EMERSON RADIO CORP
Form 10-K
June 29, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

(Mark One)

x 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	22-3285224
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
3 University Plaza, Suite 405, Hackensack, NJ	07601
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:

(973) 428-2000

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 x 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 x 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. x 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). x 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. x

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 x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ YES x 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 Form 10-K
Proxy Statement for 2016 Annual Meeting of Stockholders, or an amendment to this Annual Report on Form 10-K	Part III

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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," "shou "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 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. Under the Direct Import Program, title for the Company's product passes to the customer in the country of origin when the product is shipped by the Company's subsidiary in China. The Company also sells product to customers from its United States warehoused inventory, which is referred to as the Domestic Program. Under the Domestic Program, title for product typically passes at the time of shipment. Under both programs, the Company recognizes revenues at the time title passes to the customer. See Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company has an integrated system to coordinate the purchasing, sales and distribution aspects of its operations. The Company receives orders from its major customers via electronic data interface, facsimile, telephone or mail. The Company does not have long-term contracts with any of its customers, but rather receives orders on an ongoing basis. Products imported by the Company for the Domestic Program, generally from factories in Asia, are shipped by ocean and/or inland freight and then stored in the Company's outsourced warehouse facilities for shipment to customers. The Company monitors its inventory levels and goods in transit through the use of an electronic inventory system. When a purchase order under the Domestic Program is received, it is filled from the Company's inventory and the warehoused product is labeled and prepared for outbound shipment to the customer by common, contract or small package carrier.

Licensing Activities

The Company is party to several license agreements with third party licensees that allow the licensees to manufacture and/or sell various products bearing the Company's trademarks into defined geographic areas. Such activities have had a positive impact on operating results by generating income with minimal incremental costs and without any working capital requirements, and the Company intends to continue pursuing additional licensing opportunities. The Company protects its brand through careful license and product selection and control processes. As previously disclosed, on December 16, 2015, the Company received written notice from Funai stating its intention to terminate the agreement, with termination to be effective on December 31, 2016. As a result of such termination, unless the Company is successful in securing a new licensee to replace the licensing revenue which will be absent upon the Funai termination, the Company expects fiscal 2017 licensing revenue will decline as compared to fiscal 2016 licensing revenue. As previously disclosed, since this licensing relationship contributes substantial product volume and market presence through Funai's manufacture and distribution of products bearing the Emerson® brand name in the United States, the loss of this relationship and licensing agreement with Funai is expected to materially and adversely affect the Company's revenue, earnings and business. The Company is analyzing the impacts of the Funai termination to its business and is identifying strategic courses of action for consideration, including seeking new licensing relationships. There can be no assurance that the Company will be able to secure a new licensee or distribution relationship to replace the licensing revenue, product volume and market presence of Emerson-branded products in the United States, which had been provided through the license agreement with Funai.

See Item 1A — "Risk Factors — Business Related Risks — "The failure to obtain new licensees to replace the Funai license agreement could materially and adversely affect the Company's revenues, earnings and business." and "The failure by the Company to maintain its relationships with its other licensees or the failure to obtain new licensees could materially and adversely affect the Company's revenues, earnings and business.", Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 10 "License Agreements".

Design and Manufacturing

The Company's products are manufactured by original equipment manufacturers in accordance with the Company's specifications. During fiscal 2016 and 2015, 100% of the Company's purchases consisted of finished goods from foreign manufacturers located in People's Republic of China.

The Company's design team is responsible for product development and works closely with suppliers and determines the cosmetic and other features for new products. Accordingly, the exterior designs and operating features of the products reflect the Company's judgment, or that of its customers, of current styles and consumer preferences.

The following summarizes the Company's purchases from its major suppliers that provided more than 10% of the Company's total purchases in fiscal 2016 and 2015:

	Fiscal Year	
Supplier	2016	2015
Midea	53%	66 %
Hisense	41%	24 %

The Company considers its relationships with its suppliers to be satisfactory and believes that, barring any unusual material or part shortages or economic, fiscal or monetary conditions, the Company could develop alternative suppliers. No assurance can be given that ample supply of product would be available at current prices and on current credit terms if the Company were required to seek alternative sources of supply without adequate notice by a supplier or a reasonable opportunity to seek alternate production facilities and component parts (see Item 1A "Risk Factors — Business Related Risks — "Uncertain Impact of Appointment of Provisional Liquidators for Grande, Emerson's Controlling Shareholder" and Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations").

