

EMERSON RADIO CORP

Form 10-Q/A

August 19, 2009

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

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended September 30, 2008

Or

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

For the transition period from _____ to _____

Commission file number 001-07731

EMERSON RADIO CORP.

(Exact name of registrant as specified in its charter)

DELAWARE

22-3285224

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

9 Entin Road Parsippany, New Jersey

07054

(Address of principal executive offices)

(Zip code)

(973) 884-5800

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

EXPLANATORY NOTE

Unless the context otherwise requires, the term the Company and Emerson, refers to Emerson Radio Corp. and its subsidiaries.

This Amendment No. 1 on Form 10-Q/A (the Form 10-Q/A) to the Quarterly Report on Form 10-Q (the Quarterly Report) of the Company for the six months ended September 30, 2008, filed with the Securities and Exchange Commission (the SEC) on November 14, 2008, is filed to restate certain financial information contained therein.

As previously disclosed, based upon an extensive review and analysis of its sales allowance reserve and i-pod(R) marketing fund (the Review) initiated as a result of the receipt of a comment letter from the Staff of the SEC, management of the Company concluded that its previously issued financial statements for each of the three month periods ended June 30, 2008 and September 30, 2008 need to be restated. The Review revealed that, in certain instances, credits offered to or taken by customers were charged against the incorrect sales allowance reserve account which had no material impact on the Company's publicly disclosed financial results until the quarter ended June 30, 2008, when the Company, believing it was then under reserved in its sales allowance accounts, expensed an extra amount of approximately \$1.1 million in order to maintain these reserves at an appropriate level. In the quarter ended September 30, 2008, the Company incorrectly concluded that it had excess reserves in an account specifically related to the marketing of its iPod® category and, therefore, took an amount of approximately \$1.1 million into income.

Because the amounts offset each other, the Company believes that its financial statements for the six months ended September 30, 2008 continue to fairly present the Company's results of operations and financial condition for the period and as of that date and need not be restated. The amounts reserved at September 30, 2008 for all sales allowances represent a fair estimation at that date of the amounts then required to be reserved for such purposes.

The effects of the adjustments on the three months ended September 30, 2008 as identified during the restatement process are reflected in the following table:
(In thousands, except earnings per share data)

	As originally reported:	As restated:	Variance:
Statement of Operations Data			
Net revenues	\$55,094	\$53,993	\$(1,101)
Operating income (loss)	\$ 1,049	\$ (52)	\$(1,101)
Net income	\$ 687	\$ 26	\$ (661)
Earnings per share basic and diluted	\$.03	\$	\$ (.03)

Except as described above, no other amendments are being made to the Quarterly Report. Except as set forth above, this Form 10-Q/A does not reflect events occurring after the filing of the Quarterly Report on November 14, 2008 or modify or update the disclosure contained in the Quarterly Report in any way.

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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 September 30 2008		Six Months Ended September 30	
	RESTATED	2007	2008	2007
Net revenues				
Net revenues	\$ 53,991	\$ 57,823	\$ 98,187	\$ 110,426
Net revenues-related party	2	39	15	124
	53,993	57,862	98,202	110,550
Costs and expenses:				
Cost of sales	47,361	51,393	85,382	96,641
Other operating costs and expenses	1,593	1,548	2,724	3,344
Selling, general and administrative expenses (exclusive of reimbursement claim-related party and non-cash compensation shown below)	4,760	5,307	9,588	10,284
Reimbursement claim-related party	313		313	
Non-cash compensation, net of recoveries	18	(266)	36	(187)
	54,045	57,982	98,043	110,082
Operating income (loss)	(52)	(120)	159	468
Interest income (expense), net	49	(66)	181	4
Gain on sale of building		854		854
Interest income-related party				163
Unrealized holding (losses) on trading securities	(52)		(21)	
Realized gains on trading securities	301		532	
Income before income taxes and minority interest	246	668	851	1,489
Provision for income taxes	259	3,952	1,226	4,331
Minority interest in loss of consolidated subsidiary	(39)		(133)	
Net income (loss)	\$ 26	\$ (3,284)	\$ (242)	\$ (2,842)
Net income (loss) per share:				
Basic	\$	\$ (0.12)	\$ (0.01)	\$ (0.10)
Diluted	\$	\$ (0.12)	\$ (0.01)	\$ (0.10)
Weighted average shares outstanding:				
Basic	27,130	27,130	27,130	27,122
Diluted	27,130	27,130	27,130	27,122

