TRANSACT TECHNOLOGIES INC
Form 10-Q
May 10, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2013
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: 0-21121

(Exact name of registrant as specified in its charter)

Delaware	06-1456680
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

One Hamden Center, 2319 Whitney Avenue, Suite 3B, Hamden, CT	06518
(Address of Principal Executive Offices)	(Zip Code)

(203) 859-6800
(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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 ý No o

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 o	Accelerated filer ý
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of April 30, 2013, the number of shares outstanding of the Company’s common stock, $0.01 par value, was 8,626,812.

TRANSACT TECHNOLOGIES INCORPORATED

INDEX

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31, 2013	December 31, 2012
	(In thousands, except share data)	
Assets:		
Current assets:		
Cash and cash equivalents	$8,449	$ 7,537
Accounts receivable, net	10,784	15,927
Inventories	11,220	10,321
Deferred tax assets	1,443	1,443
Other current assets	771	471
Total current assets	32,667	35,699
Fixed assets, net	3,205	3,302
Goodwill	2,621	2,621
Deferred tax assets	1,187	1,172
Intangible assets, net of accumulated amortization of $1,426 and $1,298, respectively	2,242	2,328
Other assets	94	106
	9,349	9,529
Total assets	$42,016	$ 45,228
Liabilities and Shareholders' Equity:		
Current liabilities:		
Accounts payable	$4,023	$ 6,422
Accrued liabilities	1,955	2,927
Income taxes payable	315	629
Accrued contingent consideration (Note 4)	136	136
Deferred revenue	315	93
Total current liabilities	6,744	10,207
Deferred revenue, net of current portion	160	168
Deferred rent, net of current portion	294	308
Accrued contingent consideration, net of current portion (Note 4)	824	824
Other liabilities	376	352
	1,654	1,652
Total liabilities	8,398	11,859
Shareholders' equity:		
Common stock, $0.01 par value, 20,000,000 shares authorized; 10,921,083 and 10,903,077 shares issued, respectively; 8,649,306 and 8,720,200 shares outstanding, respectively	109	109
Additional paid-in capital	26,268	25,940

Retained earnings	25,349		24,708
Accumulated other comprehensive loss, net of tax	(83)		(55)
Treasury stock, at cost, 2,271,777 and 2,182,877 shares, respectively	(18,025)		(17,333)
Total shareholders' equity	33,618		33,369
Total liabilities and shareholders' equity	$42,016	$	45,228

See notes to Condensed Consolidated Financial Statements.

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three Months Ended March 31,			
	2013		2012	
	(In thousands, except share data)			
Net sales	$	15,057	$	17,559
Cost of sales		8,624		10,781
Gross profit		6,433		6,778
Operating expenses:				
Engineering, design and product development		1,012		1,213
Selling and marketing		1,786		1,601
General and administrative		2,034		2,000
Legal fees associated with lawsuit (Note 9)		199		-
Business consolidation and restructuring (Note 8)		-		54
		5,031		4,868
Operating income		1,402		1,910
Interest and other (expense) income:				
Interest, net		(1)		2
Other, net		37		(24)
		36		(22)
Income before income taxes		1,438		1,888
Income tax provision		278		680
Net income	$	1,160	$	1,208

we would be more vulnerable to economic downturns and fluctuations in interest rates, less able to withstand competitive pressures and less flexible in reacting to changes in our industry and general economic conditions; and if we were to default under any of our existing credit facilities or if our creditors were to demand payment of a portion or all of our indebtedness, we may not have sufficient funds to make such payments.

We have pledged substantially all of our assets to secure our borrowings under our credit facilities and are subject to covenants that may restrict our ability to operate our business.

Our indebtedness under our credit facilities is secured by substantially all of our assets. If we default under the indebtedness secured by our assets, those assets would be available to the secured creditor to satisfy our obligations to the secured creditor. In addition, our credit facilities impose certain restrictive covenants, including financial, ownership, operational and net worth covenants. Failure to satisfy any of these covenants could result in all or any of the following:

acceleration of the payment of our outstanding indebtedness;

our inability to borrow additional amounts under our existing financing arrangements; and

our inability to secure financing on favorable terms or at all from alternative sources.

Any of these consequences could significantly reduce the amount of cash and financing available to us which in turn would adversely affect our ability to operate our business, including acquiring our products from our manufacturers and distributing our products to our customers.

Market Related Risks

The market price of our common stock has experienced significant price and volume fluctuations from time to time.

The market price for our common stock and for securities of similar companies has from time to time experienced significant price and volume fluctuations. Factors which may affect our market price include:

- market conditions in the industries in which we operate;
- competition;
- sales or the possibility of sales of our common stock;
- our results of operations and financial condition; and
- general economic conditions.

Furthermore, the stock market has experienced significant price and volume fluctuations unrelated to the operating performance of particular companies. These market fluctuations may also adversely affect the market price of our common stock.

Grande s controlling interest in our common stock as well as our organizational documents and Delaware law make it difficult for us to be acquired without the consent and cooperation of Grande, our board of directors and management.

Grande s controlling interest in our shares as well as several provisions of our organizational documents and Delaware law may deter or prevent a takeover attempt, including a takeover attempt in which the potential purchaser offers to pay a per share price greater than the current market price of our common stock. Under the terms of our certificate of incorporation, our board of directors has the authority, without further action by the stockholders, to issue shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. The ability to issue shares of preferred stock could tend to discourage takeover or acquisition proposals not supported by our current board of directors.

If our common stock is de-listed from the American Stock Exchange, shareholders liquidity in their shares may be adversely affected and shareholders may have difficulty selling their shares or attaining a satisfactory price.

In order for our common stock to be eligible to continue to be listed on the American Stock Exchange, we must meet the current American Stock Exchange continued listing requirements, including satisfying the Audit Committee composition requirements and the timely filing of periodic reports with the Securities and Exchange Commission. In addition, because we are a controlled company under the rules of the American Stock Exchange, we are not required to comply with the rules relating to independent directors, board nominations and executive compensation. During fiscal 2007, we failed to timely file our report on Form 10-Q for the quarter ended December 31, 2006. We also have received notices from the American Stock Exchange in the past for failure to meet certain continued listing requirements. If we are unable to continue to meet these requirements, our common stock could be de-listed from the American Stock Exchange. If our common stock were to be de-listed from the American Stock Exchange, our common stock could continue to trade on the National Association of Securities Dealers over-the-counter bulletin board or on the Pink Sheets, as the case may be. Any such de-listing of our common stock could have an adverse effect on the market price of, and the efficiency of the trading market for our common stock, in terms of the number of shares that can be bought and sold at a given price and through delays in the timing of transactions and less coverage of us by securities analysts, if any. It also could have an adverse effect on our ability to raise capital in the public or private equity markets if we were to determine that we need to seek additional equity capital in the future.

Forward-Looking Information

This report contains forward looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 under 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 our 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 our control, and which may cause our 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 our use of words such as may, will, can, anticipate, assume, should, ind would, believe, contemplate, expect, seek, estimate, continue, plan, project, predict, could, ir and other similar words and expressions of the future. These forward-looking statements may not be realized due to a variety of factors, including, without limitation:

- the loss of any of our key customers or reduction in the purchase of our products by any such customers;
- our inability to improve and maintain effective internal controls or the failure by our personnel to comply with such internal controls;
- the failure to maintain our relationships with our licensees and distributors or the failure to obtain new licensees or distribution relationships on favorable terms;
- our inability to anticipate market trends, enhance existing products or achieve market acceptance of new products;
- our dependence on a limited number of suppliers for our components and raw materials;
- our dependence on third party manufacturers to manufacture and deliver our products;
- the seasonality of our business, as well as changes in consumer spending and economic conditions;
- the failure of third party sales representatives to adequately promote, market and sell our products;
- our inability to protect our intellectual property;
- the effects of competition;

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

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

changes in accounting policies, rules and practices; and

the other factors listed under Risk Factors in this Annual Report on Form 10-K and other filings with 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 annual report or the date of the document incorporated by reference into this annual report. We have no obligation, and expressly disclaim any obligation, to update, revise or correct any of the forward-looking statements, whether as a result of new information, future events or otherwise. We have expressed our expectations, beliefs and projections in good faith and we believe they have a reasonable basis. However, we cannot assure you that our expectations, beliefs or projections will result or be achieved or accomplished.

Item 1B. UNRESOLVED STAFF COMMENTS

Not Applicable

Item 2. PROPERTIES

The following table sets forth the material properties owned or leased by us:

Facility Purpose	Approximate Square Footage	Location	Lease Expires or is Owned
Corporate headquarters	22,500	Parsippany, NJ	December 2009
Hong Kong office	18,476	Hong Kong, China	December 2008
New York office	3,032	New York, NY	July 2012
Macao office	4,333	Macao, China	March 2009
Warehouse	97,100	Irving, TX	June 2010
Warehouse	180,650	Mira Loma, CA	June 2011

We also utilize public warehouse space with terms typically of one year or less. Public warehouse expenses vary based upon the volume and value of products shipped from each leased location.

We believe that the properties used for our operations are in satisfactory condition and adequate for our present and anticipated future operations.

Item 3. LEGAL PROCEEDINGS

In December, 2007, a purported derivative action (the Berkowitz Action) was filed in The Court of Chancery of the State of Delaware (the Court) on our behalf by two of our shareholders, Lisa S. Berger Berkowitz and David E. Berkowitz, against certain of our current and former directors. The derivative action currently is pending against three of our directors (Messrs. Ho, Ma and Binney). The complaint, which has not yet been answered by the defendants, alleges that the named defendants, each of whom also is an executive officer of Grande Holdings, our controlling shareholder, violated their fiduciary duties to us in connection with a number of previously disclosed related party transactions with affiliates of Grande Holdings.

In May 2008, a purported derivative action (the Pinchuk Action) was filed in the Court on our behalf by our shareholder, Warren Pinchuk, against all of our current directors. This action contains similar allegations to those contained in the Berkowitz Action. The plaintiffs in the Berkowitz Action have moved before the Court to intervene in the Pinchuk Action and to stay prosecution of the Pinchuk Action. The plaintiff in the Pinchuk Action has filed an opposition to that motion and has moved before the Court to consolidate the Berkowitz Action and the Pinchuk Action. The Court is expected to hear these motions within a few weeks of the date of this Annual Report on Form 10-K.

The recovery in each of the Berkowitz Action and the Pinchuk Action, if any, will inure to our benefit.

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

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter.

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER REPURCHASES OF EQUITY SECURITIES

(a) Market Information

Our common stock has traded on the American Stock Exchange under the symbol MSN since December 22, 1994. The following table sets forth the range of high and low sales prices for our common stock as reported by the American Stock Exchange during the last two fiscal years.

	Fiscal 2008		Fiscal 2007	
	High	Low	High	Low
First Quarter	$3.30	$2.90	$3.75	$3.11
Second Quarter	3.05	2.12	3.26	2.91
Third Quarter	2.75	1.20	3.59	2.89
Fourth Quarter	1.45	1.01	3.45	3.11

There is no established trading market for our Series A convertible preferred stock, whose conversion feature expired as of March 31, 2002.

COMPARISON OF CUMULATIVE TOTAL RETURN

The following graph shows a comparison of cumulative total returns on our common stock for the period April 1, 2003 to March 31, 2008, with the cumulative total return over the same period for the American Stock Exchange and a peer group of companies. Companies used for the peer group are Boston Acoustics, Inc., Cobra Electronics Corp., Concord Camera Corp., Koss Corp. and Pioneer Corporation. In selecting companies to be part of the peer group, we focus on publicly traded companies that design and/or distribute consumer electronic products that have characteristics similar to ours in terms of one or more of the following: (i) type of product, (ii) distribution channels, (iii) sourcing or (iv) sales volume. The comparison assumes the investment of $100 in our common stock on April 1, 2003, and reinvestment of all dividends. The information in the graph was provided by Hemscott, Inc.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN
AMONG EMERSON RADIO CORPORATION,
AMEX MARKET AND PEER GROUP INDEX
ASSUMES $100 INVESTED ON APR. 1, 2003
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDING MAR. 31, 2008

Company Index Market	Fiscal Year Ended					
	3/31/03	3/31/04	3/31/05	3/31/06	3/31/07	3/31/08
Emerson Radio Corp.	100.00	55.52	51.16	54.36	46.51	16.72
Peer Group Index	100.00	141.65	88.19	69.48	58.52	41.49
Amex Market Index	100.00	141.33	148.06	181.72	195.41	191.43

(b) Holders

At June 18, 2008, there were approximately 295 stockholders of record of our common stock. We believe that the number of beneficial owners is substantially greater than the number of record holders, because a large portion of our common stock is held of record in broker street names.

(c) Dividends

Our policy has been to retain all available earnings, if any, for the development and growth of our business. We have not paid and do not intend to pay cash dividends on our common stock. In addition, our credit facility restricts our ability to pay cash dividends on our common stock.

(d) Unregistered Securities

None

(e) Share Repurchases

In September 2003, we publicly announced the Emerson Radio Corp. Common stock Repurchase Program. The program provides for share repurchase of up to 2,000,000 shares of our outstanding common stock. As of March 31, 2008, we have repurchased 1,267,623 shares under this program. No shares have been repurchased under the program since June 14, 2005. Repurchases of our shares are subject to certain conditions under Emerson s banking facility.

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth our selected consolidated financial data for the five years ended March 31, 2008. The selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements, including the notes thereto, and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

	March 31, 2008	March 31, 2007	March 31, 2006	March 31, 2005	March 31, 2004
	(In thousands, except per share data)				
Summary of Operations:					
Net Revenues	$223,230	$ 284,399	$ 233,843	$ 230,783	$ 179,952
Operating Income (loss)	$ (7,323)	$ 7,191	$ 4,169	$ 9,442	$ 3,093
Income (loss) from continuing operations	$ (9,021)	$ 3,458	$ 3,712	$ 5,113	$ 60
Income (loss) from discontinued operations, Net of tax	$	$	$ 12,918	$ 792	$ (1,134)
Net income (loss)	$ (9,021)	$ 3,458	$ 16,630	$ 5,905	$ (1,074)
Balance Sheet Data at Period End:					
Total Assets	$ 87,929	$ 99,408	$ 92,502	$ 131,168	$ 118,669
Current Liabilities	22,978	24,845	21,772	45,899	40,637
Long-Term Debt	199	676	575	31,666	30,820
Shareholders Equity	64,619	73,887	70,155	53,603	47,212
Working Capital	44,297	67,183	60,215	56,116	46,729
Current Ratio	2.9 to 1	3.7 to 1	3.8 to 1	2.2 to 1	2.2 to 1
Per Common Share:					
Basic net income (loss) per share:					
Continuing operations	$ (.33)	$ .13	$ .13	$ .19	$ .00
Discontinued operations			.48	.03	(.04)
	$ (.33)	$ .13	$ .61	$ .22	$ (.04)
Diluted net income (loss) per share:					
Continuing operations	$ (.33)	$ .13	$ .13	$ .19	$ .00
Discontinued operations			.48	.03	(.04)
	$ (.33)	$ .13	$ .61	$ .22	$ (.04)

Weighted Average Shares Outstanding:					
Basic	27,126	27,087	27,079	26,991	27,227
Diluted	27,126	27,127	27,172	27,264	27,227

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 Annual Report on Form 10-K.

