

EMERSON RADIO CORP  
Form 10-Q  
August 14, 2008

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2008**

**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 No.)

9 Entin Road Parsippany, New Jersey

07054

(Address of principal executive offices)

(Zip code)

(973) 884-5800

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant 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  Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of common stock as of August 14, 2008: 27,129,832.

**TABLE OF CONTENTS**

|  |    |
|--|----|
| <u>PART I FINANCIAL INFORMATION</u>  | 3  |
| <u>Item 1. Financial Statements</u>  | 3  |
| <u>Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition</u> | 12 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>                            | 17 |
| <u>Item 4. Controls and Procedures</u>   | 17 |
| <u>PART II OTHER INFORMATION</u>   | 18 |
| <u>Item 1. Legal Proceedings</u>   | 18 |
| <u>Item 1A. Risk Factors</u>   | 18 |
| <u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 18 |
| <u>ITEM 3. Defaults Upon Senior Securities</u>   | 19 |
| <u>ITEM 4. Submission of Matters to a Vote of Security Holders</u>                                   | 19 |
| <u>ITEM 5. Other Information</u>   | 19 |
| <u>ITEM 6. Exhibits</u>  | 19 |
| <u>SIGNATURES</u>  | 20 |
| <u>EX-31.1: CERTIFICATION</u>  |    |
| <u>EX-31.2: CERTIFICATION</u>  |    |
| <u>EX-32: CERTIFICATION</u>  |    |

**Table of Contents**

## PART I FINANCIAL INFORMATION

**Item 1. Financial Statements.**

**EMERSON RADIO CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

**(In thousands, except earnings per share data)**

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>June 30</b>            |             |
|   | <b>2008</b>               | <b>2007</b> |
| <b>Net revenues</b>   |                           |             |
| Net revenues  | \$43,095                  | \$52,603    |
| Net revenues-related party  | 13                        | 85          |
|   | 43,108                    | 52,688      |
| <b>Costs and expenses:</b>  |                           |             |
| Cost of sales   | 38,021                    | 45,248      |
| Other operating costs and expenses  | 1,131                     | 1,796       |
| Selling, general and administrative expenses (exclusive of non-cash compensation shown below) | 4,828                     | 4,977       |
| Non-cash compensation, net of recoveries  | 18                        | 79          |
|   | 43,998                    | 52,100      |
| <b>Operating (loss) income</b>  | (890)                     | 588         |
| Interest income, net  | 132                       | 70          |
| Interest income-related party   |                           | 163         |
| Realized/unrealized holding gains on trading securities                                       | 262                       |             |
| <b>(Loss) income before income taxes and minority interest</b>                                | (496)                     | 821         |
| Provision for income taxes  | 527                       | 379         |
| Minority interest in loss of consolidated subsidiary  | 94                        |             |
| <b>Net (loss) income</b>  | \$ (929)                  | \$ 442      |
| <b>Net (loss) income per share:</b>   |                           |             |
| Basic   | \$ (0.03)                 | \$ 0.02     |
| Diluted   | \$ (0.03)                 | \$ 0.02     |
| <b>Weighted average shares outstanding:</b>   |                           |             |
| Basic   | 27,130                    | 27,115      |
| Diluted   | 27,130                    | 27,141      |

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



**Table of Contents**

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

|  | <b>June 30,<br/>2008<br/>(Unaudited)</b> | <b>March 31,<br/>2008(A)</b> |
|--|--|------------------------------|
| <b>ASSETS</b>  |  |                              |
| Current assets:  |  |                              |
| Cash and cash equivalents  | \$ 16,569                                | \$ 14,444                    |
| Restricted cash  | 2,000                                    |                              |
| Foreign exchange forward contracts   |  | 134                          |
| Accounts receivable (less allowances of \$3,327 and \$4,148, respectively)   | 21,562                                   | 17,289                       |
| Other receivables  | 1,525                                    | 2,131                        |
| Due from affiliates  | 179                                      | 765                          |
| Inventory, net   | 26,593                                   | 24,854                       |
| Prepaid expenses and other current assets  | 2,462                                    | 2,246                        |
| Deferred tax assets  | 4,811                                    | 5,412                        |
| <b>Total current assets</b>  | <b>75,701</b>                            | <b>67,275</b>                |
| Property, plant and equipment, net   | 1,863                                    | 1,902                        |
| Trademarks and other intangible assets, net  | 273                                      | 279                          |
| Investments in marketable securities   | 10,510                                   | 11,948                       |
| Deferred tax assets  | 6,029                                    | 5,927                        |
| Other assets   | 612                                      | 598                          |
| <b>Total assets</b>  | <b>\$ 94,988</b>                         | <b>\$ 87,929</b>             |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |  |                              |
| Current liabilities:   |  |                              |
| Current maturities of long-term borrowings   | \$ 83                                    | \$ 82                        |
| Accounts payable and other current liabilities   | 30,086                                   | 21,737                       |
| Due to affiliates  | 11                                       | 102                          |
| Accrued sales returns  | 706                                      | 872                          |
| Income taxes payable   | 167                                      | 185                          |
| <b>Total current liabilities</b>   | <b>31,053</b>                            | <b>22,978</b>                |
| Long-term borrowings   | 123                                      | 142                          |
| Deferred tax liabilities   | 65                                       | 57                           |
| Minority interest  | 39                                       | 133                          |
| Shareholders equity:   |  |                              |
| Preferred shares 10,000,000 shares authorized; 3,677 shares issued and outstanding; liquidation preference of \$3,677  | 3,310                                    | 3,310                        |
| Common shares \$.01 par value, 75,000,000 shares authorized; 52,965,797 shares issued at June 30, 2008 and March 31, 2008; 27,129,832 shares outstanding at June 30, 2008 and March 31, 2008 | 529                                      | 529                          |
| Capital in excess of par value   | 117,263                                  | 117,245                      |
| Accumulated other comprehensive losses   | (82)                                     | (82)                         |
| Accumulated deficit  | (33,088)                                 | (32,159)                     |

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|  |           |           |
|--|-----------|-----------|
| Treasury stock, at cost, 25,835,965 shares       | (24,224)  | (24,224)  |
| <b>Total shareholders equity</b>                 | 63,708    | 64,619    |
| <b>Total liabilities and shareholders equity</b> | \$ 94,988 | \$ 87,929 |

(A) Reference is made to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2008 filed with the Securities and Exchange Commission in July 2008 and amended in July 2008.

