

EMERSON RADIO CORP  
Form 10-Q  
August 15, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-07731

EMERSON RADIO CORP.

(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

22-3285224  
(I.R.S. Employer  
Identification No.)

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3 University Plaza, Suite 405, Hackensack, NJ 07601  
(Address of principal executive offices) (Zip code)

(973) 428-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

Indicate the number of shares outstanding of common stock as of August 15, 2016: 27,129,832.

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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements.

## EMERSON RADIO CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended	
	June 30 2016	2015
Net Revenues:		
Net product sales	\$5,471	\$18,287
Licensing revenue	1,163	1,225
Net revenues	6,634	19,512
Costs and expenses:		
Cost of sales	5,098	17,005
Other operating costs and expenses	133	74
Selling, general and administrative expenses	1,487	2,320
	6,718	19,399
Operating (loss) income	(84 )	113
Other income:		
Interest income, net	51	39
(Loss) income before income taxes	(33 )	152
Provision for income taxes	21	31
Net (loss) income	\$(54 )	\$121
Net (loss) income per share:		
Basic	\$0.00	\$0.00
Diluted	\$0.00	\$0.00
Weighted average shares outstanding:		
Basic	27,130	27,130
Diluted	27,130	27,130

The accompanying notes are an integral part of the consolidated financial statements.



## EMERSON RADIO CORP. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands except share data)

	June 30, 2016	March 31, 2016
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$42,728	\$30,096
Restricted cash	-	500
Short term investments	10,154	20,155
Trade accounts receivable, net	1,458	2,800
Royalty receivable	225	1,292
Inventory	3,833	2,056
Prepaid purchases	943	871
Prepaid expenses and other current assets	605	556
Total Current Assets	59,946	58,326
Property, plant, and equipment, net	27	29
Deferred tax assets	1,383	1,401
Other assets	131	132
Total Non-current Assets	1,541	1,562
Total Assets	\$61,487	\$59,888
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable and other current liabilities	1,980	1,691
Deferred revenue	1,875	-
Due to affiliates	-	512
Income tax payable	456	455
Total Current Liabilities	4,311	2,658
Long term liabilities	-	-
Total Non-current Liabilities	-	-
Total Liabilities	\$4,311	\$2,658
Shareholders' Equity:		
Series A Preferred shares — 10,000,000 shares authorized; 3,677 shares		
issued and outstanding at June 30, 2016 and March 31, 2016 respectively; liquidation preference of \$3,677,000 at June 30, 2016 and March 31, 2016, respectively	3,310	3,310
Common shares — \$0.01 par value, 75,000,000 shares authorized; 52,965,797 shares		
issued at June 30, 2016 and March 31, 2016, respectively; 27,129,832		
shares outstanding at June 30, 2016 and March 31, 2016, respectively	529	529
Additional paid-in capital	79,792	79,792

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Accumulated deficit	(2,231 )	(2,177 )
Treasury stock, at cost (25,835,965 shares)	(24,224)	(24,224)
Total Shareholders' Equity	57,176	57,230
Total Liabilities and Shareholders' Equity	\$61,487	\$59,888

The accompanying notes are an integral part of the consolidated financial statements.

## EMERSON RADIO CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended	
	June 30, 2016	2015
<b>Cash Flows from Operating Activities:</b>		
Net (loss) income	\$(54 )	\$121
<b>Adjustments to reconcile net income to net cash used by operating activities:</b>		
Depreciation and amortization	5	17
<b>Changes in assets and liabilities:</b>		
Trade accounts receivable	1,388	(5,057 )
Royalty receivable	1,067	2,089
Due from affiliates	(512 )	-
Inventory	(1,777 )	(1 )
Prepaid purchases	(72 )	1,959
Prepaid expenses and other current assets	(49 )	230
Deferred tax assets and liabilities	18	(17 )
Other assets	1	(24 )
Accounts payable and other current liabilities	289	(141 )
Long term liabilities	—	44
Asset allowances, reserves and other	(46 )	(9 )
Deferred revenue	1,875	-
Income taxes payable	1	71
Net cash provided (used) by operating activities	2,134	(718 )
<b>Cash Flows from Investing Activities:</b>		
Short term investment	10,001	(15,097)
Restricted cash	500	-
Additions to property, plant and equipment	(3 )	-
Net cash provided (used) by investing activities	10,498	(15,097)
<b>Cash Flows from Financing Activities:</b>		
Net cash (used) by financing activities	-	-
Net increase (decrease) in cash and cash equivalents	12,632	(15,815)
Cash and cash equivalents at beginning of period	30,096	43,485
Cash and cash equivalents at end of period	\$42,728	\$27,670
<b>Cash paid during the period for:</b>		
Interest	\$2	\$-
Income taxes	\$4	\$-



The accompanying notes are an integral part of the consolidated financial statements.

EMERSON RADIO CORP. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 — BACKGROUND AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Emerson Radio Corp. (“Emerson”, consolidated — the “Company”), and its subsidiaries. The Company designs, sources, imports and markets certain houseware and consumer electronic products, and licenses the Company’s trademarks for a variety of products domestically and internationally.

The unaudited interim consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the Company’s consolidated financial position as of June 30, 2016 and the results of operations for the three month periods ended June 30, 2016 and June 30, 2015. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the financial statements not misleading have been included. All significant intercompany accounts and transactions have been eliminated in consolidation. The preparation of the unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes; actual results could materially differ from those estimates. The unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and accordingly do not include all of the disclosures normally made in the Company’s annual consolidated financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended March 31, 2016 (“fiscal 2016”), included in the Company’s annual report on Form 10-K, as amended, for fiscal 2016.

The results of operations for the three month period ended June 30, 2016 are not necessarily indicative of the results of operations that may be expected for any other interim periods or for the full year ended March 31, 2017 (“fiscal 2017”).

Whenever necessary, reclassifications are made to conform the prior year’s financial statements to the current year’s presentation.

Unless otherwise disclosed in the notes to these financial statements, the estimated fair value of the financial assets and liabilities approximates the carrying value.

Sales Allowance and Marketing Support Expenses

Sales allowances, marketing support programs, promotions and other volume-based incentives which are provided to retailers and distributors are accounted for on an accrual basis as a reduction to net revenues in the period in which the related sales are recognized in accordance with ASC topic 605, “Revenue Recognition”, subtopic 50 “Customer Payments and Incentives” and Securities and Exchange Commission Staff Accounting Bulletins 101 “Revenue Recognition in Financial Statements,” and 104 “Revenue Recognition, corrected copy” (“SAB’s 101 and 104”).

At the time of sale, the Company reduces recognized gross revenue by allowances to cover, in addition to estimated sales returns as required by ASC topic 605, “Revenue Recognition”, subtopic 15 “Products”, (i) sales incentives offered to

customers that meet the criteria for accrual under ASC topic 605, subtopic 50 and (ii) under SAB's 101 and 104, an estimated amount to recognize additional non-offered deductions it anticipates and can reasonably estimate will be taken by customers which it does not expect to recover. Accruals for the estimated amount of future non-offered deductions are required to be made as contra-revenue items because that percentage of shipped revenue fails to meet the collectability criteria within SAB 104's and 101's four revenue recognition criteria, all of which are required to be met in order to recognize revenue.

If additional marketing support programs, promotions and other volume-based incentives are required to promote the Company's products subsequent to the initial sale, then additional reserves may be required and are accrued for when such support is offered.

