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SINGING MACHINE CO INC
Form 10-Q
November 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For quarter ended September 30, 2008

0 - 24968
Commission File Number

THE SINGING MACHINE COMPANY, INC.
(Exact Name of Registrant as Specified in its Charter)

DELAWARE

(State of Incorporation)

95-3795478

(IRS Employer I.D. No.)

6601 Lyons Road, Building A-7, Coconut Creek, FL 33073

(Address of principal executive offices)

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

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$.001 Par Value Per Share

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

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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	32,698,876 as of November 5, 2008

1

THE SINGING MACHINE COMPANY, INC. AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

	Page No. -----
Item 1. Financial Statements	
Consolidated Balance Sheets - September 30, 2008 (Unaudited) and March 31, 2008	3
Consolidated Statements of Operations - Three months and six months ended September 30, 2008 and 2007 (Unaudited)	4
Consolidated Statements of Cash Flows - Six months ended September 30, 2008 and 2007 (Unaudited)	5
Notes to Consolidated Financial Statements- September 30, 2008 (Unaudited)	6-13
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13-17
Item 3. Quantitative and Qualitative Disclosure About Market Risk	17-18
Item 4. Controls and Procedures	18

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	18
Item 1A. Risk Factors	18-24
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 3. Defaults Upon Senior Securities	24
Item 4. Submission of Matters to a Vote of Security Holders	24
Item 5. Other Information	24
Item 6. Exhibits	24

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SIGNATURES

25

2

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

	September 30, 2008	March 31, 2008
	----- (Unaudited)	----- (Audited)
Assets		

Current Assets		
Cash	\$ 980,067	\$ 447,816
Accounts receivable, net of allowances of \$80,811 and \$120,899, respectively	7,951,755	1,961,721
Due from factor	128,669	131,451
Inventories, net	9,901,213	3,514,984
Prepaid expenses and other current assets	512,725	412,552
	-----	-----
Total Current Assets	19,474,429	6,468,524
Property and Equipment, net	794,913	598,280
Other Non-Current Assets	178,320	169,362
	-----	-----
Total Assets	\$ 20,447,662	\$ 7,236,166
	=====	=====
Liabilities and Shareholders' Equity		

Current Liabilities		
Accounts payable	\$ 9,090,702	\$ 1,145,150
Due to related parties - net	6,345,516	616,732
Accrued expenses	590,557	409,415
Short-term loan - bank	153,845	-
Current portion of long-term financing obligation	18,186	-
Customer credits on account	673,292	778,993
Deferred gross profit on estimated returns	216,269	217,812
	-----	-----
Total Current Liabilities	17,088,367	3,168,102
Long-term Financing Obligation, less current portion	33,342	-
	-----	-----
Total Liabilities	17,121,709	3,168,102
	-----	-----
Shareholders' Equity		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, Class A, \$.01 par value; 100,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$0.01 par value; 100,000,000 shares authorized; 32,698,876 and 31,758,400 shares issued and outstanding	326,989	317,584
Additional paid-in capital	18,625,987	18,430,612
Accumulated deficit	(15,627,023)	(14,680,132)
	-----	-----
Total Shareholders' Equity	3,325,953	4,068,064

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Total Liabilities and Shareholders' Equity	\$ 20,447,662	\$ 7,236,166
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The accompanying notes are an integral part of these consolidated financial statements.

3

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

	For Three Months Ended		For Six M
	September 30, 2008	September 30, 2007	September 30, 2008
Net Sales	\$ 12,616,396	\$ 16,107,967	\$ 14,386,742
Cost of Goods Sold	10,595,445	12,915,137	12,163,142
Gross Profit	2,020,951	3,192,830	2,223,600
Operating Expenses			
Selling expenses	792,542	924,763	1,014,076
General and administrative expenses	996,556	1,132,294	1,918,755
Depreciation and amortization	103,499	61,989	204,660
Total Operating Expenses	1,892,597	2,119,046	3,137,491
Income (Loss) from Operations	128,354	1,073,784	(913,891)
Other Expenses			
Interest expense	(25,684)	(19,661)	(33,000)
Net Income (Loss)	\$ 102,670	\$ 1,054,123	\$ (946,891)
Income (Loss) per Common Share			
Basic	\$ 0.00	\$ 0.04	\$ (0.03)
Diluted	\$ 0.00	\$ 0.03	\$ (0.03)
Weighted Average Common and Common Equivalent Shares:			
Basic	32,698,876	29,937,618	32,227,250
Diluted	32,698,876	30,290,381	32,227,250

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

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4

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

	For Six Months Ende	
	September 30, 2008	Septem 2
Cash flows from operating activities		
Net (Loss) Income	\$ (946,891)	\$
Adjustments to reconcile net (loss) income to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	204,660	
Change in inventory reserve	(15,745)	
Change in allowance for bad debts	(40,088)	
Stock compensation	7,280	
Deferred gross profit on estimated sales returns	(1,543)	
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(5,949,946)	(11
Inventories	(6,370,484)	(3
Prepaid expenses and other current assets	(100,173)	
Other non-current assets	(8,958)	
Increase (Decrease) in:		
Accounts payable	7,945,552	8
Accounts payable - related party	5,473,963	3
Accrued expenses	181,142	
Customer credits on account	(105,701)	
Net cash provided by (used in) operating activities	273,068	(1
Cash flows from investing activities		
Purchase of property and equipment	(401,293)	
Net cash used in investing activities	(401,293)	
Cash flows from financing activities		
Borrowings from (retention by) factor, net	2,782	
Proceeds from issuance of stock	-	
Net loan proceeds from short-term bank obligation	153,845	
Net proceeds from long-term financing obligation	51,528	
Net advances from related parties	452,321	1
Net cash provided by financing activities	660,476	2
Change in cash and cash equivalents	532,251	
Cash and cash equivalents at beginning of period	447,816	1
Cash and cash equivalents at end of period	\$ 980,067	\$ 1
Supplemental Disclosures of Cash Flow Information:		
Cash paid for Interest	\$ 33,000	\$

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Non-Cash Financing Activities:

Conversion of trade payable to equity

\$ 197,500 \$

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

5

THE SINGING MACHINE COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2008

NOTE 1 - BASIS OF PRESENTATION

OVERVIEW

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

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

NOTE 2-SUMMARY OF ACCOUNTING POLICIES

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS. The consolidated financial statements for the three months and six months ended September 30, 2008 and 2007 are unaudited. In the opinion of management, such consolidated financial statements include all adjustments (consisting of normal recurring accruals) necessary for the fair presentation of the consolidated financial position and the consolidated results of operations. The consolidated results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. The consolidated balance sheet information as of March 31, 2008 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K. The interim consolidated financial statements should be read in conjunction with that report.