Warranties

The Company offers limited warranties for its consumer electronics, comparable to those offered to consumers by the Company's competitors in the United States. Such warranties typically consist of a one year period for microwaves and compact refrigerators and a 90 day period for audio products, under which the Company pays for labor and parts, or offers a new or similar unit in exchange for a non-performing unit.

Returned Products

The Company's customers return product for a variety of reasons, including:

- retailer return policies which allow customer returns for no reason concerning the quality of the product itself;
- damage to goods in transit and cosmetic imperfections; and

· mechanical failures.

Backlog

The Company does not believe that backlog is a significant factor. The ability of management to correctly anticipate and provide for inventory requirements is essential to the successful operation of the Company's business.

Trademarks

The Company owns the following principal trademarks for certain consumer electronic products in the United States, Canada, Mexico and various other countries:

- Emerson®
- Emerson Research®
- H.H. Scott®
- iDEA®
- IDIVA®
- Ölevia®
- Scott®
- SmartSet®

The Company's trademark registrations must be renewed at various times. The Company intends to renew all trademarks necessary for the conduct of its business. The Company considers the Emerson® trademark to be of material importance to its business and, to a lesser degree, the remaining trademarks. The Company licenses the Emerson® and certain of its other trademarks to third parties, the scope of which is on a limited product and geographic basis and for a period of time. See "Licensing Activities."

Competition

The Company primarily competes in the low-to-medium-priced sector of the housewares and consumer electronics market. Management estimates that the Company has several dozen competitors that are manufacturers and/or distributors, many of which are much larger and have greater financial resources than the Company. The Company competes primarily on the basis of:

- brand recognition;
- reliability;
- quality;
- price;
- design;
- consumer acceptance of the Company's products; and
- the quality of service and support provided to retailers and their customers.

The Company also competes at the retail level for shelf space and promotional displays, all of which have an impact on its success in established and proposed distribution channels.

Government Regulation

Pursuant to the Tariff Act of 1930, as amended, the Trade Act of 1974 and regulations promulgated there under, the United States government charges tariff duties, excess charges, assessments and penalties on many imports. These regulations are subject to continuous change and revision by government agencies and by action of the United States Trade Representative and may have the effect of increasing the cost of goods purchased by the Company or limiting quantities of goods available to the Company from our overseas suppliers. A number of states have adopted statutes regulating the manner of determining the amount of payments to independent service centers performing warranty service on products such as those sold by the Company. Additional Federal legislation and regulations regarding the importation of consumer electronics products, including the products marketed by the Company, have been proposed from time to time and, if enacted into law, could adversely affect the Company's financial condition and results of operations.

Product Liability and Insurance

Because of the nature of the products it sells, the Company is periodically subject to product liability claims resulting from personal injuries. The Company may also become involved in various lawsuits incidental to its business.

Although the Company maintains product liability insurance coverage, there can be no absolute assurance that the Company’s coverage limits will be sufficient to cover any successful product liability claims made against it in the future. In management’s opinion, any ultimate liability arising out of currently pending product liability claims will not have a material adverse effect on the Company’s financial condition or results of operations. However, any claims substantially in excess of the Company’s insurance coverage, or any substantial claim not covered by insurance, could have a material adverse effect on the Company’s financial condition and results of operations.

Employees

As of June 9, 2016, the Company had approximately 32 employees, comprised of 17 in the United States and 15 in China. None of the Company’s employees are represented by unions, and the Company believes its labor relations are good.

Available Information

The Company files reports and other information with the SEC pursuant to the information requirements of the Securities Exchange Act of 1934. Readers may read and copy any document the Company files at the SEC’s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operations of the public reference room. The Company’s filings with the SEC are also available to the public from commercial document retrieval services and at the SEC’s website at www.sec.gov.

