EMERSON RADIO CORP
Form 10-Q
November 14, 2006

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 September 30, 2006

or

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

For the transition period from ____________________ to ____________________

Commission file number 001-07731

EMERSON RADIO CORP.
(Exact name of registrant as specified in its charter)

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

(973) 884-5800
(Registrant's telephone number, including area code)

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

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

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

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

Indicate the number of shares outstanding of common stock as of November 10, 2006: 27,089,832.

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 SEPTEMBER 30		SIX MONTHS ENDED SEPTEMBER 30	
	2006	2005	2006	200
NET REVENUES	$ 99,588	$ 77,576	$154,829	$116,
COSTS AND EXPENSES:				
COST OF SALES	86,678	68,108	134,518	101,
Other operating costs and expenses	1,426	1,641	3,025	2,
Selling, general and administrative expenses (exclusive of non-cash compensation shown below)	5,620	5,383	10,806	9,
Acquisition costs	--	--	21	-
Non-cash compensation (recovered)	(50)	88	55	
	93,674	75,220	148,425	113,
OPERATING INCOME	5,914	2,356	6,404	2,
Interest expense, net	212	199	107	
INCOME BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	5,702	2,157	6,297	2,
Provision for income taxes	1,898	883	1,912	
INCOME FROM CONTINUING OPERATIONS	3,804	1,274	4,385	1,
Income from discontinued operations, net of tax	--	--	--	
Gain on sale of Sport Supply Group, Inc., net of tax	--	12,646	--	12,
INCOME FROM DISCONTINUED OPERATIONS	--	12,646	--	12,
NET INCOME	$ 3,804	$ 13,920	$ 4,385	$ 14,
BASIC NET INCOME PER SHARE:				
Continuing operations	$ 0.14	$ 0.05	$ 0.16	$ 0
Discontinued operations	--	0.47	--	0
	$ 0.14	$ 0.52	$ 0.16	$ 0

DILUTED NET INCOME PER SHARE:				
Continuing operations	$ 0.14	$ 0.05	$ 0.16	$ 0
Discontinued operations	--	0.46	--	0
	$ 0.14	$ 0.51	$ 0.16	$ 0
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	27,077	27,048	27,071	27,
Diluted	27,106	27,177	27,123	27,

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

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

	SEPTEMBER 30, 2006
ASSETS	(UNAUDITED)
Current assets:	
Cash and cash equivalents	$ 4,842
Restricted cash	3,000
Accounts receivable (less allowances of $5,084 and $4,770, respectively)	59,493
Other receivables	1,757
Inventories	51,135
Prepaid expenses and other current assets	4,593
Short term deposits	28,767
Deferred tax assets	3,730
Total current assets	157,317
Property, plant and equipment, net	2,410
Trademarks and other intangible assets, net	363
Deferred tax assets	5,974
Other assets	76
Total assets	$ 166,140
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Short-term borrowings	$ 27,391
Current maturities of long-term borrowings	126
Accounts payable and other current liabilities	61,262
Accrued sales returns	1,561
Income taxes payable	509
Total current liabilities	90,849

Long-term borrowings	655
Shareholders' equity:	
Preferred shares - 10,000,000 shares authorized, 3,677 shares issued and outstanding	3,310
Common shares - $.01 par value, 75,000,000 shares authorized; 52,925,797 and 52,900,297 shares issued, 27,089,832 and 27,064,332 shares outstanding, respectively	529
Capital in excess of par value	117,188
Accumulated other comprehensive losses	(77)
Accumulated deficit	(22,090)
Treasury stock, at cost, 25,835,965 shares	(24,224)
Total shareholders' equity	74,636
Total liabilities and shareholders' equity	$ 166,140

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.

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

	SIX MONTHS E SEPTEMBER	
	2006	
Cash flows from operating activities:		
Income from continuing operations	$ 4,385	$
Adjustments to reconcile income from continuing operations to net cash used by continuing operations:		
Depreciation and amortization	298	
Non cash compensation	55	
Deferred tax expenses	1,507	
Asset allowances, reserves and other	1,298	
Changes in assets and liabilities:		
Restricted cash	--	
Accounts receivable	(41,776)	
Other receivables	(330)	
Inventories	(18,173)	
Prepaid expenses and other current assets	(899)	
Deposits	(28,767)	
Other assets	595	
Accounts payable and other current liabilities	43,139	
Income taxes payable	367	

