WEBMD CORP /NEW/
Form S-3/A
September 02, 2003

Table of Contents

As filed with the Securities and Exchange Commission on September 2, 2003

Registration No. 333-107151

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to

Form S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

WebMD Corporation

(Exact name of registrant as specified in its charter)

Delaware	**94-3236644**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

669 River Drive, Center 2
Elmwood Park
New Jersey 07407-1361
(201) 703-3400
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Charles A. Mele, Esq.
Executive Vice President and General Counsel
WebMD Corporation
669 River Drive, Center 2
Elmwood Park, New Jersey 07407-1361
(201) 703-3400
(Name and address, including zip code, and telephone number, including area code, of agent for service of process)

Copies to:
Stephen T. Giove, Esq.
Shearman & Sterling
599 Lexington Avenue
New York, New York 10022
(212) 848-4000

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement as determined by market conditions.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering: o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per unit or share(2)	Proposed maximum aggregate offering price(2)	Amount of registration fee(3)
3 1/4% Convertible Subordinated Notes Due 2007	$12,023,000	100%	$12,023,000	$973
Common Stock, $.0001 par value	(4)	(4)	(4)	(5)

(1) $12,023,000 aggregate principal amount of notes and 1,297,959 shares of common stock issuable upon conversion of the notes are being registered hereby. The prospectus filed with this Registration Statement is a combined prospectus pursuant to Rule 429 under the Securities Act. The combined prospectus filed with this Registration Statement includes (a) the securities being registered hereby and (b) $200,677,000 aggregate principal amount of notes and 21,664,366 shares of common stock issuable upon conversion of the notes registered by the registrant and that remain unsold under Registration Statements No. 333-89616, No. 333-100857 and No. 333-104271.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457.

(3) This amount has been previously paid. No additional registration fee with respect to the securities being registered hereby is payable at the time of this filing as the registrant has previously paid a registration fee in the amount of $27,600 with respect to $300,000,000 aggregate principal amount of notes and 32,386,916 shares of common stock issuable upon conversion of the notes (which includes the $12,023,000 aggregate principal amount of notes and 1,297,959 shares of common stock being registered hereby) under Registration Statement No. 333-89616 initially filed on May 31, 2002. The aggregate amount of securities previously registered and aggregate amount of securities being registered hereby will not exceed $300,000,000.

(4) Includes 1,297,959 shares of common stock issuable upon conversion of the notes at the rate of 107.9564 shares of common stock per $1,000 principal amount of the notes. Under Rule 416 under the Securities Act, the number of shares of common stock registered includes an indeterminate number of shares of common stock that may be issued in connection with a stock split, stock dividend, recapitalization or similar event.

(5) Under Rule 457(l), there is no additional filing fee payable with respect to the shares of common stock issuable upon conversion of the notes because no additional consideration will be received in connection with the exercise of the conversion privilege.

Pursuant to Rule 429 under the Securities Act, this Registration Statement contains a combined prospectus that covers the notes and the shares of common stock of the registrant previously registered that remain unsold under Registration Statements No. 333-89616, No. 333-100857 and No. 333-104271. Accordingly, this Registration Statement constitutes a post-effective amendment to Registration Statement No. 333-104271. This post-effective amendment shall hereafter become effective concurrently with the effectiveness of this Registration Statement.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

PROSPECTUS

$212,700,000

WebMD Corporation

3 1/4% Convertible Subordinated Notes due 2007

and
Common Stock Issuable Upon Conversion of the Notes

The Notes and Common Stock

We issued $300,000,000 aggregate principal amount of our 3 1/4% convertible subordinated notes due 2007 in a private placement in April 2002.

We will pay interest on the notes semi-annually in arrears on April 1 and October 1 of each year, starting on October 1, 2002.

The notes will mature on April 1, 2007.

The selling securityholders identified in this prospectus may offer from time to time up to $212,700,000 of the notes and shares of our common stock issuable upon conversion of the notes. If required, we will set forth the names of any other selling securityholders in a post-effective amendment to the registration statement of which this prospectus is a part.

We will not receive any proceeds from the sale of the notes or shares of common stock issuable upon conversion of the notes by any of the selling securityholders. The notes and the shares of common stock may be offered in negotiated transactions or otherwise, at market prices prevailing at the time of sale or at negotiated prices. In addition, shares of our common stock may be offered from time to time through ordinary brokerage transactions on the Nasdaq National Market. See Plan of Distribution.

Conversion of the Notes

The notes are convertible into 107.9564 shares of our common stock, par value $.0001 per share, per $1,000 principal amount of notes, subject to adjustment in certain circumstances. This rate results in an initial conversion price of approximately $9.26 per share.

Redemption and Repurchase of the Notes

On or after April 5, 2005, we may, at our option, redeem the notes, in whole or in part, at the redemption prices described in this prospectus, plus any accrued and unpaid interest to the redemption date.

Holders may require us to repurchase all or a portion of their notes upon a change in control as defined in the indenture at 100% of their principal amount, plus any accrued and unpaid interest to the repurchase date.

Ranking of the Notes

The notes are junior to all of our existing and future senior indebtedness and are structurally subordinated to all existing and future liabilities of our subsidiaries, including trade payables, lease commitments and monies borrowed.

Listing

Our common stock is listed on the Nasdaq National Market under the symbol HLTH. On August 29, 2003, the closing sale price of our common stock on the Nasdaq National Market was $10.27.

The notes originally issued in the private placement are eligible for trading on The Private Offerings, Resales and Trading Through Automated Linkages, or PORTAL, Market of the National Association of Securities Dealers, Inc. However, notes sold pursuant to this prospectus will no longer be eligible for trading on the PORTAL market. We do not intend to list the notes on any national securities exchange.

Investing in the notes and common stock involves risks. See Risk Factors beginning on page 7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is September 2, 2003.

TABLE OF CONTENTS

Table of Contents

IMPORTANT NOTICE TO READERS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process. Under this shelf registration process, the selling securityholders may, from time to time, offer notes or shares of our common stock owned by them. Each time the selling securityholders offer notes or common stock under this prospectus, they will provide a copy of this prospectus and, if applicable, a copy of a prospectus supplement. You should read both this prospectus and, if applicable, any prospectus supplement together with the information incorporated by reference in this prospectus. See Where You Can Find More Information and Incorporation by Reference for more information.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone else to provide you with different information. If anyone provides you with different information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus or any documents incorporated by reference in this prospectus is accurate only as of the date on the front cover of the applicable document or as specifically indicated in the document. Our business, financial condition, results of operations and prospects may have changed since that date.

Unless otherwise indicated, in this prospectus, WebMD, we, us and our refer to WebMD Corporation and its subsidiaries.

TABLE OF CONTENTS

WebMD®, Web-MD®, WebMD Health®, The Medical Manager®, ULTIA , Intergy®, Envoy®, ExpressBill®, Medscape®, WellMed®, Personal Health Manager , Personal Health Insight , POREX® and MEDPOR® are trademarks of WebMD Corporation or its subsidiaries.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. It is not complete and is qualified in its entirety by, and should be read in conjunction with, the more detailed information (including Risk Factors and financial information) appearing elsewhere in this prospectus, as well as in the documents incorporated by reference in this prospectus.

