EMERSON RADIO CORP
Form 10-Q
March 16, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2006

or

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

For the transition period from__________to__________

Commission file number 001-07731

EMERSON RADIO CORP.

(Exact name of registrant as specified in its charter)

DELAWARE	22-3285224
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9 Entin Road Parsippany, New Jersey	07054
(Address of principal executive offices)	(Zip code)

(973) 884-5800

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

o Large accelerated filer o Accelerated filer þ Non-accelerated filer

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

Indicate the number of shares outstanding of common stock as of March 15, 2007: 27,109,832.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

EMERSON RADIO CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except earnings per share data)

	Three Months Ended December 31		Nine Months Ended December 31	
	2006	2005	2006	2005
Net revenues	$ 89,339	$ 76,514	$ 244,168	$ 192,737
Costs and expenses:				
Cost of sales	64,344	66,555	177,920	167,577
Cost of sales-related party	12,148		33,090	
Other operating costs and expenses	1,330	1,823	4,355	4,663
Selling, general and administrative expenses (exclusive of non-cash compensation shown below)	5,402	5,588	16,208	14,810
Acquisition costs			21	
Non-cash compensation	83	90	138	260
	83,307	74,056	231,732	187,310
Operating income	6,032	2,458	12,436	5,427
Interest expense, net	457	370	564	976
Income before income taxes and discontinued operations	5,575	2,088	11,872	4,451
Provision for income taxes	1,880	693	3,792	1,638
Income from continuing operations	3,695	1,395	8,080	2,813
Income from discontinued operations, net of tax				272
Gain on sale of Sport Supply Group, Inc., net of tax				12,646
Income from discontinued operations				12,918
Net income	$ 3,695	$ 1,395	$ 8,080	$ 15,731
Basic net income per share:				
Continuing operations	$ 0.14	$ 0.05	$ 0.30	$ 0.10
Discontinued operations				0.48
	$ 0.14	$ 0.05	$ 0.30	$ 0.58

Diluted net income per share:				
Continuing operations	$ 0.14	$ 0.05	$ 0.30	$ 0.10
Discontinued operations				0.48
	$ 0.14	$ 0.05	$ 0.30	$ 0.58
Weighted average shares outstanding:				
Basic	27,097	27,048	27,080	27,089
Diluted	27,117	27,154	27,121	27,185

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

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

	December 31, 2006 (Unaudited)	March 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,062	$ 17,517
Restricted cash	3,000	3,000
Accounts receivable (less allowances of $4,660 and $4,770, respectively)	22,149	18,996
Other receivables	1,690	1,427
Due from affiliates	22,605	
Inventories	40,516	33,003
Prepaid expenses and other current assets	4,913	3,694
Deferred tax assets	3,344	4,350
Total current assets	109,279	81,987
Property, plant and equipment, net	2,467	2,500
Trademarks and other intangible assets, net	325	442
Deferred tax assets	5,422	6,861
Other assets	125	712
Total assets	$ 117,618	$ 92,502
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$ 4,727	$ 1,841
Revolving credit facilities	7,786	
Current maturities of long-term borrowings	148	85
Accounts payable and other current liabilities	22,051	18,121
Accrued sales returns	2,316	1,583
Income taxes payable	1,451	142
Total current liabilities	38,479	21,772
Long-term borrowings	685	575
Shareholders equity:		
Preferred shares 10,000,000 shares authorized, 3,677 shares issued and outstanding	3,310	3,310
Common shares $.01 par value, 75,000,000 shares authorized; 52,945,797 and 52,900,297 shares issued, 27,109,832 and 27,064,332 shares outstanding, respectively	529	529
Capital in excess of par value	117,316	117,085
Accumulated other comprehensive losses	(82)	(70)

Accumulated deficit		(18,395)		(26,475)
Treasury stock, at cost, 25,835,965 shares		(24,224)		(24,224)
Total shareholders equity		78,454		70,155
Total liabilities and shareholders equity	$	117,618	$	92,502

The accompanying notes are an integral part of the interim consolidated financial statements.
Certain reclassifications were made to conform the prior year s financial statements to the current presentation.

