

EMERSON RADIO CORP
Form 10-Q
November 15, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

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.)

85 Oxford Drive, Moonachie, New Jersey

07074

(Address of principal executive offices)

(Zip code)

(973) 428-2000

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Indicate the number of shares outstanding of common stock as of November 15, 2010: 27,129,832.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

(In thousands, except earnings per share data)

	Three Months Ended		Six Months Ended	
	September 30		September 30	
	2010	2009	2010	2009
Net revenues	\$ 51,966	\$ 51,774	\$ 119,121	\$ 107,373
Costs and expenses:				
Cost of sales	45,892	43,701	103,415	93,304
Other operating costs and expenses	712	1,077	1,011	1,855
Selling, general and administrative	2,045	3,643	3,974	7,432
	48,649	48,421	108,400	102,591
Operating income	3,317	3,353	10,721	4,782
Interest income, net	4	12	14	22
Income from continuing operations before income taxes	3,321	3,365	10,735	4,804
Provision for income taxes	98	144	1,633	422
Income from continuing operations	3,223	3,221	9,102	4,382
Loss from discontinued operations, net of tax benefit				(55)
Net income	\$ 3,223	\$ 3,221	\$ 9,102	4,327
Basic net income per share:				
Continuing operations	\$.12	\$.12	\$.34	\$.16
Discontinued operations				
	\$.12	\$.12	\$.34	\$.16
Diluted net income per share:				
Continuing operations	\$.12	\$.12	\$.34	\$.16
Discontinued operations				
	\$.12	\$.12	\$.34	\$.16
Weighted average shares outstanding:				
Basic	27,130	27,130	27,130	27,130
Diluted	27,131	27,130	27,131	27,130

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

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

	September 30, 2010 (Unaudited)	March 31, 2010(A)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,608	\$ 9,969
Restricted cash	2,197	5,083
Accounts receivable, net	20,447	20,350
Other receivables	1,339	1,037
Due from affiliates	86	
Inventory, net	34,991	10,952
Prepaid expenses and other current assets	529	736
Deferred tax assets	3,346	3,383
Total current assets	65,543	51,510
Property, plant and equipment, net	2,959	3,131
Trademarks and other intangible assets, net	1,545	1,606
Due from affiliates	144	185
Investments in marketable securities	6,031	6,031
Deferred tax assets	5,584	6,588
Other assets	219	205
Total assets	\$ 82,025	\$ 69,256
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	\$ 5,598	\$ 5,629
Current maturities of long-term borrowings	17	30
Accounts payable and other current liabilities	24,143	20,776
Due to affiliates	2	28
Accrued sales returns	1,259	957
Income taxes payable	328	174
Total current liabilities	31,347	27,594
Long-term borrowings	104	201
Deferred tax liabilities	128	119
Shareholders equity:		
Preferred shares -10,000,000 shares authorized; 3,677 shares issued and outstanding; liquidation preference of \$3,677,000	3,310	3,310
Common shares - \$.01 par value, 75,000,000 shares authorized, 52,965,797 shares issued, and 27,129,832 shares outstanding	529	529
Capital in excess of par value	98,785	98,785
Accumulated other comprehensive losses	(82)	(82)
Accumulated deficit	(27,872)	(36,976)
Treasury stock, at cost, 25,835,965 shares	(24,224)	(24,224)

Total shareholders equity		50,446		41,342
Total liabilities and shareholders equity	\$	82,025	\$	69,256

(A) Reference is made to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2010 filed with the Securities and Exchange Commission on July 14, 2010.

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

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

	Six Months Ended	
	September 30	
	2010	2009
Cash flows from operating activities:		
Income from continuing operations	\$ 9,102	\$ 4,382
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	299	432
Non cash compensation		10
Deferred tax expense	1,050	142
Asset allowances, reserves and other	94	(442)
Changes in assets and liabilities:		
Accounts receivable	518	(2,460)
Other receivables	(302)	140
Due from affiliates	(45)	(4)
Inventories	(24,444)	(1,317)
Prepaid expenses and other current assets	207	710
Other assets	(14)	50
Accounts payable and other current liabilities	3,367	3,612
Due to affiliates	(26)	(25)
Interest and income taxes payable	154	(7)
Net cash (used) provided by operating activities	(10,040)	5,223
Cash flows from investing activities:		
Decrease in restricted cash	2,886	3,023
Purchase of trademark		(1,469)
Additions to property and equipment	(66)	(200)
Net cash provided by investing activities	2,820	1,354
Cash flows from financing activities:		
Repayments of short-term borrowings	(44)	(82)
Borrowings under long-term credit facility	56,820	57,032
Repayments of borrowings under long-term credit facility	(56,917)	(57,048)
Net cash (used) by financing activities	(141)	(98)
Net increase (decrease) in cash and cash equivalents	(7,361)	6,479
Cash and cash equivalents at beginning of period	9,969	22,518
Cash and cash equivalents at end of period	\$ 2,608	\$ 28,997

