

Edgar Filing: EMERSON RADIO CORP - Form 10-Q

EMERSON RADIO CORP  
Form 10-Q  
August 21, 2006

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, 2006

-----  
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, or a non-accelerated filer. See definition of "accelerated  
filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.  
 Large accelerated filer  Accelerated filer  Non-accelerated filer

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 11, 2006: 27,064,832.

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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	
	June 30, 2006	June 30, 2005
NET REVENUES	\$ 55,389	\$ 38,647
COSTS AND EXPENSES:		
Cost of sales	47,840	32,914
Other operating costs and expenses	1,599	1,199
Selling, general and administrative expenses (exclusive of non-cash compensation shown below)	5,334	3,839
Acquisition costs	21	--
Non-Cash compensation	105	82
	54,899	38,034
OPERATING INCOME	490	613
Interest (income) expense, net	(105)	407
INCOME BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	595	206
Provision for income taxes	14	62
INCOME FROM CONTINUING OPERATIONS	581	144
Income from discontinued operations, net of tax	--	272
NET INCOME	\$ 581	\$ 416
BASIC NET INCOME PER SHARE:		
Continuing operations	\$ 0.02	\$ 0.01
Discontinued operations	--	0.01
	\$ 0.02	\$ 0.02
DILUTED NET INCOME PER SHARE:		
Continuing operations	\$ 0.02	\$ 0.01
Discontinued operations	--	0.01
	\$ 0.02	\$ 0.02
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	27,065	27,172
Diluted	27,142	27,226

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

2

### EMERSON RADIO CORP. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (IN THOUSANDS)

	June 30, 2006	
	-----	-----
ASSETS		(Unaudited)
Current Assets:		
Cash and cash equivalents	\$ 15,269	\$
Restricted cash	3,000	
Accounts receivable (less allowances of \$5,219 and \$4,770, respectively)	29,327	
Other receivables	1,604	
Inventories	41,128	
Prepaid expenses and other current assets	3,100	
Deferred tax assets	4,350	
	-----	
TOTAL CURRENT ASSETS	97,778	
Property, plant and equipment, net	2,540	
Trademarks and other intangible assets, net	403	
Deferred tax assets	6,861	
Other assets	591	
	-----	
TOTAL ASSETS	\$ 108,173	\$
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Short-term borrowings	\$ 2,543	\$
Current maturities of long-term borrowings	127	
Accounts payable and other current liabilities	32,091	
Accrued sales returns	1,763	
Income taxes payable	121	
	-----	
TOTAL CURRENT LIABILITIES	36,645	
Long-term borrowings	687	
Shareholders' Equity:		
Preferred shares - 10,000,000 shares authorized, 3,677 shares issued and outstanding	3,310	
Common shares - \$.01 par value, 75,000,000 shares authorized; 52,900,797 and 52,900,297 shares issued, 27,064,832 and 27,064,332 shares outstanding, respectively	529	
Capital in excess of par value	117,190	
Accumulated other comprehensive losses	(70)	
Accumulated deficit	(25,894)	
Treasury stock, at cost, 25,835,965 shares	(24,224)	
	-----	
TOTAL SHAREHOLDERS' EQUITY	71,141	-----

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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

\$ 108,173

=====

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

3

EMERSON RADIO CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(IN THOUSANDS)

	Three ----- June 30, 2006 ----
Cash Flows from Operating Activities:	
Income from continuing operations	\$ 581
Adjustments to reconcile income from continuing operations to net cash used by continuing operations:	
Depreciation and amortization	266
Non cash compensation	105
Deferred tax expenses	--
Asset allowances, reserves and other	890
Changes in assets and liabilities:	
Restricted cash	--
Accounts receivable	(11,065)
Other receivables	(177)
Inventories	(8,101)
Prepaid expenses and other current assets	594
Other assets	100
Accounts payable and other current liabilities	13,970
Income taxes payable	(21)
Operating cash flow used by continuing operations	(2,858)
Operating cash flow used by discontinued operations	--
Net cash (used) by operating activities	(2,858)
Cash Flows from Investing Activities:	
Additions to property and equipment (continuing operations)	(67)
Investing activities of discontinued operations	--
Net cash (used) by investing activities	(67)
Cash Flows from Financing Activities:	
Short-term borrowings	42
Net borrowings under line of credit facility	702
Purchase of treasury stock	--
Long-term borrowings	--