## NOTE 2 — NET EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three months ended	
	June 30, 2016	2015
Numerator:		
Net (loss) income	\$(54 )	\$121
Denominator:		
Denominator for basic and diluted earnings per share — weighted average shares		
	27,130	27,130
Basic and diluted (loss) earnings per share	\$0.00	\$0.00

## NOTE 3 — SHAREHOLDERS' EQUITY

Outstanding capital stock at June 30, 2016 consisted of common stock and Series A preferred stock. The Series A preferred stock is non-voting, has no dividend preferences and has not been convertible since March 31, 2002; however, it retains a liquidation preference.

At June 30, 2016, the Company had no options, warrants or other potentially dilutive securities outstanding.

## NOTE 4 — INVENTORY

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. As of June 30, 2016 and March 31, 2016, inventories consisted of the following (in thousands):

	June 30, 2016	March 31, 2016
Finished goods	\$ 3,833	\$ 2,056

## NOTE 5 — INCOME TAXES

At June 30, 2016, the Company had no U.S. federal net operating loss carry forwards and approximately \$0.4 million of U.S. state net operating loss carry forwards included in net deferred tax assets that are available to offset future taxable income and can be carried forward for 20 years. Although realization is not assured, management believes it is more likely than not that all of the net deferred tax assets will be realized through tax planning strategies available in future periods and through future profitable operating results. The amount of the deferred tax asset considered realizable could be reduced or eliminated if certain tax planning strategies are not successfully executed or estimates of future taxable income during the carry forward period are reduced. If management determines that the Company would not be able to realize all or part of the net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

The Company's effective tax rate differs from the federal statutory rate primarily due to income and losses incurred in foreign jurisdictions and taxed at locally applicable tax rates, subpart F income included in the Company's tax expense, expenses that are not deductible for federal income tax purposes, and state income taxes.

The Company is subject to examination and assessment by tax authorities in numerous jurisdictions. As of June 30, 2016, the Company's open tax years for examination for U.S. federal tax are 2011-2016 and for U.S. states tax are 2011-2016.

Based on the outcome of tax examinations or due to the expiration of statutes of limitations, it is reasonably possible that the unrecognized tax benefits related to uncertain tax positions taken in previously filed returns may be different from the liabilities that have been recorded for these unrecognized tax benefits. As a result, the Company may be subject to additional tax expense.

#### NOTE 6 — RELATED PARTY TRANSACTIONS

From time to time, Emerson engages in business transactions with its controlling shareholder, The Grande Holdings Limited ("Grande"), one or more of Grande's direct and indirect subsidiaries, and companies related to the Company's Chairman of the Board. Set forth below is a summary of such transactions.

#### Controlling Shareholder

S&T International Distribution Limited (“S&T”), which is a wholly owned subsidiary of Grande N.A.K.S. Ltd., which is a wholly owned subsidiary of Grande, collectively have the shared power to vote and direct the disposition of 15,243,283 shares, or approximately 56.2%, of the Company’s outstanding common stock. Accordingly, the Company is a “controlled company” as defined in Section 801(a) of the NYSE MKT Company Guide.

#### Related Party Transactions

##### Return of Pledged Collateral to S&T

In April 2016, the Company, upon a request made by S&T, considered and agreed to return to S&T the \$500,000 of collateral which S&T had paid to the Company in September 2014 as a part of the indemnification agreement between S&T, Grande and the Company pertaining to an Internal Revenue Service challenge of the Company’s March 31, 2010 earnings and profits calculations underlying the taxability of a dividend paid during March 2010 to all of its stockholders, net of the \$79,000 in expenses incurred by the Company in defending the IRS challenge. Thusly, on April 29, 2016, the Company paid \$421,000 to S&T to effectuate the release of the collateral net of the aforementioned expenses incurred by the Company. From September 30, 2014 through March 31, 2016, this pledged collateral had been recorded by the Company as restricted cash on its balance sheet.

##### Consulting Services Provided to Emerson by one of its Former Directors who is a Current Director of Grande

Until such agreement was cancelled by the Company effective November 7, 2013, Mr. Eduard Will, a former director of Emerson and a current director of Grande, was paid consulting fees by the Company for work performed by Mr. Will related to a lawsuit that the Company settled in December 2013 and merger and acquisition research. Mr. Will was not re-elected to serve as a director of the Company at the Company’s 2013 Annual Meeting of Stockholders held on November 7, 2013. Accordingly, Mr. Will was no longer a director of the Company or a related party to the Company from November 7, 2013 until his appointment as a director of Grande on February 19, 2016, at which time Mr. Will is once again a related party to the Company.

During March 2016, Emerson accrued \$12,000 in consulting fees and expense reimbursements for consulting work invoiced to the Company and expenses incurred by Mr. Will as a director of the Company during the period September 2013 through November 2013, and which the Company paid to Mr. Will in April 2016.

##### Ancillary Expenses Pertaining to Rented Office Space in Hong Kong

During the month of June 30, 2016, the Company was billed approximately \$1,000 for utility and service charges from The Grande Properties Management Limited (“GPML”) and Lafe Strategic Services Limited (“LSSL”), both related parties to the Company’s Chairman of the Board, in connection with the Company’s rented office space in Hong Kong. The Company owed nil to both GPML and LSSL related to these charges at June 30, 2016.

#### NOTE 7 — SHORT TERM INVESTMENTS

At June 30, 2016 and March 31, 2016, the Company held short term investments totaling \$10.2 million and \$20.2 million, respectively. These investments were comprised of bank certificates of deposit which will mature in

September 2016.

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Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition.

The following discussion of the Company's operations and financial condition should be read in conjunction with the Financial Statements and notes thereto included elsewhere in this Quarterly Report.

In the following discussions, most percentages and dollar amounts have been rounded to aid presentation. Accordingly, all amounts are approximations.

Forward-Looking Information

This report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-looking statements include statements with respect to the Company's beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions, and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond the Company's control, and which may cause the Company's actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

All statements other than statements of historical fact are statements that could be forward-looking statements. The reader can identify these forward-looking statements through the Company's use of words such as "may," "can," "anticipate," "assume," "should," "indicate," "would," "believe," "contemplate," "expect," "seek," "estimate," "continue," "plan," "project," "intend," "target," "potential," and other similar words and expressions of the future. These forward-looking statements may not be realized due to a variety of factors, including, without limitation:

- the impact on the Company's business, financial condition and results of operations of the discontinuation of retail sales of Emerson branded microwave oven and compact refrigerator products by one of the Company's key customers in the Spring of 2016;
- the Company's ability to retain other key customers or maintain purchase volume of the Company's products by any such customers;
- the Company's ability to maintain its relationships with its licensees and distributors or obtain new licensees or distribution relationships, including the Company's ability to obtain new licensees to replace its relationship with Funai, which terminates on December 31, 2016;
- the Company's ability to resist price increases from its suppliers or pass through such increases to its customers;
- conflicts of interest that exist based on the Company's relationship with Grande and Mr. Hon's positions as Chief Executive Officer and director of Emerson and Chief Executive Officer and executive director of Grande;
- the decline in, and any further deterioration of, consumer spending for retail products, such as the Company's products;
- the Company's ability to maintain effective internal controls or compliance by its personnel with such internal controls;
- the Company's ability to successfully manage its operating cash flows to fund its operations;
- the Company's ability to anticipate market trends, enhance existing products or achieve market acceptance of new products;
- the Company's dependence on a limited number of suppliers for its components and raw materials;
- the Company's dependence on third party manufacturers to manufacture and deliver its products;
- changes in consumer spending and economic conditions;
- the ability of third party sales representatives to adequately promote, market and sell the Company's products;
- the Company's ability to maintain, protect and enhance its intellectual property;
- the effects of competition;



- the Company's ability to distribute its products in a timely fashion, including as a result of labor disputes;
- changes in foreign laws and regulations and changes in the political and economic conditions in the foreign countries in which the Company operates;

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- changes in accounting policies, rules and practices;
- limited access to financing or increased cost of financing;
- the effects of currency fluctuations between the U.S. dollar and Chinese renminbi relative to the dollar and increases in costs of production in China; and
- the other factors listed under “Risk Factors” in the Company’s Form 10-K, as amended, for the fiscal year ended March 31, 2016 and other filings with the Securities and Exchange Commission (the “SEC”).

