



Singing Machine Reports Fiscal 2018 Annual Earnings Report

Fort Lauderdale, FL, June 28, 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 full fiscal year ended March 31, 2018.

Full Fiscal 2018 Highlights:

- Net sales for the fiscal year increased by 15% to \$60.8 million.
- The Company wrote off \$3.1 million bad debt expense due to the Toys ‘R’ Us bankruptcy and liquidation.
- Gross profit of \$15.7 million.
- Income from operations \$1.0 million for the fiscal year.
- Positive net income of \$0.15 million.
- Reduced \$1.2 million of related-party debt during the fiscal year.

Singing Machine reports net sales of approximately \$60.8 million for the March 31, 2018 fiscal year-end period, compared to approximately \$52.9 million in the prior year. The increase in net sales is primarily due to an increase in hardware sales to the Company’s top North American retailers, new distribution into a brand new national mass market electronics retailer, strong demand online for karaoke products, and expanded international growth in the United Kingdom.

Gross profit margin decreased slightly by 0.3% from 26.1% to 25.8%. Due to the increase in net sales, gross profit increased to \$15.7 million compared to \$13.8 million in the prior year.

Total operating expenses increased from \$10.9 million in the prior year to approximately \$14.7 million for Fiscal 2018. A majority of the increase was due to the bankruptcy of Toys ‘R’ Us who announced Chapter 7 liquidation in April 2018. The Company wrote off \$3.1 million, which represents its total exposure to the Toys ‘R’ Us bankruptcy.

As a result of the above, income from operations decreased to \$1.0 million from \$3.0 million in the prior year. The Company reported an income tax provision of \$0.54 million which included a one-time valuation adjustment to its deferred tax assets of approximately \$0.33 million due to the newly signed Tax Cuts and Jobs Act. The Company still retains approximately \$0.9 million in deferred tax assets going forward.

Despite writing off \$3.1 million from the Toys ‘R’ Us bankruptcy, the Company still reported positive net income for the year of \$0.15 million.

Management Commentary:

Gary Atkinson, Singing Machine CEO commented, “We’re pleased with the 15% top line sales growth we posted for Fiscal 2018. It marks five consecutive years of annual growth. Unfortunately, due to the Toys ‘R’ Us bankruptcy and liquidation, we took a \$3.1 million bad debt charge which represents the full exposure related to the bankruptcy. We do not anticipate taking any future bad debt write-downs associated with Toys ‘R’ Us in coming quarters. Despite the bad debt write off, we still remained profitable for the year which reflects tremendously on our position in the market and the popularity of karaoke.”

Bernardo Melo, Vice President of Sales, commented, “Given the liquidation of Toys ‘R’ Us, we are taking aggressive steps to increase our presence at other major retail channels. The demand for in-home karaoke remains strong and we expect other retailers to soak up the demand. Outside North America, we’re well positioned to become the global leader in home karaoke as we expand our efforts to grow internationally. During this year, we’ve signed aboard numerous new distributors around the world in territories like Australia, Central America, South America, Japan, and Mexico and are actively looking to add more.”

Earnings Call Information:

The Company will host a conference call today, Thursday, June 28, 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) 876-9177 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, 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.

The Singing Machine Company, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Assets		
Current Assets		
Cash	\$ 813,908	\$ 2,305,439
Accounts receivable, net of allowances of \$82,102 and \$132,583 respectively	1,066,839	1,655,518
Due from PNC Bank	6,212	242,859
Accounts receivable related party - Starlight Consumer Electronics USA, Inc.	7,054	-
Accounts receivable related party - Winglight Pacific, Ltd	1,150,104	-
Inventories, net	8,057,774	5,426,346
Prepaid expenses and other current assets	137,970	81,278
Deferred financing costs	13,333	21,606
Total Current Assets	11,253,194	9,733,046
Property and equipment, net	450,305	412,805
Other non-current assets	11,523	11,523
Deferred financing costs, net of current portion	16,667	-
Deferred tax assets	937,137	1,479,209
Total Assets	\$ 12,668,826	\$ 11,636,583
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 1,614,748	\$ 1,381,870
Current portion of bank term note payable	500,000	-
Due to related party - Starlight Electronics Co., Ltd	210,756	-
Due to related party - Starlight R&D, Ltd.	113,116	-
Due to related party - Merrygain Holding Co., Ltd.	89,803	-
Accrued expenses	701,932	626,331
Obligations to customers for returns and allowances	445,484	38,460
Warranty provisions	246,840	223,700
Current portion of subordinated related party debt - Starlight Marketing Development, Ltd.	689,792	1,924,431
Total Current Liabilities	4,612,471	4,194,792
Bank term note payable, net of current portion	125,000	-
Subordinated related party debt - Starlight Marketing Development, Ltd., net of current portion	125,575	-
Total Liabilities	4,863,046	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	19,624,063	19,412,787
Accumulated deficit	(12,201,103)	(12,353,589)
Total Shareholders' Equity	7,805,780	7,441,791
Total Liabilities and Shareholders' Equity	\$ 12,668,826	\$ 11,636,583