Our Company

Our business is comprised of four segments. Three of our business segments, Portal Services or WebMD Health, Transaction Services or WebMD Envoy and Physician Services or WebMD Medical Manager, provide various types of healthcare information services and technology solutions. Our fourth business segment, Plastic Technologies, is known as Porex. The following overview describes our key products, services and markets:

Healthcare Information Services and Technology Solutions. We provide a range of information services and technology solutions for participants across the entire continuum of healthcare, including physicians and other healthcare providers, payers, suppliers and consumers. Our products and services promote administrative efficiency and assist in reducing the cost of healthcare and creating better patient outcomes.

WebMD Health. Our Portal Services segment, WebMD Health, offers a variety of online resources and services for consumers and healthcare professionals. Our online offerings for consumers help them become better informed about healthcare choices and assist them in playing an active role in managing their own health. Our offerings for healthcare professionals help them improve their clinical knowledge, as well as their communication with patients regarding treatment options for specific health conditions.

We reach a large audience of health-involved consumers and clinically active healthcare professionals. We work closely with pharmaceutical, medical device and other healthcare companies to develop innovative online channels of communication to our audience, or targeted portions of our audience, that complement their offline education, marketing and customer service programs.

In addition, through WellMed from WebMD, we provide employers and health plans with access to a suite of online tools and related services, for use by their employees and plan members. These tools and services provide a framework for better decision-making by healthcare consumers and can assist employers and plans in managing demand while improving quality of care.

We generate revenue by selling advertising on our portals and the online and offline properties of our strategic partners, by selling sponsorships of specific pages, sections or events on our portal and related e-mailed newsletters, and by licensing our content and our online tools and related software and services. The majority of our WebMD Health revenues come from a small number of customers. Our WebMD Health customers include pharmaceutical, biotech and medical device companies, employers and health plans and media distribution companies.

WebMD Envoy. Our Transaction Services segment, WebMD Envoy, transmits electronic transactions between healthcare payers and physicians, pharmacies, dentists, hospitals, laboratory companies and other healthcare providers. The use of electronic transactions significantly reduces processing time and costs, as compared to mail, fax or telephone, and increases productivity for both payers and providers. The transactions that we facilitate include:

administrative transactions, such as claims submission and status inquiry, eligibility and patient coverage verification, referrals and authorizations, and electronic remittance advice, and

Table of Contents

clinical transactions, such as lab test ordering and reporting of results.

We also provide automated patient billing services to providers, including statement printing and mailing services, and paid-claims communication services for third party administrators and health insurers, including printing and mailing of checks, remittance advice and explanation of benefits. We are focused on continuing to increase the percentage of healthcare transactions that are handled electronically and on providing value-added services to providers and payers in connection with our transmission of their transactions.

We generate revenue by selling our transaction services to healthcare payers and providers, generally on either a per transaction basis or, in the case of some providers, on a monthly fixed fee basis. We also generate revenue by selling our patient statement services, typically on a per statement basis. A significant portion of WebMD Envoy revenues come from the country s leading national and regional healthcare payers.

WebMD Medical Manager. Our Physician Services segment, WebMD Medical Manager, develops and markets information technology systems for healthcare providers, primarily under The Medical Manager, Intergy, ULTIA and Medical Manager Network Services brands. Our systems include:

administrative and financial applications that enable healthcare providers and their administrative personnel to manage their practices more efficiently, and

electronic medical record and other clinical applications that assist them in delivering quality patient care.

In addition, through Medical Manager Network Services, we provide integrated access to our WebMD Envoy transaction services.

Our systems are scalable to meet the needs of a wide variety of healthcare provider settings, from small physician groups to large clinics, and across various medical specialties. Customers can purchase a base system and then add additional modules and services over time to expand their use of state-of-the-art technology as needed.

We generate revenue from one-time fees for licenses to our software modules and for system hardware and from recurring fees for the maintenance and support of our software and system hardware. Pricing depends on the number and type of software modules to be licensed, the number of users, the complexity of the installation and other factors. Our Medical Manager Network Services and some of our other WebMD Medical Manager products and services are priced on a monthly fee per user basis or a per transaction basis.

We believe that the combination, in one company, of WebMD Health, WebMD Envoy and WebMD Medical Manager makes us well positioned to create significant improvements in the way that information is used by the healthcare industry, enabling increased efficiency, better decision-making and, ultimately, higher quality patient care at a lower cost.

Plastic Technologies. Our Plastic Technologies segment, Porex, develops, manufactures and distributes proprietary porous plastic products and components used in healthcare, industrial and consumer applications. Our Porex customers include both end-users of our finished products, as well as manufacturers that include our components in their products for the medical device, life science, research and clinical laboratory, surgical and other markets. Porex is an international business with manufacturing operations in North America, Europe and Asia and customers in more than 65 countries.

Table of Contents

Recent Developments

On August 1, 2003, we completed the sale of Porex Bio Products, Inc. and Porex Medical Products, Inc. in two separate transactions for an aggregate sales price of $46.5 million in cash, subject to customary post-closing adjustments. Porex, our Plastic Technologies segment, retained its core Porous Products and Surgical Products units.

Molecular BioProducts, Inc., a subsidiary of Apogent Technologies Inc., purchased Bio Products and Medegen Holdings LLC purchased Medical Products. Bio Products manufactures injection-molded disposable plastic products for liquid handling and storage used in the research and clinical laboratory and life science markets. Medical Products manufactures injection-molded plastic medical products and components for the hospital, clinic and home care markets.

We recorded a loss of approximately $36 million on the divestitures, subject to customary post-closing adjustments, of which approximately $33 million was reflected in the results for the quarter ended June 30, 2003 as an impairment charge, with the balance to be reflected in the quarter ending September 30, 2003 as a loss on disposal. Beginning in the quarter ending September 30, 2003, the historical results of these two operating units, including the loss related to the divestiture, will be reclassified as discontinued operations in our financial statements.

WebMD Corporation is a Delaware corporation that was incorporated in December 1995 and commenced operations in January 1996 as Healtheon Corporation. Our principal executive offices are located at 669 River Drive, Center 2, Elmwood Park, New Jersey 07407-1361 and our telephone number is (201) 703-3400. Our common stock has traded on the Nasdaq National Market under the symbol HLTH since February 11, 1999.

The Offering

Issuer	WebMD Corporation.
Notes	We issued $300,000,000 aggregate principal amount of 3 1/4% convertible subordinated notes due 2007 in a private placement in April 2002. The selling securityholders identified in this prospectus may offer from time to time up to $212,700,000 of the notes and shares of our common stock issuable upon conversion of the notes.
Interest payment dates	We will pay interest on the notes semi-annually in arrears on April 1 and October 1 of each year, starting on October 1, 2002.
Maturity	The notes will mature on April 1, 2007.
Conversion	The notes are convertible into 107.9564 shares of our common stock, par value $.0001 per share, per $1,000 principal amount of notes, subject to adjustment in certain circumstances. This rate results in an initial conversion price of approximately $9.26 per share. See Description of Notes Conversion Rights.
Ranking	The notes are: unsecured; junior to all of our existing and future senior indebtedness; and structurally subordinated to all existing and future liabilities of our subsidiaries, including trade payables, lease commitments and monies borrowed. As of June 30, 2003, we and our subsidiaries had approximately $390 million of consolidated obligations effectively ranking senior to the notes. The notes rank equal in right of payment to our outstanding 1.75% convertible subordinated notes due June 15, 2023, $350 million principal amount of which are outstanding as of September 1, 2003. The indenture under which the notes were issued does not restrict our or our subsidiaries ability to incur additional senior or other indebtedness. See Description of Notes Subordination of Notes.
Sinking fund	None.
Original issue discount	The notes were sold with original issue discount and you will therefore be required to include amounts in gross income in each taxable year in advance of receipt of a corresponding cash payment on the notes. See Certain U.S. Federal Income Tax Considerations Payment of Interest Original Issue Discount.
Optional redemption	On or after April 5, 2005, we may, at our option, redeem the notes, in whole or in part, at the redemption prices described in this prospectus, plus any accrued and unpaid interest to the redemption date. See Description of Notes Redemption of Notes at Our Option.
Change in control	If we experience a change in control as defined in the indenture, each holder may require us to purchase all or a portion of that holder s notes at 100% of their principal amount, plus any accrued and unpaid interest to the repurchase date. See Description of Notes Holders May Require Us To Purchase Their Notes Upon a Change in Control.

