

EMERSON RADIO CORP  
Form 10-Q  
August 14, 2012  
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, 2012

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)

Edgar Filing: EMERSON RADIO CORP - Form 10-Q

<b>DELAWARE</b> (State or other jurisdiction of incorporation or organization)	<b>22-3285224</b> (I.R.S. Employer Identification No.)
<b>3 University Plaza, suite 405, Hackensack, NJ</b> (Address of principal executive offices)	<b>07601</b> (Zip code)
<b>(973) 428-2000</b> (Registrant's telephone number, including area code)	
<b>(Former name, former address, and former fiscal year, if changed since last report)</b>	

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 August 14, 2012: 27,129,832.

**Table of Contents**

**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>	11
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	15
<u>Item 4. Controls and Procedures</u>	15
<u>PART II OTHER INFORMATION</u>	17
<u>Item 1. Legal Proceedings</u>	17
<u>Item 1A. Risk Factors</u>	17
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	17
<u>ITEM 3. Defaults Upon Senior Securities</u>	17
<u>ITEM 4. Removed and Reserved</u>	17
<u>ITEM 5. Other Information</u>	17
<u>ITEM 6. Exhibits</u>	18
<u>SIGNATURES</u>	19

**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)

	Three Months Ended June 30	
	2012	2011
<b>Net Revenues:</b>		
Net product sales	\$ 44,876	\$ 50,102
Licensing revenue	1,135	1,422
<b>Net revenues</b>	<b>46,011</b>	<b>51,524</b>
<b>Costs and expenses:</b>		
Cost of sales	39,173	45,595
Other operating costs and expenses	408	387
Selling, general and administrative expenses	2,008	1,689
	<b>41,589</b>	<b>47,671</b>
<b>Operating income</b>	<b>4,422</b>	<b>3,853</b>
<b>Other income:</b>		
Interest income, net	31	31
Realized gain on sale of marketable security		828
<b>Income before income taxes</b>	<b>4,453</b>	<b>4,712</b>
Provision for income taxes	613	1,375
<b>Net income</b>	<b>\$ 3,840</b>	<b>\$ 3,337</b>
<b>Net income per share:</b>		
Basic	\$ .14	\$ .12
Diluted	\$ .14	\$ .12
<b>Weighted average shares outstanding:</b>		
Basic	27,130	27,130
Diluted	27,130	27,130

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)

	June 30, 2012 (Unaudited)	March 31, 2012(A)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 39,688	\$ 44,960
Restricted cash	70	215
Accounts receivable, net	25,642	12,134
Other receivables	990	1,193
Due from affiliates	1	1
Inventory, net	9,868	11,269
Prepaid expenses and other current assets	10,337	2,873
Deferred tax assets	2,371	2,304
<b>Total current assets</b>	<b>88,967</b>	<b>74,949</b>
Property, plant and equipment, net	228	260
Trademarks, net	1,545	1,545
Deferred tax assets	1,498	1,668
Other assets	274	262
<b>Total assets</b>	<b>\$ 92,512</b>	<b>\$ 78,684</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Current maturities of long-term borrowings	65	64
Accounts payable and other current liabilities	18,699	9,152
Due to affiliates		11
Accrued sales returns	1,366	1,201
Income taxes payable	381	107
<b>Total current liabilities</b>	<b>20,511</b>	<b>10,535</b>
Long-term borrowings	62	72
Deferred tax liabilities	196	177
<b>Total liabilities</b>	<b>20,769</b>	<b>10,784</b>
Shareholders' equity:		
Preferred shares -\$.01 par value, 10,000,000 shares authorized at June 30, 2012 and March 31, 2012, respectively; 3,677 shares issued and outstanding at June 30, 2012 and March 31, 2012, respectively; liquidation preference of \$3,677,000 at June 30, 2012 and March 31, 2012, respectively	3,310	3,310
Common shares \$.01 par value, 75,000,000 shares authorized, 52,965,797 shares issued at June 30, 2012 and March 31, 2012, respectively; 27,129,832 shares outstanding at June 30, 2012 and March 31, 2012, respectively	529	529
Capital in excess of par value	98,785	98,785
Accumulated other comprehensive income (losses)	345	(82)
Accumulated deficit	(7,002)	(10,418)
Treasury stock, at cost, 25,835,965 shares	(24,224)	(24,224)
<b>Total shareholders' equity</b>	<b>71,743</b>	<b>67,900</b>

