

EMERSON RADIO CORP  
Form 10-Q  
November 17, 2015  
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**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 September 30, 2015**

**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

**22-3285224**  
(I.R.S. Employer

**incorporation or organization)**

**Identification No.)**

**3 University Plaza, Suite 405, Hackensack, NJ**  
(Address of principal executive offices)

**07601**  
(Zip code)

**(973) 428-2000**

**(Registrant's telephone number, including area code)**

**(Former name, former address, and former fiscal year, if changed since last report)**

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

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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 November 17, 2015: 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 earnings per share data)

|                                              | Three Months<br>Ended<br>September 30 |               | Six Months Ended<br>September 30 |               |
|----------------------------------------------|---------------------------------------|---------------|----------------------------------|---------------|
|                                              | 2015                                  | 2014          | 2015                             | 2014          |
| <b>Net Revenues:</b>                         |                                       |               |                                  |               |
| Net product sales                            | \$ 7,780                              | \$ 12,862     | \$ 26,067                        | \$ 37,704     |
| Licensing revenue                            | 1,163                                 | 1,385         | 2,388                            | 2,486         |
| <b>Net revenues</b>                          | <b>8,943</b>                          | <b>14,247</b> | <b>28,455</b>                    | <b>40,190</b> |
| <b>Costs and expenses:</b>                   |                                       |               |                                  |               |
| Cost of sales                                | 7,546                                 | 11,785        | 24,551                           | 34,194        |
| Other operating costs and expenses           | 167                                   | 127           | 241                              | 444           |
| Selling, general and administrative expenses | 2,081                                 | 2,305         | 4,401                            | 4,731         |
|                                              | <b>9,794</b>                          | <b>14,217</b> | <b>29,193</b>                    | <b>39,369</b> |
| <b>Operating (loss) income</b>               | <b>(851)</b>                          | <b>30</b>     | <b>(738)</b>                     | <b>821</b>    |
| <b>Other income:</b>                         |                                       |               |                                  |               |
| Interest income, net                         | 39                                    | 44            | 78                               | 109           |
| <b>Income before income taxes</b>            | <b>(812)</b>                          | <b>74</b>     | <b>(660)</b>                     | <b>930</b>    |
| (Benefit) provision for income taxes         | (102)                                 | 27            | (71)                             | 232           |
| <b>Net (loss) income</b>                     | <b>\$ (710)</b>                       | <b>\$ 47</b>  | <b>\$ (589)</b>                  | <b>\$ 698</b> |
| <b>Net (loss) income per share:</b>          |                                       |               |                                  |               |
| Basic                                        | \$ (.03)                              | \$ .00        | \$ (.02)                         | \$ .03        |
| Diluted                                      | \$ (.03)                              | \$ .00        | \$ (.02)                         | \$ .03        |
| <b>Weighted average shares outstanding:</b>  |                                       |               |                                  |               |
| Basic                                        | 27,130                                | 27,130        | 27,130                           | 27,130        |
| Diluted                                      | 27,130                                | 27,130        | 27,130                           | 27,130        |

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



**Table of Contents****EMERSON RADIO CORP. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In thousands except share data)**

|                                                                                                                                    | <b>September 30, 2015</b> | <b>March 31, 2015</b> |
|------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------------------|
| <b>ASSETS</b>                                                                                                                      |                           |                       |
| Current Assets:                                                                                                                    |                           |                       |
| Cash and cash equivalents                                                                                                          | \$ 38,316                 | \$ 43,485             |
| Restricted cash                                                                                                                    | 500                       | 500                   |
| Short term investments                                                                                                             | 10,086                    |                       |
| Trade accounts receivable, net                                                                                                     | 3,202                     | 4,275                 |
| Royalty receivable                                                                                                                 | 1,306                     | 3,522                 |
| Inventory                                                                                                                          | 4,586                     | 4,519                 |
| Prepaid purchases                                                                                                                  | 1,336                     | 2,961                 |
| Prepaid expenses and other current assets                                                                                          | 628                       | 702                   |
| Deferred tax assets                                                                                                                | 1,011                     | 962                   |
| Total Current Assets                                                                                                               | 60,971                    | 60,926                |
| Property, plant, and equipment, net                                                                                                | 44                        | 77                    |
| Deferred tax assets                                                                                                                | 1,171                     | 1,058                 |
| Other assets                                                                                                                       | 127                       | 102                   |
| Total Non-current Assets                                                                                                           | 1,342                     | 1,237                 |
| Total Assets                                                                                                                       | \$ 62,313                 | \$ 62,163             |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                                                                                         |                           |                       |
| Current Liabilities:                                                                                                               |                           |                       |
| Accounts payable and other current liabilities                                                                                     | 2,632                     | 2,137                 |
| Due to affiliates                                                                                                                  | 500                       | 500                   |
| Income tax payable                                                                                                                 | 1,007                     | 847                   |
| Total Current Liabilities                                                                                                          | 4,139                     | 3,484                 |
| Long term liabilities                                                                                                              | 565                       | 481                   |
| Total Non-current Liabilities                                                                                                      | 565                       | 481                   |
| Total Liabilities                                                                                                                  | \$ 4,704                  | \$ 3,965              |
| Shareholders' Equity:                                                                                                              |                           |                       |
| Series A Preferred shares 10,000,000 shares authorized; 3,677 shares issued and outstanding; liquidation preference of \$3,677,000 | 3,310                     | 3,310                 |
|                                                                                                                                    | 529                       | 529                   |

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Common shares \$0.01 par value, 75,000,000 shares authorized;  
52,965,797 shares issued at September 30, 2015 and March 31, 2015,  
respectively; 27,129,832 shares outstanding at September 30, 2015  
and March 31, 2015, respectively

|                                             |           |           |
|---------------------------------------------|-----------|-----------|
| Additional paid-in capital                  | 79,792    | 79,792    |
| Accumulated deficit                         | (1,798)   | (1,209)   |
| Treasury stock, at cost (25,835,965 shares) | (24,224)  | (24,224)  |
| Total Shareholders' Equity                  | 57,609    | 58,198    |
| Total Liabilities and Shareholders' Equity  | \$ 62,313 | \$ 62,163 |

