



Singing Machine Announces Third Quarter 2020 Earnings Report

Fort Lauderdale, FL, February 14, 2020 – **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 third quarter ended December 31, 2019.

Third Quarter Snapshot:

- Reported net sales of \$15.5 million for the quarter; \$40.4 million for the nine-months year-to-date period.
- Gross margins decreased for the quarter to 26.0% compared to 28.9% in the prior year; year-to-date gross margin improved to 26.4% compared to 24.6% last year over the same period.
- Operating expenses increased by approximately \$1.1 million, of which approximately \$0.6 million was due to more promotions run during the holiday quarter with the balance due to higher freight expenses on product returns.
- Reported net loss for the quarter of approximately \$0.76 million.

Singing Machine reports net sales of approximately \$15.5 million for the quarter-ended December 31, 2019 period compared to \$19.4 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 distributor as well as approximately \$1.6 million less sales to one major customer compared to the prior year. The decrease in net sales is also attributable to higher accrual for return reserves.

Gross profit margin decreased by 2.9% to 26.0% due to an increased reserve accrual on anticipated high-margin product returns coming back after the holidays that exceeded historical return rates.

For the quarter, total operating expenses increased by approximately \$1.1 million due to the promotion and marketing of Carpool Karaoke Microphone as well as overall increased promotional funding at all of its retailers.

As a result, the Company reported a net loss of \$0.76 million compared to net income of \$1.3 million in the prior year. The pending insurance claim regarding the wet, damaged products is currently impacting the bottom-line by approximately \$0.75 million.

Management Commentary:

Gary Atkinson, Singing Machine CEO, commented, “During our holiday quarter, Singing Machine continued to maintain market dominance and lead market share with heavy promotions and impressive visibility at all major retailers. Despite that, however, various factors contributed to missing our financial goals for the quarter. Particularly, holiday sales fell short of expectations as we experienced softer-than-expected sell-thru

on various product lines. As a result, we have increased our accrual reserves for anticipated product returns coming back in our 4th quarter. Another contributing factor is the pending unresolved insurance claim for the wet, damaged merchandise that was reported in the prior quarter.” Atkinson added, “As we move into 2020, we continue to face challenging market conditions with the Coronavirus in China potentially impacting supply chain and product development for the coming fiscal year. We are however fortunate that the threat of tariffs have been removed from our karaoke machines and are now only impacting microphones that we import from China. Despite our setbacks and challenges, we still have a robust product roadmap of new, innovative karaoke offerings and the full support of our retailer partners. We look forward to the task of getting the Company back on-track.”

Earnings Call Information:

The Company will host a conference call today, Friday, February 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.