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

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

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

FOREIGN CURRENCY TRANSLATION

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

CONCENTRATION OF CREDIT RISK

The Company maintains cash balances in foreign financial institutions. Such balances are not insured. The uninsured amounts at September 30, 2008 and March 31, 2008 are \$638,086 and \$407,376, respectively.

6

INVENTORY

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

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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 Share-Based Payments ("SFAS 123 (R)"), starting on January 1, 2006. SFAS 123 (R) which became effective after June 15, 2005, replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees. SFAS 123 (R) requires all share-based payments to employees including grants of employee stock options, be measured at fair value and expensed in the consolidated statement of operations over the service period (generally the vesting period). Upon adoption, the Company transitioned to SFAS 123 (R) using the modified prospective application, whereby compensation cost is only recognized in the consolidated statements of operations beginning with the first period that SFAS 123 (R) is effective and thereafter, with prior periods' stock-based compensation still presented on a pro forma basis. Under the modified prospective approach, the provisions of SFAS 123 (R) are to be applied to new employee awards and to employee awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of employee awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of employee awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under SFAS 123. The Company continues to use the Black-Scholes option valuation model to value stock options. As a result of the adoption of SFAS 123 (R), the Company recognized a charge of \$3,640 (included in selling, general and administrative expenses) for the three months ended September 30, 2008 associated with the expensing of stock options. For the three and six months ended September 30, 2008, the stock option expense was \$3,640 and \$7,280, respectively. Employee stock option compensation expense in fiscal years 2008 and 2007 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, 2008, the Company took into consideration guidance under SFAS 123 (R) and SEC Staff Accounting Bulletin No. 107 (SAB 107) when reviewing and updating assumptions. The expected volatility is based upon historical volatility of our stock and other contributing factors. The expected term is based upon observation of actual time elapsed between date of grant and exercise of options for all employees. Previously such assumptions were determined based on historical data.

- o For the six months ended September 30, 2008: expected dividend yield 0%, risk-free interest rate of 1.55%, volatility of 67.41% and expected term of one year.
- o For the six months ended September 30, 2007: expected dividend yield 0%, risk-free interest rate of 4.92%, volatility of 90.77% and expected term of three years.

ADVERTISING

Costs incurred for producing and publishing advertising of the Company, are charged to operations as incurred. The Company has entered into cooperative advertising agreements with its major clients that specifically indicated that the client has to spend the cooperative advertising fund upon the occurrence of

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mutually agreed events. The percentage of the cooperative advertising allowance ranges from 2% to 5% of the purchase. The clients have to advertise the Company's products in the client's catalog, local newspaper and other advertising media. The client must submit the proof of the performance (such as a copy of the advertising showing the Company's products) to the Company to request for the allowance. The client does not have the ability to spend the allowance at their discretion. The Company believes that the identifiable benefit from the cooperative advertising program and the fair value of the advertising benefit is equal or greater than the cooperative advertising expense. Advertising expense for the six months ended September 30, 2008 and 2007 was \$200,041 and \$195,371, respectively.

RESEARCH AND DEVELOPMENT COSTS

All research and development costs are charged to results of operations as incurred. These expenses are shown as a component of selling, general and administrative expenses in the consolidated statements of operations. For the three months ended September 30, 2008 and 2007, these amounts totaled \$4,705 and \$1,090, respectively.

For the six months ended September 30, 2008 and 2007, these amounts totaled \$6,654 and \$7,975, respectively.

7

FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate that value. For purposes of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The carrying amounts of the Company's short-term financial instruments, including accounts receivable, due from factors, accounts payable, 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.

NOTE 3- INCOME TAXES

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

Significant management judgment is required in developing The Singing Machine's

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

As of September 30, 2008 and March 31, 2008, The Singing Machine had gross deferred tax assets of approximately \$2.4 million and \$2.5 million, respectively, against which the Company recorded valuation allowances totaling approximately \$2.4 million and \$2.5 million, respectively.

On January 1, 2007 we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). FIN 48 clarifies the requirements of SFAS No. 109, Accounting for Income Taxes, relating to the recognition of income tax benefits. FIN 48 provides a two-step approach to recognizing and measuring tax benefits when the benefits' realization is uncertain. The first step is to determine whether the benefit is to be recognized; the second step is to determine the amount to be recognized: o Income tax benefits should be recognized when, based on the technical merits of a tax position, the company believes that if a dispute arose with the taxing authority and were taken to a court of last resort, it is more likely than not (i.e., a probability of greater than 50 percent) that the tax position would be sustained as filed; and o If a position is determined to be more likely than not of being sustained, the reporting company should recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority.

The adoption of FIN 48 had no impact on these financial statements.

8

NOTE 4- INVENTORIES

Inventories are comprised of the following components:

	September 30, 2008	March 31, 2008
	-----	-----
Finished Goods	\$ 5,233,520	\$ 4,012,969
Inventory in Transit	5,261,351	-
Less: Inventory Reserve	(593,658)	(497,985)
	-----	-----
Net Inventories	\$ 9,901,213	\$ 3,514,984
	=====	=====

Inventory consigned to customers at September 30, 2008 and March 31, 2008 were \$382,885 and \$372,012, respectively.