Operating cash flow (used) by continuing operations	(38,301)	
Operating cash flow (used) by discontinued operations	--	
Net cash (used) by operating activities	(38,301)	
Cash flows from investing activities:		
Additions to property and equipment (continuing operations)	(88)	
Investing activities of discontinued operations	--	
Proceeds from sale of SSG, net of tax		
Net cash (used) provided by investing activities	(88)	
Cash flows from financing activities:		
Short-term borrowings	24,086	
Repayments of short-term borrowings	--	
Net borrowings (repayments) under line of credit facility	1,505	
Purchase of treasury stock	--	
Exercise of stock options	50	
Long-term borrowings	16,782	
Repayments of long-term borrowings	(16,709)	
Financing activities of continuing operations	25,714	
Financing activities of discontinued operations	--	
Net cash provided (used) by financing activities	25,714	
Net (decrease) increase in cash and cash equivalents	(12,675)	
Cash and cash equivalents at beginning of period	17,517	
Cash and cash equivalents at end of period	$ 4,842	$

Supplemental disclosures of non-cash investing and financing activities:
The Company has entered into certain capital lease agreements. For the six month period ended September 30, 2006 the Company entered into agreements related to approximately $179,000 of equipment, which is excluded from the statement of cash flow as the transaction was non-cash in nature. There were no such transactions during the six month period ended September 30, 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 $0.47 per share, that was reported in the Company's results for the quarter ended September 30, 2005. Such gain was net of total estimated income taxes of $4.2 million. As a result of the sale, the financial position and results of operations of SSG have been presented as discontinued operations for all prior year periods shown in the accompanying financial statements (see Note 10), and the Company now operates in one segment, the consumer electronics segment. The consumer electronics business includes the design, sourcing, importing and marketing of a variety of consumer electronic products and the licensing of the "[EMERSON(R) LOGO]" trademark for a variety of products domestically and internationally to certain licensees.

The unaudited interim consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of our consolidated financial position as of September 30, 2006 and the results of operations for the three and six month periods ended September 30, 2006 and September 30, 2005. All significant intercompany accounts and transactions have been eliminated in consolidation. The preparation of the unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial 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 six month periods ended September 30, 2006 are not necessarily indicative of the results of operations that may be expected for any other interim period or for the full year ending March 31, 2007 ("fiscal 2007").

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

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 a recovery of non-cash compensation costs of approximately $50,000 for the three month period ended September 30, 2006 compared to non-cash compensation expenses of $88,000 for the corresponding period of the previous fiscal year, and $55,000 and $170,000 in non-cash compensation costs for the six month period ended

September 30, 2006 and September 30, 2005, respectively.

NOTE 2 - COMPREHENSIVE INCOME

Comprehensive income for the three and six month periods ended September 30, 2006 and September 30, 2005 is as follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30		SIX MONTHS ENDED SEPTEMBER 30	
	2006	2005	2006	2005
	(UNAUDITED)		(UNAUDITED)	
Income from continuing operations	$ 3,804	$ 1,274	$ 4,385	$ 1,418
Recognition of realized losses in net income	--	--	3	--
Change in unrealized (loss) gain on securities, net	(7)	--	(10)	15
Comprehensive income	$ 3,797	$ 1,274	$ 4,378	$ 1,433

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 SEPTEMBER 30		SIX MONTHS ENDED SEPTEMBER 30	
	2006	2005	2006	2005
	(UNAUDITED)		(UNAUDITED)	
Numerator:				
Net earnings from continuing				

operations for basic and diluted earnings per share	$ 3,804	$ 1,274	$ 4,385	$ 1,418
Denominator:				
Denominator for basic earnings per share - weighted average shares	27,077	27,048	27,071	27,109
Effect of dilutive securities on denominator:				
Options and warrants	29	129	52	92
Denominator for diluted earnings per share - weighted average shares and assumed conversions	27,106	27,177	27,123	27,201
Earnings from continuing operations				
Basic and diluted earnings per share	$ 0.14	$ 0.05	$ 0.16	$ 0.05

NOTE 4- SHAREHOLDERS' EQUITY

Outstanding capital stock at September 30, 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; it retains a liquidation preference.

At September 30, 2006, Emerson had approximately 502,000 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 September 30, 2006, the Company has repurchased 1,267,623 shares under this program. During the quarter and year-to-date periods ended September 30, 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.

