



Singing Machine Reports Third Quarter 2017 Results

Fort Lauderdale, FL, February 14, 2017 – **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, 2016.

Third Quarter and Year-to-Date Highlights:

- Year-to-date earnings per share of \$0.07; EBITDA earnings per share of \$0.10.
- Gross margin for the quarter improved by 3.8% to 30.9%.
- Net sales year-to-date increased 9% to \$49.3 million; net sales for the quarter decreased to \$16.3 million based primarily on earlier timing of shipments.
- Net income before tax for the quarter held approximately the same to \$1.9 million, compared to approximately \$2.0 million in the same period last year.
- Year-to-date net income before tax increased 33% to approximately 4.0 million compared to approximately \$3.0 million in the same period last year.

Singing Machine reports net sales of approximately \$16.3 million for the quarter-ended December 31, 2016 period, compared to approximately \$20.7 million in the same quarter the prior year. The decrease in net sales is primarily due to timing of shipments which occurred earlier this fiscal year than last year, due to more year-round business and earlier retailer demand. Year-to-date net sales increased by 9% to approximately \$49.3 million compared to \$45.2 million reported in the same period in the prior year. The primary reason for the growth was due to one major retailer carrying a Black Friday promotion as well as expanded growth into the United Kingdom.

Gross profit margin increased by 3.8% from 27.1% to 30.9% The increase in gross margin was due to cost reductions the Company achieved with its suppliers and better margin on the digital download series of products.

Total operating expenses decreased to approximately \$3.0 million compared to \$3.4 million in the prior year. The decrease is a result of reduced variable selling expenses associated with the decrease in overall net sales. The balance of the decrease was due to an overall reduction in general and administrative expenses.

Despite the reduction in net sales for the quarter, the Company reported substantially the same income from operations of \$1.9 million compared to income from operations of approximately \$2.1 million in the same period in the prior year. Pre-tax income held consistent due to the Company reporting higher gross margin of 30.9% compared to 27.1% in the prior year and a reduction in overall operating expenses.

Year-to-date income from operations increased by 33% to approximately \$4.0 million compared to approximately \$3.0 million in the prior year.

Net income for the quarter decreased by approximately \$0.7 million to \$1.3 million compared to \$2.0 million in the same period last year. The primary reason for the reduction in net income was due to a reversal of an income tax valuation reserve which the Company recognized last year. This year, there was no income tax valuation reversal which resulted in an increase of \$0.6 million income tax provision. Net income through the first nine months was \$2.7 million compared to approximately \$2.6 million over the same period last year, due primarily to the increase in income tax provision.

Management Commentary:

Gary Atkinson, Singing Machine CEO commented, “We’re pleased with our year-to-date growth in net sales and pre-tax bottom line. We had a planned reduction in overall 3rd quarter sales, which occurred due to more customers buying year-round and earlier demand from retailers. We anticipate less of a reliance on our third quarter and a healthier balance of sales between quarters as we continue to grow. This fiscal year we’ve grown net sales by 9% over last year and we’ve grown pre-tax net income by 33% to \$4.0 million. On the product roadmap, we significantly expanded our distribution of our Digital Download Line of products and saw impressive growth in both downloading and streaming subscriptions.”

Bernardo Melo, Vice President of Sales, commented, “The great results reported this year are the result of our expanded retailer distribution both domestically and abroad. We saw tremendous wins in the U.K. where our product was sold out before Christmas. We also had fantastic Black Friday and Christmas successes across all our major retailers with our sell-thru averaging about 88%. Ecommerce also continues to grow significantly year-over-year with ecommerce sales accounting for over 18% of Company sales and our major ecommerce retailer experienced a 40% increase in revenue on Singing Machine sales year-over-year. With many more exciting product releases scheduled and our new Singing Machine Kids line of toy products debuting this year, we look forward to continuing our organic growth strategy domestically and abroad.”

Earnings Call Information:

The Company will host a conference call today, Tuesday, 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) 876-9175 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.