Cash paid during the period for:

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Interest	\$	63	\$	58
Income taxes	\$	331	\$	4

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

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

NOTE 1 BACKGROUND AND BASIS OF PRESENTATION

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

The unaudited interim consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the Company s consolidated financial position as of September 30, 2010 and the results of operations for the three and six month periods ended September 30, 2010 and September 30, 2009. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the financial statements not misleading have been included. All significant intercompany accounts and transactions have been eliminated in consolidation. The preparation of the unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes; actual results could materially differ from those estimates. The unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and accordingly do not include all of the disclosures normally made in the Company s annual consolidated financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended March 31, 2010 (fiscal 2010), included in the Company s annual report on Form 10-K, as amended, for fiscal 2010.

The financial position and results of operations of the Company s former joint venture interest in Advanced Sound and Image, LLC for the six month period ended September 30, 2009 have been presented as discontinued operations. See Note 11 Discontinued Operations .

The results of operations for the three and six month periods ended September 30, 2010 are not necessarily indicative of the results of operations that may be expected for any other interim periods or for the full year ending March 31, 2011 (fiscal 2011).

Certain reclassifications were made to conform the prior year s financial statements to the current presentation.

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

Subsequent events have been evaluated through November 15, 2010.

Stock- Based Compensation

The Company measures compensation cost for stock-based compensation arrangements based on grant date fair value. The computed fair value is expensed ratably over the requisite vesting period as required by the Stock Compensation Topic of the FASB Accounting Standards Codification. All outstanding stock based compensation arrangements issued by the Company were fully vested as of November 30, 2009. Consequently, the Company recorded no compensation costs during either the three or six month periods ending September 30, 2010. For the three and six months ending September 30, 2009, the Company recorded compensation costs of \$5,000 and \$9,000, respectively.

Sales Allowance and Marketing Support Expenses

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

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At the time of sale, the Company reduces recognized gross revenue by allowances to cover, in addition to estimated sales returns as required by ASC topic 605, Revenue Recognition, subtopic 15 Products, (i) sales incentives offered to customers that meet the criteria for accrual under ASC topic 605, subtopic 50 and (ii) under SAB s 101 and 104, an estimated amount to recognize additional non-offered deductions it anticipates and can reasonably estimate will be taken by customers which it does not expect to recover. Accruals for the estimated amount of future non-offered deductions are required to be made as contra-revenue items because that percentage of shipped revenue fails to meet the collectability criteria within SAB 104 s and 101 s four revenue recognition criteria, all of which are required to be met in order to recognize revenue.

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

NOTE 2 COMPREHENSIVE INCOME

Comprehensive income equaled net income for the both the three and six month periods ended September 30, 2010 and September 30, 2009.

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):

	Three months ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Numerator:				
Net income from continuing operations for basic and diluted earnings per share	\$ 3,223	\$ 3,221	\$ 9,102	\$ 4,382
Denominator:				
Denominator for basic earnings per share weighted average shares	27,130	27,130	27,130	27,130
Effect of dilutive securities on denominator:				
Options (computed using the treasury stock method)	1		1	
Denominator for diluted earnings per share weighted average shares and assumed conversions	27,131	27,130	27,131	27,130
Basic and diluted earnings from continuing operations per share	\$.12	\$.12	\$.34	\$.16

NOTE 4 SHAREHOLDERS EQUITY

Outstanding capital stock at September 30, 2010 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 September 30, 2010, the Company had approximately 77,000 options outstanding with exercise prices ranging from \$1.00 to \$3.19.