NOTE 5 - ACCOUNTS RECEIVABLE FACTORING AGREEMENT

The Company executed an agreement with CIT on August 13, 2007 to factor its receivables. CIT assumes the credit risk on approved accounts (factor risk accounts). For non-approved accounts, the Company will assume the credit risk (client risk accounts). The factoring fees, for the client risk accounts, are .3% of the gross invoice. For the factor risk accounts, the fees are .55% of the gross invoice. The annual minimum charge is \$24,000. CIT does not advance funds to the Company directly. On October 26, 2007, the Company entered into a four-

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party agreement with CIT("Factor"), Standard Chartered Bank (Hong Kong), Limited ("Lender") and Starlight Marketing Limited ("Borrower"), a related party. According to the agreement, the Company assigns the proceeds from customers to the Lender, the Lender advances the loans to the Borrower. The Borrower sends the advance to the Company. Both the Borrower and the Company guarantee the repayment of the advance. The maximum amount for the advance is approximately \$4.5 million or 85% of the qualified accounts receivable, which ever is higher. As of September 30, 2008 and March 31, 2008 the outstanding amount due from the factor was \$128,669 and \$131,451, respectively. The amounts represent excess of customer payments received by the factor over advances made to the Company. The factoring agreement with CIT expired in August 2008 and the Company gave 60 days written notice to terminate the agreement.

On August 28, 2008, the Company executed 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 BB&T ("Factor"). According to the agreement, BB&T will serve as the correspondent factor for the Lender and does not advance funds to the Company directly. The Company assigns the proceeds from customers to the Lender and the Lender advances funds to the Borrower. The maximum amount for the advance is approximately \$7.0 million or 80% of the qualified accounts receivable, which ever is higher. The Factor assumes credit risk on approved accounts (factor risk accounts). For non-approved accounts, the Company will assume the credit risk (client risk accounts). The factoring fees will be .45% of the gross invoice for both client risk and factor risk accounts. This agreement is effective October 16, 2008 and replaces the previous four-party agreement between the Company, Starlight Marketing Limited (a related party), Standard Chartered Bank (Hong Kong), Limited and CIT.

NOTE 6 - PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	LIFE	September 30, 2008	March 31, 2008
		(unaudited)	
Computer and office and warehouse equipment	5 years	\$ 701,184	\$ 520,182
Furniture and fixtures	5-7 years	219,415	216,120
Leasehold improvements	*	162,114	156,614
Molds and tooling	3 years	1,244,465	1,032,970
		2,327,178	1,925,886
Less: Accumulated depreciation		(1,532,265)	(1,327,606)
		\$ 794,913	\$ 598,280

* Shorter of remaining term of lease or useful life

NOTE 7 - CUSTOMER CREDITS ON ACCOUNT

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

NOTE 8 - FINANCING

On February 12, 2008 SMC (Comercial Offshore De Macau) Limitada ("Macau Subsidiary") entered into a Banking Facilities agreement with Heng Seng Bank Limited ("Bank"). Under the terms of the agreement, the Macau Subsidiary has access to \$5,100,000 in total facilities including \$500,000 for payment of goods financed under the bank's letters of credit, \$3,000,000 for negotiation of discrepant documents presented under export letters of credit and a factoring facility to a maximum of \$1,600,000. Interest on open balances is due and payable monthly at a rate of 2% per annum above LIBOR (London Interbank Offered Rate). The note is secured by a promissory note from the Macau Subsidiary of \$5.8 million and an unlimited written guarantee from the Company. The amount due to the Bank as of September 30, 2008 and March 31, 2007 were \$153,845 and \$0 respectively.

On July 16, 2008 SMC Logistics, Inc. ("SMC-L") entered into a financing arrangement with Westover Financial, Inc. for the purchase of four forklifts for the California logistics operations. The terms of the agreement required an initial payment of \$18,691 and 36 monthly payments of \$1,516. On September 30, 2008 the remaining amount due on this obligation was \$51,528 of which \$18,186 was due within the next twelve months and the remaining \$33,342 due after one year.

On August 28, 2008, the Company executed a three-party Banking Facility agreement between the Company's wholly owned subsidiary SMC (Comercial Offshore De Macau) Limitada ("Borrower"), DBS Bank (Hong Kong) Limited ("Lender") and BB&T ("Factor"). The agreement provides for credit facilities to a maximum of \$13.0 million consisting of the following:

- o Maximum of \$7.0 million on 80% of qualified accounts receivable.
- o Maximum letter of credit facility of \$4.0 million for accounts payable financing.
- o 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. BB&T will serve as the correspondent factor for the Lender for the Company's qualified North American accounts receivable. BB&T does not advance funds to the Company directly. The Company assigns the proceeds from customers to the Lender and the Lender advances funds to the Borrower. The factoring fees will be .45% of the gross invoice for all factored accounts. This agreement is effective October 16, 2008 and replaces the previous four-party agreement between the Company, Starlight Marketing Limited (a related party), Standard Chartered Bank (Hong Kong), Limited and CIT. There were no outstanding obligations on these credit facilities as of September 30, 2008 and March 31, 2008.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

SYBERSOUND RECORDS, INC. V. UAV CORPORATION; MADACY ENTERTAINMENT L.P., AUDIO STREAM, INC., TOP TUNES, INC., SINGING MACHINE, INC., BCI ECLIPSE COMPANY, LLC, AMOS ALTER, DAVID ALTER, EDWARD GOETZ, DENNIS NORDEN, FRANK ROBERTSON, DOUGLAS

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VOGT AND RICHARD VOGT (UNITED STATES DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA, CV05-5861 JFW); (UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT (USCA DOCKET NO. 06-55221)

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

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

On February 27, 2008 the Ninth Circuit Court of Appeals affirmed the dismissal against The Singing Machine Company, Inc. and dismissed all claims against the Company with prejudice. Sybersound had until July 10, 2008 to file a Petition with the United States Supreme Court to appeal that decision. Sybersound did not file any such Petition with the United States Supreme Court. Due to Sybersound's failure to file a timely Petition, the above lawsuit is considered concluded.

10

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 notified the Company 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. Management believes this matter is in the initial discovery stages and is too preliminary to determine whether this would have an impact on the Company's financial statements.

NON-COMPLIANCE NOTICE FROM AMEX

On September 16, 2008, the Company received a notice letter from The American Stock Exchange (the "Amex") indicating that the Company has fallen below the continued listing standards of the Amex and that its listing is being continued pursuant to an extension.

