SINGING MACHINE CO INC
Form 10-Q
November 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to ______.

Commission File Number 0 - 24968

THE SINGING MACHINE COMPANY, INC.

(Exact Name of Registrant as Specified in its Charter)

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

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

(Address of principal executive offices)

(954) 596-1000

(Registrant's telephone number, including area code)

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

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

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

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

APPLICABLE ONLY TO ISSUES INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

CLASS	NUMBER OF SHARES OUTSTANDING
Common Stock, $0.01 par value	37,960,794 as of November 14, 2012

THE SINGING MACHINE COMPANY, INC. AND SUBSIDIARIES

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The Singing Machine Company, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2012 (Unaudited)	March 31, 2012 (Audited)
Assets		
Current Assets		
Cash	$ 2,828,669	$ 267,465
Accounts receivable, net of allowances of $198,717 and $168,554, respectively	4,786,689	785,490
Due from related party - Starlight Consumer Electronics USA, Inc.	236,267	36,036
Due from related party - Starlight Electronics USA, Inc.	43,509	58,536
Due from related party - Starlight Electronics Co., Ltd.	369,692	-
Due from related party - Cosmo Communications Canada, Ltd	310,974	68,291
Inventories, net	7,524,056	4,008,392
Prepaid expenses and other current assets	47,155	53,233
Total Current Assets	16,147,011	5,277,443
Property and equipment, net	338,633	296,222
Other non-current assets	159,957	159,674
Total Assets	$ 16,645,601	$ 5,733,339
Liabilities and Shareholders' Equity (Deficit)		
Current Liabilities		
Accounts payable	$ 7,984,620	$ 1,303,395
Due to related party - Starlight Marketing Development, Ltd.	1,924,431	1,924,431
Due to related party - Starfair Electronics Company, Ltd.	276,524	-
Due to related party - Ram Light Management, Ltd.	1,683,247	1,683,247
Due to related party - Starlight R&D, Ltd.	512,061	416,026
Due to related party - Cosmo Communications USA, Inc.	240,394	226,747
Due to related party - Starlight Consumer Electronics Co., Ltd.	1,996,133	103,545
Due to related parties - Other Starlight Group Companies	3,534	3,534
Accrued expenses	1,050,055	168,156
Obligations to clients for returns and allowances	112,367	242,379
Warranty provisions	462,387	219,760
Total Current Liabilities	16,245,753	6,291,220
Shareholders' Equity (Deficit)		
Preferred stock, $1.00 par value; 1,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, Class A, $.01 par value; 100,000 shares authorized; no shares issued and outstanding	-	-
Common stock, $0.01 par value; 100,000,000 shares authorized; 37,960,794 and 37,960,794 shares issued and outstanding, respectively	379,607	379,607

Additional paid-in capital	19,144,379	19,141,098
Accumulated deficit	(19,124,138)	(20,078,586)
Total Shareholders' Equity (Deficit)	399,848	(557,881)
Total Liabilities and Shareholders' Equity (Deficit)	$ 16,645,601	$ 5,733,339

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

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The Singing Machine Company, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For Three Months Ended		For Six Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net Sales	$14,376,086	$ 14,149,564	$16,138,791	$ 15,937,610
Cost of Goods Sold	10,905,307	10,956,081	12,223,934	12,315,584
Gross Profit	3,470,779	3,193,483	3,914,857	3,622,026
Operating Expenses				
Selling expenses	1,250,642	1,041,388	1,499,290	1,390,064
General and administrative expenses	742,708	654,992	1,385,826	1,210,604
Depreciation and amortization	34,076	29,313	66,851	61,391
Total Operating Expenses	2,027,426	1,725,693	2,951,967	2,662,059
Income from Operations	1,443,353	1,467,790	962,890	959,967
Other Expenses				
Interest expense	(8,442)	(2,250)	(8,442)	(2,344)
Income before provision for income taxes	1,434,911	1,465,540	954,448	957,623
Provision for income taxes	-	-	-	-
Net Income	$1,434,911	$ 1,465,540	$954,448	$ 957,623
Income per Common Share				
Basic and Diluted	$0.04	$ 0.04	$0.03	$ 0.03
Weighted Average Common and Common Equivalent Shares:				
Basic and Diluted	37,960,794	37,835,793	37,960,794	37,835,793