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Repayments of long-term borrowings	(67)
Financing activities of continuing operations	677
Financing activities of discontinued operations	--
Net cash provided by financing activities	677
Net increase (decrease) in cash and cash equivalents	(2,248)
Cash and cash equivalents at beginning of period	17,517
Cash and cash equivalents at end of period (including cash of discontinued operations of \$0 and \$864,000, respectively)	\$ 15,269

Supplemental disclosures of non-cash investing and financing activities:  
The Company has entered into certain capital lease agreements. For the three month period ended June 30, 2006 the Company entered into agreements related to approximately \$179,000 of equipment, which is excluded from the statement of cash flow as the transaction was non-cash in nature. There were no such transactions during the three month period ended June 30, 2005.

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

4

### 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. On July 1, 2005, Emerson sold its 53.2% ownership in Sport Supply Group, Inc. ("SSG"), which was previously reported as the Company's Sporting Goods Segment, to Collegiate Pacific Inc. ("Collegiate") for net proceeds of \$30.7 million, after disposition costs, which resulted in a net gain of \$12.6 million, or \$0.47 per share, that was reported in the Company's results for the quarter ended September 30, 2005. Such gain was net of total estimated income taxes of \$4.2 million. As a result of the sale, the financial position and results of operations of SSG have been presented as discontinued operations for all prior year periods shown in the accompanying financial statements (see Note 10), and the Company now operates in one segment, the consumer electronics segment. 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]" trademark 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, 2006 and the results of operations for the three month periods ended June 30, 2006 and June 30, 2005. 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

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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, 2006 ("fiscal 2006"), included in our annual report on Form 10-K, as amended, for fiscal 2006.

Due to the seasonal nature of Emerson's business, the results of operations for the three month period ended June 30, 2006 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, 2007 ("fiscal 2007").

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

5

During the fourth quarter of fiscal 2005, the Company elected to early-adopt SFAS No. 123R, "Share-Based Payment" ("SFAS 123R") under the modified retrospective approach applied only to prior interim periods in fiscal 2005. As a result, the Company has applied SFAS 123R to new awards and to awards modified, repurchased, or cancelled after April 1, 2004. Additionally, compensation cost for the portion of awards for which the requisite service had not been rendered that were outstanding as of April 1, 2004 are being recognized as the requisite service is rendered on or after April 1, 2004 (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 Statement 123. As a result of the early adoption, under the provision of SFAS 123R, the Company has recorded compensation costs of approximately \$105,000 and \$82,000 in income from continuing operations for the three months ended June 30, 2006 and June 30, 2005, respectively.

### NOTE 2 - COMPREHENSIVE INCOME

Comprehensive income for the three months ended June 30, 2006 and June 30, 2005 is as follows (in thousands):

	Three Months Ended	
	June 30	
	2006	2005
	(Unaudited)	
Income from continuing operations	\$ 581	\$ 144
Recognition of realized losses in net income	3	--
Change in unrealized (loss) gain on securities, net	(3)	15
Comprehensive income	\$ 581	\$ 159

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### 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	
	June 30	
	2006	2005
	(Unaudited)	
<b>NUMERATOR:</b>		
Net earnings from continuing operations for basic and diluted earnings per share	\$ 581 =====	\$ 144 =====
<b>DENOMINATOR:</b>		
Denominator for basic earnings per share - weighted average shares	27,065	27,172
Effect of dilutive securities: Options and warrants	77 -----	54 -----
Denominator for diluted earnings per share - weighted average shares and assumed conversions	27,142 =====	27,226 =====
Earnings from continuing operations Basic and diluted earnings per share	\$ 0.02 =====	\$ 0.01 =====

6

### NOTE 4- SHAREHOLDERS' EQUITY

Outstanding capital stock at June 30, 2006 consists of common stock and Series A convertible preferred stock from which the conversion feature expired effective March 31, 2002.