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

**Table of Contents**

**EMERSON RADIO CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(In thousands)**

|   | Three Months Ended<br>June 30 |          |
|---|-------------------------------|----------|
|   | 2008                          | 2007     |
| Cash flows from operating activities:   |                               |          |
| Net (loss) income   | \$ (929)                      | \$ 442   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                               |          |
| Minority interest   | (94)                          |          |
| Depreciation and amortization   | 227                           | 202      |
| Non cash compensation   | 18                            | 79       |
| Deferred tax expense (benefit)  | 507                           | 152      |
| Asset allowances, reserves and other  | (1,843)                       | (2,088)  |
| Unrealized holding gains on trading securities                                    | (262)                         |          |
| Changes in assets and liabilities:  |                               |          |
| Restricted cash   | (2,000)                       |          |
| Foreign exchange foreign contracts  | 134                           |          |
| Accounts receivable   | (3,318)                       | (7,961)  |
| Other receivables   | 606                           | (99)     |
| Due from affiliates   | 586                           | 24,451   |
| Inventories   | (1,017)                       | (11,285) |
| Prepaid expenses and other current assets   | (216)                         | (248)    |
| Other assets  | (35)                          | 87       |
| Accounts payable and other current liabilities                                    | 8,349                         | 20,100   |
| Due to affiliates   | (91)                          |          |
| Income taxes payable  | (18)                          | 91       |
| Net cash provided by operating activities   | 604                           | 23,923   |
| Cash flows from investing activities:   |                               |          |
| Proceeds from partial calls on securities   | 1,700                         |          |
| Additions to property and equipment   | (161)                         | (126)    |
| Net cash provided (used) by investing activities                                  | 1,539                         | (126)    |
| Cash flows from financing activities:   |                               |          |
| Short-term borrowings   | 1                             | 4        |
| Net borrowings (repayments) under foreign bank facilities                         |                               | (2,495)  |
| Exercise of stock options   |                               | 51       |
| Long-term borrowings  | 27,190                        | 51,158   |
| Repayments of long-term borrowings  | (27,209)                      | (51,201) |
| Net cash (used) by financing activities   | (18)                          | (2,483)  |
| Net increase in cash and cash equivalents   | 2,125                         | 21,314   |
| Cash and cash equivalents at beginning of period                                  | 14,444                        | 1,851    |



|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents at end of period | \$ 16,569 | \$ 23,165 |
|--|-----------|-----------|

Supplemental disclosures of non-cash investing and financing activities:

The Company has entered into certain capital lease agreements. For the three month periods ended June 30, 2008 and June 30, 2007, the Company entered into agreements related to approximately \$0 and \$39 of equipment, respectively, which are excluded from the statement of cash flows as the transactions were non-cash in nature.

Cash paid during the period for:

|              |      |       |
|--------------|------|-------|
| Interest     | \$29 | \$121 |
| Income taxes | \$20 | \$115 |

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

**Table of Contents**

**EMERSON RADIO CORP. AND SUBSIDIARIES**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1 BACKGROUND AND BASIS OF PRESENTATION**

The consolidated financial statements include the accounts of Emerson Radio Corp. ( Emerson , consolidated the Company ), which operates in the consumer electronics business. The consumer electronics business includes the design, sourcing, importing and marketing of a variety of consumer electronic products and the licensing of the (EMERSON LOGO) and H.H. Scott(R) trademarks for a variety of products domestically and internationally to certain licensees.

The unaudited interim consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of our consolidated financial position as of June 30, 2008 and the results of operations for the three month periods ended June 30, 2008 and June 30, 2007. All significant intercompany accounts and transactions have been eliminated in consolidation. The preparation of the unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes; actual results could materially differ from those estimates. The unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and accordingly do not include all of the disclosures normally made in our annual consolidated financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended March 31, 2008 ( fiscal 2008 ), included in our annual report on Form 10-K, as amended, for fiscal 2008.

Due to the seasonal nature of Emerson s business, the results of operations for the three month period ended June 30, 2008 are not necessarily indicative of the results of operations that may be expected for any other interim period or for the full year ending March 31, 2009 ( fiscal 2009 ).

Certain reclassifications were made to conform the prior year s financial statements to the current presentation.  
**Stock- Based Compensation**

The Company accounts for all share based payments in accordance with Statement of Financial Accounting Standard ( FAS ) No. 123R, Share-Based Payment ( FAS 123R ). As a result, the Company has applied FAS 123R to new awards and to awards modified, repurchased, or cancelled. Compensation cost for the portion of awards for which the requisite service had not been rendered are being recognized as the requisite service is rendered (generally over the remaining option vesting period). The compensation cost for that portion of awards has been based on the grant-date fair value of those awards as calculated for pro forma disclosures under previously issued accounting standards. As a result of applying the provisions of FAS 123R, the Company has recorded compensation costs of \$18,000 and \$79,000 for the three months ended June 30, 2008 and June 30, 2007, respectively.

**NOTE 2 COMPREHENSIVE INCOME**

Comprehensive income for the three month periods ended June 30, 2008 and June 30,2007 is as follows (in thousands):

|  | <b>Three months ended</b> |             |
|--|---------------------------|-------------|
|  | <b>June 30</b>            |             |
|  | <b>2008</b>               | <b>2007</b> |
| Net (loss) income  | \$(929)                   | \$442       |
| Unrealized holding gains arising during period                     | (31)                      |             |
| Less: reclassification adjustment for gains included in net income | 31                        |             |
| Comprehensive (loss) income  | \$(929)                   | \$442       |

**Table of Contents****NOTE 3 NET EARNINGS PER SHARE**

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

|  | <b>Three months ended<br/>June 30</b> |             |
|--|---------------------------------------|-------------|
|  | <b>2008</b>                           | <b>2007</b> |
| <b>Numerator:</b>  |                                       |             |
| Net (loss) income for basic and diluted earnings per share                                 | \$ (929)                              | \$ 442      |
| <b>Denominator:</b>  |                                       |             |
| Denominator for basic earnings per share weighted average shares                           | 27,130                                | 27,115      |
| Effect of dilutive securities on denominator:  |                                       |             |
| Options and warrants   |                                       | 26          |
| Denominator for diluted earnings per share weighted average shares and assumed conversions | 27,130                                | 27,141      |
| Basic and diluted (loss) earnings per share  | \$ (0.03)                             | \$ 0.02     |

**NOTE 4- SHAREHOLDERS EQUITY**

Outstanding capital stock at June 30, 2008 consisted of common stock and Series A convertible preferred stock. The Series A convertible preferred stock is non-voting, has no dividend preferences and has not been convertible since March 31, 2002; however, it retains a liquidation preference.

At June 30, 2008, Emerson had approximately 212,000 options outstanding with exercise prices ranging from \$1.00 to \$3.23.

In September 2003, the Company publicly announced the Emerson Radio Corp. common stock repurchase program. The program provides for share repurchase of up to 2,000,000 shares of Emerson's outstanding common stock. No shares were repurchased in the three months ended June 30, 2008 and June 30, 2007. As of June 30, 2008, 732,377 shares remain available for repurchase under the program established in September 2003. Repurchases of the Company's shares are subject to certain conditions under Emerson's banking facility.