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

	Nine Months Ended December 31	
	2006	2005
Cash flows from operating activities:		
Income from continuing operations	$ 8,080	$ 2,813
Adjustments to reconcile income from continuing operations To net cash used by continuing operations:		
Depreciation and amortization	701	921
Non cash compensation	138	260
Deferred tax expenses	2,445	1,312
Asset allowances, reserves and other	2,253	2,808
Changes in assets and liabilities:		
Restricted cash		2,616
Accounts receivable	(4,325)	(11,898)
Other receivables	(263)	269
Due from affiliates	(22,605)	
Inventories	(7,861)	(747)
Prepaid expenses and other current assets	(1,219)	289
Other assets	525	(699)
Accounts payable and other current liabilities	3,929	6,442
Income taxes payable	1,309	131
Operating cash flow (used) by continuing operations	(16,893)	4,517
Operating cash flow (used) by discontinued operations		220
Net cash (used) provided by operating activities	(16,893)	4,737
Cash flows from investing activities:		
Additions to property and equipment (continuing operations)	(225)	(654)
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	(225)	28,834
Cash flows from financing activities:		
Short-term borrowings	31,894	7,500
Repayments of short-term borrowings	(24,045)	(7,500)
Net borrowings (repayments) under revolving credit facility	2,886	(11,267)
Purchase of treasury stock		(392)
Exercise of stock options	94	
Long-term borrowings	63,321	34,702
Repayments of long-term borrowings	(63,487)	(46,050)

Financing activities of continuing operations	10,663	(23,007)
Financing activities of discontinued operations		(143)
Net cash provided (used) by financing activities	10,663	(23,150)
Net (decrease) increase in cash and cash equivalents	(6,455)	10,421
Cash and cash equivalents at beginning of period (including cash of discontinued operations of $0 and $1,141, respectively)	17,517	2,958
Cash and cash equivalents at end of period	$ 11,062	$ 13,379

Supplemental disclosures of non-cash investing and financing activities: The Company has entered into certain capital lease agreements. For the nine month period ended December 31, 2006, the Company entered into agreements related to approximately $264,000 of equipment, which is excluded from the statement of cash flow as the transaction was non-cash in nature. There were no such transactions during the nine month period ended December 31, 2005.

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

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

NOTE 1 BACKGROUND AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Emerson Radio Corp. (Emerson , consolidated the Company), which operates in the consumer electronics business. On July 1, 2005, Emerson sold its 53.2% ownership in Sport Supply Group, Inc. (SSG), which was previously reported as the Company s Sporting Goods Segment, to Collegiate Pacific Inc. (Collegiate) for net proceeds of $30.7 million, after disposition costs, which resulted in a net gain of $12.6 million, or $0.48 per share, that was reported in the Company s results for the quarter ended September 30, 2005. Such gain was net of total estimated income taxes of $4.2 million. As a result of the sale, the financial position and results of operations of SSG have been presented as discontinued operations for all prior year periods shown in the accompanying financial statements (see Note 10), and the Company now operates in one segment, the consumer electronics segment. The consumer electronics business includes the design, sourcing, importing and marketing of a variety of consumer electronic products and the licensing of the and H.H. Scott® trademarks for a variety of products domestically and internationally to certain licensees.

The unaudited interim consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of our consolidated financial position as of December 31, 2006 and the results of operations for the three and nine month periods ended December 31, 2006 and December 31, 2005. All significant intercompany accounts and transactions have been eliminated in consolidation. The preparation of the unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes; actual results could materially differ from those estimates. The unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and accordingly do not include all of the disclosures normally made in our annual consolidated financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended March 31, 2006 (fiscal 2006), included in our annual report on Form 10-K, as amended, for fiscal 2006.

Due to the seasonal nature of Emerson s business, the results of operations for the three and nine month periods ended December 31, 2006 are not necessarily indicative of the results of operations that may be expected for any other interim period or for the full year ending March 31, 2007 (fiscal 2007).

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

During the fourth quarter of fiscal 2005, the Company elected to early-adopt SFAS No. 123R, Share-Based Payment (SFAS 123R) under the modified retrospective approach applied only to prior interim periods in fiscal 2005. As a result, the Company has applied SFAS 123R to new awards and to awards modified, repurchased, or cancelled after April 1, 2004. Additionally, compensation cost for the portion of awards for which the requisite service had not been rendered that were outstanding as of April 1, 2004 are being recognized as the requisite service is rendered on or after April 1, 2004 (generally over the remaining option vesting period). The compensation cost for that portion of awards has been based on the grant-date fair value of those awards as calculated for pro forma disclosures under Statement 123. As a result of the early adoption, under the provision of SFAS 123R, the Company has recorded non-cash compensation costs of approximately $83,000 for the three month period ended December 31, 2006 compared to non-cash compensation expenses of $90,000 for the corresponding period of the previous fiscal year, and $138,000 and $260,000 in non-cash compensation costs for the nine month period ended December 31, 2006 and December 31, 2005, respectively.

