SINGING MACHINE CO INC
Form S-1/A
January 05, 2005

As filed with the Securities and Exchange Commission on January 4, 2005
Registration No. 333-109574

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 4
TO

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

THE SINGING MACHINE COMPANY, INC.

(Name of Small Business Issuer in Its Charter)

DELAWARE	5065	95-3795478
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification)	(IRS Employer Identification No.)

YI PING CHAN, INTERIM CHIEF EXECUTIVE OFFICER,
CHIEF OPERATING OFFICER AND SECRETARY
6601 LYONS ROAD, BLDG. A-7
COCONUT CREEK, FL 33073
(954) 596-1000

(Address and telephone number of Registrant's principal executive offices and principal place of business)

DARRIN M. OCASIO, ESQ.
SICHENZIA ROSS FRIEDMAN FERENCE LLP
1065 AVENUE OF THE AMERICAS
NEW YORK, NY 10018
(212) 930-9700
(212)-930-9725 - FACSIMILE

(Name, address and telephone number of agent for service)

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THE REGISTRATION STATEMENT BECOMES EFFECTIVE.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: [X]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If delivery of the Registration Statement is expected to be made pursuant to Rule 434, check the following box. [_]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SECURITY	PROPOSED MAXIMUM AGGREGATE OFFERI PRICE
Common Stock (1)	1,838,602	$ 0.575(1)	$ 1,057,196.1
Common Stock (2)	40,151	$ 1.21	$ 48,582.7
Common Stock (3)	1,038,962	$ 4.25	$ 4,405,198.8
Common Stock (5)	561,039	$ 4.25	$ 2,384,157.5
Common Stock (6)	207,791	$ 4.25	$ 883,111.7
Common Stock (7)	311,680	$ 4.25	$ 1,324,640.0
Common Stock (7)	635,842	$ 4.25	$ 2,702,328.5
Total	4,634,067		

(1) Represents 1,797,917 shares of our common stock issuable upon conversion of outstanding securities, and an additional 40,685 additional shares that we are required to registered pursuant to registration rights agreement. Estimated solely for the purpose of determining the registration fee, in accordance with Rule 457(c), based on the average high and low prices of our common stock as reported on the American Stock Exchange on September 27, 2004 ($0.575).

(2) Represents shares of common stock issued to A.G. Edwards & Sons, Inc.

(3) Represents shares of common stock issuable upon exercise of outstanding convertible debentures held by certain selling stockholders. Pursuant to Rule 416, there are also being registered such additional number of shares of common stock as may become issuable pursuant to the anti-dilution provisions of the debentures.

(4) Previously paid.

(5) Represents shares of common stock being issuable upon exercise of outstanding common stock purchase warrants held by certain selling stockholders. Pursuant to Rule 416, there are also being registered such additional number of shares of common stock as may become issuable pursuant to the anti-dilution provisions of the common stock purchase warrants.

(6) Represents a good faith estimate of the anticipated maximum number of shares of common stock which the Registrant may issued to the holders of the debentures in payment of interest accruing thereon.

(7) Represents additional shares that the Registrant's required to register pursuant to a registration rights agreement. The Registrant has registered an

additional 40,685 shares (described in footnote 1). Under the registration rights agreement, the Registrant is required to register an additional 30% of the aggregate amount of shares issuable upon (a) conversion of the convertible debentures, (b) exercise of the warrants; (c) interest payments on the debentures and (d) pursuant to the anti-dilution provision in the debenture.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THOSE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS PROHIBITED.

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SUBJECT TO COMPLETION, DATED JANUARY 4, 2005

PROSPECTUS

4,634,067 SHARES OF COMMON STOCK

[GRAPHIC OMITTED]

THE SINGING MACHINE COMPANY, INC.

We are registering for resale an aggregate of 4,634,067 shares of common stock of The Singing Company, Inc. that have been issued or may be issued to certain of our stockholders named in this Prospectus and their transferees.

We will not receive any proceeds from the sale of the shares, but we will receive proceeds from the selling stockholders if they exercise their warrants. Our common stock is quoted on the American Stock Exchange under the symbol "SMD. " On December 27, 2004, the closing sales price of our common stock, as reported on AMEX was $0.69 per share. We are registering approximately 45.90% of our common stock for resale as determined on a fully diluted basis.

The shares of common stock may be sold from time to time by the selling stockholders in one or more transactions at fixed prices, at market prices at the time of sale, at varying prices determined at the time of sale or at negotiated prices. The selling stockholders and any broker-dealer who may participate in the sale of the shares may use this Prospectus. See "Plan of Distribution."

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 1.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

THE DATE OF THIS PROSPECTUS IS JANUARY __, 2005

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PROSPECTUS SUMMARY

This Summary highlights information contained elsewhere in this Prospectus. We encourage you to read the entire Prospectus carefully, including the section entitled "Risk Factors" and the financial statements and the notes to those financial statements.

COMPANY OVERVIEW

We are engaged in the production and distribution of karaoke audio software and electronic recording equipment. Our electronic karaoke machines and audio software products are marketed under the Singing Machine(R), MTV(R), Nickelodeon(R), Care Bears(R) and Motown(R) brand names. Our corporate offices are located at 6601 Lyons Road, Building A-7, Coconut Creek, Florida 33073, and our telephone number is (954) 596- 1000.

THE OFFERING

Common Stock offered by the Selling Stockholders	4,634,067
Common Stock Outstanding Prior to the Offering(1)	9,202,318
Common Stock Outstanding after the Offering(2)	13,836,385

Use of Proceeds	We will not receive any proceeds from the sale of common stock by the selling stockholders.

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(1) Based on the number of shares actually outstanding as of November 22, 2004. Does not include (a) options to purchase 1,101,490 shares of our common stock which are currently outstanding under our 1994 Amended and Restated Stock Option Plan and our Year 2000 Stock Option Plan, and (b) an aggregate of 4,634,067 shares which are being registered in this registration statement, which includes 2,836,879 shares issuable upon conversion of our outstanding convertible debentures, 591,039 shares issuable upon exercise of outstanding warrants, 207,791 shares which may be issued as interest payments on the debentures, 988,307 shares as a good faith estimate of additional shares that may be issued pursuant to our obligations under a registration rights agreement and 40,151 shares issued to AG Edwards.

(2) Assumes the issuance of 4,634,067 shares of our common stock which are being registered in this registration. Does not include options to purchase 1,101,490 shares of our common stock which are currently outstanding under our 1994 and 2000 Year Stock Option Plans.

RISK FACTORS

You should carefully consider the following factors and other information in this Prospectus before deciding to purchase our common stock.

FACTORS THAT MAY AFFECT FUTURE RESULTS AND MARKET PRICE OF STOCK

RISKS ASSOCIATED WITH OUR BUSINESS

WE HAVE SIGNIFICANT WORKING CAPITAL NEEDS AND IF WE ARE UNABLE TO OBTAIN ADDITIONAL FINANCING, WHEN NEEDED, WE MAY NOT HAVE SUFFICIENT CASH FLOW TO RUN OUR BUSINESS

As of September 30, 2004, our cash on hand is limited. We need approximately $1.8 million in working capital in order to finance our operations over the next three months. We plan on financing our working capital needs from the collection of accounts receivable, and sales of existing inventory. As of September 30, 2004, our inventory was valued at $3.4 million. We have entered into a factoring agreement with Crestmark Financing. The agreement allows us to receive up to 70% of our eligible account receivables by pledging these accounts as collateral. The maximum amount we may receive is $2,500,00. The account receivable is with recourse. The interest rate on the advance is 2% plus prime rate currently 6.5%. The maintenance fee is 1% of the invoice face value, which will be posted to the account when the cash is collected. The minimum fee per month is $9000. However, See "Liquidity" section. If we are not able to obtain adequate financing, when needed, it will have a material adverse effect on our cash flow and our ability to run our business. If we have a severe shortage of working capital, we may not be able to continue our business operations and may be required to file a petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code or enter into some other form of liquidation or reorganization proceeding.

WE MAY BE DEEMED TO INSOLVENT AND WE MAY GO OUT OF BUSINESS

As of September 30, 2004, our cash position is limited. We are not able to pay all of our creditors on a timely basis. We are past due on approximately 24% of our accounts payable, which totaled $1.7 million as of September 30, 2004. If we are not able to pay our current debts as they become due, we may be deemed to be insolvent. We may be required to file a petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code or enter into some other form of liquidation or reorganization proceedings.

OUR FORMER INDEPENDENT REGISTERED PUBLIC ACCOUNTANTING FIRM RAISED SUBSTANTIAL DOUBT ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN AS OF MARCH 31, 2004 AND 2003

We received a report dated June 16, 2004 (except for the last paragraph of note 7 as to which the date is July 14, 2004) from our former independent registered public accounting firm covering the consolidated financial statements for our fiscal year ended March 31, 2004 that included an explanatory paragraph which stated that the financial statements were prepared assuming the Singing Machine would continue as a going concern. This report stated that our operating performance in fiscal 2004 and our minimal liquidity raised substantial doubt about our ability to continue as a going concern. If we are not able to raise additional capital, we may need to curtail or stop our business operations. We may be required to file a petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code or enter into some other form of liquidation or reorganization proceedings.

WE HAVE JUST RECENTLY IMPLEMENTED A NUMBER OF PROCEDURES TO CORRECNT A NUMBER OF DEFICIENCIES WHICH CONSTITUTE MATERIAL WEAKNESSES IN OUR INTERNAL CONTROLS AND PROCEDURES IN WHICH WERE IDENTIFIED IN THE AUDIT OF OUR CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL 2004

The identified deficiencies in our internal controls were related to:

o weaknesses in our financial reporting processes as a result of a lack of adequate staffing in the accounting department,

o accounting for consigned inventory and inventor costing.