Edgar Filing: EMERSON RADIO CORP - Form 10-Q

<b>Total liabilities and shareholders' equity</b>	<b>\$</b>	<b>92,512</b>	<b>\$</b>	<b>78,684</b>
---	-----------	---------------	-----------	---------------

(A) Reference is made to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2012 filed with the Securities and Exchange Commission on July 13, 2012.

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)

	<b>Three Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 3,840	\$ 3,337
<b>Adjustments to reconcile net income to net cash used by operating activities:</b>		
Depreciation and amortization	26	89
Deferred tax expense	122	1,172
Asset allowances, reserves and other	82	(596)
Gain on sale of marketable security		(828)
<b>Changes in assets and liabilities:</b>		
Accounts receivable	(13,428)	(20,465)
Other receivables	203	326
Due from affiliates		(15)
Inventories	1,407	(10,441)
Prepaid expenses and other current assets	(7,464)	45
Other assets	(12)	8
Accounts payable and other current liabilities	9,547	8,275
Due to affiliates	(11)	(2)
Interest and income taxes payable	274	48
<b>Net cash (used) by operating activities</b>	<b>(5,414)</b>	<b>(19,047)</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of marketable security		4,725
Decrease (increase) in restricted cash	145	(1,449)
Additions to property and equipment	(1)	
Disposals of property and equipment	7	
<b>Net cash provided by investing activities</b>	<b>151</b>	<b>3,276</b>
<b>Cash flows from financing activities:</b>		
Repayments of short-term borrowings	1	(2,466)
Net (decrease) in capital lease and other rental obligations	(10)	(23)
<b>Net cash (used) by financing activities</b>	<b>(9)</b>	<b>(2,489)</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(5,272)</b>	<b>(18,260)</b>
Cash and cash equivalents at beginning of period	44,960	39,796
<b>Cash and cash equivalents at end of period</b>	<b>\$ 39,688</b>	<b>\$ 21,536</b>
<b>Cash paid during the period for:</b>		
Interest	\$ 3	\$ 8
Income taxes	\$ 2	\$ 377

Edgar Filing: EMERSON RADIO CORP - Form 10-Q

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 ), 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 June 30, 2012 and the results of operations for the three month periods ended June 30, 2012 and June 30, 2011. 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, 2012 ( fiscal 2012 ), included in the Company s annual report on Form 10-K, as amended, for fiscal 2012.

The results of operations for the three month period ended June 30, 2012 are not necessarily indicative of the results of operations that may be expected for any other interim periods or for the full year ended March 31, 2013 ( fiscal 2013 ).

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 August 14, 2012.

**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 ASC Topic 718 Compensation Stock Compensation . 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 of the three month periods ended June 30, 2012 and June 30, 2011.

**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 ).

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.

## Edgar Filing: EMERSON RADIO CORP - Form 10-Q

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.

**Table of Contents****NOTE 2 COMPREHENSIVE INCOME**

Comprehensive income for the three months ended June 30, 2012 and June 30, 2011 is as follows (in thousands):

	Three months ended June 30	
	2012	2011
Net income	\$ 3,840	\$ 3,337
Foreign currency translation adjustment	427	
Comprehensive income	\$ 4,267	\$ 3,337

**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	
	2012	2011
<b>Numerator:</b>		
Net income	\$ 3,840	\$ 3,337
<b>Denominator:</b>		
Denominator for basic earnings per share weighted average shares	27,130	27,130
Effect of dilutive securities on denominator:		
Options (computed using the treasury stock method)		
Denominator for diluted earnings per share weighted average shares and assumed conversions	27,130	27,130
Basic and diluted earnings per share	\$ .14	\$ .12

**NOTE 4 SHAREHOLDERS EQUITY**

Outstanding capital stock at June 30, 2012 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, 2012, the Company had approximately 50,000 options outstanding with exercise prices ranging from \$3.07 to \$3.19.