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. The reader is cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this report or the date of the document incorporated by reference into this report. The Company has no obligation, and expressly disclaims any obligation, to update, revise or correct any of the forward-looking statements, whether as a result of new information, future events or otherwise. Management has expressed its expectations, beliefs and projections in good faith and it believes it has a reasonable basis for them. However, management cannot assure the reader that its expectations, beliefs or projections will be achieved or accomplished.

### Results of Operations

The following table summarizes certain financial information for the three month periods ended June 30, 2016 (fiscal 2017) and June 30, 2015 (fiscal 2016) (in thousands):

	Three months ended	
	June 30, 2016	2015
Net product sales	\$5,471	\$18,287
Licensing revenue	1,163	1,225
Net revenues	6,634	19,512
Cost of sales	5,098	17,005
Other operating costs and expenses	133	74
Selling, general and administrative expenses	1,487	2,320
Operating (loss) income	(84 )	113
Interest income, net	51	39
(Loss) income before income taxes	(33 )	152
Provision for income taxes	21	31
Net (loss) income	\$(54 )	\$121

Net product sales — Net product sales for the first quarter of fiscal 2017 were \$5.5 million as compared to \$18.3 million for the first quarter of fiscal 2016, a decrease of \$12.8 million or 70.1%. The Company’s sales during the first quarters of fiscal 2017 and fiscal 2016 were highly concentrated among the Company’s two largest customers – Wal-Mart and Fred Meyer for the first quarter of fiscal 2017, and Target and Wal-Mart for the first quarter of fiscal 2016 – where gross product sales comprised approximately 88.5% and 91.2% of the Company’s total gross product sales for the first quarter of fiscal 2017 and fiscal 2016, respectively. Net product sales may be periodically impacted by adjustments made to the Company’s sales allowance and marketing support accrual to record unanticipated customer deductions from accounts receivable or to reduce the accrual by any amounts which were accrued in the past but not taken by customers through deductions from accounts receivable within a certain time period. In the aggregate, these adjustments had the effect of increasing net product sales and operating income by approximately \$37,000 for the first

quarter of fiscal 2017 and approximately \$23,000 for the first quarter of fiscal 2016. Net product sales are comprised primarily of the sales of houseware and audio products which bear the Emerson ® brand name. The major elements which contributed to the overall decrease in net product sales were as follows:

- i) Houseware product net sales decreased \$13.0 million, or 73.3%, to \$4.8 million in the first quarter of fiscal 2017 as compared to \$17.8 million in the first quarter of fiscal 2016, principally driven by a decrease in year-over-year sales of compact refrigerators and microwave ovens. The decrease for the first quarter of fiscal 2017 was driven by a \$13.2 million year-over-year decrease in net sales at one of the Company's former key customers, where the Company's products were discontinued at retail beginning January 1, 2016. As previously disclosed, the Company expects its net product sales throughout fiscal 2017 to be materially lower than fiscal 2016 due to the discontinuation of its retail business with the aforementioned customer. The Company is analyzing the impacts to its business of this event and is identifying strategic courses of action for consideration. There can be no assurance that the Company will be able to increase sales of housewares products at levels sufficient to offset the material adverse effect of the loss of business with this customer, if at all.

ii) Audio product net sales were \$0.7 million in the first quarter of fiscal 2017 as compared to \$0.5 million in the first quarter of fiscal 2016, an increase of \$0.2 million or 49.7%, resulting from increased net sales of clock radios. Licensing revenue — Licensing revenue in the first quarters of fiscal 2017 and fiscal 2016 was \$1.2 million.

The Company's largest license agreement is with Funai Corporation, Inc. ("Funai"), which accounted for approximately 81% of the Company's total licensing revenue for the first quarter of fiscal 2017 and approximately 76% of the Company's total licensing revenue for the first quarter of fiscal 2016. The license agreement's term ends on December 31, 2016. The agreement provides that Funai will manufacture, market, sell and distribute specified products bearing the Emerson® trademark to customers in the U.S. and Canadian markets. Under the terms of the agreement, the Company received non-refundable minimum annual royalty payments of \$3.75 million each calendar year and a license fee on sales of product subject to the agreement in excess of the minimum annual royalties. During the first quarters of both fiscal 2017 and fiscal 2016, licensing revenues of approximately \$0.9 million were earned under this agreement.

As previously disclosed, on December 16, 2015, the Company received written notice from Funai stating its intention to terminate the agreement, with termination to be effective on December 31, 2016. In accordance with the agreement, in June 2016 Funai paid to the Company the full balance outstanding of the contracted non-refundable minimum annual royalty through the December 31, 2016 termination date in the amount of \$2.8 million. Of this amount, \$0.9 million was recognized as revenue by the Company during the first quarter of fiscal 2017 and \$1.9 million was recorded by the Company as deferred revenue on its June 30, 2016 balance sheet. This deferred revenue of \$1.9 million will be recognized as revenue by the Company evenly over the second and third quarters of fiscal 2017. As a result of such termination, unless the Company is successful in securing a new licensee to replace the licensing revenue which will be absent upon the Funai termination, the Company expects fiscal 2017 licensing revenue will decline as compared to fiscal 2016 licensing revenue. As previously disclosed, since this licensing relationship contributes substantial product volume and market presence through Funai's manufacture and distribution of products bearing the Emerson® brand name in the United States, the loss of this relationship and licensing agreement with Funai is expected to materially and adversely affect the Company's revenue, earnings and business. The Company is analyzing the impacts of the Funai termination to its business and is identifying strategic courses of action for consideration, including seeking new licensing relationships. There can be no assurance that the Company will be able to secure a new licensee or distribution relationship to replace the licensing revenue, product volume and market presence of Emerson-branded products in the United States, which had been provided through the license agreement with Funai.

Net revenues — As a result of the foregoing factors, the Company's net revenues were \$6.6 million in the first quarter of fiscal 2017 as compared to \$19.5 million in the first quarter of fiscal 2016, a decrease of \$12.9 million, or 66.0%.

Cost of sales — In absolute terms, cost of sales decreased \$11.9 million, or 70.0%, to \$5.1 million in the first quarter of fiscal 2017 as compared to \$17.0 million in the first quarter of fiscal 2016. Cost of sales, as a percentage of net product sales, was 93.2% in the first quarter of fiscal 2017 as compared to 93.0% in the first quarter of fiscal 2016. The decrease in absolute terms for the first quarter of fiscal 2017 as compared to the first quarter of fiscal 2016 was primarily related to the reduced net product sales and lower year-over-year gross cost of sales as a percentage of gross sales.

The Company purchases the products it sells from a limited number of factory suppliers. For the first quarter of fiscal 2017 and fiscal 2016, the Company purchased 91% and 97%, respectively, from its two largest suppliers.

Other operating costs and expenses — Other operating costs and expenses as a percentage of net product sales were 2.4% for the first quarter of fiscal 2017 as compared to 0.4% for the first quarter of fiscal 2016. In absolute terms, other operating costs and expenses were \$0.1 million for both the first quarter of fiscal 2017 and the first quarter of

fiscal 2016.

