

SINGING MACHINE CO INC
Form 10-K
June 29, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
Form 10-K

(Mark one)

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

For the fiscal year ended March 31, 2011

OR

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

For the transition period from _____ to _____

Commission file number 000-24968

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

(Address of principal executive offices)

(954) 596-1000

(Registrant's telephone number, including area code)

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

(Name of each exchange on which registered)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 29.405

of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes " No "

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

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

Large accelerated filer " Accelerated filer " Non-accelerated filer " Smaller reporting company
p

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

As of September 30, 2010, the aggregate market value of the issued and outstanding common stock held by non-affiliates of the registrant, based upon the closing price of the common stock as quoted on the Over the Counter Bulletin Board of \$0.05 was approximately \$681,225 (based on 13,624,494 shares outstanding to non-affiliates). For purposes of the above statement only, all directors, executive officers and 10% shareholders are assumed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

Number of shares of common stock outstanding as of June 20, 2011 was 37,835,793.

DOCUMENTS INCORPORATED BY REFERENCE – None

THE SINGING MACHINE COMPANY, INC. AND SUBSIDIARIES

INDEX TO ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED MARCH 31, 2011

		PAGE
PART I		
Item 1.	Business	3
Item 1A.	Risk Factors	9
Item 1B.	Unresolved Staff Comments	14
Item 2.	Properties	14
Item 3.	Legal Proceedings	14
Item 4.	[Removed and Reserved]	15
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	15
Item 6.	Selected Financial Data	16
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	22
Item 8.	Financial Statements and Supplementary Data	23
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	23
Item 9A(T).	Controls and Procedures	23
Item 9B.	Other Information	23
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	24
Item 11.	Executive Compensation	26
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	29
Item 13.	Certain Relationships and Related Transactions and Director Independence	31
Item 14.	Principal Accounting Fees and Services	32
PART IV		
Item 15.	Exhibits, Financial Statement Schedules	32
	Signatures	35

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (the “Annual Report”) contains “forward-looking statements” that represent our beliefs, projections and predictions about future events within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are “forward-looking statements”, including any projections of earnings, revenue or other financial items, any statements of the plans, strategies and objectives of management for future operations, any statements concerning proposed new projects or other developments, any statements regarding future economic conditions or performance, any statements of management’s beliefs, goals, strategies, intentions and objectives, and any statements of assumptions underlying any of the foregoing. Words such as “may”, “will”, “should”, “could”, “would”, “predicts”, “continue”, “expects”, “anticipates”, “future”, “intends”, “plans”, “believes”, “estimates” and similar expressions, as in the future tense, identify forward-looking statements.

These statements are necessarily subjective and involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from any future results, performance or achievements described in or implied by such statements. Actual results may differ materially from expected results described in our forward-looking statements, including with respect to correct measurement and identification of factors affecting our business or the extent of their likely impact, the accuracy and completeness of the publicly available information with respect to the factors upon which our business strategy is based or the success of our business. Furthermore, industry forecasts are likely to be inaccurate, especially over long periods of time and in relatively new and rapidly developing industries such as oil and gas. Factors that may cause actual results, our performance or achievements, or industry results, to differ materially from those contemplated by such forward-looking statements include without limitation:

- our ability to attract and retain management;
 - our growth strategies;
 - anticipated trends in our business;
 - our future results of operations;
- our ability to make or integrate acquisitions;
- our liquidity and ability to finance our acquisition and development activities;
 - the timing, cost and procedure for proposed acquisitions;
 - the impact of government regulation;
 - planned capital expenditures (including the amount and nature thereof);
- our financial position, business strategy and other plans and objectives for future operations;
 - competition;
 - the ability of our management team to execute its plans to meet our goals;
- general economic conditions, whether internationally, nationally or in the regional and local market areas in which we are doing business, that may be less favorable than expected; and
- other economic, competitive, governmental, legislative, regulatory, geopolitical and technological factors that may negatively impact our businesses, operations and pricing.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of whether, or the times by which, our performance or results may be achieved. Forward-looking statements are based on information available at the time those statements are made and management’s belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to, those factors discussed under the headings “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Business” and elsewhere in this Annual Report.

PART I

ITEM 1. BUSINESS

OVERVIEW

The Singing Machine Company, Inc., doing business as SMC Global, (“Company,” “Singing Machine,” “we,” “us,” or, “our”) engaged in the development, production, marketing and distribution of consumer karaoke audio equipment, accessories, music, musical instruments, and licensed youth electronic products. We contract for the manufacturing of all our electronic equipment products with factories located in China. We have also collaborated with a music download service provider for an expanded library of musical selections. This collaboration provides the Company with not only an expanded library of music for sale and distribution; it opens up the Company’s music sales to customers who purchase our competitors’ karaoke machines as well. Further, the capabilities of the Company’s new download music distribution system includes the ability to stream selections from this expanded content library, creating the opportunity to open new revenue sources through the sale of subscriptions. The Company is also in the process of expanding its web presence by creating a hosted cyber-community where customers can upload their individual karaoke performances to share.

We were incorporated in California in 1982. We originally sold our products exclusively to professional and semi-professional singers. In 1988, we began marketing karaoke equipment for home use. We believe we are the first company to introduce the home karaoke products to the United States (“U.S.”). In May 1994, we merged into a wholly-owned subsidiary incorporated in Delaware with the same name. As a result of that merger the Delaware corporation became the successor to the business and operations of the California corporation and retained the name The Singing Machine Company, Inc. (“SMC”). In December 2005, we formed a wholly-owned subsidiary SMC (Comercial Offshore De Macau) Limitada in Macau, China (“SMC Macau” or “Macau subsidiary”), to provide sales, financing, shipping, engineering and sourcing support for Singing Machine and Subsidiaries. Our Macau subsidiary has been approved to operate its business in Macau as Macau Offshore Company (MOC) and is exempt for the Macau corporate income tax. In February 2008, we formed a wholly-owned subsidiary SMC Logistics, Inc. (“SMC-L”), a California corporation, to manage the U.S. domestic logistics and fulfillment warehouse servicing for the Company and in April 2008 a wholly-owned subsidiary, SMC Music, Inc. (“SMC-M”) to contract with third party music providers.

In November 1994, we closed an initial public offering of 2,070,000 shares of our common stock and 2,070,000 warrants. In April 1997, we filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code. On March 17, 1998, our plan of reorganization was approved by the U.S. Bankruptcy Court. On June 10, 1998, our plan of reorganization had been fully implemented and we emerged from the reorganization proceeding. Since then, we have developed the karaoke products featuring on-screen lyric, built-in camera and digital key control functions.

We had been listed on the NYSE Amex Equities (“AMEX”) (formerly known as the American Stock Exchange) since March 8, 2001, however on June 22, 2009 we received notice from AMEX that it had determined that our common stock would be delisted and no longer traded on the exchange. Our board of directors decided that it would not in the best interest of the Company and its shareholders to expend the financial resources necessary to appeal the decision and continue to be listed on AMEX. The Company believes that AMEX’s insistence that the Company perform a reverse stock split was subjective and did not consider the current economic turmoil in the global markets. Management also believes performing a reverse stock split would have significantly harmed the Company and diminished shareholder’s value. The Company elected not to appeal the decision and gained admission to the Over the Counter Bulletin Board (“OTCBB”) for the following reasons:

- (a) Due to being listed on AMEX, the Company had incurred substantial annual listing fees, additional listing application fees, and professional service fees which can approach six figures each year;
- (b) The OTCBB requires no annual listing fees or additional listing application fees;
- (c) Management believes that performing a reverse stock split as requested by AMEX was not in the best interest of the Company or its shareholders; and
- (d) Management believes it will have closer, more personal contact with its market makers and shareholders on the OTCBB.

On July 6, 2009, the Company’s stock was suspended from trading on AMEX. The Company immediately applied for admission to the Over the Counter Bulletin Board (“OTCBB”) and subsequently began trading on the OTCBB on July 7, 2009 under the symbol “SMDM.OB”.

Our principal executive offices are located in Coconut Creek, Florida.

We raised approximately \$6 million in equity investments from investors in Hong Kong from February 2006 to June 2007. The investors include two major suppliers: koncepts International Limited (part of the Starlight International Holdings Ltd Group) and Arts Electronics Co., Ltd. We believe the investments from these major suppliers underscore their support to the Company.

koncepts International Limited (“koncepts”) is a major stockholder of the Company, owning approximately 52% of our shares of common stock outstanding on a fully diluted basis as of June 20, 2011. koncepts is an indirect wholly-owned subsidiary of Starlight International Holdings Limited (“Starlight International”), a company whose principal activities include designing, manufacturing and selling electronic products through its various subsidiaries. Starlight International’s products include television sets, consumer karaoke audio equipment and DVD products. We do business with a number of entities that are indirectly wholly-owned or majority owned subsidiaries of Starlight International, including Starlight Marketing Limited, Cosmo Communications Corporation, Starlite Consumer Electronics (USA), Inc., and Starlight Marketing Macao Commercial Offshore Limited, among others (Starlight International and its subsidiaries collectively referred to herein as the “Starlight Group”).

GROWTH STRATEGY

The overall objective of the Singing Machine is to create an efficient platform for the development, manufacture, and marketing of home entertainment based consumer electronics. The Company will also seek new revenue opportunities through web-based content delivery and the creation of a community based entertainment platform. We also intend to leverage our position as an affiliate of the Starlight Group to capitalize on synergies which exist therein and to exercise our knowledge of the electronics business to grow revenue. The Company intends to leverage our valuable customer base and strong relationships with our factories to achieve our organic and external growth initiatives.

Organic Growth Strategy

We intend to pursue various initiatives to execute our organic growth strategy which is designed to enhance our market presence, expand our customer base and be an industry leader in new product development. Key elements of our organic growth strategy include:

Business Focus and Public Perceptions. Historically karaoke has been our core business. The Singing Machine brand is widely recognized as a leader in karaoke and consequently we hold a dominant market share in the business. While consistently a market leader, the Company has determined that it needs to diversify and expand its core focus in order to grow its business. The Company has therefore refocused its self-perception and is determined to build on its success by defining ourselves as a provider of quality in home entertainment – not just home karaoke. Critical to this strategy is a move to add value to our core business of karaoke machine sales. We believe that by bundling our karaoke machine products with content such as Compact Disc, Electronic Download, Streaming Media, Community Performance Hosting, and by creating quality, wholesome, home entertainment for the entire family we will not only sell more products, we will find new sources of revenue. Using our existing key relationships with our customers and factories, and by adding new relationships with key content providers, we believe we can achieve more top-line growth by utilizing these relationships to design and distribute a more diversified line of consumer electronics. This should allow our Company to reduce our dependency on a single karaoke product and minimize our exposure to the volatility of the karaoke market in general.

Develop new features for karaoke equipment. Hardware and software technology advancement in the karaoke market has been stagnant since early 2000. We believe that in order to revitalize the karaoke market, we need to incorporate new features and technologies that take advantage of our online karaoke music download store. We are currently developing new karaoke products which will host a number of unique features which we believe will diversify us from the rest of the industry. We are currently developing a new feature set for our karaoke machines that will introduce first-to-market karaoke machines that can read and play digital karaoke files in MP3+G format that interface easily with our download store. We are also introducing a new concept to the traditional microphone which will empower the singer to control all karaoke features at their fingertips. Through a partnership with Montreal based, boutique design firm, Pearl Studios, we are also working on future projects which involve new, proprietary display technologies and features which should expand the horizon of home karaoke. We have been working with Pearl Studios and other technology partners with strong research and development skills to bring these new concepts and devices to life. We believe the development of new products will not only reinforce our leadership position in the karaoke market, but will lead to increased sales and other opportunities which will remake the Company into a purveyor of quality in-home entertainment instead of simply being a supplier of single sale electronic devices.

Focus on international growth. We believe that we have the most karaoke product offerings than any of our competitors in the karaoke market. We will aggressively pursue international business outside of North America to capture a vastly untapped market for home karaoke. Through economies of scale and financed on a direct import basis, we believe this is one of the major areas in which we can substantially increase our revenues.

Develop karaoke hardware that interfaces with our Music Download Store. Downloading music is one of the fastest growing areas in the music industry. We believe that the future of karaoke music distribution is through legal mediums of internet download sites (e.g. iTunes, iPhone, Amazon, etc). Since karaoke music only accounts for a small percentage of total music business, retailers usually only offer a limited selection of karaoke products. Thus, it is difficult for the customers to find karaoke music in retail outlets, especially for the songs they enjoy. In addition to maintaining a physical CD distribution business, we launched a music download project two years ago to capitalize on this new distribution model. The benefits to the Company are multifaceted including the opportunity to: offer downloadable music which means less physical inventory for the Company and our retail customers to carry; reduce financial return risk since a downloaded piece of karaoke music is not returnable; make available increased marketing opportunities by offering downloads for those who sign up and provide their contact information enabling the Company to create future marketing and advertising campaigns; create an opportunity to sell our karaoke music to not only our customers but also to owners of our competitors' machines (new and old); create cross-promotions with our retail-customers by giving away music downloads to purchasers of karaoke machines as an incentive to sell more machines.

Exploit Synergies from Within the Starlight Group. We are always looking to increase profitability or revenue through synergy recognition. The Company has recognized an opportunity to offer our existing warehouse and logistics services to the Starlight Group for a fee. The fee arrangement was negotiated at arm's length and represents a significant expense reimbursement opportunity for the Company. Not only does the Starlight Group get a partner for its domestic U.S. warehousing and logistics, we get service fees which defray the cost of our own historical warehouse expense. We are currently exploring other synergies including customer representative relationships, customer service functions and accounting services. These opportunities may lead to new top line revenue growth and enhanced profitability.

External Growth Strategy

While our historical growth has been solely organic, we intend to pursue a growth strategy which contemplates a balanced combination of organic growth and external growth. Our external growth strategy will be characterized by potential strategic acquisition of synergistic electronic or technology companies. Accordingly, we intend to leverage the skill sets of our management team and board of directors to actively evaluate potential target companies and consummate merger and acquisition transactions as an important component of our business model.

Acquisition Environment. Most of the major retailers in the United States prefer to buy the products from the factories directly. This has changed the traditional distribution model by eliminating the importers and brokers. In addition, the cost of products has seen a dramatic increase due to spiraling prices of petroleum based products, increasing labor costs in key manufacturing regions such as China, and the currency arbitrage risks with the decline in the value of the U.S. dollar. In light of these developments, product costs have spiked while retail prices have been cut dramatically. We believe that the small to medium size companies who primarily depended on a constant significant profit margin will not be able to compete in this business environment. At the same time, capital funding is limited in the electronics market. Public and private equity are generally difficult to access, especially for those companies with inadequate management resources, unproven management and a lack of market leadership. As a member of the Starlight Group, we have access to product development and engineering resources that our competitors do not have. We also have access to financing for operations and product purchases at rates which are not otherwise available to our competitors however, for fiscal year 2012 we anticipate access to capital funding will be limited.

Opportunity for the Company. Based on preliminary discussions with potential targets, we believe that an acquisition will be attractive to the potential targets because of the following:

- The existence of a diversified management team and the seasoned board of directors, who have significant experience operating businesses in the United States and working with factories in China;
- What we believe to be an efficient business model, which is characterized by a rapid product development cycle, low operational costs and high inventory turn over;
- The existence of strong relationships with key factories in China. One of our major stockholders is major factory in China which provides us with lower production costs and vendor financing; and
 - A visible exit strategy that offers cash or publicly traded securities.

Acquisition Parameters. We intend to acquire companies which themselves have a potential for significant growth or which can add technology to our Company so that we can grow. These companies are limited by their resources and management's abilities. We will focus on companies that have exhibited historical profitability or those that can combine with our Company to become profitable. We look for companies with strong brand name recognition that may bring additional revenues to our Company.

PRODUCT LINES

We currently have three different product lines which consists in total of over 50 different models. The product lines consist of the following:

- Karaoke Machines that incorporate such features as CD plus graphics player, sound enhancement, echo, tape record/playback features, and multiple inputs and outputs for connection to compact disc players, built-in camera, video cassette recorders, and home theater systems. Our machines sell at retail prices ranging from \$30 for basic units to \$200 for semi-professional units.
- Musical Instruments which we sell under the "Sound X"™ and "Sound X Kids"™ brand. These include semi-professional digital drum sets and keyboards along with youth musical instruments targeted for children to "tween" age demographics. The retail price range is from \$19 to \$299.
- Youth Electronics that are audio consumer electronics products targeted to youth and children age demographics. These include boom boxes, mp3 players, portable CD players, and iPod™ docking stations. The retail price range is from \$19 to \$59.

MARKETING, SALES

Our karaoke machines and music are sold nationally and internationally to a broad spectrum of customers, primarily through mass merchandisers, department stores, direct mail catalogs and showrooms, music and record stores, national chains, specialty stores and warehouse clubs. Our product lines are currently sold in the following stores, among others: Costco, J.C. Penney, Toys R' Us, Kohl's, Wal-Mart.com and Best Buy. Our sales strategy includes offering domestic sales as well as direct import sales made direct to the customer.