**NOTE 5 INVENTORY**

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. As of June 30, 2008 and March 31, 2008, inventories consisted of the following (in thousands):

|                           | <b>June 30,<br/>2008<br/>(Unaudited)</b> | <b>March 31,<br/>2008</b> |
|---------------------------|--|---------------------------|
| Finished goods            | \$29,747                                 | \$ 28,730                 |
| Less inventory allowances | (3,154)                                  | (3,876)                   |
| Net inventory             | \$26,593                                 | \$ 24,854                 |

**NOTE 6 INCOME TAXES**

The Company has tax net operating loss carry forwards included in net deferred tax assets that are available to offset future taxable income and can be carried forward for 15 to 20 years. Although realization is not assured, management believes it is more likely than not that all of the net deferred tax assets will be realized through tax planning strategies available in future periods and through future profitable operating results. The amount of the

deferred tax asset considered realizable could be reduced or eliminated if certain tax planning strategies are not successfully executed or estimates of future taxable income during the carryforward period are reduced. If management determines that the Company would not be able to realize all or part of the net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

As of April 1, 2007, the Company had \$149,000 of unrecognized tax benefits related to state taxes. All of the unrecognized tax benefits could impact our effective tax rate if recognized.

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of income tax expense in the Consolidated Statement of Operations. Accrued interest and penalties were \$49,000 as of June 30, 2008 and are recognized in the balance sheet.

**Table of Contents**

Our effective tax rate differs from the federal statutory rate primarily due to expenses that are not deductible for federal income tax purposes and state income taxes.

The Company is subject to examination and assessment by tax authorities in numerous jurisdictions. A summary of the Company's open tax years is as follows as of June 30, 2008:

| Jurisdiction        | Open tax years |
|---------------------|----------------|
| U.S. federal States | 2004-2007      |
|                     | 2004-2007      |

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

In May 2007, the FASB issued FASB Staff Position ( FSP ) FIN 48-1 Definition of a Settlement in FASB Interpretation No. 48 ( FSP FIN 48-1 ). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to April 1, 2007. The implementation of this standard did not have a material impact on our consolidated balance sheets or statements of operations.

**NOTE 7 RELATED PARTY TRANSACTIONS**

From time to time, Emerson engages in business transactions with its controlling shareholder, The Grande Holdings Limited and its subsidiaries ( Grande ). Set forth below is a summary of such transactions. As of June 30, 2008, substantially all monies then currently due to Emerson from Grande have been paid in full.

*Grande's Purchase of Controlling Interest in Emerson.* On December 5, 2005, Grande purchased approximately 37% of the Company's outstanding common stock (10,000,000 shares) from our former Chairman and Chief Executive Officer, Geoffrey P. Jurick. Since its initial purchase, Grande has increased its ownership of the Company's common stock through open market and private purchases, including the purchase on September 21, 2007 from a former holder of more than five percent of Emerson's common stock of 1,853,882 shares. Grande beneficially owned approximately 57.6% of the Company's common stock on June 30, 2008.

*License Agreement for Scott Brands.* In April 2008, Emerson terminated its agreement with a consumer electronics distributor, APH (the Licensee ), pursuant to which, among other things, Emerson had agreed to grant the Licensee a license to distribute and sell LCD televisions ( LCD sets ) in North America under Emerson's H.H. Scott brand name. The licensee also had a distributor relationship with Grande, a related party to Emerson. Emerson was paid royalties of \$110,000 in March 2007 as a result of sales of LCD televisions bearing the H.H. Scott name.

*Unsecured Financial Assistance to Grande.* During the third quarter of fiscal 2007, Emerson provided unsecured financial assistance to Capetronic Display Limited ( Capetronic ), Nakamichi Corporation ( Nakamichi ), Akai Electric (China) Co. Ltd. ( Akai ), and Sansui Electric (China) Co. ( Sansui ), each of which is a wholly-owned subsidiary of Grande, the manufacturer of the LCD sets, in the form of letters of credit and loans which aggregated approximately \$22.0 million at December 31, 2006. In reviewing the documentation for certain of the letters of credit referred to above, Emerson determined that some of the parts for which letters of credit were opened were to be used for the manufacture of 27 and 42 television sets to be sold to the Licensee by Akai. Emerson had no direct or indirect interest in such sales, and Capetronic paid Emerson \$57,000 as a fee for facilitating these transactions.

As a result of the transactions described in the preceding paragraph, Emerson may have been deemed to be in breach of certain covenants contained in Emerson's credit facility. The lender under the credit facility agreed to waive such breaches and Emerson and the lender negotiated an amendment to the credit facility. Emerson was required to pay \$125,000 to the lender in connection with the amendment. Emerson charged this amount to Capetronic and \$125,000 was paid to one of Emerson's foreign subsidiaries on August 14, 2007 by Capetronic.

On February 21, 2007, Capetronic, Nakamichi, Akai, and Sansui (collectively, the Borrowers ), each of which is a wholly-owned subsidiary of Grande, jointly and severally, issued a promissory note (the Note ) in favor of the Company in the principal amount of \$23,501,514. The principal amount of the Note represented the outstanding amount owed to the Company as of February 21, 2007, as a result of certain related party transactions entered into

between the Company and the Borrowers described above, including interest that had accrued from the date of such related party transactions until the date of the Note. Simultaneously with the execution of the Note, Grande executed a guaranty (the Guaranty ) in favor of the Company pursuant to which Grande guaranteed payment of all of the obligations of the Borrowers under the Note in accordance with the terms thereof.

**Table of Contents**

Interest on the unpaid principal balance of the Note accrued at a rate of 8.25% per annum, commencing on February 21, 2007, until all obligations under the Note were paid in full, subject to an automatic increase of 2% per annum in the event of default under the Note in accordance with the terms thereof. Payments of principal and interest under the Note were to be made in nine installments from April 1, 2007 through June 3, 2007 in such amounts and on such dates as set forth in the Note, with all amounts of interest due under the Note scheduled to be paid with the final installment.

By June 3, 2007, all amounts due under the note were repaid. In February 2008, Emerson accepted a debit note from Capetronic for \$4,604 resulting from a previous overpayment of the note.

*Product Sourcing Transactions.* Since August 2006, Emerson has been providing to Sansui Sales PTE Ltd ( Sansui Sales ) and Akai Sales PTE Ltd ( Akai Sales ), both of which are subsidiaries of Grande, assistance with acquiring certain products for sale. Emerson issues purchase orders to third-party suppliers who manufacture these products, and Emerson issues sales invoices to Sansui Sales and Akai Sales at gross amounts for these products. Financing is provided by Sansui Sales and Akai Sales customers in the form of transfer letters of credit to the suppliers, and goods are shipped directly from the suppliers to Sansui Sales and Akai Sales customers. Emerson recorded income totaling \$13,000 and \$85,000 for providing this service in the three months ended June 30, 2008 and June 30, 2007, respectively. On June 30, 2008 Akai Sales and Sansui Sales collectively paid Emerson the outstanding receivable of \$134,000 as of March 31, 2008 as well as \$8,000 on current activity. Sansui Sales and Akai Sales collectively owe Emerson \$5,000 at June 30, 2008 related to current activity.