Selling, general and administrative expenses (“S,G&A”) — S,G&A, in absolute terms, was \$1.5 million in the first quarter of fiscal 2017 as compared to \$2.3 million in the first quarter of fiscal 2016, a decrease of \$0.8 million or 35.9%. S,G&A, as a percentage of net revenues, was 22.4% in the first quarter of fiscal 2017 as compared to 11.9% in the first quarter of fiscal 2016.

The first quarter of fiscal 2017 S,G&A included approximately \$0.1 million in advisory fees pertaining to work performed for the Special Committee of the Company’s Board of Directors.

The first quarter of fiscal 2016 S,G&A included approximately \$0.4 million in tax advisory fees related to the audit of the Company’s tax returns by the IRS.

Excluding the aforementioned items, the first quarter of fiscal 2017 S,G&A was \$1.4 million and the first quarter of fiscal 2016 S,G&A was \$1.9 million, a decrease of \$0.5 million, or 27.8%, due to year-over-year reductions in personnel, variable selling expenses and administrative costs.

Interest income, net — Interest income, net, was \$51,000 in the first quarter of fiscal 2017 as compared to \$39,000 in the first quarter of fiscal 2016, an increase of \$12,000. The increase in interest income for the first quarter of fiscal 2017 was due to a higher level of investments in Certificates of Deposit by the Company during the first quarter of fiscal 2017 versus the first quarter of fiscal 2016.

Provision for income taxes — In the first quarter of fiscal 2017, the Company recorded income tax expense of \$21,000 as compared to \$31,000 of income tax expense in the first quarter of fiscal 2016.

Net (loss) income — As a result of the foregoing factors, the Company realized a net loss of \$0.1 million in the first quarter of fiscal 2017 as compared to net income of \$0.1 million in the first quarter of fiscal 2016.

### Liquidity and Capital Resources

As of June 30, 2016, the Company had cash and cash equivalents of approximately \$42.7 million, as compared to approximately \$27.7 million at June 30, 2015. Working capital decreased to \$55.6 million at June 30, 2016 as compared to \$56.6 million at June 30, 2015. The increase in cash and cash equivalents of approximately \$15.0 million was due to a decrease in accounts receivable of \$7.9 million, a decrease in short term investments of \$4.9 million, an increase in deferred revenue of \$1.9 million, a decrease in royalty receivables of \$1.2 million, a decrease in inventory of \$0.7 million, a decrease in deferred tax assets of \$0.7 million and a decrease in restricted cash of \$0.5 million, partially offset by the net loss generated during the prior 12 months of \$1.1 million, a decrease in long term deferred tax liability of \$0.5 million, a decrease in due to affiliates of \$0.5 million, a decrease in income taxes payable of \$0.5 million and a decrease in prepaid expenses and other current assets of \$0.1 million.

### Cash Flows

Net cash provided by operating activities was \$2.1 million for the three months ended June 30, 2016, resulting from an increase in deferred revenue, a decrease in accounts receivable, a decrease in royalty receivable, an increase in accounts payable and other current liabilities partially offset by an increase in inventory, a decrease in due to affiliates, an increase in prepaid purchases and the net loss generated during the period.

Net cash provided by investing activities was \$10.5 million for the three months ended June 30, 2016, due to a reduction in short term certificates of deposit and a decrease in Restricted Cash.

Net cash used by financing activities was nil for the three months ended June 30, 2016.

### Sources and Uses of Funds

For the three months ended June 30, 2016, none of the Company's net sales were made by directly importing products to the Company's customers, and for the three months ended June 30, 2015, products representing approximately 71% of net sales were imported directly to the Company's customers. The direct importation of product by the Company to its customers significantly benefits the Company's liquidity because this inventory does not need to be financed by the Company.

The Company's principal existing sources of cash are generated from operations. The Company believes that its existing cash balance and sources of cash will be sufficient to support existing operations over the next 12 months.

As described above and as previously disclosed, the Company's products were discontinued at retail by one of the Company's former key customers beginning January 1, 2016. In addition, as described above and as previously disclosed, Funai terminated its license agreement with the Company effective as of December 31, 2016. Both of these events will have a material impact on the Company's business, financial condition, results of operations and cash position. The Company is analyzing the impacts to its business of these events and is identifying strategic courses of action for consideration.

#### Off-Balance Sheet Arrangements

As of June 30, 2016, the Company did not have any off-balance sheet arrangements as defined under the rules of the Securities and Exchange Commission.

### Recently Issued Accounting Pronouncements

The following Accounting Standards Updates (“ASUs”) were issued by the Financial Accounting Standards Board during the three months ended June 30, 2016 or during the interim period between June 30, 2016 and August 15, 2016 which relate to or could relate to the Company as concerns the Company’s normal ongoing operations or the industry in which the Company operates:

#### Accounting Standards Update 2016-13 Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments (Issued June 2016)

The amendments in this Update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination (PCD assets) that are measured at amortized cost basis is determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Only subsequent changes in the allowance for credit losses are recorded as a credit loss expense for these assets. Interest income for PCD assets should be recognized based on the effective interest rate, excluding the discount embedded in the purchase price that is attributable to the acquirer’s assessment of credit losses at acquisition. The amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its financial statements.

#### Accounting Standards Update 2016-10 Revenue from Contracts with Customers (Topic 606) Identifying Performance Obligations and Licensing (Issued April 2016)

The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: 1. Identify the contract(s) with a customer. 2. Identify the performance obligations in the contract. 3. Determine the transaction price. 4. Allocate the transaction price to the performance obligations in the contract. 5. Recognize revenue when (or as) the entity satisfies a performance obligation. The amendments in this Update do not change the core principle of the guidance in Topic 606. Rather, the amendments in this Update clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company does not expect these amendments to have a material effect on its financial statements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.



Not applicable.

Item 4. Controls and Procedures.

(a) Disclosure controls and procedures

The Company maintains disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d — 15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to management, including the Company’s principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons; by collusion of two or more people, or by management override of the control. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

The Company's management concluded that disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of June 30, 2016, are effective to provide reasonable assurance that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management, including the Company's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls Over Financial Reporting

As previously reported by the Company on a Form 8-K filed with the SEC on June 8, 2016, Gregory W. Hunt and Terrence Snellings resigned as members of the Audit Committee and as directors of the Company effective as of June 2, 2016, and June 5, 2016, respectively. Following such resignations, the Audit Committee was comprised of one member, Kareem E. Sethi, who is the Chairman of the Audit Committee and the "audit committee financial expert." As previously reported by the Company on a Form 8-K filed with the SEC on June 23, 2016, the Board of Directors of the Company appointed Kin Yuen to fill one of the existing vacancies on the Board of Directors effective as of June 19, 2016. Mr. Yuen was determined to be independent by the Board of Directors under the NYSE MKT listing standards and appointed a member of the Audit Committee of the Board of Directors. Following Mr. Yuen's appointment, the Company's Audit Committee is now comprised of two independent directors, Messrs. Yuen and Sethi, with Mr. Sethi continuing as the Chairman of the Audit Committee.

Other than the foregoing, there have been no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings.

Although the Company is not currently a party to any material active litigation, from time to time, third parties assert claims against the Company regarding matters arising out of the ordinary course of business. Management cannot estimate with certainty the Company's ultimate legal and financial liability with respect to any litigation matters or the disposition of any claims that it could incur. However, management believes, based on its examination of all existing litigation matters, that the Company's ultimate liability will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

### Item 1A. Risk Factors.

The Company's operations and financial results are subject to various risks and uncertainties including those described below. The reader should consider carefully the risks and uncertainties described below, in addition to other information contained in this Quarterly Report on Form 10-Q as well as the Company's other public filings with the Securities and Exchange Commission, including the Company's consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones faced by the Company. Additional risks about which the Company is not yet aware or that the Company currently believes to be immaterial also may adversely affect the Company's business operations. If any of the following occur, the Company's business, financial condition or operating results may be adversely affected. In that case, the price of the Company's common stock may decline.