Special Note: Certain statements set forth below constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. See Item 1A Risk Factors Forward-Looking Information.

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

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 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 fiscal years ended March 31 (in thousands):

	2008	2007	2006
Net revenues	$223,230	$284,399	$233,843
Cost of sales	201,046	248,065	204,010
Other operating costs and expenses	6,097	6,492	6,145
Selling, general and administrative	23,587	22,269	19,097
Acquisition costs incurred		190	48
Non-cash compensation costs (recovered)	(177)	192	374
Operating income (loss)	(7,323)	7,191	4,169
Gain on sale of building	854		
Gain on foreign exchange forward contracts	465		
Interest income (expense), net	303	(54)	(785)
Loss on impairment of securities	(1,952)		
Income (loss) before income taxes and minority interest	(7,653)	7,137	3,384
Provision (benefit) for income taxes	1,427	3,679	(328)
Minority interest in net loss of consolidated subsidiary	59		
Net income (loss) from continuing operations	$ (9,021)	$ 3,458	$ 3,712

Results of Operations Fiscal 2008 compared with Fiscal 2007

Net Revenues Net revenues for fiscal 2008 were $223.2 million as compared to $284.4 million for fiscal 2007, a decrease of $61.2 million or 21.5%. Net revenues are primarily comprised of Emerson® branded product sales, themed product sales and licensing revenues. Emerson® branded product sales are earned from the sale of products bearing the Emerson® or HH Scott® brand name; themed product sales represent products sold bearing a certain theme or character; and licensing revenues are derived from licensing the Emerson® and HH Scott® brand names to licensees for a fee. Net revenues also include net revenues of a new joint venture in fiscal 2008. The major elements which contributed to the overall decrease in net revenues were as follows:

i) Home appliances product sales increased $37.8 million, or 42.1%, to $127.6 million in fiscal 2008 as compared to $89.8 million in fiscal 2007. In fiscal 2008, home appliance product sales consisted of microwave ovens, wine coolers, small refrigerators, and toaster ovens;

ii) Emerson® branded products sales, excluding home appliances products, were $78.9 million in fiscal 2008 compared to $118.5 million in fiscal 2007, a decrease of $39.6 million, or 33.4%, primarily resulting from decreased sales volumes in several audio product lines and the Ipod® compatible product category;

iii) In fiscal 2007, we had promotional item sales to ESI International of $32.9 million, associated with a major holiday promotion with one of our major customers. In addition to increasing net revenues, this promotional sale resulted in an increase in accounts payable and other current liabilities and accounts receivable of $20.6 million and $20.8 million, respectively, in fiscal 2007, as well as an increase in short term deposits of $28.8 million in the same period due to parts and inventory purchases related to this sale. In order to fund these purchases, short term borrowings through our revolving line of credit increased by $24.0 million for the period ended September 30, 2006. These short term borrowings were repaid in the three months ended December 31, 2006. There were no promotional item sales during fiscal 2008;

iv) Themed product sales were $9.4 million in fiscal 2008 compared to $36.2 million in fiscal 2007, a decrease of $26.8 million, or 74.0%, primarily due to the discontinuance of Nickelodeon® themed products offset slightly by sales of Mattel® themed products which were dampened by $2.4 million in product returns made by one long time distribution partner;

v) Licensing revenues of $6.9 million in fiscal 2008 compared to $6.6 million in fiscal 2007, an increase of $300,000, or 4.5% primarily due to our video licensing agreements;

vi) A new joint venture which was formed in the fourth quarter of fiscal 2008 for the primary purpose of manufacturing, selling, distributing, and/or licensing audio and video equipment for the home and/or office with sales of $67,000; and

vii) In fiscal 2008, we charged fees of $102,000 and $233,000, respectively, to Sansui Sales PTE, Ltd (Sansui Sales) and Akai Sales PTE, Ltd (Akai Sales), both of which are related parties to us, for assistance in procuring their product. In fiscal 2008, we charged commissions of $29,000 to Capetronic Displays Ltd, which is a related party to us, for importation assistance. In fiscal 2008, we sold to Sansui Sales and Akai Sales $242,000 of Sansui- and Akai-branded product which we sourced on their behalf from third-party suppliers. See Item 8 Financial Statements and Supplementary Data Note 3 Related Party Transactions . No related party revenue was recorded in the prior fiscal year.

Cost of Sales In absolute terms, cost of sales decreased $47.1 million, or 19.0%, to $201.0 million in fiscal 2008 as compared to $248.1 million in fiscal 2007. Cost of sales, as a percentage of net revenues, was 90.0% in fiscal 2008 as compared to 87.2% in fiscal 2007. Cost of sales as a percentage of sales revenues less license revenues was 92.9% in 2008 as compared to 89.3% in 2007. As a percentage of net revenues for fiscal 2008, cost of sales associated with sales to Akai Sales PTE Ltd and Sansui Sales PTE Ltd, related parties, was 0.1% of total Emerson net revenues. As a percentage of net revenues for fiscal 2007, cost of sales associated with Capetronic Displays Limited, a related party to Emerson, was 12.0% of total Emerson net revenues. The decrease in absolute terms for fiscal 2008 as compared to fiscal 2007 was primarily related to the decrease in sales volume, a decrease in inventory reserves and a decrease in royalty expense offset by an increase in writedowns of inventory, costs of personnel in Asia involved in quality assurance in production of our product, warehousing costs, and inventory overhead. The increase in cost of sales as a percentage of net revenues for fiscal 2008 as compared to fiscal 2007 resulted from lower margins in audio and themed product categories offset by a decrease in inventory costs due to a decrease in inventory reserves. The decrease in inventory reserves resulted primarily from the reduction of inventory levels of a discontinued themed product line; however, there was an offsetting impact on margins for the reduction in themed product line goods as a consequence.

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

Other Operating Costs and Expenses Other operating costs and expenses include those components as described in Note 1 of the Notes to the Consolidated Financial Statements. As a result of increased direct import sales in relation to domestic sales over the prior year, other operating costs and expenses as a percentage of net revenues were 2.7% in fiscal 2008 and 2.3% in fiscal 2007. In absolute terms, other operating costs and expenses decreased $400,000, or 6.2%, to $6.1 million for fiscal 2008 as compared to $6.5 million in fiscal 2007. The decrease in absolute terms was the result of lower service costs.

Selling, General and Administrative Expenses (S,G&A) S,G&A, as a percentage of net revenues, were 10.6% in fiscal 2008 as compared to 7.8% in fiscal 2007. S,G&A, in absolute terms, increased $1.3 million, or 5.8%, to $23.6 million in fiscal 2008 as compared to $22.3

million for fiscal 2007. The increase in S,G&A in absolute terms between fiscal 2008 and 2007 was primarily due to an increase in professional fees of $1.7 million largely as a result of legal fees associated with related party transaction investigations, payroll including bonuses of $491,000, rent of $287,000, consulting fees related to the Company s Sarbanes-Oxley section 404 implementation of $221,000, and employment agency fees of $170,000. These increases were offset by adjustments to accounts receivable reserves of $672,000, an estimation of potential costs to avert litigation in the prior year of $650,000, and amortization expense of $101,000.

Acquisition Costs Acquisition costs were $190,000 in fiscal 2007. These costs were associated with contemplated acquisition transactions that were not completed. There were no acquisition costs in fiscal 2008.

Non Cash Compensation Non cash compensation relates to stock options expense associated with the adoption of FAS 123(R) Share-Based Payment. As a result of stock option forfeitures due to senior management and board of director changes over the past year, adjustments representing recovery of these non cash compensation costs incurred in prior years of $177,000 were recorded in fiscal 2008, as compared to expense of $192,000 in fiscal 2007.

Gain on sale of building Emerson sold its office location in Macao to an unaffiliated buyer for approximately $2.0 million in the second quarter of fiscal 2008. The gain on the sale of this property was $854,000, net of a $20,000 commission paid to a related party.

Gains on foreign exchange forward contracts Realized gains of $330,000 and unrealized gains of $135,000 have been recorded as non-operating income in fiscal 2008. There were no foreign exchange forward contracts in fiscal 2007.

Interest Income (Expense), net Interest income, net, was $303,000 (0.1% of net revenues) in fiscal 2008 as compared to interest expense, net, of $54,000 in fiscal 2007. Interest income on a note receivable from a related party was $163,000 in fiscal 2008 and $638,000 in fiscal 2007. See Item 8 Financial Statements and Supplementary Data Note 3 Related Party Transactions . Exclusive of this related party interest income, interest income, net, was $140,000 in fiscal 2008 and interest expense, net, was $692,000 (0.2% of net revenues) in fiscal 2007. Interest income for fiscal 2008 was primarily comprised of the related party interest income as well as money market account interest. Interest expense for fiscal 2007 was related to borrowings.

Loss on impairment of securities During the fourth quarter of fiscal 2008, we recorded an impairment charge of $1.95 million on our auction rate securities due to a decline in fair value which was deemed to be other than temporary. Our valuation and impairment was estimated by comparing current value based on projected cash flows discounted to the present and taking into account yields of similar illiquid instruments and assumptions about the extent of the failure of the auction process and the amount of discounts demanded in sales of comparable securities. We will continue to review any investments with a fair value less than our carrying value each reporting period. See Item 1A. Risk Factors and Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Provision (benefit) for Income Taxes In fiscal 2008, we resolved all of the outstanding disputes which our predecessor had relating to California franchise taxes, which are effectively tax on income and are recorded as such, in the amount of $4.9 million. See Item 8 Financial Statements and Supplementary Data Note 7 Income Taxes . Our provision for income taxes, which largely represents deferred tax charges associated with our profits in the United States and included the settlement of our predecessor s California franchise taxes in fiscal 2008, was $1.4 million, or 0.6% of net revenues. For fiscal 2007 our provision for income taxes was $3.7 million, or 1.3% of net revenues.

Minority interest in net loss of consolidated subsidiary Minority interest of $59,000 in fiscal 2008 represents the share of net loss of our joint venture formed in February 2008, Advanced Sound and Image, LLC (ASI) that is attributable to the equity of ASI that we do not own. Transactions between ASI and Emerson were eliminated in the consolidated financial statements.

Net Income (Loss) As a result of the foregoing factors, our net (loss) was $9.0 million for fiscal 2008 as compared to net income of $3.5 million (1.2% of net revenues) in fiscal 2007.

Results of Operations Fiscal 2007 compared with Fiscal 2006

Net Revenues Net revenues for fiscal 2007 increased $50.6 million, or 21.6%, to $284.4 million as compared to $233.8 million for fiscal 2006. Net revenues are comprised of Emerson® branded product sales, themed product sales and licensing revenues. Emerson® branded product sales are earned from the sale of products bearing the Emerson® or HH Scott® brand name; themed product sales represent products sold bearing a certain theme or character; and licensing revenues are derived from licensing the Emerson® and HH Scott® brand names to licensees for a fee. The increase in net revenues was comprised of:

i) Emerson® branded products sales of $208.3 million in fiscal 2007 compared to $176.2 million in fiscal 2006, an increase of $32.1 million, or 18.2%, primarily resulting from the introduction of the Ipod® compatible product category late in the prior fiscal year and an increase in the microwave ovens category offset by decreased sales volumes in the audio product category;

ii) Promotional item sales to ESI in fiscal 2007 totaling $32.9 million, associated with a major holiday promotion with one of our other major customers. In addition to increasing net revenues, this promotional sale resulted in an increase in accounts payable and other current liabilities and accounts receivable of $20.6 million and $20.8 million, respectively, in the period ended September 30, 2006 as well as an increase in short term deposits of $28.8 million in the same period due to parts and inventory purchases related to this sale. In order to fund these purchases, short term borrowings through our revolving line of credit increased by $24.0 million for the period ended September 30, 2006. These short term borrowings were repaid in the three months ended December 31, 2006. As of the date of this filing, the outstanding balances in accounts payable and other current liabilities, accounts receivable, short term deposits and short term borrowings associated with this specific promotional item have returned to normal seasonal business levels. There were no promotional item sales during fiscal 2006.

iii) Themed product sales of $36.2 million in fiscal 2007 compared to $49.9 million in fiscal 2006, a decrease of $13.7 million, or 27.4%, primarily due to the discontinuance of Nickelodeon® themed products offset slightly by start- up sales of Mattel® themed products; and

iv) Licensing revenues of $6.6 million in fiscal 2007 compared to $7.7 million in fiscal 2006, a decrease of $1.1 million, or 14.3% primarily due to lower sales volumes from our video licensing agreements with Funai.

v) In fiscal 2007 Emerson charged agent fees of $233,000, or 0.1% of net revenue, to Sansui Sales PTE, Ltd and Akai Sales PTE, Ltd, both of which are related parties to Emerson, for assistance in procuring their product. See Note 3 Related Party Transactions . No related party revenue was recorded in the prior fiscal year.

Cost of Sales In absolute terms, cost of sales increased $44.1 million, or 21.6%, to $248.1 million in fiscal 2007 as compared to $204.0 million in fiscal 2006. Cost of sales, as a percentage of net revenues, was unchanged at 87.2% in fiscal 2007 as compared to 87.2% in fiscal 2006. As a percentage of net revenues for fiscal 2007, cost of sales associated with Capetronic Displays Limited, a related party to Emerson, was 12.0%. Cost of sales as a percentage of sales revenues less license revenues decreased to 89.3% in 2007 from 90.2% in 2006, reflecting an increase in direct import sales in relation to domestic sales over the prior year. Direct import sales do not incur inventory overhead costs. Counteracting the impact of the direct import sales on the decrease in cost of sales as a percentage of sales revenues less license revenues is an increase in inventory reserves in fiscal 2007 related to the discontinuance of a themed-product line.

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

Other Operating Costs and Expenses Other operating costs and expenses include those components as described in Note 1 of the Notes to the Consolidated Financial Statements. As a result of increased direct import sales in relation to domestic sales over the prior year, other operating costs and expenses as a percentage of net revenues were 2.3% in fiscal 2007 and 2.6% in fiscal 2006. In absolute terms, other operating costs and expenses increased $347,000, or 5.7%, to $6.5 million for fiscal 2007 as compared to $6.1 million in fiscal 2006. The increase in absolute terms was the result of freight credited to our customers on returned goods.

Selling, General and Administrative Expenses (S,G&A) S,G&A, as a percentage of net revenues, were 7.8% in fiscal 2007 as compared to 8.2% in fiscal 2006. S,G&A, in absolute terms, increased $3.2 million, or 16.8%, to $22.3 million in fiscal 2007 as compared to $19.1 million for fiscal 2006. The increase in S,G&A in absolute terms between fiscal 2007 and 2006 was primarily due to estimation of potential costs to avert litigation in the current year of

$650,000, gains on sales of marketable securities and real property in the prior year of $532,000, an increase in professional and director fees of $319,000, trade show expenses of $302,000, accounts receivable reserves of $493,000, advertising costs of $293,000, variable selling expenses of $242,000, travel related expenses of $234,000, and utilities expenses of $104,000.