Table of Contents

Use of proceeds	We will not receive any proceeds from the sale by any selling securityholder of the notes or the shares of common stock issuable upon conversion of the notes.
Listing and trading	The notes originally issued in the private placement are eligible for trading on the PORTAL market. However, notes sold pursuant to this prospectus will no longer be eligible for trading on the PORTAL market. We do not intend to list the notes on any national securities exchange. Our common stock is listed on the Nasdaq National Market under the symbol HLTH.
Risk factors	In analyzing an investment in the notes and common stock offered by this prospectus, prospective investors should carefully consider, along with other matters referred to in this prospectus, the information set forth under Risk Factors.

For a more complete description of the terms of the notes, see Description of Notes. For a more complete description of the common stock, see Description of Capital Stock.

Table of Contents

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our consolidated ratio of earnings to fixed charges for each of the periods indicated (in thousands):

	Fiscal years ended December 31,					Six months ended June 30,	
	1998	1999	2000	2001	2002	2002	2003
Coverage Deficiency(1)	$(54,048)	$(287,992)	$(3,080,794)	$(6,669,561)	$(59,704)	$(50,398)	$(31,647)

(1) Earnings were inadequate to cover fixed charges. We needed additional earnings, as indicated by the coverage deficiency for each of the periods presented above, to achieve a ratio of earnings to fixed charges of 1.0x.

RISK FACTORS

This section describes circumstances or events that could have a negative effect on our financial results or operations or that could change, for the worse, existing trends in some or all of our businesses. The occurrence of one or more of the circumstances or events described below could have a material adverse effect on our financial condition, results of operations and cash flows or on the trading prices of the common stock and convertible notes that we have issued. The risks and uncertainties described below are not the only ones facing WebMD. Additional risks and uncertainties that are not currently known to us or that we currently believe are immaterial may also adversely affect our business and operations. You should carefully consider all of the information contained or incorporated by reference in this prospectus before deciding whether to invest in the notes and, in particular, the risks and uncertainties described below.

Risks Related to Our Relationships with Customers and Strategic Partners

WebMD Envoy s transaction volume and financial results could be adversely affected if we do not maintain relationships with practice management system vendors and large submitters of healthcare electronic data interchange, or EDI, transactions

We have developed relationships with practice management system vendors and large submitters of healthcare claims to increase the usage of our WebMD Envoy transaction services. WebMD Medical Manager is a competitor of these practice management system vendors. These vendors, as a result of our ownership of WebMD Medical Manager or for other reasons, may choose in the future to diminish or terminate their relationships with WebMD Envoy. Some other large submitters of claims compete with, or may have significant relationships with entities that compete with, WebMD Envoy or WebMD Health. To the extent that we are not able to maintain mutually satisfactory relationships with the larger practice management system vendors and large submitters of healthcare EDI transactions, WebMD Envoy s transaction volume and financial results could be adversely affected.

WebMD Envoy s transaction volume and financial results could be adversely affected if payers and providers conduct EDI transactions without using a clearinghouse

There can be no assurance that healthcare payers and providers will continue to use WebMD Envoy and other independent companies to transmit healthcare transactions. Some payers currently offer electronic data transmission services to healthcare providers that establish a direct link between the provider and payer, bypassing third-party EDI service providers such as WebMD Envoy. We cannot provide assurance that we will be able to maintain our existing links to payers and providers or develop new connections on satisfactory terms, if at all. The standardization of formats and data standards required by the Health Insurance Portability and Accountability Act of 1996, or HIPAA, may facilitate additional use of direct EDI links, allowing transmission of transactions between a greater number of healthcare payers and providers without use of a clearinghouse. Any significant increase in the utilization of direct links between healthcare providers and payers could have a material adverse effect on WebMD Envoy s transaction volume and financial results.

Loss of a small number of advertisers and sponsors could have a material adverse effect on WebMD Health s revenues

A substantial portion of WebMD Health s revenues come from a relatively small number of advertisers and sponsors. We expect this to continue in the future. Thus, the loss of one or a small number of relationships with advertisers and sponsors or reduction of their purchases could have a material adverse effect on our Portal Services revenues. We may lose such relationships or experience a reduction in purchases if customers decide not to renew their commitments or renew at lower levels, which may occur if we fail to meet our customers expectations or needs or fail to keep up with our competition or for reasons outside our control, including changes in economic and regulatory conditions affecting the healthcare industry or changes specific to the businesses of particular customers. See Risks Related to Providing Products and Services to the Healthcare Industry Developments in the healthcare industry

Table of Contents

could adversely affect our business and Certain Considerations Relating to the Healthcare Industry below.

Third parties may bring claims as a result of the activities of our strategic partners

We could be subject to claims by third parties, and to liability, as a result of the activities, products or services of our strategic partners. We state on our Web sites that we do not control or endorse the products or services of our strategic partners. However, there can be no assurance that the statements made on our Web sites will be found to be sufficient to ensure that we are not held responsible for such activities, products or services. Furthermore, even if these claims do not result in liability to us, investigating and defending these claims could be expensive, time-consuming and result in adverse publicity that could harm our business.

Risks Related to the Performance of Our Healthcare Information Services and Technology Solutions

Our ability to generate revenue could suffer if we do not continue to update and improve our existing products and services and develop new ones

We must introduce new healthcare information services and technology solutions and improve the functionality of our existing products and services in a timely manner in order to retain existing customers and attract new ones. However, we may not be successful in responding to technological developments and changing customer needs. The pace of change in the markets we serve is rapid, and there are frequent new product and service introductions by our competitors and by vendors whose products and services we use in providing our own products and services. If we do not respond successfully to technological changes and evolving industry standards, our products and services may become obsolete. Technological changes may also result in the offering of competitive products and services at lower prices than we are charging for our products and services, which could result in our losing sales unless we lower the prices we charge.

We rely on a combination of internal development, strategic relationships, licensing and acquisitions to develop our products and services. The cost of developing new healthcare information services and technology solutions is inherently difficult to estimate. Our development of proposed products and services may take longer than originally expected, require more testing than originally anticipated and require the acquisition of additional personnel and other resources. In addition, there can be no assurance that the products we develop or license will be able to compete with the alternatives available to our customers. For more information, see Business Healthcare Information Services and Technology Solutions Competition for Our Healthcare Information Services and Technology Solutions in our annual report on Form 10-K for the year ended December 31, 2002.

We have been incurring, and expect to continue to incur, significant expenses relating to implementation of the HIPAA electronic transaction and code sets standards. Implementation of the HIPAA transaction standards requires us, among other things, to make significant changes to the software WebMD Envoy uses internally, to engage in testing with its customers and to implement additional quality assurance processes. If our reprogramming and testing are not completed on a timely basis, we could lose customers and revenues.

