



Singing Machine Announces First Quarter 2019 Earnings Report

Fort Lauderdale, FL, August 14, 2018 – **The Singing Machine Company, Inc.** (“Singing Machine” or the “Company”) (OTCQX: **SMDM**) – the North American leader in consumer karaoke products – today announced its financial results for its first quarter ended June 30, 2018.

First Quarter Snapshot:

- Net sales of \$1.8 million for the quarter ended June 30, 2018.
- Gross margin of 21.3%.
- Net loss of \$1.0 million for the quarter.
- Streaming music subscription sales increased 54% YoY.
- Fees received from 3PL logistics services increased to \$0.2 million for the quarter, an increase of 136% YoY.

Singing Machine reports net sales of approximately \$1.8 million for the quarter-ended June 30, 2018 period. The decrease in net sales was primarily due to the bankruptcy of Toys ‘R’ Us which accounted for approximately \$1.0 million in sales in the prior year same quarter. The Company also experienced a one-time unexpected factory closing during the first quarter which caused shipments of approximately \$0.8 million to shift into the second quarter.

Gross profit margin decreased by approximately 6.1% percent to 21.3% net sales compared to approximately 27.4% of net sales reported in the prior year. The decrease in gross margin was mainly due to a one-time expense related to moving products from one factory to new suppliers due to an unexpected supplier interruption.

Total operating expenses decreased to \$1.7 million compared to \$1.9 million in the prior year. The reduction in expenses was primarily due to a reduction in general and administrative expenses related to a decrease in bad debt reserve of approximately \$0.14 million due to lower sales and accounts receivable.

As a result, the Company reported a net loss of \$1.0 million compared to a net loss of \$0.53 million in the prior year.

Management Commentary:

Gary Atkinson, Singing Machine CEO, commented, “Due to the bankruptcy and liquidation of Toys ‘R’ Us in March 2018, we experienced a first quarter slow down. We also experienced a disruption in our supply chain during the first quarter which caused a timing delay in shipments that were not able to be fulfilled in the first quarter. Those supply chain disruptions have since been resolved and those effected products are back in-stock. Despite the slow quarter and one-time

market disruptions, we remain confident as the market leader in our category. We believe the singing and music entertainment category is a growing market that is prime for international expansion.”

Earnings Call Information:

The Company will host a conference call today, Tuesday, August 14, beginning at 10:00 am Eastern time to discuss these results and answer questions. If you would like to participate on the call, please dial 866-831-8713 and use conference ID: SMDM.

An audio rebroadcast of the call will be available later in the day after the earnings call and can be heard at: www.singingmachine.com/investors.

About The Singing Machine

Based in the U.S., Singing Machine® is the North American leader in consumer karaoke products. The first to provide karaoke systems for home entertainment in the United States, the Company sells its products worldwide through major mass merchandisers and on-line retailers. We offer the industry's widest line of at-home karaoke entertainment products, which allow consumers to find a machine that suits their needs and skill level. As the most recognized brand in karaoke, Singing Machine products incorporate the latest technology for singing practice, music listening, entertainment and social sharing. The Singing Machine provides consumers the best warranties in the industry and access to over 13,000 songs for streaming and download. Singing Machine products are sold through most major retailers in North America and also internationally. See www.singingmachine.com for more details.

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Forward-Looking Statements

This press release contains forwardlooking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forwardlooking statements are based on current expectations, estimates and projections about the Company's business based, in part, on assumptions made by management and include, but are not limited to statements about our financial statements for the fiscal year ended March 31, 2018. You should review our risk factors in our SEC filings which are incorporated herein by reference. Such forwardlooking statements speak only as of the date on which they are made and the company does not undertake any obligation to update any forwardlooking statement to reflect events or circumstances after the date of this release.