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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 September 30, 2006, these warrants had not been exercised.

On August 1, 2004, in connection with a consulting agreement, the Company granted 50,000 warrants with immediate vesting and an exercise price of $3.00 per share with an expiration date of August 2009. These warrants were valued using the Black-Scholes valuation model, which resulted in $88,500 being charged to earnings during fiscal 2005. As of September 30, 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 September 30, 2006 and March 31, 2006, inventories consisted of the following (in thousands):

	SEPTEMBER 30, 2006	MARCH 31, 2006
	(Unaudited)	
Finished goods	$ 52,589	$ 34,416
Less inventory allowances	(1,454)	(1,413)
Net inventory	$ 51,135	$ 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 is not able at this time to determine the amount (if any) of such claim which is properly due and payable.

NOTE 7 - RELATED PARTY TRANSACTIONS

On December 5, 2005, 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 50.9%, 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 on terms which Emerson management believes reflect arms length transactions. Under these arrangements, Emerson incurred expenses with Grande of approximately $105,000 and $235,000 for the three and six month periods ended September 30, 2006, respectively.

Emerson, Grande and Capetronic Displays Limited ("Capetronic"), a subsidiary of Grande, have a prearranged sales agreement totaling 40,040 units of 42" plasma televisions which will result in net revenues of $32.9 million and approximately $1 million in net income from continuing operations during fiscal 2007. In September 2006, 25,340 of these units were shipped and $20.8 million and $253,000 was recorded in net revenues and net income, respectively, for the second quarter of fiscal 2007. Component parts valued at approximately $6.5 million were purchased by Emerson from Capetronic. Inventory purchases related to this sales agreement were purchased from an unrelated party and were funded with cash on hand and increased borrowings. This sales agreement is part of a major holiday promotional sale with one of our major customers.

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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 totals $17.5 and $23.3 million as of September 30, 2006 and March 31, 2006, and is maintained by the pledge of bank deposits of approximately $3.0 milion 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 $24.0 million pertains to parts and inventory purchases primarily for promotional item sales recorded near the end of the second quarter of fiscal 2007. As of the date of this filing, the outstanding revolver balance has subsequently been returning to normal seasonal business levels.

	SEPTEMBER 30, 2006	MARCH 31, 2006
	(IN THOUSANDS)	
	(UNAUDITED)	
Revolving line of credit	$24,045	$ ---
Foreign bank loans	3,346	1,841
Short term borrowings	$27,391	$1,841

Long-term Borrowings

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

	SEPTEMBER 30, 2006	MARCH 31, 2006
	(IN THOUSANDS)	
	(UNAUDITED)	
Mortgage payable	$ 604	$ 641
Capitalized lease obligations and other	177	19
	781	660
Less current maturities	(126)	(85)
Long term debt and notes payable	$ 655	$ 575

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Emerson Credit Facility - On December 23, 2005, Emerson entered into a $45.0 million Revolving Credit Agreement with Wachovia Bank. The loan agreement provides for a $45.0 million revolving line of credit for revolving loans subject to individual maximums which, in the aggregate, are not to exceed the lesser of $45 million or a "Borrowing Base" as defined in the loan agreement. The Borrowing Base amount is established by specified percentages of eligible accounts receivables and inventories and bears interest ranging from Prime (8.25% as of September 30, 2006) plus 0.00% to 0.50% or, at Emerson's election, the London Interbank Offered Rate ("LIBOR" which was 1.25% as of September 30, 2006) plus 1.25% to 2.25% depending on excess availability. Pursuant to the Revolving Credit Agreement, Emerson is restricted from, among other things, paying certain cash dividends, and entering into certain transactions without the lender's prior consent and is subject to certain leverage financial covenants. Amounts outstanding under the loan agreement will be secured by substantially all of Emerson's tangible assets.

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 September 30, 2006, there were approximately $24.0 million of borrowings outstanding under the facility and Emerson was in compliance with the covenants contained in the loan agreement. Emerson has elected to pay interest at the LIBOR rate plus a 1.25% margin, the effective interest rate on such borrowings was 6.58% at September 30, 2006.