Acquisition Costs Acquisition costs were $190,000 in fiscal 2007 compared to $48,000 in fiscal 2006. These costs were associated with contemplated acquisition transactions that were not completed.

Non Cash Compensation Non cash compensation relates to stock options expense associated with the adoption of SFAS 123R Share-Based Payments. Stock based costs decreased to $192,000 (0.07% of net revenues) in fiscal 2007 compared to $374,000 (0.2% of net revenues) in fiscal 2006.

Interest Expense, net Interest expense, net, included $638,000 interest income on a note receivable from a related party. As a result, interest expense, net, decreased $731,000, or 93.1%, to $54,000 (0.02% of net revenues) in fiscal 2007 from $785,000 (0.3% of net revenues) in fiscal 2006. The decrease was primarily attributable to the related party interest income as well as the result of expensing the remainder of capitalized debt issue costs pertaining to our prior financing agreement in the prior fiscal year offset by increased expense related to borrowings in the current fiscal year.

Provision (benefit) for Income Taxes Our provision for income taxes, which primarily represents the deferred tax charges associated with our profits in the United States, resulted in a provision of $3.7 million for fiscal 2007, or 1.3% of net revenues, as compared to a benefit of $328,000 million for fiscal 2006, or -0.1% of net revenues.

Income From Continuing Operations As a result of the foregoing factors, net income from continuing operations amounted to $3.5 million (1.2% of net revenues) for fiscal 2007 as compared to $3.7 million (1.6% of net revenues) in fiscal 2006.

Liquidity and Capital Resources

As of March 31, 2008, we had cash and cash equivalents of approximately $14.4 million, compared to approximately $1.8 million at March 31, 2007. Working capital decreased to $44.3 million at March 31, 2008 as compared to $67.2 at March 31, 2007. The increase in cash and cash equivalents of approximately $12.6 million was primarily due to increases in cash provided by operating activities, the settlement of a receivable due from affiliate, the reclassification of cash which had been restricted because it was pledged to assure the availability of credit facilities, and the sale of a building. These increases were partially offset by investments in securities which have been classified as long-term, payment of taxes, and property and equipment additions, as described in the following paragraphs:

Operating cash flow provided by continuing operating activities was approximately $29.5 million for fiscal 2008, resulting from the repayment to Emerson of financing provided to an affiliate in the prior fiscal year (see Item 8 Financial Statements and Supplementary Data Note 3 Related Party Transactions), reduction of inventory levels and the collection of

38

receivables, and the reclassification of cash which had been pledged for availability of credit facilities.

Net cash used by investing activities was $13.2 million for fiscal 2008 and resulted primarily from purchases of investments less partial calls, purchases of tooling by a foreign subsidiary related to sourcing of product, offset by proceeds from the sale of a building.

Net cash used by financing activities was $3.7 million for fiscal 2008, resulting primarily from repayments of loans of a foreign subsidiary. While cash used for the financing of inventory purchases has been repaid in the current fiscal year, cash was also utilized for payments on certain equipment leases which have been capitalized and the mortgage of a foreign subsidiary.

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

At March 31, 2008 and March 31, 2007, there were approximately $10.8 million and $12.1 million of letters of credit outstanding under this facility.

At March 31, 2008, as a result of failing to meet the fixed charge coverage ratio (FCCR) requirement and failing to maintain the actual capital expenditures at or below the minimum required, we were not in compliance with the covenants of the Wachovia Loan Agreement. The lender agreed to waive such defaults, and we and the lender negotiated an amendment to the loan and security agreement. We were required to pay $20,000 to the lender in connection with the amendment.

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

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

Short-Term Liquidity. Liquidity is impacted by our seasonality in that we generally record the majority of our annual sales in the quarters ending September and December. This requires us to maintain higher inventory levels during the quarters ending June and September, therefore increasing the working capital needs during these periods. Additionally, we receive the largest percentage of product returns in the quarter ending March. The higher level of returns during this period adversely impacts our collection activity, and therefore our liquidity. In fiscal 2008, products representing approximately 25% of net revenues were imported directly to our customers. This contributes significantly to Emerson s liquidity in that this inventory does not need to be financed by us.

Our principal existing sources of cash are generated from operations and borrowings available under our revolving credit facilities. As of March 31, 2008, we had $34.2 million of borrowing capacity available under our $45.0 million revolving credit facilities, as there were $10.8 million letters of credit outstanding, and no outstanding loans. We believe that our existing sources of cash, including cash flows generated from operations, will be sufficient to support our existing operations over the next 12 months; however, we may raise additional financing, which may include the issuance of equity securities, or the incurrence of additional debt, in connection with our operations or if we elect to pursue acquisitions.

Contractual Obligations

The following summarizes our obligations at March 31, 2008 for the periods shown (in thousands):

	Payments due by period (1)				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Capital lease obligations	$ 224	$ 82	$ 124	$ 18	$
Operating lease obligations-related party	276	276			
Operating lease obligations-non-affiliate	4,940	1,777	2,664	499	
Total	$5,440	$2,135	$2,788	$517	$

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

As of March 31, 2008, there were no material capital expenditure commitments and no substantial commitments for purchase orders outside the normal purchase orders used to secure product.

Off-Balance Sheet Arrangements. We do not have any off-balance sheet arrangements.

Other Events and Circumstances Pertaining to Liquidity. We entered into foreign exchange forward contracts (denominated in US and Hong Kong dollar), based on economic and market conditions and solely for the purpose of speculative trading, (See Item 8 Financial Statements and Supplementary Data Note 10 Financial Instruments). The contract terms are for fixed periods and at March 31, 2008, our foreign exchange forward contracts had expiration dates that ranged from one to three months, with notional amounts of $10 million. At each balance sheet date, we account for our foreign exchange forward contracts as a current asset with corresponding realized or unrealized gains and losses included in the income statement.

As of March 31, 2008, we had $13.9 million of principal invested in student loan auction rate securities (SLARS) issued by not-for-profit entities. (See Note 11 Marketable Securities). The assets underlying these securities are long-term, illiquid financial instruments; however, interest rates are reset at set intervals in an auction process every 7 to 35 days and holders of these securities can typically sell the instruments at these reset dates. As a result of continuing uncertainty in the credit markets, these periodic auctions have been failing. Our estimated fair value of the SLARS was $11.9 million as of March 31, 2008. We continue to earn interest on these securities, and all of them had AAA credit ratings at March 31, 2008. We received approximately $1.1 million in partial calls of our auction rate securities in February and March of 2008, and we have converted additional amounts of principal into cash in subsequent partial calls. SLARS have been classified as long-term investments in our Consolidated Balance Sheets given their illiquidity due to the failing auctions. The maturity dates of the assets underlying the securities range from 25 to 34 years. We will continue to review any investments with a fair value less than our carrying value each reporting period. See Item 1A. Risk Factors and Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles that are generally accepted within the United States. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We consider certain accounting policies related to inventories, trade accounts receivables, impairment of long lived assets, valuation of deferred tax assets, sales return reserves and cooperative advertising accruals to be critical policies due to the estimation processes involved in each.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out basis. We record inventory reserves to reduce the carrying value of inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory reserves may be required. Conversely, if market conditions improve, such reserves are reduced.

Trade Accounts Receivable. We extend credit based upon evaluations of a customer s financial condition and provide for any anticipated credit losses in our financial statements based upon management s estimates and ongoing reviews of recorded allowances. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional reserves may be required. Conversely, reserves are reduced to reflect credit and collection improvements.

Income Taxes. We record a valuation allowance to reduce the amount of our deferred tax assets to the amount that management estimates is more likely than not to be realized. While we have considered future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance, in the event that we determined that we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, if it was determined that we 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.

Sales Return Reserves. Our management must make estimates of potential future product returns related to current period product revenue. Management analyzes historical returns, current economic trends and changes in customer demand for our products when evaluating the adequacy of the reserve for sales returns. Management judgments and estimates must be made and used in connection with establishing the sales return reserves in any accounting period. If actual sales returns increase above the historical return rates, then additional reserves may be required. Conversely, the sales return reserve could be decreased if the actual return rates are less than the historical return rates, which were used to establish such sales return reserve.

Cooperative Advertising Accruals. Cooperative advertising programs, promotions and other volume-based incentives, which are provided to retailers and distributors for advertising and sales promotions, are accounted for on an accrual basis as a reduction in net revenues in the period in which the related sales are recognized as per the guidance of the Emerging Issues Task Force of the Financial Accounting Standards Board (FASB) in EITF 01-09 Accounting for Consideration Given by a Vendor to a Customer. If additional cooperative advertising programs, promotions and other volume-based incentives are required to promote the Company s products, then additional reserves may be required. Conversely, reserves are decreased to reflect the lesser need for cooperative advertising programs.

Recently-Issued Financial Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 Accounting for Uncertainty in Income Taxes an interpretation of FAS 109 (FIN 48). FIN 48 clarifies the application of FAS 109 by defining the criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an entity s financial statements and also provides guidance on measurement, derecognition, classification, interest and penalties and disclosure. FIN 48 is effective for years beginning after November 1, 2007. The adoption of FIN 48 did not have a material impact on our consolidated financial position or results of operations.

In September 2006, the FASB issued FAS No. 157, Fair Value Measurements, which, while not prescribing any new fair value measurements, supplements other accounting pronouncements that apply these measurements. FAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting this new Standard.

In September 2006, the FASB issued FAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, which amends FAS No. 87, 88, 106, and 132(R). FAS 158 requires an employer to recognize the funded status of a defined benefit postretirement plan, quantified as the difference between plan assets at fair value and the benefit obligation of the plan, as an asset or liability in its statement of financial position and to recognize the change in the funded status, including gains and losses and prior service costs or credits, in its comprehensive income. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The Company is currently evaluating the impact of this new

Standard but believes that it will not have a material impact on the Company s financial position, results of operations or cash flows.

In September 2006, the United States Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 Considering the Effects of Prior Misstatements When Quantifying Misstatements in Current Years Financial Statements (SAB 108), which provides interpretive guidance on how registrants should quantify financial statement misstatements. Under SAB 108 registrants are required to consider both a rollover method, which focuses primarily on the income statement impact of misstatements, and the iron curtain method, which focuses primarily on the balance sheet impact of misstatements. The effects of prior year uncorrected errors include potential accumulation of improper amounts that may result in material misstatement on the balance sheet or the reversal of prior period errors in the current period that may result in a material misstatement of the current period income statement amounts. Adjustments to current or prior period financial statements would be required in the event that after application of various approaches for assessing materiality of a misstatement in current period financial statements and consideration of all relevant quantitative factors, a misstatement is determined to be material. We adopted provisions of SAB 108 as of December 31, 2006 and this did not have a material effect on the Company s results of operations or financial position.

In February 2007, the FASB issued FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. FAS No. 159 includes an amendment of FAS No. 115 and is intended, as part of the FASB s ongoing measurement goals, to encourage the application of fair value measurement, allowing the measurement of many financial instruments at fair value. FAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of this new Standard but believes that it will not have a material impact on the Company s financial position, results of operations or cash flows.

In December 2007, the FASB revised Statement 141, Business Combinations effecting the acquisitions on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This Statement replaces FASB Statement No. 141, *Business Combinations.* This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. The Company is assessing the possible impact of revised Statement 141 on its financial statements.

In December 2007, the FASB issued FAS160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The Company is currently evaluating the impact of this new Standard but believes that it will not have a material impact on the Company s financial position, results of operations or cash flows.

In December 2007, the FASB ratified the Emerging Issues Task Force consensus on EITF Issue No. 07-1, Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property . The EITF resolved that revenues and costs incurred and revenues generated from transactions with third parties outside the collaborative arrangement should be reported by the collaborators based on the criteria in EITF 99-19, Reporting Revenue Gross as a Principal Versus Net as an Agent . Payments between collaborators should be characterized based on existing accounting literature or analogous to such guidance if the payments are not within the scope of such pronouncements. Disclosures should include the nature and purpose of the collaborative arrangement along with the relevant accounting policies and classification of significant financial statement amounts associated with the arrangements. EITF Issue No. 07-1 is effective for fiscal years beginning after December 15, 2008 and is to be applied retrospectively to all periods presented for collaborative arrangements in existence on the date of adoption. The Company is currently evaluating the impact of this new Standard but believes that it will not have a material impact on the Company s financial position, results of operations or cash flows.

In March 2008, the FASB issued FAS161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133, Accounting for Derivatives Instruments and Hedging Activities . FAS161 is effective for annual periods beginning after December 15, 2008. FAS161 expands in the reporting requirements of FAS131. The Statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. This disclosure better conveys the purpose of derivative use in terms of the risks that the entity is intending to manage. The Company is assessing the possible impact of FAS161 on its financial statements.

In May 2008, FASB issued FAS No. 162, The Hierarchy of Generally Accepted Accounting Principles . Effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The Company is assessing the possible impact of FAS162 on its accounting framework.

In May 2008, the FASB issued FAS No. 163, Accounting for Financial Guarantee Insurance Contracts. FAS No. 163 is an interpretation of FAS No. 60, Accounting and Reporting by Insurance Enterprises . FAS No. 163 is effective for fiscal years beginning after December 15, 2008. The Company believes that this Standard will not have a material impact on the Company s financial position, results of operations or cash flows.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Inflation, Foreign Currency, and Interest Rates

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

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

As of March 31, 2008, we had $13.9 million of principal invested in student loan auction rate securities (SLARS) issued by not-for-profit entities. In keeping with our investment policy, all of the SLARS had AAA credit ratings when purchased. We recorded an impairment charge in earnings of $1.95 million on these securities due to a decline in fair value which was deemed to be other than temporary. Our valuation and impairment was estimated by comparing current value based on projected cash flows discounted to the present and taking into account yields of similar illiquid instruments and assumptions about the extent of the failure of the auction process and the amount of discounts demanded in sales of comparable securities. The assets underlying these securities are long-term, illiquid financial instruments; however, interest rates are reset at set intervals in an auction process every 7 to 35 days and holders of these securities can typically sell the instruments at these reset dates. As a result of continuing uncertainty in the credit markets, these periodic auctions have been failing. Our estimated fair value of the SLARS was $11.9 million as of March 31, 2008. We continue to earn interest on these securities, and all of them had AAA credit ratings at March 31, 2008. SLARS have been classified as long-term investments in our Consolidated Balance Sheets given their illiquidity due to the failing auctions. We will continue to review any investments with a fair value less than our carrying value each reporting period.

If uncertainty in credit markets continues, or if these securities experience ratings downgrades, we may incur additional impairments which could have an adverse affect on the Company s financial condition, cash flow and earnings. See Item 1A. Risk Factors.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
of Emerson Radio Corp.