#### Business Related Risks

The Company relies on a small number of key customers for the majority of its business, and the loss or significant reduction in business with any of these key customers would materially and adversely affect the Company's revenues and earnings.

Certain customers have historically made up a significant percentage of the Company's product sales and net revenues. In the three months ended June 30, 2016, Wal-Mart and Fred Meyer accounted for approximately 56% and 17%, respectively, of the Company's net revenues compared to Target and Wal-Mart accounting for approximately 68% and 18%, respectively, of the Company's net revenues in the three months ended June 30, 2015. For the fiscal years ended March 31, 2016 and 2015, Target accounted for approximately 42% and 51%, respectively, of the Company's net revenues, and Wal-Mart accounted for approximately 31% and 28% of the Company's net revenues, respectively. No other customer accounted for more than 10% of the Company's net revenues during these periods. All customer purchases are made through purchase orders and the Company does not have any long-term contracts with its customers. The complete loss of, or significant reduction in business from, or a material adverse change in the financial condition of any of the Company's key customers would cause a material and adverse change in the Company's revenues and operating results.

For example, commencing in the Spring of 2016, one of the Company's key customers discontinued retailing in its stores the Emerson-branded microwave oven and compact refrigeration products historically sold to this customer by the Company. During fiscal 2015 and fiscal 2016, net sales of these products by the Company to this customer were approximately \$39.5 million and \$19.0 million, respectively, comprising approximately 57.3% and 46.2% of the Company's total net product sales. The Company continued shipping these products to this customer only through

December 2015. Emerson anticipates that net product sales for fiscal 2017 will be negatively impacted by this event. The loss of these sales has had and is expected to continue to have a material adverse effect on the Company's business and results of operations.

The Company is dependent on a limited number of products for its sales.

We derive a substantial portion of our product revenues from a limited number of products, and we expect these products to continue to account for a large percentage of our product revenues in the near term. For the twelve months ended March 31, 2016, the Company's gross product sales were comprised of five product types within two categories - housewares products and audio products, and two of these product types, namely microwave ovens and compact refrigerators - both within the housewares category - generated approximately 93% of the Company's gross product sales, with microwave ovens generating approximately 56% of the total and compact refrigerators generating approximately 37% of the total. For the twelve months ended March 31, 2015, the Company's gross product sales were comprised of the same five product types within the same two categories - housewares products and audio products, and two of these product types, namely microwave ovens and compact refrigerators - both within the housewares category - generated approximately 95% of the Company's gross product sales, with microwave ovens generating approximately 67% of the total and compact refrigerators generating approximately 28% of the total. Because the market for these product types and categories is characterized by periodic new product introductions, the Company's future financial performance will depend, in part, on the successful and timely development and customer acceptance of new and enhanced versions of these product types and other products distributed by the Company. There can be no assurance that the Company will continue to be successful in marketing these products

types within these categories or any other new or enhanced products. As a result of this dependence, a significant decline in pricing of, or market acceptance of these product types and categories, either in general or specifically as marketed by the Company, would have a material adverse effect on the Company's business, financial condition and results of operation.

The loss or reduction of business of one or a combination of our microwave oven and compact refrigerator products could materially adversely affect our revenues, financial condition and results of operations. For example, commencing in the Spring of 2016, one of the Company's key customers discontinued retailing in its stores the Emerson-branded microwave oven and compact refrigeration products currently sold to this customer by the Company. See "The Company relies on a small number of key customers for the majority of its business, and the loss or significant reduction in business with any of these key customers would materially and adversely affect the Company's revenues and earnings." The loss of these sales has had and is expected to continue to have a material adverse effect on the Company's business and results of operations. There can be no assurance that the Company will be able to increase sales of its microwave oven and compact refrigerator products at levels sufficient to offset the material adverse effect of the loss of business with this customer, if at all.

If the Company's third party sales representatives fail to adequately promote, market and sell the Company's products, the Company's revenues could significantly decrease.

A significant portion of the Company's product sales are made through third party sales representative organizations, whose members are not employees of the Company. The Company's level of sales depends on the effectiveness of these organizations, as well as the effectiveness of its own employees. Some of these third party representatives may sell (and do sell), with the Company's permission, competitive products of third parties as well as the Company's products. During the Company's fiscal years ended March 31, 2016 and March 31, 2015, these organizations were responsible for approximately 55% and 61%, respectively, of its net revenues during such periods. In addition, one of these representative organizations was responsible for a significant portion of these revenues. If any of the Company's third party sales representative organizations engaged by the Company, especially the Company's largest, fails to adequately promote, market and sell its products, the Company's revenues could be significantly decreased until a replacement organization or distributor could be retained by the Company. For example, despite the efforts of the Company's third party sales representative organization, one of the Company's key customers, commencing with the Spring of 2016, discontinued retailing in its stores the Emerson-branded microwave oven and compact refrigeration products currently sold to this customer by the Company and the Company continued shipping these products to this customer only through December 2015. See "The Company relies on a small number of key customers for the majority of its business, and the loss or significant reduction in business with any of these key customers would materially and adversely affect the Company's revenues and earnings." The loss of these product sales has had and is expected to continue to have a material adverse effect on the Company's business and results of operations. Finding replacement organizations and distributors could be a time consuming process during which the Company's revenues could be negatively impacted. There can be no assurance that the Company will be able to increase its product sales at levels sufficient to offset the material adverse effect of the loss of business with this customer, if at all.

The concentration of product sales among a limited number of retailers and the trend toward private label brands could materially reduce revenues and profitability.

With the concentration of the Company's product sales among a limited number of retailers, the Company is dependent upon a small number of customers whose bargaining strength is growing. These retailers generally purchase a limited selection of houseware and consumer electronic products. As a result, there is significant competition for retail shelf space. In addition, certain of the Company's key customers use their own private label brands that compete directly with some of the Company's products. As the retailers in the houseware and consumer electronic industry become more concentrated, competition for sales to these retailers may increase, which could materially reduce the Company's

revenues and profitability.

The houseware and consumer electronic industry is consolidating, which could reduce the Company's ability to successfully secure product placements at key customers and limit its ability to sustain a cost competitive position in the industry.

Over the past several years, the houseware and consumer electronic industry has undergone substantial consolidation, and further consolidation is likely. As a result of this consolidation, the houseware and consumer electronic industry primarily consists of a limited number of large retailers and distributors. The Company's ability to gain or maintain share of sales in the houseware and consumer electronic industry or maintain or enhance its relationships with key customers may be limited as a result of actions by competitors or the retailers' increasing use of private label brands.

The failure to obtain new licensees to replace the Funai license agreement could materially and adversely affect the Company's revenues, earnings and business.

As previously disclosed, on December 16, 2015, the Company's key licensee, Funai, provided written notice to the Company to terminate its license agreement with the Company effective December 31, 2016. For the fiscal year ended March 31, 2016, Funai accounted for approximately 79% of the Company's total licensing revenue. Funai also contributes substantial product volume and market presence through Funai's manufacture and distribution of products utilizing the Emerson® brand name in the United States. The failure to obtain new licensees to replace Funai on satisfactory terms, or at all, would materially and adversely affect the Company's licensing revenues and earnings. In addition, since the Funai license provides a substantial contribution to and enhancement of the Emerson® brand name in the U.S. marketplace, the failure by the Company to find a new licensee to replace Funai on terms satisfactory to the Company, or at all, would also materially and adversely affect the value of the Emerson brand and Company's ability to sell its housewares and audio products.