At June 30, 2006, Emerson has outstanding approximately 627,000 options with exercise prices ranging from \$1.00 to \$3.28.

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. As of June 30, 2006, the Company has repurchased 1,267,623 shares under this program. During the quarter ended June 30, 2006, there were no shares repurchased under this program. Repurchases of the Company's shares are subject to certain conditions under Emerson's banking facility.

On October 7, 2003, in connection with a consulting arrangement, the

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Company granted 50,000 warrants with an exercise price of \$5.00 per share. These warrants were valued using the Black-Scholes option valuation model, which resulted in \$90,500 being charged to earnings during fiscal 2004. As of June 30, 2006, these warrants had not been exercised.

On August 1, 2004, in connection with a consulting agreement, the Company granted 50,000 warrants with immediate vesting and an exercise price of \$3.00 per share with an expiration date of August 2009. These warrants were valued using the Black-Scholes valuation model, which resulted in \$88,500 being charged to earnings during the quarter ended September 30, 2004. As of June 30, 2006, these warrants have not been exercised.

### 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, 2006 and March 31, 2006, inventories consisted of the following (in thousands):

	June 30, 2006	March 31, 2006
	-----	-----
	(Unaudited)	
Finished goods	\$ 42,517	\$ 34,416
Less inventory allowances	(1,389)	(1,413)
	-----	-----
Net Inventory	\$ 41,128	\$ 33,003
	=====	=====

### 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.

In August, 2006, the Company was notified by the Franchise Tax Board of the State of California that it had suspended in California the rights, powers and privileges of a predecessor company on account of its failure to pay state taxes, interest and penalties for tax years from 1979 to 1989 in the aggregate amount of approximately \$5.1 million. The Company is not able at this time to determine the amount (if any) of such claim which is properly due and payable.

### NOTE 7 - RELATED PARTY TRANSACTIONS

On December 5, 2005, Grande Holdings Limited ("Grande") purchased



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approximately 37% (10,000,000 shares) of the Company's outstanding common stock from our former Chairman and Chief Executive Officer, Geoffrey P. Jurick. In January 2006, Emerson commenced leasing office space and procuring services in connection with this office space rental in Hong Kong from Grande on terms which Emerson management believes reflect arms length transactions. For the first quarter of fiscal 2007 Emerson incurred expenses with Grande for such fees approximating \$87,000 under these arrangements. Since the initial purchase of common stock from Mr. Geoffrey P. Jurick, Grande has increased its holdings of Emerson Radio Corp. common stock to approximately 49.5%, as of the date of this filing.

### NOTE 8 - BORROWINGS

#### SHORT-TERM BORROWINGS

Short-term borrowings consist of amounts outstanding under the Company's foreign bank facilities held by its foreign subsidiaries. Availability under this facility totals \$22.3 and \$23.3 million as of June 30, 2006 and March 31, 2006, and is maintained by the pledge of bank deposits of approximately \$3.0 million for each period shown in the following table. These compensating amounts are legally restricted from use for general business purposes and are classified as restricted cash in the current asset section of the balance sheet.

8

	June 30, 2006 -----	March 31, 2006 -----
	(In thousands)	
	(Unaudited)	
Foreign bank loans	\$2,543 =====	\$1,841 =====

#### LONG-TERM BORROWINGS

As of June 30, 2006 and March 31, 2006, borrowings under long-term facilities consisted of the following:

	June 30, 2006 -----	Mar ---
	(In thousands)	
	(Unaudited)	
Mortgage payable	\$ 623	
Capitalized lease obligations and other	191	
	-----	
	814	
Less current maturities	(127)	
	-----	
Long term debt and notes payable	\$ 687	
	=====	

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Emerson 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 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 (0.00% as of June 30, 2006) plus 0.00% to 0.50% or, at Emerson's election, LIBOR (1.25% as of June 30, 2006) plus 1.25% to 2.25% depending on excess availability. Pursuant to the Revolving Credit 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 will be secured by substantially all of Emerson's tangible assets.

As of June 30, 2006, there were no borrowings outstanding under the facility and Emerson was in compliance with the covenants contained in the loan agreement.