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

NOTE 9 - LEGAL PROCEEDINGS

Putative Class Actions

On December 15, 2005, Jeffrey S. Abraham, on behalf of himself and all common stockholders of Sport Supply Group, Inc. ("Sport Supply"), filed a putative class action and derivative complaint against Emerson, Geoffrey P. Jurick, Arthur J. Coerver, Harvey Rothenberg, Collegiate Pacific, Inc. and Michael J. Blumenfeld and nominal defendant Sport Supply in the Court of Chancery of the State of Delaware, Civil Action No. 1845-N. The complaint alleged, among other things, that Emerson and Mr. Jurick breached their fiduciary duty to the minority stockholders of Sport Supply when they sold Emerson's controlling stake in Sport Supply for a premium. Emerson and Mr. Jurick moved to dismiss the claims asserted against them, and on July 5, 2006, the court granted their motion and the claims against Emerson and Mr. Jurick were dismissed.

In March of 2004, a putative class action captioned In Re Emerson Radio Corp. Securities Litigation, 03cv4201 (JLL) was filed in the United States

District Court for the District of New Jersey. The class action complaint asserted various securities-related claims against Emerson and Geoffrey Jurick, Kenneth Corby, John Raab and Jerome Farnum relating to certain of Emerson's public disclosures. Emerson and the other defendants moved to dismiss the complaint, and on December 19, 2005, the Court granted the defendants' motion to dismiss the complaint without prejudice. On March 3, 2006, one of the lead plaintiffs, Clark Niss, moved to withdraw as a lead plaintiff, which motion was granted on March 29, 2006. On April 26, 2006, the remaining lead plaintiff, Jeffrey Hoffman, filed a Notice of Appeal, taking an appeal of the Court's December 19, 2005 dismissal order to the United States Court of Appeals for the Third Circuit. On September 11, 2006, the remaining lead plaintiff voluntarily dismissed the appeal. Accordingly, the putative class action litigation against Emerson and the other defendants has been favorably concluded.

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Other Matters

The Company is a party to various other litigation matters, in most cases involving ordinary and routine claims incidental to our business. We cannot estimate with certainty our ultimate legal and financial liability with respect to such pending litigation matters. However, we believe, based on our examination of such matters, that our ultimate liability will not have a material adverse effect on our financial position, results of operations or cash flows.

NOTE 10 - DISCONTINUED OPERATIONS

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

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

DISCONTINUED OPERATIONS(SSG)	THREE MONTHS ENDED SEPTEMBER 30, 2005	SIX MONTHS ENDED SEPTEMBER 30, 2005
Net revenues	$ --	$23,218
Operating income	--	610
Gain on sale of SSG, net of tax	12,646	12,646
Net income	$12,646	$12,918

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion of our operations and financial condition should be read in conjunction with the Financial Statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

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

FORWARD-LOOKING INFORMATION

This report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-looking statements include statements with respect to Emerson's beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions, and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond Emerson's control, and which may cause Emerson's actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through Emerson's use of words such as "may," "will," "can," "anticipate," "assume," "should," "indicate," "would," "believe," "contemplate," "expect," "seek," "estimate," "continue," "plan," "project," "predict," "could," "intend," "target," "potential," and other similar words and expressions of the future. These forward-looking statements may not be realized due to a variety of factors, including, without limitation:

- the loss of any of our key customers or reduction in the purchase of our products by any such customers;

- 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;

- changes in accounting policies, rules and practices; and
- the other factors listed under "Risk Factors" in this Form 10-Q, as well as our Form 10-K, as amended, for the fiscal year ended March 31, 2006 and other filings with the Securities and Exchange Commission (the "SEC").

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this report or the date of the document incorporated by reference into this 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.

COMPANY FILINGS

We make available through our internet website free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to such reports and other filings made by us with the SEC, as soon as practicable after we electronically file such reports and filings with the SEC. Our website address is WWW.EMERSONRADIO.COM. The information contained in this website is not incorporated by reference in this report.

RESULTS OF OPERATIONS

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

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

	THREE MONTHS ENDED SEPTEMBER 30		SIX MONTHS ENDED SEPTEMBER 30	
	2006	2005	2006	2005
	(UNAUDITED)		(UNAUDITED)	
Net revenues	$ 99,588	$ 77,576	$154,829	$116,223
Cost of sales	86,678	68,108	134,518	101,022
Other operating costs	1,426	1,641	3,025	2,840

Selling, general and administrative costs	5,620	5,383	10,806	9,222
Acquisition costs	--	--	21	--
Non-cash compensation costs (recovered)	(50)	88	55	170
Operating income	5,914	2,356	6,404	2,969
Interest expense, net	212	199	107	606
Income from continuing operations before income taxes	5,702	2,157	6,297	2,363
Provision for income taxes	1,898	883	1,912	945
Income from continuing operations	$ 3,804	$ 1,274	$ 4,385	$ 1,418

