



## Singing Machine Announces Third Quarter 2019 Earnings Report

Fort Lauderdale, FL, February 14, 2019 – **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 third quarter ended December 31, 2018.

### Third Quarter Snapshot:

- Net sales of \$19.5 million for the quarter ended December 31, 2018.
- Gross margin improved by 1% from 27.9% to 28.9%.
- Inventory for quarter-end reduced by \$2.5M from March 31, 2018.
- Income from operations of \$1.8M.
- Net Income improved to \$1.3M for the quarter (\$0.03 per share).
- 56% increase in music subscription revenue YoY.

Singing Machine reports net sales of approximately \$19.5 million for the quarter-ended December 31, 2018 period, compared to \$21.5 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 \$3.7 million of the decrease which was offset by an increase in sales of approximately \$1.4 million to an existing major customer due to the timing of shipments shifting from the previous quarter to the current quarter.

The Company reported gross profit margin improved by 1% from 27.9% to 28.9% from the same quarter last year. The increase in gross margin was mainly due to better costing from factories in Asia due to the stronger US dollar. Total operating expenses increased to \$3.8 million from \$3.6 million in the prior year. The increase was primarily due to an increase in selling expenses including commissions, marketing expenses, and co-op advertising programs granted to retail customers.

As a result, the Company reported a slight increase in net profit of \$1.3 million (\$0.03 per share on a fully diluted basis) compared to approximately \$1.2 million in the prior year.

### Management Commentary:

Gary Atkinson, Singing Machine CEO, commented, “During the third quarter, we continued to see strong demand for in-home music and singing entertainment, however we did not see any major retailers significantly replace the lost sales from the bankruptcy of Toys ‘R’ Us. We remain confident that the category is strong and that the industry will ultimately recover those lost sales caused by the liquidation of Toys ‘R’ Us. Despite the rapidly changing retail market, we remain the dominant worldwide market leader in the industry and are currently focused on organic growth through partnerships and some exciting licensing opportunities that will soon be announced.”

Bernardo Melo, VP of Sales & Marketing, commented, “Aside from partnerships and licenses, our primary growth strategy remains focused on expanded international distribution. We recently attended the Nuremburg Toy Fair, one of the largest international toy fairs in the world. We saw large untapped territories for karaoke and experienced a lot of success in the new markets that launched Singing Machine product this past fall. We look forward to carrying that momentum into 2019.”

### **Earnings Call Information:**

The Company will host a conference call today, Thursday, February 14, 2019, 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.

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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.*

<b>The Singing Machine Company, Inc. and Subsidiaries</b>		
<b>CONDENSED CONSOLIDATED BALANCE SHEETS</b>		
	<b>December 31, 2018</b>	<b>March 31, 2018</b>
	<b>(Unaudited)</b>	
<b><u>Assets</u></b>		
<b>Current Assets</b>		
Cash	\$ 1,581,245	\$ 813,908
Accounts receivable, net of allowances of \$244,300 and \$82,102, respectively	10,601,844	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 - Cosmo Communications Canada, Inc	199,707	-
Accounts receivable related party - Winglight Pacific, Ltd	1,465,977	1,150,104
Inventories, net	6,118,569	8,536,934
Prepaid expenses and other current assets	112,383	137,970
Deferred financing costs	13,333	13,333
<b>Total Current Assets</b>	<b>20,100,112</b>	<b>11,732,354</b>
<b>Property and equipment, net</b>	<b>582,434</b>	<b>450,305</b>
<b>Deferred financing costs, net of current portion</b>	<b>6,667</b>	<b>16,667</b>
<b>Deferred tax assets</b>	<b>515,136</b>	<b>937,137</b>
<b>Other non-current assets</b>	<b>12,039</b>	<b>11,523</b>
<b>Total Assets</b>	<b>\$ 21,216,388</b>	<b>\$ 13,147,986</b>
<b><u>Liabilities and Shareholders' Equity</u></b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 3,359,610	\$ 1,614,748
Accrued expenses	1,738,631	701,932
Current portion of bank term note payable	250,000	500,000
Due to related party - Starlight Electronics Co., Ltd	468,256	210,756
Due to related party - Starlight R&D, Ltd.	110,846	113,116
Due to related party - Merrygain Holding Co., Ltd.	128,290	89,803
Revolving line of credit	2,931,118	-
Refunds due to customers	-	445,484
Reserve for sales returns	2,050,486	726,000
Current portion of capital leases	14,282	-
Current portion of subordinated related party debt - Starlight Marketing Development, Ltd.	815,367	689,792
<b>Total Current Liabilities</b>	<b>11,866,886</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>21,152</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>11,888,038</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	383,848	382,820
Additional paid-in capital	19,672,314	19,624,063
Accumulated deficit	(10,727,812)	(12,201,103)
<b>Total Shareholders' Equity</b>	<b>9,328,350</b>	<b>7,805,780</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 21,216,388</b>	<b>\$ 13,147,986</b>