We have audited the accompanying consolidated balance sheets of Emerson Radio Corp. and Subsidiaries (the Company), as of March 31, 2008 and 2007, and the related consolidated statements of operations, changes in shareholders equity, and cash flow for each of the three years in the period ended March 31, 2008. Our audits also included the financial statement schedule listed in the Index to Consolidated Financial Statements for each of the three years in the period ended March 31, 2008. These consolidated financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements and financial statement schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of March 31, 2008 and 2007, and the consolidated results of their operations, and their cash flow for each of the three years in the period ended March 31, 2008. in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule presents fairly, in all material respects, the information set forth therein for each of the three years in the period ended March 31, 2008.

/s/ Moore Stephens, P. C.
MOORE STEPHENS, P. C.
Certified Public Accountants.
Cranford, New Jersey
June 30, 2008

EMERSON RADIO CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For The Years Ended March 31, 2008, 2007, and 2006
(In thousands, except per share data)

	2008	2007	2006
Net revenues:			
Net revenues	$ 222,857	$ 284,166	$ 233,843
Net revenues-related party	373	233	
	223,230	284,399	233,843
Costs and expenses:			
Cost of sales	200,814	215,175	204,010
Cost of sales-related party	232		
Cost of sales-related party purchases		32,890	
Other operating costs and expenses	6,097	6,492	6,145
Selling, general and administrative expenses (exclusive of non-cash compensation shown below)	23,587	22,269	19,097
Acquisition costs incurred		190	48
Non-cash compensation, net of recoveries	(177)	192	374
	230,553	277,208	229,674
Operating income (loss)	(7,323)	7,191	4,169
Other income (expense):			
Gain on sale of building	854		
Gains on foreign exchange forward contracts	465		
Interest income (expense), net	140	(692)	(785)
Interest income-related party	163	638	
Loss on impairment of securities	(1,952)		
	(330)	(54)	(785)
Income (loss) from continuing operations before income taxes and minority interest	(7,653)	7,137	3,384
Provision (benefit) for income taxes	1,427	3,679	(328)
Minority interest in loss of consolidated subsidiary	59		
Income (loss) from continuing operations	(9,021)	3,458	3,712
Income from discontinued operations, net of tax			12,918
Net income (loss)	(9,021)	3,458	16,630
Basic net income (loss) per share			
Continuing operations	$ (.33)	$ .13	$ .13
Discontinued operations			.48

	$	(.33)	$	.13	$	.61
Diluted net income (loss) per share						
Continuing operations	$	(.33)	$	.13	$	.13
Discontinued operations						.48
	$	(.33)	$	.13	$	.61
Weighted average shares outstanding						
Basic		27,126		27,087		27,079
Diluted		27,126		27,127		27,172

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

47

EMERSON RADIO CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of March 31, 2008 and 2007
(In thousands, except per share data)

	2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 14,444	$ 1,851
Restricted cash		3,000
Foreign exchange forward contracts	134	
Accounts receivable (less allowances of $4,148 and $3,573, respectively)	17,289	19,375
Other receivables	2,131	1,536
Due from affiliates	765	24,690
Net inventory	24,854	32,463
Prepaid expenses and other current assets	2,246	3,376
Deferred tax assets	5,412	5,737
Total current assets	67,275	92,028
Property, plant, and equipment, net	1,902	2,492
Trademarks and other intangible assets, net	279	311
Investments in marketable securities	11,948	
Deferred tax assets	5,927	4,067
Other assets	598	510
Total Assets	$ 87,929	$ 99,408
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Short-term borrowings	$	$ 3,111
Current maturities of long-term borrowings	82	146
Accounts payable and other current liabilities	21,737	20,044
Due to affiliates	102	
Accrued sales returns	872	1,191
Income taxes payable	185	306
Deferred tax liabilities		47
Total current liabilities	22,978	24,845
Long-term borrowings	142	651
Deferred tax liabilities	57	25
Minority interest	133	
Shareholders Equity:		
	3,310	3,310

Preferred shares 10,000,000 shares authorized; 3,677 shares issued and outstanding; liquidation preference of $3,677		
Common shares $.01 par value, 75,000,000 shares authorized; 52,965,797 shares issued at March 31, 2008; 52,945,797 shares issued at March 31, 2007; 27,129,832 shares outstanding at March 31, 2008 and 27,109,832 shares outstanding at March 31, 2007, respectively	529	529
Capital in excess of par value	117,245	117,371
Accumulated other comprehensive losses	(82)	(82)
Accumulated deficit	(32,159)	(23,017)
Treasury stock, at cost, 25,835,965 shares	(24,224)	(24,224)
Total shareholders equity	64,619	73,887
Total Liabilities and Shareholders Equity	$ 87,929	$ 99,408

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

48

EMERSON RADIO CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
For The Years Ended March 31, 2008, 2007, and 2006
(In thousands, except share data)

	Preferred Stock	Common Shares Issued Number Of Shares	Common Shares Issued Par Value	Treasury Stock	Capital In Excess Of Par Value	Accumulated Other Comprehensive Losses	Accumulated Deficit	Total Shareholders Equity
Balance March 31, 2005	$ 3,310	52,883,131	$ 529	$ (23,832)	$ 116,788	$ (87)	$ (43,105)	$ 53,603
Purchase of treasury stock				(392)				(392)
Exercise of stock options and warrants		17,166			51			51
Stock based compensation					246			246
Comprehensive income:								
Net income							16,630	16,630
Unrealized gain on securities						17		17
Comprehensive income								16,647
Balance March 31, 2006	$ 3,310	52,900,297	$ 529	$ (24,224)	$ 117,085	$ (70)	$ (26,475)	$ 70,155
Exercise of stock options and warrants		45,500			94			94
Stock based compensation					192			192
Comprehensive income:								
Net income							3,458	3,458
Unrealized loss on securities						(10)		(10)
Recognition of realized losses in net income						(2)		(2)
Comprehensive income								3,446
	$ 3,310	52,945,797	$ 529	$ (24,224)	$ 117,371	$ (82)	$ (23,017)	$ 73,887

Balance March 31, 2007								
Exercise of stock options and warrants		20,000			51			51
Stock based compensation					(177)			(177)
Adjustment for implementation of FIN 48							(121)	(121)
Comprehensive income:								
Net income							(9,021)	(9,021)
Comprehensive income								(9,021)
Balance March 31, 2008	$ 3,310	52,965,797	$ 529	$ (24,224)	$ 117,245	$ (82)	$ (32,159)	$ 64,619

The accompanying notes are an integral part of the consolidated financial statement

49

EMERSON RADIO CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Years Ended March 31, 2008, 2007, and 2006
(In thousands)

	2008	2007	2006
Cash Flows from Operating Activities:			
Income (loss) from continuing operations	$ (9,021)	$ 3,458	$ 3,712
Adjustments to reconcile net income (loss) to net cash (used) provided by operating activities:			
Minority interest	133		
Depreciation and amortization	823	850	1,076
Non cash compensation	(177)	192	374
Deferred tax expense (benefit)	(1,550)	842	(519)
Asset allowances, reserves, and other	1,746	1,685	958
Gain on sale of building and other property	(865)		
Impairment charges and asset write-offs	2,072		
Gains on foreign exchange forward contracts not settled	(134)		
Changes in assets and liabilities:			
Restricted cash	3,000		2,620
Accounts receivable	(479)	507	(4,227)
Other receivables	(595)	(109)	117
Due from affiliates	23,925	(24,690)	
Inventories	8,109	(2,423)	5,030
Prepaid expenses and other current assets	1,130	318	(394)
Other assets	(171)	756	(674)
Accounts payable and other current liabilities	1,693	1,923	621
Due to affiliates	102		
Income taxes payable	(242)	164	(101)
Operating activities of continuing operations	29,499	(16,527)	8,593
Operating activities of discontinued operations			220
Net cash provided (used) by operating activities	29,499	(16,527)	8,813
Cash Flow From Investing Activities:			
Proceeds from sale of building and other property	2,011		
Proceeds from partial calls on securities	1,100		
Purchases of securities	(15,000)		
Additions to property and equipment (continuing operations)	(1,309)	(364)	(687)
Investing activities of discontinued operations, including proceeds from sale of SSG (net of cash at date of sale)			29,488
Net cash (used) provided by investing activities	(13,198)	(364)	28,801
Cash Flows from Financing Activities:			
Short-term borrowings	(64)	31,892	
Repayments of short-term borrowings		(31,831)	
Net borrowings under foreign bank facilities	(3,111)	1,270	(11,203)

Purchases of treasury stock			(392)
Exercise of stock options	51	94	51
Long-term borrowings	183,144	85,594	34,682
Repayments of long-term borrowings	(183,728)	(85,794)	(46,050)
Financing activities of continuing operations	(3,708)	1,225	(22,912)
Financing activities of discontinued operations			(143)
Net cash (used) provided by financing activities	(3,708)	1,225	(23,055)
Net (decrease) increase in cash and cash equivalents	12,593	(15,666)	14,559
Cash and cash equivalents at beginning of year	1,851	17,517	2,958
Cash and cash equivalents at end of year (Including cash of discontinued operations of $0)	$ 14,444	$ 1,851	$ 17,517

50

EMERSON RADIO CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For The Years Ended March 31, 2008, 2007 and 2006
(In thousands)

Supplemental disclosures of non-cash investing and financing activities:
The Company has entered into certain capital lease agreements. For fiscal 2008 and 2007, the Company entered into agreements related to approximately $73 and $264 of equipment, respectively, which are excluded from the statement of cash flows as the transactions were non-cash in nature.

Cash paid during the period for:			
Interest	$ 464	$ 1,037	$ 841
Income taxes	$ 5,393	$ 1,224	$ 819

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

EMERSON RADIO CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES:

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 $30.6 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 operation for all periods shown in the accompanying financial statements (see Note 17), 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 and household products and the licensing of the trademark for a variety of products domestically and internationally to certain licensees.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Short-term investments with original maturities of three months or less at the time of purchase are considered to be cash equivalents.

Fair Values of Financial Instruments

The carrying amounts for cash and cash equivalents, cash securing bank loans, trade accounts receivable, accounts payable and accrued liabilities approximate fair value due to short-term maturity of these financial instruments. The carrying amounts of bank debt approximate their fair values due to their variable rate interest features.

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

Investments

The Company determines the appropriate classifications of securities at the time of purchase and evaluates the continuing appropriateness of that classification thereafter. The Company s investments in auction rate securities in fiscal 2008 are classified as trading securities. The Company held no investments at March 31, 2007. Realized gains and losses are determined on a specific identification basis and are reported separately as a component of income. Declines in the fair value of securities deemed to be other than temporary are included in earnings.

Concentrations of Credit Risk

Certain financial instruments potentially subject the Company to concentrations of credit risk. Accounts receivable represent sales to retailers and distributors of consumer electronics throughout the United States and Canada. The Company periodically performs credit evaluations of its customers but generally does not require collateral. The Company provides for any anticipated credit losses in the financial statements based upon management s estimates and ongoing reviews of recorded allowances. The accounts receivable allowance for fiscal 2008 and 2007 consists of the following:

	2008	2007
	(In thousands)	
Allowance for doubtful accounts	$ 960	$ 1,064
Chargeback reserves	462	411
Allowance for sales returns	2,726	2,098
Total account receivable reserves	$ 4,148	$ 3,573

The Company maintains its cash accounts primarily with the bank providing its credit facility and also with major foreign financial institutions. See Note 6 Borrowings . The total cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000 per bank. The Company has cash balances in excess of FDIC-insured limits in the amount of $14.2 million and $4.8 million at March 31, 2008 and March 31, 2007, respectively.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is being computed using the straight-line method over the estimated useful lives. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and betterments are capitalized and depreciated over the remaining estimated useful lives of the related assets. At time of disposal, the cost and related accumulated depreciation are removed from the Company s records and the difference between net carrying value of the asset and the sale proceeds is recorded as a gain or loss.

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

Depreciation of property, plant and equipment is provided by the straight-line method as follows:

• Buildings	Thirty years to forty years
• Machinery and Equipment	Five years to ten years
• Computer Equipment and Software	Three years to ten years
• Furniture & Fixtures and Office Equipment	Five years to seven years

Long-Lived Assets

The Company s long-lived assets include property and equipment, trademark and other amortizable intangibles. At March 31, 2008, the Company had approximately $1,902,000 of property and equipment, net of accumulated depreciation, and approximately $279,000 of trademark and other amortizable intangible assets, net of amortization, accounting for approximately 3% of the Company s total assets. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposals of Long-Lived Assets. Recoverability of assets held and used are measured by a comparison of the carrying amount of an asset to estimated undiscounted pre-tax future net cash flows. Future events could cause the Company to conclude that impairment indicators exist and that long-lived assets may be impaired. Any resulting impairment loss could have a material adverse impact on the Company s financial condition and results of operations.

Revenue Recognition

Revenues are recognized at the time title passes to the customer. Under the Direct Import Program, title passes in the country of origin. Under the Domestic Program, title passes primarily at the time of shipment. Estimates for possible returns are based upon historical return rates and netted against revenues. Except in connection with infrequent sales with specific arrangements to the contrary, returns are not permitted unless defective.

Cost of Sales

Cost of sales includes actual product cost, change in inventory reserves, duty, buying costs, the cost of transportation to the Company s warehouses from its manufacturers, warehousing costs, and an allocation of depreciation and amortization.

Other Operating Costs and Expenses

Other operating costs and expenses include costs associated with returned product received from retailers, the costs associated with the markdown of returned inventory, and an allocation of depreciation and amortization. Because we do not include other operating costs and expenses in cost of sales, our gross margin may not be comparable to those of other distributors that may include all costs related to the cost of product to their cost of sales and in the calculation of gross margin.

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

Selling, General and Administrative Expenses

Selling, general and administrative expenses include all operating costs of the Company that are not directly related to the cost of procuring product or costs not included in other operating costs and expenses.

Acquisition Costs Incurred

Acquisition costs include all costs incurred by the Company in acquisition attempts. These costs are charged to operations when the potential acquisition is terminated.

Foreign Currency

The assets and liabilities of foreign subsidiaries have been translated at current exchange rates, and related revenues and expenses have been translated at average rates of exchange in effect during the year. Related translation adjustments are reported as a separate component of shareholders equity. Losses and gains resulting from foreign currency transactions are included in the results of operations.

The Company generally does not enter into foreign currency exchange contracts to hedge its exposures related to foreign currency fluctuations. However, in fiscal 2008, the Company entered into fixed period foreign exchange forward contracts (between the US and Hong Kong dollar), based on economic and market conditions and solely for the purpose of speculative trading, not for the purpose of hedging other business opportunities. The contract terms are for fixed periods and at March 31, 2008, the Company s foreign exchange forward contracts had expiration dates that ranged from one to two months, with notional amounts of $10 million. (See Note 10).

