



Singing Machine Reports 31% Increase in Net Sales in Third Quarter 2018 Results

Fort Lauderdale, FL, February 14, 2018 – **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, 2017.

Third Quarter and Year-to-Date Highlights:

- Net sales for the quarter increased by \$5.1 million (31%) to \$21.5 million; net sales year-to-date increased 18% to \$58.2 million.
- Gross margin for the quarter decreased by 3.0% to 27.9%; year-to-date gross margin held steady to last year at 25.5% (compared to 25.7% in the prior year same quarter).
- Income from operations for the quarter increased by 15% to \$2.4 million.
- Due to newly signed Tax Cuts and Jobs Act, Company recognized a one-time valuation adjustment to its deferred tax assets of approximately \$330,000 in addition to the normal income tax provision, which resulted in the Company recognizing a total income tax provision of approximately (\$1.1 million).
- Net income for the quarter decreased 12% to approximately \$1.2 million; year-to-date net income decreased by \$1.3 million to \$1.4 million.
- Year-to-date earnings per share of \$0.04; EBITDA earnings per share of \$0.08.

Singing Machine reports net sales of approximately \$21.5 million for the quarter-ended December 31, 2017 period, compared to approximately \$16.3 million in the same quarter the prior year. The increase in net sales is primarily due to new promotional shipments to an existing major customer and the Company expanding its distribution nationwide to an existing customer’s brick and mortar retail locations. Year-to-date net sales increased by 18% to approximately \$58.2 million compared to \$49.3 million reported in the same period in the prior year. The primary reason for the growth was due to one major retailer ordering additional inventory for expanded holiday promotions, continued sales growth online with a major e-commerce retailer, as well as expanded nationwide distribution with an existing retailer.

Gross profit margin decreased by 3% from 30.9% to 27.9%. The decrease in gross margin was due to a higher mix of promotional product shipping in the 3rd quarter compared to the same period in the prior year. Gross profit margin for the nine-month period held comparable to last year at 25.5% compared to 25.7% last year.

Total operating expenses increased to approximately \$3.6 million compared to \$3.0 million in the prior year. The increase is primarily a result of an increase of approximately \$0.36 million in variable selling expenses commensurate with the overall increase in net sales. The balance of the increase was due to an increase in general and administrative expenses related to new hires in the sales and marketing department and legal expenses associated with the Toys “R” Us Bankruptcy.

The Company reported a 14% increase to income from operations from \$2.1 million to approximately \$2.4 million for the quarter primarily due to the increase in overall sales.

An income tax provision was recognized for the quarter for \$1.1 million based on an estimated full year effective tax rate of 34%. The \$1.1 million income tax provision also includes a one-time additional income tax provision of \$.33

million due to reduced valuation of the Company's deferred tax assets caused by changes in tax laws enacted on December 22, 2017.

Net income for the quarter decreased to \$1.2 million from approximately \$1.3 million in the same quarter of the prior year. The primary reason for the reduction in net income was due to the one-time tax provision charge described above. The Company reported earnings per share of \$0.03 on a fully diluted basis for the quarter and \$0.04 for the nine-month period.

Management Commentary:

Gary Atkinson, Singing Machine CEO commented, "We're pleased with our 31% growth for the quarter and 18% growth in overall net sales year-to-date. This quarter we made strong strides towards our goal to make Singing Machine a global brand. Had it not been for the Toys "R" Us bankruptcy back in September 2017, this would have been a record-breaking year for Singing Machine in terms of sales and bottom-line profits. Despite the short-term disruption, we remain confident about our long-term business plan to continue to grow the business. This quarter we saw tremendous growth in our digital music streaming and download services with an 88% growth in music revenue compared to last year with all key metrics improving."

Bernardo Melo, Vice President of Sales, commented, "Singing Machine continues to win the holiday season with successful holiday promotions across all retailers. The great results reported this year are the result of our expanded retailer distribution both domestically and abroad. We expanded domestically with new nationwide brick and mortar distribution with one major retailer. We also saw success abroad as we made our first shipments of karaoke products to Japan – a new territory for us. We also saw a strong debut of our new Singing Machine Kids line of toy products that hit the shelves at many major retailers this year and sold-thru over 80%. With many more exciting product releases scheduled in our karaoke and toy categories for 2018, we look forward to continuing our growth strategy."

Earnings Call Information:

The Company will host a conference call today, Wednesday, 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 (866) 831-8713 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 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