Net Revenues - Net revenues for the second quarter of fiscal 2007 increased $22.0 million, or 28.4%, to $99.6 million as compared to $77.6 million for the second quarter of fiscal 2006. For the six month period of fiscal 2007, net revenues increased $38.6 million, or 33.2%, to $154.8 million from $116.2 million for the six month period of fiscal 2006. Net revenues are comprised of Emerson(R) branded product sales, promotional item sales, themed product sales and licensing revenues. Emerson(R) branded product sales are earned from the sale of products bearing the Emerson(R) or HH Scott(R) brand name; promotional item sales include various sales programs of specific models or products based on customer specifications; themed product sales represent products sold bearing a certain theme or character; and licensing revenues are derived from licensing the Emerson(R) and HH Scott(R) brand names to licensees for a fee. The variations in net revenue for the three and six month periods were comprised of:

i) An increase in revenues from the sale of Emerson(R) branded product of $13.6 million, or 26.7%, to $64.6 million from $51.0 million for the second quarter of fiscal 2007 as compared to the same period in fiscal 2006. Revenues for the six month period of fiscal 2007 of Emerson(R) branded product increased $30.7 million, or 36.0%, to $116.0 million from $85.3 million for the same period is fiscal 2006. The increase for the three and six month periods was primarily due to an increase in the number of units sold in the microwave category of the Emerson(R) product group and an increase in sales of iPod(R) compatible products.

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ii) During the second quarter of fiscal 2007, Emerson had promotional item sales totaling $20.8 million. This sales agreement represents a major holiday promotion with one of our major customers and will result in total net revenues of $32.9 million in fiscal 2007. In addition to this increase in 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, as well as an increase in short term deposits of $28.8 million 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 milion for the period ended September 30, 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 have subsequently been returning to normal seasonal business levels. There were no promotional item sales during fiscal 2006.

iii) A decrease in themed product sales of $11.9 million, or 48.4%, to $12.7 million in the second quarter of fiscal 2007 from $24.6 million for the second quarter of fiscal 2006. For the six month period of fiscal 2007, themed product sales totaled $15.0 million compared to $26.4 million for the same period in fiscal 2006, a decrease of $11.4 million, or 43.2%. This revenue decrease was the result of decreased unit sales of the Nickelodeon(R) themed product category.

iv) Licensing revenues decreased by approximately $530,000, or 26.5%, to approximately $1.5 million for the second quarter of fiscal 2007 from $2.0 million in the second quarter of fiscal 2006. For the six month period of fiscal 2007, licensing revenues decreased by approximately $1.5 million, or 33.3%, to $3.0 million as compared to $4.5 million for the six month period of fiscal 2006. The decreases for the three and six month periods were primarily due to lower sales volumes under our video licensing agreement.

Cost of Sales - Cost of sales, as a percentage of net revenues, decreased for the second quarter of fiscal 2007 to 86.8% from 87.8% for the same period of fiscal 2006, and to 86.7% from 86.9% for the six month period of fiscal 2007 compared to the same period of fiscal 2006. In relative terms, the decrease in cost of sales for the three and six month periods was primarily due to increased sales in our higher margin iPod(R) compatible product category. In absolute terms, costs of sales for the second quarter of fiscal 2007 increased $18.6 million, or 27.3%, to $86.7 million from $68.1 million for the same period in fiscal 2006. For the six month period of fiscal 2007, cost of sales increased $33.5 million, or 33.2%, to $134.5 million from $101.0 million for the same period of fiscal 2006. The cost of sales as a percentage of sales revenues less license revenues decreased to 88.1% and 88.4% for the three and six month periods of fiscal 2007, respectively, as compared to 90.1% and 90.4% for the three and six month periods of fiscal 2006.

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

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Other Operating Costs and Expenses - Other operating costs and expenses, as a percentage of net revenues, decreased to 1.4% from 2.1% for the second quarter of fiscal 2007 compared to the same period of fiscal 2006, and decreased to 2.0% for the six month period of fiscal 2007 compared to 2.4% for the same period in fiscal 2006. In absolute terms, other operating costs and expenses decreased to $1.4 million from $1.6 million ($215,000 or 13.4%) and increased to $3.0 million from $2.8 million ($185,000 or 6.6%) for the three and six month periods of fiscal 2007 and fiscal 2006, respectively. As a percentage of net revenues, the decrease for the three and six month periods was primarily due to lower service fees related to inventory and returned product handling as compared to the increase in sales volumes.