**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, 2012 and March 31, 2012, inventories consisted of the following (in thousands):

	June 30, 2012 (Unaudited)	March 31, 2012
Finished goods	\$ 9,940	\$ 11,347
Less inventory allowances	(72)	(78)

Net inventory	\$	9,868	\$	11,269
---------------	----	-------	----	--------

**NOTE 6 INCOME TAXES**

The Company has no U.S. federal net operating loss carry forwards and some U.S. state 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.

**Table of Contents**

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, income and losses incurred in foreign jurisdictions and taxed at locally applicable tax rates, 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, 2012:

<b>Jurisdiction</b>	<b>Open tax years</b>
U.S. federal	2008-2011
States	2007-2011

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 The Grande Holdings Limited (Provisional Liquidators Appointed) and its direct and indirect subsidiaries (Grande). Set forth below is a summary of such transactions.

***Controlling Shareholder***

The Grande Holdings Limited (Provisional Liquidators Appointed) (Grande), a Bermuda corporation, has, together with S&T International Distribution Limited (S&T), Grande N.A.K.S. Ltd. and Christopher Ho (Chairman of Grande's and Emerson's Boards of Directors) (together with Grande, the Reporting Persons) filed, on July 5, 2012, a Schedule 13D/A with the Securities and Exchange Commission (SEC) stating that, as of the filing date, the Reporting Persons (except Christopher Ho) had the shared power to vote and direct the disposition of 15,243,283 shares, or approximately 56.2%, of the outstanding common stock of Emerson, subject only to the rights granted to Deutsche Bank AG (Deutsche Bank) pursuant to a security agreement entered into between S&T and Deutsche Bank on January 20, 2010 in which S&T granted a security interest in an aggregate of 3,780,600 shares in Emerson common stock (the Pledged Shares) owned by S&T but pledged to Deutsche Bank for the purposes of securing obligations owing from Grande to Deutsche Bank (the Secured Obligations). The aforementioned Schedule 13D/A also states that, as of the filing date, the Reporting Persons are aware only of the sale of 391,199 of the Pledged Shares by Deutsche Bank and that they have not yet been able to verify whether, or to what extent, Deutsche Bank has taken any other actions in respect of the Pledged Shares. The Reporting Persons also are of the view that the Secured Obligations have already been settled and, therefore, S&T reportedly is seeking clarification of the basis on which Deutsche Bank has claimed beneficial ownership of the remaining 3,380,079 shares out of the remaining 3,389,401 Pledged Shares. On February 11, 2011, Deutsche Bank filed a Schedule 13G with the SEC stating that it had sole voting and sole dispositive power over the Pledged Shares, which represent approximately 12.5% of the Company's outstanding common stock. On January 9, 2012, Deutsche Bank filed with the SEC a Form 4 Statement of Changes in Beneficial Ownership stating that, after sales by it of certain of the Pledged Shares, it beneficially owned 3,380,079 shares of Emerson's common stock, and on February 10, 2012, Deutsche Bank filed with the SEC a Schedule 13G stating that it was the beneficial owner with sole voting and sole dispositive power of such shares. As a result of the foregoing, there are competing claims to 3,380,079 shares of Emerson's common stock. Until further clarification is obtained, Emerson is unable to determine the beneficial ownership of such shares.

On May 31, 2011, upon application of a major creditor, the High Court of Hong Kong appointed Fok Hei Yu (who is also known by the anglicized name Vincent Fok), a current director, and Roderick John Sutton, both of FTI Consulting (Hong Kong) Limited (FTI), as Joint and Several Provisional Liquidators over Grande (the Provisional Liquidators over Grande). Accordingly, as of May 31, 2011, the directors of Grande no longer have the ability to exercise control over Grande or the power to direct the voting and disposition of the 15,243,283 shares reported to be owned by Grande. Instead, Mr. Fok, as a Provisional Liquidator over Grande, has such power.