Domestic Sales. Our strategy of selling products from a domestic warehouse enables us to provide timely delivery and serve as a domestic supplier of imported goods. We purchase karaoke machines overseas from certain factories in China for our own account, and warehouse the products in leased facilities California. We are responsible for costs of shipping, insurance, customs clearance, duties, storage and distribution related to such products and, therefore, domestic sales command higher sales prices than direct sales. We generally sell from our own inventory in less than container-sized lots.

Direct Sales. We ship some hardware products sold by us directly to customers from China through SMC Macau. Sales made through our subsidiary are completed by either delivering products to the customers' common carriers at the shipping point or by shipping the products to the customers' distribution centers, warehouses, or stores. Direct sales are made in larger quantities (generally container sized lots) to customers' world wide, which pay SMC Macau pursuant to their own international, irrevocable, transferable letters of credit or on open account.

In fiscal 2011, approximately 26% of sales revenues were from direct sales and 74% of revenues were domestic sales. Our sales within the U.S. are primarily made by our in-house sales team and our independent sales representatives. Our independent sales representatives are paid a commission based upon sales made in their respective territories. We utilize some of our outside independent sales representatives to help us provide service to our mass merchandisers and other retailers. The sales representative agreements are generally one (1) year agreements, which automatically renew on an annual basis, unless terminated by either party on 30 days' notice. Our international sales are primarily made by our in-house sales representatives and our independent distributors.

As a percentage of total revenues, our net sales in the aggregate to our five largest customers during the fiscal years ended March 31, 2011, 2010, and 2009, were approximately 74%, 74%, and 61%, respectively. In fiscal 2011, the top three major customers accounted for 29%, 25% and 9% of our net revenues. Although we have long-established relationships with all of our customers, we do not have quantity contractual arrangements with any of them. A decrease in business or a loss of any of our major customers could have a material adverse effect on our results of operations and financial condition.

We also market our products at various national and international trade shows each year. We regularly attend the following trade shows and conventions: the Consumer Electronics Show which takes place each January in Las Vegas; the American Toy Fair which occurs each February in New York and the Hong Kong Electronics Show stages each October in Hong Kong.

We believe the Singing Machine brand is one of the most widely recognized karaoke brands in the United States and Europe. While we continue to heavily focus on our core karaoke business, we are expanding our business into other product categories. Our strong product procurement team in Hong Kong and China combined with our experienced sales and service team in North America enables us to compete not only in the karaoke market but also in other markets, such as musical instruments, licensed toy products and other consumer electronics products.

RETURNS

Returns of electronic hardware and music products by our customers generally occur after approval involving quality defects, damaged goods or goods shipped in error. Our policy is to give credit to our customers for the returns in conjunction with the receipt of new replacement purchase orders. Our total returns represented 8.4%, 12.3%, and 9.4% of our net sales in fiscal 2011, 2010, and 2009, respectively.

DISTRIBUTION

We distribute hardware products to retailers and wholesale distributors through two methods: shipment of products from inventory held at our warehouse facilities in California (domestic sales), shipments directly through our Macau subsidiary, and manufacturers in China of products (direct sales). Domestic sales, which account for substantially all of our music sales, are made to customers located throughout North America from consignment inventories maintained at our distributor warehouse facilities. In the fiscal year ended March 31, 2011, approximately 74% of our sales were sales from our domestic warehouses ("Domestic Sales") and 26% were sales shipped directly from China ("Direct Sales").

MANUFACTURING AND PRODUCTION

Our karaoke machines are manufactured and assembled by third parties pursuant to design specifications provided by us. Currently, we have ongoing relationships with five factories, located in Guangdong Province of the People's Republic of China, which assemble our karaoke machines. During fiscal 2012, we anticipate that 99% of our karaoke products will be produced by these factories, who have verbally agreed to extend financing to us. We believe that the manufacturing capacity of our factories is adequate to meet the demands for our products in fiscal year 2012. However, if our primary factory in China was prevented from manufacturing and delivering our karaoke products, our operation would be severely disrupted until alternative sources of supply are located (See "Risk Factors - We are relying on one factory to manufacture and produce the majority of our karaoke machines for fiscal 2012" on page 9). In manufacturing our karaoke related products, these factories use molds and certain other tooling, most of which are owned by us. Our products contain electronic components manufactured by other companies such as Panasonic, Sanyo, Toshiba, and Sony. Our manufacturers purchase and install these electronic components in our karaoke machines and related products. The finished products are packaged and labeled under our trademark, The Singing Machine(R) and private labels.

While our equipment manufacturers purchase our supplies from a small number of large suppliers, all of the electronic components and raw materials used by us are available from several sources of supply. We depend on limited suppliers for some key components and the loss of any single supplier may have a material long-term adverse effect on our business, operations, or financial condition. To ensure that our high standards of product quality are met and that factories consistently meet our shipping schedules, we utilize Hong Kong and China based employees as our

representatives. These employees include product inspectors who are knowledgeable about product specifications and work closely with the factories to verify that such specifications are met. Additionally, key personnel frequently visit our factories for quality assurance and to support good working relationships.

All of the electronic equipment sold by us is warranted to the end user against manufacturing defects for a period of ninety (90) days for labor and parts. All music sold is similarly warranted for a period of 30 days. During the fiscal years ended March 31, 2011, 2010, and 2009, warranty claims have not been material to our results of operations.

COMPETITION

Our business is highly competitive. Our major competitors for karaoke machines and related products are GPX, Vaughn, Emerson and other consumer electronics companies. We believe that competition for karaoke machines is based primarily on price, product features, reputation, delivery times, and customer support. We believe that our brand name is well recognized in the industry and helps us compete in the karaoke machine category. Our primary competitors for producing karaoke music are Pocket Songs, UAV, Sybersound and Sound Choice. We believe that competition for karaoke music is based primarily on popularity of song titles, price, reputation, and delivery times. As far as the musical instrument market, our key competitors include Yamaha, ION, and others.

In addition, we compete with all other existing forms of entertainment including, but not limited to, motion pictures, video arcade games, home video games, theme parks, nightclubs, television and prerecorded tapes, CD's, and videocassettes. Our financial position depends, among other things, on our ability to keep pace with changes and developments in the entertainment industry and to respond to the requirements of our customers. Many of our competitors have significantly greater financial, marketing, and operating resources and broader product lines than we do.

TRADEMARKS AND PATENTS

We have obtained registered trademarks for The Singing Machine name and the logo in the U.S. and in the European Union. We have also filed trademark applications in Australia and Hong Kong. We also filed various trademarks for our products. In 2003 we also obtained two U.S. design patents for karaoke machines, patent numbers US D505,960 S and US D524,325 S which expire in 2017.

Our trademarks are a significant asset because they provide product recognition. We believe that our intellectual property is significantly protected, but there are no assurances that these rights can be successfully asserted in the future or will not be invalidated, circumvented or challenged.

COPYRIGHTS AND LICENSES

We hold federal and international copyrights to substantially all of the music productions comprising our song library. However, since each of those productions is a re-recording of an original work by others, we are subject to contractual and/or statutory licensing agreements with the publishers who own or control the copyrights of the underlying musical compositions. We are obligated to pay royalties to the holders of such copyrights for the original music and lyrics of all of the songs in our library that have not passed into the public domain. We are currently a party to many different written copyright license agreements.

The majority of the songs in our song library are subject to written copyright license agreements, often times referred to as synchronization licenses. Our written licensing agreements for music provide for royalties to be paid on each song. The actual rate of royalty is negotiable, but typically ranges from \$0.09 to \$0.15 per song on each CD that is sold. Similarly, the terms of the licenses vary, but typically range from 2 to 5 years. Our written licenses typically provide for quarterly royalty payments, although some publishers require reporting on a semi-annual basis.

GOVERNMENT REGULATION

Our karaoke machines must meet the safety standards imposed in various national, state, local, and provincial jurisdictions. Our karaoke machines sold in the U.S. are designed, manufactured and tested to meet the safety standards of Underwriters Laboratories, Inc. ("ULE") or Electronic Testing Laboratories ("ETL"). In Europe and other foreign countries, our products are manufactured to meet the Consumer Electronics ("CE") marking requirements. CE marking is a mandatory European product marking and certification system for certain designated products. When affixed to a product and product packaging, CE marking indicates that a particular product complies with all applicable European product safety, health and environmental requirements within the CE marking system. Products complying with CE marking are now accepted to be safe in 28 European countries. However, ULE or ETL certification does not mean that a product complies with the product safety, health and environmental regulations contained in all fifty states in the United States. Therefore, we maintain a quality control program designed to ensure compliance with all applicable U.S. and federal laws pertaining to the sale of our products. Our production and sale of music products is subject to federal copyright laws.

The manufacturing operations of our foreign suppliers in China are subject to foreign regulation. China has permanent "normal trade relations" ("NTR") status under U.S. tariff laws, which provides a favorable category of U.S. import duties. China's NTR status became permanent on January 1, 2002. This substantially reduces the possibility of China losing its NTR status, which would result in increasing costs for us.

SEASONALITY AND SEASONAL FINANCING

Our business is highly seasonal, with consumers making a large percentage of karaoke purchases around the traditional holiday season in our second and third quarter ending September 30 and December 31. These seasonal purchasing patterns and requisite production lead times cause risk to our business associated with the underproduction or overproduction of products that do not match consumer demand. Retailers also attempt to manage their inventories more tightly, requiring that we ship products closer to the time that retailers expect to sell the products to consumers. These factors increase the risk that we may not be able to meet demand for certain products at peak demand times, or that our own inventory levels may be adversely affected by the need to pre-build products before orders are placed. As of March 31, 2011, we had inventory of \$3.0 million (net of reserves totaling \$451,001) compared to inventory of \$2.8 million as of March 31, 2010 (net of reserves totaling \$349,069).

Our financing of seasonal working capital during fiscal 2011 was from vendor related-party financing and financing from our affiliate, Starlight International. We anticipate Starlight International, will continue to provide financing to the Company through March 31, 2012.

During Fiscal 2012, we plan on financing our inventory purchases by using credit lines that have been extended to us by the factories in China and financing provided by our affiliate, Starlight International.

EMPLOYEES

As of May 15, 2011 we employed 25 people, of whom 23 are full-time employees. Two of our employees are located at SMC Macau's offices and the remaining employees are based in the U.S. Our employees include one executive officer, 15 engaged in warehousing and administrative logistics/technical support and 10 in accounting, marketing, sales and administrative functions.

ITEM 1A. RISK FACTORS

Set forth below and elsewhere in this Annual Report on Form 10-K and in the other documents we file with the SEC are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward looking statements contained in this Annual Report.

RISKS ASSOCIATED WITH OUR BUSINESS

WE NO LONGER HAVE A FACTORING FACILITY TO FINANCE OUR ACCOUNTS RECEIVABLE. THE COMPANY MUST RELY ON THE STARLIGHT GROUP FOR BRIDGE LOANS TO FUND OPERATIONS. THE LOSS OF SUPPORT FROM THE STARLIGHT GROUP MAY IMPACT OUR ABILITY TO FULFILL CUSTOMER ORDERS AND NEGATIVELY AFFECT OUR REVENUES AND CASH FLOW.

On June 8, 2010, we were notified by DBS Bank (Hong Kong) Limited (“DBS”) that our credit facilities, including our factoring facility and our accounts payable credit facility had been terminated. Until a replacement credit facility is found, we must rely on the Starlight Group for bridge loans to fund operations. The loss of support from the Starlight Group may impact our ability to fulfill customer orders and consequently may hinder daily operations.

WE HAVE ENTERED INTO AN AGREEMENT WITH OUR AFFILIATES, STARLITE CONSUMER ELECTRONICS (USA), INC. , COSMO COMMUNICATIONS CORPORATION, AND STARLIGHT ELECTRONICS USA, INC. 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 August 1, 2010 we entered into a services agreement to receive orders, warehouse, and ship all of the Starlight Group’s U.S. domestic goods. The value of this contract is approximately \$1.0 million per year. If we are unable to perform the duties under this contract or successfully renew it for fiscal year 2012, it could negatively impact our revenue and cash flow.

THE MUSIC INDUSTRY HAS BEEN EXPERIENCING CONTINUING 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 year 2004 and may continue to decline in the future. Music revenue accounts for less than 1% of our total revenues.

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

We rely on a few large customers to provide a substantial portion of our revenues. As a percentage of total revenues, our net sales to our five largest customers during the years ended March 31, 2011 and 2010 were approximately 74% and 74%, 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 OUR AFFILIATE COMPANIES WHICH ARE A PART OF THE STARLIGHT GROUP TO MANUFACTURE AND PRODUCE A SUBSTANTIAL PORTION OF OUR KARAOKE MACHINES FOR FISCAL 2012, 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 an agreement with our main supplier in China to produce most of our karaoke machines for fiscal 2012. If the factory is 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 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 2011 and 2010, a number of our customers and distributors returned karaoke products that they had purchased from us. Our customers returned goods valued at \$1.6 million or 7.6% of our gross sales in fiscal 2011 and \$2.6 million or 11.1% of our gross sales in fiscal 2010. The majority of the units returned are due to product defects. Our factories charge customary repair and freight costs which increase our expenses and reduce profitability. If any of our customers were to return karaoke products to us, it would reduce our revenues and profitability.

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

Because there is intense competition in the karaoke industry, we are subject to pricing pressure from our customers. Many of our customers have demanded that we lower our prices or they will buy our competitor's products. If we do not meet our customer's demands for lower prices, we will not sell as many karaoke products. In the fiscal year ended March 31, 2011, our sales to customers in Europe decreased because of increased price competition and deteriorating economic conditions. 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 \$661,494 during fiscal 2011 and \$801,599 during fiscal 2010. 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. In past years we have overestimated demand for our products which lead to excess inventory in some of our products and caused liquidity problems that adversely affected our revenues, net income and cash flow.

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 March 31, 2011 we had \$3.0 million in inventory on hand. It is important that we sell this inventory during fiscal 2012, so we have sufficient cash flow for operations.

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

Sales of consumer electronics and toy products in the retail channel are highly seasonal, with a majority of retail sales occurring during the period from September through December in anticipation of the holiday season, which includes Christmas. A substantial majority of our sales occur during the second quarter ending September 30 and the third quarter ending December 31. Sales in our second and third quarter, combined, accounted for approximately 79.8%, 89.0%, and 92.0% of net sales in fiscal 2011, 2010, and 2009, respectively.

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

Our major competitors for karaoke machines and related products are Memorex, Emerson 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 2011, 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 2012. In addition, we must compete with all the other existing forms of entertainment including, but not limited to: motion pictures, video arcade games, home video games, theme parks, nightclubs, television, prerecorded tapes, CD's, and video cassettes.

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

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

- accurately define and design new products to meet market demand;
- design features that continue to differentiate our products from those of our competitors;

- transition our products to new manufacturing process technologies;
- identify emerging technological trends in our target markets;
- anticipate changes in end-user preferences with respect to our customers' products;
- bring products to market on a timely basis at competitive prices; and
- respond effectively to technological changes or product announcements by others.

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

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

We rely principally on four contract ocean carriers to ship virtually all of the products that we import to our warehouse facility in 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 and our results of operations adversely affected.

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 four factories in the People's Republic of China to manufacture the majority of our karaoke machines. These factories will be producing nearly all of our karaoke products in fiscal 2012. Our arrangements with these factories are subject to the risks of doing business abroad, such as import duties, trade restrictions, work stoppages, and foreign currency fluctuations, limitations on the repatriation of earnings and political instability, which could have an adverse impact on our business. Furthermore, we have limited control over the manufacturing processes. As a result, any difficulties encountered by our third-party manufacturers that result in product defects, production delays, cost overruns or the inability to fulfill orders on a timely basis could adversely affect our revenues, profitability and cash flow. Also, since we do not have written agreements with any of these factories, we are subject to additional uncertainty if the factories do not deliver products to us on a timely basis.

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

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

that we use in our karaoke machines. If we are unable to anticipate any shortages of parts and materials in the future, we may experience severe production problems, which would impact our sales.

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

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

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

Over the past several years, the Singing Machine (like its competitors) has received notices from certain music publishers alleging that the full range of necessary rights in their copyrighted works has not been properly licensed in order to sell those works as part of products known as “compact discs with graphics” (“CDG”s). CDG’s are compact discs which contain the musical recordings of karaoke songs and graphics which contain the lyrics of the songs. Singing Machine has negotiated licenses with the complaining parties. 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 diligently pursues licenses.

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

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

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

We sell products to retailers, including department stores, lifestyle merchants, direct mail catalogs and showrooms, national chains, specialty stores, and warehouse clubs. Some of these retailers, such as K-Mart, FAO Schwarz and KB Toys, have engaged in leveraged buyouts or transactions in which they incurred a significant amount of debt, and operated under the protection of bankruptcy laws. As of June 20, 2011 we are not aware of any customers which are operating 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 CENTER IN CALIFORNIA 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 our warehouse located in City of Industry, California. 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.

CURRENT LEVELS OF SECURITIES AND FINANCIAL MARKET VOLATILITY ARE UNPRECEDENTED.

