16, 2010 alleging breach of contract, breach of implied covenant of good faith and fair dealing, and conversion claims relating to two licensing agreements between the parties entered into on May 10, 2006 and November 21, 2006. The two licensing agreements involved the manufacture, distribution and marketing of “Bratz” branded merchandise. At the time of this filing, the case is still in early stages of litigation and the outcome is unknown, however at this time management is confident that MGA’s claims are without merit. Reference Note 9 “Commitments and Contingencies” for additional information regarding the MGA matter.

On June 8, 2010 the Company was notified by DBS Bank (“DBS”) that our credit and factoring facilities totaling \$13.0M were being withdrawn effective upon receipt of amounts due on both factoring and accounts payable financing facilities. As of issuing date of the financial statements, the Company had an outstanding balance due of approximately \$232,224 in short term borrowings against the accounts payable financing facility and \$0 amount due under the accounts receivable factoring facility. As of the date of this filing, the Company was in default of the outstanding balance due to DBS in the amount of \$232,224 which was due on June 24, 2010. The Company proposed a payment plan wherein DBS would use the proceeds from the factored receivables remaining with DBS to apply against the remaining balance when these receivables are collected. As the amount due on the factoring facility is \$0 and the uncollected factored receivables remaining with DBS exceed the amount of outstanding debt, DBS has agreed to accept the Company’s payment plan. As of the filing date this debt to DBS has been paid in full.

We evaluated the effects of all subsequent events from the end of the fiscal year ended March 31, 2010 through the date we filed our financial statements with the U.S. Securities and Exchange Commission (“SEC”). Except as noted, there are no additional events requiring disclosure as per FASB ASC 855, Subsequent Events (“ASC 855”).

SUPPLEMENTAL DATA
SCHEDULE II

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Reduction to Allowance for Write off	Credited to Costs and Expenses	Balance at End of Period
Year ended March 31, 2010					
Reserves deducted from assets to which they apply:					
Allowance for doubtful accounts	\$ 261,980	\$59,085	\$ (135,658)	\$-	\$185,407
Deferred tax valuation allowance	\$ 3,129,940	\$983,094	\$ -	\$-	\$4,113,034
Inventory reserve	\$ 745,388	\$376,855	\$ (773,174)	\$-	\$349,069

Year ended March 31, 2009

Reserves deducted from assets to which they apply:

Allowance for doubtful accounts	\$ 120,899	\$197,178	\$ (70,058)	\$13,961	\$261,980
Deferred tax valuation allowance	\$ 2,477,202	\$689,390	\$ (36,652)	\$-	\$3,129,940
Inventory reserve	\$ 497,984	\$700,709	\$ (316,734)	\$(136,571)	\$745,388

Year ended March 31, 2008

Reserves deducted from assets to which
they apply:

Allowance for doubtful accounts	\$ 61,824	\$112,390	\$ (53,315)	\$-	\$120,899
Deferred tax valuation allowance	\$ 2,671,264	\$123,910	\$ -	\$(317,972)	\$2,477,202
Inventory reserve	\$ 198,848	\$382,048	\$ -	\$(82,911)	\$497,984

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