Selling, General and Administrative Expenses ("S,G&A") - S,G&A increased approximately $237,000, or 4.4%, to $5.6 million (5.6% of net revenues) from $5.4 million (6.9% of net revenues) for the second quarter of fiscal 2007 as compared to the second quarter of fiscal 2006. For the six month period of fiscal 2007, S,G&A expenses increased $1.6 million, or 17.4%, to $10.8 million (7.0% of net revenues) from $9.2 million (7.9% of net revenues) in fiscal 2006. For the second quarter of fiscal 2007, the increase in absolute terms compared to fiscal 2006 was primarily due to an increase of approximately $212,000 for sales commissions and freight out costs related to the increase in sales volumes. In addition, advertising expenditures and bad debt expenses increased by approximately $110,000 and $357,000, respectively. These increases were partially offset by decreases in personnel expenditures of approximately $310,000, as well as decreases in various other costs. The increase in absolute terms for the six month period of fiscal 2007 compared to fiscal 2006 was primarily due to increased commission and inventory carrying expenditures of $595,000, advertising expenses of $311,000, and bad debt expenses of $742,000. These increases were partially offset by decreases in payroll bonus costs of approximately $505,000 and a gain on sale of real property of approximately $198,000.

Acquisition Costs - The Company recorded acquisition costs of approximately $21,000 in the first quarter of fiscal 2007, associated with contemplated acquisition transactions that were not completed. There were no acquisition costs in the first or second quarter of fiscal 2006.

Non-Cash Compensation Costs (Recovered) - Non-cash compensation costs relate to stock option expense associated with the adoption of SFAS 123R "Share-Based Payments." For the three month period ending September 30, 2006, adjustments to non-cash compensation expenses incurred in prior periods were recorded resulting in a recovery of such costs totaling $50,000, as compared to $88,000 in non-cash compensation costs recorded for the same period of fiscal 2006. These adjustments were the result of stock option forfeitures due to senior management and board of director changes over the past year. For the six month periods, non-cash compensation costs of approximately $55,000 and $170,000 were recorded for fiscal 2007 and fiscal 2006, respectively. All non-cash compensation costs in all periods were associated with stock options.

Interest Expense, net - In the second quarter of fiscal 2007, the Company recorded interest expense, net, of $212,000, an increase of $13,000 over the second quarter of fiscal 2006, in which we recorded approximately $199,000 in interest expense, net. For the six month period of fiscal 2007, the Company recorded interest expense, net of $107,000, a decrease of approximately $500,000 over the six month period of fiscal 2006, in which we recorded $606,000 in interest expense, net. The decrease in interest expense, net was primarily the result of lower financing activities, as well as increased interest income recorded in the foreign subsidiaries.

Provision for Income Taxes - Income tax expenses were approximately $1.9 million for the second quarter of fiscal 2007 as compared to $883,000 for the second quarter of fiscal 2006. For the six month period of fiscal 2007, the provision for income taxes increased by $967,000 to $1.9 million as compared to $945,000 for the same period in fiscal 2006. The increase in the tax expense for the three and six month periods of fiscal 2007 was the result of higher pre-tax profit in our domestic subsidiary as compared to the same period in fiscal 2006.

Income From Continuing Operations - As a result of the foregoing factors, net income from continuing operations amounted to approximately $3.8 million (3.8% of net revenues) for the second quarter of fiscal 2007 as compared to $1.3 million (1.6% of net revenues) for the same period of fiscal 2006. For the six month period of fiscal 2007, net income from continuing operations totaled approximately $4.4 million (2.8% of net revenues) as compared to $1.4 million (1.2% of net revenues) for the six month period of fiscal 2006.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2006, we had cash and cash equivalents of approximately $4.8 million compared to approximately $17.5 million at March 31, 2006. Working capital increased to $66.5 million at September 30, 2006 as compared to $60.2 million at March 31, 2006. The decrease in cash and cash equivalents of approximately $12.7 million was primarily due to increases in cash used by continuing operating activities of $38.3 million, offset by cash provided from investing activities of $25.7 million, as described below.

