



Singing Machine Announces Second Quarter 2020 Earnings Report

Fort Lauderdale, FL, November 19, 2019 – **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, 2019.

Second Quarter Snapshot:

- During the quarter, the Company recognized a loss of goods due to moisture damage during ocean transport while goods were en route to a major customer for the holidays. This incident resulted in a loss of net sales of approximately \$1.5 million.
- Reported net sales of \$20.1 million for the quarter; \$24.9 million for the six-months year-to-date period.
- Gross margins increased by 6.7% to 28.1% compared to 21.4% in the prior year.
- Operating expenses increased by approximately \$1.2 million, of which approximately \$328,000 was attributable to the damaged goods incident.
- Reported net income of \$0.6 million compared to approximately \$1.2 million in the prior year.

Singing Machine reports net sales of approximately \$20.1 million for the quarter-ended September 30, 2019 period compared to \$24.3 million in the comparable quarter of the prior year. The decrease in net sales was primarily due to a decrease in sales to the Company’s UK and Canadian distributors as well as a reversal of net sales in the amount of approximately \$1.5 million due to the damaged goods that shipped to one major customer.

Gross profit margin increased by 6.7% to 28.1% compared to approximately 21.4% reported in the prior year. The increase in gross margin was mainly due to sales of its new Carpool Karaoke Microphone, which yielded greater margin than the traditional product mix.

Total operating expenses increased to \$4.8 million compared to \$3.5 million in the prior year. The increase in expenses was primarily due increased marketing spend and royalties associated with the Carpool Karaoke Mic as well as approximately \$0.3 million due to the damaged goods incident.

As a result, the Company reported a net income of \$0.62 million compared to net income of \$1.2 million in the prior year.

Management Commentary:

Gary Atkinson, Singing Machine CEO, commented, “We are pleased at the strong margin growth reported this quarter, attributable to the new Carpool Karaoke Microphone launch. The good news was offset by unforeseen marine cargo damage that occurred while product was in transport to a major retail customer. The loss caused by the damage put a damper on what otherwise would have been a strong quarter. However, we are fortunate to have marine cargo insurance specifically for these types of catastrophic events.” Atkinson added, “These holidays, the gift of karaoke, singing and music entertainment has never been hotter. Look for many exciting promotions on Singing Machine products at every single major retailer this coming holiday season!”

Lionel Marquis, Company CFO commented, “The net effect of the damage claim resulted in a loss of net sales of approximately \$1.5 million and a \$0.29 million negative impact to gross profit margin. There was also about \$0.3 million extra one-time expenses incurred with transporting the damaged goods and storing them in a temporary warehouse. We anticipate recuperation of most of these expenses upon settlement of our insurance claim.”

Earnings Call Information:

The Company will host a conference call today, Tuesday, November 19, 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) 876-9176 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.

Investor Relations Contact:

Brendan Hopkins
(407) 645-5295
investors@singingmachine.com
www.singingmachine.com
www.singingmachine.com/investors

Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking 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, 2019. You should review our risk factors in our SEC filings which are incorporated herein by reference. Such forward-looking statements speak only as of the date on which they are made and the company does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this release.

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

	<u>September 30, 2019</u>	<u>March 31, 2019</u>
	<u>(Unaudited)</u>	
<u>Assets</u>		
Current Assets		
Cash	\$ 2,254,572	\$ 211,408
Accounts receivable, net of allowances of \$331,195 and \$51,096, respectively	16,249,229	1,769,404
Due from PNC Bank	-	2,236,779
Accounts receivable related party - Cosmo Communications Canada, Inc	57,465	-
Accounts receivable related party - Winglight Pacific, Ltd	1,145,196	288,941
Insurance claim receivable	1,247,981	-
Inventories, net	15,288,725	6,024,311
Prepaid expenses and other current assets	257,611	274,278
Deferred financing costs	10,000	13,333
Total Current Assets	36,510,779	10,818,454
Property and equipment, net	617,047	522,910
Deferred financing costs, net of current portion	-	3,333
Deferred tax assets	812,957	758,366
Operating Leases - right of use assets	845,703	-
Other non-current assets	194,741	90,082
Total Assets	\$ 38,981,227	\$ 12,193,145
<u>Liabilities and Shareholders' Equity</u>		
Current Liabilities		
Accounts payable	\$ 17,457,261	\$ 842,708
Accrued expenses	1,651,888	950,773
Current portion of bank term note payable	-	125,000
Due to related party - Starlight Consumer Electronics Co., Ltd.	12,040	-
Due to related party - Starlight Electronics Co., Ltd	191,100	-
Due to related party - Starlight R&D, Ltd.	56,627	-
Revolving line of credit	4,428,588	-
Customer deposits	66,923	-
Refunds due to customers	1,648,773	31,075
Reserve for sales returns	3,230,645	896,154
Current portion of finance leases	14,681	14,414
Current portion of installment note	30,065	-
Current portion of operating lease liabilities	567,340	-
Current portion of subordinated related party debt - Starlight Marketing Development, Ltd.	802,659	815,367
Total Current Liabilities	30,158,590	3,675,491
Finance leases, net of current portion	10,096	17,499
Installment note, net of current portion	145,775	-
Operating lease liabilities, net of current portion	377,066	-
Total Liabilities	30,691,527	3,692,990
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; 38,557,643 and 38,464,753 shares issued and outstanding, respectively	385,577	384,648
Additional paid-in capital	19,719,038	19,687,263
Subscriptions receivable	-	(2,200)
Accumulated deficit	(11,814,915)	(11,569,556)
Total Shareholders' Equity	8,289,700	8,500,155
Total Liabilities and Shareholders' Equity	\$ 38,981,227	\$ 12,193,145