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



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**EMERSON RADIO CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(In thousands)

|                                                                               | <b>Six Months Ended<br/>September 30</b> |                  |
|-------------------------------------------------------------------------------|------------------------------------------|------------------|
|                                                                               | <b>2015</b>                              | <b>2014</b>      |
| Cash Flows from Operating Activities:                                         |                                          |                  |
| Net (loss) income                                                             | \$ (589)                                 | \$ 698           |
| Adjustments to reconcile net income to net cash used by operating activities: |                                          |                  |
| Depreciation and amortization                                                 | 33                                       | 30               |
| Changes in assets and liabilities:                                            |                                          |                  |
| Trade accounts receivable                                                     | 1,315                                    | (2,201)          |
| Royalty receivable                                                            | 2,216                                    | 2,914            |
| Due from affiliates                                                           |                                          | 500              |
| Inventory                                                                     | (67)                                     | (241)            |
| Prepaid purchases                                                             | 1,625                                    | 387              |
| Prepaid expenses and other current assets                                     | 74                                       | 47               |
| Deferred tax assets and liabilities                                           | (162)                                    | 160              |
| Other assets                                                                  | (25)                                     | 43               |
| Accounts payable and other current liabilities                                | 495                                      | (36)             |
| Long term liabilities                                                         | 84                                       |                  |
| Asset allowances, reserves and other                                          | (242)                                    | 425              |
| Income taxes payable                                                          | 160                                      |                  |
| <b>Net cash provided by operating activities</b>                              | <b>4,917</b>                             | <b>2,726</b>     |
| Cash Flows from Investing Activities:                                         |                                          |                  |
| Short term investment                                                         | (10,086)                                 | 17,194           |
| Restricted cash                                                               |                                          | (500)            |
| <b>Net cash (used) provided by investing activities</b>                       | <b>(10,086)</b>                          | <b>16,694</b>    |
| Cash Flows from Financing Activities:                                         |                                          |                  |
| Dividend paid                                                                 |                                          | (18,991)         |
| <b>Net cash (used) by financing activities</b>                                |                                          | <b>(18,991)</b>  |
| <b>Net (decrease) increase in cash and cash equivalents</b>                   | <b>(5,169)</b>                           | <b>429</b>       |
| Cash and cash equivalents at beginning of period                              | 43,485                                   | 26,328           |
| <b>Cash and cash equivalents at end of period</b>                             | <b>\$ 38,316</b>                         | <b>\$ 26,757</b> |

|                                  |    |   |       |
|----------------------------------|----|---|-------|
| Cash paid during the period for: |    |   |       |
| Interest                         | \$ |   | \$    |
| Income taxes                     | \$ | 4 | \$ 55 |

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

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**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 a variety of 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 September 30, 2015 and the results of operations for the three and six month periods ended September 30, 2015 and September 30, 2014. 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, 2015 (fiscal 2015), included in the Company's annual report on Form 10-K, as amended, for fiscal 2015.

The results of operations for the three and six month periods ended September 30, 2015 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, 2016 (fiscal 2016).

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.

**Table of Contents****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):

|                                                                                            | <b>Three months ended<br/>September 30,</b> |             | <b>Six months ended<br/>September 30,</b> |             |
|--------------------------------------------------------------------------------------------|---------------------------------------------|-------------|-------------------------------------------|-------------|
|                                                                                            | <b>2015</b>                                 | <b>2014</b> | <b>2015</b>                               | <b>2014</b> |
| <b>Numerator:</b>                                                                          |                                             |             |                                           |             |
| Net (loss) income                                                                          | \$ (710)                                    | \$ 47       | \$ (589)                                  | \$ 698      |
| <b>Denominator:</b>                                                                        |                                             |             |                                           |             |
| Denominator for basic earnings per share weighted average shares                           | 27,130                                      | 27,130      | 27,130                                    | 27,130      |
| <b>Effect of dilutive securities on denominator:</b>                                       |                                             |             |                                           |             |
| Options (computed using the treasury stock method)                                         |                                             |             |                                           |             |
| Denominator for diluted earnings per share weighted average shares and assumed conversions | 27,130                                      | 27,130      | 27,130                                    | 27,130      |
| Basic and diluted (loss) earnings per share                                                | \$ (.03)                                    | \$ .00      | \$ (.02)                                  | \$ .03      |

**NOTE 3 SHAREHOLDERS EQUITY**

Outstanding capital stock at September 30, 2015 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 September 30, 2015, 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 September 30, 2015 and March 31, 2015, inventories consisted of the following (in thousands):

|                | <b>September 30, 2015</b> | <b>March 31, 2015</b> |
|----------------|---------------------------|-----------------------|
| Finished goods | \$ 4,586                  | \$ 4,519              |

**NOTE 5 INCOME TAXES****Income Tax Issues Concerning Overseas Income**

On April 15, 2013 and June 5, 2013, the Company received correspondence from the Internal Revenue Service ( IRS ) pertaining to the Company's fiscal 2010 and fiscal 2011 periods, including a (i) Form 5701 and Form 886-A regarding

Adjusted Sales Income (collectively referred to as NOPA 1 ) and (ii) Form 5701 and Form 886-A regarding Adjusted Subpart F-Foreign Base Company Sales Income ( FBCSI ) (collectively referred to as NOPA 2 ), which challenged certain tax positions of the Company with respect to the Company s controlled foreign corporation in Macao (the Macao CFC ).

Although the Company continues to dispute the assessments made by the IRS as set forth in each of NOPA 1 and NOPA 2, in June 2015, following a formal IRS Appeal, the Company and the IRS agreed to settle on the following terms: (1) that the IRS would not pursue the aforementioned NOPA 1 and NOPA 2 income assessments pertaining to fiscal 2010 and fiscal 2011 provided that the Company agreed to treat 30% of the Macao CFC s income as taxable Subpart F income in the U.S. for fiscal 2010 and fiscal 2011, and (2) that the IRS would impose no penalties for fiscal 2010 and fiscal 2011 (collectively, the Settlement Agreement ). Based on discussions between the Company, its advisors and the IRS, the Company believes that the IRS intends to apply the Settlement Agreement s calculation reached for the Company s fiscal 2010 and fiscal 2011 periods to the Company s fiscal 2012 and fiscal 2013 periods.