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

The Singing Machine Company, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For Six Months Ended September 30, 2012	September 30, 2011
Cash flows from operating activities		
Net Income	$954,448	$ 957,623
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	66,851	61,391
Change in inventory reserve	(167,000)	153,926
Change in allowance for bad debts	22,913	43,994
Disposal of property and equipment	-	4,027
Stock based compensation	3,281	14,185
Warranty provisions	242,627	294,346
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(4,024,112)	(10,239,086)
Inventories	(3,348,664)	(1,203,562)
Prepaid expenses and other current assets	6,078	6,064
Other non-current assets	(283)	(658)
Increase (Decrease) in:		
Accounts payable	6,681,225	5,415,195
Net due to related parties	1,481,215	2,180,058
Accrued expenses	881,899	686,472
Obligations to clients for returns and allowances	(130,012)	(66,446)
Net cash provided by (used in) operating activities	2,670,466	(1,692,471)
Cash flows from investing activities		
Purchase of property and equipment	(109,262)	(83,369)
Net cash used in investing activities	(109,262)	(83,369)
Cash flows from financing activities		
Net proceeds from short-term bank loan	-	1,293,326
Payments on long-term financing obligation	-	(4,547)
Net cash provided by financing activities	-	1,288,779
Change in cash	2,561,204	(487,061)
Cash at beginning of period	267,465	674,712
Cash at end of period	$2,828,669	$ 187,651
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$8,442	$ 2,344

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

THE SINGING MACHINE COMPANY, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2012

NOTE 1 – BASIS OF PRESENTATION

OVERVIEW

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

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

NOTE 2-SUMMARY OF ACCOUNTING POLICIES

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS. The condensed consolidated financial statements for the three and six months ended September 30, 2012 and 2011 are unaudited. In the opinion of management, such condensed consolidated financial statements include all adjustments (consisting of normal recurring accruals) necessary for the fair presentation of the condensed consolidated financial position and the condensed consolidated results of operations. The condensed consolidated results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet information as of March 31, 2012 was derived from the audited condensed consolidated financial statements included in the Company's Annual Report on Form 10-K. The interim condensed consolidated financial statements should be read in conjunction with that report.

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

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

FOREIGN CURRENCY TRANSLATION

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

Concentration of Credit Risk

The Company maintains cash balances in foreign financial institutions. The amounts in foreign financial institutions at September 30, 2012 and March 31, 2012 are $1,532,100 and $66,398, respectively. At times the Company maintains cash in United States bank accounts that are in excess of the Federal Deposit Insurance Corporation ("FDIC") insured amounts of up to $250,000.

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.

COMPUTATION OF EARNINGS PER SHARE

Income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is not presented as the conversion of stock options would have an anti-dilutive effect. As of September 30, 2012 total anti-dilutive shares amounted to approximately 2,356,160 shares.

REVENUE RECOGNITION

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

STOCK BASED COMPENSATION

The Company began to apply the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 718-20, Compensation – Stock Compensation Awards Classified as Equity (“ASC 718-20”) starting on January 1, 2006. ASC 718-20 requires all share-based payments to employees including grants of employee stock options, be measured at fair value and expensed in the condensed consolidated statements 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 condensed consolidated statements of operations beginning with the first period that ASC 718-20 is effective and thereafter, with prior periods' stock-based compensation still presented on a pro forma basis. Under the modified prospective approach, the provisions of ASC 718-20 are to be applied to new employee awards and to employee awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of employee awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of employee awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under ASC 718-20 The Company continues to use the Black-Scholes option valuation model to value stock options. For the three and six months ended September 30, 2012, stock option expense was $1,639 and $3,281, respectively. For the three and six months ended September 30, 2011, stock option expense was $7,093 and $14,185, respectively. Employee stock option compensation expense in fiscal years 2013 and 2012 includes the estimated fair value of options granted, amortized on a straight-line basis over the requisite service period for the entire portion of the award.