Advertising Expenses

Advertising expenses are charged to operations as incurred and are included in selling, general and administrative expenses. Total advertising expenses were approximately $820,000, $1,418,000, and $1,108,000 for fiscal 2008, 2007, and 2006, respectively.

Cooperative Advertising Expenses

Cooperative advertising programs and other volume-based incentives are accounted for on an accrual basis as a reduction in net revenue according to the requirements of Emerging Issue Task Force 01-09, Accounting for Consideration Given By a Vendor to a Customer or a Reseller of the Vendor s Products in the period in which the related sales are recognized. Cooperative advertising expenses were approximately $7,760,000, $7,354,000, and $5,014,000, for fiscal 2008, 2007, and 2006, respectively.

Internet Expenses

The Company expenses the operating and development costs of its Internet websites when incurred.

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

Interest (Income) Expense

The Company expenses interest when incurred. The interest expenses for fiscal 2008, 2007 and 2006 consist of:

	2008	2007	2006
		(In thousands)	
Interest expense	$ 440	$ 1,001	$ 841
Amortization of deferred financing costs	83	83	439
Interest income	(663)	(392)	(495)
Interest (income) expense, net	$ (140)	$ 692	$ 785

Income Taxes

Deferred income taxes are provided for the tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets have been recorded, net of an appropriate valuation allowance, to the extent management believes it is more likely than not that such assets will be realized. (See Note 7).

Comprehensive Income

Comprehensive income or loss, as disclosed in the Consolidated Statements of Changes in Shareholders Equity, is net income or loss adjusted for changes in the fair value of hedge instruments, unrealized gains or losses on securities, and foreign currency translation adjustments.

Net Earnings (Loss) Per Common Share

Net earnings (loss) per share are based upon the weighted average number of common and common equivalent shares outstanding. Outstanding stock options and warrants are treated as common stock equivalents when dilution results from their assumed exercise.

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

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 is 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 recorded a recovery of compensation costs of $177,000 during fiscal 2008 and compensation costs of $192,000 and $374,000 during fiscal 2007 and fiscal 2006, respectively.

The fair value of Emerson s options for purposes of recording expenses under FAS 123R were calculated using the Black-Scholes option valuation model and the following assumptions for fiscal 2008 and 2007, respectively: (i) a risk free interest rate of 4.56%, and 4.13%-4.52%, (ii) a weighted average expected life of 5 years; (iii) an expected volatility of 0.314 and 0.491-0.691; and (iv) no dividend yield. The weighted average fair value of stock options granted for the Emerson Plan in fiscal 2007 and 2006 was $1.14 and $1.55, respectively. No stock options were granted for the Emerson Plan in fiscal 2008.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because Emerson s stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

Derivative Financial Instruments

The Company accounts for its interest rate protection agreement under FAS 133, Accounting for Derivative Instruments and Hedging Activities . FAS 133 requires all derivatives to be recorded as assets or liabilities and measured at fair value. Gains or losses resulting from changes in the values of derivatives are recognized immediately or deferred, depending on the use of the derivative and whether or not it qualifies as a hedge.

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

Recent Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 Accounting for Uncertainty in Income Taxes an interpretation of FAS 109 (FIN 48). FIN 48 clarifies the application of FAS 109 by defining the criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an entity s financial statements and also provides guidance on measurement, de-recognition, classification, interest and penalties and disclosure. FIN 48 is effective for years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on our consolidated financial position or results of operations.

In September 2006, the FASB issued FAS No. 157, Fair Value Measurements, which, while not prescribing any new fair value measurements, supplements other accounting pronouncements that apply these measurements. FAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting this new Standard.

In September 2006, the United States Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 Considering the Effects of Prior Misstatements When Quantifying Misstatements in Current Years Financial Statements (SAB 108), which provides interpretive guidance on how registrants should quantify financial statement misstatements. Under SAB 108 registrants are required to consider both a rollover method, which focuses primarily on the income statement impact of misstatements, and the iron curtain method, which focuses primarily on the balance sheet impact of misstatements. The effects of prior year uncorrected errors include potential accumulation of improper amounts that may result in material misstatement on the balance sheet or the reversal of prior period errors in the current period that may result in a material misstatement of the current period income statement amounts. Adjustments to current or prior period financial statements would be required in the event that after application of various approaches for assessing materiality of a misstatement in current period financial statements and consideration of all relevant quantitative factors, a misstatement is determined to be material. We adopted provisions of SAB 108 as of December 31, 2006 and this did not have a material effect on the Company s results of operations or financial position.

In February 2007, the FASB issued FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. FAS No. 159 includes an amendment of FAS No. 115 and is intended, as part of the FASB s ongoing measurement goals, to encourage the application of fair value measurement, allowing the measurement of many financial instruments at fair value. FAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of this new Standard but believes that it will not have a material impact on the Company s financial position, results of operations or cash flows.

In December 2007, the FASB issued FAS No. 141(R), Business Combinations , which replaces FASB Statement No. 141, Business Combinations . FAS 141(R) stipulates how the acquirer recognizes assets acquired, liabilities assumed, and any non-controlling interest in the acquiree measured at their fair values as of the acquisition date. This Statement does not apply to the formation of a joint venture or combination between businesses under common control. FAS 141(R) makes amendments to various other Statements and improves upon guidance provided by other authoritative

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

literature. This Statement applies to business combinations where the acquisition date is on or after the beginning of the first annual reporting period after December 15, 2008. The Company is currently evaluating the impact of this new Standard.

In December 2007, the FASB issued FAS No. 160, Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51. FAS No. 160 establishes accounting and reporting standards for noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of this new Standard but believes that it will not have a material impact on the Company s financial position, results of operations or cash flows.

In December 2007, the FASB ratified the Emerging Issues Task Force consensus on EITF Issue No. 07-1, Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property . The EITF resolved that revenues and costs incurred and revenues generated from transactions with third parties outside the collaborative arrangement should be reported by the collaborators based on the criteria in EITF 99-19, Reporting Revenue Gross as a Principal Versus Net as an Agent . Payments between collaborators should be characterized based on existing accounting literature or analogous to such guidance if the payments are not within the scope of such pronouncements. Disclosures should include the nature and purpose of the collaborative arrangement along with the relevant accounting policies and classification of significant financial statement amounts associated with the arrangements. EITF Issue No. 07-1 is effective for fiscal years beginning after December 15, 2008 and is to be applied retrospectively to all periods presented for collaborative arrangements in existence on the date of adoption. The Company is currently evaluating the impact of this new Standard but believes that it will not have a material impact on the Company s financial position, results of operations or cash flows.

In December 2007, the FASB issued FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. FAS No. 161 is an amendment of FAS No. 133, Accounting for Derivative Instruments and Hedging Activities and requires enhanced disclosures of an entity s derivative and hedging activities. FAS No. 161 is effective for fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of this new Standard but believes that it will not have a material impact on the Company s financial position, results of operations or cash flows.

In May 2008, the FASB issued FAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. FAS No. 162 will be effective 60 days following the SEC s approval of the PCAOB amendments to AU Section 411, *The Meaning of Presented Fairly in Conformity with Generally Accepted Accounting Principles*. The Company is currently evaluating the impact of this new Standard, but it is not anticipated that this Standard would cause any significant change in financial reporting.

In May 2008, the FASB issued FAS No. 163, Accounting for Financial Guarantee Insurance Contracts. FAS No. 163 is an interpretation of FAS No. 60, Accounting and Reporting by Insurance Enterprises . FAS No. 163 is effective for fiscal years beginning after December 15, 2008. The Company believes that this Standard will not have a material impact on the Company s financial position, results of operations or cash flows.

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

Reclassifications

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

NOTE 2 INVENTORIES:

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. As of March 31, 2008 and 2007, inventories consisted of the following:

	March 31, 2008	March 31, 2007
	(In thousands)	
Finished goods	$ 28,730	$ 36,839
Less inventory allowances	(3,876)	(4,376)
	$ 24,854	$ 32,463

60

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

NOTE 3 RELATED PARTY TRANSACTIONS

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

Grande s Purchase of Controlling Interest in Emerson. On December 5, 2005, The Grande Holdings Limited (Grande) purchased approximately 37% (10,000,000 shares) of the Company s outstanding common stock from our former Chairman and Chief Executive Officer, Geoffrey P. Jurick. Since its initial purchase, Grande has increased its ownership of the Company s common stock through open market and private purchases, including the purchase on September 21, 2007 from a former holder of more than five percent of Emerson s common stock of 1,853,882 shares. Grande beneficially owned approximately 57.6% of the Company s common stock on March 31, 2008.

License Agreement for Scott Brands. In April 2008, Emerson terminated its agreement with a consumer electronics distributor, APH (the Licensee), pursuant to which, among other things, Emerson had agreed to grant the Licensee a license to distribute and sell LCD televisions (LCD sets) in North America under Emerson s H.H. Scott brand name. The licensee also had a distributor relationship with Grande, a related party to Emerson. Emerson was paid royalties of $0 in fiscal 2008 and $110,000 in fiscal 2007 as a result of sales of LCD televisions bearing the H.H. Scott name.

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

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

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

On February 21, 2007, Capetronic, Nakamichi, Akai, and Sansui (collectively, the Borrowers), each of which is a wholly-owned subsidiary of Grande, jointly and severally, issued a promissory note (the Note) in favor of the Company in the principal amount of $23,501,514. The principal amount of the Note represented the outstanding amount owed to the Company as of February 21, 2007, as a result of certain related party transactions entered into between the Company and the Borrowers described above, including interest that had accrued from the date of such related party transactions until the date of the Note. Simultaneously with the execution of the Note, Grande executed a guaranty (the Guaranty) in favor of the Company pursuant to which Grande guaranteed payment of all of the obligations of the Borrowers under the Note in accordance with the terms thereof.

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

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

Product Sourcing Transactions. Since August 2006, Emerson has been providing to Sansui Sales PTE Ltd (Sansui Sales) and Akai Sales PTE Ltd (Akai Sales), both of which are subsidiaries of Grande, assistance with acquiring certain products for sale. Emerson issues purchase orders to third-party suppliers who manufacture these products, and Emerson issues sales invoices to Sansui Sales and Akai Sales at gross amounts for these products. Financing is provided by Sansui Sales and Akai Sales customers in the form of transfer letters of credit to the suppliers, and goods are shipped directly from the suppliers to Sansui Sales and Akai Sales customers. Emerson recorded income totaling $102,000 for providing this service fiscal 2008. Sansui Sales and Akai Sales collectively owe Emerson $134,000 at March 31, 2008 as a result of these transactions, which has been subsequently collected in June 2008.

Sales of goods. In addition to the product sourcing transactions described in the preceding paragraph, Emerson has also purchased products on behalf of Sansui Sales and Akai Sales from third-party suppliers and sold these goods to Sansui Sales and Akai Sales. These transactions are similar to the transactions described in the preceding paragraph; however, instead of utilizing transfer letters of credit provided by Sansui Sales and Akai Sales customers, Emerson utilizes its own cash to pay Sansui Sales and Akai Sales suppliers. Emerson invoices Sansui Sales and Akai Sales an amount that is marked up between two and three percent from the cost of the product. Emerson recorded sales to Akai and Sansui of $242,000 in fiscal 2008. Sansui Sales and Akai Sales collectively owe Emerson $5,000 at March 31, 2008 on these sales. In addition, Emerson has outstanding liabilities with suppliers of product invoiced to Sansui Sales and Akai Sales totaling $3,000 at March 31, 2008. Sansui Sales and Akai Sales paid their outstanding balances in June 2008.

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

Leases and Other Real Estate Transactions. Effective January 1, 2006, we entered into a lease for office space in Hong Kong with Grande and an agreement for services in connection with this office space rental from Grande, which was extended through December 31, 2008, and which will expire at that date unless terminated earlier by either party upon three months prior written notice of termination by either party. Under a new agreement commencing March 1, 2008, the office space rented was increased from 7,810 square feet to 18,476 square feet. Rent expense with Grande was $270,000 and $206,000 for fiscal 2008 and fiscal 2007, respectively. The amount of expense incurred with Grande for all other services in connection with this office space rental was approximately $106,000 and $56,000 for the fiscal 2008 and fiscal 2007, respectively.

Emerson utilizes the services of Grande employees for certain administrative and executive functions. Grande pays Emerson s quality assurance personnel in RMB in China on Emerson s behalf for which Emerson subsequently pays a reimbursement to Grande. Payroll and travel expenses, including utilization of Grande employees as well as payroll and travel expenses paid on Emerson s behalf and reimbursed to Grande, were $515,000 and $167,000 for fiscal 2008 and fiscal 2007, respectively. Emerson owed Grande $70,000 related to this activity as of 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 was $79,000 and other expenses in connection with this agreement were $29,000. The agreement was not renewed.

In May 2007 Emerson paid an initial $10,000 commission to Vigers Hong Kong Ltd (Vigers), 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. An additional $10,000 commission was paid to Vigers by Emerson on the closing date of the sale of the property. Emerson received the balance of the purchase price of approximately $1,700,000 on September 27, 2007, the closing date of the sale.

63

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

Toy Musical Instruments. In May 2007, Emerson entered into an agreement with Goldmen Electronic Co. Ltd. (Goldmen), pursuant to which we agreed to pay $1,682,220 in exchange for Goldmen s manufacture and delivery to us of musical instruments in order for us to meet our delivery requirements of these instruments in the first week of September 2007. In July 2007, we learned that Goldmen had filed for bankruptcy and was unable to manufacture the musical instruments we had ordered. Promptly after we learned of Goldmen s bankruptcy, Capetronic agreed to manufacture the musical instruments on substantially the same terms and conditions, including the price, as Goldmen had agreed to manufacture them. Accordingly, on July 12, 2007, we paid Tomei Shoji Limited, an affiliate of Grande, $125,000 to acquire from Goldmen and deliver to Capetronic the molds and equipment necessary for Capetronic to manufacture the musical instruments. In July, 2007, Emerson made two upfront payments to Capetronic totaling $546,000. On July 20, 2007, Capetronic advised us that it was unable to manufacture the musical instruments for us because it did not have the requisite governmental licenses to do so. In June 2008, Capetronic repaid the $546,000 advance it received from Emerson in July 2007. Capetronic currently physically possesses our musical instrument molds, which we wrote off in fiscal 2008.

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

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

Also related to the annual Hong Kong Electronics Fairs, Capetronic incurred charges and paid invoices on behalf of Emerson in the amount of $76,000 for which Emerson reimbursed Capetronic $48,000 in March 2008. Emerson owed Capetronic $28,000 for these trade shows as of March 31, 2008.

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

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

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

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

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

NOTE 4 PROPERTY, PLANT, AND EQUIPMENT:

As of March 31, 2008 and 2007, property, plant, and equipment is comprised of the following:

	2008	2007
	(In thousands)	
Buildings	$	$ 1,175
Computer equipment & software	2,831	2,747
Furniture and fixtures	2,002	1,600
Machinery and equipment	1,839	1,366
Leasehold improvements	672	643
	7,344	7,531
Less accumulated depreciation and amortization	(5,442)	(5,039)
	$ 1,902	$ 2,492

Depreciation and amortization of property, plant, and equipment from continuing operations amounted to $717,000, $645,000, and $630,000 for the years ended March 31, 2008, 2007 and 2006, respectively.