Cash flows used by continuing operating activities were approximately $38.3 million for fiscal 2007, primarily related to increases in accounts receivable ($41.8 million), inventories ($18.2 million) and deposits ($28.8 million), offset by an increase in accounts payable and accrued liabilities ($43.1 million) and income from continuing operations ($4.4 million). Due to foreign purchases of promotional items, accounts payable and accrued liabilities and accounts receivable increased in part by approximately $20.6 million and $20.8 million, respectively, and deposits increased by $28.8 million. These increases were a result of a major holiday promotion with one of our major customers. (See Management's Discussion and Analysis of Results of Operations and Financial Condition - Results of Operations). In addition, the increase in inventories and the remaining increases in accounts payable and accrued liabilities and accounts receivable were due to the seasonal nature of the business, with increased sales volumes over the prior quarter and increased domestic inventory purchases related to the upcoming holiday sale season.

Net cash used by investing activities was approximately $88,000 in fiscal 2007, which consisted primarily of tools and equipment acquisitions.

Net cash provided by financing activities was approximately $25.7 million for fiscal 2007 due primarily to the net increase in borrowings needed to secure the purchase of promotional items as well as purchases related to increased inventory levels for the upcoming holiday selling season.

On December 23, 2005, Emerson entered into a $45.0 million Revolving Credit Agreement with Wachovia Bank, National Association. The loan agreement provides for a $45 million revolving line of credit. The $45.0 million revolving line of credit replaced Emerson's prior $35.0 million credit facility which contained substantially the same terms and conditions as the Revolving Credit Agreement. The $45.0 million revolving line of credit facility provides for revolving loans subject to individual maximums which, in the aggregate, are not to exceed the lesser of $45 million or a "Borrowing Base" as defined in the loan agreement. The Borrowing Base amount is established by specified percentages of eligible accounts receivables and inventories and bears interest ranging from Prime plus 0.00% to 0.50% or, at Emerson's election, LIBOR plus 1.25% to 2.25% depending on excess availability. Pursuant to the loan agreement, Emerson is restricted from, among other things, paying certain cash dividends, and entering into certain transactions without the lender's prior consent and is subject to certain leverage financial covenants. Amounts outstanding under the loan agreement will be secured by substantially all of Emerson's tangible assets.

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.

As of September 30, 2006, there were approximately $24.0 million in borrowings outstanding under the facility and Emerson was in compliance with the covenants contained in the loan agreement. Due to the fact that the outstanding revolver balance has been returning to normal seasonal business levels as of the date of this filing, all amounts outstanding under this facility have been presented as short-term in the accompanying financial statements.

Our foreign subsidiaries maintain various credit facilities, aggregating $17.5 million, consisting of the following:

- Two letter of credit facilities totaling $10.0 million which are used for inventory purchases; and

- Two back-to-back letter of credit facilities totaling $7.5 million.

At September 30, 2006, our foreign subsidiaries pledged approximately $3.0 million in certificates of deposit to this bank to assure the availability of the $10.0 million of credit facilities. The compensating amount of $3.0 million of restricted cash is legally restricted from use for general business purposes. At September 30, 2006, there were approximately $5.9 million of letters of credit outstanding under these credit facilities.

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

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

	PAYMENT DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1 - 3 YEARS	3 - 5 YEARS	MORE 5 YEA
Mortgages payable	$ 604	$ 74	$ 148	$ 148	$
Capital lease obligations	177	52	93	32	
Leases	5,951	1,647	2,952	1,352	
Total	$ 6,732	$ 1,773	$ 3,193	$ 1,532	$

There were no material capital expenditure commitments and no substantial commitments for purchase orders outside the normal purchase orders used to secure product as of September 30, 2006.

CRITICAL ACCOUNTING POLICIES

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

INFLATION, FOREIGN CURRENCY, AND INTEREST RATES

Neither inflation nor currency fluctuations had a significant effect on our results of operations during the first and second quarters of fiscal 2007. Our exposure to currency fluctuations has been minimized by the use of U.S. dollar denominated purchase orders. We purchase virtually all of our products from manufacturers located in China.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes from items disclosed in Form 10-K for the fiscal year ended March 31, 2006.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure controls and procedures.

During the six month period of fiscal 2007, our management, including the principal executive officer and principal financial officer, evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) related to the recording, processing, summarization and reporting of information in our reports that we file with the SEC. These disclosure controls and procedures have been designed to ensure that material information relating to us, including our subsidiaries, is made known to our management, including these officers, by other of our employees, and that this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

Based on their evaluation as of September 30, 2006, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to reasonably ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

(b) Changes in internal controls over financial reporting.