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

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

	September 30, 2008 (Unaudited)	March 31, 2008(A)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,436	\$ 14,444
Restricted cash	3,023	
Foreign exchange forward contracts		134
Accounts receivable (less allowances of \$3,818 and \$4,148, respectively)	26,798	17,289
Other receivables	1,378	2,131
Due from affiliates	41	765
Inventory, net	44,993	24,854
Prepaid expenses and other current assets	2,676	2,246
Deferred tax assets	4,420	5,412
Total current assets	89,765	67,275
Property, plant and equipment, net	1,706	1,902
Trademarks and other intangible assets, net	267	279
Investments in marketable securities	8,459	11,948
Deferred tax assets	5,750	5,927
Other assets	580	598
Total assets	\$ 106,527	\$ 87,929
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Loans payable	\$ 4,128	\$
Current maturities of long-term borrowings	83	82
Accounts payable and other current liabilities	36,777	21,737
Due to affiliates	20	102
Accrued sales returns	764	872
Income taxes payable	167	185
Total current liabilities	41,939	22,978
Long-term borrowings	102	142
Deferred tax liabilities	73	57
Minority interest		133
Shareholders equity:		
Preferred shares 10,000,000 shares authorized; 3,677 shares issued and outstanding; liquidation preference of \$3,677	3,310	3,310
Common shares \$.01 par value, 75,000,000 shares authorized; 52,965,797 shares issued at September 30, 2008 and March 31, 2008; 27,129,832 shares outstanding at September 30, 2008 and March 31, 2008	529	529

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Capital in excess of par value	117,281	117,245
Accumulated other comprehensive losses	(82)	(82)
Accumulated deficit	(32,401)	(32,159)
Treasury stock, at cost, 25,835,965 shares	(24,224)	(24,224)
Total shareholders equity	64,413	64,619
Total liabilities and shareholders equity	\$ 106,527	\$ 87,929

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

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

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

	Six Months Ended	
	September 30	
	2008	2007
Cash flows from operating activities:		
Net (loss)	\$ (242)	\$ (2,842)
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest	(133)	
Depreciation and amortization	449	415
Non cash compensation	36	(187)
Deferred tax expense	1,185	340
Asset allowances, reserves and other	(1,539)	(1,316)
Gain on sale of building		(854)
Gains on sales of investments	(532)	
Unrealized holding losses on trading securities	21	
Changes in assets and liabilities:		
Restricted cash	(3,023)	
Foreign exchange foreign contracts	134	
Accounts receivable	(8,905)	(12,365)
Other receivables	753	(403)
Due from affiliates	724	23,471
Inventories	(19,312)	(27,368)
Prepaid expenses and other current assets	(430)	(226)
Other assets	(24)	(187)
Accounts payable and other current liabilities	15,040	23,653
Due to affiliates	(82)	
Interest and income taxes payable	9	6
Net cash (used) provided by operating activities	(15,871)	2,137
Cash flows from investing activities:		
Proceeds from sale of building		2,000
Proceeds from partial calls on securities	4,000	
Additions to property and equipment	(199)	(521)
Net cash provided by investing activities	3,801	1,479
Cash flows from financing activities:		
Short-term borrowings	5,726	(71)
Repayments of short-term borrowings	(1,624)	
Net borrowings under foreign bank facilities		2,495
Exercise of stock options		51
Long-term borrowings	36,587	85,203
Repayments of long-term borrowings	(36,627)	(85,739)

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Net cash provided by financing activities	4,062	1,939
Net (decrease) increase in cash and cash equivalents	(8,008)	5,555
Cash and cash equivalents at beginning of period	14,444	1,851
Cash and cash equivalents at end of period	\$ 6,436	\$ 7,406

Supplemental disclosures of non-cash investing and financing activities:

Cash paid during the period for:

Interest	\$ 89	\$ 229
Income taxes	\$ 41	\$ 337

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

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

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

NOTE 1 BACKGROUND AND BASIS OF PRESENTATION

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

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

Emerson maintains a controlling interest in Advanced Sound and Image, LLC (ASI), a designer and marketer of audio and video equipment, and consolidates the results of operations of ASI with a minority interest to represent the share of equity that Emerson does not own. Assets of the joint venture have been recorded in the consolidation at fair value. All significant intercompany transactions and balances have been eliminated.