*Sales of goods.* In addition to the product sourcing transactions described in the preceding paragraph, Emerson has also purchased products on behalf of Sansui Sales and Akai Sales from third-party suppliers and sold these goods to Sansui Sales and Akai Sales. These transactions are similar to the transactions described in the preceding paragraph; however, instead of utilizing transfer letters of credit provided by Sansui Sales and Akai Sales customers, Emerson utilizes its own cash to pay Sansui Sales and Akai Sales suppliers. Emerson invoices Sansui Sales and Akai Sales an amount that is marked up between two and three percent from the cost of the product. Akai Sales deducted \$9,000 for storage charges from its June 30, 2008 settlement payment to Emerson, which was deemed to be in error by Emerson, which resulted in an outstanding balance owed to Emerson of \$9,000 at June 30, 2008. Emerson has outstanding liabilities with suppliers of product invoiced to Sansui Sales and Akai Sales totaling \$3,000 at June 30, 2008.

*Leases and Other Real Estate Transactions.* Effective January 1, 2006, we entered into a lease for office space in Hong Kong with Grande and an agreement for services in connection with this office space rental from Grande, which was extended through December 31, 2008, and which will expire at that date unless terminated earlier by either party upon three months prior written notice of termination by either party. Under a new agreement commencing March 1, 2008, the office space rented was increased from 7,810 square feet to 18,476 square feet. Rent expense with Grande was \$119,000 and \$35,000 for the three months ended June 30, 2008 and June 30, 2007, respectively. The amount of expense incurred with Grande for all other services in connection with this office space rental was approximately \$20,000 and \$7,000 for the fiscal 2009 and fiscal 2008, respectively. Emerson owed Grande \$11,000 related to this activity at June 30, 2008.

Emerson utilizes the services of Grande employees for certain administrative and executive functions. Grande pays Emerson's quality assurance personnel in RMB in China on Emerson's behalf for which Emerson subsequently pays a reimbursement to Grande. Payroll and travel expenses, including utilization of Grande employees as well as payroll and travel expenses paid on Emerson's behalf and reimbursed to Grande, were \$91,000 for each of the three months ended June 30, 2008 and June 30, 2007, respectively. Emerson has a balance paid in advance to Grande of \$7,000 related to this activity as of June 30, 2008.

From May to October 2007, Emerson occupied office space in Shenzhen, China under a lease agreement with Akai AV Multimedia (Zhongshan) Co Ltd, an affiliate of Grande. Rent expense was \$28,000 and other expenses in connection with this agreement were \$15,000 in the three months ended June 30, 2007. The agreement was not renewed.

In May 2007 Emerson paid a \$10,000 commission to Vigers Hong Kong Ltd, a property agent and a subsidiary of Grande, related to the sale of a building owned by Emerson to an unaffiliated buyer.

*Toy Musical Instruments.* In May 2007, Emerson entered into an agreement with Goldmen Electronic Co. Ltd. ( Goldmen ), pursuant to which we agreed to pay \$1,682,220 in exchange for Goldmen s manufacture and delivery to us of musical instruments in order for us to meet our delivery requirements of these instruments in the first week of September 2007. In July 2007, we learned that Goldmen had filed for bankruptcy and was unable to manufacture the musical instruments we had ordered. Promptly after we learned of Goldmen s bankruptcy, Capetronic agreed to manufacture the musical instruments on substantially the same terms and conditions, including the price, as Goldmen had agreed to manufacture them. Accordingly, on July 12, 2007, we paid Tomei Shoji Limited, an affiliate of Grande, \$125,000 to acquire from Goldmen and deliver to Capetronic the molds and equipment necessary for Capetronic to manufacture the musical instruments. In July, 2007, Emerson made two upfront payments to Capetronic totaling \$546,000. On July



**Table of Contents**

20, 2007, Capetronic advised us that it was unable to manufacture the musical instruments for us because it did not have the requisite governmental licenses to do so. In June 2008, Capetronic repaid the \$546,000 advance it received from Emerson in July 2007. Capetronic currently physically possesses our musical instrument molds, which we wrote off in fiscal 2008.

*Freight Forwarding Services.* In June 2007, Emerson and Capetronic signed an agreement for Emerson to provide freight forwarding services to Capetronic. Under this agreement, Emerson will pay the costs of importation of Capetronic's inventory on Capetronic's behalf, and to arrange for the inventory to be received at a port of entry, cleared through the United States Customs Service using Emerson's regularly engaged broker, and transfer the inventory to a common carrier as arranged by Capetronic's customer. If Capetronic's customer failed to make such arrangements with a common carrier, Emerson agreed to transfer the inventory to Emerson's warehouse for storage or make other arrangements with a public warehouse. Following the transfer of Capetronic's inventory, Emerson is required to provide Next Day delivery of all importation documents and bills of lading to Capetronic's customer. Capetronic agreed to reimburse Emerson for all costs incurred by Emerson in connection with the activity just described within thirty days of demand by Emerson, after which interest accrues. As compensation, Capetronic agreed to pay Emerson a service fee of 12% of the importation costs. Emerson billed Capetronic for the reimbursement of importation costs totaling \$246,000 and a commission of \$29,000. Capetronic paid Emerson \$275,000 on November 14, 2007.

*Other.* Between August and December 2007, Emerson paid invoices and incurred charges for goods and services relating to the Hong Kong Electronics Fair of \$153,069. Portions of these charges totaling \$87,353, have been allocated and invoiced to affiliates of Grande in proportion to their respective share of space occupied and services rendered during the Electronics Fair as follows: Nakamichi Corporation Ltd. \$17,143, Akai Sales PTE Ltd \$44,495 and Sansui Sales PTE Ltd \$25,715. Akai Sales and Sansui Sales collectively owed Emerson \$70,210 in connection with the Hong Kong Electronics Fair as of March 31, 2008, for which they collectively paid \$63,774 to Emerson on June 30, 2008. Akai Sales owes Emerson \$6,436 for this activity as of June 30, 2008.

Also related to the annual Hong Kong Electronics Fairs, Capetronic incurred charges and paid invoices on behalf of Emerson in the amount of \$76,000 for which Emerson reimbursed Capetronic \$48,000 in March 2008. Emerson paid Capetronic the remaining balance of \$28,000 for these trade shows on June 30, 2008.

In June 2007 Emerson paid a one-time sales commission in the amount of \$14,000 to an Executive Director of Grande Holdings, who is also a Director of Emerson. The commission was 50% of the net margin on a sale by Emerson to an unaffiliated customer.

In January 2008, Grande transferred computer, office equipment, and furniture to Emerson for which Emerson paid \$12,000, which represented the carrying amount of the assets on the books of Grande at the time of sale.