As of June 30, 2006, the carrying value of this credit facility approximated fair value.

9

### NOTE 9 - LEGAL PROCEEDINGS

#### Putative Class Actions

On December 15, 2005, Jeffrey S. Abraham, as Trustee of the Law Offices of Jeffrey S. Abraham Money Purchase Plan dated December 31, 1999 F/B/O Jeffrey S. Abraham ("Plaintiff"), on behalf of himself and all common shareholders of Sport Supply Group, Inc. ("Sport Supply"), filed a putative class action and derivative complaint against Emerson, Geoffrey P. Jurick, Arthur J. Coerver, Harvey Rothenberg, Collegiate Pacific, Inc. and Michael J. Blumenfeld and nominal defendant Sport Supply in the Court of Chancery of the State of Delaware, Civil Action No. 1845-N.

The complaint asserted two causes of action: The first cause of action was a purported class claim against Emerson and Mr. Jurick for breach of fiduciary duty to the minority shareholders of Sport Supply by selling Emerson's controlling stake in Sport Supply to Collegiate at a premium, allegedly knowing that Collegiate intended to use for its own benefit the proprietary assets of Sport Supply. The second cause of action asserts a purported derivative claim against Collegiate and Messrs. Coerver and Rothenberg for alleged breaches of fiduciary duty and unjust enrichment. Plaintiff alleges that in connection with the purchase of Emerson's controlling block of Sport Supply's stock, Collegiate and Messrs. Coerver and Rothenberg breached their fiduciary duties of loyalty and good faith to Sport Supply's shareholders by transferring assets and technology to Collegiate without compensation to Sport Supply's shareholders. Plaintiff further alleges that Collegiate was unjustly enriched through the use and transfer of Sport Supply's assets.

Emerson and Mr. Jurick moved to dismiss the first cause of action, and oral argument on their motion was conducted on June 23, 2006. On July 5, 2006, the court granted Emerson and Mr. Jurick's motion and the first cause of action was dismissed. Based on the expectation that Emerson and Mr. Jurick would prevail in their defense, no loss was accrued in this matter as of June 30,

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2006.

For more than two-and-a-half years, Emerson has been defending a consolidated putative class action captioned In Re Emerson Radio Corp. Securities Litigation, 03cv4201 (JLL) (the "Consolidated Action") filed in the United States District Court for the District of New Jersey. The class action complaint asserted claims against Emerson and Messrs. Geoffrey Jurick, Kenneth Corby, John Raab and Jerome Farnum (the "Individual Defendants") on behalf of purchasers of Emerson's publicly traded securities between January 29, 2003 and August 12, 2003 (the "Class Period"). By a December 19, 2005 Opinion and Order, the Court granted the defendants' motion to dismiss the complaint without prejudice and granted the plaintiffs leave to amend their pleading consistent with the rulings in the Court's Opinion and Order.

10

On March 3, 2006, one of the lead plaintiffs, Clark Niss, moved to withdraw as a lead plaintiff, which motion was granted on March 29, 2006. On April 13, 2006, the court entered a Stipulation and Order dismissing all claims asserted in the class action complaint with prejudice. On April 26, 2006, the remaining lead plaintiff, Jeffrey Hoffman, filed a Notice of Appeal, taking an appeal of the court's December 19, 2005 dismissal order to the United States Court of Appeals for the Third Circuit. Emerson and the Individual Defendants continue to deny all allegations and intend to defend the appeal vigorously.

Generally, the complaint had alleged that Emerson and the Individual Defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, by (i) issuing certain positive statements during the Class Period regarding our ability to replace lost revenues attributable to the Hello Kitty(R) license and (ii) omitting to disclose that Emerson suffered allegedly soured relationships with its largest retail customers. Based on the expectation that the defendants will ultimately prevail in their defense, no loss has been accrued in this matter as of June 30, 2006.

### Other Matters

The Company is a party to various other 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 - DISCONTINUED OPERATIONS

On July 1, 2005, Emerson sold its 53.2% interest in SSG to Collegiate. After disposition costs, Emerson realized and reported in the quarter ended September 30, 2005, a gain of approximately \$12.6 million, net of estimated deferred taxes of \$4.2 million. Proceeds from the sale were used to pay down \$18.5 million of indebtedness.