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the assumptions outlined below. For the quarter ended September 30, 2012 the Company took into consideration guidance under ASC 718-20 and SEC Staff Accounting Bulletin No. 107 when reviewing and updating assumptions. The expected volatility is based upon historical volatility of our stock and other contributing factors. The expected term is based upon observation of actual time elapsed between date of grant and exercise of options for all employees. Previously such assumptions were determined based on historical data. Set forth below are the assumptions used in the periods presented:

- For the six months ended September 30, 2012: expected dividend yield 0%, risk-free interest rate of 0.19%, volatility 341.4% and expected term of three years.

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

ADVERTISING

Costs incurred for producing, publishing and advertising of the Company are charged to operations as incurred. The Company has entered into cooperative advertising agreements with its major clients that specifically indicated that the client has to spend the cooperative advertising fund upon the occurrence of mutually agreed events. The percentage of the cooperative advertising allowance ranges from 2% to 5% of the clients' inventory purchases. The clients have to advertise the Company's products in the client's catalog, local newspaper and other advertising media. The client must submit the proof of the performance (such as a copy of the advertising showing the Company's products) to the Company to request for the allowance. The client does not have the ability to spend the allowance at their discretion. The Company believes that the identifiable benefit from the cooperative advertising program and the fair value of the advertising benefit is equal or greater than the cooperative advertising expense. Advertising expense for the six months ended September 30, 2012 and 2011 was $859,136 and $608,963, respectively.

RESEARCH AND DEVELOPMENT COSTS

All research and development costs are charged to condensed results of operations as incurred. These expenses are shown as a component of selling, general and administrative expenses in the condensed consolidated statements of operations. For the six months ended September 30, 2012 and 2011, these amounts totaled $33,240 and $24,834, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The carrying amounts of the Company's short-term financial instruments, including accounts receivable, accounts payable, obligations to clients for returns and allowances, warranty provision, accrued expenses and net due to related parties approximates fair value due to the relatively short period to maturity for these instruments.

RECENT ACCOUNTING PRONOUNCEMENTS

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

NOTE 3- INCOME TAXES

The Company follows FASB ASC 740-10, Accounting for Uncertainty in Income Taxes, which defines a recognition threshold and measurement attribute for financial statement recognition and measurements of tax positions taken or expected to be taken in a tax return. As of September 30, 2012 this position did not result in any adjustment to the Company’s provision for income taxes.

As of September 30, 2012 and March 31, 2012, The Singing Machine had gross deferred tax assets of approximately $3.6 million and $3.9 million, respectively, against which the Company recorded valuation allowances totaling approximately $3.6 million and $3.9 million, respectively. The Company’s effective income tax rate is lower than what would be expected if the federal statutory rate was applied to income before provision for income taxes primarily because of net operating loss carry forwards that are more than sufficient to offset net income for the six months ended September 30, 2012.

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

NOTE 4- INVENTORIES

Inventories are comprised of the following components:

	September 30, 2012 (unaudited)	March 31, 2012
Finished Goods	$ 4,761,745	$4,224,395
Inventory in Transit	3,258,311	446,997
Less: Inventory Reserve	(496,000)	(663,000)
Net Inventories	$ 7,524,056	$4,008,392

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

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NOTE 5 - PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	USEFUL LIFE	September 30, 2012 (unaudited)	March 31, 2012
Computer and office equipment	5 years	$ 277,994	$ 276,332
Leasehold improvements	*	5,500	5,500
Warehouse equipment	7 years	101,521	101,521
Molds and tooling	3-5 years	2,032,245	1,924,645
		2,417,260	2,307,998
Less: Accumulated depreciation		(2,078,627)	(2,011,776)
		$ 338,633	$ 296,222

* Shorter of remaining term of lease or useful life

Depreciation and amortization expense for the three months ended September 30, 2012 and September 30, 2011 was $34,076 and $29,313, respectively. Depreciation and amortization expense for the six months ended September 30, 2012 and September 30, 2011 was $66,851 and $61,391, respectively.