The capital and credit markets have been experiencing volatility and disruption for more than 12 months. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers. We believe these credit market disruptions have likely decreased our ability to access debt and equity financing. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

CURRENCY EXCHANGE RATE RISK

The majority of our products are currently manufactured in the People's Republic of China. During the fiscal year ended March 31, 2011, the Chinese local currency had no material effect on the Company as all of our purchases are denominated in U.S. currency. However, in the event our purchases are required to be made in Chinese local currency, the Yuan, we will be subject to the risks involved in foreign exchange rates. Although recently pegged to

the U.S. dollar, in the future the value of the Yuan may depend to a large extent on the Chinese government's policies and China's domestic and international economic and political developments. As a result, our production costs may increase if we are required to make purchases using the Yuan instead of the U.S. dollar and the value of the Yuan increases over time. Any significant increase in the cost of manufacturing our products would have a material adverse affect on our business and results of operations.

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, 2005 through March 31, 2011, our common stock has traded between a high of \$1.57 and a low of \$0.02. During this period, we incurred a net loss of \$.6 million in Fiscal 2011, a net loss of \$3.1 million in Fiscal 2010, a net loss of \$2.2 million in Fiscal 2009, 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 March 31, 2011, investors held a short position of approximately 27,000 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.

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

As of March 31, 2011, there were outstanding stock options to purchase an aggregate of 1,191,380 shares of common stock at exercise prices ranging from \$0.03 to \$9.00 per share, not all of which are immediately exercisable. The weighted average exercise price of the outstanding stock options is approximately \$0.31 per share. As of March 31, 2011, there were outstanding and immediately exercisable options to purchase an aggregate of 611,380 shares of common stock.

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

As of May 15, 2011 there were 37,835,793 shares of our common stock outstanding. We have filed two registration statements registering an aggregate 3,794,250 of shares of our common stock (a registration statement on Form S-8 to register the sale of 1,844,250 shares underlying options granted under our 1994 Stock Option Plan and a registration statement on Form S-8 to register 1,950,000 shares of our common stock underlying options granted under our Year 2001 Stock Option Plan). An additional registration statement on Form S-1 was filed in October 2003, registering an aggregate of 2,795,465 shares of our common stock. The market price of our common stock could drop due to the sale of large number of shares of our common stock, such as the shares sold pursuant to the registration statements or under Rule 144, or the perception that these sales could occur.

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

Our certificate of incorporation, as amended in January 2006, authorizes the issuance of 100,000,000 shares of common stock. As of July 1, 2011, we had 37,835,793 shares of common stock issued and outstanding and an aggregate of 1,191,380 shares issuable under our outstanding stock options. As such, our Board of Directors has the power, without stockholder approval, to issue up to 60,972,827 shares of common stock. Any issuance of additional shares of common stock, whether by us to new shareholders 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 shareholders.

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 shareholders to elect directors and take other corporate actions. These provisions of our certificate of incorporation include: authorizing our board of directors to issue additional preferred stock, limiting the persons who may call special meetings of shareholders, and establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by shareholders at shareholder 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. Any actual or perceived weaknesses and conditions that need to be addressed in our internal controls over financial reporting, disclosure of our management's assessment of our internal controls over financial reporting or disclosure of our public accounting firm's attestation to or report on management's assessment of the Company's internal controls over financial reporting may have an adverse impact on the price of our common stock.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Coconut Creek, Florida where we lease approximately 8,000 square feet office and warehouse facility. The lease expires on May 31, 2011. The annual rental expense is \$91,522. On May 31, 2011, the Company executed a three (3) month extension while it seeks to relocate its corporate headquarters.

We lease one warehouse facility in City of Industry, California. The City of Industry warehouse facility has 90,000 square feet (with an option to acquire an additional 90,000 square feet) and the lease expires on April 30, 2013. The annual rental expense is approximately \$673,000.

We have a 424 square foot office in Macau. The lease expires April 30, 2012. The annual rent expense is \$9,829.

We believe that the facilities are well maintained, in substantial compliance with environmental laws and regulations, and adequately covered by insurance. We also believe that these leased facilities are not unique and could be replaced, if necessary, at the end of the term of the existing leases.

ITEM 3. LEGAL PROCEEDINGS

MGA ENTERTAINMENT, INC. v. THE SINGING MACHINE COMPANY, INC. (CENTRAL DISTRICT COURT OF CALIFORNIA, CASE CV 10-03761 DOC (RNBX))

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

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

The Company has also filed a class-action lawsuit on behalf of itself and all similarly situated licensees against MGA in the Central District Court of California, case no. CV 10-4536-DOC(RNBX). The Company alleges breach of contract, failure of consideration for the licensing agreements, and other claims based on various state and federal laws. Due to the multiple lawsuits involved back and forth between the Company and MGA, at this time, the Company cannot provide a reasonable estimate of contingent liability.

Prior to the Company entering into the above License Agreements with MGA, Mattel, a competitor to MGA, filed a complaint against MGA on or about April, 2005 alleging ownership to the “Bratz” concept. The Mattel/MGA Litigation was tried in phases and, on July 17, 2008, a jury returned a verdict in favor of Mattel and against MGA concerning ownership of the Bratz concept. The Jury determined that MGA did not and never did own any right, title or interest in or to the “Bratz” identity including the brand, sculptures, likenesses, trademarks etc. The cases were retried in January and February 2011 and the jury found in favor of MGA in both matters. Notwithstanding the jury verdict, the case is still pending and Mattel is expected to appeal.

Based on advice from Counsel, the Company is of the opinion the Mattel/MGA Litigation will not materially affect the outcome of the MGA/Singing Machine Litigation. The Company’s class-action lawsuit is based on the belief that the above licensing agreements with MGA were entered into through an intentional or negligent concealment of a known material fact on the part of MGA – namely the pending lawsuit by Mattel challenging MGA’s ownership of the Bratz designs that were the very subject of the license agreements. The Company has not accrued any additional liability beyond the initial \$85,000 originally recorded for this vendor.

ITEM 4. [REMOVED AND RESERVED]

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock traded on the NYSE Amex Equities (“AMEX”) under the symbol "SMD" however the Company was de-listed from this exchange on July 6, 2009. The Company has traded on the Over the Counter Bulletin Board (“OTCBB”) under the symbol “SMDM.OB” since July, 7, 2009. Set forth below is the range of high and low sales prices for our common stock when traded on the AMEX, and the high and low bid prices for our common stock when traded on the OTCBB during Fiscal 2011 and Fiscal 2010.

FISCAL PERIOD	HIGH	LOW
Fiscal 2011:		
First quarter (April 1 - June 30, 2010)	\$ 0.05	\$ 0.03
Second quarter (July 1 - September 30, 2010)	0.06	0.03
Third quarter (October 1 - December 31, 2010)	0.09	0.04
Fourth quarter (January 1 - March 31, 2011)	0.06	0.04
Fiscal 2010:		
First quarter (April 1 - June 30, 2009)	\$ 0.14	\$ 0.07
Second quarter (July 1 - September 30, 2009)	0.08	0.03
Third quarter (October 1 - December 31, 2009)	0.19	0.03
Fourth quarter (January 1 - March 31, 2010)	0.05	0.03

As of May 15, 2011, based upon information received from our transfer agent, there were approximately 343 record holders of our outstanding common stock. This number does not include:

any beneficial owners of common stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries, or

•

broker-dealers or other participants who hold or clear shares directly or indirectly through the Depository Trust Company, or its nominee, Cede & Co.

DIVIDENDS

We have never declared or paid cash dividends on our common stock and our Board of Directors intends to continue its policy for the foreseeable future. Future dividend policy will depend upon our earnings, financial condition, contractual restrictions and other factors considered relevant by our Board of Directors and will be subject to limitations imposed under Delaware law.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes our equity compensation plan information as of March 31, 2011:

ISSUANCE UNDER EQUITY COMPENSATION PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE COMPENSATION PLANS EXCLUDING SECURITIES IN COLUMN (A))	
			OUTSTANDING	AND RIGHTS
Equity Compensation Plans approved by Security Holders	1,191,380	\$.31		326,105
Equity Compensation Plans Not approved by Security Holders	0	\$ 0		0

RECENT SALES OF UNREGISTERED SECURITIES

On August 31, 2010 the Company issued 249,999 shares of common stock to our Board of Directors at \$0.03 per share, pursuant to our annual director compensation plan.

All of the above issuances and sales were deemed to be exempt under Rule 506 of Regulation D and/or Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, business associates of the Singing Machine or executive officers of the Singing Machine, and transfer was restricted by the Singing Machine in accordance with the requirement of the Securities Act. In addition to representations by the above-reference persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report on Form 10-K. The statements of operations data for the years ended March 31, 2011, 2010, and 2009 and the balance sheet data at March 31, 2011 and 2010 are derived from our audited financial statements which are included elsewhere in this Form 10-K. The statement of operations data for the year ended March 31, 2008 and 2007 and the balance sheet data at March 31, 2009, 2008 and 2007 are derived from our audited financial statements which are not included in this Form 10-K. The historical results are not necessarily indicative of results to be expected for future periods.

	2011	2010	2009	2008	2007
Statement of Operations:					
Net Sales	\$19,165,979	\$21,277,370	\$31,780,709	\$34,067,871	\$26,732,144
Income (loss) before income taxes	\$(619,548)	\$(3,050,807)	\$(2,154,563)	\$1,712	\$(1,714,988)
Income tax benefit (expense)	\$-	\$-	\$(36,652)	\$-	\$2,453,576
Net income (loss)	\$(619,548)	\$(3,050,807)	\$(2,191,215)	\$1,712	\$738,588
Balance Sheet:					

Edgar Filing: SINGING MACHINE CO INC - Form 10-K

Working capital	\$(1,545,556)	\$(1,344,634)	\$1,535,498	\$3,300,422	\$2,394,796
Current ratio	76	% 78	% 127	% 204	% 187
Property, plant and equipment, net	\$333,851	\$736,966	\$886,770	\$598,280	\$446,510
Total assets	\$5,528,053	\$5,689,478	\$8,325,724	\$7,236,167	\$5,657,800
Shareholders' equity	\$(1,047,027)	\$(447,571)	\$2,578,897	\$4,068,064	\$2,897,359
Per Share Data:					
Income (loss) per common share – basic	\$(0.02)	\$(0.08)	\$(0.07)	\$0.000	\$0.04
Income (loss) per common share – diluted	\$(0.02)	\$(0.08)	\$(0.07)	\$0.000	\$0.03
Cash dividends paid	0	0	0	0	0

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

The following discussion should be read in conjunction with the Financial Statements and Notes filed herewith. Our fiscal year ends March 31. This document contains certain forward-looking statements regarding anticipated trends in our financial condition and results of operations and our business strategy. (See Part I, Item 1A, "Risk Factors "). These forward-looking statements are based largely on our current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Important factors to consider in evaluating such forward-looking statements include (i) changes in external factors or in our internal budgeting process which might impact trends in our results of operations; (ii) unanticipated working capital or other cash requirements; (iii) changes in our business strategy or an inability to execute our strategy due to unanticipated changes in the industries in which we operate; and (iv) various competitive market factors that may prevent us from competing successfully in the marketplace.

Statements included in this Annual Report that do not relate to present or historical conditions are called “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks and uncertainties and other factors that could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. Forward-looking statements may include, without limitation, statements relating to our plans, strategies, objectives, expectations and intentions. Words such as “believes,” “forecasts,” “intends,” “possible,” “estimates,” “anticipates,” “expects,” “plans,” “should,” “could,” “will,” and similar expressions are intended to identify forward-looking statements. Our ability to predict or project future results or the effect of events on our operating results is inherently uncertain. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, such performance or results will be achieved.

OVERVIEW

Our primary objectives for the fiscal year ended March 31, 2011 (“Fiscal 2011”) were to:

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

We believe that our efforts to meet our goals in Fiscal 2011 were adversely affected by continued decline in worldwide economic conditions. More specifically, we experienced continued increase in competitive pricing in the European market, lack of stability and confidence in the retail market, and substantial decrease in international sales. During Fiscal 2011, our revenue decreased 10% however our gross profit increased by 6% due to decreased product cost and price increases to domestic customers. Total operating expenses decreased by 30% due to management’s continued efforts to align expenses commensurate with reduced sales volume. Foreign sales decreased by 91% primarily due to significant pricing competition and lack of low cost entry point products preferred by European customers.

In June 2010, the Company was notified by DBS Bank that our credit and factoring facilities totaling \$13.0M were being withdrawn effective upon receipt of amounts due on both factoring and accounts payable financing facilities. The Company is actively pursuing replacement financing facilities. Our parent company, The Starlight Group, has committed to providing bridge financing until new facilities have been found.

In light of the loss of our financing facility, our parent company, the Starlight Group (“Group”), has expressed their willingness and ability to provide bridge financing and advance funds to us for key vendor payments as well as extending longer payment terms for goods they manufacture for us. We estimate our bridge financing requirements from the Group will be between \$.5 million and \$1.0 million for the fiscal year ending March 31, 2012. These funds are expected to be made available by the Group primarily through extended terms for trade payables with the Group. During the fiscal year ended March 31, 2011, our related party debt increased by approximately \$1.5 million. Taking into account internally generated funds and credit facilities available to the Group and proposed use of proceeds which include up to \$1.0M of bridge financing for the Company, we have concluded that our parent will have sufficient working capital to provide bridge financing to us for at least the next 12 months.

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

Edgar Filing: SINGING MACHINE CO INC - Form 10-K

	2011	2010	2009
Total Revenues	100.0 %	100.0 %	100.0 %
Cost of Sales	77.9 %	81.3 %	81.3 %
Operating Expenses	25.2 %	32.6 %	25.1 %
Operating (Loss) Income	-3.1 %	-13.9 %	-6.4 %
Other (Expenses), Income, net	-0.1 %	-0.4 %	-0.4 %
(Loss) Income before Taxes	-3.2 %	-14.3 %	-6.8 %
(Provision) Benefit for Income Taxes	0.0 %	0.0 %	-0.1 %
Net (Loss) Income	-3.2 %	-14.3 %	-6.9 %

17

FISCAL YEAR ENDED MARCH 31, 2011 COMPARED WITH FISCAL YEAR ENDED MARCH 31, 2010
NET SALES

Net sales for Fiscal 2011 were approximately \$19.2 million. This represents a decrease of approximately \$2.1 million as compared to approximately \$21.3 million in the fiscal year ended March 31, 2010 ("Fiscal 2010"). The decrease in net sales was primarily due to a \$2.3 million decrease in direct import sales to international customers. We believe this reduction is primarily due to increased competitive pricing to European customers and our lack of low cost entry point products preferred by European customers. We continue to develop additional features to our karaoke line to maintain and grow this core product.

GROSS PROFIT

Gross profit for Fiscal 2011 was approximately \$4.2 million or 22.1% of total revenues compared to approximately \$4.0 million or 18.7% of sales for Fiscal 2010 (an increase of \$.3 million). Despite the decrease in revenue we were able to improve gross profit due to a combination of price increases and cost reductions which contributed approximately \$0.6 million favorable gross profit during Fiscal 2011. This increase in gross profit was offset by the loss of international sales which contributed \$0.3 million in unfavorable gross profit.

Gross profit margin for the year ended March 31, 2011 compared to the same period ended March 31, 2010 increased by approximately 3.4% from 18.7% to 22.1%. The combination of price increases and cost reductions contributed to most of the gross profit percentage increase.

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

OPERATING EXPENSES

Management took an aggressive approach to cutting expenses in Fiscal 2011. Operating expenses, including depreciation and amortization decreased from approximately \$6.9 million to approximately \$4.8 million, a decrease of approximately \$2.1 million or 30.2% compared to the same period last year. Outbound freight charges decreased by approximately \$0.9 million as one of our major domestic customers accepted their goods via direct import and assumed all delivery freight charges. This selling expense reduction accounted for approximately 43% of the decrease in overall operating expenses. There were also additional selling expense reductions in variable expenses for commissions, inbound defective return freight and advertising allowances due to decreased sales volume accounting for an additional \$0.4 million or approximately 19% of the decrease in overall operating expenses. Management continued efforts to reduce general and administrative expenses commensurate with the decrease in sales volume during Fiscal 2011. General and administrative expenses decreased approximately \$0.8 million as the company realized a decrease in compensation expense of \$0.5M due to reduction in workforce, approximately \$0.1 million in rent reduction for reduced warehouse space in the logistics operation, approximately \$0.1 million in related company service charges and additional \$0.1 million of other general expense reductions. The \$0.8 million in general and administrative expense reductions accounted for an additional 38% decrease in total operating expenses accounting for most of the remaining overall decrease in operating expenses.

DEPRECIATION AND AMORTIZATION

Our depreciation and amortization expenses were \$430,115 for Fiscal 2011 compared to \$439,432 for Fiscal 2010. The fixed assets mainly consist of the tools and molds, which are depreciated with three years to 5 years straight-line method. During the past year we have invested in approximately \$27,000 in tooling for new karaoke models.

NET OTHER INCOME (EXPENSES)

Net other expense was \$20,874 (interest expense) in Fiscal 2011 compared to net other expense of \$94,979 (interest expense) in Fiscal 2010. The decrease was primarily due to the decrease of our borrowing costs since the termination of our financing arrangement with DBS Bank.