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, 2016. 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, 2016	March 31, 2016
	(Unaudited)	
<u>Assets</u>		
Current Assets		
Cash	\$ 403,729	\$ 2,116,490
Accounts receivable, net of allowances of \$216,997 and \$51,179, respectively	9,783,196	1,381,789
Due from PNC Bank	-	184,392
Accounts receivable related party - Cosmo Communications Canada, Ltd	55,849	19,077
Accounts receivable related party - Winglight Pacific, Ltd	130,505	-
Accounts receivable related party - other	-	7,075
Inventories, net	5,370,784	3,690,975
Prepaid expenses and other current assets	107,316	115,601
Deferred financing costs	40,125	74,077
Total Current Assets	15,891,504	7,589,476
Property and equipment, net	414,223	430,602
Other non-current assets	11,505	11,394
Deferred financing costs, net of current portion	-	21,606
Deferred tax asset	1,104,887	2,408,531
Total Assets	\$ 17,422,119	\$ 10,461,609
<u>Liabilities and Shareholders' Equity</u>		
Current Liabilities		
Accounts payable	\$ 1,490,939	\$ 722,213
Note payable related party - Ram Light Management, Ltd.	173,955	696,612
Due to related party - Ram Light Management, Ltd	-	400,000
Accrued expenses	2,066,644	650,115
Revolving line of credit	2,274,291	-
Capital lease	-	1,078
Obligations to customers for returns and allowances	3,825	121,092
Warranty provisions	1,075,927	292,500
Subordinated related party debt - Starlight Marketing Development, Ltd.	1,924,431	-
Total Current Liabilities	9,010,012	2,883,610
Subordinated related party debt - Starlight Marketing Development, Ltd.	-	1,924,431
Total Liabilities	9,010,012	4,808,041
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; 38,259,303 and 38,161,635 shares issued and outstanding, respectively	382,593	381,816
Additional paid-in capital	19,403,740	19,337,939
Subscriptions receivable	-	(6,400)
Accumulated deficit	(11,374,226)	(14,059,787)
Total Shareholders' Equity	8,412,107	5,653,568
Total Liabilities and Shareholders' Equity	\$ 17,422,119	\$ 10,461,609

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, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Net Sales	\$ 16,319,804	\$ 20,667,069	\$ 49,308,247	\$ 45,194,527
Cost of Goods Sold	11,283,550	15,066,443	36,625,678	33,784,839
Gross Profit	5,036,254	5,600,626	12,682,569	11,409,688
Operating Expenses				
Selling expenses	1,610,430	1,936,715	4,262,531	4,225,677
General and administrative expenses	1,319,871	1,431,993	4,033,853	3,736,230
Depreciation	39,217	47,497	126,807	122,162
Total Operating Expenses	2,969,518	3,416,205	8,423,191	8,084,069
Income from Operations	2,066,736	2,184,421	4,259,378	3,325,619
Other Expenses				
Interest expense	(102,276)	(91,847)	(185,341)	(244,765)
Financing costs	(18,519)	(18,519)	(55,558)	(55,558)
Total Other Expenses	(120,795)	(110,366)	(240,899)	(300,323)
Income Before Income Tax Provision	1,945,941	2,074,055	4,018,479	3,025,296
Income Tax Provision	(633,783)	(67,142)	(1,332,918)	(441,836)
Net Income	\$ 1,312,158	\$ 2,006,913	\$ 2,685,561	\$ 2,583,460
Income per Common Share				
Basic	\$ 0.03	\$ 0.05	\$ 0.07	\$ 0.07
Diluted	\$ 0.03	\$ 0.05	\$ 0.07	\$ 0.07
Weighted Average Common and Common Equivalent Shares:				
Basic	38,244,825	38,161,635	38,210,502	38,140,458
Diluted	39,164,627	38,686,019	39,130,305	38,638,925

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, 2016	December 31, 2015
Cash flows from operating activities:		
Net Income	\$ 2,685,561	\$ 2,583,460
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	126,807	122,162
Amortization of deferred financing costs	55,558	55,558
Change in inventory reserve	171,711	139,000
Change in allowance for bad debts	165,818	(27,219)
Stock based compensation	54,698	14,885
Change in net deferred tax asset	1,303,644	441,836
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(8,567,225)	(8,805,401)
Due from PNC Bank	184,392	-
Accounts receivable - related parties	(160,202)	(636,131)
Inventories	(1,851,520)	3,231,011
Prepaid expenses and other current assets	8,285	(59,439)
Other non-current assets	(111)	-
Increase (decrease) in:		
Accounts payable	768,726	(621,982)
Due to related parties	(400,000)	129,782
Accrued expenses	1,416,529	1,567,766
Obligations to clients for returns and allowances	(117,267)	(392,728)
Warranty provisions	783,427	863,981
Net cash used in operating activities	<u>(3,371,169)</u>	<u>(1,393,459)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(110,428)	(142,116)
Net cash used in investing activities	<u>(110,428)</u>	<u>(142,116)</u>
Cash flows from financing activities:		
Net proceeds from revolving line of credit	2,274,291	1,928,556
Proceeds from subscription receivable	6,400	-
Proceeds from exercise of stock options	11,880	-
Payments on note payable related party - Ram Light Management, Ltd.	(522,657)	(266,909)
Payments on capital lease	(1,078)	(9,418)
Net cash provided by financing activities	<u>1,768,836</u>	<u>1,652,229</u>
Net change in cash	<u>(1,712,761)</u>	<u>116,654</u>
Cash at beginning of period	2,116,490	116,286
Cash at end of period	<u>\$ 403,729</u>	<u>\$ 232,940</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 185,341</u>	<u>\$ 218,733</u>

See notes to the condensed consolidated financial statements.