We have implemented a number of procedures to correct these weaknesses in our internal controls. Specifically, the Registrant has expanded its personnel responsible for certain financial reporting by retaining a Chief Financial Officer, a Principal Accounting Officer and added a member to the accounting staff. The Registrant has also developed a monthly procedure for reconciling the accounting for consigned inventory and inventory costing. However, no assurances can be given that we will be able to successfully implement our revised internal controls and procedures or that our revised controls and procedures will be effective in remedying all of the identified material weaknesses in our controls and procedures. If we are unable to implement these changes effectively or efficiently there could be a material adverse effect on our operations or financial results.

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 fiscal period ended March 31, 2004, 2003 and 2002 were approximately 53%, 67% and 87%, respectively. In fiscal 2004, three customers accounted for 20%, 12% and 8% of our net sales. The customers are Arbiter, Giochi and Best Buy, 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 SIX FACTORIES TO MANUFACTURE AND PRODUCE THE MAJORITY OF OUR KARAOKE MACHINES FOR FISCAL 2005, AND IF THE RELATIONSHIP WITH THESE FACTORIES IS DAMAGED OR INJURED IN ANY WAY, IT WOULD REDUCES OUR REVENUES AND PROFITABILITY

We have worked out a verbal agreement with six factories in China to produce approximately 95% of our karaoke machines in fiscal 2005. We owe one of these factories approximately $1.4 million as of October 30, 2004 and have worked out a payment plan with it. See the "Liquidity" Section. If the factory is unwilling or unable to deliver our karaoke machines to us, our business will be adversely affected. Because our cash on hand is minimal, we are relying on revenues received from the sale of our ordered karaoke machines to provide cash flow for our operations. If we do not receive cash from these sales, we may not be able to continue our business operations.

WE ARE 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 2004 and 2003, a number of our customers and distributors returned karaoke products that they purchased from us. Our total returns represented 9.4% and 10.4% of our net sales in fiscal 2004 and fiscal 2003, respectively. In the fourth quarter of fiscal 2004, our customers returned goods valued at $1.8 million, or 2.5% of our net sales.

Because we are dependent upon a few large customers, we are subject to the risk that any of these customers may elect to return unsold karaoke products to us in the future. If any of our customers were to return karaoke products to us, it would reduce our revenues and profitability.

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

Because there is intense competition in the karaoke industry, we are subject to pricing pressure from our customers. Many of our customers have demanded that we lower our prices or they will buy our competitor's products. If we do not meet our customer's demands for lower prices, we will experience lower sales volume. In our fiscal year ended March 31, 2004, our sales to customers in the United States decreased because of increased price competition. During fiscal 2004, we sold 20.2% of our karaoke machines at prices that were equal to or below cost. We will not be able to stay in business if we continue to sell our karaoke machines at prices that are at or below cost. 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 selling prices. In fiscal 2004, we gave our customers $2.1 million of credits on these accounts because the sell-through of our products was not as strong as we had expected. We also provided our customers with advertising allowances in the amount of $2.3 million during fiscal 2004 and $4.1 million during fiscal 2003. 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 Asia for our machine production, our production lead times range from one to four months. Therefore, we must commit to production in advance of customers orders. It is difficult to forecast customer demand because we do not have any scientific or quantitative method to predict this demand. Our forecasting is based on management's general expectations about customer demand, the general strength of the retail market and management's historical experiences. We overestimated demand for our products in fiscal 2003 and had $25.2 million in inventory as of March 31, 2003. Because of this excess inventory, we had liquidity problems in fiscal 2004 and our revenues, net income and cash flow were adversely affected. We had a net loss of $22.7 million in fiscal 2004, which limited our 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 or the order and the delivery date, which reduces our cash flow. As of March 31, 2003, we had $25.2 million in inventory on hand, which impacted our cash flow and liquidity from operations in fiscal 2004. As of September 30, 2004, our inventory was valued at $3.4 million. It is important that we sell this inventory during fiscal 2005, so we have sufficient cash flow for operations.

OUR SENIOR CORPORATE MANAGEMENT TEAM IS NEW TO THE SINGING MACHINE AND IS REQUIRED TO DEVOTE SIGNIFICANT ATTENTION TO OUR FINANCING AGREEMENTS

Beginning on May 2, 2003, through the present date, four of our executive officers have resigned. We hired a new Chief Operating Officer, Yi Ping Chan on April 1, 2003, and a new Chief Financial Officer, Jeff Barocas, on April 9, 2004. Four new directors have joined our Board since October 31, 2003 and one of them has resigned since that date. Bernard Appel joined our Board effective as of October 31, 2003, Harvey Judkowitz joined on March 29, 2004 and Joseph Testa joined on September 8, 2004 and resigned on October 22, 2004. Richard Ekstract joined our Board on October 31, 2003 and resigned for personal reasons on June 2, 2004. We are in the process of searching for a new Chief Executive Officer and new directors. It will take some time for our new management and our new board of directors to learn about our business and to develop strong working relationships with each other and our employees. Our new senior corporate management's ability to complete this process has been and continues to be hindered by the time that it needs to devote to other pressing business matters. New management needs to spend significant time on overseeing our liquidity situation and overseeing other matters. We cannot assure you that this major restructuring of our board of directors and senior management and the accompanying distractions, in this environment, will not adversely affect our results of operations. See the "Legal Proceeding" section for information on a class action law suit against management and the Singing Machine.

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OUR LICENSING AGREEMENT WITH MTV NETWORKS IS IMPORTANT TO OUR BUSINESS AND IF WE WERE TO LOSE OUT MTV LICENSE IT COULD AFFECT OUR REVENUES AND PROFITABILITY

Our license with MTV Networks is important to our business. We generated 11.8%

and 32.3% of our consolidated net sales from products sold under the MTV license in fiscal 2004 and 2003, respectively. Our MTV license was extended through December 31, 2004. If we were to lose our MTV license, it may have an adverse effect on our revenues and net income.

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 amount of our sales occur during the second quarter ended September 30 and the third quarter ended December 31. Sales in our second and third quarter, combined, accounted for approximately 86% of net sales in fiscal 2004 and 2003 and 81% of net sales in fiscal 2002.

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 Craig and Memorex. 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 2004, 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 2005. 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 and 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, or at all. To introduce products on a timely basis, we must:

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

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

We rely principally on four contract ocean carriers to ship virtually all of the products that we import to our warehouse facility in Compton, California. Retailers that take delivery of our products in China rely on a variety of carriers to import those products. Any disruptions in shipping, whether in California or China, caused by labor strikes, other labor disputes, terrorism, and international incidents or otherwise 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.

THE FACTORIES THAT MANUFACTURE OUR KARAOKE PRODUCTS 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 dependent upon six factories in the People's Republic of China to manufacture the majority of our karaoke machines. One of these factories will be producing approximately 68% of our karaoke products in fiscal 2005. 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 themselves. 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 that our factories use to produce our karaoke products. If our suppliers are unable to provide our factories with the parts and supplies, the factories 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 are used in our karaoke machines. If we are unable to anticipate any shortages of parts and materials in the future, the factories 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, we have received notices from several music publishers who have alleged that we did not have the proper copyright licenses to sell certain songs included in our compact discs with graphics discs ("CDG"s). CDG's are compact discs which contain the musical recordings of the karaoke songs and graphics which contain the lyrics of the songs. We have settled or are in the process of settling all of these copyright infringement issues with these publishers. We have spent approximately $70,000 to settle these copyright infringement suits in fiscal year 2003 and 2004. These copyright infringement claims may have a negative effect on our ability to sell our music products to our customers. If we do not have the proper copyright licenses for any other songs that are included in our CDG's and cassettes, we will be subject to additional liability under the federal copyright laws, which could include settlements with the music publishers and payment of monetary damages.

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 assure you 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 retailers, which are 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 October 31, 2004, we are aware of only two customers, FAO Schwarz and KB Toys, 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 CENTERS IN CALIFORNIA OR FLORIDA COULD IMPACT OUR ABILITY TO DELIVER MERCHANDISE TO OUR STORES, WHICH COULD ADVERSELY AFFECT OUR REVENUES AND PROFITABILITY

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

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

During fiscal 2004, approximately 39% of our sales were domestic warehouse sales, which were made from our warehouses in California and Florida. During the third quarter of fiscal 2003, the dock strike on the West Coast affected sales of two of our karaoke products and we estimate that we lost between $3 and $5 million in orders because we couldn't get the containers of these products off the pier. If another strike or work slow-down occurs and we do not have a sufficient level of inventory, a strike or work slow-down would result in increased costs to us and may reduce our profitability.

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

From June 1, 2003 through October 31, 2004, our common stock has traded between a high of $6.55 and a low of $0.30. During this period, we have restated our earnings, lost senior executives and Board members, had liquidity problems, and incurred a net loss of $22.7 million in fiscal 2004. 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.

OUR OBLIGATION TO MAKE SEVERANCE PAYMENTS COULD PREVENT OR DELAY TAKEOVERS

Our employment agreement with Yi Ping Chan and Edward Steele requires us, under certain conditions, to make substantial severance payments upon resignation and after a change of control. Mr. Chan is entitled to a severance payment of $250,000 if he resigns after a change in control. Mr. Steele is entitled to a severance payment of $125,000 upon resignation or change of control. These provisions could delay or impede a merger, tender offer or other transaction resulting in a change in control of the Singing Machine, even if such a transaction would have significant benefits to our shareholders. As a result, these provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock.