INCOME BEFORE TAXES

We had a loss before taxes of \$619,548 in Fiscal 2011 compared to income before taxes of \$3,050,807 in Fiscal 2010. This decrease was primarily due to the combination of improved gross profit margin due to price increases and product cost reductions as well as management's continued efforts to reduce operating expenses commensurate with the reduction of sales.

INCOME TAX EXPENSE

Significant management judgment is required in developing our provisions for income taxes, including the determination of foreign tax liabilities, deferred tax assets and liabilities and any valuation allowances that might be required against deferred tax assets. Management evaluates its ability to realize its deferred tax assets on a quarterly basis and adjusts its valuation allowance when it believes that it is not likely to be realized. On March 31, 2011 and 2010, we had gross deferred tax assets of approximately \$3.5 million and approximately \$4.1 million, against which we recorded valuation allowances totaling approximately \$3.5 million and approximately \$4.1 million, respectively.

For Fiscal 2011 and Fiscal 2010 we did not record a provision for income taxes as the Company incurred a taxable loss for the period since the Company had taxable losses for the U.S. operations and the Macau subsidiary is exempt from income tax according to the Macau Offshore Company (MOC) regulations.

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

NET LOSS/NET INCOME

As a result of the foregoing, we had net loss of approximately \$619,548 in Fiscal 2011 from operations as compared to a net loss of \$3,050,807 in Fiscal 2010.

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

NET SALES

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

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

GROSS PROFIT

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

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

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

OPERATING EXPENSES

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

DEPRECIATION AND AMORTIZATION

Our depreciation and amortization expenses were \$439,432 for Fiscal 2010 compared to \$459,354 for Fiscal 2009. The fixed assets mainly consist of the tools and molds, which are depreciated with three years to 5 years straight-line method. During the past year we have invested in approximately \$268,000 in tooling for new karaoke models as well as approximately \$23,000 in warehouse equipment for the logistics operation and office equipment. Tools and molds purchased in prior years which were fully depreciated in Fiscal 2010 are the primary reason for the decrease in depreciation expense over the prior fiscal year.

NET OTHER INCOME (EXPENSES)

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

INCOME BEFORE TAXES

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

INCOME TAX EXPENSE

Significant management judgment is required in developing our provisions for income taxes, including the determination of foreign tax liabilities, deferred tax assets and liabilities and any valuation allowances that might be required against deferred tax assets. Management evaluates its ability to realize its deferred tax assets on a quarterly basis and adjusts its valuation allowance when it believes that it is not likely to be realized. On March 31, 2010 and 2009, we had gross deferred tax assets of approximately \$ 4.1 million and approximately \$3.1 million, against which we recorded valuation allowances totaling approximately \$ 4.1 million and approximately \$3.1 million, respectively.

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

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

NET LOSS/NET INCOME

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

LIQUIDITY AND CAPITAL RESOURCES

On March 31, 2011, we had cash on hand of approximately \$700,000 compared to cash on hand of approximately \$900,000 on March 31, 2010. The decrease of cash on hand was primarily due to the increase in inventory of approximately \$300,000 and the increase in accounts receivable of approximately \$200,000 offset an increase in accounts payable of approximately \$200,000.

Cash provided by operating activities Fiscal 2011 was \$930,962. The cash was generated primarily from increases related party accounts payable. We used \$1.5 million in cash generated from the increase in related-party accounts payable primarily to pay the remaining \$1.1 million owed to DBS Bank when our credit facilities were terminated and settle customer obligations for defective returns and allowances.

Cash used in investing activities for Fiscal 2011 was \$27,000. Cash used in investing activities was primarily for the purchase of a base platform for our newly designed future karaoke hardware line of products.

Cash used in financing activities was \$1,095,027 for Fiscal 2011, which was used primarily to pay short term borrowings to DBS bank upon termination of our credit facilities.

As of March 31, 2011, our working capital deficit was approximately \$1.6 million. Our current liabilities of approximately \$6.6million include:

- Client obligations for defective returns and allowances of \$435,341 – the amount will be offset by future purchases or refunds.
 - Accounts payable of \$1,118,674 of which \$265,384 was due to a supplier in China.
 - Amounts due to related parties of \$4,542,613 due various parties within the Starlight Group.

As of May 8, 2011, our cash on hand is approximately \$500,000. Our average monthly operating expenses are approximately \$250,000 and we need approximately \$.8 million to cover our operating expenses during the next three month period. Our primary expenses are normal operating costs including salaries, lease payments for our warehouse space in California and other operating costs.

WORKING CAPITAL REQUIREMENTS DURING THE SHORT AND LONG TERM

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

1) Equity investments – The Company is actively seeking equity financing to expand its business. We expect to raise additional capital as required for fiscal year ended March 31, 2012 (“Fiscal 2012”).

2) Vendor financing – Some of our key vendors in China have agreed to manufacture on behalf of the Company without advanced payments and have extended payment terms to the Company. The terms with the factories are sufficient to cover the factory direct sales, which is expected to account for more than 30% of the total revenues in Fiscal 2012.

3) Factoring of accounts receivable - The Company is currently seeking a factoring facility for its accounts receivable for sales originated in the U.S to replace the facilities that were in place during Fiscal 2010 and were withdrawn by DBS bank in June 2010. The Starlight Group, our controlling shareholder, has agreed to provide short term bridge financing until a new factoring facility is consummated.

4) Cost reduction - The Company has reduced significant operating expenses in recent years with the exception of Fiscal 2009. The cost reduction initiatives are part of our intensive effort to achieve a successful turn-around restructuring. The Company plans to maintain its cost structure for Fiscal 2012.

5) Bridge Loan - We may be able to raise additional short term bridge capital from The Starlight Group, the parent of our major stockholder, koncepts, who is also one of our suppliers.

6) Reduce cost of operation – The Company maintains SMC-L as a wholly-owned subsidiary to operate our California warehouse. For Fiscal 2012, SMC-L will renew an agreement with the Starlight Group to handle the logistics and fulfillment of Starlight Groups’ domestic products for a service fee. This arrangement is expected to significantly offset the Company’s own logistics expenses.

Our sources of cash for working capital in the long term are the same as our sources during the short term. If we need additional financing, we intend to approach different financing companies or insiders. However, we cannot guarantee that our financing plan will succeed. If we need to obtain additional financing and fail to do so, it may have a material adverse effect on our ability to meet our financial obligations and continue our operations.

On June 8, 2010 the Company was notified by DBS Bank that our credit and factoring facilities totaling \$13.0M were being withdrawn effective upon receipt of amounts due on both factoring and accounts payable financing facilities. The Company is actively pursuing replacement financing facilities. Our parent company, The Starlight Group, has committed to provide bridge financing until new facilities have been found.

In light of the loss of our financing facility, our parent company, the Starlight Group (“Group”), has expressed their willingness and ability to provide bridge financing and advance funds to us for key vendor payments as well as extending longer payment terms for goods they manufacture for us. We estimate our bridge financing requirements from the Group will be between \$250,000 and \$500,000 for the fiscal year ending March 31, 2012. These funds are expected to be made available by the Group primarily through extended terms for trade payables with the Group. During the fiscal year ended March 31, 2011, our related party debt increased by approximately \$1.5 million. Taking into account internally generated funds and credit facilities available to the Group and proposed use of proceeds which include up to \$500,000 of bridge financing for the Company, we have concluded that our parent will have sufficient working capital to provide bridge financing to us for at least the next 12 months.

During Fiscal 2012, we will strive to reduce additional operating costs through efficiency improvements. In order to reduce the need to maintain inventory in our warehouses in California we intend to continue to ship a significant portion of our total sales directly from SMC Macau. The goods shipped directly to our customers from ports in China are primarily backed by customer letters of credit. The customers take title to the merchandise at their consolidators in China and are responsible for the shipment, duty, clearance and freight charges to their locations. In order to keep our inventory low, we have been helping our customers forecast and manage their Singing Machine inventories. This will prevent the overstocking situation with customers.

Except for the foregoing, we do not have any present commitment that is likely to cause our liquidity to increase or decrease in any material way. In addition, except for the Company’s need for additional capital to finance inventory purchases, the Company is not aware of any trend, additional demand, event or uncertainty that will result in, or that is

reasonably likely to result in, the Company's liquidity increasing or decreasing in any material way. The Company is reliant upon our parent company, Starlight International, to provide bridge financing for operations until we secure alternate accounts receivable factoring facilities. There is no guarantee that we will be able to secure these facilities in the near future. Any significant change in Starlight International's ability to continue to provide bridge financing may have a material adverse effect on our ability to meet our financial obligations and continue our operations.

EXCHANGE RATES

We sell all of our products in U.S. dollars and pay for all of our manufacturing costs in either U.S. or Hong Kong dollars. Operating expenses of our former Hong Kong office were paid in Hong Kong dollars. Operating expenses of the Macau office are paid in either Hong Kong dollars or Macau currency (MOP) The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong government since 1983 at HK\$7.80 to U.S. \$1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. The exchange rate of the MOP to the U.S. dollar is MOP \$8.0 to U.S. \$1.00. We cannot assure you that the exchange rate between the United States, Macau and Hong Kong currencies will continue to be fixed or that exchange rate fluctuations will not have a material adverse effect on our business, financial condition or results of operations.

SEASONAL AND QUARTERLY RESULTS

Historically, our operations have been seasonal, with the highest net sales occurring in the second and third quarters (reflecting increased orders for equipment and music merchandise during the Christmas selling months) and to a lesser extent the first and fourth quarters of the fiscal year. Sales in our fiscal second and third quarter, combined, accounted for approximately 79.8%, 89.0%, and 92.0% of net sales in Fiscal 2011, Fiscal 2010, and Fiscal 2009.

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

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

INFLATION

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

OFF BALANCE SHEET ARRANGEMENTS

None.

CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

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

RECENT ACCOUNTING PRONOUNCEMENTS:

In 2009 the Financial Accounting Standards Board issued pronouncement ASC 810-10 regarding improvements to financial reporting by enterprises involved with Variable Interest Entities. The pronouncement requires an entity to perform an ongoing analysis to determine whether the entity's variable interest or interests give it a controlling financial interest in a variable interest entity. The pronouncements were effective for fiscal years beginning after November 15, 2009. The adoption of this new standard did not impact our consolidated statements of income or balance sheets.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplemental data required pursuant to this Item 8 are included in this Annual Report, as a separate section, commencing on page F-1 and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

N/A

ITEM 9A(T). CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, we conducted an evaluation as required by Rule 13a-15(b) and Rule 15d-15(b) of the Exchange Act, under the supervision and with the participation of our interim Chief Executive Officer and interim Chief Financial Officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our interim Chief Executive Officer and interim Chief Financial Officer concluded that our disclosure controls and procedures were effective.

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

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

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

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

Based upon this evaluation, our interim Chief Executive Officer and interim Chief Financial Officer concluded that our internal control over financial reporting was effective as of the period covered by this Annual Report.

(c) Changes in Internal Controls

In our Annual Report for Fiscal 2010, we concluded that our internal control over financial reporting was not effective and identified a material weakness due to the lack of formalized financial closing procedures. Since the filing of our last Annual Report, our financial controller has formalized a check list of all activities required for financial closings

for all of the company's subsidiaries. The checklist assigns responsible parties within the finance organization and requires the checklist to be completed and initialed by the responsible party as part of each financial closing period. The checklist is reviewed for completion and signed by the Controller for all domestic subsidiaries and by the CFO for the Macau subsidiary. Included in these procedures is an extensive procedure for evaluating the adequacy of inventory reserves for slow-moving items and lower of cost or market value of on hand inventory prior to the close of each quarter to insure that any impairment of inventory is properly recorded in the financial period that impairment occurs.

There were no other changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2011, that materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting, other than the remediation measures described above.

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

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth certain information with respect to our executive officers, directors and significant employees as of May 15, 2011.

For Fiscal Year Ended March 31, 2011

Name	Age	Position
Gary Atkinson	29	Interim CEO and General Counsel
Bernardo Melo	34	VP Global Sales and Marketing
Lionel Marquis	58	Principal Accounting Officer
Carol Lau	62	Interim CFO and Chairwoman
Harvey Judkowitz	66	Director
Bernard Appel	79	Director
Stewart A. Merkin	68	Director
Peter Hon	70	Director
Yat Tung Lau	32	Director

Directors are elected or appointed to serve until the next annual meeting and until their successors are elected and qualified. Officers are appointed to serve for one year until the meeting of the Board of Directors following the annual meeting of stockholders and until their successors have been elected and qualified. Any officer elected or appointed by the Board or appointed by an executive officer or by a committee may be removed by the Board either with or without cause, and in the case of an officer appointed by an executive officer or by a committee, by the officer or committee that appointed him or by the president.

The following information sets forth the backgrounds and business experience of our directors and executive officers and has been provided to us by each respective individual:

Gary Atkinson joined the Company in January 2008 and served as General Counsel and Corporate Secretary. For the past three years, Mr. Atkinson has worked closely with all departments within the Company, including Operations, Finance, Sales, and the China production side. In November 2009, Mr. Atkinson was appointed as Interim Chief Executive Officer. Mr. Atkinson is a licensed attorney in the State of Florida and Georgia. He graduated from the University of Rochester with a Bachelors Degree in Economics and has been awarded a dual-degree J.D./M.B.A. from Case Western Reserve University School of Law and Weatherhead School of Management.

Bernardo Melo has been with the Company since February 2003 and has served as the Vice President of Global Sales and Marketing (“VP of Sales”) since 2008. During his tenure at the Singing Machine, Mr. Melo has overseen the sales and operations of the music division as well as managed the customer service department. Before taking over the responsibility of VP of Sales, Mr. Melo held dual roles with the Company managing the operations, licensing and sales of the music division while concentrating on hardware sales for the Latin America and Canada market as well as key U.S. accounts such as Toys R’ Us. Prior to joining the Company, Mr. Melo held a consulting role for Rewards Network formerly Idine. Mr. Melo’s assignment during his tenure was improving their operational procedures while increasing efficiencies and lowering operating cost. Mr. Melo also worked at Coverall North America as Director of Sales managing a start up initiative for the company covering 15 regional office and 40 sales reps across North America focusing on franchise sales. Overall Mr. Melo has over 11 years of sales, marketing and management experience.

Lionel Marquis joined the Company in June 2008 as Controller and Principal Accounting Officer. For the past 16 years Mr. Marquis has served as Controller and or Chief Financial Officer for several manufacturing and distribution companies in the South Florida area. Some of these companies include Computer Products, Inc (Artesyn Technologies Inc), U S Plastic Lumber Corporation, Casi-Rusco, (division of Interlogix Inc.), DHF Industries, Inc and Ingear Fashions, Inc. Mr. Marquis graduated from Bryant College with a Bachelors Degree in Business Administration with a major in accounting. Mr. Marquis is a Certified Public Accountant in the state of Florida.

Carol Lau joined the Company's board of directors on January 12, 2007 and has served as the Company's interim chief financial officer since May 23, 2008. Ms. Lau has been with the Starlight Group since 1987 and was appointed to the position of President of Starlight Randix Corporation, a wholly owned subsidiary of the Starlight Group in 1993. In 2001, she became the Chief Financial Officer of Cosmo Communications Corporation. Currently Ms. Lau serves as the Company's interim Chief Financial Officer. Prior to joining the Starlight Group, from 1978 to 1987 Ms. Lau held positions in auditing and financial management with the Australian Government. Ms. Lau was a Certified Public Accountant (CPA) in Australia and is a licensed CPA in Massachusetts. She holds a Bachelor of Business degree from the Curtin University in Australia and a Graduate Diploma in Computer Science from the Canberra University in Australia. Ms. Lau joined the Company's board on January 12, 2007.

Harvey Judkowitz has served as a director of the Company since March 29, 2004 and is the chairman of the Audit Committee. He is licensed as a CPA in New York and Florida. From 1988 to the present date, Mr. Judkowitz has conducted his own CPA practices. He has served as the Chairman and CEO of UniPro Financial Services, a diversified financial services company up until the company was sold in September of 2005. He is currently the President and Chief Operating Officer of Photovoltaic Solar Cells, Inc.

Bernard S. Appel has served as a director of the Company since October 31, 2003. He spent 34 years at Radio Shack, beginning in 1959. At Radio Shack, he held several key merchandising and marketing positions and was promoted to the positions of President in 1984 and to Chairman of Radio Shack and Senior Vice President of Tandy Corporation in 1992. Since 1993 through the present date, Mr. Appel has operated the private consulting firm of Appel Associates, providing companies with merchandising, marketing and distribution strategies, creative line development and domestic and international procurement.

Stewart Merkin has served as a director of the Company since December 1, 2004. Mr. Merkin, founding partner of the Law Office of Stewart A. Merkin, has been practicing law in Miami, Florida since 1974. His core legal practice areas include corporate and securities law, as well as mergers and acquisitions and international transactions. He was awarded both J.D. and M.B.A. degrees from Cornell University, as well as a B.S. from The Wharton School, University of Pennsylvania. He has been admitted to the Florida and New York State Bar since 1972 and 1973, respectively

Peter Hon has served as a director of the Company since January 12, 2007. Mr. Hon has been a non-executive of the Starlight Group since 1998. Mr. Hon passed the College of Law qualifying examination in 1969 in the United Kingdom and began practicing law in Hong Kong in that year after being admitted to the High Court of Hong Kong. He has been the principal of Hon and Co, a law firm in Hong Kong for the past 37 years.