Based on the foregoing, the Company estimates that it is subject to additional federal and state income taxes for fiscal 2010 through fiscal 2013 of approximately \$3.0 million. Of this amount, approximately \$1.6 million was recorded as income tax expense in the fourth quarter of fiscal 2015, \$0.5 million was recorded as income tax expense in the fourth quarter of fiscal 2014 and \$0.9 million was recorded as income tax expense in the fourth quarter of fiscal 2013.

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With respect to fiscal 2014, fiscal 2015 and the first six months of fiscal 2016, there is some uncertainty as to what the ultimate tax treatment will be of a service fee regularly paid by the Company to the Macao CFC (the "Service Fee"). Therefore, an uncertain tax position under the requirements of ASC 740-10 "Income Tax Accounting" exists, and the Company has recorded an income tax liability of approximately \$0.6 million to its September 30, 2015 financial statements, approximately \$0.1 million of which was recorded as income tax expense during the first six months of fiscal 2016, approximately \$0.1 million of which was recorded as income tax expense in the fourth quarter of fiscal 2015 and approximately \$0.4 million of which was recorded income tax expense in the third quarter of fiscal 2015, representing the maximum amount of income taxes, penalties and interest that the Company estimates it could owe for fiscal 2014, fiscal 2015 and the first six months of fiscal 2016 if the Service Fee is determined to be taxable to the Company as FBCSI under the Internal Revenue Code.

**Other**

At September 30, 2015, the Company had approximately \$1.8 million of U.S. federal net operating loss carry forwards and approximately \$0.3 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 expenses that are not deductible for federal income tax purposes, income and losses incurred in foreign jurisdictions and taxed at locally applicable tax rates, and state income taxes.

The Company is subject to examination and assessment by tax authorities in numerous jurisdictions. A summary of the Company's open tax years is as follows as of September 30, 2015:

| <b>Jurisdiction</b> | <b>Open tax years</b> |
|---------------------|-----------------------|
| U.S. federal        | 2011-2014             |
| States              | 2011-2014             |

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 has engaged in business transactions with its controlling shareholder, The Grande Holdings Limited (In Liquidation) ("Grande"), and one or more of Grande's direct and indirect subsidiaries. Set forth below is a summary of such transactions.





**Table of Contents*****Controlling Shareholder***

The Grande Holdings Limited (In Liquidation) ( Grande ) has, together with S&T International Distribution Limited ( S&T ), a subsidiary of Grande, and Grande N.A.K.S. Ltd., a subsidiary of Grande (together with Grande, the Reporting Persons ), filed, on July 9, 2014, a Schedule 13D/A with the Securities and Exchange Commission ( SEC ) stating that, as of the filing date, the Reporting Persons had the shared power to vote and direct the disposition of 15,243,283 shares, or approximately 56.2%, of the outstanding common stock of Emerson. As the Reporting Persons, and by extension Grande (as their ultimate parent) have control of a majority of the outstanding shares of common stock of Emerson, Emerson is a Controlled company, as defined in Section 801(a) of the NYSE MKT Rules.

On May 31, 2011, upon application of a major creditor, the High Court of Hong Kong appointed Fok Hei Yu (who is also known by the anglicized name Vincent Fok), formerly a director and Chairman of the Board of the Company, and Roderick John Sutton, both of FTI Consulting (Hong Kong) Limited ( FTI ), as Joint and Several Provisional Liquidators over Grande. Accordingly, as of May 31, 2011, the directors of Grande no longer have the ability to exercise control over Grande or the power to direct the voting and disposition of the 15,243,283 shares beneficially owned by Grande. Instead, Mr. Fok and Mr. Sutton, as Provisional Liquidators over Grande, currently have such power. In addition, on March 20, 2013, the Provisional Liquidators provided to Emerson a written statement that they are obligated to liquidate the 15,243,283 shares in the Company beneficially owned by Grande. However, in February 2014, the Provisional Liquidators for and on behalf of Grande issued a public announcement that Grande, among other things, had been in discussions with different investors to pursue a restructuring plan and the resumption of trading of Grande s shares on the Hong Kong Stock Exchange ( HKSE ). In addition, in May 2014, the Provisional Liquidators for and on behalf of Grande issued a public announcement disclosing that on May 2, 2014, Grande, the Provisional Liquidators and a creditor of Grande entered into an agreement to implement the Grande Restructuring Proposal submitted by a creditor of Grande. Based on information contained within the public announcement issued for Grande in May 2014, if the Grande Restructuring Proposal is implemented, Mr. Christopher Ho, who served as the Company s Chairman of the Board until November 2013 and is currently the sole director of Grande, and his associates would continue to have a majority interest in Grande and would regain the power to direct the voting and disposition of the 15,243,283 shares beneficially owned by Grande. As disclosed in the Schedule 13D/A filed by the Reporting Persons on May 22, 2014, the Grande Restructuring Proposal includes a plan to re-list Grande on the HKSE and provides that many assets of Grande, including its shares of Emerson, would remain part of Grande. According to the public announcement issued for Grande in May 2014, the Grande Restructuring Plan will require approvals, consents and sanctions of the HKSE, courts in Hong Kong and Bermuda, and the creditors and shareholders of Grande. In addition, on June 11, 2014, Grande announced that it had received a summons issued by a creditor of Grande seeking the removal of the Provisional Liquidators. On June 1, 2015 the Provisional Liquidators for and on behalf of Grande issued a public announcement disclosing that by letter dated May 29, 2015, the HKSE decided to allow Grande to proceed with Grande s Updated Resumption Proposal , subject to the satisfaction of certain conditions by December 21, 2015.