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

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

The Company accounts for all share based payments in accordance with Statement of Financial Accounting Standard (FAS) No. 123R, Share-Based Payment (FAS 123R). As a result, the Company has applied FAS 123R to new awards and to awards modified, repurchased, or cancelled. Compensation cost for the portion of awards for which the requisite service had not been rendered are being recognized as the requisite service is rendered (generally over the remaining option vesting period). The compensation cost for that portion of awards has been based on the grant-date fair value of those awards as calculated for pro forma disclosures under previously issued accounting standards. As a result of applying the provisions of FAS 123R, the Company has recorded compensation costs of \$18,000 and \$36,000 for the three and six month periods ended September 30, 2008, respectively. For the three and six month periods ended September 30, 2007, the Company recorded a recovery of compensation costs of \$266,000 and \$187,000, respectively.

NOTE 2 COMPREHENSIVE INCOME

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

	Three months ended		Six months ended	
	September 30		September 30	
	RESTATED	2007	2008	2007
Net income (loss)	\$ 26	\$ (3,284)	\$ (242)	\$ (2,842)
Unrealized holding losses arising during period	52		21	

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Less: reclassification adjustment for losses included in net income	(52)		(21)	
Comprehensive income (loss)	\$ 26	\$ (3,284)	\$ (242)	\$ (2,842)

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

	Three months ended September 30 2008		Six months ended September 30	
	RESTATED	2007	2008	2007
Numerator:				
Net income (loss) for basic and diluted earnings per share	\$ 26	\$ (3,284)	\$ (242)	\$ (2,842)
Denominator:				
Denominator for basic earnings per share weighted average shares	27,130	27,130	27,130	27,122
Effect of dilutive securities on denominator: Options and warrants				
Denominator for diluted earnings per share weighted average shares and assumed conversions	27,130	27,130	27,130	27,122
Basic and diluted earnings (loss) per share	\$	\$ (0.12)	\$ (0.01)	\$ (0.10)

NOTE 4 SHAREHOLDERS EQUITY

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

At September 30, 2008, Emerson had approximately 209,000 options outstanding with exercise prices ranging from \$1.00 to \$3.23.

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

NOTE 5 INVENTORY

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

	September 30, 2008 (Unaudited)	March 31, 2008
Finished goods	\$ 48,042	\$ 28,730
Less inventory allowances	(3,049)	(3,876)
Net inventory	\$ 44,993	\$ 24,854

NOTE 6 INCOME TAXES

The Company has tax net operating loss carry forwards included in net deferred tax assets that are available to offset future taxable income and can be carried forward for 15 to 20 years. Although realization is not assured,

management believes it is more likely than not that the deferred tax assets, net of an appropriate valuation allowance, 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 fiscal 2008, the Company resolved all of the outstanding disputes which its predecessor had relating to franchise taxes, interest and penalties due and owing to the State of California for the tax years through and including the date that such predecessor ceased

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doing business. In the second quarter of fiscal 2008, Emerson increased its estimated liability for California franchise taxes for tax years 1979-1990 in the amount of \$3.7 million

As of September 30, 2008, the Company had recorded a liability of \$149,000 for unrecognized tax benefits related to state taxes. All of the unrecognized tax benefits could impact our effective tax rate if recognized.

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

For fiscal 2009, 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 and state income taxes. For fiscal 2008, the Company's effective tax rate differs from the federal statutory rate primarily as a result of the settlement made in relation to the California franchise tax issue described in the second paragraph of this note.

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

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

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

NOTE 7 RELATED PARTY TRANSACTIONS

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

Majority Shareholder

Grande's Ownership Interest in Emerson. Grande increased its ownership of the Company's common stock through a private purchase of 1,853,882 shares on September 21, 2007 from a former holder of more than five percent of Emerson's common stock. Grande beneficially owned approximately 57.6% of the Company's common stock on September 30, 2008.