Yat Tung Lau has served as director of the Company since January 12, 2007. Mr. Lau joined the Starlight Group in 2003 as assistant to the Chairman of the Board of Starlight International and is now head of corporate relations. He is also responsible for local sales in China and heads the computer information system department for the Starlight Group. From 2002 to 2003, he held a marketing executive position in Storage Technology Corporation. Mr. Lau recently received an MBA from the University of Minnesota and also holds a Bachelor of Arts degree in business marketing from Indiana University.

BOARD COMMITTEES

We have an audit committee, a compensation committee and a nominating committee.

The audit committee consists of Messrs. Judkowitz (Chairman), Appel and Merkin. The Board has determined that Mr. Judkowitz qualifies as an "audit committee financial expert," as defined under Item 407 of Regulation S-K of the Exchange Act. The Board has determined that each of Messrs. Judkowitz, Merkin and Appel are "independent directors" within the meaning of the listing standards of the major stock exchanges. The audit committee recommends the engagement of independent auditors to the board, initiates and oversees investigations into matters relating to audit functions, reviews the plans and results of audits with our independent auditors, reviews our internal accounting controls, and approves services to be performed by our independent auditors.

The compensation committee consists of Messrs. Judkowitz and Merkin. The compensation committee considers and authorizes remuneration arrangements for senior management and grants options under, and administers our employee stock option plan.

The nominating committee consists of Messrs. Appel (Chairman), Merkin and Yat Tung Lau. The nominating committee is responsible for reviewing the qualifications of potential nominees for election to the Board of Directors and recommending the nominees to the Board of Directors for such election.

Nomination of Directors

As provided in our nominating committee charter and our Company's corporate governance principles, the Nominating Committee is responsible for identifying individuals qualified to become directors. The Nominating Committee seeks to identify director candidates based on input provided by a number of sources, including (1) the Nominating Committee members, (2) our other directors, (3) our shareholders, (4) our Chief Executive Officer or Chairman, and (5) third parties such as professional search firms. In evaluating potential candidates for director, the Nominating Committee considers the entirety of each candidate's credentials.

Qualifications for consideration as a director nominee may vary according to the particular areas of expertise being sought as a complement to the existing composition of the Board of Directors. However, at a minimum, candidates for director must possess:

- high personal and professional ethics and integrity;
- the ability to exercise sound judgment;
- the ability to make independent analytical inquiries;

a willingness and ability to devote adequate time and resources to diligently perform Board and committee duties; and

- the appropriate and relevant business experience and acumen.

In addition to these minimum qualifications, the Nominating Committee also takes into account when considering whether to nominate a potential director candidate the following factors:

- whether the person possesses specific industry expertise and familiarity with general issues affecting our business;
- whether the person's nomination and election would enable the Board to have a member that qualifies as an "audit committee financial expert" as such term is defined by the Securities and Exchange Commission (the "SEC") in Item 401 of Regulation S-K;
 - whether the person would qualify as an "independent" director under the listing standards of the AMEX;
 - the importance of continuity of the existing composition of the Board of Directors to provide long term stability and experienced oversight; and
- the importance of diversified Board membership, in terms of both the individuals involved and their various experiences and areas of expertise.

There have been no material changes to the procedures by which stockholders may recommend nominees to the Company's board of directors as set forth in the Company's Proxy Statement on Schedule 14A filed with the SEC on December 15, 2010.

FAMILY RELATIONSHIPS

There are no family relationships among any of our officers or other directors, except for Chairwoman Carol Lau who is the aunt of Director Yat Tung Lau and the mother of Gary Atkinson, the Company's CEO and General Counsel.

CODE OF ETHICS

We have adopted a Code of Business Conduct and Ethics, which is applicable to all directors, officers and employees of the Singing Machine, including our principal executive officer, our principal financial officer, and our principal accounting officer or controller or other persons performing similar functions. A copy of the Code of Ethics is posted on the Company's website at www.singingmachine.com. We intend to post amendments to or waivers from our Code of Ethics (to the extent applicable to our chief executive officer, principal financial officer, principal accounting officer or controller or other persons performing similar functions) on our website.

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Section 16(a) of the Exchange Act requires our officers, directors, and persons who own more than ten percent of a registered class of our equity securities to file reports of securities ownership and changes in such ownership with the SEC. Officers, directors, and greater-than-ten-percent stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms that they file.

Based solely upon a review of Forms 3, Forms 4, and Forms 5 furnished to us pursuant to Rule 16a-3 under the Exchange Act, we believe that all such forms required to be filed pursuant to Section 16(a) of the Exchange Act

during the year ended March 31, 2011 were timely filed, as necessary, by the officers, directors, and security holders required to file such forms except for the following:

Mr. Gary Atkinson filed a Form 5 in lieu of filing a timely Form 4 with respect to one transaction;
Mr. Lionel Marquis filed a Form 5 in lieu of filing a timely Form 4 with respect to one transaction;
Mr. Bernardo Melo filed a Form 5 in lieu of filing a timely Form 4 with respect to one transaction;
Mr. Harvey Judkowitz filed a Form 5 in lieu of filing a timely Form 4 with respect to three transactions;
Mr. Bernard Appel filed a Form 5 in lieu of filing a timely Form 4 with respect to three transactions;
Mr. Stewart Merkin filed a Form 5 in lieu of filing a timely Form 4 with respect to three transactions;

ITEM 11. EXECUTIVE COMPENSATION

The following table provides certain summary information concerning compensation awarded to, earned by or paid to our Chief Executive Officer and other named executive officers of our Company (collectively, the “named executive officers”) for Fiscal 2011.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Non-Equity Compensation			TOTAL COMP
					Option Awards	Non-qualified Compensation	Deferred Compensation	
Gary Atkinson (1) Interim Chief Executive Officer	2011	\$ 86,000.00	-	-	\$ 6,079.00	-	-	\$ 92,079.00
	2010	\$ 82,361.73	-	-	\$ -	-	-	\$ 82,361.73
Lionel Marquis (1) Principal Financial Officer	2011	\$ 100,000.00	\$ 2,000.00	-	\$ 6,079.00	-	-	\$ 108,079.00
	2010	\$ 95,769.45	-	-	\$ -	-	-	\$ 95,769.45
Carol Lau Chief Financial Officer	2011	\$ -	-	-	-	-	-	\$ -
	2010	\$ -	-	-	-	-	-	\$ -
Bernardo Melo (1) VP Global Sales & Marketing	2011	\$ 130,000.00	\$ 10,000.00	-	\$ 10,132.00	-	-	\$ 150,132.00
	2010	\$ 138,702.68	\$ 10,000.00	-	-	-	\$ 3,662.50	\$ 152,365.18

(1) Mr. Atkinson and Mr. Marquis were each awarded 120,000 stock options and Mr. Melo was awarded 200,000 stock options on October 29, 2010, with an exercise price of \$0.06 per share, which are not exercisable until October 29, 2011. The fair value of the option awards have been calculated in accordance with FASB ASC 718-20.

NARRATIVE DISCLOSURE TO SUMMARY COMPENSATION TABLE

Gary Atkinson was appointed as Interim Chief Executive Officer effective November 1, 2009. Mr. Atkinson does not have an employment contract with the Company and has an annual salary of \$86,000. Mr. Atkinson's reported salary amount for Fiscal 2010, as shown in the table above, is less than his annual salary due to a Company-wide temporary 10% pay reduction imposed during Fiscal 2010.

As of May 15, 2011, the Company did not have any employment contracts with any of its employees nor separation or consulting agreements with any individuals or entities.

OPTION GRANTS IN FISCAL 2011

Mr. Atkinson and Mr. Marquis were each awarded 120,000 stock options and Mr. Melo was awarded 200,000 stock options on October 29, 2010, with an exercise price of \$0.06 per share, which are not exercisable until October 29, 2011. The fair value of the option awards have been calculated in accordance with FASB ASC 718-20.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth information with respect to grants of options to purchase our common stock under our Year 2001 Stock Option Plan to the named executive officers during Fiscal 2011:

Name and Principal Position	Number of Securities Underlying Unexercised	Number of Securities Underlying Unexercised	Equity Incentive Plan Awards	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or	Market Value of Shares or	Equity Incentive Plan Awards:	Equity Incentive Plan Awards:
-----------------------------	---	---	------------------------------	----------------------------	------------------------	---------------------	---------------------------	-------------------------------	-------------------------------

Edgar Filing: SINGING MACHINE CO INC - Form 10-K

	Options (#) Exercisable	Options (#) Unexercisable	Underlying Unexercised Options (#)			Units of Stock That Have Not Vested (#)	Units of Stock That Have Not Vested (\$)	Number of Unearned Shares, Units or Rights That Have Not Vested (#)	Market or Payout Value Unearned Shares, Units or Rights That Have Not Vested (\$)
Gary Atkinson, CEO	120,000	-	N/A	0.06	10/29/2020	N/A	N/A	N/A	N/A
Lionel Marquis, Principal Financial Officer	120,000	-	N/A	0.06	10/29/2020				
Bernardo Melo, VP Global Sales & Marketing	4,000	-	N/A	1.97	12/19/2013	N/A	N/A	N/A	N/A
	6,500	-	N/A	1.54	2/6/2014				
	20,000	-	N/A	0.60	5/8/2015				
	-	30,000	N/A	0.33	4/9/2011				
	200,000		N/A	0.06	10/29/2020				
	230,500	30,000							

The following table sets forth with respect to the named director, compensation information inclusive of equity awards and payments made in Fiscal 2011. All option awards were granted from our Year 2001 Stock Option Plan.

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash	Stock Awards (1)(2)	Option Awards	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Bernard Appel	\$ 8,500	\$ 2,500	\$ 676	\$ -	\$ -	\$ -	\$ 11,676
Peter Hon	\$ 0	\$ 0	\$ 0	\$ -	\$ -	\$ -	\$ 0
Harvey							
Judkowitz	\$ 8,500	\$ 2,500	\$ 676	\$ -	\$ -	\$ -	\$ 11,676
Carol Lau	\$ 0	\$ 0	\$ 0	\$ -	\$ -	\$ -	\$ 0
Yat Tung Lau	\$ 0	\$ 0	\$ 0	\$ -	\$ -	\$ -	\$ 0
Stewart Merkin	\$ 8,500	\$ 2,500	\$ 676	\$ -	\$ -	\$ -	\$ 11,676

Refer to Note 1 “Stock Based Compensation” in the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report for the relevant assumptions used to determine the valuation of our option awards.

(1) As of March 31, 2011 the aggregate number of stock awards held by Messrs. Appel, Merkin, and Judkowitz is 125,638, 123,291, and 135,638, respectively. The aggregate stock awards held by Messrs. Hon, Yat Tung Lau and Ms. Lau are 74,311.

(2) As of March 31, 2011 the aggregate number of Company stock options held by Messrs. Appel and Judkowitz is 160,000. Mr. Merkin holds 140,000 options and Messrs. Hon, Yat Tung Lau, and Ms. Lau each hold 40,000 options.

During Fiscal 2011, our compensation package for our non-employee directors consisted of grants of stock options, cash payments, stock issuances and reimbursement of costs and expenses associated with attending our board meetings. Our six non-employee directors during Fiscal 2011 were Messrs. Appel, Judkowitz, Hon, Yat Tung Lau and Merkin and Ms. Carol Lau.

During Fiscal 2011, we have utilized the following compensation policy for our directors:

- An initial grant of 20,000 Singing Machine stock options with an exercise price determined as the closing price on the day of joining the board. The options will vest in one year and expire in ten years while they are board members or 90 days once they are no longer board members.
- An annual cash payment of \$7,500 will be made for each completed full year of service or prorated for a partial year. The payment will be made as of March 31.
- An annual stock grant of stock equivalent in value to \$2,500 for each completed full year of service or prorated for a partial year. The stock price at grant will be determined at the closing price on the day of the Annual Stockholder Meeting. The actual grant will be made on or before March 31.
- An annual grant of 20,000 Singing Machine stock options with an exercise price determined as the closing price on the day of the Annual Stockholder Meeting. If the Annual Meeting is held less than 6 months after the board member first joined the board he or she will not receive another option grant.
 - Independent board members will receive a \$500 fee for each board meeting and annual meeting they attend. Committee meetings and telephone board meetings will be compensated with a \$200 fee.

- All expenses will be reimbursed for attending board, committee and annual meetings or when their presence at a location away from home is requested.
- Directors Peter Hon, Yat Tung Lau and Carol Lau have volunteered to temporarily forfeit all compensation until financial conditions at the Company improve.

YEAR 1994 PLAN

Our 1994 Plan was originally adopted by our Board of Directors in May 1994 and was approved by our shareholders on June 29, 1994. Our shareholders approved amendments to our 1994 Plan in March 1999 and September 2000. The 1994 Plan reserved for issuance up to 1,950,000 million shares of our common stock pursuant to the exercise of options granted under the Plan. As of March 31, 2003, we had granted all the options that are available for grant under our 1994 Plan. As of March 31, 2011, we have no options issued and outstanding under the 1994 Plan.

YEAR 2001 PLAN

On June 1, 2001, our Board of Directors approved the Year 2001 Plan and it was approved by our shareholders at our special meeting held September 6, 2001. The Year 2001 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. The Year 2001 Plan authorizes an aggregate of 1,950,000 shares of the Company's common stock with a maximum of 450,000 shares to any one individual in any one fiscal year. The shares of common stock available under the Year 2001 Plan are subject to adjustment for any stock split, declaration of a stock dividend or similar event. At March 31, 2011, we have granted 1,191,380 options under the Year 2001 Plan, 611,380 of which are fully vested.

The Year 2001 Plan is administered by our Compensation Committee ("Committee"), which consists of two or more directors chosen by our Board. The Committee has the full power in its discretion to (i) grant options under the Year 2001 Plan, (ii) determine the terms of the options (e.g. - vesting, exercise price), (iii) to interpret the provisions of the Year 2001 Plan and (iv) to take such action as it deems necessary or advisable for the administration of the Year 2001 Plan.

Options granted to eligible individuals under the Year 2001 Plan may be either incentive stock options ("ISO's"), which satisfy the requirements of Code Section 422, or non-statutory options ("NSO's"), which are not intended to satisfy such requirements. Options granted to outside directors, consultants and advisors may only be NSO's. The option exercise price will not be less than 100% of the fair market value of the Company's common stock on the date of grant. ISO's must have an exercise price greater to or equal to the fair market value of the shares underlying the option on the date of grant (or, if granted to a holder of 10% or more of our common stock, an exercise price of at least 110% of the underlying shares fair market value on the date of grant). The maximum exercise period of ISO's is 10 years from the date of grant (or five years in the case of a holder with 10% or more of our common stock). The aggregate fair market value (determined at the date the option is granted) of shares with respect to which an ISO are exercisable for the first time by the holder of the option during any calendar year may not exceed \$100,000. If that amount exceeds \$100,000, then the option, as to the excess, will be treated as NSO's.

Options granted under the Year 2001 Plan are not transferable except by will or applicable laws of descent and distribution. Except as expressly determined by the Committee, no option shall be exercisable after thirty (30) days following an individual's termination of employment with the Company or a subsidiary, unless such termination of employment occurs by reason of such individual's disability, retirement or death. The Committee may in its sole discretion, provide in a grant instrument that upon a change of control (as defined in the Year 2001 Plan) that all outstanding options issued to the grantee shall automatically, accelerate and become full exercisable. Additionally, the obligations of the Company under the Year 2001 Plan are binding on (1) any successor corporation or organization resulting from the merger, consolidation or other reorganization of the Company or (2) any successor corporation or organization succeeding to all or substantially all of the assets and business of the Company. In the event of any of the foregoing, the Committee may, at its discretion, prior to the consummation of the transaction, offer to purchase, cancel, exchange, adjust or modify any outstanding options, as such time and in such manner as the Committee deems appropriate.

401(K) PLAN

Effective January 1, 2001, we adopted a voluntary 401(k) plan. All employees with at least one year of service are eligible to participate in our 401(k) plan. We make a matching contribution of 100% of salary deferral contributions up to 3% of pay, plus 50% of salary deferral contributions from 3% to 5% of pay for each payroll period. The amounts charged to earnings for contributions to this plan and administrative costs during the years ended March 31, 2011, 2010 and 2009 totaled approximately \$18,660, \$15,749 and \$10,886, respectively.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth as of May 15, 2011 (the “record date”), certain information concerning beneficial ownership of our common stock by:

- all directors of the Singing Machine,
- all named executive officers of the Singing Machine; and
- persons known to own more than 5% of our common stock.

Security ownership is based on 37,835,793 shares of our common stock issued and outstanding. In computing the number and percentage of shares beneficially owned by a person, shares of common stock subject to convertible securities and options currently convertible or exercisable, or convertible or exercisable within 60 days of May 15, 2011, are counted as outstanding, but these shares are not counted as outstanding for computing the percentage ownership of any other person.