New or newly integrated products and services will not become profitable unless they achieve sufficient levels of market acceptance

There can be no assurance that healthcare providers and payers will accept from us new products and services or products and services that result from integrating existing and/or acquired products and services.

Even providers and payers who are already our customers may not purchase new or newly integrated products or services, especially when they are initially offered. Providers using our existing products and services may refuse to adopt new or newly integrated products and services when they have made extensive investments in hardware, software and training relating to those existing products and services. Similarly, other healthcare participants may not accept new or newly integrated products and services that we develop for their use. In addition, there can be no assurance that any pricing strategy that we implement for any such products and services will be economically viable or acceptable to the target markets. Failure to achieve broad penetration in target markets with respect to new or newly integrated products and services could have a material adverse effect on our business prospects.

Achieving market acceptance of new or newly integrated products and services is likely to require significant efforts and expenditures

Achieving market acceptance for new or newly integrated products and services is likely to require substantial marketing efforts and expenditure of significant funds to create awareness and demand by participants in the healthcare industry. In addition, deployment of new or newly integrated products and services may require the use of additional resources for training our existing sales force and customer service personnel and for hiring and training additional salespersons and customer service personnel. There can be no assurance that the revenue opportunities from new or newly integrated products and services will justify amounts spent for their development, marketing and roll-out.

We could be subject to breach of warranty claims if our software products, information technology systems or transmission systems contain errors, experience failures or do not meet customer expectations

We could face breach of warranty or other claims or additional development costs if the software and systems we sell or license to customers or use to provide services contain undetected errors, experience failures, do not perform in accordance with their documentation, or do not meet the expectations that our customers have for them. These software and systems are inherently complex and, despite testing and quality control, we cannot be certain that errors will not be found in prior versions, current versions or future versions or enhancements. In particular, during times when we are making significant changes or improvements to our products and services, such as those required to implement the HIPAA electronic transaction and code set standards, there is increased risk of error.

Undetected errors in the software and systems we provide or those we use to provide services could cause serious problems for which our customers may seek compensation from us. For example, errors in our transaction processing systems can result in healthcare payers paying the wrong amount or making payments to the wrong payee. We attempt to limit, by contract, our liability for damages arising from negligence, errors or mistakes. However, contractual limitations on liability may not be enforceable in certain circumstances or may otherwise not provide sufficient protection to us from liability for damages. Even if these claims do not result in liability to us, investigating and defending against them could be expensive and time consuming and could divert management s attention away from our operations. In addition, negative publicity caused by these events may delay market acceptance of our products and services, including unrelated products and services.

We could be subject to product liability claims if our products malfunction or provide inaccurate information

We provide products and services that assist in healthcare decision-making, including some that relate to patient medical histories and treatment plans. If these products malfunction or fail to provide accurate and timely information, we could be subject to product liability claims. Even if these claims do not result in liability to us, investigating and defending against them could be expensive and time consuming and could divert management s attention away from our operations. In addition, negative publicity caused by these events may delay market acceptance of our products and services, including unrelated products and services.

We attempt to limit, by contract, our liability for damages arising from negligence, errors or mistakes. However, contractual limitations on liability may not be enforceable in certain circumstances or may otherwise not provide sufficient protection to us from liability for damages. We maintain general liability

Table of Contents

insurance coverage, including coverage for errors and omissions. However, it is possible that claims could exceed the amount of our applicable insurance coverage or that this coverage may not continue to be available on acceptable terms or in sufficient amounts.

We could lose customers and revenues if we fail to meet the performance standards in our contracts

Many of our customer contracts contain performance standards. If we fail to meet these standards, our customers may seek to terminate their agreements with us, withhold payments due to us, seek refunds from us of part or all of the fees charged under those agreements or initiate litigation or other dispute resolution procedures. Despite testing and quality control, we cannot be certain that we will meet these performance standards. To the extent we fail to achieve these standards, our revenues and customer relationships could be adversely affected. During times when we are making significant changes or improvements to our products and services, such as those required to implement the HIPAA electronic transaction and code sets standards, there is increased risk of failing to meet these performance standards.

If our systems or the Internet experience security breaches or are otherwise perceived to be insecure, our business could suffer

A security breach could damage our reputation or result in liability. We retain and transmit confidential information, including patient health information, in our processing centers and other facilities. It is critical that these facilities and infrastructure remain secure and be perceived by the marketplace as secure. We may be required to expend significant capital and other resources to protect against security breaches and hackers or to alleviate problems caused by breaches. Despite the implementation of security measures, this infrastructure or other systems that we interface with, including the Internet and related systems, may be vulnerable to physical break-ins, hackers, improper employee or contractor access, computer viruses, programming errors, attacks by third parties or similar disruptive problems. Any compromise of our security, whether as a result of our own systems or systems that they interface with, could reduce demand for our services.

Performance problems with WebMD Envoy s systems or system failures could adversely affect our business

Our payer and provider customer satisfaction and our business could be harmed if WebMD Envoy experiences delays, failures or loss of data in its systems. During times when we are making significant changes or improvements to these systems, such as those required to implement the HIPAA electronic transaction and code sets provisions, there is increased risk of performance problems.

We currently process our payer and provider transactions and data at our facilities and at a data center in Tampa, Florida that is operated by an independent third party. We have contingency plans for emergencies with our systems; however, we have limited backup facilities to process information if these facilities are not functioning. The occurrence of a major catastrophic event or other system failure at any of our facilities or at the third-party facility could interrupt data processing or result in the loss of stored data, which could have a material adverse impact on our business.

WebMD Envoy s ability to provide transaction services depends on services provided by telecommunications companies

WebMD Envoy relies on a limited number of suppliers to provide some of the telecommunications services necessary for its transaction services. The telecommunications industry has been subject to significant changes as a result of changes in technology, regulation and the underlying economy. Recently, many telecommunications companies have experienced financial problems, and some have sought bankruptcy protection. Some of these companies have discontinued telecommunications services for which they had contractual obligations to WebMD Envoy. WebMD Envoy s inability to source telecommunications services at reasonable prices due to a loss of competitive suppliers could affect its ability to maintain

Table of Contents

its margins until it is able to raise its prices to its customers and, if it is not able to raise its prices, could have a material adverse effect on its financial results.

Risks Related to Providing Products and Services to the Healthcare Industry

Developments in the healthcare industry could adversely affect our business

Almost all of the revenues of WebMD Health, WebMD Envoy and WebMD Medical Manager come from customers in various parts of the healthcare industry. In addition, a significant portion of Porex s revenues come from products used in healthcare or related applications. Developments that result in a reduction of expenditures by customers or potential customers in the healthcare industry could have a material adverse effect on our business. General reductions in expenditures by healthcare industry participants could result from, among other things:

- government regulation or private initiatives that affect the manner in which healthcare providers interact with patients, payers or other healthcare industry participants, including changes in pricing or means of delivery of healthcare products and services (for additional discussion of the potential effects of regulatory matters on our business and on participants in the healthcare industry, see Certain Considerations Relating to the Healthcare Industry below);

- consolidation of healthcare industry participants;

- reductions in governmental funding for healthcare; and

- adverse changes in business or economic conditions affecting healthcare payers or providers, pharmaceutical companies, medical device manufacturers or other healthcare industry participants.