Related Party Balances

Balances Due from Affiliates as of September 30, 2008 and March 31, 2008. As of September 30 and March 31, 2008, Grande was indebted to the Company in the amounts of \$41,000 and \$765,000, respectively. The September balance represents the amounts due to Emerson from product sourcing transactions, product sales and related charges, estimated advances on amounts incurred by Grande on Emerson's behalf in excess of invoices currently billed, and Hong Kong Electronics Fair reimbursements paid for by Emerson on Grande's behalf. The March balance represented amounts due to Emerson from advances paid in fiscal 2008 for the Toy Musical Instruments transaction, product sourcing transactions, product sales and related charges, and Hong Kong Electronics Fair reimbursements paid for by Emerson on Grande's behalf.

Balances Due to Affiliates as of September 30, 2008 and March 31, 2008. As of September 30 and March 31, 2008, Emerson was indebted to Grande in the amounts of \$20,000 and \$102,000, respectively. The September balance represents amounts owed for charges ancillary to office rental from Grande, and the March balance represents amounts incurred by Grande on Emerson's behalf, the 2006 Hong Kong Electronics Fair, and a chargeback by Capetronic for excess interest billed by Emerson in the note of February 2007.

Related Party Transactions

Repayment of Note relating to Unsecured Financial Assistance to Grande. During the quarter ended June 30, 2007, Grande repaid in full the \$23,501,514 promissory note due Emerson as a consequence of previously disclosed unsecured financial assistance provided to Grande in the fiscal year ended March 31, 2007. In February 2008, Emerson accepted a debit note from Grande for \$4,604 resulting from a previous overpayment of the Note.

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Product Sourcing Transactions. Since August 2006, Emerson has been providing to Sansui Sales PTE Ltd (Sansui Sales) and Akai Sales PTE Ltd (Akai Sales), both of which are subsidiaries of Grande, assistance with acquiring certain products for sale. Emerson issues purchase orders to third-party suppliers who manufacture these products, and Emerson issues sales invoices to Sansui Sales and Akai Sales at gross amounts for these products. Financing is provided by Sansui Sales and Akai Sales customers in the form of transfer letters of credit to the suppliers, and goods are shipped directly from the suppliers to Sansui Sales and Akai Sales customers. Emerson recorded income totaling \$2,000 and \$7,000 for providing this service in the three months ended September 30, 2008 and September 30, 2007, respectively, and \$15,000 and \$92,000 in the six months ended September 30, 2008 and September 30, 2007, respectively. As of September 30, 2008 and March 31, 2008, Sansui Sales and Akai Sales collectively owed Emerson \$7,220 and \$134,000, respectively, relating to this activity.

Sales of goods. In addition to the product sourcing transactions described in the preceding paragraph, Emerson also has purchased products on behalf of Sansui Sales and Akai Sales from third-party suppliers and sold these goods to Sansui Sales and Akai Sales. These transactions, the latest of which occurred in February 2008, were similar to the transactions described in the preceding paragraph; however, instead of utilizing transfer letters of credit provided by Sansui Sales and Akai Sales customers, Emerson utilized its own cash to pay Sansui Sales and Akai Sales suppliers. Emerson invoices Sansui Sales and Akai Sales an amount that is marked up between two and three percent from the cost of the product. As a result of this arrangement, Emerson recorded sales to Sansui Sales and Akai Sales of \$0 and \$3,000 in the six months ended September 30, 2008 and September 30, 2007, respectively. At September 30, 2008 and March 31, 2008, Sansui Sales and Akai Sales owed Emerson \$1,500 and \$5,000 relating to these activities, respectively. Akai Sales deducted \$9,000 for storage charges from its June 30, 2008 settlement payment to Emerson for this activity, which was deemed to be in error by Emerson, which resulted in an outstanding balance owed to Emerson of \$9,000 at September 30, 2008. At September 30, 2008 and March 31, 2008, Emerson had outstanding liabilities to suppliers of product invoiced to Sansui Sales and Akai Sales totaling \$3,000 and \$3,000, respectively.