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 September 30, 2010 and September 30, 2009. As of September 30, 2010, 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 September 30, 2010 and March 31, 2010, inventories consisted of the following (in thousands):

	September 30, 2010 (Unaudited)	March 31, 2010
Finished goods	\$ 37,154	\$ 12,710
Less inventory allowances	(2,163)	(1,758)
Net inventory	\$ 34,991	\$ 10,952

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 20 years. Although realization is not assured, management believes it is more likely than not that all of the net deferred tax assets will be realized through tax planning strategies available in future periods and through future profitable operating results. The amount of the deferred tax asset considered realizable could be reduced or eliminated if certain tax planning strategies are not successfully executed or estimates of future taxable income during the carry forward period are reduced. If management determines that the Company would not be able to realize all or part of the net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

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As of September 30, 2010, the Company had \$119,000 of unrecognized tax benefits related to state taxes. All of the unrecognized tax benefits could impact the Company's 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 September 30, 2010 and are recognized in the balance sheet.

The Company's effective tax rate differs from the federal statutory rate primarily due to expenses that are not deductible for federal income tax purposes, foreign tax rates, state income taxes and a change in valuation allowance.

The Company is subject to examination and assessment by tax authorities in numerous jurisdictions. A summary of the Company's open tax years is as follows as of September 30, 2010:

Jurisdiction	Open tax years
U.S. federal	2006-2009
States	2006-2009

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

NOTE 7 RELATED PARTY TRANSACTIONS

From time to time, Emerson engages in business transactions with its controlling shareholder, The Grande Holdings Limited and/or its subsidiaries (Grande). Set forth below is a summary of such transactions.

Majority Shareholder

Grande's Ownership Interest in Emerson. At September 30, 2010, approximately 56.2% of the Company's outstanding common stock was owned by direct or indirect subsidiaries of The Grande Holdings Limited, a Bermuda corporation.

Related Party Transactions***Leases and Other Real Estate Transactions.*****Rented Space in Hong Kong**

Effective May 15, 2009, Emerson entered into an amended lease agreement with The Grande Properties Ltd., (Grande Properties) pursuant to which the space rented from Grande Properties was increased from 18,476 square feet to 19,484 square feet. This amended agreement by its terms expired on December 31, 2009.

Effective June 1, 2009, Emerson entered into another lease agreement with Grande Properties, pursuant to which additional space was rented from Grande Properties totaling 17,056 square feet for Emerson's use to refurbish certain returned products. In connection with this new space rental, during June 2009, Emerson paid a security deposit of approximately \$71,400 to Grande Properties. This lease agreement expired on December 31, 2009.

Effective January 1, 2010, Emerson entered into a lease agreement with Lafe Properties (Hong Kong) Limited, formerly known as The Grande Properties Ltd. (Lafe), pursuant to which Emerson rented 36,540 square feet from Lafe for the purpose of housing its Hong Kong based office personnel and for its use to refurbish certain returned products.

Rent expense and related service charges associated with these lease agreements with Grande totaled approximately \$174,000 and \$192,000 for the three months ending September 30, 2010 and September 30, 2009, respectively, and \$347,000 and \$338,000 for the six months ending September 30, 2010 and September 30, 2009, respectively. The rent expense and related service charges associated with these lease agreements are included in the Consolidated Statements of Operations as a component of selling, general, and administrative expenses.

Emerson owed Grande \$2,680 and \$1,703 related to this activity at September 30, 2010 and March 31, 2010, respectively, and a security deposit of \$113,000 and \$153,000 on the leased property was held by Lafe as of September 30, 2010 and March 31, 2010, respectively.

Table of Contents**Rented Space in the People's Republic of China**

In December 2008, Emerson signed a lease agreement with Akai Electric (China) Ltd., a subsidiary of Grande, concerning the rental of office space, office equipment, and lab equipment for Emerson's quality assurance personnel in Zhongshan, People's Republic of China. The lease term began in July 2007 and ended by its terms in June 2009, at which time the agreement renews automatically on a month-by-month basis unless canceled by either party. The agreement has not been canceled by either party, and therefore remains in full force and effect as of September 30, 2010.

Rent charges with Akai Electric (China) Ltd. totaled approximately \$28,000 and \$25,000 for the three months ending September 30, 2010 and September 30, 2009, respectively, and \$56,000 and \$53,000 for the six months ending September 30, 2010 and September 30, 2009, respectively.