RISKS ASSOCIATED WITH OUR CAPITAL STRUCTURE

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

Our common stock is quoted on the American Stock Exchange ("Amex"). The Amex, as a matter of policy, will consider the suspension of trading in, or removal from listing of, any stock when, in the opinion of Amex, (i) the financial condition and/or operating results of an issuer appear to be unsatisfactory; (ii) it appears that the extent of public distribution or the aggregate market value of the stock has become so reduced as to make further dealings on the Amex inadvisable; (iii) the issuer has sold or otherwise disposed of its principal operating assets; or (iv) the issuer has sustained losses which are so substantial in relation to its overall operations or its existing financial condition has become so impaired that it appears questionable, in the opinion of Amex, whether the issuer will be able to continue operations and/or meet its obligations as they mature.

As of October 30, 2004, we have not received any notices from AMEX notifying us that they will delist us. However, we cannot assure you that Amex will not take any actions in the near future to delist our common stock. If our common stock were delisted from the Amex, we would trade on the Over-the-Counter Bulletin Board and the market price for shares or our common stock could decline. Further, if our common stock is removed from listing on Amex, it may become more difficult for us to raise funds through the sale of our common stock or securities convertible into our common stock.

IF WE SELL ANY OF OUR SECURITIES AT A PRICE LOWER THAN $0.60 PER SHARE, THE CONVERSION PRICE OF OUR DEBENTURES AT $1.41 PER SHARE WILL BE REDUCED AND THERE WILL BE ADDITIONAL DILUTION TO OUR SHAREHOLDERS

We already had to reset the conversion price from $3.85 per share to $1.41 per share. Given that the closing price for our common stock was $0.575 per share on September 27, 2004 it is possible that we may again need to sell additional securities for capital at a price lower than $0.60 per share. If we sell any securities at a price lower than $0.60 per share, the conversion price of our debentures currently set at $0.60 per share will be reduced and there will be more dilution to our shareholders if and when the debentures are converted into shares of our common stock. If we issue or sell any securities at a price less than $0.60 per share, the set price will be reduced by an amount equal to 50% of the difference between the set price and effective purchase price of such shares.

We have prepared a table, which show the adjustments that will be made to (i) the conversion price of our convertible debentures and (ii) the number of shares issued to the debenture holders, if we issue or sell our securities at the (a) closing price on September 27, 2004, which was $0.575 per share, (b) 50% of the closing price on September 27, 2004, which is $0.2875 per share and (c) 25% of the closing price on September 27, 2004, which is $0.1438 per share.

PRICE OF SINGING MACHINE COMMON STOCK	ADJUSTED CONVERSION PRICE OF DEBENTURE	NUMBER OF SHARES ISSUABLE UPON CONVERSION OF DEBENTURE
$ 0.575	$ 1.40	2,857,142
$ 0.2875	$ .85	4,705,882
$ 0.1438	$ 0.78	5,128,205

If the price of our securities continues to decrease, and we continue to issue or sell our securities at price below $0.60 per share, our obligation to issue shares upon conversion of the debentures is essentially limitless.

When the conversion price reset occurs, the effective conversion price will decrease, the value of beneficial conversion will increase. The additional value of beneficial conversion would be recognized as discount on the convertible debentures.

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

As of November 22, 2004, there were outstanding stock options to purchase an aggregate of 1,101,490 shares of common stock at exercise prices ranging from $1.30 to $14.30 per share, not all of which are immediately exercisable. The weighted average exercise price of the outstanding stock options is approximately $3.95 per share. As of October 31, 2004, there were outstanding immediately exercisable option to purchase an aggregate of 521,815 shares of our common stock. There were outstanding stock warrants to purchase 591,040 shares of common stock at exercise prices ranging from $1.46 to $1.52 per share, all of which are exercisable. The weighted average exercise price of the outstanding stock warrants is approximately $1.46 per share. In addition, we have issued $4,000,000 of convertible debentures, which are convertible into an aggregate of 2,836,879 shares of common stock. To the extent that the aforementioned convertible securities are exercised or converted, dilution to our stockholders will occur.

THE $4 MILLION PRIVATE PLACEMENT THAT WE CLOSED IN SEPTEMBER 2003 WILL AFFECT OUR ABILITY TO RAISE CAPITAL IN THE FUTURE

On September 8, 2003, we closed a private offering in which we issued $4 million of convertible debentures and stock purchase warrants to six institutional investors. As part of this investment, we agreed to several limitations on our corporate actions, some of which limit our ability to raise financing in the future. If we enter into any financing transactions during the one year period prior to September 8, 2004, we need to offer the institutional investors the right to participate in such offering in an amount equal to the greater of (a) the principal amount of the debentures currently outstanding or (b) 50% of the financing offered to the outside investment group. For example, if we offer to sell $10 million worth of our securities to an outside investment group, the institutional investors will have the right to purchase up to $5 million of the offering. This right may affect our ability to attract other investors if we require external financing to remain in operations. Furthermore, for a period of 90 days after the effective date of the registration statement registering shares of common stock issuable upon conversion of the convertible debentures and the warrants, we cannot sell any securities.

Additionally, we cannot:

- sell any of our securities in any transactions where the exercise price is adjusted based on the trading price of our common stock at any time after the initial issuance of such securities; and

- sell any securities which grant investors the right to receive additional shares based on any future transaction on terms more favorable than those granted to the investor in the initial offering.

These limitations are in place until the earlier of February 20, 2006 or the date on which all the debentures are converted into shares of our common stock.

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

As of October 31, 2004, there were 9,202,318 shares of our common stock outstanding. Of these shares, approximately 5,954,796 shares are eligible for sale under Rule 144. 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, of which this Prospectus is a part, was filed in October 2003, registering an aggregate of 4,634,067shares of our common stock. The market price of our common stock could drop due to the sale of large number of shares of our common stock, such as the shares sold pursuant to the registration statements or under Rule 144, or the perception that these sales could occur.

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

Our Certificate of Incorporation authorizes the issuance of 18,900,000 shares of common stock. As of November 22, 2004, we had 9,202,318 shares of common stock issued. We have an obligation to issue up to:

o 1,692,533 shares issuable under outstanding options and warrants; and

o 2,836,879 shares upon conversion of the convertible debentures.

We have also reserved up to 207,791 additional shares for interest payment on the debentures and 988,207 additional shares that we may issue pursuant to the anti-dilution provisions contained in the convertible debentures which relate to price protection protections for the convertible debenture holders. As such, our Board of Directors has the power, without stockholder approval, to issue up to 5,117,503 shares of common stock.

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

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

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

THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE "EXCHANGE ACT").

Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "anticipate," "estimate," "plans," "projects," "continuing," "ongoing," "expects," "management believes," "we believe," "we intend" and similar words or phrases. Accordingly, these statements involve estimates, assumptions and uncertainties, which could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the "Risk Factors" contained in this Prospectus.

Because the factors discussed in this Prospectus could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on behalf of our company, you should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward- looking statements.

USE OF PROCEEDS

We will not receive any proceeds from the sale of shares by the selling stockholders. Although we may receive proceeds if the warrants are exercised, these proceeds, if any, will be used for working capital purposes or any other purpose approved by the Board of Directors.

SELLING STOCKHOLDERS

The following table sets forth information as of August 27, 2004 with respect to the beneficial ownership of our common stock both before and immediately following the offering by each of the selling stockholders.

Calculation of the percent of outstanding shares owned is based on shares of our common stock issued and outstanding as of August 27, 2004. Beneficial ownership is determined in accordance with Rule 13d-3 promulgated by the Securities and Exchange Commission, and generally includes voting or investment power with respect to securities. Except as indicated in the footnotes to the table, we believe each holder possesses sole voting and investment power with respect to all of the shares of common stock owned by that holder, subject to community property laws where applicable. In computing the number of shares beneficially owned by a holder and the percentage ownership of that holder, shares of common stock underlying options, warrants, debentures or preferred stock by that holder that are currently exercisable or convertible or are exercisable or convertible within 60 days after the date of the table are deemed outstanding. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person or group.

The terms of the debentures and warrants owned by Omicron Master Trust, SF Capital Partners, Ltd, Bristol Investment Fund, Ltd., Ascend Offshore Fund, Ltd., Ascend Partners, LP and Ascend Partners Sapient LP (collectively, the "Institutional Investors") prohibit conversion of those debentures or exercise of those warrants to the extent that a conversion of those debentures would result in the holder, together with its affiliates, beneficially owning in excess of 4.99% of our outstanding shares of common stock, and to the extent that exercise of the warrants would result in the holder, together with its affiliates, beneficially owning in excess of 4.99% of our outstanding shares of common stock. A holder may waive the 4.99% limitation upon 60 days prior written notice to us. However, we have registered for resale all of the shares that can be resold by each selling shareholder, without regard to the conversion or exercise limitations described herein. After each selling shareholder sells shares, we will file a prospectus supplement which indicates the number of shares that each selling shareholder is eligible to sell.

Because the 4.99% conversation limitation only affects one of our investors, Omicron Master Trust, we have prepared the beneficial ownership table without regard to any exercise or conversion limitations.

NAME OF SELLING STOCKHOLDER	SECURITIES OWNED PRIOR TO OFFERING SHARES OF STOCK	 PERCENT OF STOCK	SHARES OF STOCK AMT. DILUTION ADJUSTED	SHARES OF COMMON STOCK BEING OFFERED UNDER THIS PROSPECTUS(3)
Omicron Master Trust	2,058,764(1)	22.37	617,629(2)	2,806,262(4)
SF Capital Partners, Ltd.	411,753(1)	4.47	123,526(2)	561,252(5)
Bristol Investment Fund, Ltd.	247,052(1)	2.68	74,116(2)	336,751(6)
Ascend Offshore Fund, Ltd.	393,636(1)	4.28	118,091(2)	536,557(7)
Ascend Partners, LP	47,928(1)	*	14,378(2)	65,330(8)
Ascend Partners Sapient, LP	134,890(1)	1.47	40,467(2)	183,866(9)
Roth Capital Partners, LLC	103,896(10)	1.13	103,896	103,896(10)
AG Edwards & Sons, Inc.	40,151	*	40,151	40,151(11)

* Less than 1%.