Leases and Other Real Estate Transactions. Effective January 1, 2006, Emerson entered into a lease agreement for office space in Hong Kong with Grande, which was extended through December 31, 2008, and which will expire at that date unless terminated earlier by either party upon three months prior written notice of termination by either party. Under a new agreement commencing March 1, 2008, the office space rented was increased from 7,810 square feet to 18,476 square feet. Rent expense and related service charges with Grande totaled \$95,000 and \$44,000 for the three months ended September 30, 2008 and September 30, 2007, respectively and \$214,000 and \$79,000 for the six months ended September 30, 2008 and September 30, 2007, respectively. Rent and related service charges described in this activity are included in the Consolidated Statements of Operations as a component of selling, general, and administrative expenses. Emerson owed Grande \$17,400 and \$0 related to this activity at September 30, 2008 and March 31, 2008, respectively.

Emerson utilizes the services of Grande employees for certain administrative and executive functions. Grande pays Emerson's quality assurance personnel in Renminbi in China on Emerson's behalf for which Emerson subsequently pays a reimbursement to Grande. Payroll and travel expenses, including utilization of Grande employees as well as payroll and travel expenses paid on Emerson's behalf and reimbursed to Grande, were \$28,000 and \$10,000 for the three months ended September 30, 2008 and September 30, 2007, respectively, and \$119,000 and \$101,000 for the six months ended September 30, 2008 and September 30, 2007, respectively. Because Emerson's payments to Grande from time to time include estimates of expenses Grande pays on Emerson's behalf which are adjusted later to the actual expenses Grande incurs on Emerson's behalf, Emerson has paid \$6,000 in advance related to this activity at September 30, 2008. Emerson owed Grande \$70,000 related to this activity at March 31, 2008.

From May to October 2007, Emerson occupied office space in Shenzhen, China under a lease agreement with Akai AV Multimedia (Zhongshan) Co Ltd, an affiliate of Grande. Rent expense and related charges totaled \$53,000 for the three months ended September 30, 2007 and \$96,000 for the six months ended September 30, 2007. The agreement was not renewed after its termination in October 2007.

In May 2007 Emerson paid a \$10,000 commission to Vigers Hong Kong Ltd, a property agent and a subsidiary of Grande, related to the sale of a building owned by Emerson to an unaffiliated buyer. Also, Emerson received a deposit of approximately \$300,000 from the buyer on this date. The sale was concluded on September 27, 2007, on which

date Emerson received the balance of the purchase price of approximately \$1,700,000 and paid an additional \$10,000 commission to Vigers.

Toy Musical Instruments. In May 2007, Emerson entered into an agreement with Goldmen Electronic Co. Ltd. (Goldmen), pursuant to which the Company agreed to pay \$1,682,220 in exchange for Goldmen s manufacture and delivery to Emerson of musical instruments in order for it to meet its delivery requirements of these instruments in the first week of September 2007.

In July 2007, the Company learned that Goldmen had filed for bankruptcy and was unable to manufacture the ordered musical instruments. Promptly thereafter, Capetronic Displays Limited (Capetronic), a subsidiary of Grande, agreed to manufacture the musical instruments at the same price and on substantially the same terms and conditions. Accordingly, on July 12, 2007, Emerson paid Tomei Shoji Limited, an affiliate of Grande, \$125,000 to acquire from Goldmen and deliver to Capetronic the molds and equipment necessary for Capetronic to manufacture the musical instruments. In July 2007, Emerson made two upfront payments to

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Capetronic totaling \$546,000. On July 20, 2007, Capetronic advised Emerson that it was unable to manufacture the musical instruments because it did not have the requisite governmental licenses to do so.

In June 2008, Capetronic repaid the \$546,000 advance it received from Emerson in July 2007.

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In August 2008, Capetronic requested that Emerson reimburse it for the costs it had incurred to purchase the production materials required to produce the musical instruments. After a review of the facts, the material purchase orders, the physical material at the Capetronic premises, and deducting an agreed upon scrap value of the material, Emerson decided to honor the request and paid \$313,000 to Capetronic on September 30, 2008. These materials are the property of Capetronic.

Capetronic is currently in physical possession of Emerson's molds originally required to produce the musical instruments, which Emerson wrote off in fiscal 2008.