The failure by the Company to maintain its relationships with its other licensees or the failure to obtain new licensees could materially and adversely affect the Company's revenues, earnings and business.

The Company maintains agreements that allow licensees to use the Company's trademarks for the manufacture and sale of specific consumer electronics and other products into defined geographic areas. Although the Company has entered into agreements with certain of its licensees most have terms of three years or less. The Company cannot assure that its agreements with its other licensees will be renewed in the future or that the Company's relationships with its other licensees or distributors will be maintained on satisfactory terms or at all. The failure to maintain its relationships with its other licensees and distributors on terms satisfactory to the Company, the failure to obtain new licensees or distribution relationships or the failure by the Company's licensees to protect the integrity and reputation of the Company's trademarks could materially and adversely affect the Company's licensing revenues and earnings.

The Company depends on a limited number of suppliers for its products. If our relationships with such suppliers terminate or are otherwise impaired, we would likely experience increased costs, disruptions in the manufacture and shipment of our products and a material loss of net sales.

Although there are multiple potential suppliers for each of the Company's products, the Company relies and is dependent on a limited number of suppliers for its main products, all of which are located outside of the United States.

The Company does not have any long-term or exclusive purchase commitments with any of its suppliers. Midea was the Company's largest supplier and accounted for 53% of the Company's purchases of products during fiscal 2016. The Company's failure to maintain existing relationships with its suppliers or to establish new relationships on similar pricing and credit terms in the future could negatively affect the Company's ability to obtain products in a timely manner. If the Company is unable to obtain an ample supply of product from its existing suppliers or secure alternative sources of supply, it may be unable to satisfy its customers' orders, which could materially and adversely affect the Company's revenues and relationships with its customers. Finding replacement suppliers could be a time consuming process during which the Company's revenues and liquidity could be negatively impacted.

Increases in costs of products may materially reduce the Company's profitability.

Factors that are largely beyond the Company's control, such as the cost, quality and availability of the raw materials and components needed by suppliers of the Company's products, may affect the cost of such products, and the Company may not be able to pass those costs on to its customers. As an example, when the prices of petroleum increase significantly, the Company's profitability may be negatively impacted.

If the Company is unable to deliver products in the required amounts and in a timely fashion, the Company could experience delays or reductions in shipments to its customers, which could materially and adversely affect the Company's revenues and relationships with its customers.

The Company's ability to provide high quality customer service, process and fulfill orders, and manage inventory depends on the efficient and uninterrupted operation and timely and uninterrupted performance of its suppliers. The Company can provide no assurances that it will not experience operational difficulties with its suppliers, including reductions in the availability of production capacity, errors in complying with product specifications, insufficient quality control, failures to meet production deadlines, increases in manufacturing costs and increased lead times. If the Company is unable to obtain products from these factories in the required quantities and quality and in a timely fashion, the Company could experience delays or reductions in product shipments to its customers, which could negatively affect the Company's ability to meet the requirements of its customers, as well as its relationships with its customers, which in turn could materially and adversely affect the Company's revenues and operating results.



All the Company's suppliers are based in China and as a result the Company is subject to risks associated with international operations and global manufacturing and sourcing including, among others:

- currency fluctuations;
- labor disputes, such as the 2014 Los Angeles/Long Beach port strike, and union actions;
- potential political, economic and social instability;
- inclement weather and natural disasters;
- possible acts of terrorism;
- restrictions on transfers of funds;
- changes in import and export duties and quotas;
- changes in domestic and international customs and tariffs;
- uncertainties involving the costs to transport products;
  - disruptions in the global transportation network;
- unexpected changes in regulatory environments;
- regulatory issues involved in dealing with foreign suppliers and in exporting and importing products;
- protection of intellectual property;
- difficulty in complying with a variety of foreign laws;
- difficulty in obtaining distribution and support; and
- potentially adverse tax consequences.

Furthermore, any material disruption, slowdown or shutdown of the operation of the Company's principal logistics providers and shippers, including without limitation as a result of labor disputes, inclement weather, natural disasters, possible acts of terrorism, availability of shipping containers and increased security restrictions, could cause delays in the Company's ability to receive, process and fulfill customer orders and may cause orders to be canceled, lost or delivered late, goods to be returned or receipt of goods to be refused. As a result, the Company's relationships with its customers, revenues and operating results could be materially and adversely affected.

The Company relies on a third-party logistics provider for the storage and distribution of its products in the United States and, if such third party logistics provider incurs any damage to the facilities where the Company's products are stored or is unable to distribute its products as needed, it could have a material adverse effect on the Company's results of operations and business.

The Company relies on a third-party logistics provider for the storage and distribution of its products. The facilities where the Company's products are stored by such provider may also be harmed or rendered inoperable by natural or man-made disasters, including earthquakes, power outages, communications failure or terrorism. Any material damage to the facilities where the Company's products are stored could adversely affect its inventory and the ability of such third-party logistics provider to meet the needs of its customers. In addition, an inability to maintain the Company's contracts with such third-party logistics providers or a disruption or slowdown in the operations of such third-party logistics providers, including as a result of damage to the facilities of such providers or a strike by such providers, could cause delays in the Company's ability to fulfill customer orders and may cause orders to be canceled, lost or delivered late, the Company's products to be returned or receipt of products to be refused, any of which could adversely affect the Company's business and results of operations. The Company's contract with its third-party logistics provider is terminable upon written notice by either party for convenience without cause. If the Company is unable to maintain its contract with its third-party logistics provider, the Company would be required to retain a new third party logistics provider and the Company may be unable to retain such third party at a cost that is acceptable to the Company. If the Company's shipping costs were to increase as a result of an increase by such third-party logistics providers or as a result of obtaining a new third-party logistics provider and if the Company is unable to pass on these higher costs to its customers, it could have a material adverse effect on the Company's results of operations and business.



The Company's business could be materially and adversely affected if it cannot protect its intellectual property rights or if it infringes on the intellectual property rights of others.

The Company's ability to compete effectively depends on its ability to maintain and protect its proprietary rights. The Company owns the Emerson® and other trademarks, which are materially important to its business, as well as other trademarks, patents, licenses and proprietary rights that are used for certain of the products that it markets and sells. The Company's trademarks are registered throughout the world, including the United States and other countries. The Company also has two patents in the United States on its SmartSet® technology, both of which expire in September 2018. The laws of some foreign countries in which the Company operates may not protect the Company's proprietary rights to the same extent as do laws in the United States. The protections afforded by the laws of such countries may not be adequate to protect the Company's intellectual property rights.

Third parties may seek to challenge, invalidate, circumvent or render unenforceable any trademarks, patents or proprietary rights owned by or licensed to the Company. In addition, in the event third party licensees fail to protect the integrity of the Company's trademarks, the value of these marks could be materially and adversely affected. The Company's inability to protect its proprietary rights could materially and adversely affect the license of its trade names, trademarks and patents to third parties as well as its ability to sell its products. Litigation may be necessary to enforce the Company's intellectual property rights, protect the Company's trade secrets; and determine the scope and validity of such intellectual property rights. Any such litigation, whether or not successful, could result in substantial costs and diversion of resources and management's attention from the operation of the Company's business.