NOTE 6 - OBLIGATIONS TO CLIENTS FOR RETURNS AND ALLOWANCES

Due to the seasonality of the business and length of time clients are given to return defective product, it is not uncommon for clients to accumulate credits from the Company's sales and allowance programs that are in excess of unpaid invoices in accounts receivable. All credit balances in clients' accounts receivable are reclassified to obligations to clients for returns and allowances in current liabilities on the condensed consolidated balance sheet. Client requests for payment of a credit balance are reclassified from obligations to clients for returns and allowances to accounts payable on the Consolidated Balance Sheet. When new invoices are processed prior to settlement of the credit balance and the client accepts settlement of open credits with new invoices, then the excess of new invoices over credits are netted in accounts receivable. As of the periods ended September 30, 2012 and March 31, 2012 obligations to clients for returns and allowances reclassified from accounts receivable were $112,367 and $242,379, respectively. There were no credit amounts requested by clients to be paid for the periods ended September 30, 2012 and March 31, 2012 and as such no amounts were reclassified from obligations to clients for returns and allowances to accounts payable.

NOTE 7 – FINANCING

On October 19, 2012, the Company executed a two-year Accounts Receivable Ledgered Line of Credit Facility ("line of credit") with Crestmark Bank ("Crestmark") of Troy, Michigan which allows the company to receive and advance of up to 70% of qualified accounts receivable. The outstanding loan balance on the line of credit cannot exceed $5,000,000 during our peak selling season between August 2 and February 14 and cannot exceed $500,000 between February 15 and August 1 of each year the agreement is in effect. The Company has agreed to assign all of its domestic accounts receivable shipped from North America (except drop shipment invoices) to Crestmark and will assume all of the credit risk on accounts receivable assigned to Crestmark.

Interest on the line of credit and discounting charges on accounts receivable advances will be charged at a rate of 2% per annum over the prime rate as published by the Wall Street Journal and at no time shall the effective rate be less than 5.25% per annum. The credit facility is secured with all assets of the Company as well as related-party debt subordination agreements totaling $2,500,000 from Ram Light Management, Ltd. in the amount of $1,683,247 and Starlight Marketing Development, Ltd. in the amount of $816,753. The factoring fees will be 1% of the gross invoice for all domestic accounts receivable assigned. There were no outstanding obligations on the line of credit facility as of September 30, 2012 and March 31, 2012.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

Management is currently not aware of any legal proceedings.

INCOME TAXES

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

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

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

LEASES

The operating lease for the facilities in Coconut Creek, Florida expired and the Company entered into a new operating lease for approximately 4,000 square feet of office space in Ft Lauderdale, Florida. The lease term is 64 months and includes four months of free base rent as an incentive to enter into the agreement. The Company continues to maintain its operating lease agreements for office and warehouse facilities in City of Industry, California. The leases expire at varying dates. Rent expense for the six months ended September 30, 2012 and 2011 was $377,609 and $401,138, respectively.

Future minimum lease payments under property leases with terms exceeding one year as of September 30, 2012 are as follows:

Property Leases

2013	$	457,889
2014		66,001
2015		55,823
2016		61,886
2017		21,230
	$	662,829

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NOTE 9 - STOCKHOLDERS' EQUITY

COMMON STOCK ISSUANCES

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

STOCK OPTIONS

On June 1, 2001, the Board of Directors approved the 2001 Stock Option Plan (“Plan”), which replaced the 1994 Stock Option Plan, as amended, (the "1994 Plan"). The Plan was developed to provide a means whereby directors and selected employees, officers, consultants, and advisors of the Company may be granted incentive or non-qualified stock options to purchase common stock of the Company. As of September 30, 2012, the Plan is authorized to grant options up to an aggregate of 1,950,000 shares of the Company's common stock and up to 300,000 shares for any one individual grant in any quarter. As of September 30, 2012, the Company granted 1,683,895 options under the Year 2001 Plan with 1,251,380 options still outstanding, leaving 266,105 options available to be granted. There were no additional stock options issued during the six months ended September 30, 2012 and 2011.