In June 2008, Emerson paid Capetronic \$160,000 for reimbursement of payroll and travel expenses paid on behalf of Emerson from October 2007 through May 2008. Also included in the payment was a reimbursement for expenses Capetronic paid on behalf of Emerson for a trade show.

**NOTE 8 BORROWINGS****Short-term Borrowings**

At June 30, 2008 and March 31, 2008 there were no short-term borrowings outstanding.

**Long-term Borrowings**

As of June 30, 2008 and March 31, 2008, borrowings under long-term facilities consisted of the following:

|   | <b>June<br/>30,<br/>2008</b> | <b>March 31,<br/>2008</b> |
|---|------------------------------|---------------------------|
|   | <b>(In thousands)</b>        |                           |
|   | <b>(Unaudited)</b>           |                           |
| Capitalized lease obligations and other | 206                          | 224                       |
| Less current maturities                 | (83)                         | (82)                      |
| Long term debt and notes payable        | \$ 123                       | \$ 142                    |

*Credit Facility* On December 23, 2005, Emerson entered into a \$45.0 million Revolving Credit Agreement with Wachovia Bank. The loan agreement provides for a \$45.0 million revolving line of credit for revolving loans subject to individual maximums which, in the aggregate, are not to exceed the lesser of \$45.0 million or a Borrowing Base as defined in the loan agreement. The Borrowing Base amount is established by specified percentages of eligible accounts receivables and inventories and bears interest ranging from Prime (5.00% as of June 30, 2008) plus 0.00% to 0.50% or, at Emerson's election, the London Interbank Offered Rate (LIBOR which was 2.47% as of June 30, 2008) plus 1.25% to 2.25% depending on excess availability. Pursuant to the Revolving Credit

**Table of Contents**

Agreement, Emerson is restricted from, among other things, paying certain cash dividends, and entering into certain transactions without the lender's prior consent and is subject to certain leverage financial covenants. Amounts outstanding under the loan agreement are secured by substantially all of Emerson's tangible assets.

During the quarter ended September 30, 2006, Emerson amended its Revolving Credit Agreement with Wachovia Bank, National Association to finance its working capital requirements through October 31, 2006, primarily to ensure funding of the promotional item purchases totaling over \$30.0 million. Under this amendment, Emerson's line of credit was increased to \$53 million from \$45 million for this period, and its revolver commitments, letters of credit and inventory borrowing bases were increased. Emerson did not utilize the additional available funds during the amendment period, and this amendment expired at October 31, 2006.

At June 30, 2008, there were no borrowings outstanding under the facility.

As of June 30, 2008, the carrying value of this credit facility approximated fair value.

**NOTE 9 LEGAL PROCEEDINGS**

In late July 2008, the Court of Chancery of the State of Delaware (the "Court") entered an Order (the "Order") consolidating for all purposes two previously disclosed derivative actions (the Berkowitz and Pinchuk lawsuits) filed on our behalf against certain of our current and former directors. The complaints in each of such actions alleged that the named defendants violated their fiduciary duties to us in connection with a number of previously disclosed related party transactions with affiliates of Grande Holdings, our controlling shareholder. The Order also organizes counsel for the plaintiffs in the consolidated action, relieves the defendants of their obligation to answer the Berkowitz and Pinchuk complaints and contemplates the filing of a consolidated complaint as soon as practicable. The recovery, if any, in the consolidated action, will inure to our benefit.

Except for the litigation matters described above, we are not currently a party to any legal proceedings other than litigation matters, in most cases involving ordinary and routine claims incidental to our business. We cannot estimate with certainty our ultimate legal and financial liability with respect to such pending litigation matters. However, we believe, based on our examination of such matters, that our ultimate liability will not have a material adverse effect on our financial position, results of operations or cash flows.

**NOTE 10 FINANCIAL INSTRUMENTS**

In March 2007, the Company entered into fixed period foreign exchange forward contracts (between the US and Hong Kong dollar), based on economic and market conditions and solely for the purpose of speculative trading, not for the purpose of hedging other business opportunities. The contract terms are for fixed periods and at March 31, 2008, the Company's foreign exchange forward contracts had expiration dates that ranged from one to two months, with notional amounts of \$10 million.

At each balance sheet date the Company accounts for its foreign exchange forward contracts as a current asset with corresponding realized or unrealized gains and losses included in the income statement. Realized gains of \$132,647 have been recorded as non-operating income in the three months ended June 30, 2008. Realized gains of \$13,835 were recorded in the three months ended June 30, 2007.

At June 30, 2008, all foreign exchange forward contracts have expired and the Company has not entered into any new contracts.

**NOTE 11 MARKETABLE SECURITIES:**

As of June 30, 2008, the Company has \$12.2 million invested in trading securities, consisting entirely of auction rate securities ("ARS"). These securities have long-term nominal maturities for which interest rates are reset through a Dutch auction process at pre-determined calendar intervals; a process which had historically provided a liquid market for these securities. Interest continues to be paid by the issuers of these securities even through the continued liquidity issues experienced in the global credit and capital markets despite these ARS having multiple failed auctions. Based on an independent valuation and its internal analysis, the Company concluded that these securities had experienced an other-than-temporary decline in fair value and recorded an impairment charge of \$1.95 million in fiscal 2008. These ARS have AAA/Aaa credit ratings as of June 30, 2008, and have been classified as long-term investments in the Company's Consolidated Balance Sheets as a consequence of their uncertain liquidity.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 157, Accounting for Fair Value Measurements ("SFAS 157"), on April 1, 2008. SFAS 157 defines fair value as the price that would be received to sell

an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The standard outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures.

**Table of Contents**

Financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy. The three levels are as follows:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 inputs are unobservable inputs that reflect our own assumptions about the assumptions that market participants would use in pricing the asset or liability. The Company would develop these inputs based on the best information available, including its own data.