Even if general expenditures by industry participants remain the same or increase, developments in the healthcare industry may result in reduced spending on information technology and services or in some or all of the specific segments of that market we serve or are planning to serve. For example, use of our products and services could be affected by:

- changes in the billing patterns of healthcare providers;

- changes in the design of health insurance plans;

- changes in the contracting methods payers use in their relationships with providers; and

- decreases in marketing expenditures by pharmaceutical companies or medical device manufacturers, including as a result of governmental regulation or private initiatives that discourage or prohibit promotional activities by pharmaceutical or medical device companies.

In addition, expectations of our customers regarding pending or potential industry developments may also affect their budgeting processes and spending plans with respect to products and services of the types we provide.

The healthcare industry has changed significantly in recent years and we expect that significant changes will continue to occur. However, the timing and impact of developments in the healthcare industry are difficult to predict. We cannot provide assurance that the markets for our products and services will continue to exist at current levels or that we will have adequate technical, financial and marketing resources to react to changes in those markets.

Government regulation of healthcare and healthcare information technology, including HIPAA, creates risks and challenges with respect to our compliance efforts and our business strategies

General. The healthcare industry is highly regulated and is subject to changing political, regulatory and other influences. These factors affect the purchasing practices and operations of healthcare organizations. Federal and state legislatures and agencies periodically consider programs to reform or revise

Table of Contents

the United States healthcare system. These programs may contain proposals to increase governmental involvement in healthcare, lower reimbursement rates or otherwise change the environment in which healthcare industry participants operate. Healthcare industry participants may respond by reducing their investments or postponing investment decisions, including investments in our applications and services. We are unable to predict future proposals with any certainty or to predict the effect they would have on our business. Existing laws and regulations also could create liability, cause us to incur additional costs or restrict our operations.

Risks Related to the HIPAA Transaction Standards. Under HIPAA, Congress mandated a package of interlocking administrative simplification rules to establish standards and requirements for the electronic transmission of certain health information. The HIPAA transaction standards and code sets rule, which we refer to as the Transaction Standards, establishes format and data content standards for eight of the most common healthcare transactions, using technical standards promulgated by recognized standards publishing organizations. These transactions include healthcare claims, enrollment, payment and eligibility. The effect of the Transaction Standards on our business is difficult to predict and there can be no assurances that we will adequately address the risks created by the Transaction Standards and its implementation or that we will be able to take advantage of any resulting opportunities. In addition, we are unable to predict what changes might be made in the future to the Transaction Standards or how those changes could affect our business.

October 16, 2003 is the deadline for covered entities, including WebMD Envoy, to comply with the Transaction Standards. Failure to comply with the Transaction Standards may subject covered entities to civil monetary penalties. As discussed below in Certain Considerations Relating to the Healthcare Industry Health Insurance Portability and Accountability Act of 1996 HIPAA Transaction Standards, on July 24, 2003, the Centers for Medicare & Medicaid Services, or CMS, released its Guidance on Compliance with HIPAA Transaction and Code Sets After the October 16, 2003 Implementation Deadline (which we refer to as the CMS Guidance). The CMS Guidance makes clear that CMS expects each party to every transaction to be accountable for compliance with the new standards as of October 16, 2003. However, the CMS Guidance provides for a flexible, complaint-driven enforcement strategy. We believe that the CMS Guidance may assist in reducing disruptions in the flow of electronic transactions that otherwise could have occurred. However, one short-term effect of the CMS Guidance and related transition matters may be that, as a result of the extended period of testing and implementation, there could be fewer electronic transactions for us to process in late 2003 than would otherwise have been the case.

We cannot provide assurance regarding how CMS will apply the CMS Guidance to clearinghouses in general or to WebMD Envoy in particular. In addition, even though the CMS Guidance may assist in avoiding major disruptions in the flow of electronic transactions, we expect that there will still be some problems during the period directly before and after October 16, 2003 while healthcare industry participants are adjusting to implementation of the Transaction Standards.

We have been incurring, and expect to continue to incur, significant expenses relating to implementation of the Transaction Standards. The implementation requires us, among other things, to make significant changes to the software WebMD Envoy uses internally, to engage in testing with its customers and to implement additional quality assurance processes. If our reprogramming and testing are not completed on a timely basis, we could lose customers and revenues. We may not have enough technicians, programmers and customer service personnel to meet the demands placed on those functions by our customers and partners during the period directly before and after October 16, 2003, which could adversely affect our relationships with them.

Our ability to perform our transaction services in compliance with HIPAA and the cost to us of doing so will depend on, among other things, the status of the compliance efforts of our payer and provider customers and the extent of the need to adjust our systems and procedures in response to changes in their systems and procedures. We cannot control when or how payers, providers, practice management system vendors or other healthcare participants will comply with the Transaction Standards or predict how their compliance efforts will affect their relationships with us, including the volume of transactions for which they use our services. Some of our customers may delay implementation of HIPAA-ready solutions until near the applicable deadline, which may leave insufficient time to implement our solutions for all who are then seeking them, which could adversely affect our relationships with them. In addition, our technological and strategic responses to HIPAA may result in conflicts with, or other adverse changes in our relationships with, some healthcare industry participants, including some who are existing or potential customers for our products and services or existing or potential strategic partners.

The standardization of formats and data standards required by HIPAA also creates risks for WebMD Envoy by potentially facilitating use of direct EDI links, allowing transmission of transactions between some healthcare payers and providers without use of a clearinghouse. Any significant increase in the utilization of direct links between healthcare providers and payers could have a material adverse effect on WebMD Envoy s transaction volume and financial results.

Risks Related to the HIPAA Privacy Standards. The HIPAA Standards for Privacy of Individually Identifiable Health Information rule, which we refer to as the Privacy Standards, establishes a set of basic national privacy standards and fair information practices for the protection by health plans, healthcare clearinghouses, healthcare providers and their business associates of individually identifiable health information. This rule became effective on April 14, 2001 and the compliance date for most entities was April 14, 2003. The Privacy Standards apply to the portions of our business that process healthcare transactions and provide technical services to other participants in the healthcare industry, and certain of our portal services may be affected through contractual relationships. This rule provides for civil and criminal liability for its breach and requires us, our customers and our partners to use health information in a highly restricted manner, to establish policies and procedures to safeguard the information, to obtain individual authorizations for some activities, and to provide certain access rights to individuals. This rule may require us to incur significant costs to change our products and services, may restrict the manner in which we transmit and use the information, and may adversely affect our ability to generate revenue from the provision of de-identified information to third parties. The effect of the Privacy Standards on our business is difficult to predict and there can be no assurances that we will adequately address the risks created by the Privacy Standards and its implementation or that we will be able to take advantage of any resulting opportunities. In addition, we are unable to predict what changes to the Privacy Standards rule might be made in the future or how those changes could affect our business.

Risks Related to the HIPAA Security Standards. On February 20, 2003, HHS published the final HIPAA security standards regulations, which we refer to as the Security Standards. The Security Standards establish detailed requirements for safeguarding patient information that is electronically transmitted or electronically stored. The Security Standards establish 42 implementation specifications, 20 of which are required, meaning they must be implemented as specified in the rule. Twenty-two are addressable. Complying with addressable implementation specifications requires a business to assess whether these specifications constitute a reasonable and appropriate safeguard for the particular business; if not, an alternative approach must be designed and implemented to achieve the particular standard. The Security Standards apply to the portions of our business that process healthcare transactions, that provide technical services to other participants in the healthcare industry, and that enable electronic communications of patient information among healthcare industry participants, and certain of our portal services may be affected through contractual relationships. Most participants in the healthcare industry must be in compliance with the Security Standards by April 21, 2005. Some of the Security Standards are technical in nature, while others may be addressed through policies and procedures for using information systems. The security rule may require us to incur significant costs in evaluating our products and in establishing that our systems meet the 42 specifications. We are unable to predict what changes might be made to the Security Standards prior to the 2005 implementation deadline or how those changes might help or hinder our business. The effect of the Security Standards on our business is difficult to predict and there can be no assurances that we will adequately address the risks created by the Security Standards and its implementation or that we will be able to take advantage of any resulting opportunities.