The Company makes available through its internet website free of charge its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to such reports and other filings made by the Company with the SEC, as soon as practicable after the Company electronically files such reports and filings with the SEC. The Company’s website address is www.emersonradio.com. The information contained in the Company’s website is not incorporated by reference in this report.

Item 1A. Risk Factors

The reader should carefully consider these risk factors in addition to those set forth in the Company’s financial statements or the notes thereto. Additional risks about which the Company is not yet aware or that the Company currently believes to be immaterial also may adversely affect the Company’s business operations. If any of the following occur, the Company’s business, financial condition or operating results may be adversely affected. In that case, the price of the Company’s common stock may decline.

Business Related Risks

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

Historically, the Company has been highly dependent upon sales of its products to Target and Wal-Mart. For the fiscal years ended March 31, 2016 and 2015, Target accounted for approximately 42% and 51%, respectively, of the Company’s net revenues, and Wal-Mart accounted for approximately 31% and 28% of the Company’s net revenues, respectively. No other customer accounted for more than 10% of the Company’s net revenues during these periods. All customer purchases are made through purchase orders and the Company does not have any long-term contracts with its customers. The complete loss of, or significant reduction in business from, or a material adverse change in the financial condition of, either Target or Wal-Mart would cause a material and adverse change in the Company's revenues and operating results.

For example, commencing in the Spring of 2016, one of the Company's key customers discontinued retailing in its stores the Emerson-branded microwave oven and compact refrigeration products historically sold to this customer by the Company. During fiscal 2015 and fiscal 2016, net sales of these products by the Company to this customer were approximately $39.5 million and $19.0 million, respectively, comprising approximately 57.3% and 46.2% of the Company's total net product sales. The Company continued shipping these products to this customer only through December 2015. Emerson anticipates that net product sales for fiscal 2017 will be negatively impacted by this event. The loss of these sales has had and is expected to continue to have a material adverse effect on the Company's business and results of operations.

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

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

The loss or reduction of business of one or a combination of our microwave oven and compact refrigerator products could materially adversely affect our revenues, financial condition and results of operations.

For example, commencing in the Spring of 2016, one of the Company's key customers discontinued retailing in its stores the Emerson-branded microwave oven and compact refrigeration products currently sold to this customer by the Company. During fiscal 2015 and fiscal 2016, net sales of these products by the Company to this customer were approximately $39.5 million and $19.0 million, respectively, comprising approximately 57.3% and 46.2% of the Company's total net product sales. The Company continued shipping these products to this customer only through December 2015. Emerson anticipates that net product sales for fiscal 2017 will be negatively impacted by this event. The loss of these sales has had and is expected to continue to have a material adverse effect on the Company's business and results of operations.

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

A significant portion of the Company's product sales are made through third party sales representative organizations, whose members are not employees of the Company. The Company's level of sales depends on the effectiveness of these organizations, as well as the effectiveness of its own employees. Some of these third party representatives may sell (and do sell), with the Company's permission, competitive products of third parties as well as the Company's products. During the Company's fiscal years ended March 31, 2016 and March 31, 2015, these organizations were responsible for approximately 55% and 61%, respectively, of its net revenues during such periods. In addition, one of these representative organizations was responsible for a significant portion of these revenues. If any of the Company's third party sales representative organizations engaged by the Company, especially the Company's largest, fails to adequately promote, market and sell its products, the Company's revenues could be significantly decreased until a replacement organization or distributor could be retained by the Company. For example, despite the efforts of the Company's third party sales representative organization, one of the Company's key customers, commencing with the Spring of 2016, discontinued retailing in its stores the Emerson-branded microwave oven and compact refrigeration products currently sold to this customer by the Company and the Company continued shipping these products to this customer only through December 2015. The loss of these product sales will have a material adverse effect on the Company’s business and results of operations. Finding replacement organizations and distributors could be a time consuming process during which the Company’s revenues could be negatively impacted.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company does not maintain any credit facilities (other than certain letters of credit) in connection with the operation of its business. The Company has relied on, and continues to rely on, its cash on hand and cash generated by operations to manage its business. Subsequent to the appointment of the Provisional Liquidators over Grande, certain of the Company’s major factory suppliers, including Midea, significantly reduced the maximum amount of open credit lines available to the Company and requested that the Company make accelerated payments to them to reduce the balances owing from the Company on its open trade payable accounts with the respective factory suppliers to comply with such new credit terms. It is unclear what effect, if any, the completion of the Grande Restructuring Plan and removal of the Provisional Liquidators will have on the Company's relationships with its suppliers. See Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources." If the Company is unable to generate sufficient cash from operations, the Company may need to secure alternative means of financing or reorganize its operations to continue to maintain the current business.