NOTE 2 COMPREHENSIVE INCOME

Comprehensive income for the three and nine month periods ended December 31, 2006 and December 31, 2005 is as follows (in thousands):

	Three Months Ended December 31		Nine Months Ended December 31	
	2006	2005	2006	2005
	(Unaudited)		(Unaudited)	
Income from continuing operations	$ 3,695	$ 1,395	$ 8,080	$ 2,813
Recognition of realized losses in Net income	(5)		(2)	
Change in unrealized (loss) gain on securities, net		1	(10)	16
Comprehensive income	$ 3,690	$ 1,396	$ 8,068	$ 2,829

NOTE 3 NET EARNINGS PER SHARE

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

	Three Months Ended December 31		Nine Months Ended December 31	
	2006	2005	2006	2005
	(Unaudited)		(Unaudited)	
Numerator:				
Net earnings from continuing operations for basic and diluted earnings per share	$ 3,695	$ 1,395	$ 8,080	$ 2,813
Denominator:				
Denominator for basic earnings per share weighted average shares	27,097	27,048	27,080	27,089
Effect of dilutive securities on denominator:				
Options and warrants	20	106	41	96
Denominator for diluted earnings per share weighted average shares and assumed conversions	27,117	27,154	27,121	27,185
Earnings from continuing operations Basic and diluted earnings per share	$ 0.14	$ 0.05	$ 0.30	$ 0.10

NOTE 4- SHAREHOLDERS EQUITY

Outstanding capital stock at December 31, 2006 consists of common stock and Series A convertible preferred stock. The Series A convertible preferred stock is non-voting, has no dividend preferences and has not been convertible since March 31, 2002; however, it retains a liquidation preference.

At December 31, 2006, Emerson had approximately 632,000 options outstanding with exercise prices ranging from $1.00 to $3.26.

In September 2003, the Company publicly announced the Emerson Radio Corp. common stock repurchase program. The program provides for share repurchase of up to 2,000,000 shares of Emerson s outstanding common stock. As of December 31, 2006, the Company has repurchased 1,267,623 shares under this program. During the quarter and year-to-date periods ended December 31, 2006, there were no shares repurchased under this program. No shares have been repurchased under the program since June 14, 2005. Repurchases of the Company s shares are subject to certain conditions under Emerson s banking facility.

On October 7, 2003, in connection with a consulting arrangement, the 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 December 31, 2006, these warrants have 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 fiscal 2005. As of December 31, 2006, these warrants had not been exercised.

NOTE 5 INVENTORY

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. As of December 31, 2006 and March 31, 2006, inventories consisted of the following (in thousands):

	December 31, 2006 (Unaudited)	March 31, 2006
Finished goods	$ 42,277	$ 34,416
Less inventory allowances	(1,761)	(1,413)
Net inventory	$ 40,516	$ 33,003

NOTE 6 INCOME TAXES

The Company has tax net operating loss carry forwards included in net deferred tax assets that are available to offset future taxable income and can be carried forward for 15 to 20 years. Although realization is not assured, management believes it is more likely than not that all of the net deferred tax assets will be realized through tax planning strategies available in future periods and through future profitable operating results. The amount of the deferred tax asset considered realizable could be reduced or eliminated if certain tax planning strategies are not successfully executed or estimates of future taxable income during the carryforward period are reduced. If management determines that the Company would not be able to realize all or part of the net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

In August 2006, the Company was notified by the Franchise Tax Board of the State of California that it had suspended in California the rights, powers and privileges of a predecessor company due to that predecessor s failure to pay state taxes, interest and penalties for tax years from 1979 to 1989 in the aggregate amounts of approximately $5.1 million. The Company has accrued an amount based upon management s best estimate as to the ultimate amount payable. During the three and nine month period ended December 31, 2006, the company recorded $500,000 of expense related to this item. No accrual was made during the corresponding prior year periods.

NOTE 7 RELATED PARTY TRANSACTIONS

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 the initial purchase of common stock, Grande has increased its holdings of Emerson Radio Corp. common stock through open market purchases to approximately 50.8%, as of the date of this filing.