Table of Contents

Risks Related to Regulation of Healthcare Relationships. A federal law commonly known as the Federal Healthcare Programs anti-kickback law and several similar state laws prohibit payments that are intended to induce healthcare providers either to refer patients or to acquire or arrange for or recommend the acquisition of healthcare products or services. These laws are broad and may apply to some of our activities or our relationships with our customers, advertisers or strategic partners. Other federal and state laws generally prohibit individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payers that are false or fraudulent, or are for items or services that were not provided as claimed. Since we provide transaction services to healthcare providers, we cannot provide assurance that the government will regard errors in transactions processed by us as inadvertent and not in violation of these laws. Many anti-kickback and false claims laws prescribe civil and criminal penalties for noncompliance that can be substantial. Even an unsuccessful challenge by regulatory authorities of our practices could cause us adverse publicity and be costly for us to respond to.

Risks Related to Regulation of Medical Devices. Certain of Porex s products are medical devices regulated by the Food and Drug Administration, or the FDA, such as plastic and reconstructive surgical implants, intravenous administration sets, blood filters, and tissue expanders. These products are subject to comprehensive government regulation under the Food, Drug and Cosmetic Act and implementing regulations. In addition, the FDA regulates WebMD Medical Manager s DIM$_{Dx}$ System as a medical image management device. If the FDA were to find that we have not complied with required procedures, it can bring a wide variety of enforcement actions that could result in severe civil and criminal sanctions. Porex is also subject to similar regulation in international markets, with similar risks. Future products that we wish to bring to market may require clearances or approvals from governmental authorities, which may be expensive, time-consuming and burdensome to obtain.

For more information regarding healthcare regulation to which we are or may be subject, see Certain Considerations Relating to the Healthcare Industry below.

Risks Related to Our Web Sites and Our Use of the Internet

Government regulation of the Internet could adversely affect our business

The Internet and its associated technologies are subject to government regulation. Our failure, or the failure of our business partners, to accurately anticipate the application of applicable laws and regulations, or any other failure to comply, could create liability for us, result in adverse publicity, or negatively affect our business. In addition, new laws and regulations, or new interpretations of existing laws and regulations, may be adopted with respect to the Internet or other online services covering user privacy, patient confidentiality, consumer protection and other issues, including pricing, content, copyrights and patents, distribution, and characteristics and quality of products and services. We cannot predict whether these laws or regulations will change or how such changes will affect our business. Government regulation of the Internet could limit the effectiveness of the Internet for the methods of healthcare e-commerce that we are providing or developing or even prohibit the sale of particular products and services.

For more information regarding government regulation of the Internet to which we are or may be subject, see Certain Considerations Relating to the Healthcare Industry below.

We face potential liability related to the privacy and security of personal information we collect on our Web sites

Internet user privacy has become a controversial issue both in the United States and abroad. We have privacy policies posted on our consumer portal and our professional portal that we believe comply with applicable laws requiring notice to users about our information collection, use and disclosure practices. However, whether and how existing privacy and consumer protection laws in various jurisdictions apply to the Internet is still uncertain and may take years to resolve. Any legislation or regulation in the area of privacy of personal information could affect the way we operate our Web sites and could harm our business. Further, we can give no assurance that the statements on our portals, or our practices, will be found sufficient to protect us from liability or adverse publicity in this area.

Some of our portal services may, through contractual relationships, be affected by the HIPAA Privacy Standards and Security Standards. See Risks Related to Providing Products and Services to the Healthcare Industry The Health Insurance Portability and Accountability Act of 1996, or HIPAA, creates risks and challenges with respect to our compliance efforts and our business strategies above.

For more information regarding regulation of the collection, use and disclosure of personal information to which we may be subject, see Certain Considerations Relating to the Healthcare Industry below.

We must demonstrate the value of the WebMD Medscape Health Network to advertisers and sponsors in order to generate revenue from it

We generate WebMD Health revenues from advertising and sponsorships on the WebMD Medscape Health Network, with a majority of these revenues coming from a small number of customers. The Internet advertising and sponsorship market is new and continues to evolve, and no standards have been widely accepted to measure its effectiveness as compared to traditional media advertising. We cannot provide assurance that we will be able to continue to generate sufficient advertising or sponsorship revenue from the WebMD Medscape Health Network to operate it profitably.

We sometimes enter into relationships with advertisers and sponsors in which we agree to be compensated based on specific negotiated criteria designed to demonstrate the value of our portal services. The amount of compensation that we receive from such arrangements may be less than we believed it would be at the time of entering into such arrangements and at the time of performing the services.

Implementation of changes in hardware and software platforms used to deliver our Web sites may result in performance problems

From time to time, we implement changes to the hardware and software platforms we use for creating and delivering our Web sites. During and after the implementation of those changes, a platform may not perform as expected, which could result in interruptions in the operation of our Web sites, an increase in response time of those sites or an inability to track performance metrics. Any significant interruption in our ability to operate our Web sites could have an adverse effect on our relationship with users and sponsors and, as a result, on our financial results.

Our Internet-based services rely on third-party service providers

Our Web sites are designed to operate 24 hours a day, seven days a week, without interruption. To do so, we rely on communications and hosting services provided by third parties. We do not maintain redundant systems or facilities for some of these services. To operate without interruption, both we and our service providers must guard against:

- damage from fire, power loss and other natural disasters;
- communications failures;
- software and hardware errors, failures or crashes;
- security breaches, computer viruses and similar disruptive problems; and
- other potential interruptions.

We have experienced periodic system interruptions in the past, and we cannot guarantee that they will not occur again. In addition, our Web sites may, at times, be required to accommodate higher than usual volumes of traffic. At those times, our Web sites may experience slower response times or system failures. Any sustained or repeated interruptions or disruptions in these systems or increase in their response times could result in reduced usage of our Web sites and could damage our relationships with strategic partners, advertisers and sponsors. Although we maintain insurance for our business, we cannot guarantee that our

15

Table of Contents

insurance will be adequate to compensate us for all losses that may occur or to provide for costs associated with business interruptions.

Our Internet-based services are dependent on the development and maintenance of the Internet infrastructure

Our ability to deliver our Internet-based services is dependent on the development and maintenance of the infrastructure of the Internet by third parties. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security, as well as timely development of complementary products such as high-speed modems, for providing reliable Internet access and services. The Internet has experienced, and is likely to continue to experience, significant growth in the number of users and the amount of traffic. If the Internet continues to experience increased usage, the Internet infrastructure may be unable to support the demands placed on it. In addition, the performance of the Internet may be harmed by increased usage.

The Internet has experienced a variety of outages and other delays as a result of damages to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage, as well as the availability of the Internet to us for delivery of our Internet-based services. In addition, our customers who utilize our Web-based services depend on Internet service providers, online service providers and other Web site operators for access to our Web site. All of these providers have experienced significant outages in the past and could experience outages, delays and other difficulties in the future due to system failures unrelated to our systems. Any significant interruptions in our services or increases in response time could result in a loss of potential or existing users of and advertisers and sponsors on our Web site and, if sustained or repeated, could reduce the attractiveness of our services.