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

The Company has operations in China and derives a significant portion of its revenue from sales of products manufactured by third parties located in China. In addition, third parties located in China and other countries located in the same region produce and supply many of the components and raw materials used in the Company's products. Conducting an international business inherently involves a number of difficulties and risks that could materially and adversely affect the Company's ability to generate revenues and could subject the Company to increased costs. Among the factors that may adversely affect the Company's revenues and increase its costs are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Stock Ownership Risks

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

Grande, through one of its indirect subsidiaries, is the beneficial owner of approximately 56.2% of the Company's outstanding common stock as of June 23, 2016. As a result, the Company is a "controlled company" within the meaning of the NYSE MKT Company Guide. Under the NYSE MKT rules, a company of which more than 50% of the voting power is held by another person or group of persons acting together is a controlled company and may elect not to comply with certain NYSE MKT corporate governance requirements, including the requirements that:

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

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

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

Grande, through one of its indirect subsidiaries, is the beneficial owner of approximately 56.2% of the Company's outstanding common stock as of June 23, 2016. As a result, Grande will be able to exert significant influence over the Company's business and have the ability to control the approval process for actions by the Company that require stockholder approval, including: the election of the Company's directors and the approval of mergers, sales of assets or other significant corporate transactions or matters submitted for stockholder approval. Grande may have interests that differ from your interests and may cause the shares in the Company beneficially owned by Grande to be voted in a way with which you disagree and that may be adverse to your interests. In addition, several provisions of the Company's organizational documents and Delaware law may deter or prevent a takeover attempt, including a takeover attempt in which the potential purchaser offers to pay a per share price greater than the current market price of its common stock. Under the terms of the Company's certificate of incorporation, its board of directors has the authority, without further action by the stockholders, to issue shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These provisions could discourage potential acquisition proposals and could delay or prevent a change in control transaction. They could also have the effect of discouraging others from making tender offers for the Company's common stock, including transactions that may be in your best interests.

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

Mr. Christopher Ho, the Company's Chairman of the Board, and Mr. Duncan Hon, the Chief Executive Officer and a director of the Company, have material relationships with Grande that may have actual or potential conflicts of interest with their duties to the Company. Effective May 30, 2016, Mr. Hon also serves as the Chief Executive Officer and an executive director of Grande. As described in Note 3 to the Company's financial statements and in the Company's previous filings with the SEC, there have historically been certain related party transactions between the Company and certain subsidiaries and affiliates of Grande. Although the Company has established procedures designed to ensure that material related party transactions are fair to the Company, transactions between the Company and Grande, even if entered into on an arm's-length basis, create the potential for, or could result in, conflicts of interests.

The Company recently received a notice of non-compliance from NYSE MKT related to the composition of the Company's Audit Committee. Although the Company has cured such non-compliance, if the Company is unable to maintain compliance with the continued listing standards of the NYSE MKT, then the Company's common stock could be delisted from the NYSE MKT, which could negatively impact the liquidity and trading price of the Company’s common stock.

On June 7, 2016, the Company received a notice from the NYSE MKT indicating that the Company no longer satisfied the continued listing standards set forth in Section 803(B)(2)(c) of the NYSE MKT Company Guide that require the Audit Committee of the Board to be comprised of at least two independent members. The Company received the notice following the resignation of five directors, including four independent directors, in late May and early June 2016 following the completion of the Grande Restructuring Plan. See Item 1— “Recent Developments.” As a result of these resignations, the Company had only one independent director and the Company’s Audit Committee was no longer comprised of two independent members as required under the Company Guide. Pursuant to Section 803(B)(6)(b) of the Company Guide, the Company was provided until the earlier of (i) the next annual shareholders' meeting or (ii) one year from the occurrence of the event that caused the failure to comply with this requirement; provided, however, that if the annual shareholders' meeting occurs no later than 75 days following the event that caused the failure to comply with the audit committee composition requirement, a smaller reporting company shall instead have 75 days from such event to regain compliance with the requirement to have two independent directors serving on the audit committee.