The following table represents the results of the discontinued operations, net of minority interest, and net of income taxes for which there was no provision or recovery in either period.

Three Months Ended

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Discontinued Operations(SSG)

June 30, 2005

Net revenues	\$23,218
	=====
Operating income	610
	=====
Net income	\$ 272
	=====

11

## 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.

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

### FORWARD-LOOKING INFORMATION

#### COMPANY FILINGS

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," "project," "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:

- o the loss of any of our key customers or reduction in the purchase of our products by any such customers;
- o the failure to maintain our relationships with our licensees and distributors or the failure to obtain new licensees or distribution relationships on favorable terms;

12

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

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- o our dependence on a limited number of suppliers for our components and raw materials;
- o our dependence on third party manufacturers to manufacture and deliver our products;
- o the seasonality of our business, as well as changes in consumer spending and economic conditions;
- o the failure of third party sales representatives to adequately promote, market and sell our products;
- o our inability to protect our intellectual property;
- o the effects of competition;
- o changes in foreign laws and regulations and changes in the political and economic conditions in the foreign countries in which we operate;
- o changes in accounting policies, rules and practices; and
- o the other factors listed under "Risk Factors" in this Form 10-Q, as well as our Form 10-K, as amended, for the fiscal year ended March 31, 2006 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 prospectus or the date of the document incorporated by reference into this prospectus. 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.

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.

13

### RESULTS OF OPERATIONS

As a result of the sale of SSG, the results of operations of SSG have been presented as discontinued operations for all prior year periods presented, and we now operate in one segment, the consumer electronics segment. Accordingly, only the consumer electronics segment is presented in the following Management's Discussion and Analysis.

The following table summarizes certain financial information for the three month period ended June 30, 2006 (fiscal 2007) and the three month period ended June 30, 2005 (fiscal 2006) (in thousands):

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	Three Months Ended	
	June 30, 2006	June 30, 2005
	(Unaudited)	
Net revenues	\$ 55,389	\$ 38,647
Cost of sales	47,840	32,914
Other operating costs	1,599	1,199
Selling, general and administrative costs	5,334	3,839
Acquisition costs	21	--
Non-Cash compensation	105	82
Operating income	490	613
Interest (income) expense, net	(105)	407
Income before income taxes	595	206
Provision for income taxes	14	62
Net income from continuing operations	\$ 581	\$ 144

Net Revenues - Net revenues for the first quarter of fiscal 2007 increased \$16.8 million, or 43.3%, to \$55.4 million as compared to \$38.6 million for the first quarter of fiscal 2006. 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 variations in net revenue for the three month periods were comprised of:

- i) An increase in revenues from the sale of Emerson(R) branded product of \$17.3 million, or 50.4%, to \$51.6 million from \$34.3 million for the first quarter of fiscal 2007 as compared to the same period in fiscal 2006. The increase for the three month period was primarily due to an increase in the number of units sold in the microwave category of the Emerson(R) product group and in addition, new sales from the recent introduction of iPod(R) compatible products.
- ii) An increase in themed product sales of \$434,000, to \$2.3 million in the first quarter of fiscal 2007 from \$1.8 million for the first quarter of fiscal 2006. This revenue increase was the result of increased sales traction of the Nickelodeon(R) themed product category.
- iii) Licensing revenues decreased by approximately \$923,000, or 36.9%, to approximately \$1.5 million for the first quarter of fiscal 2007 from \$2.5 million in the first quarter of fiscal 2006. The decrease for the three month period was primarily due to lower sales volumes under our video licensing agreement.

14

Cost of Sales - Cost of sales, as a percentage of net revenues, increased for

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the first quarter of fiscal 2007 to 86.4% from 85.2% for the same period of fiscal 2006. In relative terms, the increase in cost of sales for the three month period was primarily due to decreased licensing revenues compared to the same period in the prior year. In absolute terms, costs of sales for the first quarter of fiscal 2007 increased \$14.9 million, or 45.4%, to \$47.8 million from \$32.9 million for the same period in fiscal 2006. The cost of sales, as a percentage of sales revenue less license revenues decreased to 88.8% for the first quarter of fiscal 2007 as compared to 91.0% for the same period in the prior year.