In January 2006, Emerson commenced leasing office space and procuring services in connection with this office space rental in Hong Kong from Grande. Under these arrangements, Emerson incurred expenses with Grande of approximately $106,000 and $341,000 for the three and nine month periods ended December 31, 2006, respectively.

In December 2005, Emerson sold to Sansui Electric Co., Ltd. (Sansui), an affiliate of Grande, the Company s controlling stockholder, aging inventory then located in a warehouse in the United Kingdom. The purchase price was approximately $974,000 and represented the then net realizable value (after write downs) of the inventory. During the period January to August 2006, Emerson repurchased $146,000 of the inventory and on March 14, 2007, management of the Company provided documentation indicating the net amount due from Sansui totaled $455,000, which amount was received from Sansui on March 14, 2007. Until such time as a thorough review and verification of the documents can be completed, the Company will continue to carry the balance of $373,000 as an account receivable, which amount has been fully reserved for as of December 31, 2006.

In the quarter ended December 31, 2006, Emerson recorded $33.1 million of net revenues and $50,000 of operating profit as a consequence of its participation in a Black Friday promotion of 42 plasma television sets by a major retailer. In this transaction, Emerson provided financial assistance to the manufacturer of the television sets, Capetronic Display Limited (Capetronic), a subsidiary of Grande. This financial assistance, which was provided on an unsecured basis, included (i) the deposit with Capetronic of approximately $6.7 million for what Capetronic has indicated was parts purchases, (ii) the opening of approximately $22.1 million of letters of credit under its credit line with Wachovia Bank, for the benefit of Capetronic, for what Capetronic has indicated was parts purchases and (iii) the borrowing of monies under its credit line when the letters of credit were drawn down upon the delivery of the parts to Capetronic. In addition, Emerson purchased the television sets from Capetronic and resold them to a distributor for $33.1 million and $50,000 of operating profit. All amounts owed by Capetronic and the distributor to Emerson relating to this transaction have been paid in full.

As of October 1, 2006, the Company, by action of its Chairman, entered into an agreement with APH USA, Inc. (the Licensee) pursuant to which, among other things, Emerson agreed to grant the Licensee a license to distribute and sell LCD televisions (LCD sets) in North America under the Scott brand. In the fiscal quarter ended December 31, 2006, the Licensee began selling 32 and 37 LCD sets to a major United States based retailer. Pursuant to the terms of the agreement with the Licensee, Emerson was due a license fee of 0.625%, on such sales equal to $110,000, which amount was paid on March 15, 2007.

Emerson also provided unsecured financial assistance to Capetronic, Nakamichi Corporation (Nakamichi), Akai Electric (China) Co. Ltd. (Akai), and Sansui Electric (China) Co. Ltd., (Sansui), each of which is a wholly-owned subsidiary of Grande, the manufacturer of the LCD sets, in the forms of letters of credit and loans which in the aggregate approximated $22.0 million in amount at December 31, 2006. In a subsequent review of 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 used for the manufacture of 27 and 42 television sets sold to a licensee of Grande by Akai. Emerson had no direct or indirect interest in such sales by Akai, which did not utilize any Emerson brand. On February 9, 2007, Capetronic agreed to pay Emerson $57,000 as a fee for helping to finance such transaction, which fee has been paid.

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 $23,501,513.71. The principal amount of the Note represents the outstanding amounts currently owed to the Company 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 an unsecured 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 accrues at a rate of 8.25% per annum, commencing on February 21, 2007, until all obligations under the Note are 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 are 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. The Borrowers may prepay the principal amount outstanding, together with all accrued and unpaid interest, in whole or in part, at any time or from time to time without premium or penalty. The installment schedule is presented below:

Installment Number	**Payment Date**	**Installment Amount (in US Dollars)**
1.	April 1, 2007	$ 672,000.00
2.	April 7, 2007	$ 4,626,800.00
3.	April 26, 2007	$ 4,785,246.38
4.	May 4, 2007	$ 4,543,664.18
5.	May 5, 2007	$ 1,780,790.62
6.	May 10, 2007	$ 120,271.88
7.	May 17, 2007	$ 4,225,894.55
8.	May 26, 2007	$ 1,056,729.53
9.	June 3, 2007	$ 2,060,348.47

NOTE 8 BORROWINGS

Short-term Borrowings

Short-term borrowings consist of amounts outstanding under the Company s foreign bank facilities held by its foreign subsidiaries and current amounts outstanding under our Revolving Credit Agreement with Wachovia Bank. (See Note 8 Borrowings, Long-term borrowings)

Availability under the foreign bank facilities totaled $17.5 and $23.3 million as of December 31, 2006 and March 31, 2006, and are maintained by the pledge of bank deposits of approximately $3.0 million for each period shown in the following table. These compensating amounts are legally restricted from use for general business purposes and are classified as restricted cash in the current asset section of the balance sheet. The current revolver balance of $7.8 million pertains to the purchase of LCD televisions (See Note 7 Related Party Transactions). Subsequent to December 31, 2006, payments were made to reduce the balance of the revolver to normal seasonal level.