There have been no changes in our internal controls over financial reporting that occurred during our last fiscal quarter to which this Quarterly Report on Form 10-Q relates that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On December 15, 2005, Jeffrey S. Abraham, on behalf of himself and all common stockholders of Sport Supply Group, Inc. ("Sport Supply"), filed a putative class action and derivative complaint against Emerson, Geoffrey P. Jurick, Arthur J. Coerver, Harvey Rothenberg, Collegiate Pacific, Inc. and Michael J. Blumenfeld and nominal defendant Sport Supply in the Court of Chancery of the State of Delaware, Civil Action No. 1845-N. The complaint alleged, among other things, that Emerson and Mr. Jurick breached their fiduciary duty to the minority stockholders of Sport Supply when they sold Emerson's controlling stake in Sport Supply for a premium. Emerson and Mr. Jurick moved to dismiss the claims asserted against them, and on July 5, 2006, the court granted their motion and the claims against Emerson and Mr. Jurick were dismissed.

In March of 2004, a putative class action captioned In Re Emerson Radio Corp. Securities Litigation, 03cv4201 (JLL) was filed in the United States District Court for the District of New Jersey. The class action complaint asserted various securities-related claims against Emerson and Geoffrey Jurick, Kenneth Corby, John Raab and Jerome Farnum relating to certain of Emerson's public disclosures. Emerson and the other defendants moved to dismiss the complaint, and on December 19, 2005, the Court granted the defendants' motion to dismiss the complaint without prejudice. On March 3, 2006, one of the lead plaintiffs, Clark Niss, moved to withdraw as a lead plaintiff, which motion was granted on March 29, 2006. On April 26, 2006, the remaining lead plaintiff, Jeffrey Hoffman, filed a Notice of Appeal, taking an appeal of the Court's December 19, 2005 dismissal order to the United States Court of Appeals for the Third Circuit. On September 11, 2006, the remaining lead plaintiff voluntarily dismissed the appeal. Accordingly, the putative class action litigation against Emerson and the other defendants has been favorably concluded.

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

ITEM 1.A RISK FACTORS.

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

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

SHARE REPURCHASES:

For the quarter ended September 30, 2006, we did not repurchase any shares under Emerson Radio Corp.'s common stock share repurchase program. The share repurchase program was publicly announced in September 2003 to repurchase up to 2,000,000 shares of Emerson's outstanding common stock. Share repurchases are made from time to time in open market transactions in such amounts as determined in the discretion of Emerson's management within the guidelines set forth by Rule 10b-18 under the Securities Exchange Act. Prior to the September 30, 2006 quarter, the Company repurchased 1,267,623 shares under this program. As of September 30, 2006, the maximum number of shares that are available to be repurchased under Emerson Radio Corp.'s common share repurchase program was 732,377. No shares have been repurchased under the program since June 14, 2005.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

(a) None

(b) None

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

None

ITEM 5. OTHER INFORMATION.

On November 8, 2006, a subsidiary of Grande Holdings made a proposal to Emerson to sell a 51% interest in Capetronic Group, Ltd., a consumer electronics manufacturer, to an Emerson subsidiary for $108 million. Grande Holdings beneficially owns 50.8% of Emerson's outstanding shares of common stock. Emerson has formed a special committee of independent directors to evaluate the proposal on behalf of the Company. There can be no assurance that Emerson will proceed with and/or complete the transaction or as to what the terms with respect to any such transaction would be, nor can Emerson provide a timeline as to when a resolution, if any, may occur.

ITEM 6. EXHIBITS.

10.32 First Amendment to Loan and Security Agreement, dated as of September 1, 2006, among Emerson Radio Corp., Emerson Macao Commercial Offshore Limited, Majexco Imports, Inc., Emerson Radio (Hong Kong) Limited and Wachovia Bank, National Association.*

31.1 Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to

Section 302 of the Sarbanes-Oxley Act of 2002.*

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

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* filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMERSON RADIO CORP.
(Registrant)

Date: November 14, 2006

/s/ Adrian Ma

Adrian Ma
Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2006

/s/ John D. Florian

John D. Florian
Deputy Chief Financial Officer and
Controller
(Principal Financial and Accounting Officer)