Emerson owed Akai Electric (China) Ltd. \$0 related to the agreement at both September 30, 2010 and March 31, 2010, respectively, and Akai Electric (China) Ltd. held a security deposit paid to it by Emerson in the amount of \$31,600 at both September 30, 2010 and March 31, 2010, respectively.

Other.

In June 2009, Emerson paid a consulting fee of approximately \$6,000 to Mr. Michael A.B. Binney, a former director of Grande, related to Emerson's licensing business, certain potential business opportunities and the investigation of various international sales opportunities.

During the three and six months ending September 30, 2010, Emerson paid consulting fees of approximately \$29,399 and \$60,781, respectively, to Mr. Eduard Will, a director of Emerson, for work performed during the period December 2009 through September 2010 by Mr. Will relating to the Emerson Radio Shareholder Derivative Litigation (The Berkowitz Litigation) described in the section below entitled Legal Proceedings . In May 2010, Emerson signed an agreement with Mr. Will, which formalized the arrangement and commits Emerson to paying a consulting fee of a minimum of \$12,500 per quarter to Mr. Will relating to The Berkowitz Litigation.

During the three and six months ending September 30, 2009, Emerson paid Innovative Capital Limited, a subsidiary of Grande, consulting fees of \$50,000 and \$125,000, respectively, for services rendered to Emerson during those periods by personnel of Grande. This consulting arrangement ended on September 30, 2009.

During the three months and six months ending September 30, 2010, Akai Sales invoiced Emerson approximately \$0 and \$7,300, respectively, for travel expenses and courier fees which Akai Sales paid on Emerson's behalf, and during the three months ending September 30, 2009, Akai Sales invoiced Emerson approximately \$21,000 for travel expenses which Akai Sales paid on Emerson's behalf. Including earlier invoices related to similar charges paid for by Akai Sales on Emerson's behalf, Emerson owed Akai Sales approximately \$0 at September 30, 2010 and \$26,000 at March 31, 2010, as a result of these invoices.

During September 2009, Nakamichi Corporation Ltd. (Nakamichi), a subsidiary of Grande, invoiced Emerson approximately \$1,000 for audio samples. As of March 31, 2010, Emerson owed Nakamichi \$0.

On April 7, 2010, upon a request made to the Company by its foreign controlling stockholder, S&T International Distribution Limited (S&T), a subsidiary of Grande, the Company entered into an agreement (the Agreement) with S&T whereby the Company returned to S&T on April 7, 2010 that portion of the taxes that the Company had withheld from the dividend paid on March 24, 2010 to S&T, which the Company believes is not subject to U.S. tax based on the Company's good-faith estimate of its accumulated earnings and profits. Per the terms of the Agreement, Emerson invoiced S&T in June 2010 approximately \$42,000 for reimbursement of legal fees incurred by Emerson with regard to the Agreement and approximately \$33,000 as a transaction fee for having entered into the Agreement. As of September 30, 2010, S&T owed Emerson approximately \$75,000 as a result of this invoice.

NOTE 8 BORROWINGS**Short-term Borrowings**

At both September 30, 2010 and March 31, 2010, there were \$5.6 million of short-term borrowings outstanding under a credit line maintained with Smith Barney. This facility is backed by the Company's auction rate securities and bears interest at the Federal Funds Rate plus 1.10%, and these borrowings have no net carrying cost.

Table of Contents**Long-term Borrowings**

As of September 30, 2010 and March 31, 2010, borrowings under long-term facilities consisted of the following (in thousands):

	September 30, 2010 (Unaudited)	March 31, 2010
Capitalized lease obligations and other	121	231
Less current maturities	(17)	(30)
Long term debt and notes payable	\$ 104	\$ 201

Credit Facility - On March 2, 2010, the Company entered into an amendment to its Revolving Credit Agreement with Wachovia Bank, whereby the facility was changed to allow only the issuance of 105% cash-collateralized Letters of Credit up to a maximum \$15.0 million or a Borrowing Base as defined in the agreement. The Borrowing Base amount is established by specified percentages of eligible accounts receivables and inventories. The interest rate charged to the Company on Letters of Credit ranges from Prime or, at the Company's election, the London Interbank Offered Rate (LIBOR), plus an interest rate margin ranging between 1.25% to 2.25%, depending on excess availability and the type of Letter of Credit. Pursuant to the loan agreement, the Company 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. Borrowings under the loan agreement are secured by substantially all of the Company's assets. The loan agreement expires by its terms on December 23, 2010 and the Company is currently evaluating its options with regard to its long-term credit and banking needs.