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For the quarters ended June 30, 2008 and September 30, 2008, the Company was not in compliance with Section 1003(a)(ii) of the Amex Company Guide with shareholders' equity of less than \$4,000,000 and net losses in three of its four most recent fiscal years.

In order to maintain its Amex listing, the Company was required to submit a plan of compliance to the American Stock Exchange by October 23, 2008 advising the Amex of actions it would take, which may allow it to regain compliance with all of the Exchange's continued listing standards by March 31, 2009. The Company has submitted the plan indicating how the Company intends to meet the net equity requirement of \$4,000,000. The Amex will need up to 45 days to review the plan and make the final decision.

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

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

LEASES

The Company has entered into various operating lease agreements for office and warehouse facilities in Coconut Creek, Florida, City of Industry, California and Macau. The leases expire at varying dates. Rent expense for the six months ended September 30, 2008 and 2007 was \$141,421 and \$123,839 respectively.

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

Future minimum lease payments under property and equipment leases with terms exceeding one year as of September 30, 2008 are as follows:

	Property Leases -----	Equipment Leases -----
For period ending		
2009	\$ 587,508	\$ 9,888
2010	856,466	9,848
2011	647,205	-
2012	649,080	-
2013 and beyond	725,936	-
	-----	-----
	\$ 3,466,195	\$ 19,736
	=====	=====

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NOTE 10 - STOCKHOLDERS' EQUITY

COMMON STOCK ISSUANCES

During the six months ended September 30, 2008 and 2007, the Company issued 940,476 and 3,519,820 shares of its common stock, respectively.

On April 1, 2008, the Company issued 940,476 shares of common stock to Starlight Industrial Holdings, Ltd. for \$197,500 (\$.21 per share) as payment for certain payables owed by the Company for tooling.

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

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

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

EARNINGS PER SHARE

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

For the six months ended September 30, 2008 and 2007, common stock equivalents to purchase 3,213,215 and 3,131,830 shares of stock were not included in the computation of diluted earnings per share because the exercise prices were greater than the average market price of the Company's common stock for the period.

STOCK OPTIONS

On June 1, 2001, the Board of Directors approved the 2001 Stock Option Plan ("Plan"), which replaced the 1994 Stock Option Plan, as amended, (the "1994 Plan"). The Plan was developed to provide a means whereby directors and selected employees, officers, consultants, and advisors of the Company may be granted incentive or non-qualified stock options to purchase common stock of the Company. As of September 30, 2008, 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, 2008, the Company granted 1,140,180 options under the Year 2001 Plan with 707,665 options still outstanding, leaving 809,820 options available to be granted. As of September 30, 2008, the Company has 5,550 options still issued and no options available to be granted under the 1994 Plan, since the 1994 Plan has expired (after 10 years).

The exercise price of employee common stock option issuances in the quarters ended September 30, 2008 and 2007 were equal to the fair market value on the date of grant. Accordingly, no compensation cost has been recognized for options issued under the Plan in the years prior to June 15, 2006. The Company adopted SFAS 123(R) for the reporting period ending after June 15, 2005 and recognized the fair value of the stock option as part of the general and administration expenses.

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STOCK WARRANTS

As of September 30, 2008, the Company had a total of 2,500,000 stock purchase warrants outstanding. The exercise price of these warrants range from \$0.28 to \$0.35. The expiration date of these warrants range from July 25, 2009 to July 26, 2010.

NOTE 11 - GEOGRAPHICAL INFORMATION

The majority of sales to customers outside of the United States for the six months ended September 30, 2008 and 2007 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,	
	2008	2007	2008	2007
North America	\$ 9,386,839	\$ 11,454,775	\$ 10,615,487	\$ 12,813,620
Europe	3,029,757	4,371,227	3,164,896	5,160,647
Others	199,800	281,965	606,359	579,800
	-----	-----	-----	-----
	\$ 12,616,396	\$ 16,107,967	\$ 14,386,742	\$ 18,554,067
	=====	=====	=====	=====

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

12

NOTE 12 - DUE TO RELATED PARTIES, NET

As of September 30, 2008 the Company had \$6,345,516 due to related parties. This consists of an interest bearing loan payable of \$853,468 to Starlight Marketing Limited and \$5,492,048 in trade payables and expenses due to Starlight affiliates.

NOTE 13 - RELATED PARTY TRANSACTIONS

On April 1, 2008, the Company issued 940,476 shares of common stock to Starlight Industrial Holdings, Ltd. for \$197,500 (\$.21 per share) as payment for certain payables owed by the Company for tooling.

On May 23, 2008, SMC Logistics entered into a service and logistics agreement with affiliates Starlight Consumer Electronics (USA), Inc. and Cosmo Communications (USA) Corporation to provide logistics, fulfillment, and warehousing services for Starlight and Cosmo's domestic sales. The Agreement is expected to generate approximately \$1.1 million dollars in expense reimbursement for fiscal year 2009. As of September 30, 2008 the company has received \$473,346 in service fees from Starlight and Cosmo which has been used to offset startup and operating expenses of the logistics operation.

The Company purchased products from Starlight Marketing Macao, a subsidiary of Starlight International Holding Ltd. The purchases from Starlight for the six month period ended September 30, 2008 and 2007 were \$6,071,189 and \$5,050,557, respectively. In addition, the Company also purchased molds and tooling from Starlight in the amount of \$201,935 and \$269,700 in fiscals 2008 and 2007,

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respectively, which are included in Property and Equipment in the accompanying Consolidated Balance Sheets.

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

FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes included in the Company's Annual Report on Form 10-K for the year ended March 31, 2008. This document contains certain forward-looking statements including, among others, anticipated trends in our financial condition and results of operations and our business strategy. (See Part II, Item 1A, "Risk Factors "). These forward-looking statements are based largely on our current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements.

Important factors to consider in evaluating such forward-looking statements include, but are not limited to: (i) changes in external factors or in our internal budgeting process which might impact trends in our results of operations; (ii) unanticipated working capital or other cash requirements; (iii) changes in our business strategy or an inability to execute our strategy due to unanticipated changes in the industries in which we operate; and (iv) various competitive market factors that may prevent us from competing successfully in the marketplace.