Freight Forwarding Services. In June 2007, Emerson and Capetronic signed an agreement for Emerson to provide freight forwarding services to Capetronic. Under this agreement, which contains no specified termination date, Emerson will pay the costs of importation into the United States of Capetronic's inventory on Capetronic's behalf, and to arrange for the inventory to be received at a port of entry, cleared through the United States Customs Service using Emerson's regularly engaged broker, and transfer the inventory to a common carrier as arranged by Capetronic's customer. If Capetronic's customer failed to make such arrangements with a common carrier, Emerson agreed to transfer the inventory to Emerson's warehouse for storage or make other arrangements with a public warehouse. Following the transfer of Capetronic's inventory, Emerson is required to provide Next Day delivery of all importation documents and bills of lading to Capetronic's customer. Capetronic agreed to reimburse Emerson for all costs incurred by Emerson in connection with the activity just described within thirty days of demand by Emerson, after which interest accrues. As compensation, Capetronic agreed to pay Emerson a service fee of 12% of the importation costs. Emerson billed Capetronic for the reimbursement of importation costs totaling \$246,000 and a commission of \$29,000 for the six month period of September 30, 2007. Capetronic paid Emerson the full amount due of \$275,000 on November 14, 2007.

Other. Between August and December 2007, Emerson paid invoices and incurred charges for goods and services relating to the 2007 Hong Kong Electronics Fair of \$153,069. Portions of these charges, totaling \$87,353, have been allocated and invoiced to affiliates of Grande in proportion to their respective share of space occupied and services rendered during the Electronics Fair as follows: Nakamichi Corporation Ltd. \$17,143, Akai Sales PTE Ltd \$44,495 and Sansui Sales PTE Ltd \$25,715. Akai Sales and Sansui Sales collectively owed Emerson \$6,437 and \$70,210 in connection with the Hong Kong Electronics Fair as of September 30, 2008 and March 31, 2008, respectively.

Also related to the 2006 and 2007 annual Hong Kong Electronics Fairs, Capetronic incurred charges and paid invoices on behalf of Emerson in the amount of \$76,000 for which Emerson reimbursed Capetronic \$48,000 for the 2007 Hong Kong Electronics Fair in March 2008. Emerson paid Capetronic the remaining balance due of \$28,000 for the 2006 Hong Kong Electronics Fair on September 30, 2008.

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

In January and February 2008, Emerson invoiced The GEL Engineering Ltd (GEL), an affiliate of Grande, for travel expenses paid on GEL's behalf. As of September 30, 2008 and March 31, 2008, GEL owed Emerson \$5,500 as a result of this activity.

In June 2008, Emerson paid Capetronic \$160,000 for reimbursement of payroll and travel expenses that Capetronic paid on behalf of Emerson from October 2007 through May 2008 for expenses related to Emerson employees located in mainland China.

In September 2008, Akai Sales invoiced Emerson for travel expenses and courier fees which Akai Sales paid on Emerson's behalf. As of September 30, 2008 Emerson owed Akai Sales \$2,700 as a result of this invoice.

In September 2008, the Emerson Board of Directors resolved that, effective as of April 1, 2008, the annual base salary of the Chief Executive Officer of the Company shall be \$350,000, and, that because all members of the Board are to receive board fees according to a schedule approved by the Board, and because no such fees had been paid to the Chairman of the Board from July 2006 through March 31, 2008, the Chairman of the Board shall be paid compensation in full for his services for that period of time, to be calculated using the standard annual fee structure in place for board members then currently in effect. As a result of these resolutions, in September 2008 the Company began paying the Chief Executive Officer the stated annual salary, made a onetime retroactive salary payment to the

Chief Executive Officer of \$145,833 covering the period April 1, 2008 through August 31, 2008, and made a onetime cash payment of \$75,625 to the Chairman of the Board covering the period July 2006 through March 31, 2008.

In October 2008, the Emerson Board of Directors resolved that those remaining directors currently serving on the Board who, from the date of joining the Board, had received no compensation as either a Board member or as an employee of the Company, shall receive a cash payment covering such periods of time, to be calculated using the standard annual fee structure in place for board members then currently in effect. As a result of this resolution, in October 2008 the Company made onetime cash payments of \$90,000 and \$37,500 to two respective members of the Board of Directors.

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NOTE 8 BORROWINGS