It is not possible at this time to predict whether Grande can satisfy the conditions established by the HKSE for the resumption or relisting of Grande on HKSE, or whether the Grande Restructuring Proposal will receive all necessary approvals, nor can there be any assurances regarding the timing, terms or effects of implementing the Grande Restructuring Proposal or if the Provisional Liquidators will be removed. However, even though the Provisional Liquidators continue to maintain the ability to exercise the power to direct the voting and disposition of shares, as long as the Provisional Liquidators are pursuing this restructuring proposal that would result in Grande retaining beneficial ownership of the 15,243,283 shares of Emerson common stock, the Provisional Liquidators may not be actively seeking to liquidate those shares. If the Grande Restructuring Proposal is completed as described within the public announcement issued for Grande in May 2014, it is expected that the 15,243,283 shares of Emerson common stock held of record by Grande s subsidiary, S&T, would remain with S&T and that Grande would once again have the

power to direct the voting and disposition of this 56.2% controlling interest in Emerson common stock. It is not possible at this time to predict what impact the removal of the Provisional Liquidators would have on the Grande Restructuring Proposal or Emerson and Emerson cannot predict nor provide any assurances regarding the possible effects on the Company, its shareholders, the trading price of its common stock or any other consequences that could result if the Grande Restructuring Proposal is approved and Grande again has the power to control Emerson.

***Related Party Transactions***

***Dividend-Related Issues with S&T***

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.

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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. Accordingly, the IRS has concluded that 100% of the dividend paid was taxable to the recipients. The Company is defending its position and calculations and is contesting the position asserted by the IRS. The Company prepared and, on October 25, 2012, delivered its rebuttal to the IRS contesting the IRS determination. There can be no assurance that the Company will be successful in defending its position.

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.

Initially, the Company withheld from the dividend paid to foreign shareholders an amount equal to the tax liability associated with such dividend. On April 7, 2010, upon a request made to the Company by its foreign controlling shareholder, S&T, the Company entered into an agreement with S&T (the "Agreement"), whereby the Company returned to S&T on April 7, 2010 that portion of the funds withheld for taxes from the dividend paid on March 24, 2010 to S&T, which the Company believed was not subject to U.S. tax based on the Company's good-faith estimate of its accumulated earnings and profits at that time. The Agreement includes provisions pursuant to which S&T agreed to indemnify the Company for any liability imposed on it as a result of the Company's agreement not to withhold such funds for S&T's possible tax liability and a pledge of stock as collateral. The Company continues to assert that such dividend is largely not subject to U.S. tax based on the Company's good-faith estimate of its accumulated earnings and profits. In addition, the Company also continues to assert that this transaction results in an off-balance sheet arrangement and a possible contingent tax liability of the Company, which, if recognized, would be offset by the calling by the Company on S&T of the indemnification provisions of the Agreement.

In February 2011, upon the request of S&T to the Company, the Company and S&T agreed that the collateral pledged as a part of the Agreement would no longer be required and such collateral was returned by the Company to S&T in March 2011 and the Agreement was amended and restated to remove the collateral requirement but retain the indemnification provisions. The Agreement, as amended (the "Amended Agreement"), remains in effect as of today.

In September 2014, the Company, with S&T's consent, withheld \$0.5 million in cash, to be pledged as collateral against the Amended Agreement, from the dividend paid to S&T on September 30, 2014 along with such dividend paid on that date to all common stockholders. The Company holds, as of September 30, 2015, \$0.5 million in cash collateral from S&T against the Amended Agreement. In the event that (i) the Company is not successful in establishing with the IRS that the Company's calculations were correct and (ii) S&T is unable or unwilling to pay the additional taxes due or indemnify the Company under the terms of the Amended Agreement, the Company may be liable to pay such additional taxes, which, together with penalties and interest, are currently estimated by the Company to be approximately \$4.9 million as of September 30, 2015, \$0.5 million of which is collateralized in cash held by the Company as of September 30, 2015 as described above and which is classified by the Company as restricted cash on its balance sheet. 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. S&T is a subsidiary of Grande, which is currently in liquidation (as described above under "Controlling Shareholder"). Therefore, the ability of the Company to enforce its rights to indemnification under the Amended Agreement and to collect from S&T any additional taxes, interest and penalties due may be severely impaired.

## **NOTE 7 BORROWINGS**

### **Short-term Borrowings**

*Letters of Credit* The Company has used Hang Seng Bank in the past to issue letters of credit on behalf of the Company, as needed, on a 100% cash collateralized basis, although no letter of credit agreement is in place between the Company and Hang Seng Bank or any financial institution. The last letter of credit placed with Hang Seng Bank on this basis was in May 2014. At June 30, 2015, the Company had no outstanding letters of credit. In the event that the Company does have outstanding letters of credit with Hang Seng Bank, a like amount of cash is posted by the Company as collateral against such outstanding letters of credit and is classified as Restricted Cash on the balance sheet.

#### **NOTE 8 LEGAL PROCEEDINGS**

The Company is not currently a party to any legal proceedings other than litigation matters, in most cases involving ordinary and routine claims incidental to its business. Management cannot estimate with certainty the Company's ultimate legal and financial liability with respect to such pending litigation matters. However, management believes, based on its examination of such 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.

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**NOTE 9 SHORT TERM INVESTMENTS**

At September 30, 2015 and March 31, 2015, the Company held short term investments totaling \$10.1 million and nil, respectively. These investments were comprised of bank certificates of deposit which matured on October 30, 2015.