Gross profit margins continue to be subject to decreased licensing revenues and competitive pressures arising from lower pricing of the product categories in the consumer electronics market in which Emerson competes. Emerson's branded products are generally placed in the low-to-medium priced category of the market.

Other Operating Costs and Expenses - Other operating costs and expenses, as a percentage of net revenues, decreased to 2.9% from 3.1% for the first quarter of fiscal 2007 compared to the same period of fiscal 2006. In absolute terms, other operating costs and expenses increased approximately \$400,000 to \$1.6 million from \$1.2 million for the three month periods of fiscal 2007 and fiscal 2006, respectively. As a percentage of net revenues, the decrease for the three month period was primarily due to lower service fees related to inventory and returned product handling as compared to the increase in sales volumes.

Selling, General and Administrative Expenses ("S,G&A") - S,G&A increased approximately \$1.5 million, or 39.5%, to \$5.3 million (9.6% of net revenues) from \$3.8 million (9.9% of net revenues) for the first quarter of fiscal 2007 as compared to the first quarter of fiscal 2006. The increase in absolute terms for the three month period of fiscal 2007 compared to fiscal 2006 was primarily due to an increase of approximately \$400,000 for sales commission and freight out costs related to the increase in sales volume. In addition, advertising expenditures, professional fees and bad debt expenses increased by approximately \$354,000, \$185,000 and \$385,000, respectively. These increases were partially offset by decreases in personnel expenditures of approximately \$168,000.

15

Acquisition Costs - Acquisition costs were \$21,000 for the first quarter of fiscal 2007, associated with contemplated acquisition transactions that were not completed. There were no acquisition costs in the first quarter of fiscal 2006.

Non-Cash Compensation - Non-cash compensation costs relate to stock option expense associated with the adoption of SFAS 123R "Share-Based Payments." For the three month periods of fiscal 2007 and fiscal 2006, non-cash compensation costs were approximately \$105,000 and \$82,000, respectively.

Interest (Income) Expense, net - In the first quarter of fiscal 2007, the Company recorded interest income, net of \$105,000, an increase of \$512,000, over the first quarter of fiscal 2006, in which we recorded approximately \$407,000 in interest expense, net. The decrease in interest expense was primarily the result of lower financing activities, as well as increased interest income recorded in the foreign subsidiaries. The Company utilized cash received from the sale of SSG for repayments of long-term borrowings during the previous fiscal year.

Provision for Income Taxes - Income tax expenses were approximately \$14,000 for the first quarter of fiscal 2007 as compared to \$62,000 for the first quarter of fiscal 2006. The decrease in the tax expense for the three month period was

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primarily the result of lower pre-tax profit in our domestic subsidiary as compared to the same period in fiscal 2006.

Income From Continuing Operations - As a result of the foregoing factors, net income from continuing operations amounted to approximately \$581,000 (1.1% of net revenues) for the first quarter of fiscal 2007 as compared to \$416,000 (1.1% of net revenues) for the same period of fiscal 2006.

### LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2006, we had cash and cash equivalents of approximately \$15.3 million compared to approximately \$17.5 million at March 31, 2006. Working capital increased to \$61.1 million at June 30, 2006 as compared to \$60.2 million at March 31, 2006. The decrease in cash and cash equivalents of approximately \$2.2 million was primarily due to increases in cash used by operating activities, offset by cash provided from investing activities, as described below.

Cash flows used by continuing operating activities were approximately \$2.9 million for fiscal 2007, primarily related to an increase in accounts payable and accrued liabilities of \$14.0 million, an increase in asset allowances and other reserves of \$0.9 million and operating income of \$0.6 million, offset by an increase in accounts receivable of \$11.1 and inventories of \$8.1 million. Both the increases in accounts payable and accrued liabilities and accounts receivable are primarily due to the increased sales volumes over the prior quarter. The increase in inventory was due to the seasonal nature of the business, as well as the continuing shift from the direct import to domestic business which creates a growing need for inventory at domestic locations.