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

OVERVIEW

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

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

Our karaoke machines and karaoke software are currently sold in such major retail outlets as Best Buy, Costco, Kohl's, J.C. Penney, Radio Shack, Wal-Mart and Sam's Club. Our Bratz products are sold in Toys R Us and Meijers.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items related to our consolidated statements of operations as a percentage of net sales for the three months and six months ended September 30, 2008 and 2007.

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

	For Three Months Ended		For Six Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	84.0%	80.2%	84.5%	81.0%
Gross Profit	16.0%	19.8%	15.5%	19.0%
Operating Expenses				
Selling expenses	6.3%	5.7%	7.0%	5.9%
General and administrative expenses	7.9%	7.0%	13.3%	11.3%
Depreciation and amortization	0.8%	0.4%	1.4%	0.7%
Total Operating Expenses	15.0%	13.1%	21.7%	17.9%
Income (Loss) from Operations	1.0%	6.7%	-6.2%	1.1%
Other Expenses				
Interest expense	-0.2%	-0.1%	-0.2%	-0.1%
Net Other Expenses	-0.2%	-0.1%	-0.2%	-0.1%
Net Income (Loss)	0.8%	6.6%	-6.4%	1.0%

QUARTER ENDED SEPTEMBER 30, 2008 COMPARED TO THE QUARTER ENDED SEPTEMBER 30, 2007

NET SALES

Net sales for the quarter ended September 30, 2008 decreased to \$12,616,396 from \$16,107,967, a decrease of \$3,491,571 as compared to the same period ended September 30, 2007. The primary reason for this decrease was a continued delay of product shipments from Asia which caused us to reschedule sales to the next quarter. Sales from our Macau subsidiary were especially affected by these delays as sales decreased by approximately \$3,850,000 from the same period ended September 30, 2007. This decrease was offset by an increase of approximately \$359,000 in revenue from our US operations compared to the same quarter ended September 30, 2007.

GROSS PROFIT

Our gross profit for the quarter ended September 30, 2008 decreased to \$2,020,951 from \$3,192,830, a decrease of \$1,171,879 as compared to the same period in the prior year. This decrease is primarily due to the decrease in revenue in the quarter ended September 30, 2008 compared to the same quarter in the prior year. As a percentage of revenues, our gross profit for the three months ended September 30, 2008 decreased to 16.0% from 19.8% for the same period in 2007. The decrease of gross profit as a percentage of revenues was primarily due lower gross profit margins from shipments of Bratz products compared to the same period last year.

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OPERATING EXPENSES

For the quarter ended September 30, 2008, total operating expenses decreased to \$1,892,597. This represents a decrease of \$226,449 over last year's same quarter ended total operating expenses of \$2,119,046. This decrease was primarily due to reimbursement by related parties of approximately \$473,000 for general and administration expenses related to logistics services to them by the Company. This reimbursement was offset by startup and increased staffing costs for our logistics operation and an increase in depreciation on tools and new business system equipment purchased during the past year.

14

Factors contributing to the increase of operating expenses are as follows:

1) Selling expenses decreased \$132,221 which was primarily due decreases in commission expense from decreased sales and decreased royalty expense due from decreased sales of licensed products. These decreases were somewhat offset by increased freight costs from our logistics operation.

2) General and administrative expenses decreased \$135,738 which was primarily due to reimbursement by related parties of approximately \$473,000 for general and administration expenses related to logistics services to them by the Company. This reimbursement was offset by startup expense, additional rent and increased staffing costs for our logistics operation.

3) Depreciation expense increased \$41,510 due to the depreciation of tools and a new business system purchased during the past year.

INCOME FROM OPERATIONS

Income from operations decreased \$945,430 this quarter, to \$128,354 for the three months ended September 30, 2008 from \$1,073,784 for the same period ended September 30, 2007. The decrease was primarily due to the decrease in net sales compared to the same period in the prior year. In addition, we experienced additional operating costs associated with the startup of the logistics services for related parties.

OTHER INCOME/EXPENSES

Our net other expenses (interest expense) increased to \$25,684 from \$19,661 for the same period a year ago. The increase of interest expenses was primarily due to the increase in financing required for a portion of the delayed inventory required for next quarter shipments.

INCOME TAXES

For the three months ended September 30, 2008 and 2007, the Company did not record a tax provision because it expects current year-to-date losses and sufficient future net losses to offset the income for these periods.

NET INCOME

For the three months ended September 30, 2008 net income decreased to \$102,670 from \$1,054,123 for the same period a year ago. The decrease of net income was primarily due to the decrease in revenues from the same period in the prior year and startup costs and increased operating expenses for our logistics operation.

SIX MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO THE SIX MONTHS ENDED SEPTEMBER

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30, 2007

NET SALES

Net sales for the six months ended September 30, 2008 decreased to \$14,386,742 from \$18,554,067, a decrease of \$4,167,325 as compared to the same period ended September 30, 2007. The primary reason for this decrease was a continued delay of product shipments from Asia which caused us to reschedule sales to the next quarter. Sales from our Macau subsidiary were especially affected by these delays as sales decreased by approximately \$4,100,000 from the same period ended September 30, 2007. .

GROSS PROFIT

Our gross profit for the six months ended September 30, 2008 decreased to \$2,223,600 from \$3,532,182, a decrease of \$1,308,582 as compared to the same period in the prior year primarily due to the decrease in revenue for the comparable periods. As a percentage of revenues, our gross profit for the six months ended September 30, 2008 decreased to 15.5% from 19.0% for the same period in 2007. The decrease of gross profit as a percentage of revenues was similar to the one for three months ended September 30, 2008.

OPERATING EXPENSES

For the six months ended September 30, 2008, total operating expenses decreased to \$3,137,491 from \$3,305,425 for the six months ended September 30, 2007, a decrease of \$167,934. The decrease of operating expenses is the same as for the three month period.

OTHER INCOME/EXPENSES

Our net other expenses increased to \$33,000 (interest expense) from \$24,950 (interest expense) for the same period a year ago.