NOTE 10 - GEOGRAPHICAL INFORMATION

The majority of sales to customers outside of the United States for the three and six months ended September 30, 2012 and 2011 were made by the Macau Subsidiary. Sales by geographic region for the period presented are as follows:

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	September 30,		September 30,	
	2012	2011	2012	2011
North America	$ 14,033,910	$ 13,571,567	15,746,355	15,239,688
Europe	342,176	577,997	392,436	697,922
	$ 14,376,086	$ 14,149,564	$ 16,138,791	$ 15,937,610

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

NOTE 11 – DUE TO RELATED PARTIES, NET

As of September 30, 2012 and March 31, 2012 the Company had amounts due to related parties in the amounts of $6,636,324 and $4,357,530 respectively, consisting primarily of trade payables due to Starlight affiliates. As of September 30, 2012 and March 31, 2012 the Company had amounts due from related parties in the amounts of $960,442 and $162,863 respectively, consisting primarily of trade receivables due from Starlight affiliates. As of April 1, 2012 Starlight Electronics Company, Ltd (related-party company) began charging interest on the current year intercompany trade payables that are past due at a rate of 4.5% per annum. For the six months ended September 30, 2012 and September 30, 2011, the Company incurred interest expense in the amounts of $5,575 and $0, respectively.

NOTE 12 – RELATED PARTY TRANSACTIONS

During the six months ended September 30, 2012 and September 30, 2011 the Company sold approximately $1,166,000 and $1,541,000 respectively to Starlight Electronics Company, Ltd at a discounted price, similar to prices granted to major direct import customers shipped internationally with freight prepaid. The average gross profit margin on sales to Starlight Electronics for the six months ended September 30, 2012 and September 30, 2011 was 12.42% and 7.6%, respectively. The product was drop shipped to Cosmo Communications of Canada (“Cosmo”), the Company’s primary distributor of its products to Canada. During the six months ended September 30, 2012 and September 30, 2011 we sold an additional $325,674 and $0, respectively of product to Cosmo from our California warehouse facility. These amounts were included as a component of cost of goods sold in the accompanying condensed consolidated statements of operations.

The Company purchased products from Starlight Marketing Development, Ltd, (“SMD”) a subsidiary of Starlight International Holding Ltd. The purchases from SMD for the six months ended September 30, 2012 and 2011 were $0 and $3,013,875 respectively. The Company purchased products from Starlight Consumer Electronics, Ltd, (“SCE”) a subsidiary of Starlight International Holding Ltd. The purchases from SCE for the six months ended September 30, 2012 and 2011 were $4,960,073 and $0 respectively.

During the six month period ended September 30, 2012 and September 30, 2011 the Company purchased products from Cosmo Communications USA, Inc. (“Cosmo USA”) in the amount of $0 and $48,900, respectively.

During the six month period ended September 30, 2012 and September 30, 2011 the Company purchased products from Starlight Consumer Electronics USA, Inc. in the amount of $138,051 and $0, respectively.

On July 1, 2012, SMC-L entered into a service and logistics agreement with Starlight Consumer Electronics (USA), Inc. (“Starlight USA”), an indirect wholly-owned subsidiary of Starlight International, Cosmo USA, Inc. (“Cosmo USA”) and Starlight Electronics USA, Inc. (“Starlight Electronics USA”) to provide logistics, fulfillment, and warehousing services for Starlight USA, Cosmo USA and Starlight Electronic USA’s domestic sales. For these services, Starlight USA, Cosmo USA and Starlight Electronics USA have agreed to pay the Company annual service fees totaling approximately $435,000 payable monthly beginning July 1, 2012. The Company received $133,119 and $0 in service fees from these affiliates during the six months ended September 30, 2012 and September 30, 2011, respectively. This agreement terminates on April 30, 2013 at which time another annual agreement is expected to be signed for approximately the same amount.

