



## Singing Machine Announces Second Quarter 2019 Earnings Report

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

### Second Quarter Snapshot:

- Net sales of \$24.3 million for the quarter ended September 30, 2018.
- Gross margin of 21.4%.
- Operating Expenses reduced by 45% compared to the prior year second quarter.
- Net Income improved by 55% to \$1.2 million for the quarter (\$0.03 per share).

Singing Machine reports net sales of approximately \$24.3 million for the quarter-ended September 30, 2018 period, compared to \$32.8 million in the same period last year. The decrease in net sales from the same period in the prior year was primarily due to the bankruptcy of Toys ‘R’ Us which accounted for approximately \$5.4 million of the decrease.

The Company reported gross profit margin of 21.4%. The decrease in gross margin was mainly due to a higher mix of promotional products that shipped in the second quarter compared to the same period last year. Total operating expenses decreased by \$2.9 million, from \$6.4 million to \$3.5 million. The reduction in expenses was primarily due to a reduction in bad debt reserve of approximately \$2.2 million and an 18% reduction in general & administrative expenses.

As a result, the Company reported an increase in net profit of \$1.2 million (\$0.03 per share on a fully diluted basis) compared to approximately \$0.78 million in the prior year.

### Management Commentary:

Gary Atkinson, Singing Machine CEO, commented, “During the second quarter we continued to see the impact of the liquidation of Toys ‘R’ Us on our business. We had success launching new, hot products this year, such as the *Singing Machine Studio* and the new *Kids’ Pedestal* which won one of Parents Magazine best toys of 2018. Despite success with these new product launches, we have not yet been able to open up enough new distribution to offset the loss of Toys ‘R’ Us.”

Atkinson added, “While the financials do not yet to reflect a lot of the hard work we are doing year-to-date, we are positioning the Company for future re-growth through diversification outside of our core karaoke lineup and new distribution channels both domestically and abroad.”

Bernardo Melo, VP of Sales & Marketing, commented, “We recently concluded a major toy show in Hong Kong where we debuted our new product lineup for 2019, including our new Kids and core Karaoke lines of products. We saw a highly enthusiastic reception to our Product assortments for

2019. As we enter the holiday season, look for Singing Machine to continue to be a leader in the category with highly visible holiday promotions, aggressive marketing, and best-in-class product and value offerings at all of our retailers.”

### **Earnings Call Information:**

The Company will host a conference call today, Wednesday, November 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 877-876-9174 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](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 14,000 songs for streaming and download. Singing Machine products are sold through most major retailers in North America and also internationally. See [www.singingmachine.com](http://www.singingmachine.com) for more details.

### **Investor Relations Contact:**

Brendan Hopkins  
(407) 645-5295  
[investors@singingmachine.com](mailto:investors@singingmachine.com)  
[www.singingmachine.com](http://www.singingmachine.com)  
[www.singingmachine.com/investors](http://www.singingmachine.com/investors)

### **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.*

<b>The Singing Machine Company, Inc. and Subsidiaries</b>		
<b>CONDENSED CONSOLIDATED BALANCE SHEETS</b>		
	<b>September 30, 2018</b>	<b>March 31, 2018</b>
	<b>(Unaudited)</b>	
<b><u>Assets</u></b>		
<b>Current Assets</b>		
Cash	\$ 1,754,729	\$ 813,908
Accounts receivable, net of allowances of \$368,021 and \$82,102 respectively	19,933,354	1,066,839
Accounts receivable related party - Starlight Consumer Electronics USA, Inc.	7,054	7,054
Accounts receivable related party - Cosmo Communications Canada, Inc	567,123	-
Accounts receivable related party - Winglight Pacific, Ltd	1,444,519	1,150,104
Inventories, net	12,894,732	8,536,934
Prepaid expenses and other current assets	303,362	137,970
Deferred financing costs	13,333	13,333
<b>Total Current Assets</b>	<b>36,918,206</b>	<b>11,732,354</b>
<b>Property and equipment, net</b>	<b>646,790</b>	<b>450,305</b>
<b>Deferred financing costs, net of current portion</b>	<b>10,000</b>	<b>16,667</b>
<b>Deferred tax assets</b>	<b>882,391</b>	<b>937,137</b>
<b>Other non-current assets</b>	<b>12,039</b>	<b>11,523</b>
<b>Total Assets</b>	<b>\$ 38,469,426</b>	<b>\$ 13,147,986</b>
<b><u>Liabilities and Shareholders' Equity</u></b>		
<b>Current Liabilities</b>		
Accounts payable	18,654,847	1,614,748
Accrued expenses	1,533,119	701,932
Current portion of bank term note payable	375,000	500,000
Due to related party - Starlight Electronics Co., Ltd	391,380	210,756
Due to related party - Starlight R&D, Ltd.	111,600	113,116
Due to related party - Merrygain Holding Co., Ltd.	128,290	89,803
Revolving line of credit	6,877,610	-
Customer deposits	36,691	-
Refunds due to customers	11,184	445,484
Reserve for sales returns	1,466,627	726,000
Current portion of capital leases	14,151	-
Current portion of subordinated related party debt - Starlight Marketing Development, Ltd.	815,367	689,792
<b>Total Current Liabilities</b>	<b>30,415,866</b>	<b>5,091,631</b>
<b>Bank term note payable, net of current portion</b>	<b>-</b>	<b>125,000</b>
<b>Capital leases, net of current portion</b>	<b>24,772</b>	<b>-</b>
<b>Subordinated related party debt - Starlight Marketing Development, Ltd., net of current portion</b>	<b>-</b>	<b>125,575</b>
<b>Total Liabilities</b>	<b>30,440,638</b>	<b>5,342,206</b>
<b>Commitments and Contingencies</b>		
<b>Shareholders' Equity</b>		
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; 38,384,753 and 38,282,028 shares issued and outstanding, respectively	383,847	382,820
Additional paid-in capital	19,662,766	19,624,063
Accumulated deficit	(12,017,825)	(12,201,103)
<b>Total Shareholders' Equity</b>	<b>8,028,788</b>	<b>7,805,780</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 38,469,426</b>	<b>\$ 13,147,986</b>
<i>See notes to the condensed consolidated financial statements</i>		