As used herein, the term beneficial ownership with respect to a security is defined by Rule 13d-3 under the Securities Exchange Act of 1934 as consisting of sole or shared voting power (including the power to vote or direct the vote) and/or sole or shared investment power (including the power to dispose or direct the disposition of) with respect to the security through any contract, arrangement, understanding, relationship or otherwise, including a right to acquire such power(s) during the next 60 days. Unless otherwise noted below, and subject to applicable property laws, to our knowledge each person has sole investment and sole voting power over the shares shown as beneficially owned by them. Unless otherwise noted, the principal address of each of the directors and officers listed below is c/o The Singing Machine Company, Inc., 6601 Lyons Road, Building A-7, Coconut Creek, FL 33073.

Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters As of May 15, 2011

Name and Address of Beneficial Owner	Amount and Nature of Certain Beneficial Ownership of Common Stock	Percentage of outstanding shares of common stock	
Security Ownership of Management:			
Gary Atkinson	7,753	*	
Lionel Marquis	-	*	
Bernardo Melo (1)	30,500	*	
Bernard Appel (2)	265,638	*	
Harvey Judkowitz (2)	275,638	*	
Carol Lau (2)	68,857	*	
Yat Tung Lau (2)	68,857	*	
Peter Hon (2)	68,857	*	
Stewart Merkin (2)	243,291	*	
Officers & Directors as a Group (9 persons)	1,029,391	2.7	%
Security Ownership of Certain Beneficial Owners:			
koncepts International Ltd. (3)	18,682,679	49.4	%
Arts Electronics Ltd. (4)	3,745,917	9.9	%
Gentle Boss Investments Ltd (5)	2,100,000	5.6	%
* Less than 1%			
Total Shares of Common Stock as of May 15, 2011	37,835,793		
Stock Options Exercisable within 60 days of May 15,2011	611,380		
Total	38,447,173		

(1) Includes stock options to purchase 30,500 shares of common stock, which is exercisable within 60 days of the record date.

(2) Includes as to the person indicated, the following outstanding stock options to purchase shares of the Company's Common Stock issued under the 1994 and 2001 Stock Option Plans, which will be vested and exercisable within 60 days of the record date: 140,000 options held by Bernie Appel; 140,000 options held by Harvey Judkowitz, 120,000 held by Stewart Merkin, and 40,000 held by each of Carol Lau, Peter Hon, and Yat-Tung Lau.

(3) The address for koncepts International Limited is 5/F Shing Dao Industrial Bldg, 232 Aberdeen Main Road, Aberdeen China.

(4) The address for Arts Electronics Ltd. is Room 101, Fo Tan Ind CTR 1/F, 26-28 Au Pui Wan, Fo Tan, Shatin N.T. Hong Kong.

(5) The address for Gentle Boss Investments Ltd. is Unit 6, 9/F, Tower B, 55 Hoi Yuen Road, Kwun Tong, Kowloon Hong Kong.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Approximately 48% of our karaoke products in Fiscal 2011 were produced by factories owned by the Starlight Group and we anticipate that approximately 40% of our karaoke products will be manufactured by the Starlight Group in Fiscal 2012. Starlight International has verbally agreed to manufacture our karaoke products without requiring prepayment from us and will instead assume the cost of manufacturing the products until such time as we are paid by the customers who are purchasing those products from us.

During Fiscal 2011 we sold approximately \$1,659,000 of product to Star Light Electronics Company, Ltd. (“Star Light”) a related company, for direct shipment to Cosmo Communications of Canada, Ltd (“Cosmo”), another related company, at discounted pricing granted to major distributors. In addition, we sold an additional 234,000 of product to Cosmo from our California warehouse facility. The average gross profit margin on sales to Cosmo yielded 11.4%. Cosmo was our primary distributor of the Company’s product to Canada in Fiscal 2011 and will continue in this role for Fiscal 2012.

On August 1 2010, our subsidiary SMC-L entered into a service and logistics agreement with Starlite Consumer Electronics (USA), Inc. (“Starlite USA”), an indirect wholly-owned subsidiary of Starlight International, and Cosmo USA, Inc. (“Cosmo USA”) to provide logistics, fulfillment, and warehousing services for Starlite USA and Cosmo USA’s domestic sales. For these services, Starlite USA and Cosmo USA have agreed to pay us an annual service fee of \$1,000,000 payable monthly beginning August 1, 2010. This agreement generated approximately \$667,000 for Fiscal 2011 and is projected to generate \$333,000 in fees for Fiscal 2012. This agreement terminates on July 31, 2011 at which time another annual agreement is expected to be signed for approximately the same amount.

In June 2010 the Company was notified by DBS Bank that our credit and factoring facilities totaling \$13.0M were being withdrawn effective upon receipt of amounts due on both factoring and accounts payable financing facilities. On August 28, 2008, we executed a three-party banking facility agreement between SMC Macau, DBS Bank (Hong Kong) Limited and BB&T. The agreement provides for credit facilities to a maximum of \$13.0 million. The credit facility was secured with corporate guarantees from us as well as a \$2.0 million guarantee from Starlight International, the parent of koncepts which is the holder of approximately 50% of our shares of common stock outstanding. This agreement was effective October 16, 2008.

In May 2008, our subsidiary SMC-L entered into a service and logistics agreement with Starlite USA, and Cosmo USA to provide logistics, fulfillment, and warehousing services for Starlite USA and Cosmo USA’s domestic sales. For these services, Starlite USA and Cosmo USA paid us an annual service fee of \$1,137,501, paid monthly beginning July 1, 2008. The agreement generated approximately \$333,333 for Fiscal 2010 and \$804,168 in fees for Fiscal 2009. The agreement was terminated June 30, 2010 and replaced by the new logistics agreement on August 1, 2010.

We purchase products from Starlight Marketing Macao Commercial Offshore Limited (“Starlight Macao”), an indirect wholly-owned subsidiary of Starlight International. The purchases from Starlight Macao for Fiscal 2011 and Fiscal 2010 were \$7,338,322 and \$4,716,956, respectively. In addition, we also purchased molds and tooling from Starlight Macao in the amount of \$0 and \$252,900 in Fiscal 2011 and Fiscal 2010, respectively.

On August 1, 2006, our subsidiary SMC Macao entered into a service agreement with Star Light Electronics Company Limited, an indirect wholly-owned subsidiary of Starlight International, to provide shipping and engineering services to us for a fee of \$25,000 per month. This amount increased to \$29,000 per month effective July 1, 2008 however, due to a decrease in services provided to us, the fee was reduced for a period of time. Effective July 1, 2009 this amount was permanently reduced to \$14,000 per month. Effective August 1, 2010 the amount was again reduced to \$8,000 per month due to decreased services provided to us. For Fiscal 2011 and Fiscal 2010, this service charge was \$120,000 and \$216,000, respectively.

Review, Approval or Ratification of Transactions with Related Persons

We believe that the terms of all of the above transactions are commercially reasonable and no less favorable to us than we could have obtained from an unaffiliated third party on an arm’s length basis. Our policy requires that all related parties recuse themselves from negotiating and voting on behalf of our company in connection with related party transactions. While we do not maintain a written policy with respect to related party transactions, our board of directors routinely reviews potential transactions with those parties we have identified as related parties prior to the consummation of the transaction. Each transaction is reviewed to determine that a related party transaction is entered into by us with the related party on an “arms length” basis, or pursuant to normal competitive negotiation. We also generally require that all related parties recuse themselves from negotiating and voting on behalf of the Company in connection with related party transactions.

CORPORATE GOVERNANCE

Board Determination of Independence

The Board has determined that Messrs. Judkowitz, Merkin and Appel are "independent directors" within the meaning of the listing standards of the American Stock Exchange. The audit committee recommends the engagement of independent auditors to the board, initiates and oversees investigations into matters relating to audit functions, reviews the plans and results of audits with our independent auditors, reviews our internal accounting controls, and approves services to be performed by our independent auditors.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following is a summary of the fees billed to the Singing Machine by our independent Certified Public Accountants for professional services rendered for Fiscal 2011 and Fiscal 2010:

Fee Category	Fiscal 2011	Fiscal 2010
Audit Fees	\$ 112,793	\$ 117,147
Tax Fees	10,000	15,000
All Other Fees	6,640	1,000
Total Fees	\$ 129,433	\$ 133,147

Audit Fees - Consists of fees billed for professional services rendered for the audit of the Singing Machine's consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that were provided by Mallah Furman, Certified Public in connection with statutory and regulatory filings or engagements

Tax Fees - Consists of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and international tax compliance, tax audit defense, customs and duties, mergers and acquisitions, and international tax planning.

All Other Fees - Consists of fees for products and services other than the services reported above.

Out of the total Fiscal 2011 and Fiscal 2010 audit and other fees, \$115,972 and \$127,890 were billed by Mallah Furman, Certified Public Accountants respectively.

POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF INDEPENDENT AUDITORS

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

Consolidated Balance Sheets— March 31, 2011 and 2010

Consolidated Statements of Operations—Years ended March 31, 2011, 2010 and 2009.

Consolidated Statements of Shareholders' (deficit) Equity—Years ended March 31, 2011, 2010 and 2009.

Consolidated Statements of Cash Flows—Years ended March 31, 2011, 2010 and 2009.

2. Notes to Consolidated Financial Statements

32

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

(b) Exhibits.

Exhibit No.	Description
3.1	Certificate of Incorporation of the Singing Machine filed with the Delaware Secretary of State on February 15, 1994 and amendments through April 15, 1999 (incorporated by reference to Exhibit 3.1 in the Singing Machine's registration statement on Form SB-2 filed with the SEC on March 7, 2000).
3.2	Certificate of Amendment of the Singing Machine filed with the Delaware Secretary of State on September 29, 2000 (incorporated by reference to Exhibit 3.1 in the Singing Machine's Quarterly Report on Form 10-QSB for the period ended September 30, 1999 filed with the SEC on November 14, 2000).
3.3	Certificates of Correction filed with the Delaware Secretary of State on March 29 and 30, 2001 correcting the Amendment to our Certificate of Incorporation dated April 20, 1998 (incorporated by reference to Exhibit 3.11 in the Singing Machine's registration statement on Form SB-2 filed with the SEC on April 11, 2000).
3.4	Amended By-Laws of the Singing Machine Singing Machine (incorporated by reference to Exhibit 3.14 in the Singing Machine's Annual Report on Form 10-KSB for the year ended March 31, 2001 filed with the SEC on June 29, 2001).
4.1	Form of Certificate Evidencing Shares of Common Stock (incorporated by reference to Exhibit 3.3. of the Singing Machine's registration statement on Form SB-2 filed with the SEC on March 7, 2000). File No. 333-57722)
10.1	Amended and Restated 1994 Management Stock Option Plan (incorporated by reference to Exhibit 10.6 to the Singing Machine's registration statement on Form SB-2 filed with the SEC on March 28, 2001, File No. 333-59684).
10.2	Year 2001 Stock Option Plan (incorporated by reference to Exhibit 10.1 of the Singing Machine's registration statement on Form S-8 filed with the SEC on September 13, 2002, File No. 333-99543).
10.3	Securities Purchase Agreement dated February 21, 2007, by and between The Singing Machine Company, Inc. and koncepts International Limited. (incorporated by reference to the Singing Machine's Current Report on Form 8-K filed with the SEC on February 27, 2007)
10.4	Registration Rights Agreement dated February 21, 2007, by and between The Singing Machine Company, Inc. and koncepts International Limited. (incorporated by reference to the Singing Machine's Current Report on Form 8-K filed with the SEC on February 27, 2007)
10.5	One Year Stock Purchase Warrant of The Singing Machine Company, Inc. dated February 21, 2007. (incorporated by reference to the Singing Machine's Current Report on Form 8-K filed with the SEC on February 27, 2007)
10.6	Three Year Stock Purchase Warrant of The Singing Machine Company, Inc. dated February 21, 2007. (incorporated by reference to the Singing Machine's Current Report on Form 8-K filed with the SEC on February 27, 2007)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

* Filed herewith

+ Compensatory plan or arrangement.

THE SINGING MACHINE COMPANY, INC. AND SUBSIDIARIES

FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

Reports of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets	F-3
Consolidated Statements of Operations	F-4
Consolidated Statements of Cash Flows	F-5
Consolidated Statements of Shareholders' Equity (Deficit)	F-6
Notes to Consolidated Financial Statements	F-7

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of The Singing Machine Company, Inc. and Subsidiaries (the "Company") as of March 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three year period ended March 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three year period ended March 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited Schedule II of the Company for the years ended March 31, 2011, 2010, 2009. In our opinion, this schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information therein.

/s/ Mallah Furman

Fort Lauderdale, Florida
June 20, 2011

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

	March 31, 2011	March 31, 2010
Assets		
Current Assets		
Cash	\$ 674,712	\$ 865,777
Accounts receivable, net of allowances of \$175,804 and \$185,407, respectively	1,205,209	983,791
Due from factor	-	14,987
Due from related party - Starlight Consumer Electronics USA, Inc.	73,348	73,918
Due from related party - Starlight Electronics Co., Ltd.	-	75,316
Inventories, net	3,016,945	2,804,848
Prepaid expenses and other current assets	59,310	118,465
Total Current Assets	5,029,524	4,937,102
Property and Equipment, net	333,851	736,966
Other Non-Current Assets	164,678	164,644
Total Assets	\$ 5,528,053	\$ 5,838,712
Liabilities and Shareholders' (Deficit) Equity		
Current Liabilities		
Accounts payable	\$ 1,118,674	\$ 895,713
Due to related party - Starlight Marketing Development, Ltd.	2,063,213	860,355
Due to related party - Ram Light Management, Ltd.	1,683,247	1,683,747
Due to related party - Starlight R&D, Ltd.	431,373	431,653
Due to related party - Cosmo Communications USA, Inc.	217,493	199,996
Due to related party - Starlight Electronics Co., Ltd.	132,386	-
Due to related parties - Other Starlight Group Companies	88,249	7,284
Accrued expenses	256,535	227,257
Short-term loan - bank	-	1,091,828
Current portion of long-term financing obligation	4,547	18,186
Obligations to clients for returns and allowances	435,341	742,009
Warranty provisions	144,022	123,708
Total Current Liabilities	6,575,080	6,281,736
Long-term financing obligation, less current portion	-	4,547
Total Liabilities	6,575,080	6,286,283
Shareholders' Deficit		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, Class A, \$.01 par value; 100,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$0.01 par value; 100,000,000 shares authorized; 37,835,793 and 37,585,794 shares issued and outstanding	378,357	375,857
Additional paid-in capital	19,116,318	19,098,726
Accumulated deficit	(20,541,702)	(19,922,154)
Total Shareholders' Deficit	(1,047,027)	(447,571)
Total Liabilities and Shareholders' Deficit	\$ 5,528,053	\$ 5,838,712

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

F-3

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

For the Years Ended
March 31, 2011 March 31, 2010 March 31, 2009

Net Sales	\$19,165,979	\$ 21,277,370	\$ 31,780,709
Cost of Goods Sold	14,921,289	17,291,011	25,836,586
Gross Profit	4,244,690	3,986,359	5,944,123
Operating Expenses			
Selling expenses	1,838,217	3,114,552	3,160,950
General and administrative expenses	2,575,032	3,388,203	4,346,627
Depreciation and amortization	430,115	439,432	459,354
Total Operating Expenses	4,843,364	6,942,187	7,966,931
Loss from Operations	(598,674)	(2,955,828)	(2,022,808)
Other Expenses			
Interest expense	(20,874)	(94,979)	(131,755)
Net Other Expenses	(20,874)	(94,979)	(131,755)
Loss before provision for income taxes	(619,548)	(3,050,807)	(2,154,563)
Provision for income taxes	-	-	(36,652)
Net Loss	\$(619,548)	\$ (3,050,807)	\$ (2,191,215)
Loss per Common Share			
Basic	\$(0.016)	\$ (0.081)	\$ (0.067)
Diluted	\$(0.016)	\$ (0.081)	\$ (0.067)
Weighted Average Common and Common Equivalent Shares:			
Basic and Diluted	37,731,684	37,519,668	32,712,191