***Related Party Transactions*****Rented Office Space in Hong Kong**

The Company is billed for service charges from Brighton Marketing Limited, a subsidiary of Grande, and The Grande Properties Management Limited, a related party of Grande, in connection with the Company's rented office space in Hong Kong. These charges totaled approximately \$12,000 for the three month period ended June 30, 2012 and approximately \$39,000 for the three month period ended June 30, 2011. Emerson owed Brighton Marketing Limited nil at June 30, 2012 and approximately \$1,100 at June 30, 2011 pertaining to these charges.



**Table of Contents**Consulting Services Provided to Emerson by one of its Directors

During the three months ended June 30, 2012 and June 30, 2011, Emerson paid consulting fees of approximately \$21,000 and \$3,000, respectively, to Mr. Eduard Will, a director of Emerson, for work performed by Mr. Will related to strategy for the Kayne Litigation as more fully described in Note 9 Legal Proceedings Kayne Litigation, merger and acquisition research, as well as work related to the strategy for a shareholder derivative lawsuit that the Company settled in January 2011. In addition, during the three months ended June 30, 2012 and June 30, 2011, Emerson paid expense reimbursements and advances, in the aggregate, of nil and approximately \$18,000, respectively, to Mr. Will, related to this consulting work and his service as a director of Emerson. At June 30, 2012, the Company owed Mr. Will nil and at June 30, 2011, Mr. Will owed the Company approximately \$15,500 related to these activities.

Other

During each of the three months ended June 30, 2012 and June 30, 2011, Emerson invoiced Vigers Appraisal & Consulting Ltd., ( Vigers ), a related party of Grande, approximately \$1,000 for usage of telephone and data lines maintained by Emerson. Vigers owed Emerson approximately \$1,000 at both June 30, 2012 and June 30, 2011 related to this activity.

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

*Letters of Credit* Beginning November 2010, the Company began utilizing Hang Seng Bank to issue letters of credit on behalf of the Company, as needed, on a 100% cash collateralized basis. At June 30, 2012, the Company had outstanding letters of credit totaling \$70,337. A like amount of cash, which was posted by the Company as collateral against these outstanding letters of credit, at June 30, 2012, has been classified by the Company as Restricted Cash on the balance sheet.

**Long-term Borrowings**

At June 30, 2012 and March 31, 2012, borrowings under long-term facilities consisted of the following (in thousands):

	June 30, 2012 (Unaudited)	March 31, 2012
Capitalized lease obligations and other	127	136
Less current maturities	(65)	(64)
<b>Long term debt and notes payable</b>	<b>\$ 62</b>	<b>\$ 72</b>

**NOTE 9 LEGAL PROCEEDINGS**

**Kayne Litigation.** On July 7, 2011, the Company was served with an amended complaint (the Complaint) filed in the United States District Court for the Central District of California alleging, among other things, that the Company, certain of its present and former directors and other entities or individuals now or previously associated with Grande, intentionally interfered with the ability of the plaintiffs to collect on a judgment (now approximately \$47 million) they had against Grande by engaging in transactions (such as the dividend paid to all shareholders in March 2010) which transferred assets out of the United States. The Complaint also asserts claims under the civil RICO statute and for alter ego liability. In the Company's opinion, the claims appear to be devoid of merit. Accordingly, on September 27, 2011, Emerson moved to dismiss the action for failure to state a claim (the Motion). On or about February 27, 2012, the Court dismissed the intentional interference claim and portions of the Civil RICO claim with leave to re-plead, but denied the Motion to dismiss the alter ego claim. On March 19, 2012, the plaintiffs filed a Second Amended Complaint setting forth the same claims as the Complaint. On April 20, 2012, the Company moved to dismiss the re-pleaded intentional interference and RICO claims, and oral arguments on this motion were held on June 18, 2012. The Company is awaiting the Court's ruling on the motion. In the interim, the parties have exchanged document discovery requests and responses, but as of yet no documents have been produced. This action has been scheduled for an April 23, 2013 trial date. Emerson is defending the action vigorously.





**Table of Contents**

*Other.* Except for the litigation matter 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.

**NOTE 10 MARKETABLE SECURITIES:**

As of June 30, 2012 and March 31, 2012, the Company had no marketable securities.

During Fiscal 2012, the Company sold for cash proceeds in May 2011 its last remaining student loan auction rate security for \$4.7 million and realized a gain of \$0.8 million as a result.