**NOTE 10 SUBSEQUENT EVENT**

Emerson was informed in November 2015 by one of its key customers that, commencing with the Spring of 2016, this customer will discontinue retailing in its stores the Emerson-branded microwave oven and compact refrigeration products currently sold to this customer by the Company. During fiscal 2015, the six month period of fiscal 2016 and the second quarter of fiscal 2016, net sales of these products by the Company to this customer were approximately \$39.5 million, \$16.5 million and \$3.3 million, respectively, comprising approximately 57.3%, 63.4% and 42.5% of the Company's total net product sales. The Company currently anticipates that it will continue shipping these products to this customer only through the remainder of the third quarter of fiscal 2016. Emerson anticipates that net product sales for the second half of fiscal 2016 will be negatively impacted by this event and that the first full year impact of this event will be realized by the Company in fiscal 2017, which begins on April 1, 2016. As previously disclosed by the Company, the complete loss of, or significant reduction in, business with either of the Company's key customers will have a material adverse effect on the Company's business and results of operations. Accordingly, the loss of the net sales will have a material adverse effect on the Company's business and results of operations. 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 such products at levels sufficient to offset the adverse impact of the loss of these products to this customer, if at all.

**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, 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, if any, on the Company's business, financial condition and results of operation arising from the appointment of the Provisional Liquidators over Grande;

the impact, if any, on the Company's business, financial condition and results of operation arising if there is a successful completion of the resumption plan by Grande;

the loss of any of the Company's key customers or reduction in the purchase of the Company's products by any such customers;

the Company's inability 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;

the decline in, and any further deterioration of, consumer spending for retail products, such as the Company's products;

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the Company's inability to maintain effective internal controls or the failure by its personnel to comply with such internal controls;

the Company's inability to maintain its relationships with its licensees and distributors or the failure to obtain new licensees or distribution relationships on favorable terms;

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's inability 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;

the Company's dependence on a third party logistics provider for the storage and distribution of products in the United States;

changes in consumer spending and economic conditions;

the failure of third party sales representatives to adequately promote, market and sell the Company's products;

the Company's inability to protect its intellectual property;

the effects of competition;

inability to distribute our 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;

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 People's Republic of 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, 2015 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 and six month periods ended September 30, 2015 (fiscal 2016) and September 30, 2014 (fiscal 2015) (in thousands):

|                                              | Three months ended<br>September 30 |               | Six months ended<br>September 30 |               |
|----------------------------------------------|------------------------------------|---------------|----------------------------------|---------------|
|                                              | 2015                               | 2014          | 2015                             | 2014          |
| Net product sales                            | \$ 7,780                           | \$ 12,862     | \$ 26,067                        | \$ 37,704     |
| Licensing revenue                            | 1,163                              | 1,385         | 2,388                            | 2,486         |
| <b>Net revenues</b>                          | <b>8,943</b>                       | <b>14,247</b> | <b>28,455</b>                    | <b>40,190</b> |
| Cost of sales                                | 7,546                              | 11,785        | 24,551                           | 34,194        |
| Other operating costs and expenses           | 167                                | 127           | 241                              | 444           |
| Selling, general and administrative expenses | 2,081                              | 2,305         | 4,401                            | 4,731         |
| <b>Operating (loss) income</b>               | <b>(851)</b>                       | <b>30</b>     | <b>(738)</b>                     | <b>821</b>    |
| Interest income, net                         | 39                                 | 44            | 78                               | 109           |
| <b>Income before income taxes</b>            | <b>(812)</b>                       | <b>74</b>     | <b>(660)</b>                     | <b>930</b>    |
| (Benefit) provision for income taxes         | (102)                              | 27            | (71)                             | 232           |
| <b>Net (loss) income</b>                     | <b>\$ (710)</b>                    | <b>\$ 47</b>  | <b>\$ (589)</b>                  | <b>\$ 698</b> |



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**Net product sales** Net product sales for the second quarter of fiscal 2016 were \$7.8 million as compared to \$12.9 million for the second quarter of fiscal 2015, a decrease of \$5.1 million or 39.5%. For the six month period of fiscal 2016, net product sales were \$26.1 million as compared to \$37.7 million for the six month period of fiscal 2015, a decrease of \$11.6 million or 30.9%. The Company's sales during the six month periods of fiscal 2016 and fiscal 2015 were highly concentrated among the Company's two largest customers, as to which gross product sales comprised approximately 86.7% and 88.5%, respectively, of the Company's total gross product sales. 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 nil and \$0.1 million for the second quarters of fiscal 2016 and fiscal 2015, respectively, and approximately nil and \$0.1 million for the six month periods of fiscal 2016 and fiscal 2015, respectively.

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 \$4.6 million, or 39.0%, to \$7.3 million in the second quarter of fiscal 2016 as compared to \$11.9 million in the second quarter of fiscal 2015, principally driven by a decrease in year-over-year sales of microwave ovens, compact refrigerators and wine products. For the six month period of fiscal 2016, houseware products net sales were \$25.1 million, a decrease of \$11.0 million or 30.5%, from \$36.1 million for the six month period of fiscal 2015, principally driven by a decrease in year-over-year sales of microwave ovens and wine coolers, while year-over-year sales of compact refrigerators remained unchanged. The decreases for the second quarter were driven mainly by product discontinuations by the Company's key customers, lower year-over-year retail sell through on existing models and competitive activity. The decreases for the six month period were driven mainly by product discontinuations by the Company's key customers, lower year-over-year retail sell through on existing models, competitive pricing activity and the effects of the 2014/2015 Los Angeles/Long Beach port strike. The Company expects its net product sales for the third quarter and full year of fiscal 2016 to continue to decrease as compared to the third quarter and full year of fiscal 2015, respectively.

Emerson was informed in November 2015 by one of its key customers that, commencing with the Spring of 2016, this customer will discontinue retailing in its stores the Emerson-branded microwave oven and compact refrigeration products currently sold to this customer by the Company. During fiscal 2015, the six month period of fiscal 2016 and the second quarter of fiscal 2016, net sales of these products by the Company to this customer were approximately \$39.5 million, \$16.5 million and \$3.3 million, respectively, comprising approximately 57.3%, 63.4% and 42.5% of the Company's total net product sales. The Company currently anticipates that it will continue shipping these products to this customer only through the remainder of the third quarter of fiscal 2016. Emerson anticipates that net product sales for the second half of fiscal 2016 will be negatively impacted by this event and that the first full year impact of this event will be realized by the Company in fiscal 2017, which begins on April 1, 2016. As previously disclosed by the Company, the complete loss of, or significant reduction in, business with either of the Company's key customers will have a material adverse effect on the Company's business and results of operations. Accordingly, the loss of the net sales will have a material adverse effect on the Company's business and results of operations. 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 such products at levels sufficient to offset the adverse impact of the loss of these products to this customer, if at all.