See notes to the consolidated financial statements

The Singing Machine Company, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended	
	March 31, 2018	March 31, 2017
Net Sales	\$ 60,808,050	\$ 52,919,228
Cost of Goods Sold	45,135,272	39,082,802
Gross Profit	15,672,778	13,836,426
Operating Expenses		
Selling expenses	4,875,238	5,035,787
General and administrative expenses	6,371,541	5,564,453
Bad debt expense	3,203,677	83,583
Depreciation	219,968	166,025
Total Operating Expenses	14,670,424	10,766,265
Income from Operations	1,002,354	3,070,161
Other Expenses		
Interest expense	(273,385)	(189,230)
Finance costs	(31,606)	(74,077)
Total Other Expenses	(304,991)	(263,307)
Income Before Income Tax Provision	697,363	2,806,854
Income Tax Provision	(544,877)	(1,017,073)
Net Income	\$ 152,486	\$ 1,789,781
Income per Common Share		
Basic and Diluted	\$ 0.00	\$ 0.05
Diluted	\$ 0.00	\$ 0.05
Weighted Average Common and Common Equivalent Shares:		
Basic and Diluted	38,274,432	38,242,535
Diluted	39,553,649	39,422,608

See notes to the consolidated financial statements

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

	For the Years Ended	
	March 31, 2018	March 31, 2017
Cash flows from operating activities		
Net Income	\$ 152,486	\$ 1,706,198
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	219,968	166,025
Amortization of deferred financing costs	31,606	74,077
Change in inventory reserve	(420,000)	(60,000)
Change in allowance for bad debts	(50,481)	81,404
Stock based compensation	211,503	63,745
Change in net deferred tax assets	542,072	929,322
Changes in operating assets and liabilities:		
Accounts receivable	639,160	(355,133)
Due from PNC Bank	236,647	(58,467)
Accounts receivable - related parties	(1,157,158)	(1,675,371)
Inventories	(2,211,428)	26,152
Prepaid expenses and other current assets	(56,692)	34,323
Other non-current assets	-	(129)
Accounts payable	232,878	659,657
Due to related parties	413,675	(400,000)
Accrued expenses	75,601	(23,784)
Obligations to clients for returns and allowances	407,024	(82,632)
Warranty provisions	23,140	(68,800)
Net cash (used in) provided by operating activities	<u>(709,999)</u>	<u>1,016,587</u>
Cash flows from investing activities		
Purchase of property and equipment	(257,468)	(148,228)
Net cash used in by investing activities	<u>(257,468)</u>	<u>(148,228)</u>
Cash flows from financing activities		
Proceeds from bank term note	1,000,000	-
Payment of bank term note	(375,000)	-
Proceeds from subscriptions receivable	-	6,400
Proceeds from exercise of stock options	-	11,880
Payment of deferred financing costs	(40,000)	-
Payment on note payable related party - Ram Light Management, Ltd.	-	(696,612)
Payment on subordinated debt - related party	(1,109,064)	-
Payments on capital lease	-	(1,078)
Net cash used in financing activities	<u>(524,064)</u>	<u>(679,410)</u>
Net change in cash	<u>(1,491,531)</u>	<u>188,949</u>
Cash at beginning of year	<u>2,305,439</u>	<u>2,116,490</u>
Cash at end of year	<u>\$ 813,908</u>	<u>\$ 2,305,439</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 301,748	\$ 253,008
Cash paid for income taxes	\$ 30,000	\$ 58,955

See notes to the consolidated financial statements