## **Table of Contents**

### **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, contemplate, expect, seek, estimate, continue, plan, project, predict, could, intend, target, potential, and other similar words in the future. These forward-looking statements may not be realized due to a variety of factors, including, without limitation:

the impact, if any, on the Company's business, financial condition and results of operation arising from the appointment of the Provisional Liquidators over Grande;

the decline in, and any further deterioration of, consumer spending for retail products, such as the Company's products;

the Company's inability to resist price increases from its suppliers or pass through such increases to its customers;

the loss of any of the Company's key customers or reduction in the purchase of the Company's products by any such customers;

conflicts of interest that exist based on the Company's relationship with Grande;

the Company's inability to improve and maintain effective internal controls or the failure by its personnel to comply with such internal controls;

the Company's inability to maintain its relationships with its licensees and distributors, renew existing licenses, or the failure to obtain new licensees or distribution relationships on favorable terms;

**Table of Contents**

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

the Company's inability to anticipate market trends, enhance existing products or achieve market acceptance of new products;

the Company's dependence on a limited number of suppliers for its components and raw materials;

the Company's dependence on third party manufacturers to manufacture and deliver its products;

changes in consumer spending and economic conditions;

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

the Company's inability to protect its 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 the Company operates;

changes in accounting policies, rules and practices;

the effects of the continuing appreciation of the renminbi and increases in costs of production in China and;

the other factors listed under "Risk Factors" in the Company's Form 10-K, as amended, for the fiscal year ended March 31, 2012 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. The reader is 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. The Company has no obligation, and expressly disclaims any obligation, to update, revise or correct any of the forward-looking statements, whether as a result of new information, future events or otherwise. Management has expressed its expectations, beliefs and projections in good faith and it believes it has a reasonable basis for them. However, management cannot assure the reader that its expectations, beliefs or projections will be achieved or accomplished.

**Results of Operations**

The following table summarizes certain financial information for the three month periods ended June 30, 2012 (fiscal 2013) and June 30, 2011 (fiscal 2012) (in thousands):

Edgar Filing: EMERSON RADIO CORP - Form 10-Q

	Three months ended June 30	
	2012	2011
Net product sales	\$ 44,876	\$ 50,102
Licensing revenue	1,135	1,422
<b>Net revenues</b>	<b>46,011</b>	<b>51,524</b>
Cost of sales	39,173	45,595
Other operating costs and expenses	408	387
Selling, general and administrative expenses	2,008	1,689
<b>Operating income</b>	<b>4,422</b>	<b>3,853</b>
Interest income, net	31	31
Realized gain on sale of marketable security		828
<b>Income before income taxes</b>	<b>4,453</b>	<b>4,712</b>
Provision for income taxes	613	1,375
<b>Net income</b>	<b>\$ 3,840</b>	<b>\$ 3,337</b>

Net product sales Net product sales for the first quarter of fiscal 2013 were \$44.9 million as compared to \$50.1 million for fiscal 2012, a decrease of \$5.2 million, or 10.4%. The Company's sales during the first quarters of fiscal 2013 and 2012 were highly concentrated among the Company's two largest customers, where gross product sales comprised approximately 94.7% and 89.8%,

---

**Table of Contents**

respectively, of the Company's total gross product sales. Net product sales may be periodically impacted by adjustments made to the Company's sales allowance and marketing support accrual to record unanticipated customer deductions from accounts receivable or to reduce the accrual by any amounts which were accrued in the past but not taken by customers through deductions from accounts receivable within a certain time period. In the aggregate, these adjustments had the effect of increasing net product sales and operating income by \$0.3 million and \$0.3 million for the first quarters of fiscal 2013 and fiscal 2012, respectively. The Company confronts increasing pricing pressure which is a trend that management expects to continue.