- ii) Audio product net sales were \$0.5 million in the second quarter of fiscal 2016 as compared to \$1.0 million in the second quarter of fiscal 2015, a decrease of \$0.5 million, or 46.0%, resulting from decreased sales of the Company's clock radio and portable audio product offerings, driven by competitive activity in the space. For the six month period of fiscal 2016, audio product net sales were \$1.0 million, a decrease of \$0.6 million, or 39.2%, from \$1.6 million in the six month period of fiscal 2015, resulting from decreased net sales of the Company's clock radio and portable audio product offerings, driven by competitive activity in the space.

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**Licensing revenue** Licensing revenue in the second quarter of fiscal 2016 was \$1.2 million compared to \$1.4 million in the second quarter of fiscal 2015, a decrease of \$0.2 million or 16.0%. Licensing revenue for the six month period of fiscal 2016 was \$2.4 million as compared to \$2.5 million for the six month period of fiscal 2015, a decrease of \$0.1 million or 3.9%. The decrease for both the second quarter and six month periods of fiscal 2016 was due to lower sales by the Company's licensees of Emerson® branded products. The Company expects its licensing revenue for the third quarter and full year of fiscal 2016 to continue to decrease as compared to the third quarter and full year of fiscal 2015, respectively.

The Company's largest license agreement is with Funai Corporation, Inc. (Funai), which accounted for approximately 80% and 78% of the Company's total licensing revenue for the second quarter and six month period of fiscal 2016, respectively, and approximately 68% and 75% of the Company's total licensing revenue for the second quarter and six month period of fiscal 2015. The license agreement was amended in November 2013 to extend the term until March 31, 2018. 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 receives 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 both second quarters of fiscal 2016 and fiscal 2015, licensing revenues of approximately \$0.9 million were earned under this agreement. During both six month periods of fiscal 2016 and fiscal 2015, licensing revenues of approximately \$1.9 million were earned under this agreement.

**Net revenues** As a result of the foregoing factors, the Company's net revenues were \$8.9 million in the second quarter of fiscal 2016 as compared to \$14.2 million in the second quarter of fiscal 2015, a decrease of \$5.3 million, or 37.2%, and \$28.5 million in the six month period of fiscal 2016 as compared to \$40.2 million in the six month period of fiscal 2015, a decrease of \$11.7 million, or 29.2%.

**Cost of Sales** In absolute terms, cost of sales decreased \$4.3 million, or 36.0%, to \$7.5 million in the second quarter of fiscal 2016 as compared to \$11.8 million in the second quarter of fiscal 2015. Cost of sales, as a percentage of net product sales was 97.0% in the second quarter of fiscal 2016 as compared to 91.6% in the second quarter of fiscal 2015. The decrease in absolute terms for the second quarter of fiscal 2016 as compared to the second quarter of fiscal 2015 was primarily related to the reduced net product sales partially offset by higher year-over-year gross cost of sales as a percentage of gross sales. Additionally, the second quarter of fiscal 2015 included a \$0.6 million reversal of reserves no longer required.

In absolute terms, cost of sales decreased \$9.6 million, or 28.2%, to \$24.6 million in the six month period of fiscal 2016 as compared to \$34.2 million in the six month period of fiscal 2015. Cost of sales, as a percentage of net product sales was 94.2% in the six month period of fiscal 2016 as compared to 90.7% in the six month period of fiscal 2015. The decrease in absolute terms for the six month period of fiscal 2016 as compared to the six month period of fiscal 2015 was primarily related to the reduced net product sales partially offset by higher year-over-year gross cost of sales as a percentage of gross sales. Additionally, the six month period of fiscal 2015 included a \$0.6 million reversal of reserves no longer required.

The Company purchases the products it sells from a limited number of factory suppliers. For the second quarter of fiscal 2016 and fiscal 2015, the Company purchased 96% and 77%, respectively, from its two largest suppliers. For the six month period of fiscal 2016 and fiscal 2015, the Company purchased 96% and 90%, respectively, from its two largest suppliers.

**Other Operating Costs and Expenses** Other operating costs and expenses as a percentage of net product sales were 2.2% for the second quarter of fiscal 2016 as compared to 1.0% for the second quarter of fiscal 2015. In absolute

terms, other operating costs and expenses increased \$0.1 million, or 31.5%, to \$0.2 million for the second quarter of fiscal 2016 as compared to \$0.1 million in the second quarter of fiscal 2015 as a result of higher warranty and returns processing costs. For the six month period of fiscal 2016, other operating costs were 0.9% of net revenues as compared to 1.2% of net revenues for the six month period of fiscal 2015. In absolute terms, other operating costs and expenses decreased \$0.2 million, or 45.7%, to \$0.2 million for the six month period of fiscal 2016 as compared to \$0.4 million for the six month period of fiscal 2015 resulting from lower returns processing costs.

**Selling, General and Administrative Expenses ( S,G&A )** S,G&A, as a percentage of net revenues, was 23.3% in the second quarter of fiscal 2016 as compared to 16.2% in the second quarter of fiscal 2015. S,G&A, in absolute terms, was \$2.1 million in the second quarter of fiscal 2016 as compared to \$2.3 million in the second quarter of fiscal 2015, a decrease of \$0.2 million or 9.7%. For the six month period of fiscal 2016, S,G&A was 15.5% of net revenues as compared to 11.8% for the six month period of fiscal 2015. In absolute terms, S,G&A decreased \$0.3 million, or 7.0%, to \$4.4 million for the six month period of fiscal 2016 as compared to \$4.7 million in the six month period of fiscal 2015.