Third parties may challenge the enforceability of our online agreements

The law governing the validity and enforceability of online agreements and other electronic transactions is evolving. We could be subject to claims by third parties that our online agreements with consumers and physicians that provide the terms and conditions for use of our portal services are unenforceable. A finding by a court that these agreements are invalid could harm our business and require costly changes to our portals.

Third parties may bring claims against us as a result of content provided on our Web site, which may be expensive and time consuming to defend

We could be subject to third-party claims based on the nature and content of information supplied on our Web sites by us or third parties, including content providers, medical advisors or users. We could also be subject to liability for content that may be accessible through our Web sites or third-party Web sites linked from our Web sites or through content and information that may be posted by users in chat rooms, bulletin boards or on Web sites created by professionals using our Web site application. Even if these claims do not result in liability to us, investigating and defending against these claims could be expensive and time consuming and could divert management s attention away from our operations.

Risks Related to Porex s Business and Industry

Porex s success depends upon demand for its products, which in some cases ultimately depends upon end-user demand for the products of its customers

Demand for our Porex products may change materially as a result of economic or market conditions and other trends that affect the industries in which Porex participates. In addition, because a significant portion of our Porex products are components that are eventually integrated into or used with products manufactured by customers for resale to end-users, the demand for these product components is dependent

Table of Contents

on product development cycles and marketing efforts of these other manufacturers, as well as variations in their inventory levels, which are factors that we are unable to control. Accordingly, the amount of Porex s sales to manufacturer customers can be difficult to predict and subject to wide quarter-to-quarter variances.

Porex s success may depend upon satisfying rapidly changing customer requirements

A significant portion of our Porex products are integrated into end products used in various industries, some of which are characterized by rapidly changing technology, evolving industry standards and practices and frequent new product introductions. Accordingly, Porex s success will depend to a substantial degree on our ability to develop and introduce in a timely manner products that meet changing customer requirements and to differentiate our offerings from those of our competitors. If we do not introduce new Porex products in a timely manner and make enhancements to existing products to meet the changing needs of our Porex customers, some of our products could become obsolete over time, in which case our customer relationships, revenue and operating results would be negatively impacted.

Potential new or enhanced Porex products may not achieve sufficient sales to be profitable or justify the cost of their development

We cannot be certain, when we engage in Porex research and development activities, whether potential new products or product enhancements will be accepted by the customers for which they are intended. Achieving market acceptance for new or enhanced products may require substantial marketing efforts and expenditure of significant funds to create awareness and demand by potential customers. In addition, sales and marketing efforts with respect to these products may require the use of additional resources for training our existing Porex sales forces and customer service personnel and for hiring and training additional salespersons and customer service personnel. There can be no assurance that the revenue opportunities from new or enhanced products will justify amounts spent for their development and marketing. In addition, there can be no assurance that any pricing strategy that we implement for any new or enhanced Porex products will be economically viable or acceptable to the target markets.

Porex may not be able to source the raw materials it needs or may have to pay more for those raw materials

Some of Porex s products require high-grade plastic resins with specific properties as raw materials. While Porex has not experienced any material difficulty in obtaining adequate supplies of high-grade plastic resins that meet its requirements, it relies on a limited number of sources for some of these plastic resins. If Porex experiences a reduction or interruption in supply from these sources, it may not b>***If the Company s common stock is de-listed from the NYSE MKT, 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 the Company s common stock to be eligible to continue to be listed on the NYSE MKT, the Company must meet the current NYSE MKT continued listing requirements, including satisfying the Audit Committee composition requirements and the timely filing of periodic reports with the Securities and Exchange Commission. If the Company is unable to continue to meet these requirements, its common stock could be de-listed from the NYSE MKT. If the Company s common stock were to be de-listed from the NYSE MKT, its 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 the Company s common stock could have an adverse effect on the market price of, and the efficiency of the trading market for its 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 the Company by securities analysts, if any. It also could have an adverse effect on the Company s ability to raise capital in the public or private equity markets if the Company were to determine that it needs to seek additional equity capital in the future.

Table of Contents

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 the Company s beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions, and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond the Company s control, and which may cause its 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 the use of words such as may, will, can, anticipate, assume, should, indicate, would, believe, contemplate, expect, seek, estimate 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 impact, if any, on the Company s business, financial condition and results of operation arising from the appointment of the Provisional Liquidators over Grande see Item 1A Risk Factors Business Related Risks Uncertain Impact of Appointment of Provisional Liquidators for Grande, Emerson s Controlling Shareholder ;
- the decline in, and any further deterioration of, consumer spending for retail products, such as the Company s products;
- the Company s inability to resist price increases from its suppliers or pass through such increases to its customers;
- the loss of any of the Company s key customers or reduction in the purchase of the Company s products by any such customers;
- conflicts of interest that exist based on the Company s relationship with Grande;
- the Company s inability to improve and maintain effective internal controls or the failure by its personnel to comply with such internal controls;
- the Company s inability to maintain its relationships with its licensees and distributors or the failure to obtain new licensees or distribution relationships on favorable terms;
- the Company s inability to anticipate market trends, enhance existing products or achieve market acceptance of new products;
- the Company s dependence on a limited number of suppliers for its components and raw materials;
- the Company s dependence on third party manufacturers to manufacture and deliver its products;
- changes in consumer spending and economic conditions;

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

the Company s inability to protect its intellectual property;

the effects of competition;

changes in foreign laws and regulations and changes in the political and economic conditions in the foreign countries in which the Company operates;

changes in accounting policies, rules and practices;

limited access to financing or increased cost of financing; and

the other factors listed under Risk Factors in this Annual Report on Form 10-K and other filings with the SEC.

Table of Contents

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. The reader is cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this annual report or the date of the document incorporated by reference into this annual report. The Company has 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. The Company has expressed its expectations, beliefs and projections in good faith and the Company believes they have a reasonable basis. However, the Company cannot assure the reader that its expectations, beliefs or projections will result or be achieved or accomplished.

Item 2. ***PROPERTIES***

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

Facility Purpose	Approximate Square Footage	Location	Lease Expires (If Leased Property)
Corporate headquarters	5,541	Hackensack, NJ	May 2015
New York office*	3,032	New York, NY	July 2012
Hong Kong office	17,056	Hong Kong, China	December 2013
Macao office	1,285	Macao, China	May 2014
Warehouse	180,650	Mira Loma, CA	September 2013

* The Company s leased office space in New York City is currently not occupied by the Company and has been subleased to a third party until the end of the lease term in July 2012.

Periodically, depending on need and circumstances, the Company may 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.

The Company believes that the properties used for its operations are in satisfactory condition and adequate for its present and anticipated future operations.

Item 3. ***LEGAL PROCEEDINGS***

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

Other. Except for the litigation 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. Management cannot estimate with certainty the Company s ultimate legal and financial liability with respect to such pending litigation matters. However, management believes, based on our examination of such matters, that the Company s ultimate liability will not have a material adverse effect on the Company s financial position, results of operations or cash flows.

Item 4. ***Removed and reserved***

17

Table of Contents

PART II

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

(a) Market Information

The Company s common stock began trading on the American Stock Exchange under the symbol MSN on December 22, 1994, and currently trades on the NYSE MKT under the same symbol, as a result of NYSE Euronext s acquisition of the American Stock Exchange in 2008. The following table sets forth the range of high and low sales prices for the Company s common stock as reported by the NYSE MKT during the last two fiscal years.