	December 31, 2017	March 31, 2017
	(Unaudited)	
Assets		
Current Assets		
Cash	\$ 483,076	\$ 2,305,439
Accounts receivable, net of allowances of \$2,299,260 and \$132,583, respectively	12,332,907	1,655,518
Due from PNC Bank	-	242,859
Accounts receivable related party - Starlight Consumer Electronics, Ltd	6,695	-
Accounts receivable related party - Cosmo Communications Canada, Ltd	56,470	-
Accounts receivable related party - Winglight Pacific, Ltd	1,150,104	-
Inventories, net	7,309,847	5,426,346
Prepaid expenses and other current assets	36,795	81,278
Deferred financing costs	13,332	21,606
Total Current Assets	21,389,226	9,733,046
Property and equipment, net	515,356	412,805
Other non-current assets	11,523	11,523
Deferred financing costs, net of current portion	20,002	-
Deferred tax asset	902,748	1,479,209
Total Assets	\$ 22,838,855	\$ 11,636,583
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 4,387,118	\$ 1,381,870
Current portion of bank term note payable	500,000	-
Due to related party - Starlight Electronics Co., Ltd	120,432	-
Due to related party - Merrygain Holding Co.,Ltd	51,316	-
Due to related party - Starlight R&D, Ltd.	113,872	-
Accrued expenses	2,748,250	626,331
Revolving line of credit	3,465,332	-
Obligations to customers for returns and allowances	-	38,460
Warranty provisions	1,369,700	223,700
Current portion of subordinated related party debt - Starlight Marketing Development, Ltd.	570,484	1,924,431
Total Current Liabilities	13,326,504	4,194,792
Bank term note payable, net of current portion	250,000	-
Subordinated related party debt - Starlight Marketing Development, Ltd., net of current portion	244,883	-
Total Liabilities	13,821,387	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	19,576,141	19,412,787
Accumulated deficit	(10,941,493)	(12,353,589)
Total Shareholders' Equity	9,017,468	7,441,791
Total Liabilities and Shareholders' Equity	\$ 22,838,855	\$ 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 Nine Months Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Net Sales	\$ 21,461,835	\$ 16,319,804	\$ 58,203,731	\$ 49,308,247
Cost of Goods Sold	15,464,273	11,283,550	43,389,465	36,625,678
Gross Profit	5,997,562	5,036,254	14,814,266	12,682,569
Operating Expenses				
Selling expenses	1,971,728	1,610,430	4,816,931	4,262,531
General and administrative expenses	1,574,984	1,319,871	6,941,728	4,033,853
Depreciation	66,623	39,217	153,225	126,807
Total Operating Expenses	3,613,335	2,969,518	11,911,884	8,423,191
Income from Operations	2,384,227	2,066,736	2,902,382	4,259,378
Other Expenses				
Interest expense	(145,922)	(102,276)	(241,503)	(185,341)
Financing costs	(3,333)	(18,519)	(28,272)	(55,558)
Total Other Expenses	(149,255)	(120,795)	(269,775)	(240,899)
Income Before Income Tax Provision	2,234,972	1,945,941	2,632,607	4,018,479
Income Tax Provision	(1,080,142)	(633,783)	(1,220,511)	(1,332,918)
Net Income	\$ 1,154,830	\$ 1,312,158	\$ 1,412,096	\$ 2,685,561
Income per Common Share				
Basic	\$ 0.03	\$ 0.03	\$ 0.04	\$ 0.07
Diluted	\$ 0.03	\$ 0.03	\$ 0.04	\$ 0.07
Weighted Average Common and Common Equivalent Shares:				
Basic	38,282,028	38,244,825	38,271,946	38,210,502
Diluted	39,137,161	39,164,624	39,127,079	39,130,305

See notes to the condensed consolidated financial statements.

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

(Unaudited)

	For Nine Months Ended	
	December 31, 2017	December 31, 2016
Cash flows from operating activities:		
Net Income	\$ 1,412,096	\$ 2,685,561
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	153,225	126,807
Amortization of deferred financing costs	28,272	55,558
Change in inventory reserve	(125,000)	171,711
Change in allowance for bad debts	2,166,677	165,818
Stock based compensation	163,581	54,698
Change in net deferred tax asset	576,461	1,303,644
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(12,844,066)	(8,567,225)
Due from PNC Bank	242,859	184,392
Accounts receivable - related parties	(1,213,269)	(160,202)
Inventories	(1,758,501)	(1,851,520)
Prepaid expenses and other current assets	44,483	8,285
Other non-current assets	-	(111)
Increase (decrease) in:		
Accounts payable	3,005,248	768,726
Due to related parties	285,620	(400,000)
Accrued expenses	2,121,919	1,416,529
Obligations to customers for returns and allowances	(38,460)	(117,267)
Warranty provisions	1,146,000	783,427
Net cash used in operating activities	(4,632,855)	(3,371,169)
Cash flows from investing activities:		
Purchase of property and equipment	(255,776)	(110,428)
Net cash used in investing activities	(255,776)	(110,428)
Cash flows from financing activities:		
Net proceeds from revolving line of credit	3,465,332	2,274,291
Proceeds from bank term note	1,000,000	-
Payment of bank term note	(250,000)	-
Proceeds from subscriptions receivable	-	6,400
Proceeds from stock options	-	11,880
Payment of deferred financing costs	(40,000)	-
Payment on note payable related party - Ram Light Management, Ltd.	-	(522,657)
Payment on subordinated debt - related party	(1,109,064)	-
Payments on capital lease	-	(1,078)
Net cash provided by financing activities	3,066,268	1,768,836
Net change in cash	(1,822,363)	(1,712,761)
Cash at beginning of period	2,305,439	2,116,490
Cash at end of period	\$ 483,076	\$ 403,729
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 222,649	\$ 185,341
Cash paid for income taxes	\$ 30,000	\$ -

See notes to the condensed consolidated financial statements.