(1) Represents shares of common stock issuable upon conversion of the debentures and exercise of the warrants, which the Institutional Investors have the right to acquire within sixty (60) days of November 22, 2004.

(2) Represents shares of common stock issuable upon conversion of the debentures, exercise of the warrants and shares which may be issued pursuant to the anti-dilution provision of the debentures to the selling stockholder.

(3) Represents 130% of the shares issuable upon conversion on the debentures and exercise of the warrants, shares as well as shares underlying interest payments on the debentures (collectively, the "Registrable Securities"). Also includes shares issued to Roth and AG Edwards.

(4) Shares offered pursuant to this Prospectus consist of 1,773,050 shares issuable upon conversion of the debentures; 285,714 shares issuable upon exercise of warrants; up to 129,870 shares which we may issued as interest payable on the debentures; and 617,629 shares, an additional 30% of the registrable securities. Omicron Capital, L.P., a Delaware limited partnership ("Omicron Capital") serves as investment manager to Omicron Master Trust, a trust formed under the laws of Bermuda ("Omicron"). Omicron Capital, Inc., a Delaware corporation ("OCI") serves as general partner of Omicron Capital and Winchester Global Trust Company Limited ("Winchester") serves as the trustee of Omicron. By reason of such relationships, Omicron Capital and OCI may be deemed to share dispositive power of the shares of our common stock owned by Omicron and Winchester may be deemed to share voting and dispositive power over the shares of our common stock owned by Omicron. Omicron Capital, OCI and Winchester Capital has delegated authority from the board of directors of Winchester regarding the portfolio management decisions with respect to the shares of

common stock owned by Omnicron and as of November 22, 2004, Mr. Oliver H. Morali and Mr. Bruce T. Bernstein, officers of OCI, have delegated authority from the board of directors of OCI regarding the portfolio management decisions of Omicron Capital with respect to the shares of common stock owned by Omicron. By reason of such delegated authority, Messrs. Morali and Bernstein disclaim beneficial ownership of such shares of our common stock and neither of such persons has any legal right to maintain such power with respect to shares of our common stock offered by Omicron, as those terms as used for purposes of the Securities Exchange Act of 1934, as amended.

(5) Shares offered pursuant to this Prospectus consist of 354,610 shares issuable upon conversion of the debentures; 57,143 shares issuable upon exercise of warrants, up to 25,974 shares which we may issued as interest payable on the debentures, and 123,526, an additional 30% of the Registrable Securities. Michael A. Roth and Brian J. Stark are the founding members and director the management of Staro Asset Management, L.L.C., a Wisconsin limited liability company ("Staro") which acts as investment manager and has sole power to direct the management of SF Capital Partners, Ltd. Through Staro, Messrs. Roth and Stark possess sole voting and dispositive power over all of the shares owned by SF Capital Partners, Ltd.

(6) Shares offered pursuant to this Prospectus consist of 212,766 shares issuable upon conversion of the debentures; 34,286 shares issuable upon exercise of warrants, up to 15,584 shares which we may issued as interest payable on the debentures, and 74,116 shares, an additional 30% of the Registrable Securities. Paul Kessler and Diana Derycz-Kessler are the managing members of Bristol Capital Advisors, LLC, a Delaware limited liability company ("BCA") which acts as investment manager and has sole power to direct the management of Bristol Investment Fund, Ltd. Through BCA, Mr. Kessler and Mrs. Diana Derycz -Kessler possess voting and dispositive power over the shares owned by Bristol Investment Fund, Ltd.

(7) Shares offered pursuant to this Prospectus consist of 339,007 shares issuable upon conversion of the debentures; 54,629 shares issuable upon exercise of warrants, up to 24,831 shares which we may issued as interest payable on the debentures, and 118,091 shares, an additional 30% of the Registrable Securities. Ascend Capital, LLC, a Delaware limited liability company ("Ascend") serves as the investment advisor to Ascend Offshore Fund, Ltd. ("Ascend Offshore") Malcolm Fairbain serves as the founder and sole managing member of Ascend Offshore and has the sole power to direct the management of Ascend Offshore. Through Ascend, Mr. Fairbain possesses sole voting and dispositive power over all of the shares owned by Ascend Offshore.

(8) Shares offered pursuant to this Prospectus consist of 41,277 shares issuable upon conversion of the debentures; 6,651 shares issuable upon exercise of warrants, up to 3,023 shares which we may issued as interest payable on the debentures, and 14,378 shares, an additional 30% of the Registrable Securities. Ascend serves as the investment advisor to Ascend Partners, LP ("Ascend LP"). Malcolm Fairbain serves as the founder and sole managing member of Ascend LP and has the sole power to direct the management of Ascend LP. Through Ascend, Mr. Fairbain possesses sole voting and dispositive power over all of the shares owned by Ascend LP.

(9) Shares offered pursuant to this Prospectus consist of 116,170 shares issuable upon conversion of the debentures; 18,720 shares issuable upon exercise of warrants, up to 8,509 shares which we may issued as interest payable on the debentures, and 40.467 shares, an additional 30% of the Registrable Securities. Ascend Capital, LLC, a Delaware limited liability company ("Ascend") serves as the investment advisor to Ascend Partners Sapient, LLP, Ltd. ("Ascend Partners). Malcolm Fairbain serves as the founder and sole managing member of Ascend Partners and has the sole power to direct the management of Ascend Partners. Through Ascend, Mr. Fairbain possesses sole voting and dispositive power over

all of the shares owned by Ascend Partners.

(10) Shares offered pursuant to this Prospectus consist of 103,896 shares issuable upon exercise of warrants. Gordon and Byron Roth share voting and dispositive power with respect to the share held by Roth Capital.

(11) AG Edwards & Sons, Inc. is a publicly traded company. The current officers and directors of AG Edwards may be deemed to possess the sole voting and dispositive power over all the shares owned by AG Edwards & Sons, Inc.

(12) Because the selling stockholders may sell all or some portion of the shares of common stock beneficially owned by them, only an estimate (assuming the selling stockholders sell all of the shares offered hereby) can be given as to the number of shares of common stock that will be beneficially owned by the selling stockholders after this offering. In addition, any selling stockholder may have sold, transferred or otherwise disposed or, or may sell, transfer or otherwise dispose of, at any time or from time to time since the dates on which they provided the information regarding the shares beneficially owned by them, all or a portion of the shares beneficially owned by them in transactions exempt from the registration requirements of the Securities Act of 1933.

CIRCUMSTANCES UNDER WHICH SELLING STOCKHOLDERS ACQUIRED SECURITIES

Set forth below is a summary of the circumstances that led to the issuance to the selling stockholders of shares of our common stock and the securities, which are exercisable or convertible into shares of our common stock.

On August 20, 2003, we entered into a Securities Purchase Agreement ("Purchase Agreement") with Omicron Master Trust, SF Capital Partners Ltd., Bristol Investment Fund, Ltd., Ascend Offshore Fund, Ltd., Ascend Sapient Partners, Ltd. and Ascend Partners, LP., for the sale to these investors of 8% debentures, convertible into shares of our common stock at a conversion price equal to $3.85 per share, for an aggregate amount of $4 million. We closed this offering on September 8, 2003. As of November 22, 2004, due to a reduction in the conversion price the debentures were convertible into 2,836,879 shares of common stock. The investors also received warrants to purchase up to, in the aggregate 457,143 shares of our common stock with an exercise price equal to $4.025 per share. We also agreed to register the resale of the shares issued to the investors in a registration rights agreements. The debentures, the warrant agreements, the registration rights agreement and any other e documents relating to the securities issued to the investors shall sometimes be collectively referred to as the "transaction documents."

The debentures mature on February 20, 2006 and they provide for interest only payments on a quarterly basis, on March 1, June 1, September 1 and December 1. The interest rate was 8% per annum from September 8, 2003 through February 9, 2004, however, in connection with an amendment to the transaction documents we agreed to increase the interest rate to 8.5% per annum effective as of February 9, 2004, 9% per annum effective as of December 1, 2004. We must make these interest payments in cash. However, if we meet certain requirements specified in the debentures, we can make the interest payments by using shares of our common stock. These requirements are that (1) a registration statement registering the resale of the investor's shares is effective, (2) our common stock is listed for trading on a principal market, such as the American Stock Exchange or the NASDAQ National Market (3) there is a sufficient number of authorized but unissued shares of our common stock available so that all shares of our common stock could be issued to the investors under the transaction documents, (4) we are not in default of any of the terms of the transaction documents and (5) the issuance of the shares to an investor will not result in the investor owning more than 4.99% of our issued and outstanding common stock (unless the investor has waived the 4.99% conversion limitation).

If certain conditions are met after the registration statement is declared effective, we have the right, but not the obligation to redeem the debentures at 100% of their face value, plus accrued interest. The first condition is that the closing price of our common stock must exceed the set price of the debentures by 200% for more than 15 consecutive trading days. The set price of the convertible debentures is $1.41, so the trading price for 15 consecutive trading days must exceed $2.82 per share. The other conditions are (1) we must have honored all conversions made by the investors prior to the redemption date, (2) our registration statement registering the resale of shares is effective, (3) our common stock is listed for trading on a principal market, such as AMEX or NASDAQ, (4) we have paid all liquidated damages that are due under the transaction documents, (5) there is a sufficient number of authorized but unissued shares of our common stock available to issue to the investors all shares of our common stock that could be issued to the investors under the debentures, (6) we are not in default of any of the terms of the transaction documents, (7) the issuance of the shares to an investor will not result in an investor owning more than 4.99% of our issued and outstanding common stock (unless the investor has waived the 4.99% conversion limitation) and (8) we had not made any public announcements about a pending or proposed change of control or a fundamental transaction, such as a merger or acquisition, has not occurred and not been consummated.