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

	December 31, 2019	March 31, 2019
	(Unaudited)	
<u>Assets</u>		
Current Assets		
Cash	\$ 518,608	\$ 211,408
Accounts receivable, net of allowances of \$184,120 and \$51,096, respectively	7,761,832	1,769,404
Due from PNC Bank	2,447,868	2,236,779
Accounts receivable related party - Cosmo Communications Canada, Inc	38,962	-
Accounts receivable related party - Winglight Pacific, Ltd	1,145,196	288,941
Insurance claim receivable	1,286,158	-
Inventories, net	8,102,914	6,024,311
Prepaid expenses and other current assets	139,680	274,278
Deferred financing costs	6,667	13,333
Total Current Assets	21,447,885	10,818,454
Property and equipment, net	844,246	522,910
Deferred financing costs, net of current portion	-	3,333
Deferred tax assets	1,052,999	758,366
Operating Leases - right of use assets	710,961	-
Other non-current assets	23,059	90,082
Total Assets	\$ 24,079,150	\$ 12,193,145
<u>Liabilities and Shareholders' Equity</u>		
Current Liabilities		
Accounts payable	\$ 6,584,894	\$ 842,708
Accrued expenses	2,605,128	950,773
Current portion of bank term note payable	-	125,000
Due to related party - Starlight Consumer Electronics Co., Ltd.	14,400	-
Due to related party - Starlight Electronics Co., Ltd	281,700	-
Due to related party - Starlight R&D, Ltd.	103,572	-
Refunds due to customers	510,833	31,075
Reserve for sales returns	4,546,317	896,154
Current portion of finance leases	14,816	14,414
Current portion of installment notes	49,016	-
Current portion of operating lease liabilities	445,322	-
Current portion of subordinated related party debt - Starlight Marketing Development, Ltd.	802,659	815,367
Total Current Liabilities	15,958,657	3,675,491
Finance leases, net of current portion	6,340	17,499
Installment notes, net of current portion	227,520	-
Operating lease liabilities, net of current portion	349,880	-
Total Liabilities	16,542,397	3,692,990
Commitments and Contingencies		
Shareholders' Equity		
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	384,647
Additional paid-in capital	19,724,040	19,687,264
Subscriptions receivable	-	(2,200)
Accumulated deficit	(12,572,864)	(11,569,556)
Total Shareholders' Equity	7,536,753	8,500,155
Total Liabilities and Shareholders' Equity	\$ 24,079,150	\$ 12,193,145
<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		For the Nine Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Net Sales	\$ 15,519,516	\$ 19,452,450	\$ 40,410,398	\$ 45,593,906
Cost of Goods Sold	11,486,520	13,826,176	29,747,376	34,369,467
Gross Profit	4,032,996	5,626,274	10,663,022	11,224,439
Operating Expenses				
Selling expenses	3,402,717	2,236,777	6,550,139	4,698,141
General and administrative expenses	1,442,192	1,524,810	5,048,517	4,185,579
Depreciation	77,161	64,357	196,210	200,138
Total Operating Expenses	4,922,070	3,825,944	11,794,866	9,083,858
(Loss) Income from Operations	(889,074)	1,800,330	(1,131,844)	2,140,581
Other Expenses				
Interest expense	(105,583)	(139,729)	(156,097)	(235,290)
Finance costs	(3,334)	(3,333)	(10,000)	(10,000)
Total Other Expenses	(108,917)	(143,062)	(166,097)	(245,290)
(Loss) Income Before Income Tax Benefit (Provision)	(997,991)	1,657,268	(1,297,941)	1,895,291
Income Tax Benefit (Provision)	240,042	(367,255)	294,633	(422,000)
Net (Loss) Income	\$ (757,949)	\$ 1,290,013	\$ (1,003,308)	\$ 1,473,291
Net (Loss) Income per Common Share				
Basic	\$ (0.02)	\$ 0.03	\$ (0.03)	\$ 0.04
Diluted	\$ (0.02)	\$ 0.03	\$ (0.03)	\$ 0.04
Weighted Average Common and Common Equivalent Shares:				
Basic	38,557,643	38,384,753	38,524,698	38,315,395
Diluted	38,557,643	39,459,369	38,524,698	39,397,875
<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 Nine Months Ended	
	December 31, 2019	December 31, 2018
Cash flows from operating activities		
Net (Loss) Income	\$ (1,003,308)	\$ 1,473,291
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation	196,210	200,138
Amortization of deferred financing costs	9,999	10,000
Change in inventory reserve	150,000	(56,780)
Change in allowance for bad debts	133,024	162,198
Stock based compensation	27,506	42,879
Change in net deferred tax assets	(294,633)	422,001
Changes in operating assets and liabilities:		
Accounts receivable	(6,125,452)	(9,697,203)
Due from PNC Bank	(211,089)	6,212
Accounts receivable - related parties	(895,217)	(515,580)
Insurance receivable	(1,286,158)	-
Inventories	(2,228,603)	2,475,145
Prepaid expenses and other current assets	134,598	25,587
Other non-current assets	67,023	(516)
Accounts payable	5,742,186	1,744,862
Accrued expenses	1,780,393	1,036,699
Due to related parties	399,672	293,717
Refunds due to customers	479,758	(445,484)
Reserve for sales returns	3,650,163	1,324,486
Operating lease liabilities, net of operating leases - right of use assets	(41,797)	-
Net cash provided by (used in) used in operating activities	<u>684,275</u>	<u>(1,498,348)</u>
Cash flows from investing activities		
Investment in Enterprise Resource Planning System	(304,360)	-
Purchase of property and equipment	(213,186)	(288,740)
Net cash used in investing activities	<u>(517,546)</u>	<u>(288,740)</u>
Cash flows from financing activities		
Net proceeds from revolving line of credit	-	2,931,118
Proceeds from installment notes	283,840	-
Payments on installment notes	(7,304)	-
Proceeds from subscription receivable	2,200	-
Proceeds from exercise of stock options	10,200	6,400
Payment of bank term note	(125,000)	(375,000)
Payment on subordinated debt - related party	(12,708)	-
Payments on finance leases	(10,757)	(8,093)
Net cash provided by financing activities	<u>140,471</u>	<u>2,554,425</u>
Net change in cash	<u>307,200</u>	<u>767,337</u>
Cash at beginning of period	<u>211,408</u>	<u>813,908</u>
Cash at end of period	<u>\$ 518,608</u>	<u>\$ 1,581,245</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 167,954	\$ 215,501
Equipment purchased under capital lease	\$ -	\$ 43,527
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