On August 1, 2011, SMC-L entered into a service and logistics agreement with affiliates Starlight Consumer Electronics (USA), Inc., Starlight USA, Inc. and Cosmo USA to provide logistics, fulfillment, and warehousing services for these affiliates’ domestic sales. The Company received $249,999 and $499,998 in service fees from these affiliates during the six months ended September 30, 2012 and September 30, 2011, respectively. For the six months ended September 30, 2012 and 2011, the Company additionally received reimbursements from these affiliates in the amount of $0 and $15,370, respectively for expenses and salaries incurred by SMC-L on their behalf. This agreement terminated on June 30, 2012.

NOTE 13 – WARRANTY PROVISIONS

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

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

	Three Months Ended		Six Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Estimated return and allowance liabilities at beginning of period	$61,481	$ 63,333	$219,760	$ 144,021
Costs accrued for new estimated returns and allowances	478,132	441,639	538,064	496,886
Return and allowance obligations honored	(77,226)	(66,604)	(295,437)	(202,539)
Estimated return and allowance liabilities at end of period	$462,387	$ 438,368	$462,387	$ 438,368

NOTE 14 – SUBSEQUENT EVENTS

We evaluated the effects of all subsequent events from the end of the second quarter ended September 30, 2012 through November 13, 2012, the date we filed our financial statements with the U.S. Securities and Exchange Commission. Except as disclosed in Note 7 – Financing, there were no additional events to report during this evaluation period.

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

OVERVIEW

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

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

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

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items related to our condensed consolidated statements of operations as a percentage of net sales for the three months and six months ended September 30, 2012 and 2011.

The Singing Machine Company, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For Three Months Ended				For Six Months Ended			
	September 30, 2012		September 30, 2011		September 30, 2012		September 30, 2011	
Net Sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost of Goods Sold	75.9	%	77.4	%	75.7	%	77.3	%
Gross Profit	24.1	%	22.6	%	24.3	%	22.7	%
Operating Expenses								
Selling expenses	8.7	%	7.4	%	9.3	%	8.7	%
General and administrative expenses	5.2	%	4.6	%	8.6	%	7.6	%
Depreciation and amortization	0.2	%	0.2	%	0.4	%	0.4	%
Total Operating Expenses	14.1	%	12.2	%	18.3	%	16.7	%
Income from Operations	10.0	%	10.4	%	6.0	%	6.0	%
Other Expenses								
Interest expense	-0.1	%	0.0	%	-0.1	%	0.0	%
Income before provision for income taxes	9.9	%	10.4	%	5.9	%	6.0	%

Provision for income taxes	0.0	%	0.0	%	0.0	%	0.0	%
Net Income	9.9	%	10.4	%	5.9	%	6.0	%

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

NET SALES

Net sales for the quarter ended September 30, 2012 increased to $14,376,086 from $14,149,564, an increase of $226,522 as compared to the same period ended September 30, 2011. This increase in sales is primarily due to commitments from new retail customers in North America. Direct import sales decreased by approximately $3,600,000 primarily due to delivery shifts into early October. This decrease in direct import sales was offset by earlier shipment schedules on deliveries from our California warehouse as well as the increase in new retail customers in North America.

GROSS PROFIT

Our gross profit for the quarter ended September 30, 2012 increased to $3,470,779 from $3,193,483 an increase of $277,296 as compared to the same period in the prior year. This increase is primarily due to the increase in revenue in the quarter as compared to the same quarter in the prior year as well as an increase in gross profit margin due to the increased sales from our California warehouse which generally yield higher gross profit margin than direct import sales.

Gross profit margin for the three month period ended September 30, 2012 was 24.1% compared to 22.6% for the three month period ended September 30, 2011 due to the favorable $3,600,000 mix of sales from our California warehouse compared to direct import sales which yield lower gross profit margin.

OPERATING EXPENSES

For the quarter ended September 30, 2012, total operating expenses increased to $2,027,426. This represents an increase of $301,733 from the same period's quarter ended total operating expenses of $1,725,693. This increase was primarily due an increase in variable selling expenses associated with co-op advertising programs granted to major retail customers as well a decrease in fees received from related-party companies for warehouse services provided to them.