In accordance with the fair value hierarchy described above, the following table shows the fair value of our securities available for sale that are required to be measured at fair value as of June 30, 2008:

**Fair Value Measurement at Reporting Date Using:**

|   | <b>June 30,<br/>2008</b> |
|---|--------------------------|
| <b>Significant Unobservable Inputs (Level 3)</b>                        |                          |
| Investments in marketable securities (classified as trading securities) | \$ 10,510                |
| Investments in marketable securities                                    | \$ 10,510                |

The following table summarizes the changes in fair value for our Level 3 assets:

|   | <b>Fair Value<br/>Measurement of<br/>Asset using Level<br/>3<br/>inputs<br/>Trading<br/>Securities<br/>non-current</b> |
|---|--|
| Principal amount invested                         | \$ 13,900  |
| Total gains (losses) (realized or unrealized):    |  |
| Unrealized included in earnings at March 31, 2008 | (1,952)  |
| Balance at March 31, 2008                         | 11,948   |
| Total gains (losses) (realized or unrealized):    |  |
| Realized included in earnings at June 30, 2008    | 231  |
| Unrealized included in earnings at June 30, 2008  | 31   |
| Redemptions of principal                          | (1,700)  |
| Balance at June 30, 2008                          | \$ 10,510  |

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

The following discussion of our operations and financial condition should be read in conjunction with the Financial Statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

**Table of Contents**

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

**Forward-Looking Information**

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

Forward-looking statements include statements with respect to Emerson'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 Emerson's control, and which may cause Emerson's actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

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

the loss of any of our key customers or reduction in the purchase of our products by any such customers;

our inability to maintain effective internal controls or the failure by our personnel to comply with such internal controls;

the failure to maintain our relationships with our licensees and distributors or the failure to obtain new licensees or distribution relationships on favorable terms;

our inability to anticipate market trends, enhance existing products or achieve market acceptance of new products;

our dependence on a limited number of suppliers for our components and raw materials;

our dependence on third parties to manufacture and deliver our products;

the seasonality of our business, as well as changes in consumer spending and economic conditions;

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

our inability to protect our intellectual property;

the effects of competition;

changes in foreign laws and regulations and changes in the political and economic conditions in the foreign countries in which we operate;

conflicts of interest that exist based on our relationship with Grande;

the outcome of the Audit Committee's review of our related party transactions and internal controls;

changes in accounting policies, rules and practices; and

the other factors listed under "Risk Factors" in our Form 10-K, as amended, for the fiscal year ended March 31, 2008 and other filings with the Securities and Exchange Commission (the "SEC").

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this report or the date of the document incorporated by reference into this report. We have no obligation, and expressly disclaim any obligation, to update, revise or correct any of the forward-looking statements, whether as a result of new information, future events or otherwise. We have expressed our expectations, beliefs and projections in good faith and we believe they have a reasonable basis. However, we cannot assure you that our expectations, beliefs or projections will result or be achieved or accomplished.

**Table of Contents****Company Filings**

We make available through our internet website free of charge our 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 us with the SEC, as soon as practicable after we electronically file such reports and filings with the SEC. Our website address is [www.emersonradio.com](http://www.emersonradio.com). The information contained in this website is not incorporated by reference in this report.

**Results of Operations**

We operate in one segment, the consumer electronics segment, as presented in the following Management Discussion and Analysis.

The following table summarizes certain financial information for the three month periods ended June 30, 2008 (fiscal 2009) and June 30, 2007 (fiscal 2008) (in thousands):

|  | <b>Three Months Ended<br/>June 30</b> |             |
|--|---------------------------------------|-------------|
|  | <b>2008</b>                           | <b>2007</b> |
| Net revenues   | \$43,108                              | \$52,688    |
| Cost of sales  | 38,021                                | 45,248      |
| Other operating costs and expenses                   | 1,131                                 | 1,796       |
| Selling, general and administrative costs            | 4,828                                 | 4,977       |
| Non-cash compensation costs                          | 18                                    | 79          |
| Operating income (loss)                              | (890)                                 | 588         |
| Interest income, net                                 | 132                                   | 233         |
| Unrealized holding gains on trading securities       | 262                                   |             |
| Income (loss) before income taxes                    | (496)                                 | 821         |
| Provision for income taxes                           | 527                                   | 379         |
| Minority interest in loss of consolidated subsidiary | 94                                    |             |
| Net income (loss)                                    | \$ (929)                              | \$ 442      |

**Net Revenues** Net revenues for the first quarter of fiscal 2009 were \$43.1 million as compared to \$52.7 million for the first quarter of fiscal 2008, a decrease of \$9.6 million or 18.2%. Net revenues are comprised of Emerson(R) branded product sales, themed product sales and licensing revenues. Emerson(R) branded product sales are earned from the sale of products bearing the Emerson(R) or HH Scott(R) brand name; themed product sales represent products sold bearing a certain theme or character; and licensing revenues are derived from licensing the Emerson(R) and HH Scott(R) brand names to licensees for a fee. The major elements which contributed to the overall decrease in net revenues were as follows:

- i) Home appliances product sales increased \$4.0 million, or 15.4%, to \$30.0 million in the first quarter of fiscal 2009 as compared to \$26.0 million in the first quarter of fiscal 2008. Home appliance product sales consist of microwave ovens, wine coolers, small refrigerators, and toaster ovens;
- ii) Emerson(R) branded products sales, excluding home appliances products, were \$10.3 million in the first quarter of fiscal 2009 as compared to \$22.7 million in the first quarter of fiscal 2008, a decrease of \$12.4 million, or 54.6%, primarily resulting from decreased sales volumes in several audio product lines and the Ipod(R) compatible product category;
- iii)



Themed product sales were \$600,000 in the first quarter of fiscal 2009 compared to \$2.2 million in the first quarter of fiscal 2008, a decrease of \$1.6 million, or 72.7%, primarily resulting from the discontinuance of Nickelodeon(R) themed products and a shift in the sales volume and product mix of Mattel(R) themed products;

- iv) Licensing revenues increased approximately \$54,000, or 3.2%, to \$1.8 million in the first quarter of fiscal 2009 as compared to \$1.7 million in the first quarter of fiscal 2008, primarily due to our video licensing arrangements;
  - v) Sales of a joint venture which was formed in the fourth quarter of fiscal 2008 for the primary purpose of manufacturing, selling, distributing, and/or licensing audio and video equipment for the home and/or office had sales of \$421,000 in the first quarter of fiscal 2009; and
  - vi) In the three month periods ended June 30, 2008 and June 30, 2007, we charged fees of \$13,000 and \$85,000, respectively, to Sansui Sales PTE, Ltd and Akai Sales PTE, Ltd, both of which are related parties to us, for assistance in procuring their product from third-party suppliers. See Note 7 Related Party Transactions .
- Cost of Sales In absolute terms, cost of sales decreased \$7.2 million, or 15.9%, to \$38.0 million in the first quarter of fiscal 2009 as

**Table of Contents**

compared to \$45.2 million in the first quarter of fiscal 2008. Cost of sales, as a percentage of net revenues, was 88.2% and 85.9% in the first quarters of fiscal 2009 and fiscal 2008, respectively. Cost of sales as a percentage of sales revenues less license revenues increased to 92.0% in the first quarter of fiscal 2009 from 88.8% in the first quarter of fiscal 2008. The decrease in cost of sales in absolute terms for the first quarter of fiscal 2009 as compared to the first quarter of fiscal 2008 was primarily related to the decrease in sales volume, warehousing costs, and royalty expense offset by an increase in costs of personnel in Asia involved in quality assurance in production of our product, inventory overhead, and inventory reserves. The increase in cost of sales as a percentage of net revenues for the first quarter of fiscal 2009 as compared to fiscal 2008 resulted from lower margins in themed product categories as well as an increase in quality assurance costs. In addition, a decrease in inventory reserves in the first quarter of fiscal 2008 resulted primarily from the reduction of inventory levels of a discontinued themed-product line and returned, substandard goods which are not sold to retailers, which had been fully reserved in the preceding quarter.