At September 30, 2010, there were no borrowings outstanding under the facility.

NOTE 9 LEGAL PROCEEDINGS

In re: Emerson Radio Shareholder Derivative Litigation. In late 2008, the plaintiffs in two previously filed derivative actions (the Berkowitz and Pinchuk actions) filed a consolidated amended complaint naming as defendants two current and one former director of the Company and alleging that the named defendants violated their fiduciary duties to the Company in connection with a number of related party transactions with affiliates of The Grande Holdings, Ltd., the Company's controlling shareholder. In January 2009, the individual defendants filed an answer denying the material allegations of the complaint. In May 2010, the plaintiffs and the defendants agreed in principle to settle the matter with a payment to the Company by or on behalf of the defendants of \$3.0 million less the amount of legal fees payable to plaintiffs' counsel and certain other expenses. The parties executed a definitive settlement agreement on October 6, 2010 and filed it with the Delaware Court of Chancery on October 7, 2010. Finalization of the settlement is subject, among other things, to (i) written notification of the proposed settlement to shareholders in a form approved by the Delaware Court of Chancery and (ii) approval by the Delaware Court of Chancery, which has set a hearing date on January 18, 2011, of the settlement and the award of legal fees payable to plaintiffs' counsel.

Except for the litigation matters described above, 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 our 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 our 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.

Table of Contents**NOTE 10 MARKETABLE SECURITIES:**

As of both September 30, 2010 and March 31, 2010, the Company had \$8.1 million face value (net book value of \$6.0 million) invested in trading securities, consisting entirely of student loan auction rate securities (SLARS). These securities have long-term nominal maturities for which interest rates which were historically reset through a Dutch auction process at pre-determined calendar intervals; a process which, prior to February 2008, had historically provided a liquid market for these securities. As a result of the continuing liquidity issues experienced in the global credit and capital markets, these SLARS have had multiple failed auctions. As a result, the Company concluded at March 31, 2008, that these securities had experienced an other-than-temporary decline in fair value. These SLARS have AAA/Aaa and AAA/Baa3 credit ratings as of September 30, 2010, and have been classified as long-term investments in the Company's Consolidated Balance Sheet as a consequence of their uncertain liquidity. There were no realized or unrealized gains or losses on the Company's SLARS during the three or six months ended September 30, 2010, based on the Company's assessment of these securities' net realizable value as of that date, which considered external market data available to the Company.

ASC Topic 820 Fair Value Measurements and Disclosures 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.

Under ASC Topic 820, 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 the Company's securities available for sale that are required to be measured at fair value as of September 30, 2010:

Fair Value Measurement at Reporting Date Using:

	September 30, 2010
Significant Unobservable Inputs (Level 3)	
Investments in marketable securities (classified as trading securities)	\$ 6,031
Investments in marketable securities	\$ 6,031

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

	Fair Value Measurement of Asset using Level 3 inputs Trading Securities non-current
Balance at March 31, 2010	6,031
Total gains (losses) (realized or unrealized):	
Realized included in earnings at September 30, 2010	

Unrealized included in earnings at September 30, 2010

Redemptions of principal

Balance at September 30, 2010	\$	6,031
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NOTE 11 DISCONTINUED OPERATIONS:

As a result of the Company's sale of its membership in the ASI joint venture in April 2009, the results of operations of the Company's membership interest in the ASI joint venture have been presented as discontinued operations for the six months ended September 30, 2009.

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

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

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

Forward-Looking Information

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

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

All statements other than statements of historical fact are statements that could be forward-looking statements. The reader can identify these forward-looking statements through the Company's use of words such as may, will, can, anticipate, assume, should, indicate, would, believe, contemplate, expect, seek, estimate, continue, predict, could, 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 the Company's key customers or reduction in the purchase of its products by any such customers;

- the failure by the Company to maintain its relationships with its licensees and distributors or the failure to obtain new licensees or distribution relationships on favorable terms;

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