

EMERSON RADIO CORP
Form 10-K
June 29, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year ended March 31, 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 Number)

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

07601
(Zip Code)

Registrant's telephone number, including area code:

(973) 428-2000

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Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$.01 per share	NYSE MKT

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act). YES NO.

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 requirement for the past 90 days. YES NO.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act). YES NO.

Aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates of the registrant at September 30, 2015 (computed by reference to the last reported sale price of the Common Stock on the NYSE MKT on such date): \$14,501,590.

Number of Common Shares outstanding at June 29, 2016: 27,129,832

DOCUMENTS INCORPORATED BY REFERENCE:

Document	Part of the
Proxy Statement for 2016 Annual Meeting of Stockholders, or an amendment	Form 10-K Part III
to this Annual Report on Form 10-K	

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PART I

Forward-Looking Information

This report contains forward looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 under 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 its 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. You can identify these forward-looking statements through the use of words such as "may," "will," "can," "anticipate," "assume," "show," "indicate," "would," "believe," "contemplate," "expect," "seek," "estimate," "continue," "plan," "project," "predict," "could," "potential," and other similar words and expressions of the future. These forward-looking statements include, but are not limited to, statements concerning the following:

- 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;
- changes in accounting policies, rules and practices;
- the Company's ability to maintain compliance with the listing standards of the NYSE MKT LLC;
- 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 this Annual Report on Form 10-K and other filings with the SEC.

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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 annual report or the date of the document incorporated by reference into this annual 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. The Company has expressed its expectations, beliefs and projections in good faith and the Company believes they have a reasonable basis. However, the Company cannot assure the reader that its expectations, beliefs or projections will result or be achieved or accomplished.

Item 1. BUSINESS

The Company — Overview

Unless the context otherwise requires, the term “the Company” and “Emerson,” refers to Emerson Radio Corp. and its subsidiaries.

Emerson Radio Corp. was incorporated in Delaware in 1994. The Company designs, sources, imports and markets a variety of houseware and consumer electronic products, and licenses its trademarks to others on a worldwide basis for a variety of products.

Recent Developments

Board of Directors

Effective as of June 19, 2016, the Company’s Board of Directors appointed Messrs. Christopher Ho, Michael Binney and Kin Yuen as directors of the Company to fill vacancies created when five directors recently resigned following the completion of the Grande Restructuring Plan. See “—Controlling Shareholder” below. In connection with the director appointments, the Board of Directors also reduced the size of the full Board of Directors from seven to five directors. The Company believes that this restructured Board of Directors comprises an experienced group of executives with expertise and know-how regarding the consumer electronics industry and corporate finance that will help direct and grow the Company’s business operations. Mr. Ho serves as the Chairman of the Board, a position he formerly held through November 2013, and brings his extensive knowledge of the Company and experience in consumer electronics, international trade and corporate finance to the Board of Directors. Mr. Binney formerly served as a director of the Company from December 2005 to May 2008 and brings extensive public company accounting experience in addition to his knowledge of the Company to the Board of Directors. Mr. Yuen serves as a member of the Audit Committee and the Special Committee, and he brings extensive experience in corporate finance, financial planning, public company reporting and management to the Board of Directors. The Board of Directors also appointed Kareem E. Sethi to the Special Committee effective as of June 19, 2016.

The Company’s Board of Directors formed the Special Committee as an ad hoc committee consisting solely of independent directors in March 2013 to evaluate possible strategic alternatives intended to enhance stockholder value. The Special Committee, with the assistance and support of the Company’s executive management team and external consultants and advisors, is assessing the Company’s historical business model and business strategies to evaluate possible strategic alternatives and possible changes to the Company’s business and operations.

Controlling Shareholder

The Grande Holdings Limited (“Grande”), 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”), have, based

on a Schedule 13D/A filed with the Securities and Exchange Commission (“SEC”) on July 9, 2014, 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.