Selling expenses increased $209,254 for the quarter ended September 30, 2012 compared to the quarter ended September 30, 2011. Advertising co-op allowance for major retail customers increased approximately $165,000 accounting for 79% of the increase. Royalty payments paid to the developer of the new 4TV product increased approximately $49,000 while other selling expenses decreased by approximately $5,000 accounting for the rest of the variance.

General and administrative expenses increased $87,716 for the quarter ended September 30, 2012 compared to the quarter ended September 30, 2011. Warehouse fees received for services provided to related parties decreased by approximately $117,000 due to decreased volume of services provided and were offset by approximately $29,000 in other administrative expenses accounting for the variance.

INCOME FROM OPERATIONS

Income from operations decreased $24,437 this quarter, to $1,443,353 for the three months ended September 30, 2012 compared to income from operations of $1,467,790 for the same period ended September 30, 2011. Increased gross profit offset by decreased operating expenses accounted for the decrease in income from operations.

OTHER EXPENSES

Our other expenses (interest expense) increased to $8,442 from $2,250 for the same period a year ago primarily due to Starlight Consumer Electronics, Ltd. (related party) assessing interest on current year past due trade payables at 4.5% per annum.

INCOME TAXES

For the three months ended September 30, 2012 and 2011, the Company did not record a tax provision as it had sufficient net operating losses from previous periods to offset the income for the three months ended September 30, 2012.

NET INCOME

For the three months ended September 30, 2012 net income decreased to $1,434,911 compared to net income of $1,465,540 for the same period a year ago. The decrease in net income was the same as explained in income from operations.

SIX MONTHS ENDED SEPTEMBER 30, 2012 COMPARED TO THE SIX MONTHS ENDED SEPTEMBER 30, 2011

NET SALES

Net sales for the six months ended September 30, 2012 increased to $16,138,791 from $15,937,610, an increase of $201,181 as compared to the same period ended September 30, 2011. This increase in sales is primarily due to commitments from new retail customers in North America. Direct import sales decreased by approximately $3,600,000 primarily due to delivery shifts into early October. This decrease in direct import sales was offset by earlier shipment schedules on deliveries from our California warehouse as well as the increase in new retail customers in North America.

GROSS PROFIT

Our gross profit for the six months ended September 30, 2012 increased to $3,914,857 from $3,622,026, an increase of $292,831 as compared to the same period in the prior year. This increase is primarily due to the increase in revenue in the quarter as compared to the same quarter in the prior year as well as an increase in gross profit margin due to the increased sales from our California warehouse which generally yield higher gross profit margin than direct import sales.

Gross profit margin for the six month period ended September 30, 2012 was 24.3% compared to 22.7% for the six month period ended September 30, 2011 due to the favorable $3,600,000 mix of sales from our California warehouse compared to direct import sales which yield lower gross profit margin.

OPERATING EXPENSES

For the six months ended September 30, 2012, total operating expenses increased to $2,951,967 from $2,662,059 for the six months ended September 30, 2011, an increase of $289,908. This increase was primarily due an increase in variable selling expenses associated with co-op advertising programs granted to major retail customers as well a decrease in fees received from related-party companies for warehouse services provided to them.

Selling expenses increased $109,226 for the six months ended September 30, 2012 compared to the quarter ended September 30, 2011. Advertising co-op allowance for major retail customers increased approximately $189,000 accounting and marketing expenses associated with website improvement and branding strategy for new products increased by approximately $61,000. These expenses were offset by a decrease in one-time royalty expense of approximately $160,000 that was incurred to the prior year to settle the MGA royalty dispute. The remaining variance was primarily due to increases in royalty payments due to the developer of the new 4TV product.

General and administrative expenses increased $175,222 for the six months ended September 30, 2012 compared to same period ended September 30, 2011. Warehouse fees received for services provided to related parties decreased by approximately $117,000 due to decreased volume of services provided and an increase in wages of approximately $45,000 due to the timing of a sales incentive payout.

OTHER EXPENSES

Our other expenses (interest expense) decreased to $8,442 from $2,344 for the same period a year ago primarily due to Starlight Consumer Electronics, Ltd. (related party) assessing interest on current year past due trade payables at 4.5% per annum.