The warrants are exercisable for a period of three years from the date of issuance until September 7, 2006 and the initial exercise price is $4.025 per share. The conversion price of the debentures and the exercise price of the warrants are subject to adjustment in the event we issue additional shares of our common stock or securities convertible into shares of our common stock at a price per share of common stock less than the conversion price or exercise price on the basis of a weighted average formula. In addition, the conversion price of the debentures and exercise price of the warrants are subject to adjustment at any time as the result of any subdivision, stock split, combination of shares or capitalization. For example, if we were to declare a 2-for-1 stock split, the conversion price of the debentures would be reduced by half from $3.85 to $1.93 per share and the exercise price of the warrants would be reduced from $4.025 to $2.0125 per share. The exercise price has been adjusted to $1.46 based on July 31, 2004 based antidilution adjustment.

The Institutional Investors and Roth Capital Partners, LLC ("Roth Capital"), the placement agent in this transaction ("Roth Capital"), were also given certain registration rights in a registration rights agreement with Singing Machine. We agreed to register:

- an aggregate of 2,836,879 shares issuable upon conversion of the convertible debentures;
- an aggregate of 591,039 shares issuable upon exercise of warrants;
- an aggregate of 207,791 shares issuable as interest payments on the debentures; and

All of these shares are collectively referred to as the "Registrable Securities." In addition, we agreed that we would register 130% of the Registrable Securities. As such, we are registering an additional 988,207 shares.

We granted the investors a right of first refusal to participate in our future offerings of our common stock or equivalent securities for a period of one year after the effective date of the registration statement. If we enter into any financing transactions during the one year period after the registration statement is effective, of which this Prospectus is a part, we need to offer the institutional investors the right to participate in such offering in an amount equal to the greater of (a) the principal amount of the debentures currently outstanding or (b) 50% of the financing offered to the outside investment group. For example, if we offer to sell $10 million worth of our securities to an outside investment group, the institutional investors will have the right to purchase up to $5 million of this offering.

Additionally, we cannot:

- sell any of our securities in any transactions which are based on the trading price of our common stock at any time after the initial issuance of such securities; or

- sell any securities which grant investors the right to receive additional shares based on future transaction of our company on terms more favorable than those granted to the investor in the initial offering.

These limitations are in place until the earlier of February 20, 2006 or the date on which all the debentures are converted into equity. Furthermore, we agreed not to sell any capital stock or capital stock equivalents for a period of 90 days after the effective date of this registration statement.

We are obligated to pay liquidated damages to the investors if an event of default occurs under the registration rights agreement. An event of default occurs if:

- we do not give the debenture holders the opportunity to review and comment on the registration statement prior to filing an amendment to the registration statement with the SEC;

- if we fail to file a request for acceleration within 5 trading days after the date that the SEC has notified us that the registration statement is not subject to further review;

- if we fail to file a pre-effective amendment to the registration statement within 10 trading days after the receipt of comments by the SEC; or

- a registration statement ceases to be effective for any reason after the effectiveness date or the holders are not permitted to utilize the prospectus for 20 consecutive trading days or an aggregate of 30 consecutive dates during any 12-month period.

During each month that we have an event of default, we are obligated to pay each holder liquidated damages in an amount equal to 2% per month, pro rata on a daily basis, of (i) the subscription amount paid by such holder pursuant to the purchase agreement, which was $4 million in the aggregate, and (ii) if the warrants are "in the money" and then held by the holder, the value of the outstanding warrants (valued at the difference between the average volume weight average price during the applicable month and the exercise price multiplied by the number of shares of common stock the warrants are exercisable into). As of November the debentures holders have waived all liquidated damage until January 7, 2004, the liquidated damages are $80,000 per month.

We amended the convertible debenture agreements to increase the interest rate to 8.5% effective as of February 9, 2004 and granted warrants to purchase an aggregate of 30,000 shares of the Singing Machine's common stock to the debenture holders on a pro-rata basis. These concessions were in consideration of the debenture holder's agreements to (i) enter into new subordination agreements with Milberg Factors, (ii) to waive all liquidated damages due under the transaction documents through July 1, 2004 and (iii) to extend the effective date of the Form S-1 registration statement until July 1, 2004. The new warrants have an exercise price equal to $1.52 per share, the fair market value of Singing Machine's common stock on February 9, 2004, the date of the grant. The fair value of these warrants as calculated pursuant to Statement No. 123 is $30,981 and has been expensed as other operating expenses in the accompanying statements of operations.

On November 8, 2004, Singing Machine executed a letter agreement with the debenture holders, whereby Singing Machine agreed to change the interest rate on the debenture to 9% in exchange for the debenture holders agreeing to (i) execute a subordination agreement with Crestmark Bank, (ii) waive all liquidated damages due under the transaction documents through January 7, 2005, and (iii) withdraw any demand for repayment under the debenture.

In connection with this financing, we paid Roth, as placement agent, cash compensation of 5.5% of the proceeds raised in this offering and granted it a warrant to purchase 103,896 shares of our common stock at an exercise price of $4.025 per share. We agreed to register the resale of the 103,896 shares underlying the warrant issued to Roth.

We have agreed to register the resale of 40,151 shares issued to AG Edwards & Sons, Inc. in connection with a settlement agreement that we entered into with them, effective as of November 17, 2003. AG Edwards served as our investment advisor from October 8, 2002 through October 8, 2003. See the "Legal Proceedings" Section.

PLAN OF DISTRIBUTION

The selling stockholders and any of their pledgees, assignees, transferees, donees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares:

o ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

o block trades in which the broker-deal will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

o purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

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o an exchange distribution in accordance with the rules of the applicable exchange;

o privately negotiated transactions;

o settlement of short sales;

o broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;

o a combination of any such methods of sale; and

o any other method permitted pursuant to applicable law.

If any of the selling stockholders sell or engage in short sales of our common stock, it could have a negative effect on our stock price. Each of the selling stockholders will prior to the effectiveness of the registration statement advise in writing that they have not since the purchase of the debentures and will not prior to the effectiveness of the registration statement make a short sale of our common stock.

Roth Capital Partners, LLC and SF Capital Partners, Ltd., are affiliates of broker dealers that are registered with the National Association of Securities Dealers. Roth Capital Partners, LLC and SF Capital Partners represented that it was purchasing these securities in the ordinary course of business and at that at the time of the purchase it did not have any agreements directly or indirectly with any persons to distribute those securities. Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved. Broker-dealers may agree to sell a specified number of such shares at a stipulated price per share, and, to the extent such broker-dealer is unable to do so acting as agent for us or a selling shareholder, to purchase as principal any unsold shares at the price required to fulfill the broker-dealer commitment. Broker-dealers who acquire shares as principal may thereafter resell such shares from time to time in transactions, which may involve block transactions and sales to and through other broker-dealers, including transactions of the nature described above, in the over-the-counter markets or otherwise at pries and on terms then prevailing at the time of sale, at prices than related to the then-current market price or in negotiated transactions. In connection with such resales, broker-dealers may pay to or receive from the purchasers such shares commissions as described above.

The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this Prospectus The selling stockholder may from time to time pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, we will file a supplement to this Prospectus to list the pledgees and/or secured parties as selling stockholders. Furthermore, if the selling stockholders assign or transfer their shares of our common stock, we will file a supplement to this Prospectus to list the pledgees, transferees and other successors-in interest as selling stockholders.

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. The selling stockholders have informed us that none of them have any agreement or understanding, directly or indirectly, with any person to distribute the common stock.

The selling stockholders, their affiliates and any other persons participating in the sale or distribution of the shares offered under this Prospectus will be subject to applicable provisions of the Securities Exchange Act of 1934, and the rules and regulation under that act, including without limitation, Regulation M. Regulation M applies to activities of the selling stockholders and their affiliates that may be considered a "distribution," which is an offering of securities, whether or not subject to a registration under the Securities Act of 1933, what is distinguished from ordinary trading transactions by the magnitude of the offering and the presence of special selling efforts and selling methods by the selling security holders of their affiliates may cause the shares offered by those selling stockholders to be considered a distribution under Regulation M.

If the selling stockholders or their affiliates are considered to be involved in a "distribution" with respect to shares of our common stock they will be prohibited from directly or indirectly bidding for, purchasing or attempting to induce any person to bid for or purchases shares of common stock offered under this Prospectus during the applicable restricted period, which is the period beginning on the later of five business day prior to the determination of the offering price of the shares of common stock offered under this Prospectus or such time that a person becomes a distribution participant, and ending upon such person's completion of participation in the distribution.

The provisions described above may restrict certain activities including stabilizing activities by the selling stockholders and their affiliates or any other person participating in the sale or distribution of shares offered under this Prospectus, and may limit the timing of purchases and sales of any of the shares by the selling stockholders, their affiliates or any other such person. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or exemptions. All of these limitations may affect the marketability of the shares of common stock offered under this Prospectus.

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We will make copies of this Prospectus available to the selling stockholders and have informed them of the need for delivery of copies of this Prospectus to purchasers at or prior to the time of any sale of the shares. We are required to pay all fees and expenses incurred by our company incident to the registration of the shares. We have agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

MARKET PRICES OF COMMON STOCK

Our common stock currently trades on the American Stock Exchange under the symbol "SMD." Set forth below is the range of high and low information for our common stock as traded on the American Stock Exchange during fiscal 2004 and fiscal 2003. This information regarding trading on AMEX represents prices between dealers and does not reflect retail mark-up or markdown or commissions, and may not necessarily represent actual market transactions.