NOTE 5 OTHER INTANGIBLE ASSETS

Other intangible assets as of March 31, 2008 and related amortization expense for the year then ended, consist of the amounts shown below (in thousands). Trademarks relate to costs incurred in connection with the licensing agreements for the use of certain trademarks and service marks in conjunction with the sale of our products. The cost of intangible assets and related accumulated amortization are removed from the Company s accounts during the year in which they become fully amortized.

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

Fiscal Year Ended March 31, 2008	**Gross Carrying Amount**	**Amortization Expense**	**Accumulated Amortization**	**Amortization Period**	**Weighted Average Amortization Period**
Amortizable Intangible Assets					
Trademarks	$ 361	$ 32	$ 82	15 years	15 years

Fiscal Year Ended March 31, 2007	**Gross Carrying Amount**	**Amortization Expense**	**Accumulated Amortization**	**Amortization Period**	**Weighted Average Amortization Period**
Amortizable Intangible Assets					
Trademarks	$ 929	$ 131	$ 618	15 years	15 years

Amortization expense for the year ended March 31, 2006 was $159,000.

As of March 31, 2008, estimated amortization expense of other intangible assets for each of the next five years, and thereafter, is as follows (in thousands):

2008	$ 24
2009	24
2010	24
2011	24
2012	24
Thereafter	159
	$ 279

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

NOTE 6 BORROWINGS:

Short-term Borrowings

At March 31, 2008 there were no short-term borrowings outstanding. During the third quarter of fiscal 2008, Emerson elected to cancel its foreign bank facilities. As a result, $3.0 million in certificates of deposit pledged to these banks to assure the availability of the credit facilities was returned.

At March 31, 2007, short-term borrowings consisted of amounts outstanding under foreign bank facilities held by the Company s foreign subsidiaries. Availability under the foreign bank facilities totaled $17.5 million prior to their cancellation in December 2007. Availability under these facilities totaled $15.8 million as of March 31, 2007 and was maintained by the pledge of bank deposits of approximately $3.0 million. These compensating amounts were legally restricted from use for general business purposes and have been classified as restricted cash in the current asset section of the balance sheet.

	2008	2007
	(In thousands)	
Foreign bank loan	$0	$3,111

Long -term Borrowings

As of March 31, 2008 and 2007, long-term borrowings consisted of the following:

	2008	2007
	(In thousands)	
Mortgage payable	$	$ 567
Capitalized lease obligations and other	224	230
	224	797
Less current maturities	82	146
Long-term debt and notes payable	$ 142	$ 651

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 $45.0 million or a Borrowing Base as defined in the loan agreement. The Borrowing Base amount is established by specified percentages of eligible accounts receivables and inventories and bears interest ranging from Prime (5.25% as of March 31, 2008) plus 0.00% to 0.50% or, at Emerson s election, the London Interbank Offered Rate (LIBOR which was 2.81 as of March 31, 2008) 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.

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

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

In fiscal 2007, Wachovia Bank waived all events of default under the credit agreement, which were attributable or related to certain of the related party transactions between Emerson and affiliates of Grande as described in Note 3.

As a result of the related party transactions entered into between Emerson and affiliates of Grande described in Note 3, Emerson may have been deemed to be in breach of certain covenants contained in Emerson s credit facility, including a covenant restricting Emerson from lending money and from entering into related party transactions without the consent of its lender. The lender under the credit facility agreed to waive such breaches and Emerson and the lender negotiated an amendment to the credit facility. Under the amendment, (i) Emerson granted the lender a security interest in the $23 million Note and the Guaranty referred to in Note 3 to Emerson s financial statements, (ii) a failure (following a 15 day cure period) by the borrowers to make payments to Emerson as required by the terms of the Note would be deemed a default under the credit facility, (iii) the number of field audits by the lender was increased from two to three each year and (iv) Emerson was required to pay $125,000 to the lender in connection with the amendment. All amounts due under the $23 million Note were repaid in full as of June 3, 2007. Emerson charged the $125,000 to Capetronic, this fee was subsequently paid through an Emerson Subsidiaries on August 14, 2007 by Capetronic.

As of March 31, 2008 and March 31, 2007, there were $10.8 and approximately $12.1 million of letters of credit outstanding under this facility, respectively.

At March 31, 2008, as a result of failing to meet the fixed charge coverage ratio (FCCR) requirement and failing to maintain the actual capital expenditures at or below the minimum required, Emerson was not in compliance with the covenants of the Wachovia Loan Agreement. The lender agreed to waive such defaults and Emerson and the lender negotiated an amendment to the loan and security agreement. Emerson was required to pay $20,000 to the lender in connection with the amendment.

As of March 31, 2008, the carrying value of this credit facility approximated fair value.

69

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

Maturities of long-term borrowings as of March 31, 2008, by fiscal year and in the aggregate are as follows (in thousands):

2009	$ 82
2010	84
2011	39
2012	19
2013	
Thereafter	
Total	224
Less current portion	82
Total long term portion	$ 142

NOTE 7 INCOME TAXES:

	2008	2007	2006
		(In thousands)	
Current:			
Federal	$	$ 906	$ 90
Foreign, state and other	321	1,931	100
Prior year state and local	2,656		
Deferred:			
Federal	(1,486)	1,024	(389)
Foreign, state and other	(64)	(182)	(129)
	$ 1,427	$ 3,679	$ (328)

The Company files a consolidated federal return and certain state and local income tax returns.

The difference between the effective rate reflected in the provision for income taxes and the amounts determined by applying the statutory federal rate of 34% to earnings from continuing operations before minority interest and income taxes for the years ended March 31, 2008, 2007, and 2006 is analyzed below:

	2008	2007	2006
		(In thousands)	
Statutory provision (benefit)	$ (2,602)	$ 2,427	$ 1,285
Foreign subsidiary	977	(252)	
State taxes	1,881	1,152	249
Permanent differences	26		
Expiration of NOL	873		
State tax expensed in a prior year	(748)		
Valuation allowance	768		
Other, net	252	352	(1,862)
Total income tax (benefit)	$ 1,427	$ 3,679	$ (328)

70

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

As of March 31, 2008 and 2007, the significant components of the Company s deferred tax assets and liabilities were as follows:

	2008	2007
	(In thousands)	
Deferred tax assets:		
Current:		
Accounts receivable reserves	$ 2,030	$ 1,846
Inventory reserves	2,207	2,536
Accruals	1,009	1,188
Stock warrants	166	166
Non-current:		
Property, plant, and equipment	249	194
Impairment of auction rate securities	781	
Net operating loss carryforwards	5,587	3,822
Stock compensation	78	52
Gross deferred tax assets	12,107	9,804
Valuation allowances	(768)	
Total deferred tax assets	11,339	9,804
Deferred tax liabilities:		
Current:		
Accruals		47
Non-current:		
Capital lease expense	57	25
Total Deferred Tax Liabilities	57	72
Net deferred tax assets	$ 11,282	$ 9,732

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

The amounts of federal net operating loss carryforwards (NOLs) on which the related deferred tax asset was calculated are as follows as of March 31, 2008 (in millions $):

Loss year (fiscal)	Included in DTA	Footnote	Expiration year (fiscal)
1994	2.2	[1] [2]	2009
1997	4.6	[2]	2012
1999	1.3	[2]	2019
2008	7.8	[2]	2028

[1] The 1994 loss is limited to an amount of $2.2 million per year by the Internal Revenue Code section 382 due to a change in control that occurred in March 1994.

[2] As of August 29, 2006 the overall deduction Emerson may utilize each year against its taxable income is limited to $5.9 million by IRC section 382.

The amounts of state NOLs available by year as of March 31, 2008 are as follows (in millions $):

Loss year (fiscal)	Included in DTA	Expiration year (fiscal)
2000	0.3	2009
2008	2.7	2015

The tax benefits related to these operating loss carryforwards and future deductible temporary differences are recorded to the extent management believes it is more likely than not that such benefits will be realized.

Income (loss) of foreign subsidiaries before taxes was $(2,874,000), $3,822,000, and $230,000, for the years ended March 31, 2008, 2007, and 2006, respectively.

No provision was made for U.S. or additional foreign taxes on undistributed earnings of foreign subsidiaries. Such earnings have been and will be reinvested but could become subject to additional tax if they were remitted as dividends, or were loaned to the Company or a domestic affiliate, or if the Company should sell its stock in the foreign subsidiaries. It is not practicable to determine the amount of additional tax, if any, that might be payable on undistributed foreign earnings.

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 doing business.

Upon adoption of FIN 48, as of April 1, 2007, we recorded a net increase to accumulated deficit of $121,000, including approximately $45,000 related to accrued interest and penalties related to state income tax matters.

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

A reconciliation of the Company s changes in uncertain tax positions from April 1, 2007 to March 31, 2008 is as follows:

in 000 s	
Total amount of unrecognized tax benefits as of April 1, 2007	$121
Gross increases in unrecognized tax benefits as a result of tax positions taken during a prior period	28
Gross decreases in unrecognized tax benefits as a result of tax positions taken during a prior period	
Gross increases in unrecognized tax benefits as a result of tax positions taken during the current period	
Gross decreases in unrecognized tax benefits as a result of tax positions taken during the current period	
Decreases in unrecognized tax benefits relating to settlements with taxing authorities	
Reductions to unrecognized tax benefits as a result of lapse of statute of limitations	
Total amount of unrecognized tax benefits as of March 31, 2008	$149

As of April 1, 2007, the Company had $121,000 of unrecognized tax benefits related to state taxes. All of the unrecognized tax benefits could impact our effective tax rate if recognized.

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of income tax expense in the Consolidated Statement of Operations and totaled $16,000. Accrued interest and penalties were $49,000 as of March 31, 2008 and are recognized in the balance sheet.

The effective tax rate on our loss from continuing operations before minority interest and income taxes for fiscal 2008 differs from the federal statutory rate primarily as a result of the settlement made in relation to the California franchise tax issue which the Company s 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 doing business. The effective tax rate on our income from continuing operations before income taxes for fiscal 2007 differs from the federal statutory rate primarily as a result of 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 March 31, 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.

In May 2007, the FASB issued FASB Staff Position (FSP) FIN 48-1 Definition of a Settlement in FASB Interpretation No. 48 (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously

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

unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to April 1, 2007. The implementation of this standard did not have a material impact on our consolidated balance sheets or statements of operations.

NOTE 8 COMMITMENTS AND CONTINGENCIES:

Leases and royalties:

Emerson leases warehouse and office space and is contractually obligated to pay fixed minimum royalty payments for specified periods with annual commitments as follows (in thousands):

		Rental commitments		Royalty commitments
Fiscal Years	**Amount**	**Affiliate**	**Non-affiliate**	**Minimums**
2009	$2,919	$276	$1,777	$ 866
2010	2,348		1,574	774
2011	1,090		1,090	
2012	406		406	
2013	93		93	
Thereafter				
Total	$6,856	$276	$4,940	$ 1,640

Rent expense from continuing operations resulting from leases from non-affiliates, which includes month-to-month leases, aggregated $1,034,000, $811,000, and $1,283,000 for fiscal 2008, 2007, and 2006, respectively. Rent expense resulting from a lease from an affiliate was $283,000 and $206,000 in fiscal 2008 and 2007.

Letters of Credit:

At March 31, 2008 and March 31, 2007 there were $10.8 million and approximately $12.1 million of letters of credit outstanding under Emerson s Credit Facility, respectively (see Note 6). During the third quarter of fiscal 2008, Emerson elected to cancel its foreign bank facilities. As a result, the $3.0 million in certificates of deposit pledged to these banks to assure the availability of the credit facilities was returned.

At March 31, 2007 Emerson s foreign subsidiaries maintained various credit facilities aggregating $17.5 million with foreign banks subject to annual review consisting of the following: (i) two letter of credit facilities totaling $10.0 million and (ii) two back-to-back credit facilities totaling $7.5 million. These facilities were used for inventory purchases and required Emerson to pledge approximately $3.0 million of cash for such availability and for the benefit of its foreign subsidiaries, who establish back-to-back letters of credit with Emerson s customers. The $3.0 million was legally restricted from use for general business purposes and was classified as restricted cash in the current asset section of the balance

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

sheet. At March 31, 2007, there were $1.7 million of letters of credit outstanding under these credit facilities. These credit facilities require net worth covenants of the foreign subsidiaries, for which they were in compliance at March 31, 2007.

Capital Expenditure and Other Commitments:

As of March 31, 2008, there were no material capital expenditure commitments and there were no substantial commitments for purchase orders outside the normal purchase orders used to secure product.

Employee Benefit Plan:

The Company currently sponsors defined contribution 401(k) retirement plans which are subject to the provisions of the Employee Retirement Income Security Act (ERISA). The Company matches a percentage of the participants contributions up to a specified amount. These contributions to the plan for fiscal 2008, 2007 and 2006 were $144,000, $100,000, and $93,000, respectively and were charged to operations for the periods presented.

Shareholder Transaction:

On December 5, 2005, the Company announced that its Chairman and Chief Executive Officer, Geoffrey P. Jurick, had completed the sale of 10,000,000 of his Emerson common shares to Grande, a Hong Kong based group of companies engaged in a number of businesses including the manufacture, sale and distribution of audio, video and other consumer electronics and video products. The purchase price was $5.20 per share and was paid in a combination of cash and a convertible debenture of Grande. As a result of the sale, Grande became the owner of approximately 37% of the Company s outstanding shares. Since the initial purchase of common stock from Mr. Geoffrey P. Jurick, Grande has increased its holdings of the Company s common stock to approximately 57.6%.

NOTE 9 STOCK BASED COMPENSATION:

In July 1994, the Company adopted a Stock Compensation Program (Program). The Program is comprised of four parts the Incentive Stock Option Plan, the Supplemental Stock Option Plan, the Stock Appreciation Rights Plan, and the Stock Bonus Plan. The maximum aggregate number of shares of common stock available pursuant to the Program was 2,000,000 shares.

In 2004, the Company adopted the 2004 Employee Stock Options Plan. The provisions for exercise price, term and vesting schedule are, for the most part, the same as the previous Incentive Stock Option Plan. The maximum aggregate number of shares of common stock available pursuant to the Program is 2,500,000 shares.