Effective as of June 19, 2016, the Company’s Board of Directors appointed Mr. Kin Yuen as an independent director and member of the Audit Committee, following which the Company regained compliance with Section 803(B)(2)(c) of the Company Guide. Although the Exchange’s notification of non-compliance with Section 803(B)(2)(c), and the Company’s subsequent cure of such non-compliance by the appointment of Mr. Yuen, has had no current effect on the listing of the Company’s shares, failure to regain compliance within the prescribed grace period could have resulted in the Company’s shares being delisted from the NYSE

MKT. If the Company's common stock is delisted from the NYSE MKT and transferred to the over-the-counter market, it may result in decreased liquidity by making the trading of the Company's common stock less efficient.

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

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

Item 2. PROPERTIES

The following table sets forth the material properties leased by the Company:

Facility Purpose	Approximate Square Footage	Location	Lease Expires
Corporate headquarters	5,541	Hackensack, NJ	July 2018
Hong Kong office	6,162	Hong Kong, China	July 2019
Macao office	960	Macao, China	May 2017

The Company presently relies on warehouse space from its third party logistics provider.

The Company believes that the properties used for its operations are in satisfactory condition and adequate for its present and anticipated future operations. The Company does not currently own any of the properties it occupies.

Item 3. 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 4. Mine Safety Disclosures

Not applicable

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER REPURCHASES OF EQUITY SECURITIES

(a) Market Information

The Company's common stock began trading on the American Stock Exchange under the symbol MSN on December 22, 1994, and currently trades on the NYSE MKT under the same symbol, as a result of NYSE Euronext's acquisition of the American Stock Exchange in 2008. The following table sets forth the range of high and low sales prices for the Company's common stock as reported by the NYSE MKT during the last two fiscal years.

	Fiscal 2016		Fiscal 2015	
	High	Low	High	Low
First Quarter	$1.46	$1.12	$2.20	$1.70
Second Quarter	1.31	1.05	2.34	1.26
Third Quarter	1.28	0.82	1.38	1.00
Fourth Quarter	1.10	0.83	1.46	1.01

There is no established trading market for the Company's Series A convertible preferred stock, whose conversion feature expired as of March 31, 2002.

(b) Holders

At June 8, 2016, there were 203 stockholders of the Company's common stock whose shares were registered with the Company's transfer agent. The Company believes that the number of beneficial owners is substantially greater than the number of registered shareholders, because a large portion of the Company's common stock is held of record in broker "street names".

(c) Dividends

The Company has not paid cash dividends on its common stock since an extraordinary dividend paid on September 30, 2014, and does not currently plan to declare dividends on its common stock in the foreseeable future. The payment of dividends, if any, would be at the discretion of the Company's Board of Directors and would depend on the Company's results of operations, capital requirements, financial condition, prospects, contractual arrangements, and other factors that the Board of Directors may deem relevant.

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

Not applicable.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 Annual Report on Form 10-K. In addition to historical information, the following discussion contains forward-looking statements that reflect the Company's plans, estimates and beliefs. The Company's actual results could differ materially from those contained in or implied by any forward-looking statements. Factors that could cause or contribute to these differences include those under Item 1A – "Risk Factors" or in other parts of this Annual Report on Form 10-K.

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

Results of Operations:

The following table summarizes certain financial information for the fiscal years ended March 31 (in thousands):

	2016	2015
Net product sales	$41,035	$68,984
Licensing revenue	4,716	7,339
Net revenues	45,751	76,323
Cost of sales	38,819	62,088
Other operating costs and expenses	367	661
Selling, general and administrative	7,970	8,829
Operating (loss) income	(1,405)	4,745
Interest income, net	178	215
(Loss) income before income taxes	(1,227)	