FISCAL PERIOD	HIGH	LOW
2005:		
First quarter (April - June 30, 2004)	$ 1.27	$ 0.50
Second quarter (July 1 - September 30, 2004)	$ 0.68	$ 0.55
2004:		
First quarter (April 1 - June 30, 2003)	$ 7.94	$ 2.85
Second quarter (July 1 - September 30, 2003)	5.03	2.70
Third quarter (October 1 - December 31, 2003)	4.43	1.80
Fourth quarter (January 1 - March 31, 2004)	2.43	1.14

2003:		
First quarter (April 1 - June 30, 2002)	$16.89	$12.06
Second quarter (July 1 - September 30, 2002	12.74	8.05
Third quarter (October 1 - December 31, 2002)	13.49	8.50
Fourth quarter (January 1 - March 31, 2003)	9.19	5.30

As of October, 2004, there were approximately 311 record holders of our outstanding common stock.

COMMON STOCK

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.

On March 14, 2002, we affected a 3-for-2 stock split for all shareholders on record as of March 4, 2002.

DIVIDEND POLICY

We do not anticipate the declaration or payment of any dividends in the foreseeable future. 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. Also, we will consider our earnings, financial condition, contractual restrictions and other factors in deciding whether to issue dividends in the future. Under Delaware law, we are prohibited from declaring dividends unless we have legally available surplus, as such term is defined under Delaware law. Alternatively, if we do not have legally available surplus, we can pay dividends out of our net profits in the fiscal year in which the dividend is declared.

SELECTED FINANCIAL INFORMATION AND OTHER DATA

The selected financial information set forth below is derived from, and should be read in conjunction with, the more detailed financial statements (including the notes thereto) appearing elsewhere in this Prospectus. See "Consolidated Financial Statements."

INCOME STATEMENT ITEMS

	YEAR ENDED MARCH 31,				
	2004	2003	2002*	2001*	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Net Sales	$ 70,541	$ 95,614	$ 62,476	$ 34,875	$ 19,03
Cost of Sales	68,722	72,329	40,853	22,159	13,72
Total Operating Expenses	22,013	21,671	13,388	7,689	3,77
Earnings (Loss) From Operations	(20,195)	1,614	8,235	5,028	1,52
Net Other (Expenses) Income	(1,730)	(198)	(51)	(840)	94
Income Tax (Benefit) Expense	(758)	199	1,895	492	16
Net Earnings (Loss)	(22,683)	1,218	6,289	3,696	73
Net Earnings (Loss) per common share basic	(2.65)	0.15	0.88	0.59	0.2
Net Earnings (Loss) per common share diluted	(2.65)	0.14	0.79	0.50	0.1

Shares used in computing net earnings (loss) per common share - basic	8,556	8,114	7,159	6,292	2,72
Shares used in computing net earnings (loss) per common share - diluted	8,556	8,931	7,943	7,457	3,34

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	2003	2002*	2003	2002*
Net Sales	$ 7,628	$ 4,152	$39,364	$37,129
Cost of Sales	5,902	3,092	34,166	26,652
Gross Profit	1,726	1,060	5,198	10,476
Total Operating Expenses	3,860	2,393	8,584	6,849
Earnings (Loss) From Operations	(2,134)	(1,333)	(3,386)	3,627
Net Other (Expenses) Income	(181)	24	(590)	52
Income Tax (Expense) Benefit	(2)	118	1,003	(993)
Net Earnings (Loss)	(2,317)	(1,191)	(2,973)	2,686
Net Earnings (Loss) per common share basic	(0.28)	(0.15)	(0.35)	0.33
Net Earnings (Loss) per common share diluted	(0.28)	(0.15)	(0.35)	0.30
Shares used in computing net earnings (loss) per common share - basic	8,278	8,061	8,389	8,090
Shares used in computing net Earnings (loss) per common share - diluted	8,278	8,061	8,387	8,889

	NINE MONTHS ENDED DECEMBER 31,		YEAR ENDED MARCH 31,	
	2003	2002*	2004	2003
Net Sales	$68,054	$85,998	$ 70,541	$95,614
Cost of Sales	65,457	62,091	68,722	72,329
Gross Profit	2,597	23,907	1,819	23,285
Total Operating Expenses	13,615	15,256	22,014	21,671
Earnings (Loss) From Operations	(11,018)	8,651	(20,195)	1,614
Net Other (Expenses) Income	(1,245)	(20)	(1,730)	(198)
Income Tax (Expense) Benefit	(1,161)	(2,675)	(759)	(199)
Net Earnings (Loss)	(13,424)	5,956	(22,684)	1,217
Net Earnings (Loss) per common share basic	(1.58)	0.74	(2.65)	0.15
Net Earnings (Loss) per common share diluted	(1.58)	0.67	(2.65)	0.14
Shares used in computing net earnings (loss) per common share - basic	8,503	8,101	8,566	8,114
Shares used in computing net Earnings (loss) per common share - diluted	8,503	8,948	8,566	8,931

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
Net Sales	$ 3,857	$ 7,628	$22,610	$40,479
Cost of Sales	3,087	5,902	17,580	33,333
Gross Profit	770	1,726	5,030	7,146
Total Operating Expenses	1,854	3,860	4,958	10,533
Earnings (Loss) From Operations	(1,084)	(2,134)	72	(3,387)
Net Other (Expenses) Income	(435)	(181)	(870)	(590)
Income Tax (Expense) Benefit	--	(2)	--	1,003
Net Earnings (Loss)	(1,519)	(2,317)	(798)	(2,974)
Net Earnings (Loss) per common share basic	(0.17)	(0.28)	(0.09)	(0.35)
Net Earnings (Loss) per common share diluted	(0.17)	(0.28)	(0.09)	(0.35)
Shares used in computing net earnings (loss) per common share - basic	8,787	8,278	8,799	8,389
Shares used in computing net Earnings (loss) per common share - diluted	8,787	8,278	8,799	8,389

* As Restated

BALANCE SHEET AND OTHER ITEMS
*AS RESTATED

	September 30,		December 31,		
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)	2002 (Unaudited)	
Cash (excluding restricted cash)	$ 1,106	$ 658	$ 236	$ 363	$
Total current assets	46,948	48,764	27,267	53,341	13
Working capital	17,536	17,248	8,275	20,740	(1
Total Assets	49,995	50,581	29,604	54,940	15
Inventory	20,563	31,382	8,029	30,017	5
Current liabilities	29,412	31,516	18,992	32,601	13
Long term obligations	595	-	954	-	
Total shareholders' equity	19,988	19,065	9,658	22,338	

June 30, September 30

	2004 (Unaudited)	2003 (Unaudited)	2004 (Unaudited)	2003 (Unaudited)
Cash (excluding restricted cash)	$313,574	$ 86	$ 928	$ 1,106
Total current assets	11,214	35,075	14,184	46,948
Working capital	(2,670)	13,085	36	17,536
Total Assets	12,635	37,566	16,049	49,995
Inventory	4,763	25,960	3,410	20,563
Current liabilities	13,885	21,990	14,148	29,412
Long term obligations	-	-	1,502	595
Total shareholders' equity	(1,250)	15,576	399,640	19,988

SELECTED QUARTERLY FINANCIAL DATA

(IN THOUSANDS, EXCEPT PER SHARE DATA)

QUARTERLY FISCAL 2005

	Unaudited 3-Months Ended June 30, 2004	Unaudited 3 - Months Ended September 30, 2004
Net Sales	$ 3,857	$ 18,753
Gross Profit	$ 770	$ 4,260
(Net Loss)/Income	$ (1,520)	$ 722
(Net Loss)/Income per share (basic)	$ (0.17)	$ 0.08
(Net Loss)/Income per share (diluted)	$ (0.17)	$ 0.06

QUARTERLY FISCAL 2004

	UNAUDITED 3-MONTHS ENDED JUNE 30, 2003	UNAUDITED 3-MONTHS ENDED SEPTEMBER 30, 2003	UNAUDITED 3-MONTHS ENDED DECEMBER 31, 2003	UNAUDITED 3-MONTHS ENDED MARCH 31, 2004
Net Sales	$ 7,628	$ 31,984	$ 28,690	$ 2,239
Gross Profit	$ 1,726	$ 3,804	$ (2,601)	$(1,110)
Net Loss	$ (2,317)	$ (657)	$ (10,451)	$(9,259)
Net Loss Per Share (basic & diluted)	$ (0.28)	$ (0.08)	$ (1.14)	(1.09)

QUARTERLY FISCAL 2003

	UNAUDITED 3-MONTHS ENDED JUNE 30, 2002*	UNAUDITED 3-MONTHS ENDED SEPTEMBER 30, 2002*	UNAUDITED 3-MONTHS ENDED DECEMBER 31, 2002*	UNAUDITED 3-MONTHS ENDED MARCH 31, 2003
Net Sales	$ 4,152	$ 32,977	$ 48,870	$ 9,614
Gross Profit	$ 1,060	$ 9,416	$ 13,431	$(1,222)
Net Earnings (loss)	$ (1,191)	$ 3,827	$ 3,321	$(4,739)
Net Earnings (loss)				
Per Share (basic)	$ (0.15)	$ 0.47	$ 0.41	$ (0.58)
Per Share (diluted)	$ (0.15)	$ 0.44	$ 0.39	$ (0.58)

QUARTERLY FISCAL 2002

	UNAUDITED 3-MONTHS ENDED JUNE 30, 2001*	UNAUDITED 3-MONTHS ENDED SEPTEMBER 30, 2001*	UNAUDITED 3-MONTHS ENDED DECEMBER 31, 2001*	UNAUDITED 3-MONTHS ENDED MARCH 31, 2002
Net Sales	$ 5,523	$ 15,749	$ 34,159	$ 7,044
Gross Profit	$ 1,861	$ 5,310	$ 11,439	$ 3,013
Net Earnings (loss)	$ (115)	$ 1,825	$ 4,690	$ (111)
Net Earnings (loss)				
Per Share (basic)	$ (0.03)	$ 0.27	$ 0.96	(0.02)
Per Share (diluted)	$ (0.03)	$ 0.23	$ 0.82	(0.02)

*AS RESTATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

FOR FISCAL YEAR ENDED MARCH 31, 2004

We had a challenging year in the twelve month period ended March 31, 2004 ("fiscal 2004"). During fiscal 2004, we reported a net loss of $22.7 million, or $2.65 per share, on sales of $70.5 million which compares to net income of $1.2 million in fiscal 2003 or $.14 per diluted share, on sales of $95.6 million. Sales decreased primarily from increased competition in the United States and in international markets. In fiscal 2003, we overestimated the demand for our products and as result had $25 million of excess inventory at year end. In addition, both our retail customers and our international distributors carried excess Singing Machine inventory into fiscal 2004, which impacted our ability to sell into the trade and distribution channels.