INCOME TAXES

For the six months ended September 30, 2008 and 2007, the Company did not record a tax provision because it had a net operating loss for the six months ended September 30, 2008 and had sufficient net operation loss from previous periods to offset the income for the six months ended September 30, 2007.

15

NET LOSS/INCOME

We incurred a net loss \$946,891 for the six months ended September 30, 2008 compared to a net profit of \$201,807 for the same period a year ago. The increase of net income was primarily due to the decrease in revenues and startup costs and operating expenses for our logistics operation.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2008, Singing Machine had cash on hand of \$980,067 as compared to cash on hand of \$1,668,432 as of September 30, 2007. We had working capital of \$2,386,062 as of September 30, 2008.

Net cash provided by operating activities was \$273,068 for the six months ended September 30, 2008, as compared to \$1,977,941 used by operating activities the same period a year ago. The increase in net cash provided was a result of the following factors: increase of accounts payable to Hong Kong and related party

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suppliers and decreased accounts receivable due to decreased sales. These increases to cash provided from operations were offset by an increase in inventory in preparation for the upcoming season and a drop in net income due to reduced sales during the comparable period.

Net cash used by investing activities for the six months ended September 30, 2008 was \$401,293 as compared to \$170,308 used by investing activities for the same period ended a year ago. This increase was caused primarily by the purchase of additional tools and a business computer system.

Net cash provided by financing activities was \$660,476 for the six months ended September 30, 2008, as compared to \$2,627,781 for the same period ended a year ago. There were no warrants or options exercised during the six months ended September 30, 2008 compared to the same period in 2007 when we recognized proceeds of \$614,381 from the exercise of stock options and 2,500,000 warrants exercised by Starlight, a related party. These proceeds were offset by an increase in related party loans.

As of September 30, 2008, our unrestricted cash on hand was \$980,067. Our average monthly general and administrative expenses are approximately \$330,000. 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:

- o Raising additional working capital;
- o Collecting our existing accounts receivable;
- o Selling existing inventory;
- o Vendor financing;
- o Borrowing from factoring bank;
- o Short term loans from our majority shareholder;
- o 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.

Our commitments for debt and other contractual obligations as of September 30, 2008 are summarized as follows:

	Total	Less than 1 year	1 - 3 years	3 -
Property Leases	\$ 3,466,195	\$ 587,508	\$ 2,152,751	\$ -
Equipment Leases	19,736	9,888	9,848	-
Short-Term Bank Loan	153,845	153,845	-	-
Equipment Financing Arrangement	51,528	18,186	33,342	-
Licensing Agreement	242,000	242,000	-	-
Loan Payable-Related Party	1,069,053	1,069,053	-	-
Total	\$ 5,002,357	\$ 2,080,480	\$ 2,195,941	\$ -

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INVENTORY SELL THROUGH

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

SEASONAL AND QUARTERLY RESULTS

Historically, our operations have been seasonal, with the highest net sales occurring in our fiscal second and third quarters (reflecting increased orders for equipment and music merchandise during the Christmas holiday season) and to a lesser extent the first and fourth quarters of the fiscal year. Sales in our fiscal second and third quarter, combined, accounted for approximately 87.8% and 94% of net sales in fiscal 2008 and 2007, 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 The Singing Machine's operations. The Singing Machine generally has adjusted its prices to track changes in the Consumer Price Index since prices charged by Singing Machine are generally not fixed by long-term contracts.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING POLICIES

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

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

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increased, which would have a negative impact on operations.

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

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

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

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

17

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States and international borrowing rates and changes in foreign currency exchange rates. In addition, we are exposed to market risk in certain geographic areas that have experienced or remain vulnerable to an economic downturn, such as China. We purchase substantially our entire inventory from companies in China, and, therefore, we are subject to the risk that such suppliers will be unable to provide inventory at competitive prices. While we believe that, if such an event were to occur, we would be able to find alternative sources of inventory at competitive prices, we cannot assure you that we would be able to do so. These exposures are directly related to our normal operating and funding activities. Historically and as of September 30, 2008, we have not used derivative instruments or engaged in hedging activities to minimize market risk.

INTEREST RATE RISK

As of September 30, 2008, our exposure to market risk resulting from changes in interest rates is immaterial.

FOREIGN CURRENCY RISK

We have a wholly-owned subsidiary in Macau. Sales by this operation made on a FOB China or Hong Kong basis are denominated in U.S. dollars. However, purchases of inventory and Macau operating expenses are typically denominated in either Hong Kong dollars or the Macau currency ("MOP"), thereby creating exposure to

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changes in exchange rates. Changes in the Hong Kong dollar, U.S. dollar or MOP exchange rates may positively or negatively affect our gross margins, operating income and retained earnings. We do not believe that near-term changes in the exchange rates, if any, will result in a material effect on our future earnings, fair values or cash flows, and therefore, we have chosen not to enter into foreign currency hedging transactions. We cannot be assured that this approach will be successful, especially in the event of a significant and sudden change in the value of the MOP or Hong Kong dollar.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

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

RISKS ASSOCIATED WITH OUR BUSINESS

WE HAVE ENTERED INTO AN AGREEMENT WITH THE STARLIGHT GROUP TO MANAGE THEIR LOGISTICS AND FULFILLMENT SERVICES IN THE UNITED STATES. IF WE ARE UNABLE TO PERFORM UNDER THIS AGREEMENT, IT COULD NEGATIVELY IMPACT OUR REVENUES AND CASH FLOW.

On May 23, 2008 we entered into a services agreement to receive orders, warehouse, and ship all of the Starlight Group's United States domestic goods. The value of this contract is approximately \$1.1 million dollars per year. If we are unable to perform the duties under this contract, it could negatively impact our revenue and cash flow.

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

Due to the expansion of the music download business, the sales of Compact Discs (CD) have been declining in recent years. Our karaoke CD sales have been declining since 2004 and may continue to decline in the future. Music revenue accounts for less than 1% of our total revenues for the six months ended

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September 30, 2008.