Net product sales are comprised primarily of the sales of houseware and audio products which bear the Emerson® brand name. The major elements which contributed to the overall decrease in net product sales were as follows:

- i) Houseware product net sales decreased \$3.5 million, or 7.5%, to \$43.8 million in the first quarter of fiscal 2013 as compared to \$47.3 million in the first quarter of fiscal 2012, on decreased net sales of compact refrigerators, microwave ovens, toaster ovens and wine coolers.
- ii) Audio product net sales were \$1.1 million in the first quarter of fiscal 2013 as compared to \$2.8 million in the first quarter of fiscal 2012, a decrease of \$1.7 million, or 60.7%, resulting from decreased net sales of the Company's clock radio and portable audio product offerings.

**Licensing revenue** Licensing revenue in the first quarter of fiscal 2013 was \$1.1 million as compared to \$1.4 million in the first quarter of fiscal 2012, a decrease of \$0.3 million, or 20.2%, due to lower year-over-year sales by the Company's licensees of branded products under license from the Company and fewer active licensees during the first quarter of fiscal 2013 as compared to the first quarter of fiscal 2012. The Company's largest license agreement is with Funai Corporation, Inc. (Funai), which accounted for approximately 83% of the Company's total licensing revenue for the first quarter of fiscal 2013, and which expires December 31, 2012 unless renewed. The agreement provides that Funai will manufacture, market, sell and distribute specified products bearing the Emerson® trademark to customers in the U.S. and Canadian markets. Under the terms of the agreement, the Company receives non-refundable minimum annual royalty payments of \$3.75 million each calendar year and a license fee on sales of product subject to the agreement in excess of the minimum annual royalties. During the first quarter of fiscal 2013 and 2012, revenues of \$0.9 million and \$0.9 million, respectively, were earned under this agreement. The Company and Funai currently are negotiating a renewal of such license, however there is no assurance that a renewal will be consummated on terms acceptable to the Company, if at all.

**Net revenues** As a result of the foregoing factors, the Company's net revenues were \$46.0 million in the first quarter of fiscal 2013 as compared to \$51.5 million in the first quarter of fiscal 2012, a decrease of \$5.5 million, or 10.7%.

**Cost of sales** In absolute terms, cost of sales decreased \$6.4 million, or 14.1%, to \$39.2 million in the first quarter of fiscal 2013 as compared to \$45.6 million in the first quarter of fiscal 2012. Cost of sales, as a percentage of net revenues was 85.1% in the first quarter of fiscal 2013 as compared to 88.5% in the first quarter of fiscal 2012. Cost of sales, as a percentage of net product sales was 87.3% in the first quarter of fiscal 2013 as compared to 91.0% in the first quarter of fiscal 2012. The decrease in absolute terms for the first quarter of fiscal 2013 as compared to the first quarter of fiscal 2012 was primarily related to the reduced net product sales and lower year-over-year cost of sales as a percentage of sales, partially offset by the impact of an inventory valuation reserve reduction that occurred in the first quarter of fiscal 2012 that did not repeat in the first quarter of fiscal 2013 and higher year-over-year inventory writedowns. The improved margins for the quarter ended June 30, 2012 were aided by, among other factors, a higher level of prepaid factory purchases made during the first quarter of fiscal 2013, and are not anticipated to continue for the remainder of fiscal 2013 and are not indicative of results expected to be achieved in subsequent quarters.

The improved margins for the quarter ended June 30, 2012 were aided by, among other factors, a higher level of prepaid factory purchases made during the first quarter of fiscal 2013, and are not anticipated to continue for the remainder of fiscal 2013 and are not indicative of results expected to be achieved in subsequent quarters.

**Other operating costs and expenses** Other operating costs and expenses as a percentage of net revenues were 0.9% in the first quarter of fiscal 2013 and 0.8% in the first quarter of fiscal 2012. In absolute terms, other operating costs and expenses increased \$21,000, or 5.4%, to \$408,000 in the first quarter of fiscal 2013 as compared to \$387,000 in the first quarter of fiscal 2012 resulting from lower warranty and returns processing costs.

**Selling, general and administrative expenses (S,G&A)** S,G&A, as a percentage of net revenues, was 4.4% in the first quarter of fiscal 2013 as compared to 3.3% in the first quarter of fiscal 2012. S,G&A, in absolute terms, increased \$0.3 million, or 18.9%, to \$2.0 million in the first quarter of fiscal 2013 as compared to \$1.7 million in the first quarter of fiscal 2012. The increase in S,G&A in absolute terms between the first quarter of fiscal 2013 and the first quarter of fiscal 2012 was primarily due to an increase in legal fees of \$0.2 million and a reduced benefit in bad debt recoveries of \$0.2 million, partially offset by a decrease in compensation and consulting costs of \$0.2 million.