	December 31, 2006	March 31, 2006
	(In thousands)	
	(Unaudited)	
Revolving line of credit	$ 7,786	$
Foreign bank loans	4,727	1,841
Short term borrowings	$ 12,513	$ 1,841

Long-term Borrowings

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

	December 31, 2006	March 31, 2006
	(In thousands)	
	(Unaudited)	
Mortgage payable	$ 585	$ 641
Capitalized lease obligations and other	248	19
	833	660
Less current maturities	(148)	(85)
Long term debt and notes payable	$ 685	$ 575

Emerson Credit Facility On December 23, 2005, Emerson entered into a $45.0 million Revolving Credit Agreement with Wachovia Bank. The loan agreement provides for a $45.0 million revolving line of credit for revolving loans subject to individual maximums which, in the aggregate, are not to exceed the lesser of $45 million or a Borrowing Base as defined in the loan agreement. The Borrowing Base amount is established by specified percentages of eligible accounts receivables and inventories and bears interest ranging from Prime (8.25% as of December 31, 2006) plus 0.00% to 0.50% or, at Emerson s election, the London Interbank Offered Rate (LIBOR which was 5.33% as of December 31, 2006) plus 1.25% to 2.25% depending on excess availability. Pursuant to the Revolving Credit Agreement, Emerson is restricted from, among other things, paying certain cash dividends, and entering into certain transactions without the lender s prior consent and is subject to certain leverage financial covenants. Amounts outstanding under the loan agreement will be secured by substantially all of Emerson s tangible assets.

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.

At December 31, 2006, there were approximately $7.8 million of borrowings outstanding under the facility and is currently in compliance with the terms of such facility. See Note 11 Subsequent Events. The effective interest rate on such borrowings was 8.25% at December 31, 2006.

As of December 31, 2006, the carrying value of this credit facility approximated fair value.

NOTE 9 LEGAL PROCEEDINGS

The Company is not a party to, and none of its property is the subject of, any pending legal proceedings other than routine litigation that is incidental to its business.

NOTE 10 DISCONTINUED OPERATIONS

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

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

Discontinued Operations(SSG)	Three Months Ended	Nine Months Ended
	December 31, 2005	
Net revenues	$	$ 23,218
Operating income		610
Gain on sale of SSG, net of tax		12,646
Net income	$	$ 12,918

NOTE 11 Subsequent Events

In its review of events subsequent to December 31, 2006, the Company learned that an Emerson letter of credit for $734,000 was issued on February 13, 2007 for the purchase of 50 plasma modules delete to be supplied to Sansui. Emerson had no direct or indirect interest in the purchase of such parts. The Company received payment of approximately $739,000, which amount includes interest, from Sansui on March 16, 2007.

As a result of the related party transactions entered into between the Company and affiliates of Grande described in Note 7 and this Note 11 to the Company s financial statements, the Company s lender had advised the Company that it was in breach of certain covenants contained in the Company s credit facility, including a covenant restricting the Company from lending money and from entering into related party transactions without the consent of its lender and upon shipping or utilizing credit on greater than 150 day terms. The Company had approximately $7.8 million outstanding under its credit facility at December 31, 2006 and approximately $15.5 million outstanding under its credit facility at March 13, 2007. On March 16, 2007, the lender under the credit facility and the Company executed an amendment to the credit facility. Under the amendment, (i) the Company granted the lender a security interest in the $23 million Note and the Guaranty referred to in Note 7 to the Company s financial statements, (ii) a failure (following a 15 day cure period) by the borrowers to make payments to the Company as required by the terms of the Note will be deemed a default under the credit facility, (iii) the number of field audits by the lender will be increased from two to three each year, at an additional annual cost of $25,000, and (iv) the Company paid $125,000 to the lender in connection with the amendment. The additional audit and amendment expenses, when incurred, will be billed to an