18

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

We rely on a few large customers to provide a substantial portion of our revenues. As a percentage of total revenues, our net sales to our five largest customers during the year ended March 31, 2008 and year ended March 31, 2007 were approximately 62% and 57%, respectively. We do not have long-term contractual arrangements with any of our customers and they can cancel their orders at any time prior to delivery. A substantial reduction in or termination of orders from any of our largest customers would decrease our revenues and cash flow.

WE ARE RELYING ON ONE FACTORY TO MANUFACTURE AND PRODUCE THE MAJORITY OF OUR KARAOKE MACHINES FOR FISCAL 2009, AND IF THE RELATIONSHIP WITH THIS FACTORY IS DAMAGED OR INJURED IN ANY WAY, IT WOULD REDUCE OUR REVENUES AND PROFITABILITY.

We have worked out a written agreement with a factory in China to produce most of our karaoke machines for fiscal 2009. If the factory is unwilling or unable to deliver our karaoke machines to us, our business will be adversely affected. Because our cash on hand is minimal, we are relying on revenues received from the sale of our ordered karaoke machines to provide cash flow for our operations. If we do not receive cash from these sales, we may not be able to continue our business operations.

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

We are relying on an exclusive distributor to distribute our music products in fiscal 2009. If the distribution agreement is terminated, our music revenues might decrease as well as our profitability.

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

In fiscal 2008 and 2007, a number of our customers and distributors returned karaoke products that they had purchased from us. Our customers returned goods valued at \$2.9 million or 8.6% of our net sales in fiscal 2008. Some of the returns resulted from customer's overstock of the products. Although we were not contractually obligated to accept return of the products, we accepted the returns because we value our relationship with our customers. Because we are dependent upon a few large customers, we are subject to the risk that any of these customers may elect to return unsold karaoke products to us in the future. If any of our customers were to return karaoke products to us, it would reduce our revenues and profitability.

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

Because there is intense competition in the karaoke industry, we are subject to pricing pressure from our customers. Many of our customers have demanded that we lower our prices or they will buy our competitor's products. If we do not meet our customer's demands for lower prices, we will not sell as many karaoke

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products. In the fiscal year ended March 31, 2008, our sales to customers in the United States decreased because of increased price competition. We are also subject to pressure from our customers regarding certain financial incentives, such as return credits or large advertising or cooperative advertising allowances, which effectively reduce our profit. We gave advertising allowances of approximately \$458,099 during fiscal 2008 and \$200,000 during fiscal 2007. We have historically offered advertising allowances to our customers because it is standard practice in the retail industry.

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

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

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

Many of our customers place orders with us several months prior to the holiday season, but they schedule delivery two or three weeks before the holiday season begins. As such, we are subject to the risks and costs of carrying inventory during the time period between the placement of the order and the delivery date, which reduces our cash flow. As of September 30, 2008 we had \$9.9 million in inventory on hand, as compared to \$3.5 million in inventory at September 30, 2007. It is important that we sell this inventory during fiscal 2009, so we have sufficient cash flow for operations.

19

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

Over the past year, our gross profit margins have generally decreased due to the competition except for fiscal 2005 when we had developed several new models, which were in demand and yielded higher profit margins. We expect that our gross profit margin might decrease under downward pressure in fiscal 2009 because of currency fluctuations, increasing labor costs and the increasing cost of petroleum based raw materials and services which are affecting the entire market segment.

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

Sales of consumer electronics and toy products in the retail channel are highly seasonal, with a majority of retail sales occurring during the period from September through December in anticipation of the holiday season, which includes Christmas. A substantial majority of our sales occur during our second quarter ending September 30 and third quarter ending December 31. Sales in our second and third quarter, combined, accounted for approximately 87.0% and 94.0% of net sales in fiscal 2008 and 2007 respectively.

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

Our major competitors for karaoke machines and related products are Memorex and GPX. We believe that competition for karaoke machines is based primarily on price, product features, reputation, delivery times, and customer support. Our primary competitors for producing karaoke music are Compass, Pocket Songs, Sybersound, UAV and Sound Choice. We believe that competition for karaoke music is based primarily on popularity of song titles, price, reputation, and delivery times. To the extent that we lower prices to attempt to enhance or retain market share, we may adversely impact our operating margins. Conversely, if we opt not to match competitor's price reductions we may lose market share, resulting in decreased volume and revenue. To the extent our leading competitors reduce prices on their karaoke machines and music; we must remain flexible to reduce our prices. If we are forced to reduce our prices, it will result in lower margins and reduced profitability. Because of intense competition in the karaoke industry in the United States during fiscal 2008, we expect that the intense pricing pressure in the low end of the market will continue in the karaoke market in the United States in fiscal 2009. In addition, we must compete with all the other existing forms of entertainment including, but not limited to: motion pictures, video arcade games, home video games, theme parks, nightclubs, television, prerecorded tapes, CD's, and video cassettes.

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

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

- o accurately define and design new products to meet market needs;
- o design features that continue to differentiate our products from those of our competitors;
- o transition our products to new manufacturing process technologies;
- o identify emerging technological trends in our target markets;
- o anticipate changes in end-user preferences with respect to our customers' products;
- o bring products to market on a timely basis at competitive prices; and
- o respond effectively to technological changes or product announcements by others.

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

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

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

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

We are using eight factories in the People's Republic of China to manufacture our karaoke machines. These factories will be producing nearly all of our karaoke products in fiscal 2009. Our arrangements with these factories are subject to the risks of doing business abroad, such as import duties, trade restrictions, work stoppages, and foreign currency fluctuations, limitations on the repatriation of earnings and political instability, which could have an adverse impact on our business. Furthermore, we have limited control over the manufacturing processes. As a result, any difficulties encountered by our third-party manufacturers that result in product defects, production delays, cost overruns or the inability to fulfill orders on a timely basis could adversely affect our revenues, profitability and cash flow. Also, since we do not have written agreements with any of these factories, we are subject to additional uncertainty if the factories do not deliver products to us on a timely basis.