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

A summary of transactions during the last three years is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding April 1, 2005	507,334	$ 2.60
Granted	50,000	2.62
Exercised	(500)	1.50
Cancelled	(154,000)	2.27
Outstanding March 31, 2006	402,834	$ 2.93
Exercised	(45,500)	2.07
Outstanding March 31, 2007	357,334	$ 3.04
Exercised	(20,000)	2.62
Cancelled	(300,000)	3.16
Outstanding March 31, 2008	37,334	$ 2.32
Exercisable at March 31, 2008	37,334	$ 2.32

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

The following table provides additional information as to the options outstanding under the Stock Compensation Program and the 2004 Employee Stock Option Plan as of March 31, 2008:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Amount Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Amount Exercisable	Weighted Average Exercise Price
$1.00	12,334	2.3	$ 1.00	12,334	$ 1.00
$2.97	25,000	6.6	2.97	25,000	2.97
	37,334	5.2	$ 2.32	37,334	$ 2.32

Subject to the terms set forth in each option agreement, generally, the term of each option is ten years, except for incentive stock options issued to any person who owns more than 10% of the voting power of all classes of capital stock, for which the term is five years. Unless otherwise provided, options may not be exercised during the first year after the date of the grant. Thereafter, each option becomes exercisable on a pro rata basis on each of the first through third anniversaries of the date of the grant. The exercise price of options granted must be equal to or greater than the fair value of the shares on the date of the grant, except that the option price with respect to an option granted to any person who owns more than 10% of the voting power of all classes of capital stock shall not be less than 110% of the fair value of the shares on the date of the grant. As of March 31, 2008, there were a total of 37,334 options outstanding with exercise prices ranging from $1.00 per share to $2.97 per share. As of March 31, 2008, all of the options outstanding were fully vested. At March 31, 2008, 2007 and 2006, the weighted average exercise price of exercisable options under the Program was $2.32, $3.00 and $2.71, respectively.

In October 1994, the Company s Board of Directors adopted, and the stockholders subsequently approved, the 1994 Non-Employee Director Stock Option Plan. The maximum number of shares of Common Stock available under such plan was 300,000 shares.

In 2004, the Company s Board of Directors, and the stockholders subsequently approved the 2004 Non-Employee Director Stock Option Plan, the provisions for exercise price, term and vesting schedule being, for the most part, the same as the 1994 Non-Employee Director Stock Option Plan. The maximum number of shares of Common Stock available under such plan was 250,000 shares. In December 2006, an additional listing application was approved by the American Stock Exchange permitting the issuance of up to 500,000 shares pursuant to the 2004 plan.

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

A summary of transactions under the plan for the three years ended March 31, 2008 is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding April 1, 2005	125,000	$ 3.00
Granted	100,000	3.19
Exercised	(16,666)	3.00
Outstanding March 31, 2006	208,334	$ 3.09
Granted	150,000	3.23
Cancelled	(83,334)	3.07
Outstanding March 31, 2007	275,000	$ 3.15
Cancelled	(100,000)	3.11
Outstanding March 31, 2008	175,000	$ 3.18
Exercisable at March 31, 2008	75,000	$ 3.17

The following table provides additional information as to the options outstanding under the Non-Employee Director Stock Option Plan as of March 31, 2008:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Amount Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Amount Exercisable	Weighted Average Exercise Price
$3.07	25,000	7.8	$ 3.07	16,667	$ 3.07
$3.19	125,000	8.6	3.19	41,666	3.19
$3.23	25,000	7.7	3.23	16,667	3.23
	175,000	8.4	$ 3.18	75,000	$ 3.17

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

All options granted under the Non-Employee Director Stock Option Plan during the fiscal years ending March 31, 2006, 2007 and 2008 were at exercise prices equal to or greater than the fair value of the Company s stock on the date of the grant. As of March 31, 2008, there were a total of 175,000 options outstanding with exercise prices ranging from $3.07 per share to $3.23 per share. As of March 31, 2008, none of the options outstanding were fully vested with 25,000, 25,000, and 125,000 options vesting through December 2008, January 2009 and November 2009, respectively. At March 31, 2008, 2007 and 2006, the weighted average exercise price of exercisable options under the Non-Employee Director Stock Option Plan was $3.17, $3.08 and $3.00, respectively.

NOTE 10 SHAREHOLDERS EQUITY:

Common Shares:

Authorized common shares total 75,000,000 shares of common shares, par value $0.01 per share, of which, 27,129,832 and 27,109,832 shares were issued and outstanding as of March 31, 2008 and 2007, respectively. Shares held in treasury at March 31, 2008 and 2007 were 25,835,965.

Common Stock Repurchase Program:

In January 2000, September 2001 and September 2003, the Company s Board authorized share repurchase programs for 5,000,000 shares, 1,000,000 shares, and 2,000,000 shares, respectively. No shares were repurchased in fiscal 2007 and fiscal 2008. In fiscal 2006, the Company repurchased 155,998 shares for $392,109, pursuant to the programs. The shares were repurchased in open market transactions within guidelines set forth by Rule 10b-18 of the Securities and Exchange Act of 1934 and were funded by working capital. As of March 31, 2008, 732,377 shares remain available for repurchase under the program established in September 2003.

Series A Preferred Stock:

The Company has issued and outstanding 3,677 shares of Series A Preferred Stock, (Preferred Stock) $.01 par value, with a face value of $3,677,000, which had no determinable market value as of March 31, 2008. Effective March 31, 2002, the previously existing conversion feature of the Preferred Stock expired. 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.

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

Warrants:

On October 7, 2003, in connection with a consulting arrangement, the 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 March 31, 2008, 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 fiscal year ended March 31, 2005. As of March 31, 2008, these warrants had not been exercised.

NOTE 10 FINANCIAL INSTRUMENTS:

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

At each balance sheet date the Company accounts for its foreign exchange forward contracts as a current asset with corresponding realized or unrealized gains and losses included in the income statement. Realized gains of $330,267 and unrealized gains of $134,395 have been recorded as non-operating income at March 31, 2008.

NOTE 11 MARKETABLE SECURITIES:

As of March 31, 2008, the Company had $13.9 million invested in trading securities, consisting entirely of auction rate securities (ARS). These securities have long-term nominal maturities for which interest rates are reset through a Dutch auction process at pre-determined calendar intervals; a process which had historically provided a liquid market for these securities. As a result of the continuing liquidity issues experienced in the global credit and capital markets, these ARS have had multiple failed auctions. Based on an independent valuation and its internal analysis, the Company concluded that these securities had experienced an other-than-temporary decline in fair value and recorded an impairment charge of $1.95 million in fiscal 2008. These ARS have AAA/Aaa credit ratings as of March 31, 2008, and have been classified as long-term investments in the Company s Consolidated Balance Sheets as a consequence of their uncertain liquidity.

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

NOTE 12 NET EARNINGS PER SHARE:

The following table sets forth the computation of basic and diluted earnings per share for the years ended March 31, 2008, March 31, 2007, and March 31, 2006:

	(In thousands, except per share amount)		
	2008	**2007**	**2006**
Numerator:			
Income (loss) from continuing operations for basic and diluted earnings per share	$ (9,021)	$ 3,458	$ 3,712
Denominator:			
Denominator for basic earnings per share weighted average shares	27,126	27,087	27,079
Effect of dilutive securities on denominator:			
Options and warrants		40	93
Denominator for diluted earnings per share weighted average shares and assumed conversions	27,126	27,127	27,172
Earnings (loss) from continuing operations			
Basic and diluted earnings (loss) per share	$ (.33)	$ .13	$ .13

For the year ended March 31, 2006, 350,000 shares attributable to outstanding stock options and 50,000 shares attributable to outstanding stock warrants were excluded from the calculation of diluted earnings per share because the exercise price of the options and warrants exceeded the average price of the common shares, and therefore their inclusion would have been antidilutive. For the year ended March 31, 2007, 200,000 shares attributable to outstanding stock options and 50,000 shares attributable to outstanding stock warrants were excluded from the calculation of diluted earnings per share because the exercise price of the options and warrants exceeded the average price of the common shares, and therefore their inclusion would have been antidilutive. For the year ended March 31, 2008, 312,334 shares attributable to outstanding stock options and 100,000 shares attributable to outstanding stock warrants were excluded from the calculation of diluted earnings per share because the exercise price of the options and warrants exceeded the average price of the common shares, and therefore their inclusion would have been antidilutive.

NOTE 13 LICENSE AGREEMENTS:

The Company has several license agreements that allow licensees to use its trademarks for the manufacture and/or the sale of consumer electronics and other products and are referred to as outbound licenses. These license agreements (i) allow the licensee to use the Company s trademarks for a specific product category, or for sale within specific geographic areas, or for sales to a specific customer base, or any combination of the above, or any other category that might be defined in the license agreement, (ii) may be subject to renewal at the initial expiration of the agreements and are governed by the laws of the United States and (iii) have expiration dates ranging

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

from March 2008 through September 2011. License revenues recognized and earned in fiscal 2008, 2007, and 2006, including the amounts described in the next paragraph, were approximately $6,859,000, $6,645,000, and $7,674,000, respectively. The Company records licensing revenues as earned over the term of the related agreements.

The largest of such license agreements is the Company s license agreement (Video License Agreement) with Funai Corporation, Inc. (Funai), the current term of which has been extended to December 31, 2010. The Video License Agreement provides that Funai will manufacture, market, sell and distribute specified products bearing the trademark to customers in the U.S., and Canadian markets. Under the terms of the agreement, Emerson will receive non-refundable minimum annual royalty payments of $4.3 million each calendar year and a license fee on sales of product subject to the Video License Agreement in excess of the minimum annual royalties. During fiscal 2008, 2007, and 2006, revenues of $4,601,000, $4,391,000 and $5,321,000, respectively, were recorded under this agreement.

In October 2006, we entered into an agreement, to grant to APH a 15 year exclusive license to distribute in the United States, Mexico and Canada flat panel liquid crystal displays and accessories under the Company s H.H. Scott brand sourced exclusively through Capetronic Display Limited. The royalty rate is .625% of the actual aggregate purchase value of the products purchased by APH from Emerson, subject to minimum royalties of $825,000 in each of the years 6 to 10 and $907,500 in each of years 11 to 15. APH paid Emerson $110,448 in royalties during the fiscal year ended March 31, 2007. No royalties were paid to Emerson in fiscal 2008, and the agreement was terminated in April 2008.

NOTE 14 LEGAL PROCEEDINGS:

In December, 2007, a purported derivative action (the Berkowitz Action) was filed in The Court of Chancery of the State of Delaware (the Court) on the Company s behalf by two of the Company s shareholders, Lisa S. Berger Berkowitz and David E. Berkowitz, against certain of the Company s current and former directors. The derivative action currently is pending against three directors of the Company (Messrs. Ho, Ma and Binney). The complaint, which has not yet been answered by the defendants, alleges that the named defendants, each of whom also is an executive officer of Grande Holdings, the Company s controlling shareholder, violated their fiduciary duties to the Company in connection with a number of previously disclosed related party transactions with affiliates of Grande Holdings.

In May 2008, a purported derivative action (the Pinchuk Action) was filed in the Court on the Company s behalf by another shareholder of the Company, Warren Pinchuk, against all of the Company s current directors. This action contains similar allegations to those contained in the Berkowitz Action. The plaintiffs in the Berkowitz Action have moved before the Court to intervene in the Pinchuk Action and to stay prosecution of the Pinchuk Action. The plaintiff in the Pinchuk Action has filed an opposition to that motion and has moved before the Court to consolidate the Berkowitz Action and the Pinchuk Action. The Court is expected to hear these motions in late June or early July, 2008.

The recovery in each of the Berkowitz Action and the Pinchuk Action, if any, will inure to Emerson s benefit.

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

Except for the litigation matters described above, the Company is not currently a party to any legal proceedings other than litigation matters, in most cases involving ordinary and routine claims incidental to our business. 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 15 BUSINESS SEGMENT INFORMATION AND MAJOR CUSTOMERS:

Operations for the Company are summarized below by geographic area (in thousands):

	Year Ended March 31, 2008		
	U.S.	Foreign	Consolidated
Sales to external customers	$218,840	$4,017	$222,857
Income (loss) before income taxes	$ (7,379)	$ (274)	$ (7,653)
Identifiable assets	$ 83,237	$4,692	$ 87,929

	Year Ended March 31, 2007		
	U.S.	Foreign	Consolidated
Sales to external customers	$277,146	$ 7,020	$284,166
Income (loss) before income taxes	$ 7,846	$ (709)	$ 7,137
Identifiable assets	$ 70,886	$28,522	$ 99,408

	Year Ended March 31, 2006		
	U.S.	Foreign	Consolidated
Sales to external customers	$224,983	$ 8,860	$233,843
Income (loss) before income taxes	$ 3,779	$ (395)	$ 3,384
Identifiable assets	$ 80,072	$12,430	$ 92,502

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

Identifiable assets are those assets used in operations in each geographic area. For fiscal 2007, foreign identifiable assets include a promissory note in the principal amount of $23.5 million issued by several wholly-owned subsidiaries of Grande in favor of the Company and guaranteed by Grande. For fiscal 2008 foreign identifiable assets include amounts due from several wholly-owned subsidiaries of Grande in the aggregate amount of $765,000. See Note 3 Related Party Transactions . In addition to operating assets, at March 31, 2008, 2007, and 2006, there were non-operating assets of $8,625,000, $8,644,000, and $8,714,000, respectively, located in foreign countries.

The Company s net sales to one customer aggregated approximately 35%, 30% and 37% of net revenues for the years ended March 31, 2008, 2007, and 2006, respectively. The Company s net sales to another customer aggregated 24%, 21%, and 17% for the years ended March 31, 2008, 2007, and 2006, respectively. The Company s net sales to a third customer aggregated 7%, 6%, and 10% for the years ended March 31, 2008, 2007 and 2006. The trade accounts receivable balance for these three customers, net of specific reserves, approximated 65%, 6% and 0% of consolidated trade accounts receivable as of March 31, 2008, respectively, and approximated 53%, 6% and 6% of consolidated trade accounts receivable as of March 31, 2007, respectively. The Company has policies and procedures to limit its credit risk related to these and other customers.

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

NOTE 16 QUARTERLY INFORMATION (UNAUDITED):

The following table sets forth certain information regarding the Company s results of operations for each full quarter within the fiscal years ended March 31, 2008 and March 31, 2007, with amounts in thousands, except for per share data. Due to rounding, quarterly amounts may not fully sum to yearly amounts.

	Fiscal 2008				Fiscal 2007			
Consolidated Statement Of Operations	**1st Qrt**	**2nd Qrt**	**3rd Qrt**	**4th Qrt**	**1st Qrt**	**2nd Qrt**	**3rd Qrt**	**4th Qrt**
Net revenues	$52,688	$57,862	$75,789	$36,891	$55,241	$99,588	$89,339	$40,231
Operating income (loss)	588	(120)	(1,719)	(6,072)	490	5,914	6,032	(5,245)
Income (loss) before income taxes and minority interest	821	668	(1,280)	(7,862)	595	5,702	5,575	(4,735)
Net income (loss)	$ 442	$ (3,284)	$ 1,114	$ (7,293)	$ 581	$ 3,804	$ 3,695	$ (4,622)
Basic net income (loss) per share	$ .02	$ (.12)	$ .04	$ (.27)	$ .02	$ .14	$ .14	$ (.17)
Diluted net income (loss) per share	$ .02	$ (.12)	$ .04	$ (.27)	$ .02	$ .14	$ .14	$ (.17)
Weighted average shares								
Outstanding basic	27,115	27,130	27,130	27,130	27,065	27,077	27,097	27,110
Outstanding diluted	27,141	27,130	27,136	27,130	27,140	27,106	27,117	27,110

85

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

NOTE 17 DISCONTINUED OPERATIONS:

On July 1, 2005, the Company sold its 53.2% interest in SSG. After disposition costs, the Company 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 summarizes the result of these discontinued operations, net of income taxes for which there was no provision or recovery in any period (in thousands).