Interest income, net Interest income, net, was \$31,000 in the first quarters of fiscal 2013 and fiscal 2012.

---

## **Table of Contents**

**Realized gain on sale of marketable security** Realized gain on sale of marketable security was nil in the first quarter of fiscal 2013 and \$828,000 in the first quarter of fiscal 2012. The realized gain resulted from the sale in May 2011 of the Company's last remaining auction rate security (see Note 10 - Marketable Securities).

**Provision for income taxes** In the first quarter of fiscal 2013 and the first quarter of fiscal 2012, the Company recorded income tax expense of \$0.6 million and \$1.4 million, respectively. In the first quarter of fiscal 2013, the amount of income tax expense recorded by the Company was lower than in the first quarter of fiscal 2012 because the Company recorded a larger percentage of its taxable earnings in the first quarter of fiscal 2013 in tax jurisdictions with lower comparative tax rates than in the first quarter of fiscal 2012.

**Net income** As a result of the foregoing factors, the Company's net income was \$3.8 million in the first quarter of fiscal 2013 as compared to net income of \$3.3 million in the first quarter of fiscal 2012.

## **Liquidity and Capital Resources**

### **General**

As of June 30, 2012, the Company had cash and cash equivalents of approximately \$39.7 million, as compared to approximately \$21.5 million of June 30, 2011. Working capital increased to \$68.5 million at June 30, 2012 as compared to \$54.2 million at June 30, 2011. The increase in cash and cash equivalents of approximately \$18.2 million was primarily due to the net income generated by the Company during the twelve months ended June 30, 2012, the sale of the company's former headquarters building in December 2011 and a decrease in restricted cash.

Cash flow used by operating activities was \$5.4 million for the three months ended June 30, 2012, resulting primarily from increases in accounts receivable and prepaid expenses and other current assets, partially offset by increased accounts payable, the net income generated during the period and decreases in inventory. The increase in accounts receivable at June 30, 2012 as compared to March 31, 2012 was due to increased sales in June 2012 as compared to March 2012. The increase in prepaid expenses and other current assets at June 30, 2012 as compared to March 31, 2012 was due to a higher level of prepaid factory purchases at June 30, 2012 as compared to March 31, 2012.

Net cash provided by investing activities was \$0.2 million for the three months ended June 30, 2012, which was primarily due to a decrease in restricted cash.

Net cash used by financing activities was \$9,000 for the three months ended June 30, 2012, resulting from a decrease in the Company's long term borrowings.

### **Other Events and Circumstances Pertaining to Liquidity**

On May 31, 2011, upon application of a major creditor, the High Court of Hong Kong appointed Provisional Liquidators over Grande, which is the Company's controlling stockholder. Following the appointment of the Provisional Liquidators over Grande, certain major factory suppliers, including Midea, which is the Company's largest factory supplier, have significantly reduced the maximum amount of open credit lines available to the Company. The Company relies on its cash on hand and cash generated by ongoing operations to manage its business.

### **Credit Arrangements**

**Letters of Credit** Beginning November 2010, the Company began utilizing Hang Seng Bank to issue letters of credit on behalf of the Company, as needed, on a 100% cash collateralized basis. At June 30, 2012, the Company had outstanding letters of credit totaling \$70,337. A like amount of cash, which was posted by the Company as collateral against these outstanding letters of credit, at June 30, 2012, has been classified by the Company as Restricted Cash on the balance sheet.

### **Short-term Liquidity**

In the first quarter of fiscal 2013, products representing approximately 58% of net sales were imported directly to the Company's customers. The direct importation of product by the Company to its customers significantly benefits the Company's liquidity because this inventory does not need to be financed by the Company.





## **Table of Contents**

The Company's principal existing sources of cash are generated from operations. The Company believes that its existing cash balance and sources of cash will be sufficient to support existing operations over the next 12 months.