16

Net cash used by investing activities was approximately \$67,000 in fiscal 2007, which consisted primarily of tools and equipment acquisitions.

Net cash provided by financing activities was approximately \$677,000 in fiscal 2007, primarily due to the increased foreign borrowings.

On December 23, 2005, Emerson entered into a \$45.0 million Revolving Credit Agreement with Wachovia Bank, National Association. The loan agreement provides for a \$45 million revolving line of credit. The \$45.0 million revolving line of credit replaced Emerson's prior \$35.0 million credit facility which contained substantially the same terms and conditions as the Revolving Credit Agreement. The \$45.0 million revolving line of credit facility provides for revolving loans subject to individual maximums which, in the aggregate, are not to exceed the lesser of \$45 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 Emerson's election, LIBOR plus 1.25% to 2.25% depending on excess availability. Pursuant to the loan 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 will be secured by substantially all of Emerson's tangible assets.

As of June 30, 2006, there were no borrowings outstanding under the facility and Emerson was in compliance with the covenants contained in the loan agreement. The loan agreement expires in December 2010, and accordingly, all amounts outstanding under this facility have been presented as long-term.



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Our foreign subsidiaries maintain various credit facilities, aggregating \$18.7 million, consisting of the following:

- o Two letter of credit facilities totaling \$11.2 million which are used for inventory purchases; and
- o Two back-to-back letter of credit facilities totaling \$7.5 million.

At June 30, 2006, our foreign subsidiaries pledged approximately \$3.0 million in certificates of deposit to this bank to assure the availability of the \$11.2 million of credit facilities. The compensating amount of \$3.0 million of restricted cash is legally restricted from use for general business purposes. At June 30, 2006, there were approximately \$6.5 million of letters of credit outstanding under these credit facilities.

17

We believe that our present cash position, future cash flow from operations and our existing institutional financing noted above will be sufficient to fund all of our cash requirements for the next twelve months.

The following summarizes our obligations at June 30, 2006 for the periods shown (in thousands):

	PAYMENT DUE BY PERIOD			
	TOTAL	LESS THAN 1 YEAR	1 - 3 YEARS	3 - 5 YEARS
Notes and mortgages payable	\$ 623	\$ 74	\$ 148	\$ 148
Capital lease obligations	191	53	94	44
Leases	6,208	1,596	2,900	1,712
	-----	-----	-----	-----
Total	\$7,022	\$1,723	\$3,142	\$1,904
	=====	=====	=====	=====

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, 2006.

### CRITICAL ACCOUNTING POLICIES

For the three month period ended June 30, 2006, there were no significant changes to our accounting policies from those reported in our Annual Report on Form 10-K for the fiscal year ended March 31, 2006.

### 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 2007. 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.

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The interest on any borrowings under our credit facilities would be based on the prime and LIBOR rate. We believe that given the present economic climate, interest rates, while expected to rise, are not expected to increase significantly during the coming year.

### 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, 2006.

18

### ITEM 4. CONTROLS AND PROCEDURES

#### (a) Disclosure controls and procedures.

During the three month period of fiscal 2007, 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) related to the recording, processing, summarization and reporting of information in our reports that we file with the SEC. 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 SEC'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, 2006, 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 Securities Exchange Act of 1934) are effective to reasonably ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

#### (b) Changes in internal controls over financial reporting.

There have been no changes in our internal controls 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 controls over financial reporting.

19

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

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### Putative Class Actions

On December 15, 2005, Jeffrey S. Abraham, as Trustee of the Law Offices of Jeffrey S. Abraham Money Purchase Plan dated December 31, 1999 F/B/O Jeffrey S. Abraham ("Plaintiff"), on behalf of himself and all common shareholders of Sport Supply Group, Inc. ("Sport Supply"), filed a putative class action and derivative complaint against Emerson, Geoffrey P. Jurick, Arthur J. Coerver, Harvey Rothenberg, Collegiate Pacific, Inc. and Michael J. Blumenfeld and nominal defendant Sport Supply in the Court of Chancery of the State of Delaware, Civil Action No. 1845-N.