The Company may receive notices of claims of infringement of other parties' proprietary rights. Such actions could result in litigation and the Company could incur significant costs and diversion of resources in defending such claims. The party making such claims could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief. Such relief could effectively block the Company's ability to make, use, sell, distribute or market its products and services in such jurisdiction. The Company may also be required to seek licenses to such intellectual property. The Company cannot predict, however, whether such licenses would be available or, if available, that such licenses could be obtained on terms that are commercially reasonable and acceptable to the Company. The failure to obtain the necessary licenses or other rights could delay or preclude the sale, manufacture or distribution of its products and could result in increased costs to the Company.

The Company's revenues and earnings could be materially and adversely affected if it cannot anticipate market trends or enhance existing products or achieve market acceptance of new products.

The Company's success is dependent on its ability to anticipate and respond to changing consumer demands and trends in a timely manner, as well as expanding into new markets and sourcing new products that are profitable to the Company. In addition, to increase the Company's penetration of current markets and gain footholds in new markets for its products, the Company must maintain its existing products and integrate them with new products. The Company may not be successful in sourcing, marketing and releasing new products that respond to technological developments or changing customer needs and preferences. The Company may also experience difficulties that could delay or prevent the successful development, introduction and sale of these new products. These new products may not adequately meet the requirements of the marketplace and may not achieve any significant degree of market acceptance. If release dates of any future products or enhancements to the Company's products are delayed, or if these products or enhancements fail to achieve market acceptance when released, the Company's sales volume may decline and earnings could be materially and adversely affected. In addition, new products or enhancements by the Company's competitors may cause customers to defer or forgo purchases of the Company's products, which could also materially and adversely affect the Company's revenues and earnings.

Cash generated by operating activities represents the Company's principal source of funding and therefore the Company depends on its ability to successfully manage its operating cash flows to fund its operations.

The Company does not maintain any credit facilities (other than certain letters of credit) in connection with the operation of its business. The Company has relied on, and continues to rely on, its cash on hand and cash generated by operations to manage its business. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources." If the Company is unable to generate sufficient cash from operations, the Company may need to secure alternative means of financing or reorganize its operations to continue to maintain the current business.

Foreign regulations and changes in the political, social and economic conditions in the foreign countries in which the Company operates its business could affect the Company's revenues and earnings materially and adversely.

The Company has operations in China and derives a significant portion of its revenue from sales of products manufactured by third parties located in China. In addition, third parties located in China and other countries located in the same region produce and supply many of the components and raw materials used in the Company's products. Conducting an international business inherently

involves a number of difficulties and risks that could materially and adversely affect the Company's ability to generate revenues and could subject the Company to increased costs. Among the factors that may adversely affect the Company's revenues and increase its costs are:

- currency fluctuations which could cause an increase in the price of the components and raw materials used in the Company's products and a decrease in its profits;
- Chinese labor laws;
- labor shortages affecting the Company's facilities and its suppliers' manufacturing facilities located in China;
- the elimination or reduction of value-added tax refunds to Chinese factories that manufacture products for export;
- the rise of inflation and substantial economic growth in China;
- more stringent export restrictions in the countries in which the Company operates which could adversely affect its ability to deliver its products to its customers;
- tariffs and other trade barriers which could make it more expensive for the Company to obtain and deliver its products to its customers;
- political instability and economic downturns in these countries which could adversely affect the Company's ability to obtain its products from its manufacturers or deliver its products to its customers in a timely fashion;
- new restrictions on the sale of electronic products containing certain hazardous substances; and
- the laws of China are likely to govern many of the Company's supplier agreements.

Any of the factors described above may materially and adversely affect the Company's revenues and/or increase its operating expenses.

The Company is subject to intense competition in the industry in which it operates, which could cause material changes in the selling price of its products or losses of its market share.

The housewares and consumer electronics industry is highly competitive, especially with respect to pricing and the introduction of new products and features. The Company's products compete in the low to medium-priced sector of the housewares and consumer electronics market and compete primarily on the basis of reliability, brand recognition, quality, price, design, consumer acceptance of the Emerson® trademark and quality service and support to retailers and its customers. The Company and many of its competitors are subject to factory cost increases, and the Company expects these pressures to continue. If these pressures are not mitigated by increases in selling price or cost reductions from the Company's suppliers or changes in product mix, or if the consumers of the Company's products change their buying habits as a result of the Company's actions, the Company's revenues and profits could be substantially reduced. As compared to the Company, many of its competitors have significantly greater managerial, financial, marketing, technical and other competitive resources and greater brand recognition. As a result, the Company's competitors may be able to (i) adapt more quickly to new or emerging technologies and changes in customer requirements; (ii) devote greater resources to the promotion and sale of their products and services; and (iii) respond more effectively to pricing pressures. Competition could increase if new companies enter the market, existing competitors expand their product mix or the Company expands into new markets. An increase in competition could result in material price reductions or loss of the Company's market share.

In addition, the industry in which the Company competes generally has low barriers to entry that allow the introduction of new products or new competitors at a fast pace. Some retailers have begun to introduce their own private label products, which could reduce the volume of product they buy from the Company, as well as decrease the shelf space they allocate to the Company's products. If the Company is unable to protect the Company's brand image and authenticity, the Company may be unable to effectively compete with these new market entrants or new products.

Changes in consumer spending and economic conditions may cause the Company's quarterly operating results to fluctuate and cause its stock price to decline.

The Company's net revenue and operating results may vary significantly from year to year, which may adversely affect its results of operations and the market price for its common stock. Factors that may cause these fluctuations include:

- changes in market and economic conditions;
- the discretionary nature of consumers' demands and spending patterns;

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- variations in the sales of the Company's products to its significant customers;
- variations in manufacturing and supplier relationships;
- if the Company is unable to correctly anticipate and provide for inventory requirements, it may not have sufficient inventory to deliver its products to its customers in a timely fashion or the Company may have excess inventory that it is unable to sell;
- new product developments or introductions;
- product reviews and other media coverage;
- competition, including competitive price pressures; and
- political instability, war, acts of terrorism or other disasters.

The Company could be exposed to product liability or other claims for which its product liability or other insurance may be inadequate.

A failure of any of the products marketed by the Company may subject it to the risk of product liability claims and litigation arising from injuries allegedly caused by the improper functioning or design of its products. Although the Company currently maintains product liability insurance in amounts which the Company considers adequate, the Company cannot assure that:

- its insurance will provide adequate coverage against potential liabilities;
- adequate product liability insurance will continue to be available in the future; or
- its insurance can be maintained on acceptable terms.

Although the Company maintains liability insurance in amounts that it considers adequate, the Company cannot assure that such policies will provide adequate coverage against potential liabilities. To the extent product liability or other litigation losses are beyond the limits or scope of the Company's insurance coverage, the Company's expenses could materially increase.

The Company may be liable for additional tax payments to the IRS in connection with the extraordinary dividend paid by the Company to recipients on March 24, 2010.

On March 2, 2010, the Board declared an extraordinary dividend of \$1.10 per common share which was paid on March 24, 2010. In connection with the Company's determination as to the taxability of the dividend, the Board relied upon information and research provided to it by the Company's tax advisors and, in reliance on the "stock-for-debt" exception in the Internal Revenue Code Sections 108(e)(8) and (e)(10), concluded that 4.9% of such dividend paid was taxable to the recipients. The Company initially withheld from the dividend paid to foreign shareholders an amount equal to the tax liability associated with such dividend based on this exception. In August 2012, the Company received a Form 886-A from the IRS which challenges the Company's conclusions and determines that the Company does not qualify for the above-referenced exception. The Company prepared and, on October 25, 2012, delivered its rebuttal to the IRS contesting the IRS determination.