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

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

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

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

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

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

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

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

21

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

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

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

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

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

During fiscal 2008, approximately 49.0% of our sales were domestic warehouse sales, which were made from our warehouses in California and Florida. During the third quarter of fiscal 2003, the dock strike on the West Coast affected sales of two of our karaoke products and we estimate that we lost between \$3 and \$5 million in orders because we could not get the containers of these products off the pier. If another strike or work slow-down occurs and we do not have a sufficient level of inventory, a strike or work slow-down would result in increased costs to us and may reduce our profitability.

CURRENCY EXCHANGE RATE RISK

During fiscal year 2008, the Chinese local currency has had no material effect on the value of the US dollar as Chinese local currency is pegged to the US dollar.

INCREASED RAW MATERIAL/PRODUCTION PRICING

The fluctuations in the price of oil has and will continue to affect the Company in connection the sourcing and utilizing petroleum based raw materials and services. The cost of trans-oceanic shipping, plastic and the like are driving up the price our suppliers charge us for finished goods. Also, there have been a series of labor related regulations instituted in China which impact wages and thus the cost of production which may result in our suppliers demanding higher prices for our finished goods. This issue is common to all companies in the same type of business and if the Company is not able to negotiate lower costs, or reduce other expenses, or pass on some or all of these price increases to our customers, our profit margin may be decreased.

RISKS ASSOCIATED WITH OUR CAPITAL STRUCTURE

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

From December 1, 2004 through September 30, 2008, our common stock has traded between a high of \$1.60 and a low of \$0.12. During this period, we had liquidity problems and incurred a net loss of \$1.9 million in fiscal 2006 and loss of \$3.6 million in fiscal 2005. Our stock price may continue to be volatile based on similar or other adverse developments in our business. In addition, the stock market periodically experiences significant adverse price and volume fluctuations which may be unrelated to the operating performance of particular companies.

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

During the past year, a number of investors have held a short position in our common stock. As of September 30, 2008, investors held a short position of approximately 25,900 shares of our common stock which represented 0.1% of our public float. The anticipated downward pressure on our stock price due to actual or anticipated sales of our stock by some institutions or individuals who engage in short sales of our common stock could cause our stock price to decline. Additionally, if our stock price declines, it may be more difficult for us to raise capital

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

On September 16, 2008, we received notice from The American Stock Exchange (the "Amex") that we had fallen below the continued listing standards of the Amex and

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that its listing is being continued pursuant to an extension. Specifically, for the quarter ended June 30, 2008, we were not in compliance with Section 1003(a)(ii) of the Amex Company Guide with shareholders' equity of less than \$4,000,000 and net losses in three of its four most recent fiscal years. The Company was required to respond to Amex by October 23, 2008 has submitted the plan indicating how the Company intends to meet the net equity requirement of \$4,000,000. The Amex will need up to 45 days to review the plan and make the final decision. The Listings Qualifications Department at Amex will evaluate the plan, including any supplemental information provided, and make a determination as to whether the Company has made a reasonable demonstration in the Plan of an ability to regain compliance. If the plan is accepted, the Company may be able to continue its listing during the plan period, during which time it will be subject to periodic review to determine whether it is making progress consistent with the Revised Plan. The Company may be subject to delisting proceedings if the plan is not accepted, or if the plan is accepted but the Company is not in compliance with all of the Exchange's continued listing standards within the time frame provided or does not make progress consistent with the plan during the plan period.

22

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

As of September 30, 2008, there were outstanding stock options to purchase an aggregate of 713,215 shares of common stock at exercise prices ranging from \$0.32 to \$9.00 per share, not all of which are immediately exercisable. The weighted average exercise price of the outstanding stock options is approximately \$.84 per share. As of September 30, 2007, there were outstanding and immediately exercisable options to purchase an aggregate of 1,184,155. There were outstanding stock warrants to purchase 2,500,000 shares of common stock at exercise prices ranging from \$.28 to \$.35 per share, all of which are exercisable. The weighted average exercise price of the outstanding stock warrants is approximately \$0.315 per share.

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

As of November 5, 2008 there were 32,698,876 shares of our common stock outstanding. We have filed three registration statements registering an aggregate 3,827,586 of shares of our common stock (a post effective amended registration statement on Form S-8 to register 33,336 shares issued to our Board of Directors pursuant to their Compensation Plan, a registration statement on Form S-8 to register the sale of 1,844,250 shares underlying options granted under our 1994 Stock Option Plan, and a registration statement on Form S-8 to register 1,950,000 shares of our common stock underlying options granted under our Year 2001 Stock Option Plan). An additional registration statement on Form S-1 was filed in October 2003, registering an aggregate of 2,795,465 shares of our common stock. The market price of our common stock could drop due to the sale of large number of shares of our common stock, such as the shares sold pursuant to the registration statements or under Rule 144, or the perception that these sales could occur.

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

Our Certificate of Incorporation authorizes the issuance of 100,000,000 shares of common stock as amended in January 2006. As of September 30, 2008 we had 32,698,876 shares of common stock issued and outstanding and an aggregate of 3,213,215 shares issuable under our outstanding options and warrants. As such, our Board of Directors has the power, without stockholder approval, to issue up to 64,087,909 shares of common stock.

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

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

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

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

Our internal controls over financial reporting have weaknesses and conditions that need to be addressed, the disclosure of which may have an adverse impact on the price of our common stock. We are required to establish and maintain appropriate internal controls over financial reporting. Failure to establish those controls, or any failure of those controls once established, could adversely impact our public disclosures regarding our business, financial condition or results of operations. In addition, our management's assessment of internal controls over financial reporting has identified weaknesses and conditions that need to be addressed in our internal controls over financial reporting or other matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in our internal controls over financial reporting, disclosure of our management's assessment of our internal controls over financial reporting or disclosure of our public accounting firm's attestation to or report on management's assessment of our internal controls over financial reporting may have an adverse impact on the price of our common stock.

23

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

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

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

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

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

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

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

We are not currently in default upon any of our senior securities.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

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

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

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

* Filed herewith

SIGNATURES

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

THE SINGING MACHINE COMPANY, INC.

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Date: November 14, 2008

By: /s/ Anton H. Handal

Anton H. Handal
Chief Executive Officer

/s/ Carol Lau

Carol Lau
Interim Chief Financial Officer