Gross profit margins continue to be subject to competitive pressures arising from pricing strategies associated with the categories of the consumer electronics market in which we compete. Our products are generally placed in the low-to-medium priced category of the market, which has a tendency to be highly competitive.

**Other Operating Costs and Expenses** As a percentage of net revenues, other operating costs and expenses were 2.6% in the first quarter of fiscal 2009 and 3.4% in the first quarter of fiscal 2008. In absolute terms, other operating costs and expenses decreased \$665,000, or 37.0%, to \$1.1 million for the first quarter of fiscal 2009 as compared to \$1.8 million in the first quarter of fiscal 2008 as a result of decreased service costs.

**Selling, General and Administrative Expenses ( S,G&A )** S,G&A, as a percentage of net revenues, were 11.2% in the first quarter of fiscal 2009 as compared to 9.4% in the first quarter of fiscal 2008. S,G&A, in absolute terms, decreased \$150,000, or 3.0%, to \$4.8 million for the first quarter of fiscal 2009 as compared to \$5.0 million for the first quarter of fiscal 2008. The decrease in S,G&A in absolute terms between the first quarter of fiscal 2009 and first quarter of fiscal 2008 was primarily due to a decrease in variable selling expenses of \$320,000 and advertising expenses of \$228,000 offset by an increase in rent expense of \$165,000, legal fees of \$132,000, employment agency fees of \$67,000, and consulting fees related to the Company's Sarbanes-Oxley section 404 implementation of \$52,000.

**Non Cash Compensation** Non cash compensation relates to stock options expense associated with the adoption of FAS 123(R) Share-Based Payment. For the first quarter of fiscal 2009, non-cash compensation costs of \$18,000 were recorded, as compared to \$79,000 in non-cash compensation costs recorded for the first quarter of fiscal 2008.

**Interest Income, net** Interest income, net, was \$132,000 (0.3% of net revenues) in the first quarter of fiscal 2009 as compared to \$233,000 (0.4% of net revenues), including interest income on a note receivable from a related party of \$163,000, in the first quarter of fiscal 2008. See Note 7 Related Party Transactions. Interest income for the first quarter of fiscal 2009 was primarily comprised of interest earned on the auction rate securities. Interest income for the first quarter of 2008 was earned on money market accounts.

**Realized/Unrealized holding gains on trading securities** During the fourth quarter of fiscal 2008, we recorded unrealized holding losses of \$1.95 million on our auction rate securities. Our valuation was estimated by comparing current value based on projected cash flows discounted to the present and taking into account yields of similar illiquid instruments and assumptions about the extent of the failure of the auction process and the amount of discounts demanded in sales of comparable securities. In the first quarter of fiscal 2009, we recorded realized holding gains of \$231,000 on redemptions and unrealized holding gains of \$31,000 after evaluating our investments in these securities. See note 11 Marketable Securities.

**Provision for Income Taxes** Our provision for income taxes, which primarily represents the deferred tax charges associated with our profits in the United States, was \$527,000 for the first quarter of fiscal 2009, or 1.2% of net revenues, as compared to a provision of \$379,000 for the first quarter of fiscal 2008, or 0.7% of net revenues.

**Net Income (Loss)** As a result of the foregoing factors, our net (loss) was \$929,000 for the first quarter of fiscal 2009 as compared to net income of \$442,000 (0.8% of net revenues) in the first quarter of fiscal 2008.

**Table of Contents****Liquidity and Capital Resources**

As of June 30, 2008, we had cash and cash equivalents of approximately \$16.6 million, compared to approximately \$23.2 million at June 30, 2007. Working capital decreased to \$45.3 million at June 30, 2008 as compared to \$67.1 million at June 30, 2007. The decrease in cash and cash equivalents of approximately \$6.6 million was primarily due to investments in securities which have been classified as long-term and property and equipment additions, partially offset by a change in the amount of restricted cash which has been pledged to assure the availability of credit facilities as described in the following paragraphs.

Operating cash flow provided by operating activities was approximately \$604,000 for the three months ended June 30, 2008, resulting from increases in amounts payable for purchasing our products, which are settled primarily through the use of letters of credit but also on open account, primarily offset by growth in accounts receivable on our direct import sales, which represent sales under letter of credit arrangements, and the amount of restricted cash for balances pledged to assure the availability of credit facilities.

Net cash provided by investing activities was \$1.5 million for the three months ended June 30, 2008 and resulted primarily from partial calls on our auction rate securities offset by purchases of showroom furniture and computer equipment for our US operations as well as tooling by a foreign subsidiary related to sourcing of product.

Net cash used by financing activities was \$18,000 for the three months ended June 30, 2008, resulting from repayments of long-term borrowings.

On December 23, 2005, we entered into a \$45.0 million Revolving Credit Agreement with Wachovia Bank. This credit facility provides for revolving loans subject to individual maximums which, in the aggregate, are not to exceed the lesser of \$45.0 million or a Borrowing Base as defined in the loan agreement. The Borrowing Base amount is established by specified percentages of eligible accounts receivables and inventories and bears interest ranging from Prime plus 0.00% to 0.50% or, at our election, the London Interbank Offered Rate ( LIBOR ) plus 1.25% to 2.25% depending on excess availability. Pursuant to the loan agreement, we are restricted from, among other things, paying certain cash dividends, and entering into certain transactions without the lender s prior consent and are subject to certain leverage financial covenants. Borrowings under the loan agreement are secured by substantially all of our tangible assets.

At June 30, 2008, there were approximately \$20.4 million of letters of credit outstanding under this facility. There were no borrowings outstanding at June 30, 2008 under this facility. At June 30, 2008, we were in compliance with the covenants on our credit facilities.

At June 30, 2008 the Company deposited \$2.0 million with Wachovia, to secure on a dollar for dollar basis, additional letter of credit availability. As such, this amount has been classified on the balance sheet as restricted cash.

As a result of Emerson electing to cancel its foreign bank facilities in December 2007, our foreign subsidiaries maintain no credit facilities as of December 31, 2007.

At December 31, 2007, as a result of Emerson electing to cancel its foreign bank facilities, the requirement to maintain pledged deposits with foreign banks for our foreign subsidiaries was eliminated. As such, \$3.0 million in certificates of deposit held at these banks have been returned.

*Short-Term Liquidity.* Liquidity is impacted by seasonality in that Emerson generally records the majority of its annual sales in the quarters ending September and December. This requires Emerson to maintain higher inventory levels during the quarters ending June and September, therefore increasing the working capital needs during these periods. Additionally, Emerson receives the largest percentage of product returns in the quarter ending March. The higher level of returns during this period adversely impacts collection activity, and therefore liquidity. In the three months ended June 30, 2008, products representing approximately 36.5% of net revenues were imported directly to Emerson s customers. This contributes significantly to Emerson s liquidity in that this inventory does not need to be financed.