In the event that the Company is not successful in establishing with the IRS that the Company's calculations were correct, then the shareholders who received the dividend likely will be subject to and liable for an assessment of additional taxes due. Moreover, the Company may be contingently liable for taxes due by certain of its shareholders resulting from the dividend paid by the Company. Any such liability, should it be required to be recognized by the Company, would likely have a material adverse effect on the Company's results of operations in the period recognized. As of March 31, 2016, the Company believes that it is more likely than not that the assessment period for the Company for tax under section 1461 of the Internal Revenue Code in connection with the withholding tax requirements pertaining to the March 2010 dividend have expired, such that if the IRS were to attempt to assess tax, the assessment would be time-barred. Thusly, as of March 31, 2016, the Company believes that it is more likely than not that it will not be liable for such assessment; however, there can be no assurance that the Company would be successful in defending its position if the IRS were to attempt to assess tax. See Note 3 "Related Party

Transactions-Dividend-Related Issues with S&T” to the Company’s consolidated financial statements included in its annual report on Form 10-K for the fiscal year ended March 31, 2016.

An information systems interruption or breach in security, including as a result of cyber-attacks, could adversely affect the Company’s business, results of operations and reputation.

In the ordinary course of business, the Company electronically maintains sensitive data, including intellectual property, its proprietary business information and that of its customers and suppliers, and some personally identifiable information of employees,



in its facilities and on its networks. The secure processing, maintenance and transmission of this information is important to the Company's operations. A breach of the Company's security systems and procedures or those of its vendors could result in significant data losses or theft of the Company's customers' or the Company's employees' intellectual property, proprietary business information or personally identifiable information. A cybersecurity breach could negatively affect the Company's reputation.

Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time, the Company may be unable to anticipate these techniques or implement adequate preventive measures. In addition, hardware, software or applications the Company procures from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Unauthorized parties may also attempt to gain access to the Company's systems or facilities through fraud, trickery or other forms of deceiving its employees. Accordingly, the Company may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, or if such measures are implemented, and even with appropriate training conducted in support of such measures, human errors may still occur. It is virtually impossible for the Company to entirely mitigate this risk. A party, whether internal or external, who is able to circumvent the Company's security measures could misappropriate information.

If the Company fails to reasonably maintain the security of confidential information, the Company may suffer significant reputational and financial losses and the Company's results of operations, cash flows, financial condition, and liquidity may be adversely affected. In addition, a system breach could result in other negative consequences, including disruption of internal operations, and may subject the Company to private litigation, government investigations, enforcement actions, and cause the Company to incur potentially significant liability, damages, or remediation costs.

#### Stock Ownership Risks

The Company is a "controlled company" within the meaning of the NYSE MKT rules and, as a result, qualifies for, and relies on, exemptions from certain corporate governance requirements. As a result, the Company's shareholders do not have the same protections afforded to shareholders of companies that are subject to such requirements.

Grande, through one of its indirect subsidiaries, is the beneficial owner of approximately 56.2% of the Company's outstanding common stock as of July 29, 2016. As a result, the Company is a "controlled company" within the meaning of the NYSE MKT Company Guide. Under the NYSE MKT rules, a company of which more than 50% of the voting power is held by another person or group of persons acting together is a controlled company and may elect not to comply with certain NYSE MKT corporate governance requirements, including the requirements that:

- a majority of the Company's Board of Directors consist of independent directors;
- the Company has a nominating committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- the Company has a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities.

The Company has elected to use certain of these exemptions and the Company may continue to use all or some of these exemptions in the future for so long as the Company is a controlled company. The Company's Board of Directors acts as the nominating committee and compensation committee and determines the compensation and benefits of the Company's executive officers, administers its employee stock and benefit plans, and reviews policies relating to the compensation and benefits of its employees. Although all board members have fiduciary obligations in connection with compensation matters, the Company's lack of an independent compensation committee presents the risk that any executive officers who are also directors may have influence over their personal compensation and benefits levels that may not be commensurate with the Company's financial performance. Accordingly, shareholders of the Company do

not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of the NYSE MKT.

The controlling ownership of the Company's common stock by an indirect subsidiary of Grande substantially reduces the influence of other stockholders, and the interests of Grande may conflict with the interests of the Company's other stockholders.

Grande, through one of its indirect subsidiaries, is the beneficial owner of approximately 56.2% of the Company's outstanding common stock as of July 29, 2016. As a result, Grande will be able to exert significant influence over the Company's business and have the ability to control the approval process for actions by the Company that require stockholder approval, including: the election of the Company's directors and the approval of mergers, sales of assets or other significant corporate transactions or matters submitted for stockholder approval. Grande may have interests that differ from your interests and may cause the shares in the Company beneficially owned by Grande to be voted in a way with which you disagree and that may be adverse to your interests. In addition,

several provisions of the Company's organizational documents and Delaware law may deter or prevent a takeover attempt, including a takeover attempt in which the potential purchaser offers to pay a per share price greater than the current market price of its common stock. Under the terms of the Company's certificate of incorporation, its board of directors has the authority, without further action by the stockholders, to issue shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These provisions could discourage potential acquisition proposals and could delay or prevent a change in control transaction. They could also have the effect of discouraging others from making tender offers for the Company's common stock, including transactions that may be in your best interests.

Certain of the Company's directors and officers may have actual or potential conflicts of interest because of their relationships with Grande, and accordingly have loyalties and fiduciary obligations to both Grande and the Company.

Mr. Christopher Ho, the Company's Chairman of the Board, and Mr. Duncan Hon, the Chief Executive Officer and a director of the Company, have material relationships with Grande that may have actual or potential conflicts of interest with their duties to the Company. Effective May 30, 2016, Mr. Hon also serves as the Chief Executive Officer and an executive director of Grande. As described in the footnotes to the Company's financial statements and in the Company's previous filings with the SEC, there have historically been certain related party transactions between the Company and certain subsidiaries and affiliates of Grande. Although the Company has established procedures designed to ensure that material related party transactions are fair to the Company, transactions between the Company and Grande, even if entered into on an arm's-length basis, create the potential for, or could result in, conflicts of interests.

The Company's board of directors has formed a Special Committee of independent directors to explore strategic alternatives. However, there can be no assurances that any transaction will occur, or if such a transaction does occur, the value of that transaction to the Company or its shareholders.

The Company's board of directors formed an ad hoc Special Committee consisting solely of independent directors in March 2013 to evaluate possible strategic alternatives intended to enhance stockholder value. These alternatives could include, among others, possible joint ventures, strategic partnerships, marketing alliances, sale of all or some of our assets or other possible transactions. However, there can be no assurance that any such strategic transaction will occur. In addition, if such a transaction occurs, there can be no assurances as to the value of any such transaction to the Company or its stockholders.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

## Item 3. Defaults Upon Senior Securities.

(a) None

(b) None

Item 4. Mine Safety Disclosure.

Not applicable.

Item 5. Other Information.

None

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Item 6. Exhibits.

- 31.1 Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32 Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*
- 101.1+ XBRL Instance Document.
- 101.2+ XBRL Taxonomy Extension Schema Document.
- 101.3+ XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.4+ XBRL Taxonomy Extension Definition Linkbase Document.
- 101.5+ XBRL Taxonomy Extension Label Linkbase Document.
- 101.6+ XBRL Taxonomy Extension Presentation Linkbase Document.

\* filed herewith

\*\* furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMERSON RADIO CORP.  
(Registrant)

Date: August 15, 2016 /s/ Duncan Hon  
Duncan Hon  
Chief Executive Officer

(Principal Executive Officer)

Date: August 15, 2016 /s/ Andrew L. Davis  
Andrew L. Davis  
Chief Financial Officer

(Principal Financial and Accounting Officer)