See notes to the condensed consolidated financial statements

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

	For the Three Months Ended		For the Six Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net Sales	\$ 20,081,842	\$ 24,304,945	\$ 24,890,882	\$ 26,141,456
Cost of Goods Sold	14,439,522	19,098,263	18,260,856	20,543,291
Gross Profit	5,642,320	5,206,682	6,630,026	5,598,165
Operating Expenses				
Selling expenses	2,488,129	2,014,664	3,147,422	2,461,364
General and administrative expenses	2,235,269	1,452,125	3,606,325	2,660,769
Depreciation	59,588	68,210	119,049	135,781
Total Operating Expenses	4,782,986	3,534,999	6,872,796	5,257,914
Income (Loss) from Operations	859,334	1,671,683	(242,770)	340,251
Other Expenses				
Interest expense	(47,639)	(72,176)	(50,514)	(95,561)
Finance costs	(3,333)	(3,333)	(6,666)	(6,667)
Total Other Expenses	(50,972)	(75,509)	(57,180)	(102,228)
Income (Loss) Before Income Tax (Provision) Benefit	808,362	1,596,174	(299,950)	238,023
Income Tax (Provision) Benefit	(184,140)	(378,745)	54,591	(54,745)
Net Income (Loss)	\$ 624,222	\$ 1,217,429	\$ (245,359)	\$ 183,278
Net Income (Loss) per Common Share				
Basic	\$ 0.02	\$ 0.03	\$ (0.01)	\$ 0.00
Diluted	\$ 0.02	\$ 0.03	\$ (0.01)	\$ 0.00
Weighted Average Common and Common Equivalent Shares:				
Basic	38,518,513	38,348,400	38,494,687	38,315,395
Diluted	39,343,383	39,530,880	38,494,687	39,497,875

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, 2019	September 30, 2018
Cash flows from operating activities		
Net (loss) income	\$ (245,359)	\$ 183,278
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation	119,049	135,781
Amortization of deferred financing costs	6,666	6,667
Change in inventory reserve	-	(81,780)
Change in allowance for bad debts	280,099	285,919
Stock based compensation	22,504	33,330
Change in net deferred tax assets	(54,591)	54,746
Changes in operating assets and liabilities:		
Accounts receivable	(14,759,924)	(19,152,434)
Due from PNC Bank	2,236,779	6,212
Accounts receivable - related parties	(913,720)	(861,538)
Insurance claim receivable	(1,247,981)	-
Inventories	(9,264,414)	(4,276,018)
Prepaid expenses and other current assets	16,667	(165,392)
Other non-current assets	(104,659)	(516)
Accounts payable	16,614,553	17,040,099
Accrued expenses	827,153	831,187
Due to related parties	259,767	217,595
Customer deposits	66,923	36,691
Refunds due to customers	1,617,698	(434,300)
Reserve for sales returns	2,334,491	740,627
Operating lease liabilities, net of operating leases - right of use assets	(27,335)	-
Net cash used in operating activities	(2,215,634)	(5,399,846)
Cash flows from investing activities		
Purchase of property and equipment	(213,186)	(288,740)
Net cash used in investing activities	(213,186)	(288,740)
Cash flows from financing activities		
Net proceeds from revolving line of credit	4,428,588	6,877,610
Proceeds from installment note	175,840	-
Proceeds from subscription receivable	2,200	-
Proceeds from exercise of stock options	10,200	6,400
Payment of bank term note	(125,000)	(250,000)
Payment on subordinated debt - related party	(12,708)	-
Payments on finance leases	(7,136)	(4,603)
Net cash provided by financing activities	4,471,984	6,629,407
Net change in cash	2,043,164	940,821
Cash at beginning of period	211,408	813,908
Cash at end of period	\$ 2,254,572	\$ 1,754,729
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 62,370	\$ 52,513
Equipment purchased under capital lease	\$ -	\$ 43,526
Operating leases - right of use assets initial adoption	\$ 1,108,330	\$ -
Operating lease liabilities - initial adoption	\$ 1,234,368	\$ -

See notes to the condensed consolidated financial statements