**Table of Contents**

Emerson's principal existing sources of cash are generated from operations and borrowings available under its revolving credit facilities. As of June 30, 2008, Emerson had \$24.6 million of borrowing capacity available under its \$45.0 million revolving credit facilities, as there were \$20.4 million of letters of credit outstanding, and no outstanding loans. Emerson believes that its existing sources of cash, including cash flows generated from operations, will be sufficient to support existing operations over the next 12 months; however, management may decide to raise additional financing, which may include the issuance of equity securities, or the incurrence of additional debt, in connection with existing operations or if we elect to pursue acquisitions.

The following summarizes obligations at June 30, 2008 for the periods shown (in thousands):

|   | <b>Total</b>   | <b>Payment due by period (1)</b> |                    |                    | <b>More than 5 years</b> |
|---|----------------|----------------------------------|--------------------|--------------------|--------------------------|
|   |                | <b>Less than 1 year</b>          | <b>1 - 3 years</b> | <b>3 - 5 years</b> |                          |
| Capital lease obligations                 | \$ 206         | \$ 83                            | \$ 109             | \$ 14              | \$                       |
| Operating lease obligations related party | 183            | 183                              |                    |                    |                          |
| Operating lease obligations non-affiliate | 4,494          | 1,753                            | 2,437              | 304                |                          |
| <b>Total</b>                              | <b>\$4,883</b> | <b>\$2,019</b>                   | <b>\$2,546</b>     | <b>\$ 318</b>      | <b>\$</b>                |

(1) Amounts in the above table do not include a reserve of approximately \$149,000 related to uncertain tax positions. The Company is not able to reasonably estimate when, if ever, these reserves would result in actual cash payments.

There were no material capital expenditure commitments and no substantial commitments for purchase orders outside the normal purchase orders used to secure product as of June 30, 2008.

**Other Events and Circumstances Pertaining to Liquidity**

The Company entered into foreign exchange forward contracts (denominated in US and Hong Kong dollar), based on economic and market conditions and solely for the purpose of speculative trading, (See Note 10. Financial Instruments and Item 4.b Changes in Internal Control Over Financial Reporting). The contract terms are for fixed periods and at March 31, 2008, the Company's foreign exchange forward contracts had expiration dates that ranged from one to two months, with notional amounts of \$10 million.

At each balance sheet date the Company accounts for its foreign exchange forward contracts as a current asset with corresponding realized or unrealized gains and losses included in the income statement. Realized gains of \$132,647 have been recorded as non-operating income in the three months ended June 30, 2008. Realized gains of \$13, 835 were recorded in the three months ended June 30, 2007.

At June 30, 2008, all foreign exchange forward contracts have expired and the Company has not entered into any new contracts.

**Critical Accounting Policies**

For the three month period ended June 30, 2008, there were no significant changes to accounting policies from those reported in the Annual Report on Form 10-K for the fiscal year ended March 31, 2008.

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

Neither inflation nor currency fluctuations had a significant effect on our results of operations during the first quarter of fiscal 2008. Our exposure to currency fluctuations has been minimized by the use of U.S. dollar denominated purchase orders. We purchase virtually all of our products from manufacturers located in China.

The interest on any borrowings under our credit facilities would be based on the prime and LIBOR rate.

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

There have been no significant changes from items disclosed in Form 10-K for the fiscal year ended March 31, 2008.

**Item 4. Controls and Procedures**

(a) *Disclosure controls and procedures.*

**Table of Contents**

During the first three months of Fiscal 2008, our management, including the principal executive officer and principal financial officer, evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) related to the recording, processing, summarization and reporting of information in our reports that we file with the Securities and Exchange Commission. These disclosure controls and procedures have been designed to ensure that material information relating to us, including our subsidiaries, is made known to our management, including these officers, by other of our employees, and that this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the Securities and Exchange Commission's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

Based on their evaluation as of June 30, 2008, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to reasonably ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding disclosure.

*(b) Changes in Internal Controls Over Financial Reporting*

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter to which this Quarterly Report on Form 10-Q relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

In late July 2008, the Court of Chancery of the State of Delaware (the Court ) entered an Order (the Order ) consolidating for all purposes two previously disclosed derivative actions (the Berkowitz and Pinchuk lawsuits) filed on our behalf against certain of our current and former directors. The complaints in each of such actions alleged that the named defendants violated their fiduciary duties to us in connection with a number of previously disclosed related party transactions with affiliates of Grande Holdings, our controlling shareholder. The Order also organizes counsel for the plaintiffs in the consolidated action, relieves the defendants of their obligation to answer the Berkowitz and Pinchuk complaints and contemplates the filing of a consolidated complaint as soon as practicable. The recovery, if any, in the consolidated action, will inure to our benefit.

Except for the litigation matters described above, we are not currently a party to any legal proceedings other than litigation matters, in most cases involving ordinary and routine claims incidental to our business. We cannot estimate with certainty our ultimate legal and financial liability with respect to such pending litigation matters. However, we believe, based on our examination of such matters, that our ultimate liability will not have a material adverse effect on our financial position, results of operations or cash flows.

**Item 1A. Risk Factors**

There were no changes in any risk factors previously disclosed in our Annual Report on Form 10-K, as amended, for the fiscal year ended March 31, 2008.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

**Share Repurchases:**

For the quarter ended June 30, 2008, the Company did not repurchase any shares under Emerson Radio Corp.'s common stock share repurchase program. The share repurchase program was publicly announced in September 2003 to repurchase up to 2,000,000 shares of Emerson's outstanding common stock. Share repurchases are made from time to time in open market transactions in such amounts as determined in the discretion of Emerson's management within

the guidelines set forth by Rule 10b-18 under the Securities Exchange Act. Prior to the June 30, 2008 quarter, the Company repurchased 1,267,623 shares under this program. As of June 30, 2008, the maximum number of shares that are available to be repurchased under Emerson Radio Corp. s common share repurchase program was 732,377. No shares have been repurchased under the program since June 14, 2005.

**Table of Contents**

**ITEM 3. Defaults Upon Senior Securities.**

(a) None

(b) None

**ITEM 4. Submission of Matters to a Vote of Security Holders.**

None

**ITEM 5. Other Information.**

None

**ITEM 6. Exhibits.**

31.1 Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*

31.2 Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*

\* filed herewith



**Table of Contents**

SIGNATURES

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

EMERSON RADIO CORP.

(Registrant)

/s/ Adrian Ma

Adrian Ma

Chief Executive Officer

(Principal Executive Officer)

Date: August 14, 2008

/s/ Greenfield Pitts

Greenfield Pitts

Chief Financial Officer

(Principal Financial and Accounting  
Officer)

Date: August 14, 2008

20