The complaint asserted two causes of action: The first cause of action was a purported class claim against Emerson and Mr. Jurick for breach of fiduciary duty to the minority shareholders of Sport Supply by selling Emerson's controlling stake in Sport Supply to Collegiate at a premium, allegedly knowing that Collegiate intended to use for its own benefit the proprietary assets of Sport Supply. The second cause of action asserts a purported derivative claim against Collegiate and Messrs. Coerver and Rothenberg for alleged breaches of fiduciary duty and unjust enrichment. Plaintiff alleges that in connection with the purchase of Emerson's controlling block of Sport Supply's stock, Collegiate and Messrs. Coerver and Rothenberg breached their fiduciary duties of loyalty and good faith to Sport Supply's shareholders by transferring assets and technology to Collegiate without compensation to Sport Supply's shareholders. Plaintiff further alleges that Collegiate was unjustly enriched through the use and transfer of Sport Supply's assets.

Emerson and Mr. Jurick moved to dismiss the first cause of action, and oral argument on their motion was conducted on June 23, 2006. On July 5, 2006, the court granted Emerson and Mr. Jurick's motion and the first cause of action was dismissed. Based on the expectation that Emerson and Mr. Jurick would prevail in their defense, no loss was accrued in this matter as of June 30, 2006.

For more than two-and-a-half years, Emerson has been defending a consolidated putative class action captioned In Re Emerson Radio Corp. Securities Litigation, 03cv4201 (JLL) (the "Consolidated Action") filed in the United States District Court for the District of New Jersey. The class action complaint asserted claims against Emerson and Messrs. Geoffrey Jurick, Kenneth Corby, John Raab and Jerome Farnum (the "Individual Defendants") on behalf of purchasers of Emerson's publicly traded securities between January 29, 2003 and August 12, 2003 (the "Class Period"). By a December 19, 2005 Opinion and Order, the Court granted the defendants' motion to dismiss the complaint without prejudice and granted the plaintiffs leave to amend their pleading consistent with the rulings in the Court's Opinion and Order.

20

On March 3, 2006, one of the lead plaintiffs, Clark Niss, moved to withdraw as a lead plaintiff, which motion was granted on March 29, 2006. On April 13, 2006, the court entered a Stipulation and Order dismissing all claims asserted in the class action complaint with prejudice. On April 26, 2006, the remaining lead plaintiff, Jeffrey Hoffman, filed a Notice of Appeal, taking an appeal of the court's December 19, 2005 dismissal order to the United States Court of Appeals for the Third Circuit. Emerson and the Individual Defendants continue to deny all allegations and intend to defend the appeal vigorously.

Generally, the complaint had alleged that Emerson and the Individual Defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, by (i) issuing certain positive statements during the Class Period regarding our ability to replace lost revenues attributable to the Hello Kitty(R) license and (ii) omitting to

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disclose that Emerson suffered allegedly soured relationships with its largest retail customers. Based on the expectation that the defendants will ultimately prevail in their defense, no loss has been accrued in this matter as of June 30, 2006.

For other information on litigation to which the Company is a party, reference is made to Part 1 Item 3 - Legal Proceedings in our most recent annual report on Form 10-K.

### ITEM 1.A RISK FACTORS.

There were no changes in any risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2006, as amended.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

#### SHARE REPURCHASES:

For the quarter ended June 30, 2006, we 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, 2006 quarter, the Company repurchased 1,267,623 shares under this program. As of June 30, 2006, the maximum number of shares that are available to be repurchased under Emerson Radio Corp.'s common share repurchase program was 732,377.

21

### 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.

10.31 Letter re: Employment Agreement between Emerson Radio Corp. and John D. Florian, effective as of May 10, 2006.

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- 31.1 Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32 Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

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\* filed herewith

22

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.

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(Registrant)

Date: August 21, 2006 /s/ Adrian Ma  
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Adrian Ma  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 21, 2006 /s/ John D. Florian  
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John D. Florian  
Deputy Chief Financial Officer and  
Controller  
(Principal Financial and Accounting Officer)

23