Our gross profit decreased to $1.8 million or 2.6% of total revenues in fiscal 2004 compared to gross profit of $23.3 million or 24.4% of total revenues in fiscal 2003. Our net loss for fiscal 2004 was $22.7 million, which includes several unusual operating expenses: litigation expenses severance expenses, lease termination costs, write off of prepaid royalties, tooling impairment charges and the settlement will be final if no appeals are filed by the next 30 days, write off of capitalized cost of reorganization intangible.

In July 2003, we made a decision to restate our audited financial statements for the fiscal years ended March 31, 2002 and 2001 because we revised our position on the Hong Kong and U.S. taxation of the income of International SMC, our Hong Kong subsidiary. See "Restatement" on pages 24. As a result of this restatement we were named as a defendant in several class action lawsuits and a derivative lawsuit. The shareholder complaints were consolidated into one lawsuit in the United States District Court for Southern Florida. Settlement was approved by the court on July 30, 2004. The court entered an order approving our settlement agreement with the plaintiffs on August 2, 2004. We incurred approximately $706,000 for the settlement and related expenses, net of reimbursement from our insurance carrier.

In July 2003, we raised $1 million in subordinated debt financing from an investment group comprised of an officer, directors and an associate of one of our directors. On August 19, 2004, LaSalle amended our credit agreement, which extended the loan until March 31, 2004 and waived the existing condition of default. On September 8, 2003, we raised $4 million in an offering of 8% convertible subordinated debentures to six accredited investors. The proceeds of the debenture were used to pay down our accounts payable, finance operations and pay down a portion of our loan with LaSalle. On December 31, 2003, we again violated the tangible net worth requirement and working capital requirements under our credit agreement with LaSalle. On January 31, 2004, we paid off our loan with LaSalle and LaSalle released its security interests in our assets and terminated the credit agreement. We entered into a factoring agreement with Milberg Factors effective as of February 9, 2004 and terminated this agreement on July 14, 2004.

Despite the reduction in expenses, we still had minimal liquidity during fiscal 2004. As such, we were forced to sell excess inventory at or below cost. During fiscal 2004, we sold approximately 20.2% of our inventory at prices at or below cost. As such, our gross profit percentage decreased to 2.6% of our net sales. As of March 31, 2004, we did not have any advances outstanding under our factoring agreement with Milberg; however, we were in violation of the covenants relating to working capital and tangible net worth. We terminated this factoring agreement, effective as of July 14, 2004. Because of our limited liquidity, we received a going concern uncertainty paragraph on our audited financial statements for fiscal 2004. Although our cash on hand as of July 1, 2004 is limited, we believe that we will have sufficient cash from operations to fund our operating requirements for the next three months. After three months, we expect to begin collecting accounts receivable from the sales of our karaoke products in the second and third quarters. If there is a need for additional funds, short term loans will be obtained. We will continue to sell older inventory models at discounted prices to generate cash as well as continuing to reduce operating expenses.

RESULTS OF OPERATIONS

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

	2004	2003	2002*
Total revenues	100.0%	100.0%	100.0%
Cost of sales	97.4%	75.6%	65.4%

Operating expenses	31.2%	22.7%	21.4%
Operating (loss) income	(28.6%)	1.7%	13.2%
Other (expenses), income, net	(2.5%)	(0.2%)	(0.1%)
(Loss) Income before taxes	(31.1%)	1.5%	13.1%
Provision (benefit) for income taxes	1.1%	.2%	3.0%
(Loss) income	(32.2%)	1.3%	10.1%

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* AS RESTATED.

RESTATEMENT OF FINANCIAL STATEMENTS

In June 2003, management revised its position on taxation of its subsidiary's income by the United States and by the Hong Kong tax authorities.

With regard to taxation in Hong Kong, our subsidiary had previously applied for a Hong Kong offshore claim income tax exemption based on the locality of profits of the Hong Kong subsidiary. Management previously believed that the exemption would be approved because the source of all profits of the Hong Kong subsidiary is from exporting to customers outside of Hong Kong. Accordingly, no provision for income taxes was provided in the consolidated financial statements as of March 31, 2002 and 2001. However, full disclosure was previously reflected in the audited financial statements for years ended March 31, 2002 and 2001 of the estimated amount that would be due to the Hong Kong tax authority should the exemption be denied. Management is continuing its exemption application process. However, due to the extended period of time that the application has been outstanding, as well as management's reassessment of the probability that the application will be approved, management determined to restate the 2002 and 2001 consolidated financial statements to provide for such taxes. The effect of such restatement was to increase income tax expense by $748,672 and $468,424 in fiscal 2002 and 2001, respectively. However, we can claim United States foreign tax credits in 2002 for these Hong Kong taxes, which is reflected in the final restated amounts.

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With regard to United States taxation of foreign income, we had originally taken the position that the foreign income of the Hong Kong subsidiary qualified for a deferral under the Internal Revenue Code allowing for such income to be indefinitely deferred and not taxed in the United States until such income is repatriated. Full disclosure of the amount and nature of the indefinite deferral for fiscal year 2002 was reflected in the income tax footnote of the consolidated financial statements for that year. The Internal Revenue Code, regulations and case law regarding international income taxation is quite complex and subject to interpretation. Each case is determined based on the individual facts and circumstances. Due to certain inter-company loans made in 2002 and 2003, the profits previously considered to be indefinitely deferred became partially taxable as "deemed dividends" under section 956 of the Internal Revenue Code. Although certain arguments against the imposition of a "deemed dividend" may be asserted, management determined to restate the fiscal year 2002 consolidated financial statements based on its reassessment of its original position. The effect of such restatement was to increase income tax expense by $1,027,545 in fiscal year 2002, which includes the utilization of the foreign tax credits referred to above.

The net effect of the above two adjustments was to decrease net income by $1,776,217 and $468,424 in fiscal 2002 and 2001. The net effect on net income per share was to decrease net income per share basic and diluted by $0.25 and $0.23, respectively in fiscal 2002 and decrease net income per share basic and diluted by $0.07 and $0.06, respectively in fiscal 2001.

SIX MONTHS ENDED SEPTEMBER 30, 2004 COMPARED TO THE SIX MONTHS ENDED SEPTEMBER 30, 2003

NET SALES

Net sales for the six months ended September 30, 2004 were $22,610,161, compared to net sales of $40,479,551 for the comparative period of 2003. Sales decreased $ 17,869,390 or 44% from the comparative period. . The decrease in sales is a combination of four primary reasons:

1) We loss approximately $2.3 million in sales because we made a decision not to pursue low margin accounts which tied up cash flow by not providing us with enough profit margin.

2) We loss approximately $1.5 million in sales because we did not meet customers demands to introduce new karaoke models as a result of our inventories being overstocked.

3) We loss approximately $11.3 million in sales from customers that were discouraged from purchasing from us because of our liquidity concerns.

4) We loss approximately $7 million in sales to our distributors in Europe due to high levels of inventories on hand from the prior year.

The decrease in sales from above accounts was partly offset by an increase in sales from other accounts.

GROSS PROFIT

Gross profit for the six months ended September 30, 2004 was $5,030,484 or 22% of sales as compared to $7,146,140 or 17% of sales for the six months ended September 30, 2003. The year to date gross margins of 84% was generated in the second quarter. The increase in gross margin percentage compared to the prior year was due primarily to sales of the newer models at a higher gross profit margin. In addition, the sales of existing older models have been written down to the lower of cost or market in the prior year.

OPERATING EXPENSES

Total operating expenses were $4,957,941 for the six months ended September 30, 2004, compared to $10,532,916 for the comparative period of 2003. Operating expenses decreased compared to prior period by 52% or $5,574,975. This decrease of expenses is a result of two primary factors:

o In fiscal years 2004 and 2005, one of managements primary objectives was to continually reduce our operating expenses. Total controllable operating expenses for six months ending September 30, 2004 decreased 51% from the comparative period last year or $3,788,268. Controllable expenses include selling, general and administrative expenses and compensation expense. Selling, general and administrative expense was reduced by $2,668,657 or 53%, to $2,178,226, from $4,846,883.

The decrease of the selling, general and administration expenses of $2,226,657 were due to:

- decrease of $121,000 of accounting fees, which is related to the improvement of our accounting department;

- decrease of $290,000 of consulting fees, which is related to a cut down in consulting related to our borrowing agreement with our previous lender;

- decrease of $165,000 of contribution expenses.

- decrease of $508,000 of legal expense, which is related to the reversal of over accrued legal expense for the year ended March 31, 2004 for the class action settlement in the amount of approximate $250,000 and reduction of the legal expenses.