*See notes to the condensed consolidated financial statements*

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

	For the Quarter Ended		For the Nine Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
<b>Net Sales</b>	\$ 19,452,450	\$ 21,461,835	\$ 45,593,906	\$ 58,203,731
<b>Cost of Goods Sold</b>	13,826,176	15,464,273	34,369,467	43,389,465
<b>Gross Profit</b>	5,626,274	5,997,562	11,224,439	14,814,266
<b>Operating Expenses</b>				
Selling expenses	2,236,777	1,971,728	4,698,141	4,816,931
General and administrative expenses	1,629,054	1,739,664	4,341,175	4,784,167
Bad debt expense (recovery), net	(104,244)	(164,680)	(155,596)	2,157,561
Depreciation	64,357	66,623	200,138	153,225
<b>Total Operating Expenses</b>	3,825,944	3,613,335	9,083,858	11,911,884
<b>Income from Operations</b>	1,800,330	2,384,227	2,140,581	2,902,382
<b>Other Expenses</b>				-
Interest expense	(139,729)	(145,922)	(235,290)	(241,503)
Finance costs	(3,333)	(3,333)	(10,000)	(28,272)
<b>Total Other Expenses</b>	(143,062)	(149,255)	(245,290)	(269,775)
<b>Income Before Income Tax Provision</b>	1,657,268	2,234,972	1,895,291	2,632,607
<b>Income Tax Provision</b>	(367,255)	(1,080,142)	(422,000)	(1,220,511)
<b>Net Income</b>	\$ 1,290,013	\$ 1,154,830	\$ 1,473,291	\$ 1,412,096
<b>Net Income per Common Share</b>				
Basic	\$ 0.03	\$ 0.03	\$ 0.04	\$ 0.04
Diluted	\$ 0.03	\$ 0.03	\$ 0.04	\$ 0.04
<b>Weighted Average Common and Common Equivalent Shares:</b>				
Basic	38,384,753	38,282,028	38,338,599	38,271,946
Diluted	39,459,369	39,137,161	39,413,214	39,127,079

*See notes to the condensed consolidated financial statements*

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

	For the Nine Months Ended	
	December 31, 2018	December 31, 2017
<b>Cash flows from operating activities</b>		
Net Income	\$ 1,473,291	\$ 1,412,096
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	200,138	153,225
Amortization of deferred financing costs	10,000	28,272
Change in inventory reserve	(56,780)	(125,000)
Change in allowance for bad debts	162,198	2,166,677
Stock based compensation	42,879	163,581
Change in net deferred tax assets	422,001	576,461
Changes in operating assets and liabilities:		
Accounts receivable	(9,697,203)	(12,844,066)
Due from PNC Bank	6,212	242,859
Accounts receivable - related parties	(515,580)	(1,213,269)
Inventories	2,475,145	(3,599,858)
Prepaid expenses and other current assets	25,587	44,483
Other non-current assets	(516)	-
Accounts payable	1,744,862	3,005,248
Accrued expenses	1,036,699	2,121,919
Due to related parties	293,717	285,620
Refunds due to customers	(445,484)	(38,460)
Reserve for sales returns	1,324,486	2,987,357
Net cash used in operating activities	<u>(1,498,348)</u>	<u>(4,632,855)</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(288,740)	(255,776)
Net cash used in investing activities	<u>(288,740)</u>	<u>(255,776)</u>
<b>Cash flows from financing activities</b>		
Net proceeds from revolving line of credit	2,931,118	3,465,332
Proceeds from bank term note	-	1,000,000
Payment of bank term note	(375,000)	(250,000)
Proceeds from exercise of stock options	6,400	-
Payment of deferred financing costs	-	(40,000)
Payment on subordinated related party debt	-	(1,109,064)
Payments on capital leases	(8,093)	-
Net cash provided by financing activities	<u>2,554,425</u>	<u>3,066,268</u>
<b>Net change in cash</b>	<u>767,337</u>	<u>(1,822,363)</u>
<b>Cash at beginning of period</b>	813,908	2,305,439
<b>Cash at end of period</b>	<u>\$ 1,581,245</u>	<u>\$ 483,076</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 215,501	\$ 222,649
Cash paid for income taxes	\$ -	\$ 30,000
Equipment purchased under capital lease	\$ 43,527	\$ -

*See notes to the condensed consolidated financial statements*