



Singing Machine Announces Second Quarter 2018 Earnings Report

Fort Lauderdale, FL, November 14, 2017 – **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 second quarter ended September 30, 2017.

Second Quarter Highlights:

- Net sales increased by 17% to \$32.8 million for the September 30, 2017 quarter.
- Gross profit for the second quarter increased to \$7.7 million compared to \$6.5 million in the prior year.
- Gross margin increased by .5% to 23.6%.
- A \$2.0 million bad debt reserve was taken as a result of the Toys ‘R’ Us bankruptcy.
- The Company reported income before tax of \$1.2 million for the quarter.
- Earnings per share of \$0.02 per share on a fully diluted basis.

Singing Machine reports net sales of approximately \$32.8 million for the quarter-ended September 30, 2017 period, an increase of 17% from the prior year. The increase in net sales was primarily the result of an increase in new shipments to a large retailer and an increase in e-commerce sales to another major retailer this holiday season.

Gross profit margin increased by approximately 0.5% to 23.6% net sales compared to approximately 23.1% of net sales reported in the prior year. The increase in gross profit margin is due to slightly better margin on new promotional shipments for the holidays.

General and administrative expenses increased by \$2.5 million to \$4.0 million. The increase was primarily due to an increase in bad debt reserve of \$2.1 million which was the result of the Toys ‘R’ Us bankruptcy filing in September 2017. As a result of the bad debt reserve, total operating expenses for the second quarter increased to \$6.4 million.

As a result, the Company reported income before tax of \$1.2 million and net income after tax of approximately \$0.78 million, or earnings per share of \$0.02 cents.

Management Commentary:

Gary Atkinson, Chief Executive Officer of Singing Machine, commented, “This quarter we experienced a short-term disruption to our operating profit as a direct result of the Toys ‘R’ Us bankruptcy. However, we are very pleased with the business results of this quarter, notably the 17% growth to top line sales and improvement to gross margin. We have continued to ship product to Toys ‘R’ Us post-bankruptcy and we continue to work with them to make sure they are fully stocked

for this holiday season. We don't anticipate any lost sales to Toys 'R' Us this year and remain hopeful they will emerge from the bankruptcy as a stronger retailer."

Bernardo Melo, Vice President of Sales commented, "We're excited to be heading into our peak season with the biggest, most reputable list of retailers and eTailers. With the addition of Best Buy brick and mortar stores as well as major promotional ads running with every major retailer, we're well positioned to take advantage of the forecasted increase in home entertainment spending this season. This quarter we saw strong trends on our core karaoke lines of products and our new SMC Kids Toy line is off to a hot start. There are already a few clear winners that should be must-have toys for parents and kids this holiday season."

Earnings Call Information:

Date: Tuesday, November 14, 2017

Time: 10 a.m. ET

Dial-in number: (800) 459-5343

Conference ID: SMDM

An audio rebroadcast of the call will be available later in the day at: <http://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, 2017. 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		
	September 30, 2017	March 31, 2017
	(Unaudited)	
Assets		
Current Assets		
Cash	\$ 288,387	\$ 2,305,439
Accounts receivable, net of allowances of \$2,462,490 and \$126,555, respectively	28,611,492	1,655,518
Due from PNC Bank	-	242,859
Accounts receivable related party - Cosmo Communications Canada, Ltd	52,984	-
Accounts receivable related party - Winglight Pacific, Ltd	1,110,479	-
Accounts receivable related party - other	6,625	-
Inventories, net	14,204,966	5,426,346
Prepaid expenses and other current assets	93,558	81,278
Deferred financing costs	13,336	21,606
Total Current Assets	44,381,827	9,733,046
Property and equipment, net	575,787	412,805
Other non-current assets	11,523	11,523
Deferred financing costs, net of current portion	23,331	-
Deferred tax asset	1,340,044	1,479,209
Total Assets	\$ 46,332,512	\$ 11,636,583
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 22,198,691	\$ 1,381,870
Current portion of bank term note payable	500,000	-
Due to related party - Starlight Electronics Co., Ltd	30,121	-
Due to related party - Merrygain Holding Co.,Ltd	12,829	-
Due to related party - Starlight R&D, Ltd.	114,629	-
Accrued expenses	1,955,552	626,331
Revolving line of credit	11,548,522	-
Obligations to customers for returns and allowances	36,917	38,460
Warranty provisions	930,168	223,700
Current portion of subordinated related party debt - Starlight Marketing Development, Ltd.	452,948	1,924,431
Total Current Liabilities	37,780,377	4,194,792
Bank term note payable, net of current portion	375,000	-
Subordinated related party debt - Starlight Marketing Development, Ltd., net of current portion	362,419	-
Total Liabilities	38,517,796	4,194,792
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 and 38,259,303 shares issued and outstanding, respectively	382,820	382,593
Additional paid-in capital	19,528,219	19,412,787
Accumulated deficit	(12,096,323)	(12,353,589)
Total Shareholders' Equity	7,814,716	7,441,791
Total Liabilities and Shareholders' Equity	\$ 46,332,512	\$ 11,636,583

See notes to the condensed consolidated financial statements.