Discontinued Operations (SSG)	2006
Net revenues	$23,218
Operating income	610
Gain on sale of SSG, net of tax	12,646
Net income	$12,918

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As previously reported in a Form 8-K dated May 23, 2006, on May 17, 2006, we retained the services of Moore Stephens, P.C. as our independent auditors to replace our former independent auditors, BDO Seidman, LLP. This engagement and replacement was approved by our Audit Committee. During fiscal years ended March 31, 2005 and March 31, 2006, and any subsequent interim period prior to May 17, 2006, we did not consult with Moore Stephens, P.C. regarding any matters noted in Items 304(a) of Regulation S-K.

There have been no disagreements within the meaning of Item 304(a)(1)(iv) of Regulation S-K, or any events of the type listed in Item 304(a)(1)(v)(A) through (D) of Regulation S-K, involving BDO Seidman that occurred within the two most recent fiscal years and the interim period prior to May 17, 2006. BDO Seidman s report on our financial statements for the fiscal years ended March 31, 2004 and 2005 did not contain any adverse opinions or disclaimers of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles.

We provided BDO Seidman with a copy of the disclosures made pursuant to the Form 8-K (which disclosures are consistent with the disclosures noted above) and BDO Seidman furnished us with a letter addressed to the SEC stating that it agreed with the statements made by us in the Form 8-K filing, a copy of which was filed as an exhibit to the Form 8-K.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain 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 our 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 our 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.

As of the end of the period covered by this Annual Report on Form 10-K, we carried out an evaluation, with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15 (e) and 15d-15(e) under the Exchange Act) pursuant to Securities Exchange Act Rule 13a-15 and Rule 15d-15. Based upon that evaluation as of the end of the period covered by this Annual Report on Form 10-K, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Annual Report on Form 10-K, are effective to reasonably ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to ensure that such information 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 our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for us. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of March 31, 2008.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management s report in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

In August 2007, as part of its efforts to improve internal controls, the Company retained the consulting affiliate of a national accounting firm to assist it in its review of internal controls as mandated by SOX Section 404. Also, on December 13, 2007, the Board of Directors adopted, and management has implemented, a series of governance and control policies and procedures designed to accomplish the same purpose. As a result of these actions and the findings that arose from our fiscal 2008 internal controls review and testing as mandated by SOX Section 404, we implemented numerous new internal control procedures during our quarter ended March 31, 2008, most notably over the proper approval over and financial reporting of treasury and related party transactions.

Item 9B. OTHER INFORMATION

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS

The information required is incorporated herein by reference to Emerson s definitive Proxy Statement, or an amendment to this Annual Report on Form 10-K, to be filed with the Securities and Exchange Commission on or before July 29, 2008.

Item 11. EXECUTIVE COMPENSATION

The information required is incorporated herein by reference to Emerson s definitive Proxy Statement, or an amendment to this Annual Report on Form 10-K, to be filed with the Securities and Exchange Commission on or before July 29, 2008.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required is incorporated herein by reference to Emerson s definitive Proxy Statement, or an amendment to this Annual Report on Form 10-K, to be filed with the Securities and Exchange Commission on or before July 29, 2008.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required is incorporated herein by reference to Emerson s definitive Proxy Statement, or an amendment to this Annual Report on Form 10-K, to be filed with the Securities and Exchange Commission on or before July 29, 2008.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required is incorporated herein by reference to Emerson s definitive Proxy Statement, or an amendment to this Annual Report on Form 10-K, to be filed with the Securities and Exchange Commission on or before July 29, 2008.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULES

(a) List of Financial Statements, Financial Statement Schedules, and Exhibits .

1. Financial Statements. The following financial statements of Emerson Radio Corp. are included in Item 8 of Part II of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm
Consolidated Statements of Operations for the years ended March 31, 2008, 2007 and 2006
Consolidated Balance Sheets as of March 31, 2008 and 2007
Consolidated Statements of Changes in Shareholders Equity for the years ended March 31, 2008, 2007 and 2006
Consolidated Statements of Cash Flows for the years ended March 31, 2008, 2007 and 2006
Notes to Consolidated Financial Statements

2. Financial Statement Schedules.

Schedule II Valuation and Qualifying Accounts and Reserves

All other financial statement schedules are omitted from this Annual Report on Form 10-K, as they are not required or applicable or the required information is included in the financial statements or notes thereto.

3. Exhibits. The following exhibits are filed with this Annual Report on Form 10-K or are incorporated herein by reference, as indicated.

Exhibit Number

3.1	Certificate of Incorporation of Emerson (incorporated by reference to Exhibit (3) (a) of Emerson s Registration Statement on Form S-1, Registration No. 33-53621, declared effective by the SEC on August 9, 1994).
3.4	Certificate of Designation for Series A Preferred Stock (incorporated by reference to Exhibit (3) (b) of Emerson s Registration Statement on Form S-1, Registration No. 33-53621, declared effective by the SEC on August 9, 1994).
3.5	Amendment dated February 14, 1996 to the Certificate of Incorporation of Emerson (incorporated by reference to Exhibit (3) (a) of Emerson s Quarterly Report on Form 10-Q for the quarter ended December 31, 1995).
3.6	By-Laws of Emerson (incorporated by reference to Exhibit 3.1 of Emerson s Quarterly Report on Form 10-Q for the quarter ended December 31, 2007).
3.7	Amendment dated November 28, 1995 to the By-Laws of Emerson adopted March 1994 (incorporated by reference to Exhibit (3) (b) of Emerson s Quarterly Report on Form 10-Q for the quarter ended December 31, 1995).
10.12	License Agreement effective as of January 1, 2001 by and between Funai Corporation and Emerson (incorporated by reference to Exhibit (10) (z) of Emerson s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
10.12.1	First Amendment to License Agreement dated February 19, 2002 by and between Funai Corporation and Emerson (incorporated by reference to Exhibit (10.12.1) of Emerson s Annual Report on Form 10-K for the year ended March 31, 2002).
10.12.2	Second Amendment to License Agreement effective August 1, 2002 by and between Funai Corporation and Emerson (incorporated by reference to Exhibit (10.12.2) of Emerson s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
10.12.3	Third Amendment to License Agreement effective February 18, 2004 by and between Funai Corporation and Emerson (incorporated by reference to Exhibit 10.12.3 of Emerson s Annual Report on Form 10-K for the year ending March 31, 2004)
10.12.4	Fourth Amendment to License Agreement effective December 3, 2004 by and between Funai Corporation, Inc. and Emerson (incorporated by reference to Exhibit (10.12.4) of Emerson s Quarterly Report on Form 10-Q for the quarter ended December 31, 2004).
10.12.5	Fifth Amendment to License Agreement effective May 18, 2005 by and between Funai Corporation, Inc. and Emerson (incorporated by reference to

Exhibit (10.12.5) of Emerson s Annual Report on Form 10-K for the year ending March 31, 2005)

10.12.7 Seventh Amendment to License Agreement effective December 22, 2005 by and between Funai Corporation, Inc. and Emerson (incorporated by reference to Exhibit 10.1 of Emerson s Current Report on Form 8-K filed on December 28, 2005)

10.13 Second Lease Modification dated as of May 15, 1998 between Hartz Mountain, Parsippany and Emerson (incorporated by reference to Exhibit (10) (v) of Emerson s Annual Report on Form 10-K for the year ended April 3, 1998).

10.13.1 Third Lease Modification made the 26 day of October, 1998 between Hartz Mountain Parsippany and Emerson (incorporated by reference to Exhibit (10) (b) of Emerson s Quarterly Report on Form 10-Q for the quarter ended October 2, 1998).

10.13.2 Fourth Lease Modification made the 12th day of February, 2003 between Hartz Mountain Parsippany and Emerson (incorporated by reference to Exhibit (10.13.2) of Emerson s Annual Report on Form 10-K for the year ended March 31, 2003).

10.13.4 Fifth Lease Modification Agreement made the 2nd day of December, 2004 between Hartz Mountain Industries, Inc. and Emerson (incorporated by reference to Exhibit (10.13.3) of Emerson s Quarterly Report on Form 10-Q for the quarter ended December 31, 2004).

10.13.3 Lease Agreement dated as of October 8, 2004 between Sealy TA Texas, L.P., a Georgia limited partnership, and Emerson Radio Corp. (incorporated by reference to Exhibit (10.13.3) of Emerson s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).

10.13.5 Lease Agreement (Single Tenant) between Ontario Warehouse I, Inc., a Florida corporation, as Landlord, and Emerson Radio Corp., a Delaware corporation, as Tenant, effective as of December 6, 2005 (incorporated by reference to Exhibit 10.1 to Emerson s Current Report on Form 8-K filed on January 4, 2006).

10.13.6 Letter agreement, dated November 28, 2005, between Emerson Radio Corp. and The Grande Group (Hong Kong) Limited regarding lease of office space. (Incorporated by reference to Exhibit 10.13.6 to Emerson s Annual Report on Form 10-K for the year ended March 31, 2006.)

10.13.7 Letter agreement, dated November 28, 2005, between Emerson Radio Corp. and The Grande Group (Hong Kong) Limited regarding management services for office space. (Incorporated by reference to Exhibit 10.13.7 to Emerson s Annual Report on Form 10-K for the year ended March 31, 2006.)

10.18.1 Emerson Radio Corp. 2004 Employee Stock Incentive Plan (incorporated by reference to Exhibit 1 of Emerson s 2004 Proxy Statement).

10.18.2 Emerson Radio Corp. 2004 Non-Employee Outside Director Stock Option Plan (incorporated by reference to Exhibit 2 of Emerson s 2004 Proxy Statement).

10.25 Employment Agreement, dated as of April 3, 2007, by and between Emerson Radio Corp. and Greenfield Pitts (incorporated by reference to Exhibit 10.1 to Emerson s Current Report on Form 8-K filed with the SEC on April 7, 2008).

10.26 Employment Agreement, dated as of October 15, 2007, by and between Emerson Radio Corp. and John Spielberger*

10.27.5 Loan and Security Agreement dated as of December 23, 2005, among Emerson Radio Corp., Emerson Radio Macao Commercial Offshore Limited, Majexco Imports, Inc., Emerson Radio (Hong Kong) Ltd., and Emerson Radio International Ltd. (as Borrowers) and Wachovia Bank, National Association (incorporated by reference to Exhibit 10.2 of Emerson s Form 8-K dated December 28, 2005).

10.28.1 Form of Common Stock Warrant Agreement entered into on October 7, 2003 by and between Emerson Radio Corp. and Ladenburg Thalmann & Co., Inc. (incorporated by reference to Exhibit 10.28.1 of Emerson s Quarterly Report on Form 10-Q for the quarter ended December 31, 2003).

10.28.2 Common Stock Purchase Warrant Agreement entered into on August 1, 2004 by and between Emerson Radio Corp. and EPOCH Financial Services, Inc. (incorporated by reference to Exhibit 10.28.2 of Emerson s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).

10.28.3 Stock Purchase Agreement among Emerson Radio Corp., Collegiate Pacific Inc. and Emerson Radio (Hong Kong) Limited, dated July 1, 2005 (incorporated by reference to Exhibit 2.1 to Emerson s Current Report on Form 8-K filed on July 8, 2005).

14.1 Code of Ethics for Senior Financial Officers (incorporated by reference to Exhibit 14.1 of Emerson s Annual Report on Form 10-K for the year ended March 31, 2004).

16.1 Letter of BDO, dated as of March 13, 2006, to the Securities and Exchange Commission (incorporated by reference to Exhibit 16.1 of Emerson s Current Report on Form 8-K filed on March 13, 2006).

21.1 Subsidiaries of the Company as of March 31, 2008. *

23.1 Consent of Independent Registered Public Accounting Firm Moore Stephens, P.C.*

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.*

* Filed herewith.

(b) Exhibits. The exhibits required by Item 601 of Regulation S-K are filed herewith or incorporated by reference.

(c) Financial Statement Schedules and Other Financial Statements .

Schedule II Valuation and Qualifying Accounts and Reserves

All other financial statement schedules are omitted from this Annual Report on Form 10-K, as they are not required or applicable or the required information is included in the financial statements or notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMERSON RADIO CORP.

By: /s/ Adrian Ma
Adrian Ma
Chief Executive Officer

Dated: July 11, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Christopher Ho Christopher Ho	Chairman of the Board of the Directors	July 11, 2008
/s/ Adrian Ma Adrian Ma	Chief Executive Officer (Principal Executive Officer) and Director	July 11, 2008
/s/ Greenfield Pitts Greenfield Pitts	Chief Financial Officer (Principal Financial and Accounting Officer), and Director	July 11, 2008
/s/ Michael A. B. Binney Michael A. B. Binney	Director	July 11, 2008
/s/ Kareem E. Sethi Kareem E. Sethi	Director	July 11, 2008
/s/ W. Michael Driscoll W. Michael Driscoll	Director	July 11, 2008
/s/ David R. Peterson David R. Peterson	Director	July 11, 2008
/s/ Norbert R. Wirsching Norbert R. Wirsching	Director	July 11, 2008
/s/ Eduard Will	Vice Chairman of the Board of Directors	July 11, 2008

Eduard Will		
/s/ Mirzan Mahathir	Director	July 11, 2008
Mirzan Mahathir		

EMERSON RADIO CORP. AND SUBSIDIARIES
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(In thousands)

Column A Description	Column B Balance at Beginning of year	Column C Charged to Costs and Expenses	Column D Deductions	Column E Balance at end of year (B)
Allowance for doubtful accounts:				
Year ended:				
March 31, 2008	$1,064	$ (98)	$ 7(A)	$ 959
March 31, 2007	727	1,184	847(A)	1,064
March 31, 2006	179	591	43(A)	727
Allowance for chargebacks:				
Year ended:				
March 31, 2008	$ 411	$ 51	$	$ 462
March 31, 2007	406	5		411
March 31, 2006	330	76		406
Sales Return reserves:				
Year ended:				
March 31, 2008	$3,287	$16,836	$16,524	$3,599
March 31, 2007	5,217	11,424	13,354	3,287
March 31, 2006	5,190	16,953	16,926	5,217

(A) Accounts written off, net of recoveries.

(B) Sales return reserves amounts include related accrued sales returns of $872,000, $1,189,000 and $1,580,000, for fiscal 2008, 2007, and 2006, respectively, which are not presented as part of the accounts receivable disclosed as allowances on the Consolidated Balance Sheets.