The Singing Machine Company, Inc. and Subsidiaries		
CONDENSED CONSOLIDATED BALANCE SHEETS		
	June 30, 2018	March 31, 2018
	(Unaudited)	
Assets		
Current Assets		
Cash	\$ 117,767	\$ 813,908
Accounts receivable, net of allowances of \$63,473 and \$82,102 respectively	1,213,105	1,066,839
Due from PNC Bank	-	6,212
Accounts receivable related party - Starlight Consumer Electronics USA, Inc.	7,054	7,054
Accounts receivable related party - Winglight Pacific, Ltd	293,651	1,150,104
Inventories, net	8,834,930	8,536,934
Prepaid expenses and other current assets	272,989	137,970
Deferred financing costs	13,333	13,333
Total Current Assets	10,752,829	11,732,354
Property and equipment, net	708,500	450,305
Deferred financing costs, net of current portion	13,333	16,667
Deferred tax assets	1,261,136	937,137
Other non-current assets	12,039	11,523
Total Assets	\$ 12,747,837	\$ 13,147,986
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 1,687,655	\$ 1,614,748
Accrued expenses	765,035	701,932
Current portion of bank term note payable	625,000	500,000
Due to related party - Starlight Electronics Co., Ltd	306,480	210,756
Due to related party - Starlight R&D, Ltd.	112,359	113,116
Due to related party - Merrygain Holding Co., Ltd.	128,290	89,803
Revolving line of credit	1,089,822	-
Refunds due to customers	256,154	445,484
Reserve for sales returns	137,536	726,000
Current portion of capital leases	14,065	-
Current portion of subordinated related party debt - Starlight Marketing Development, Ltd.	815,367	689,792
Total Current Liabilities	5,937,763	5,091,631
Bank term note payable, net of current portion	-	125,000
Capital leases, net of current portion	27,167	-
Subordinated related party debt - Starlight Marketing Development, Ltd., net of current portion	-	125,575
Total Liabilities	5,964,930	5,342,206
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, Class A, \$0.01 par value; 100,000 shares authorized; no shares issued and outstanding	-	-
Common stock, Class B, \$0.01 par value; 100,000,000 shares authorized; 38,282,028 shares issued and outstanding	382,820	382,820
Additional paid-in capital	19,635,341	19,624,063
Accumulated deficit	(13,235,254)	(12,201,103)
Total Shareholders' Equity	6,782,907	7,805,780
Total Liabilities and Shareholders' Equity	\$ 12,747,837	\$ 13,147,986
<i>See notes to the condensed consolidated financial statements</i>		

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

	For the Three Months Ended	
	June 30, 2018	June 30, 2017
Net Sales	\$ 1,836,511	\$ 3,939,733
Cost of Goods Sold	1,445,028	2,860,584
Gross Profit	391,483	1,079,149
Operating Expenses		
Selling expenses	446,700	463,747
General and administrative expenses	1,208,644	1,359,231
Depreciation	67,571	43,213
Total Operating Expenses	1,722,915	1,866,191
Loss from Operations	(1,331,432)	(787,042)
Other Expenses		
Interest expense	(23,385)	(283)
Finance costs	(3,334)	(21,606)
Total Other Expenses	(26,719)	(21,889)
Loss Before Income Tax Benefit	(1,358,151)	(808,931)
Income Tax Benefit	324,000	281,921
Net Loss	<u>\$ (1,034,151)</u>	<u>\$ (527,010)</u>
Loss per Common Share		
Basic and Diluted	\$ (0.03)	\$ (0.01)
Weighted Average Common and Common Equivalent Shares:		
Basic and Diluted	38,282,028	38,259,303
<i>See notes to the condensed consolidated financial statements</i>		

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

	For the Three Months Ended	
	June 30, 2018	June 30, 2017
Cash flows from operating activities		
Net Loss	\$ (1,034,151)	\$ (527,010)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	67,571	43,213
Amortization of deferred financing costs	3,334	21,606
Change in inventory reserve	(81,780)	(375,000)
Change in allowance for bad debts	(18,629)	(6,028)
Stock based compensation	11,278	55,237
Change in net deferred tax assets	(323,999)	(283,126)
Changes in operating assets and liabilities:		
Accounts receivable	(127,637)	(1,100,703)
Due from PNC Bank	6,212	242,859
Accounts receivable - related parties	856,453	(557,647)
Inventories	(216,216)	(2,651,450)
Prepaid expenses and other current assets	(135,019)	(316,343)
Other non-current assets	(516)	-
Accounts payable	72,907	3,140,580
Accrued expenses	63,103	99,956
Due to related parties	133,454	149,787
Refunds due to customers	(189,330)	69,715
Reserve for sales returns	(588,464)	(338,791)
Net cash used in operating activities	(1,501,429)	(2,333,145)
Cash flows from investing activities		
Purchase of property and equipment	(282,240)	(185,336)
Net cash used in investing activities	(282,240)	(185,336)
Cash flows from financing activities		
Net proceeds from revolving line of credit	1,089,822	683,986
Net proceeds from bank term note	-	1,000,000
Payment of deferred financing costs	-	(40,000)
Payment on subordinated debt - related party	-	(1,000,000)
Payments on capital leases	(2,294)	-
Net cash provided by financing activities	1,087,528	643,986
Net change in cash	(696,141)	(1,874,495)
Cash at beginning of period	813,908	2,305,439
Cash at end of period	\$ 117,767	\$ 430,944
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 9,995	\$ 283
Cash paid for income taxes	\$ -	\$ 30,000
Equipment purchased under capital lease	\$ 43,526	\$ -

See notes to the condensed consolidated financial statements