### **Recently Issued Accounting Pronouncements**

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board during the three months ended June 30, 2012 or during the interim period between June 30, 2012 and August 14, 2012 which relate to or could relate to the Company as concerns the Company's normal ongoing operations or the industry in which the Company operates:

#### **Accounting Standards Update 2012-02, Intangibles - Goodwill and Other (Topic 350) : Testing Indefinite-Lived Intangible Assets for Impairment (Issued July 2012)**

The objective of the amendments in this Update is to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The amendments permit an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles - Goodwill and Other - General Intangibles Other than Goodwill. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent.

Previous guidance in Subtopic 350-30 required an entity to test indefinite-lived intangible assets for impairment, on at least an annual basis, by comparing the fair value of the asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. In accordance with the amendments in this Update, an entity will have an option not to calculate annually the fair value of an indefinite-lived intangible asset if the entity determines that it is not more likely than not that the asset is impaired. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in Update 2011-08.

The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.

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

The Company's exposure to currency fluctuations has been minimized by the use of U.S. dollar denominated purchase orders. The Company purchases virtually all of its products from manufacturers located in China.

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

Not applicable.

### **Item 4. Controls and Procedures**

(a) *Disclosure controls and procedures.*

The Company maintains disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in its Exchange Act reports are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Company's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. 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 a 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.



**Table of Contents**

The Company's management concluded that disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of June 30, 2012, are effective to reasonably ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management, including the Company's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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

There have been no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

---

**Table of Contents**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

**Kayne Litigation.** On July 7, 2011, the Company was served with an amended complaint (the Complaint) filed in the United States District Court for the Central District of California alleging, among other things, that the Company, certain of its present and former directors and other entities or individuals now or previously associated with Grande, intentionally interfered with the ability of the plaintiffs to collect on a judgment (now approximately \$47 million) they had against Grande by engaging in transactions (such as the dividend paid to all shareholders in March 2010) which transferred assets out of the United States. The Complaint also asserts claims under the civil RICO statute and for alter ego liability. In the Company's opinion, the claims appear to be devoid of merit. Accordingly, on September 27, 2011, Emerson moved to dismiss the action for failure to state a claim (the Motion). On or about February 27, 2012, the Court dismissed the intentional interference claim and portions of the Civil RICO claim with leave to re-plead, but denied the Motion to dismiss the alter ego claim. On March 19, 2012, the plaintiffs filed a Second Amended Complaint setting forth the same claims as the Complaint. On April 20, 2012, the Company moved to dismiss the re-pleaded intentional interference and RICO claims, and oral arguments on this motion were held on June 18, 2012. The Company is awaiting the Court's ruling on the motion. In the interim, the parties have exchanged document discovery requests and responses, but as of yet no documents have been produced. This action has been scheduled for an April 23, 2013 trial date. Emerson is defending the action vigorously.

**Other.** Except for the litigation matter 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.

**Item 1A. Risk Factors**

There were no material changes in any risk factors previously disclosed in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on July 13, 2012.

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

None

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

(a) None

(b) None

**ITEM 4. Removed and Reserved.**

**ITEM 5. Other Information.**

None

**Table of Contents**

**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.\*
- 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.\*\*
- 101.1+ XBRL Instance Document. \*\*\*
- 101.2+ XBRL Taxonomy Extension Schema Document. \*\*\*
- 101.3+ XBRL Taxonomy Extension Calculation Linkbase Document. \*\*\*
- 101.4+ XBRL Taxonomy Extension Definition Linkbase Document. \*\*\*
- 101.5+ XBRL Taxonomy Extension Label Linkbase Document. \*\*\*
- 101.6+ XBRL Taxonomy Extension Presentation Linkbase Document. \*\*\*

\* filed herewith

\*\* furnished herewith

\*\*\* The XBRL information is being furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any registration statement under the Securities Act of 1933, as amended.

**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)

Date: August 14, 2012

/s/ Duncan Hon  
Duncan Hon  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 14, 2012

/s/ Andrew L. Davis  
Andrew L. Davis  
Chief Financial Officer  
(Principal Financial and Accounting Officer)