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

	For the Three Months Ended		For the Six Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>Net Sales</b>	\$ 24,304,945	\$ 32,802,163	\$ 26,141,456	\$ 36,741,896
<b>Cost of Goods Sold</b>	19,098,263	25,064,608	20,543,291	27,925,192
<b>Gross Profit</b>	5,206,682	7,737,555	5,598,165	8,816,704
<b>Operating Expenses</b>				
Selling expenses	2,014,664	2,381,456	2,461,364	2,845,203
General and administrative expenses	1,364,102	1,672,001	2,712,121	3,044,503
Bad debt expense (recovery), net	88,023	2,335,512	(51,352)	2,322,241
Depreciation	68,210	43,389	135,781	86,602
<b>Total Operating Expenses</b>	3,534,999	6,432,358	5,257,914	8,298,549
<b>Income from Operations</b>	1,671,683	1,305,197	340,251	518,155
<b>Other Expenses</b>				
Interest expense	(72,176)	(95,298)	(95,561)	(95,581)
Finance costs	(3,333)	(3,333)	(6,667)	(24,939)
<b>Total Other Expenses</b>	(75,509)	(98,631)	(102,228)	(120,520)
<b>Income Before Income Tax Provision</b>	1,596,174	1,206,566	238,023	397,635
<b>Income Tax Provision</b>	(378,745)	(422,290)	(54,745)	(140,369)
<b>Net Income</b>	\$ 1,217,429	\$ 784,276	\$ 183,278	\$ 257,266
<b>Net Income per Common Share</b>				
Basic	\$ 0.03	\$ 0.02	\$ 0.00	\$ 0.01
Diluted	\$ 0.03	\$ 0.02	\$ 0.00	\$ 0.01
<b>Weighted Average Common and Common Equivalent Shares:</b>				
Basic	38,348,400	38,274,371	38,315,395	38,266,878
Diluted	39,530,880	39,160,863	39,497,875	39,153,371

*See notes to the condensed consolidated financial statements*

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

	For the Six Months Ended	
	September 30, 2018	September 30, 2017
<b>Cash flows from operating activities</b>		
Net Income	\$ 183,278	\$ 257,266
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	135,781	86,602
Amortization of deferred financing costs	6,667	24,939
Change in inventory reserve	(81,780)	(375,000)
Change in allowance for bad debts	285,919	2,329,907
Stock based compensation	33,330	115,659
Change in net deferred tax assets	54,746	139,165
Changes in operating assets and liabilities:		
Accounts receivable	(19,152,434)	(29,285,881)
Due from PNC Bank	6,212	242,859
Accounts receivable - related parties	(861,538)	(1,170,088)
Inventories	(4,276,018)	(9,601,863)
Prepaid expenses and other current assets	(165,392)	(12,280)
Other non-current assets	(516)	-
Accounts payable	17,040,099	20,816,821
Accrued expenses	831,187	1,329,221
Due to related parties	217,595	157,579
Customer deposits	36,691	(1,543)
Refunds due to customers	(434,300)	-
Reserve for sales returns	740,627	1,904,711
Net cash used in operating activities	<u>(5,399,846)</u>	<u>(13,041,925)</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(288,740)	(249,584)
Net cash used in investing activities	<u>(288,740)</u>	<u>(249,584)</u>
<b>Cash flows from financing activities</b>		
Net proceeds from revolving line of credit	6,877,610	11,548,522
Net proceeds from bank term note	-	1,000,000
Payment of bank term note	(250,000)	(125,000)
Proceeds from exercise of stock options	6,400	-
Payment of deferred financing costs	-	(40,000)
Payment on subordinated debt - related party	-	(1,109,064)
Payments on capital leases	(4,603)	-
Net cash provided by financing activities	<u>6,629,407</u>	<u>11,274,458</u>
<b>Net change in cash</b>	<u>940,821</u>	<u>(2,017,052)</u>
<b>Cash at beginning of period</b>	<u>813,908</u>	<u>2,305,439</u>
<b>Cash at end of period</b>	<u>\$ 1,754,729</u>	<u>\$ 288,387</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 52,513	\$ 76,868
Cash paid for income taxes	\$ -	\$ 30,000
Equipment purchased under capital lease	\$ 43,526	\$ -

*See notes to the condensed consolidated financial statements*