- decrease of $345,000 of the rental expenses, which is related to the early termination of our warehouse facility in Rancho Dominguez, CA and subleasing our existing facilities;

- decrease of $360,000 of repair fee, which is result of we set up our QC facility in our Campton, CA warehouse, and we only send the defective product to factory for repair;

- decease of $165,000 loan amortization cost, which is related to the termination of borrowing agreement with our previous lender.

Compensation expense on a comparative basis was reduced by $1,119,611 or 45% to $1,335,780 from $2,455,391. The decrease of the compensation expenses is the result of the corporate down size. We had 43 employees at the September 30, 2003 compared to 28 employees as at September 30, 2004.

In addition, variable selling related expenses, advertising, commissions, freight & handling and royalty, decreased as a percent of sales from 7.9% to 6.3% of sales. In total, variable expenses decreased $1,796,707, from $3,230,642 in the six months ended September 30, 2003 to $1,433,935 in the quarter ended September 30, 2004.

OTHER INCOME/EXPENSES

Net other expenses were $870,354 for the six months ended September 30, 2004, compared to other expense of $590,343 for the six months ended September 30, 2003. The increase over prior year is the result of amortization of the discount on the convertible debentures totaling $743,921 compared to $56,801 for the comparative period of last year. Singing Machine did not close on the convertible debenture until September 8, 2003. Interest expense decreased for the six months ended September 30, 2004 vs. the six months ended September 30, 2003. For the six months ended September 30, 2004 interest expense decreased to $243,704 from $450,562. The decrease is a result of reduced borrowings, compared to the prior year.

INCOME TAXES

Singing Machine has not recorded a benefit for the current period's losses because its realizability is unlikely.

FISCAL YEAR ENDED MARCH 31, 2004 COMPARED WITH FISCAL YEAR ENDED MARCH 31, 2003

NET SALES

Net sales for the fiscal year ended March 31, 2004 decreased to $70.5 million compared to revenues of $95.6 million in the fiscal year ended March 31, 2003. The decrease in net sales was due to both decreases in unit volume as well as pricing, due to increases in competition in the United States and international markets. In fiscal year 2004, 61% of our sales were direct sales, which represent sales made by International SMC, and 39% were domestic sales, which represent sales made from our warehouse in the United States.

The following is the summary of the sales by region and by product:

(In thousand)	2004	2003	Change $	Change %
Foreign	$ 27,497	$ 17,917	$ 9,580	53%
Domestic and Canada	$ 43,044	$ 77,969	$(34,925)	-45%
Total sales	$ 70,541	$ 95,886	$(25,345)	-26%
Hardware	$ 40,244	$ 68,596	$(28,352)	-41%
Music	$ 2,800	$ 9,100	$ (6,300)	-69%
US sales	$ 43,044	$ 77,696	$(34,652)	-45%

The sales in North America decreased 44.6% or $34,652,000 which was partiality offset by an increase in sales in our international markets by $9,580,000, for a net decrease of $25,072,000. Within the US, Our Karaoke hardware sales decreased 44.6% or $28,352,000. This decrease is a result of additional competition (Memorex and Craig) in the United States. This put pricing pressure on our product line which resulted in decreased selling prices and gross margin percents

In addition in FY2004 we did substantially less business with Target, Toys R Us, Transworld and Bestbuy, and no business with Sears, which accounted for a significant amount of sales in FY 2003.

In addition our music (CDG's) decreased from $9,100,000 to $2,800,000 a decrease of 69.2% or $6,300,000. This decrease is a result of increased competition and certain accounts we did not do or reduce the business with in FY2004 (Target, Toys R Us, Transworld and Sears).

The sales decreases occurred in all segments of our business. Our total hardware sales decreased to $67.7 million, in fiscal 2004 compared to total hardware sales of $87 million in fiscal 2003. The total decrease of hardware sales of $19.3 million from the previous year sales level is the primary due to the increasing market competition. Also we had to lower our price in order to move the overstocked inventory from fiscal year 2003.

In addition, there was a significant decrease in our music sales. Music sales decreased to $2.8 million, or 4% of net sales, in fiscal 2004, compared to $9.1 million, or 9.5% of net sales, in fiscal 2003. The decrease in music sales is also a result of increased competition in this category, both domestically as well as internationally.

GROSS PROFIT

Gross profit for fiscal 2004 was $1.8 million or 2.6% of total revenues compared to $23.3 million or 24.4% of sales for fiscal 2003. The decrease in gross margin compared to the prior year is primarily due to the following factors: (i) write-down of inventories, (ii) sales made at lower prices to generate cash from operation, (iii) increased sales by International SMC, which sales have lower gross profit margins than sales from the U.S. parent company and (iv) tooling impairment cost of $443,000.

At the end of fiscal 2004, our inventory levels were higher than we expected. We determined that due to liquidation sales, inventory would be sold at a loss; therefore, a decrease in the value of specific inventory items was made to reverse the value of the inventory on hand to its net realizable value. The total amount of the provision for inventory was $6.6 million in fiscal 2004 compared to a provision of $3.7 million in fiscal 2003.

In addition to the write-down of inventories, due to competitive price pressure, a significant amount of sales shipped in fiscal 2004 were made at lower margins than in previous years. In the fourth quarter, we sold $1 million of inventory with a negative margin of $366,751.

Our product line did not sell as well as our retailers and mass merchants had expected. As a result, we agreed to give our customers pricing concessions and allowed them to return inventory to us. We issued over $1 million in customer credits during the fourth quarter, which reduced our sales and gross profit margins equally. Our gross margins were also negatively affected by the return of $1.8 million of additional inventory.

Our decrease in our gross margin percentage in fiscal 2004 compared to fiscal 2003 was also reduced by the mix of our sales. The percentage of sales made by our Hong Kong subsidiary increased from 52% of the total sales in fiscal 2003 to 61% in fiscal 2004. Historically, sales made by International SMC maintain a lower gross profit margin. We reduced the sales price of our products sold by International SMC because its customers are required to pay for the shipping, duty and the warranty costs.

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 selling, general and administrative expenses

OPERATING EXPENSES

Operating expenses were $22 million or 31.2% of net sales in fiscal 2004 compared to $21.67 million or 22.7% of net sales in fiscal 2003. The primary factors that contributed to the increase in operating expenses are:

o Increased compensation expenses in the amount of $953,000 in fiscal 2004 of which approximately $323,000 was for severance payments to four former executive officers; and

o Increased selling, general and administrative expenses of $2,706,000 due to:

- increased legal fees in the amount of $1,080,00 of which approximately $706,000 was for the class action settlement, and increased consulting fees in the amount of approximately $370,000 which was related to consulting work performed by our lender;

- increased rent expenses in the amount of $690,000 due to the expansion of the warehouse facility in Rancho Dominguez in fiscal 2003. The increase warehouse space was necessary to stock the unanticipated unsold inventories in fiscal year 2004 and expenses of $180,000 for early termination of the lease in Rancho Dominguez, California;

- a write off of the capitalized cost of reorganization of $185,000;

- increased accounting expenses in the amount of $426,000, which was due to the additional work needed to restate our financial statements for the fiscal years ended March 31, 2001 and 2002 and work required on the filing of certain registration statements; and

- increased bank fees and loan cost in the amount of $271,000, which was related to the loan agreement with LaSalle bank.

This increase in expenses was offset by decreases in our advertising expenses and our freight and handling charges in the amount of $2,692,000 and $689,000, respectively. Advertising expense consists of two components: co-operative advertising and direct advertising expense. Co-operative advertising is paid directly to the customer and the allowances are based on the amount of sales. The customer provides copies of advertising on which these funds are spent and is reimbursed after review of such proof of performance. As we believe that there is a separate and identifiable benefit associated with the co-operative advertising, such amounts are recorded as a component of operating expenses. Co-operative advertising expenses decreased to $2,340,439 in fiscal 2004 compared to $5,032,367 in fiscal 2003 because our sales decreased. Our royalty expenses were $2,294,727 in fiscal 2004 compared to $2,257,653 in fiscal 2003. Our royalty expenses in fiscal 2004 included a write-off of $980,000 in pre-paid royalties under our licensing agreement with MTV.

DEPRECIATION AND AMORTIZATION

Our depreciation and amortization expenses were $750,359 for fiscal 2004 compared to $622,298 for fiscal 2003. This increase in depreciation and amortization expenses can be attributed to our investment in tooling and dies for the new models, in addition to the acceleration in the depreciation method used to depreciate tools and dies.

NET OTHER EXPENSES

Net other expenses were $1.73 million in fiscal 2004 compared to $197,646 in fiscal 2003. Net other expenses increased because our interest expense increased to $1.75 million in fiscal 2004 compared to $406,000 in fiscal 2003. Our interest expense increased because we recorded $757,815 for the amortization of the discount and related deferred financing fees on our convertible debentures and approximately $800,000 relates to interest expense on the LaSalle loan, interest on the convertible debentures, interest on the insiders loan, and interest expense incurred at our Hong Kong subsidiary. We expect interest expense to increase further in fiscal 2005, as we will have a full year's worth of amortization of the discount on the convertible debentures and related deferred financing fees.

INCOME BEFORE TAXES

We had a net loss before taxes of $21.9 million in fiscal 2004 compared to net income of $1.42 million in fiscal 2003.

INCOME TAX EXPENSE

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. At December 31, 2003 and March 31, 2004, we concluded that a valuation allowance was needed against all of our deferred tax assets, as it was not more likely than not that the deferred taxes would be realized. At March 31, 2004 and 2003, we had gross deferred tax assets of $8.2 million and $1.9 million, against which we recorded valuation allowances totaling $8.2 million and $0, respectively.

For the fiscal year ended March 31, 2004, we recorded a tax provision of $758,505. This occurred because the valuation allowance established against our deferred tax assets exceeded the amount of the benefit created fr