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

	For Three Months Ended		For Six Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net Sales	\$ 32,802,163	\$ 28,129,051	\$ 36,741,896	\$ 32,988,443
Cost of Goods Sold	25,064,608	21,626,419	27,925,192	25,342,128
Gross Profit	7,737,555	6,502,632	8,816,704	7,646,315
Operating Expenses				
Selling expenses	2,381,456	2,227,223	2,845,203	2,652,101
General and administrative expenses	4,007,513	1,467,131	5,366,744	2,713,982
Depreciation	43,389	43,795	86,602	87,590
Total Operating Expenses	6,432,358	3,738,149	8,298,549	5,453,673
Income from Operations	1,305,197	2,764,483	518,155	2,192,642
Other Expenses				
Interest expense	(95,298)	(67,038)	(95,581)	(83,065)
Financing costs	(3,333)	(18,520)	(24,939)	(37,039)
Total Other Expenses	(98,631)	(85,558)	(120,520)	(120,104)
Income Before Income Tax Provision	1,206,566	2,678,925	397,635	2,072,538
Income Tax Provision	(422,290)	(868,449)	(140,369)	(699,135)
Net Income	\$ 784,276	\$ 1,810,476	\$ 257,266	\$ 1,373,403
Income per Common Share				
Basic	\$ 0.02	\$ 0.05	\$ 0.01	\$ 0.04
Diluted	\$ 0.02	\$ 0.05	\$ 0.01	\$ 0.04
Weighted Average Common and Common Equivalent Shares:				
Basic	38,274,371	38,205,186	38,266,878	38,193,247
Diluted	39,160,863	38,980,571	39,153,371	38,968,632

See notes to the condensed consolidated financial statements.

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

	For Six Months Ended	
	September 30, 2017	September 30, 2016
Cash flows from operating activities:		
Net Income	\$ 257,266	\$ 1,373,403
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	86,602	87,590
Amortization of deferred financing costs	24,939	37,039
Change in inventory reserve	(375,000)	90,000
Change in allowance for bad debts	2,329,907	232,510
Stock based compensation	115,659	37,014
Change in net deferred tax asset	139,165	669,861
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(29,285,881)	(16,991,782)
Due from PNC Bank	242,859	184,392
Accounts receivable - related parties	(1,170,088)	(610,604)
Inventories	(8,403,620)	(5,025,669)
Prepaid expenses and other current assets	(12,280)	38,241
Other non-current assets	-	(129)
Increase (decrease) in:		
Accounts payable	20,816,821	9,421,489
Due to related parties	157,579	(297,336)
Accrued expenses	1,329,221	1,316,102
Obligations to customers for returns and allowances	(1,543)	(101,199)
Warranty provisions	706,468	567,372
Net cash used in operating activities	<u>(13,041,925)</u>	<u>(8,971,706)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(249,584)	(76,428)
Net cash used in investing activities	<u>(249,584)</u>	<u>(76,428)</u>
Cash flows from financing activities:		
Net proceeds from revolving line of credit	11,548,522	8,103,991
Proceeds from bank term note	1,000,000	-
Payment of bank term note	(125,000)	-
Proceeds from exercise of stock options	-	6,400
Payment of deferred financing costs	(40,000)	-
Payment on note payable related party - Ram Light Management, Ltd.	-	(229,163)
Payment on subordinated debt - related party	(1,109,064)	-
Payments on capital lease	-	(1,078)
Net cash provided by financing activities	<u>11,274,458</u>	<u>7,880,150</u>
Net change in cash	<u>(2,017,052)</u>	<u>(1,167,984)</u>
Cash at beginning of period	2,305,439	2,116,490
Cash at end of period	<u>\$ 288,387</u>	<u>\$ 948,506</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 76,868	\$ 53,107
Cash paid for income taxes	\$ 30,000	\$ -

See notes to the condensed consolidated financial statements.