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

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

For the Years Ended
March 31, 2011 March 31, 2010 March 31, 2009

Cash flows from operating activities			
Net Loss	\$(619,548)	\$ (3,050,807)	\$ (2,191,215)
Adjustments to reconcile net loss to net cash and cash equivalents provided by (used in) operating activities:			
Depreciation and amortization	430,115	439,432	459,354
Change in inventory reserve	101,932	(396,320)	247,404
Change in allowance for bad debts	(9,603)	(76,572)	141,081
Stock compensation	20,092	24,339	32,826
Warranty provisions	20,314	(164,331)	70,227
Changes in assets and liabilities:			
(Increase) Decrease in:			
Accounts receivable	(211,815)	244,671	49,182
Inventories	(314,029)	2,321,139	(1,462,087)
Prepaid expenses and other current assets	59,156	408,098	(114,011)
Other non-current assets	(34)	14,718	(10,000)
Increase (Decrease) in:			
Accounts payable	222,961	(1,693,056)	1,670,341
Accounts payable - related party	1,508,811	1,535,410	1,992,407
Accrued expenses	29,278	(195,003)	12,845
Obligations to clients for returns and allowances	(306,668)	(166,440)	129,456
Net cash provided by (used in) operating activities	930,962	(754,722)	1,027,810
Cash flows from investing activities			
Purchase of property and equipment	(27,000)	(291,276)	(747,844)
Proceeds from disposal of property and equipment	-	1,648	-
Net cash used in investing activities	(27,000)	(289,628)	(747,844)
Cash flows from financing activities			
Borrowings from factor, net	14,987	58,867	57,597
Net (payments on) proceeds from short-term bank obligation	(1,091,828)	1,091,828	-
(Payments) proceeds pursuant to factoring facility	-	(179,545)	799,113
Net (payments on) proceeds from long-term financing obligation	(18,186)	(18,186)	40,919
Net payments on advances from related parties	-	-	(668,248)
Net cash (used in) provided by financing activities	(1,095,027)	952,964	229,381
Change in cash and cash equivalents	(191,065)	(91,386)	509,347
Cash and cash equivalents at beginning of period			
	865,777	957,163	447,816
Cash and cash equivalents at end of period			
	\$674,712	\$ 865,777	\$ 957,163
Supplemental Disclosures of Cash Flow Information:			
Cash paid for Interest	\$20,874	\$ 94,979	\$ 136,826
Cash paid (refunded) for Income Taxes	\$1,600	\$ (23,520)	\$ 60,322
Non-Cash Financing Activities:			
Conversion of trade payable to equity	\$-	\$ -	\$ 669,222

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

F-5

The Singing Machine Company, Inc. and Subsidiary
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' (DEFICIT) EQUITY

	Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance at March 31, 2008	-	\$ -	31,758,400	\$ 317,584	18,430,612	\$ (14,680,132)	\$ 4,068,064
Net Income	-	-	-	-	-	(2,191,215)	(2,191,215)
Employee compensation-stock option	-	-	-	-	17,825	-	17,825
Director Fees	-	-	33,336	333	14,668	-	15,001
Issuances of common stock	-	-	5,657,696	56,577	612,645	-	669,222
Balance at March 31, 2009	-	-	37,449,432	374,494	19,075,750	(16,871,347)	2,578,897
Net Income	-	-	-	-	-	(3,050,807)	(3,050,807)
Employee compensation-stock option	-	-	-	-	9,339	-	9,339
Director Fees	-	-	136,362	1,363	13,637	-	15,000
Balance at March 31, 2010	-	-	37,585,794	\$ 375,857	\$ 19,098,726	\$ (19,922,154)	\$ (447,571)
Net Income	-	-	-	-	-	(619,548)	(619,548)
Employee compensation-stock option	-	-	-	-	12,592	-	12,592
Director Fees	-	-	249,999	2,500	5,000	-	7,500
Balance at March 31, 2011	-	\$ -	37,835,793	\$ 378,357	\$ 19,116,318	\$ (20,541,702)	\$ (1,047,027)

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

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

NOTE 1 - BASIS OF PRESENTATION

OVERVIEW

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

The Company does business with a major supplier, koncepts International Limited ("koncepts"). koncepts is a major stockholder of the Company, owning approximately 52% of our shares of common stock outstanding. koncepts is an indirect wholly-owned subsidiary of Starlight International Holdings Limited ("Starlight International"), a company whose principal activities include designing, manufacturing and selling electronic products through its various subsidiaries. Starlight International's products include television sets, consumer karaoke audio equipment and DVD products. We do business with a number of entities that are indirectly wholly-owned or majority owned subsidiaries of Starlight International, including Starlight Marketing Limited, Cosmo Communications Corporation ("Cosmo"), Starlite Consumer Electronics (USA), Inc., and Starlight Marketing Macao Commercial Offshore Limited, among others (Starlight International and its subsidiaries collectively referred to herein as the "Starlight Group" or "Starlight").

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING STANDARDS CODIFICATION

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

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES

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

COLLECTIBILITY OF ACCOUNTS RECEIVABLE

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

ACCOUNTS RECEIVABLE FACTORING

The Company's former factoring facility only financed non-recourse accounts receivable. Such receivables were considered to have been sold in accordance with ASC 860-30 Transfers and Servicing Secured Borrowing and Collateral. Accordingly, advances received pursuant to the factoring facility have been netted against the accounts receivable on the accompanying Consolidated Balance Sheets.

FOREIGN CURRENCY TRANSLATION

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

CONCENTRATION OF CREDIT RISK

The Company maintains cash balances in foreign financial institutions. The insured amounts at foreign financial institutions at March 31, 2011 and March 31, 2010 are \$27,448 and \$734,908, respectively. At times the Company maintains cash in United States bank accounts that are in excess of the Federal Deposit Insurance Corporation ("FDIC") insured amounts of up to \$250,000.

INVENTORY

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

REVENUE RECOGNITION

Revenue from the sale of equipment, accessories, and musical recordings are recognized upon the later of: (a) the time of shipment or (b) when title passes to the customers and all significant contractual obligations have been satisfied and collection of the resulting receivable is reasonably assured. Revenues from sales of consigned inventory are recognized upon sale of the product by the consignee. Net sales are comprised of gross sales net of actual and estimated future returns, discounts and volume rebates. The total returns represent 7.6%, 11.1%, and 8.7% of the gross sales for the twelve months ended March 31, 2011, 2010, and 2009, respectively.

STOCK BASED COMPENSATION

The Company began to apply the provisions of FASB ASC 718-20, Compensation – Stock Compensation Awards Classified as Equity, starting on January 1, 2006. ASC 718-20 requires all share-based payments to employees including grants of employee stock options, be measured at fair value and expensed in the consolidated statement of operations over the service period (generally the vesting period). Upon adoption, the Company transitioned to ASC 718-20 using the modified prospective application, whereby compensation cost is only recognized in the consolidated statements of operations beginning with the first period that ASC 718-20 is effective and thereafter, with prior periods' stock-based compensation still presented on a pro forma basis. Under the modified prospective approach, the provisions of ASC 718-20 are to be applied to new employee awards and to employee awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of employee awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of employee awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under ASC 718-20. The Company continues to use the Black-Scholes option valuation model to value stock options. As a result of the adoption of the provisions of ASC 718-20, for the years ended March 31, 2011, 2010 and 2009, the stock option expense was \$12,591, \$9,340 and \$17,285, respectively. Employee stock option compensation expense in fiscal years 2011, 2010 and 2009 includes the estimated fair value of options granted, amortized on a straight-line basis over the requisite service period for the entire portion of the award.

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the assumptions outlined below. The expected volatility is based upon historical volatility of our stock and other contributing factors. The expected term is based upon observation of actual time elapsed between date of grant and exercise of options for all employees. Previously such assumptions were determined based on historical data.

- For the year ended March 31, 2011: expected dividend yield 0%, risk-free interest rate of 0.22% to 0.30%, volatility 283.9% and expected term of three years.
- For the year ended March 31, 2010: expected dividend yield 0%, risk-free interest rate of 0.41%, volatility 268.4% and expected term of three years.
- For the year ended March 31, 2009: expected dividend yield 0%, risk-free interest rate of 0.57% to 1.41%, volatility 70.22% and 80.07% and expected term of three years.

ADVERTISING

Costs incurred for producing and publishing advertising of the Company, are charged to operations as incurred. The Company has entered into cooperative advertising agreements with its major customers that specifically indicated that the customer has to spend the cooperative advertising fund upon the occurrence of mutually agreed events. The percentage of the cooperative advertising allowance ranges from 2% to 8% of the purchase. The customers have to advertise the Company's products in the customer's catalog, local newspaper and other advertising media. The customer must submit the proof of the performance (such as a copy of the advertising showing the Company's products) to the Company to request for the allowance. The customer does not have the ability to spend the allowance at their discretion. The Company believes that the identifiable benefit from the cooperative advertising program and the fair value of the advertising benefit is equal or greater than the cooperative advertising expense. Advertising expense for the years ended March 31, 2011, 2010 and 2009 was \$685,416, \$944,072 and \$475,167, respectively.

RESEARCH AND DEVELOPMENT COSTS

All research and development costs are charged to results of operations as incurred. These expenses are shown as a component of selling, general and administrative expenses in the consolidated statements of operations. For the years ended March 31, 2011, 2010 and 2009, these amounts totaled \$66,875, \$45,146 and \$51,634, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The carrying amounts of the Company's short-term financial instruments, including accounts receivable, due from factors, accounts payable, customer credits on account, accrued expenses and loans payable to related parties approximates fair value due to the relatively short period to maturity for these instruments.

RECLASSIFICATIONS

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

INCOME TAXES

The Company follows the provisions in FASB ASC 740 "Accounting for Income Taxes." Under the asset and liability method of ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. If it is more likely than not that some portion of a deferred tax asset will not be realized, a valuation allowance is recognized.

The Company also follows the provisions in FASB ASC 740, Accounting for Uncertainty in Income Taxes. ASC 740 defines a recognition threshold and measurement attribute for financial statement recognition and measurements of tax positions taken or expected to be taken in a tax return. As of March 31, 2011 this position did not result in any adjustment to the Company's provision for income taxes.

As of March 31, 2011 and March 31, 2010, The Singing Machine had gross deferred tax assets of approximately \$3.5 million and \$4.1 million, respectively, against which the Company recorded valuation allowances totaling approximately \$3.5 million and \$4.1 million, respectively.

As of March 31, 2011 the Company is subject to U.S. Federal income tax examinations for the tax years ended March 31, 2008 through March 31, 2010.

LONG-LIVED ASSETS

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

PROPERTY AND EQUIPMENT

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

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalent balances at March 31, 2011 and March 31, 2010 were \$674,712 and \$865,777, respectively.

SHIPPING AND HANDLING COSTS

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

F-9

NOTE 3 - INVENTORIES

Inventories are comprised of the following components:

	March 31, 2011	March 31, 2010
Finished Goods	\$ 3,467,946	\$ 3,153,917
Less: Inventory Reserve	(451,001)	(349,069)
Total Inventories	\$ 3,016,945	\$ 2,804,848

Inventory consigned to a distribution center at March 31, 2011 and March 31, 2010 was \$353,201 and \$353,557, respectively.

NOTE 4 - ACCOUNTS RECEIVABLE FACTORING AGREEMENT

On June 8, 2010 the Company was notified by DBS Bank that our credit and factoring facilities totaling \$13.0M were being withdrawn effective upon receipt of amounts due on both factoring and accounts payable financing facilities. As of March 31, 2010, the Company had \$1,091,828 outstanding amounts due to DBS relating to the financing facility. This amount was paid through August 31, 2010. The Company does not have a new factoring facility at March 31, 2011.

NOTE 5 - PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	USEFUL LIFE	MARCH 31, 2011	MARCH 31, 2010
Computer and office equipment	5 years	\$ 660,948	\$ 660,948
Furniture and fixtures	5-7 years	217,875	217,875
Leasehold improvement	*	151,503	151,503
Warehouse equipment	7 years	101,521	101,521
Molds and tooling	3-5 years	1,847,106	1,820,106
		2,978,953	2,951,953
Less: Accumulated depreciation and amortization		(2,645,102)	(2,214,987)
		\$ 333,851	\$ 736,966

* Shorter of remaining term of lease or useful life

Depreciation and amortization for fiscal years ended 2011, 2010, and 2009 was \$430,115, was \$439,432, and \$459,354, respectively.

NOTE 6 – DUE TO RELATED PARTIES, NET

As of March 31, 2011 the Company had \$4,542,613 due to related parties consisting primarily of trade payables for karaoke hardware to Starlight Marketing Development Ltd in the amount of \$2,063,213 and to Ram Light Management, Ltd in the amount of \$1,683,247, trade payables for consumer electronic products of \$217,493 due to

Cosmo USA, and \$431,373 due to Starlight R&D for tooling and tooling modifications. There were net additional amounts due to other Starlight Group companies totaling \$147,287 related to other expenses provided to us by these companies.

As of March 31, 2010 the Company had \$3,033,801 due to related parties consisting primarily of trade payables for karaoke hardware to Starlight Marketing Development Ltd in the amount of \$860,355 and to Ram Light Management, Ltd in the amount of \$1,683,747, trade payables for consumer electronic products of \$199,996 due to Cosmo USA, and \$431,653 due to Starlight R&D for tooling and tooling modifications. There were net additional amounts due from other Starlight Group companies totaling \$141,950 related to other expenses and services provided by us to these companies.

NOTE 7 - OBLIGATIONS TO CLIENTS FOR RETURNS AND ALLOWANCES

Due to the seasonality of the business and length of time clients are given to return defective product, it is not uncommon for clients to accumulate credits from the Company's sales and allowance programs that are in excess of unpaid invoices in accounts receivable. All credit balances in clients' accounts receivable are reclassified to obligations to clients for returns and allowances in current liabilities on the Consolidated Balance Sheet. Client requests for payment of a credit balance are reclassified from obligations to clients for returns and allowances to accounts payable on the Consolidated Balance Sheet. When new invoices are processed prior to settlement of the credit balance and the client accepts settlement of open credits with new invoices, then the excess of new invoices over credits are netted in accounts receivable. As of the periods ended March 31, 2011 and March 31, 2010 obligations to clients for returns and allowances reclassified from accounts receivable were \$435,341 and \$742,009, respectively. There were no credit amounts requested by clients to be paid for the periods ended March 31, 2011 and March 31, 2010 and as such no amounts were reclassified from obligations to clients for returns and allowances to accounts payable.

NOTE 8 – FINANCING

As of March 31, 2010 the Company owed DBS Bank \$1,091,828 pursuant to an accounts payable financing facility. The proceeds were used to pay China manufacturing vendors. The balance of this facility was repaid during fiscal year 2011. The Company does not have a borrowing facility with a financial institution at March 31, 2011.

On June 8, 2010 the Company was notified by DBS Bank that our credit and factoring facilities totaling \$13.0M were being withdrawn effective upon receipt of amounts due on both factoring and accounts payable financing facilities.

In light of the loss of our financing facility, our parent company, the Starlight Group (“Group”), has expressed their willingness and ability to provide bridge financing and advance funds to us for key vendor payments as well as extending longer payment terms for goods they manufacture for us. We estimate our bridge financing requirements from the Group will be between \$250,000 and \$500,000 for the fiscal year ending March 31, 2012. These funds are expected to be made available by the Group primarily through extended terms for trade payables with the Group. During the fiscal year ended March 31, 2011, our related party debt increased by approximately \$1.5 million. Taking into account internally generated funds and credit facilities available to the Group and proposed use of proceeds which include up to \$500,000 of bridge financing for the Company, we have concluded that the Group will have sufficient working capital to provide bridge financing to the Company for at least the next 12 months.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

MGA ENTERTAINMENT, INC. v. THE SINGING MACHINE COMPANY, INC. (CENTRAL DISTRICT COURT OF CALIFORNIA, CASE CV 10-03761 DOC (RNBX))

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

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

As of March 31, 2011 the total amount due to MGA Entertainment, Inc. was \$304,216. This amount includes: \$62,216 of additional royalties due in excess of guaranteed minimum advances on the karaoke products licensing agreement and \$242,000 for guaranteed minimum advances on the consumer electronics agreement. These amounts have not been included in the consolidated financial statements since it would be considered a “gross-up” of the balance sheet. The amounts due have not been paid due to litigation between Mattel Inc. and MGA Entertainment Inc. wherein Mattel has legally challenged MGA's trademark rights to the BRATZ™ franchise. Prior to the Company entering into the above License Agreements with MGA, Mattel, a competitor to MGA, filed a complaint against MGA on or about April, 2005 alleging ownership to the “Bratz” concept. The Mattel/MGA Litigation was tried in phases and, on July 17, 2008, a jury returned a verdict in favor of Mattel and against MGA concerning ownership of the Bratz concept. The Jury determined that MGA did not and never did own any right, title or interest in or to the Bratz identity including the brand, sculptures, likenesses, trademarks etc. The cases were retried in January and February 2011 and the jury found in favor of MGA in both matters. Notwithstanding the jury verdict, the case is still pending

and Mattel is expected to appeal.

MGA Entertainment, Inc. (MGA) filed an action against the Company on April 16, 2010 alleging breach of contract, breach of implied covenant of good faith and fair dealing, and conversion claims relating to the above licensing agreements.

The Company has responded to the above captioned case and has removed the case to federal court, case no. CV 10-03761 DOC (RNBX). Based upon legal opinion from outside Counsel, the Company believes it has defenses to the claims raised by MGA. At the time of this filing, the case is still in early stages of litigation and the outcome is unknown. See Item 3, "Legal Proceedings" for more detailed disclosure on this litigation.

F-11

The Company has also filed a class-action lawsuit on behalf of itself and all similarly situated licensees against MGA in the Central District Court of California, case no. CV 10-4536-DOC(RNBX). The Company alleges breach of contract, failure of consideration for the licensing agreements, and other claims based on various state and federal laws.