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**Analysis of S,G&A**

The second quarter of fiscal 2016 S,G&A included approximately \$0.1 million in legal and advisory fees pertaining to work performed for the Special Committee of the Company's Board of Directors and approximately \$0.1 million in tax advisory fees related to the audit of the Company's tax returns by the IRS, as mentioned elsewhere within this Quarterly Report on Form 10-Q.

The second quarter of fiscal 2015 S,G&A included approximately \$0.6 million in legal and advisory fees pertaining to work performed for the Special Committee of the Company's Board of Directors and approximately \$0.1 million in tax advisory fees related to the audit of the Company's tax returns by the IRS, as mentioned elsewhere within this Quarterly Report on Form 10-Q.

Excluding the aforementioned items, second quarter fiscal 2016 S,G&A was \$1.9 million and second quarter fiscal 2015 S,G&A was \$1.6 million, an increase of \$0.3 million, or 18.8%, primarily due to higher year-over-year personnel and corporate costs.

The six month period of fiscal 2016 S,G&A included approximately \$0.1 million in legal and advisory fees pertaining to work performed for the Special Committee of the Company's Board of Directors and approximately \$0.5 million in tax advisory fees related to the audit of the Company's tax returns by the IRS, as mentioned elsewhere within this Quarterly Report on Form 10-Q.

The six month period of fiscal 2015 S,G&A included approximately \$1.2 million in legal and advisory fees pertaining to work performed for the Special Committee of the Company's Board of Directors and approximately \$0.1 million in tax advisory fees related to the audit of the Company's tax returns by the IRS, as mentioned elsewhere within this Quarterly Report on Form 10-Q.

Excluding the aforementioned items, the six month period of fiscal 2016 S,G&A was \$3.8 million and the six month period of fiscal 2015 S,G&A was \$3.4 million, an increase of \$0.4 million, or 11.8%, primarily due to higher year-over-year personnel and corporate costs.

**Interest income (expense), net** Interest income, net, was \$39,000 in the second quarter of fiscal 2016 as compared to \$44,000 in the second quarter of fiscal 2015, a decrease of \$5,000. Interest income, net, was \$78,000 in the six month period of fiscal 2016 as compared to \$109,000 in the six month period of fiscal 2015, a decrease of \$31,000. The decrease in interest income for both periods was due to a reduction of investments in Certificates of Deposit.

**(Benefit) provision for Income Taxes** In the second quarter and six month period of fiscal 2016, the Company recorded income tax benefits of \$102,000 and \$71,000, respectively, as compared to income tax expense of \$27,000 and \$232,000, respectively, in the second quarter and six month period of fiscal 2015.

**Net (loss) income** As a result of the foregoing factors, the Company realized a net loss of \$0.7 million in the second quarter of fiscal 2016 as compared to net income of \$0.1 million in the second quarter of fiscal 2015. For the six month period of fiscal 2016, the Company realized a net loss of \$0.6 million as compared to net income of \$0.7 million in the six month period of fiscal 2015.

**Liquidity and Capital Resources**

**General**

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As of September 30, 2015, the Company had cash and cash equivalents of approximately \$38.3 million, as compared to approximately \$26.8 million at September 30, 2014. Working capital increased to \$56.8 million at September 30, 2015 as compared to \$54.7 million at September 30, 2014. The increase in cash and cash equivalents of approximately \$11.6 million was due to a decrease in short term investments of \$4.9 million, a decrease in accounts receivable of \$2.9 million, a decrease in inventory of \$1.1 million, an increase in income taxes payable of \$1.0 million, a decrease in prepaid expenses of \$0.9 million, a decrease in deferred tax assets of \$0.9 million, net income generated during the prior 12 months of \$0.6 million, an increase in long term liabilities of \$0.6 million and a decrease in prepaid purchases of \$0.3 million partially offset by a decrease in accounts payable and other current liabilities of \$1.3 million and an increase in royalty receivables of \$0.4 million.

Cash flow provided by operating activities was \$4.9 million for the six months ended September 30, 2015, resulting from a decrease in royalty receivable, a decrease in prepaid purchases, a decrease in accounts receivable and an increase in accounts payable and other current liabilities partially offset by the net loss generated during the period and a decrease in asset allowances, reserves and other.

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Net cash used by investing activities was \$10.1 million for the six months ended September 30, 2015, due to investments made in short term certificates of deposit.

Net cash used by financing activities was nil for the six months ended September 30, 2015.

**Other Events and Circumstances Pertaining to Liquidity**

**Income Tax Issues Concerning Overseas Income**

On April 15, 2013 and June 5, 2013, the Company received correspondence from the Internal Revenue Service ( IRS ) pertaining to the Company's fiscal 2010 and fiscal 2011 periods, including a (i) Form 5701 and Form 886-A regarding Adjusted Sales Income (collectively referred to as NOPA 1 ) and (ii) Form 5701 and Form 886-A regarding Adjusted Subpart F-Foreign Base Company Sales Income ( FBCSI ) (collectively referred to as NOPA 2 ), which challenged certain tax positions of the Company with respect to the Company's controlled foreign corporation in Macao (the Macao CFC ).

Although the Company continues to dispute the assessments made by the IRS as set forth in each of NOPA 1 and NOPA 2, in June 2015, following a formal IRS Appeal, the Company and the IRS agreed to settle on the following terms: (1) that the IRS would not pursue the aforementioned NOPA 1 and NOPA 2 income assessments pertaining to fiscal 2010 and fiscal 2011 provided that the Company agreed to treat 30% of the Macao CFC's income as taxable Subpart F income in the U.S. for fiscal 2010 and fiscal 2011, and (2) that the IRS would impose no penalties for fiscal 2010 and fiscal 2011 (collectively, the Settlement Agreement ). Based on discussions between the Company, its advisors and the IRS, the Company believes that the IRS intends to apply the Settlement Agreement's calculation reached for the Company's fiscal 2010 and fiscal 2011 periods to the Company's fiscal 2012 and fiscal 2013 periods.