On May 31, 2011, upon application of a major creditor, Grande was placed into provisional liquidation when the High Court of Hong Kong appointed joint and several provisional liquidators (“Provisional Liquidators”) over Grande. Accordingly, as of May 31, 2011, the directors of Grande no longer had the ability to exercise control over Grande or the power to direct the voting and disposition of the shares of the Company’s common stock beneficially owned by Grande. In May 2014, Grande, the Provisional Liquidators and a creditor of Grande entered into an agreement to implement the “Grande Restructuring Plan” submitted by a creditor

of Grande. Based on public announcements by Grande dated May 26, 2016 (the “Grande Announcements”), and subsequently confirmed to the Company by Grande, Grande has completed the Grande Restructuring Plan, the Provisional Liquidators over Grande have been released and discharged by the Hong Kong Court, the winding up of Grande has been permanently stayed, and Grande has fulfilled all trading resumption conditions imposed on Grande by the Stock Exchange of Hong Kong Limited (“HKEX”). Following the completion of the Grande Restructuring Plan, based on the Grande Announcements and other information received from an affiliate of Grande, certain companies associated with Mr. Ho, the Company’s Chairman of the Board effective as of June 19, 2016, hold in the aggregate approximately a 72.3% shareholding in Grande, and therefore beneficially control the voting and disposition of the shares of the Company beneficially owned by Grande.

General

The Company, directly and through several subsidiaries, designs, sources, imports, markets, sells and licenses to certain licensees a variety of houseware and consumer electronic products, both domestically and internationally, under the Emerson® brand name.

The Company believes its competitive advantages include a combination of:

- recognition of the Emerson® brand;
- the Company’s distribution base and established customer relations;
- the Company’s sourcing expertise and established vendor relations;
- an infrastructure with personnel experienced in servicing and providing logistical support to the domestic mass merchant distribution channel, or supervising third-party logistics providers in providing same; and
- the Company’s extensive experience in establishing license and distribution agreements on a global basis for a variety of products.

The Company intends to continue leveraging its core competencies to offer a variety of current and new houseware and consumer electronic products to customers. In addition, the Company intends to continue entering into licenses for the use of its trade names and trademarks by third parties. See “Licensing Activities.”

The Company’s core business consists of selling, distributing, and licensing various low and moderately priced houseware and consumer electronic products in various categories. All of the Company’s marketing and sales efforts are currently concentrated in the United States.

For additional disclosures regarding the Company’s major customers, as well as financial information about geographical areas of the Company’s operations, see Item 8 – “Financial Statements and Supplementary Data” and Note 13 “Geographic Information”.

Products

The Company’s current product and branded categories consist primarily of the following:

Houseware Products	Audio Products	Other
Microwave Ovens	Clock Radios	Televisions
Compact Refrigerators	Mobile and Landline Telephones and Accessories	

Tablet Computers and Accessories

Cameras and Video Cameras and Accessories

Miscellaneous Electronic and Novelty Products

Sales and Distribution

The Company markets its products exclusively in the United States, primarily through mass merchandisers.

In fiscal 2016 and 2015, Target accounted for approximately 42% and 51% of the Company's net revenues, respectively, and Wal-Mart accounted for approximately 31% and 28% of the Company's net revenues, respectively. No other customer accounted for

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more than 10% of net revenues in either period. As a percent of the Company's total trade accounts receivable, net of specific reserves, Wal-Mart and Target accounted for 88% and nil as of March 31, 2016, respectively, and 30% and 50% as of March 31, 2015, respectively. Management believes that a loss, or a significant reduction, of sales to Target or Wal-Mart would have a material adverse effect on the Company's business and results of operations.

Approximately 55% and 61% of the Company's net revenues in fiscal 2016 and 2015, respectively, were made through third-party sales representative organizations that receive sales commissions and work in conjunction with the Company's own sales personnel. With the Company's permission, third-party sales representative organizations may sell competitive products in addition to the Company's products. In most instances, either party may terminate a sales representative relationship on 30 days prior notice by the Company and 90 days prior notice by the sales representative organization in accordance with customary industry practice. In fiscal 2016, the Company utilized 8 sales representative organizations, including one which represented approximately 41% of its net revenues, including revenues from one of the Company's two major customers described above and one which represented approximately 13% of net revenues. In fiscal 2015, the Company utilized 9 sales representative organizations, including one which represented approximately 54% of its net revenues, including revenues from one of the Company's two major customers described above. No other sales representative organization accounted for more than 10% of net revenues in fiscal 2015. The remainder of the Company's sales is to customers that are serviced by its sales personnel. Although sales and operating results could be negatively impacted, management does not believe that the loss of one or more sales representative organizations would have a material adverse effect on its business and results of operations, as the Company believes that new sales representative organizations could be identified if needed, although that could be a time consuming process.

The Company's Direct Import Program allows its customers to import and receive product directly from an export port in the country of manufacture outside the United States. Unde