Based on advice from Counsel, the Company is of the opinion the Mattel/MGA Litigation will not materially affect the outcome of the MGA/Singing Machine Litigation. The Company's class-action lawsuit is based on the belief that the above licensing agreements with MGA were entered into through an intentional or negligent concealment of a known material fact on the part of MGA – namely the pending lawsuit by Mattel challenging MGA's ownership of the Bratz designs that were the very subject of the license agreements. The Company has not accrued any additional liability beyond the initial \$85,000 originally recorded for this vendor. Due to the multiple pending cross-litigation between the Company and MGA, the Company cannot provide a reasonable estimate of contingent liability.

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

INCOME TAXES

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

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

Based on the conclusion reached in the legal memorandum, management does not believe that the Company will have any further liability and has not accrued any liability in this matter.

LEASES

The Company has entered into various operating lease agreements for office and warehouse facilities in Coconut Creek, Florida, City of Industry, California and Macau. The leases expire at varying dates. Rent expense for the years ended March 31, 2011, 2010 and 2009 was \$773,964, \$864,523 and \$961,226, respectively.

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

Future minimum lease payments under property and equipment leases with terms exceeding one year as of March 31, 2011 are as follows:

	Property Leases
For fiscal year ending March 31,	
2012	\$ 675,460
2013	671,044
2014	57,384
2015	-
2016 and beyond	-
	\$ 1,403,888

The above property lease payments are gross payments which are not net of supplemental sublease fees we receive. During fiscal years 2011, 2010 and 2009 the Company received fees of approximately \$15,000, \$45,000 and \$45,000 respectively, for sublease of warehouse space and warehousing services provided to affiliated entities out of its California warehouse.

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

FINANCING

The Company primarily relied on its parent company, The Group, favorable vendor payment terms and one major customer's "Quick-Pay" program for financing the company's operations during Fiscal 2011. The company will continue to rely on The Group to finance any working capital shortfalls during fiscal year ending March 31, 2012 as the Company attempts to secure an Accounts Receivable factoring facility to replace the DBS factoring facility that was terminated in June 2010. Any change in the ability of The Group to provide financing or the company's inability to secure a replacement factoring agreement could adversely affect our ability to pay vendors and receive product to fill customer orders.

NOTE 10 - SHAREHOLDERS' EQUITY

COMMON STOCK ISSUANCES

During the years ended March 31, 2011, 2010, and 2009, the Company issued the following common stock shares:

2011:

On August 31, 2010 the Company issued 249,999 shares of its common stock to our Board of Directors at \$.03 per share, pursuant to our annual director compensation plan.

2010:

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

2009:

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

On March 25, 2009, the Company issued 2,267,220 shares of common stock to Arts Electronics, Ltd for \$226,722 (\$.10 per share) to offset a trade payable.

On March 25, 2009, the Company issued 2,450,000 shares of common stock to koncepts International Limited for \$245,000 (\$.10 per share) to offset a trade payable.

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

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

EARNINGS PER SHARE

In accordance with FASB ASC 210, "Earnings per Share", basic (loss) earnings per share are computed by dividing the net (loss) earnings for the year by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net earnings for the year by the weighted average number of common shares outstanding including the effect of common stock equivalents.

For the years ended March 31, 2011, 2010 and 2009, common stock equivalents to purchase 551,380, 1,836,710 and 3,209,965 shares of stock, respectively, were not included in the computation of diluted earnings per share because the exercise prices were greater than the average market price of the Company's common stock for the period.

STOCK OPTIONS

On June 1, 2001, the Board of Directors approved the 2001 Stock Option Plan ("Plan"), which replaced the 1994 Stock Option Plan, as amended, (the "1994 Plan"). The Plan was developed to provide a means whereby directors and selected employees, officers, consultants, and advisors of the Company may be granted incentive or non-qualified stock options to purchase common stock of the Company. As of March 31, 2011, the Plan is authorized to grant options up to an aggregate of 1,950,000 shares of the Company's common stock and up to 300,000 shares for any one individual grant in any fiscal year. As of March 31, 2011, the Company had 326,105 options available to be granted under the 2001 Plan. As of March 31, 2010, the Company had 870,775 options available to be granted under the 1994 Plan.

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

	Fiscal 2011		Fiscal 2010		Fiscal 2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock Options:						
Balance at beginning of period	646,710	\$ 0.62	1,133,215	\$0.64	1,247,815	\$ 1.25
Granted	580,000	\$ 0.06	60,000	\$0.11	420,000	\$ 0.13
Exercised	-	-	-	-	-	-
Forfeited	(35,330)	\$ 0.91	(546,505)	\$0.53	(534,600)	\$ 1.90
Balance at end of period	1,191,380	\$ 0.56	646,710	\$0.56	1,133,215	\$ 0.58
Options exercisable at end of period	611,380	\$ 0.54	586,710	\$0.62	709,965	\$ 0.83

The following table summarizes information about employee stock options outstanding at March 31, 2011:

Range of Exercise Price	Number Outstanding March 31, 2011	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable at March 31, 2011	Weighted Average Exercise Price
\$.03 - \$.77	1,136,000	7.9	0.23	556,000	0.46
1.20 - \$9.00	55,380	3.1	1.93	55,380	1.93
	1,191,380			611,380	

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

NOTE 11 - INCOME TAXES

The Company files tax returns in the United States. The Macau Subsidiary has received approval from the Macau government to operate its business as a Macau Offshore Company (MOC), and is exempt from the Macau income tax. For the fiscal years ended March 31, 2011, 2010 and 2009, the Macau Subsidiary recorded no tax provision. The Company has now exhausted its ability to carry back any further losses and therefore will only be able to recognize tax benefits to the extent that it has future taxable income.

Due to the change of control of the Company, the net operating loss carry over is subject to the IRS Section 382 limitation. As of March 31, 2011, 2010 and 2009, The Singing Machine had net deferred tax assets of approximately \$3.5 million, \$4.1 million, and \$3.1 million, respectively, against which the Company recorded valuation allowances totaling approximately \$3.5 million, \$4.1 million, and \$3.1 million, respectively.

The income tax expense (benefit) for federal, foreign, and state income taxes in the consolidated statement of operations consisted of the following components for 2011, 2010, and 2009:

	2011	2010	2009
Current:			
U.S. Federal	\$ (391,685)	\$ (999,213)	\$ (878,241)
State	(34,793)	(96,851)	(77,918)

Edgar Filing: SINGING MACHINE CO INC - Form 10-K

Deferred	426,478	1,096,064	992,811
	\$ -	\$ -	\$ 36,652

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

	2011	2010	2009
United States	(1,152,015)	(2,938,861)	\$ (2,583,061)
Foreign	532,467	(111,226)	428,498
	\$ (619,548)	\$ (3,050,087)	\$ (2,154,563)

The actual tax expense differs from the "expected" tax expense for the years ended March 31, 2011, 2010, and 2009 (computed by applying the U.S. Federal Corporate tax rate of 34 percent to income before taxes) as follows:

F-14

	2011	2010	2009
Expected tax (benefit) expense	(210,646)	(1,037,030)	\$ (732,551)
State income taxes, net of Federal income tax benefit	(34,794)	(96,852)	(77,919)
Permanent differences	4,347	3,430	6,446
Change in valuation allowance	(632,559)	983,094	652,738
Tax rate differential on foreign earnings	(181,039)	37,817	(145,689)
Other	1,054,691	109,541	333,627
Actual tax (benefit) expense	-	-	\$ 36,652

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

	2011	2010	2009
Deferred tax assets:			
Federal net operating loss carryforward	\$ 2,141,339	\$ 2,822,902	\$ 1,616,816
State net operating loss carryforward	852,549	606,284	509,378
AMT credit carryforward	70,090	70,090	70,090
Inventory differences	24,572	263,103	445,109
Allowance for doubtful accounts	59,773	63,038	89,073
Reserve for sales returns	48,967	42,061	97,933
Charitable contributions	60,700	60,700	60,700
Accrued Vacation	8,550	12,385	12,568
Depreciation and amortization	198,606	149,478	197,614
Amortization of reorganization intangible	15,329	22,993	30,658
Total deferred tax assets	3,480,475	4,113,034	3,129,940
Total deferred tax liability	-	-	-
Net deferred tax assets before valuation allowance	3,480,475	4,113,034	3,129,940
Valuation allowance	(3,480,475)	(4,113,034)	(3,129,940)
Net deferred tax assets	\$ -	\$ -	\$ -

At March 31, 2011, the Company has federal tax net operating loss carry forwards in the amount of approximately \$6.3 million, which expire beginning in the year 2023. In addition, state tax net operating loss carry forwards in the amount of approximately \$10.0 million which expire beginning in 2013. The Company is no longer subject to income tax examinations for fiscal years before 2008.

NOTE 12 - SEGMENT INFORMATION

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

FOR THE FISCAL YEARS ENDED
March 31,

	2011	2010	2009
North America	\$ 18,925,399	\$ 18,512,225	\$ 26,154,402
Europe	240,580	2,740,842	4,813,309
Others	-	24,303	812,998
	\$ 19,165,979	\$ 21,277,370	\$ 31,780,709

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

NOTE 13 - EMPLOYEE BENEFIT PLANS

The Company has a 401(k) plan for its employees to which the Company makes contributions at rates dependent on the level of each employee's contributions. Contributions made by the Company are limited to the maximum allowable for federal income tax purposes. The amounts charged to operations for contributions to this plan and administrative costs during the years ended March 31, 2011, 2010, and 2009 totaled \$18,660, \$15,749 and \$17,825, respectively. The amounts are included as a component of general and administrative expense in the accompanying Consolidated Statements of Operations. The Company does not provide any post employment benefits to retirees.

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

The Company derives a majority of its revenues from retailers of products in the United States. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of accounts receivable. The Company's allowance for doubtful accounts is based upon management's estimates and historical experience and reflects the fact that accounts receivable are concentrated with several large customers whose credit worthiness have been evaluated by management. At March 31, 2011, 61% of accounts receivable were due from two customers in North America. Accounts receivable from customers that individually owed over 10% of total accounts receivable was 37% and 24% at March 31, 2011. Accounts receivable from customers that individually owed over 10% of total accounts receivable was 42% and 15% at March 31, 2010. The Company performs ongoing credit evaluations of its customers.

Revenues derived from five customers in 2011, 2010, and 2009 were 74%, 74% and 61% of total revenues, respectively. Revenues derived from top three customers in 2011, 2010 and 2009 as percentage of the total revenue were 29%, 25% and 9%; 28%, 17% and 13%; and 21%, 18% and 10%, respectively. The loss of any of these customers can have an adverse impact on the financial position of the Company.

Net sales derived from the Hong Kong and Macau Subsidiaries aggregated \$5.0 million in 2011, \$3.6 million in 2010 and \$17.1 million in 2009.

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

During fiscal years 2011, 2010, and 2009, manufacturers in the People's Republic of China ("China") accounted for approximately 99%, 99% and 99%; respectively of the Company's total product purchases, including all of the Company's hardware purchases.

NOTE 15 - QUARTERLY FINANCIAL DATA - UNAUDITED

The following financial information reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of the results of the interim periods. The quarterly unaudited results for the years 2011, 2010, and 2009 are set forth in the following table:

F-16

	Sales (In thousands)	Gross Profit (In thousands)	Net Earnings (Loss) (In thousands)	Basic Earnings (Loss) Per Share	Diluted Earnings (Loss) Per Share
2011					
First quarter	\$ 2,092	\$ 576	\$ (480)	\$(0.01)	\$(0.01)
Second quarter	8,358	1,693	292	0.01	0.01
Third quarter	6,936	1,633	81	0.00	0.00
Fourth quarter	1,780	343	(513)	(0.02)	(0.02)
Fiscal Year 2011	\$ 19,166	\$ 4,245	\$ (620)	\$(0.02)	\$(0.02)
2010					
First quarter	\$ 814	\$ (286)	\$ (1,553)	\$(0.04)	\$(0.04)
Second quarter	6,991	1,384	(313)	(0.01)	(0.01)
Third quarter	11,976	2,994	247	0.01	0.01
Fourth quarter	1,496	(196)	4,670	(0.04)	(0.04)
Fiscal Year 2010	\$ 21,277	\$ 3,896	\$ 3,051	\$(0.08)	\$(0.08)
2009					
First quarter	\$ 1,770	\$ 203	\$ (1,050)	\$(0.03)	\$(0.03)
Second quarter	12,616	2,021	103	-	-
Third quarter	16,612	3,772	464	0.01	0.01
Fourth quarter	783	(52)	(1,708)	(0.05)	(0.05)
Fiscal Year 2009	\$ 31,781	\$ 5,944	\$ (2,191)	\$(0.07)	\$(0.07)

NOTE 16 – RELATED PARTY TRANSACTIONS

TRADE

On August 1 2010, our subsidiary SMC-L entered into a service and logistics agreement with Starlite Consumer Electronics (USA), Inc. (“Starlite USA”), an indirect wholly-owned subsidiary of Starlight International, and Cosmo USA to provide logistics, fulfillment, and warehousing services for Starlite USA and Cosmo USA, domestic sales. For these services, Starlite USA and Cosmo USA have agreed to pay the Company an annual service fee of \$1,000,000 payable monthly beginning August 1, 2010. This agreement generated approximately \$667,000 for Fiscal 2011 and is projected to generate \$333,000 in fees for Fiscal 2012. These amounts were used to offset logistics expenses for the warehouse and are shown in the accompanying Consolidated Statements of Operations as a component of general and administrative expenses. This agreement terminates on July 31, 2011 at which time another annual agreement is expected to be signed for approximately the same amount.

During Fiscal 2011 we sold approximately \$1,659,000 of product to Star Light Electronics Company, Ltd. (“Star Light”) a related company, for direct shipment to Cosmo Communications of Canada, Ltd (“Cosmo”), another related company, at discounted pricing granted to major distributors. In addition, we sold and additional 234,000 of product to Cosmo from our California warehouse facility. The average gross profit margin on sales to Cosmo yielded 11.4%. Cosmo was our primary distributor of the Company’s product to Canada in Fiscal 2011 and will continue in this role for Fiscal 2012.

On August 1 2009, our subsidiary SMC-L entered into a service and logistics agreement with Starlite Consumer Electronics (USA), Inc. (“Starlite USA”), an indirect wholly-owned subsidiary of Starlight International, and Cosmo to

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

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

F-17

The Company purchased product from a vendor in China that is also a 10% shareholder. The Company purchased \$515,266 and \$12,385,799 during Fiscals 2010 and 2009 respectively and owed them \$200,000 and \$1,475,046 as of March 31, 2010 and 2009, respectively.

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

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

On August 1, 2006, our subsidiary SMC Macao entered into a service agreement with Star Light Electronics Company Limited, an indirect wholly-owned subsidiary of Starlight International, to provide shipping and engineering services to us for a fee of \$25,000 per month. This amount increased to \$29,000 per month effective July 1, 2008 however, due to a decrease in services provided to us, the fee was reduced for a period of time. Effective July 1, 2009 this amount was permanently reduced to \$14,000 per month. Effective August 1, 2010 the amount was again reduced to \$8,000 per month due to decreased services provided to us. For Fiscal 2011 and Fiscal 2010, this service charge was \$120,000 and \$216,000, respectively.

NOTE 17 – WARRANTY PROVISIONS

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

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

	Fiscal Year Ended	
	March 31, 2011	March 31, 2010
Estimated return and allowance liabilities at beginning of period	\$ 123,708	\$ 288,039
Costs accrued for new estimated returns and allowances	588,927	502,038
Return and allowance obligations honored	(568,613)	(666,369)
Estimated return and allowance liabilities at end of period	\$ 144,022	\$ 123,708

NOTE 18 – SUBSEQUENT EVENTS

We evaluated the effects of all subsequent events from the end of the fiscal year ended March 31, 2010 through May 15, 2011, the date we filed our financial statements with the U.S. Securities and Exchange Commission ("SEC"). There are no events requiring disclosure as per FASB ASC 855, Subsequent Events ("ASC 855").

F-18

SUPPLEMENTAL DATA
SCHEDULE II

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Reduction to Allowance for Write off	Credited to Costs and Expenses	Balance at End of Period
Year ended March 31, 2011					
Reserves deducted from assets to which they apply:					
Allowance for doubtful accounts	\$ 185,407	\$20,143	\$ (29,746)	\$-	\$175,804
Deferred tax valuation allowance	\$ 4,113,034	\$ (632,559)	\$ -	\$-	\$3,480,475
Inventory reserve	\$ 349,069	\$101,932	\$ -	\$-	\$451,001
Year ended March 31, 2010					
Reserves deducted from assets to which they apply:					
Allowance for doubtful accounts	\$ 261,980	\$59,085	\$ (135,658)	\$-	\$185,407
Deferred tax valuation allowance	\$ 3,129,940	\$983,094	\$ -	\$-	\$4,113,034
Inventory reserve	\$ 745,388	\$376,855	\$ (773,174)	\$-	\$349,069
Year ended March 31, 2009					
Reserves deducted from assets to which they apply:					
Allowance for doubtful accounts	\$ 120,899	\$197,178	\$ (70,058)	\$13,961	\$261,980
Deferred tax valuation allowance	\$ 2,477,202	\$689,390	\$ (36,652)	\$-	\$3,129,940
Inventory reserve	\$ 497,984	\$700,709	\$ (316,734)	\$ (136,571)	\$745,388