INCOME TAXES

For the six months ended September 30, 2012 and 2011, the Company did not record a tax provision as it had sufficient net operating losses from previous periods to offset the income for the six months ended September 30, 2012.

NET INCOME

We recognized a net income of $954,448 for the six months ended September 30, 2012 compared to a net income of $957,623 for the same period a year ago. Increased gross profit offset by decreased operating expenses accounted for the decrease in income.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2012, Singing Machine had cash on hand of $2,828,669 as compared to cash on hand of $187,651 as of September 30, 2011. We had a working capital deficit of $98,742 as of September 30, 2012.

Net cash provided by operating activities was $2,670,466 for the six months ended September 30, 2011, as compared to $1,692,471 used in operating activities the same period a year ago. The increase in net cash provided was a result of the following factors: decrease in trade accounts receivable due to accelerated payment programs provided by customers offset by increases in inventory required for third quarter shipments, a increase in trade accounts payable due from product shipped in the second quarter and a decrease in related-party debt due improved operations allowing pay down of debt.

Net cash used by investing activities for the six months ended September 30, 2011 was $109,262 as compared to $83,369 used by investing activities for the same period ended a year ago. This increase was caused by capital expenditures for new products for the upcoming fiscal year.

Net cash provided by financing activities was $0 for the six months ended September 30, 2012, as compared to cash provide by financing activities of $1,288,779 for the same period ended a year ago. We relied on vendor accelerated payment programs provided by customers and favorable related-party terms on trade payables without incurring any third-party debt during the six months ended September 30, 2012 whereas we obtained short term financing from financial institutions of approximately $1,293,000 during the six months ended September 30, 2011 by discounting Letters of Credit provided as payment for direct import shipments from two major customers.

On October 19, 2012, the Company executed a two-year Accounts Receivable Ledgered Line of Credit Facility (“line of credit”) with Crestmark Bank (“Crestmark”) of Troy, Michigan which allows the company to receive and advance of up to 70% of qualified accounts receivable. The outstanding loan balance on the line of credit cannot exceed $5,000,000 during our peak selling season between August 2 and February 14 and cannot exceed $500,000 between February 15 and August 1 of each year the agreement is in effect. There were no outstanding obligations on the line of credit facility as of September 30, 2012 and March 31, 2012. This credit facility reduces our reliance on our parent company, the Starlight Group (“Group”) on financing however, they continue to express their willingness and ability to provide additional financing and advance funds to us for key vendor payments as well as extending longer payment terms for goods they manufacture for us should additional funds be required beyond the available funds from the credit facility. For the six month period ended September 30, 2012 the Group provided $1,481,214 of financing primarily through trade payables with the Group. We do not estimate additional financing will be required from the Group once the credit facility is in full effect. Taking into account the internally generated funds and credit facilities available to the Group we have concluded that our parent will have sufficient working capital to provide additional financing to us for at least the next 12 months should it become necessary.

As of September 30, 2012, our unrestricted cash on hand was $2,828,669. Our average monthly general and administrative expenses are approximately $248,000. We expect that we will require approximately $1 million for working capital during the next three-month period.

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

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

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

INVENTORY SELL THROUGH

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

SEASONAL AND QUARTERLY RESULTS

Historically, our operations have been seasonal, with the highest net sales occurring in our second and third fiscal quarters (reflecting increased orders for equipment and music merchandise during the Christmas holiday season) and to a lesser extent the first and fourth quarters of the fiscal year. Sales in our second and third fiscal quarters, combined, accounted for approximately 87.9% and 79.8% of net sales in fiscal 2012 and 2011, respectively.

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

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

INFLATION

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

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

(a) ***Evaluation of Disclosure Controls and Procedures.*** As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Management is currently not aware of any legal proceedings.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

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

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

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

* Filed herewith

SIGNATURES

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

THE SINGING MACHINE COMPANY, INC.

Date: November 13, 2012	By:	/s/ Gary Atkinson Gary Atkinson Chief Executive Officer
		/s/ LionelMarquis Lionel Marquis Chief Financial Officer

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