Based on the foregoing, the Company estimates that it is subject to additional federal and state income taxes for fiscal 2010 through fiscal 2013 of approximately \$3.0 million. Of this amount, approximately \$1.6 million was recorded as income tax expense in the fourth quarter of fiscal 2015, \$0.5 million was recorded as income tax expense in the fourth quarter of fiscal 2014 and \$0.9 million was recorded as income tax expense in the fourth quarter of fiscal 2013.

With respect to fiscal 2014, fiscal 2015 and the first six months of fiscal 2016, there is some uncertainty as to what the ultimate tax treatment will be of a service fee regularly paid by the Company to the Macao CFC (the Service Fee ). Therefore, an uncertain tax position under the requirements of ASC 740-10 Income Tax Accounting exists, and the Company has recorded an income tax liability of approximately \$0.6 million to its September 30, 2015 financial statements, approximately \$0.1 million of which was recorded as income tax expense during the first six months of fiscal 2016, approximately \$0.1 million of which was recorded as income tax expense in the fourth quarter of fiscal 2015 and approximately \$0.4 million of which was recorded as income tax expense in the third quarter of fiscal 2015, representing the maximum amount of income taxes, penalties and interest that the Company estimates it could owe for fiscal 2014, fiscal 2015 and the first six months of fiscal 2016 if the Service Fee is determined to be taxable to the Company as FBCSI under the Internal Revenue Code.

**Potential Income Tax Issues Concerning the Extraordinary Dividend Paid by the Company in March 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.

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. Accordingly, the IRS has concluded that 100% of the dividend paid was taxable to the recipients. The Company is defending its position and calculations and is contesting the position asserted by the IRS. The Company prepared and, on October 25, 2012, delivered its rebuttal to the IRS contesting the IRS determination. There can be no assurance that the Company will be successful in defending its position.

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.

Initially, the Company withheld from the dividend paid to foreign shareholders an amount equal to the tax liability associated with such dividend. On April 7, 2010, upon a request made to the Company by its foreign controlling shareholder, S&T, the Company entered into an agreement with S&T (the "Agreement"), whereby the Company returned to S&T on April 7, 2010 that portion of the funds withheld for taxes from the dividend paid on March 24, 2010 to S&T, which the Company believed was not subject to U.S. tax based on the Company's good-faith estimate of its accumulated earnings and profits at that time. The Agreement includes provisions



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pursuant to which S&T agreed to indemnify the Company for any liability imposed on it as a result of the Company's agreement not to withhold such funds for S&T's possible tax liability and a pledge of stock as collateral. The Company continues to assert that such dividend is largely not subject to U.S. tax based on the Company's good-faith estimate of its accumulated earnings and profits. In addition, the Company also continues to assert that this transaction results in an off-balance sheet arrangement and a possible contingent tax liability of the Company, which, if recognized, would be offset by the calling by the Company on S&T of the indemnification provisions of the Agreement.

In February 2011, upon the request of S&T to the Company, the Company and S&T agreed that the collateral pledged as a part of the Agreement would no longer be required and such collateral was returned by the Company to S&T in March 2011 and the Agreement was amended and restated to remove the collateral requirement but retain the indemnification provisions. The Agreement, as amended (the "Amended Agreement"), remains in effect as of today.

In September 2014, the Company, with S&T's consent, withheld \$0.5 million in cash, to be pledged as collateral against the Amended Agreement, from the dividend paid to S&T on September 30, 2014 along with such dividend paid on that date to all common stockholders. The Company holds, as of September 30, 2015, \$0.5 million in cash collateral from S&T against the Amended Agreement. In the event that (i) the Company is not successful in establishing with the IRS that the Company's calculations were correct and (ii) S&T is unable or unwilling to pay the additional taxes due or indemnify the Company under the terms of the Amended Agreement, the Company may be liable to pay such additional taxes, which, together with penalties and interest, are currently estimated by the Company to be approximately \$4.9 million as of September 30, 2015, \$0.5 million of which is collateralized in cash held by the Company as of September 30, 2015 as described above and which is classified by the Company as restricted cash on its balance sheet. 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. S&T is a subsidiary of Grande, which is currently in liquidation (as described above under "Controlling Shareholder"). Therefore, the ability of the Company to enforce its rights to indemnification under the Amended Agreement and to collect from S&T any additional taxes, interest and penalties due may be severely impaired.

## **Credit Arrangements**

*Letters of Credit* The Company has used Hang Seng Bank in the past to issue letters of credit on behalf of the Company, as needed, on a 100% cash collateralized basis, although no letter of credit agreement is in place between the Company and Hang Seng Bank or any financial institution. The last letter of credit placed with Hang Seng Bank on this basis was in May 2014. At June 30, 2015, the Company had no outstanding letters of credit. In the event that the Company does have outstanding letters of credit with Hang Seng Bank, a like amount of cash is posted by the Company as collateral against such outstanding letters of credit and is classified as Restricted Cash on the balance sheet.

## **Short-term Liquidity**

For the three and six months ended September 30, 2015, products representing approximately 41% and 62%, respectively, 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.

## **Recently Issued Accounting Pronouncements**

There were no Accounting Standards Updates ( ASUs ) issued by the Financial Accounting Standards Board during the three months ended September 30, 2015 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:

**Inflation, Foreign Currency, and Interest Rates**

The Company s exposure to currency fluctuations has been minimized by the use of U.S. dollar denominated purchase orders. The Company purchases virtually all of its products from manufacturers located in China.

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

Not applicable.

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**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 September 30, 2015, 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*

There have been no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2015 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.**

The Company is not currently a party to any legal proceedings other than litigation matters, in most cases involving ordinary and routine claims incidental to its business. Management cannot estimate with certainty the Company's ultimate legal and financial liability with respect to such pending litigation matters. However, management believes, based on its examination of such 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.**

There were no material changes in any risk factors previously disclosed in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on July 14, 2015.

**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

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**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: November 17, 2015

/s/ Duncan Hon  
Duncan Hon  
Chief Executive Officer

(Principal Executive Officer)

Date: November 17, 2015

/s/ Andrew L. Davis  
Andrew L. Davis  
Chief Financial Officer

(Principal Financial and Accounting Officer)