	Fiscal 2012		Fiscal 2011	
	High	**Low**	**High**	**Low**
First Quarter	$ 2.56	$ 1.80	$ 2.41	$ 1.52
Second Quarter	2.03	1.48	2.84	1.57
Third Quarter	1.74	1.35	2.26	1.85
Fourth Quarter	2.09	1.61	2.96	1.97

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

(b) Holders

At June 7, 2012, there were approximately 255 stockholders of the Company s common stock whose shares were registered with the Company s transfer agent. The Company believes that the number of beneficial owners is substantially greater than the number of registered shareholders, because a large portion of the Company s common stock is held of record in broker street names .

(c) Dividends

Other than the one-time extraordinary dividend of $1.10 per common share paid by the Company on March 24, 2010, the Company has not paid cash dividends on its common stock.

Item 6. ***SELECTED CONSOLIDATED FINANCIAL DATA***

Not applicable.

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

The following discussion of the Company s operations and financial condition should be read in conjunction with the Financial Statements and notes thereto included elsewhere in this 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.

18

Table of Contents

Results of Operations:

The following table summarizes certain financial information for the fiscal years ended March 31 (in thousands):

	2012	2011
Net product sales	$ 156,975	$ 193,530
Licensing revenue	6,276	7,311
Net revenues	163,251	200,841
Cost of sales	142,270	172,917
Other operating costs and expenses	1,352	1,636
Selling, general and administrative	7,764	7,383
Operating income	11,865	18,905
Gain on settlement of litigation		1,806
Realized gain on sale of marketable securities	828	966
Gain on sale of building	347	
Interest income, net	70	32
Income before income taxes	13,110	21,709
Provision for income taxes	2,476	5,791
Net income	$ 10,634	$ 15,918

Results of Operations Fiscal 2012 compared with Fiscal 2011

Net product sales Net product sales for fiscal 2012 were $157.0 million as compared to $193.5 million for fiscal 2011, a decrease of $36.5 million, or 18.9%. The Company s sales during fiscal 2012 and 2011 were highly concentrated among the Company s two largest customers, where gross product sales comprised approximately 90.3% and 90.5%, respectively, of the Company s total gross product sales. Net product sales may be periodically impacted by adjustments made to the Company s sales allowance and marketing support accrual to record unanticipated customer deductions from accounts receivable or to reduce the accrual by any amounts which were accrued in the past but not taken by customers through deductions from accounts receivable within a certain time period. In the aggregate, these adjustments had the effect of increasing net product sales and operating income by $1.0 million and $0.7 million for fiscal 2012 and fiscal 2011, respectively.

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

i) Houseware product net sales decreased $31.6 million, or 17.7%, to $146.4 million in fiscal 2012 as compared to $178.0 million in fiscal 2011, on decreased net sales of microwave ovens, which resulted from the discontinuation of one model by one of the Company s largest retail customers beginning in December 2010, toaster ovens, wine coolers and coffee makers, partially offset by increased net sales of compact refrigerators; and

ii) Audio product net sales were $10.6 million in fiscal 2012 compared to $15.6 million in fiscal 2011, a decrease of $5.0 million, or 32.2%, resulting from decreased net sales of the Company s portable audio and clock radio product offerings.

Licensing revenue Licensing revenue in fiscal 2012 was $6.3 million as compared to $7.3 million for fiscal 2011, a decrease of $1.0 million, or 14.2%, due to lower year-over-year sales by the Company s licensees of branded products under license from the Company and fewer active licensees during fiscal 2012 as compared to fiscal 2011. The Company s largest license agreement is with Funai Corporation, Inc. (Funai), which accounts for approximately 75% of the Company s total licensing revenue, and which expires December 31, 2012 unless renewed. The agreement provides that Funai will manufacture, market, sell and distribute specified products bearing the Emerson® trademark to customers in the U.S. and Canadian markets. Under the terms of the agreement, the Company receives non-refundable minimum annual royalty payments of $3.75 million each calendar year and a license fee on sales of product subject to the agreement in excess of the minimum annual royalties. During fiscal 2012 and 2011, revenues of $4.7 million and $5.3 million, respectively, were earned under this agreement.

Net revenues As a result of the foregoing factors, the Company s net revenues were $163.3 million for fiscal 2012 as compared to $200.8 million for fiscal 2011, a decrease of 37.5 million, or 18.7%.

Table of Contents

Cost of sales Cost of sales includes those components as described in Note 1 *Cost of Sales* of the Notes to the Consolidated Financial Statements. In absolute terms, cost of sales decreased $30.6 million, or 17.7%, to $142.3 million in fiscal 2012 as compared to $172.9 million in fiscal 2011. Cost of sales, as a percentage of net revenues, was 87.1% in fiscal 2012 as compared to 86.1% in fiscal 2011. Cost of sales as a percentage of net product sales was 90.6% in fiscal 2012 as compared to 89.4% in fiscal 2011. The decrease in absolute terms for fiscal 2012 as compared to fiscal 2011 was primarily related to the reduced net product sales and a year-over-year reduction in the inventory valuation reserve, partially offset by higher inventory writedowns and higher quality control costs.

Other operating costs and expenses Other operating costs and expenses include those components as described in Note 1 *Other Operating Costs and Expenses* of the Notes to the Consolidated Financial Statements. Other operating costs and expenses as a percentage of net revenues were 0.8% in both fiscal 2012 and fiscal 2011. In absolute terms, other operating costs and expenses decreased $0.2 million, or 17.4%, to $1.4 million for fiscal 2012 as compared to $1.6 million in fiscal 2011 resulting from lower warranty and returns processing costs.

Selling, general and administrative expenses (S,G&A) S,G&A, as a percentage of net revenues, was 4.8% in fiscal 2012 as compared to 3.7% in fiscal 2011. S,G&A, in absolute terms, increased $0.4 million, or 5.2%, to $7.8 million in fiscal 2012 as compared to $7.4 million in fiscal 2011. The increase in S,G&A in absolute terms between fiscal 2012 and fiscal 2011 was primarily due to an increase in legal fees of $0.7 million and a reduced benefit in bad debt recoveries of $0.3 million, partially offset by a decrease in compensation costs of $0.6 million.

Gain on settlement of litigation In fiscal 2012, the Company recorded nil as compared to a net gain of $1.8 million in fiscal 2011 due to the favorable judgment to the Company in that year on the settlement of a shareholder derivative action.

Realized gain on sale of marketable securities In fiscal 2012, the Company realized a gain of $0.8 million from the sale of its last remaining auction rate security with a face value of $5.0 million as compared to a realized gain of $1.0 million from the sale of a $3.1 million face value auction rate security during fiscal 2011. See Note 11 Marketable Securities .

Gain on sale of building In fiscal 2012, the Company sold its former headquarter office building in New Jersey and realized a gain of $0.3 million on the sale. The Company currently rents office space to serve as its headquarters.

Interest income, net Interest income, net, was $70,000 in fiscal 2012 as compared to $32,000 in fiscal 2011.

Provision for income taxes In fiscal 2012 and fiscal 2011, the Company recorded income tax expense of $2.5 and $5.8 million, respectively. See Item 8 Financial Statements and Supplementary Data and Note 7 Income Taxes .

Net income As a result of the foregoing factors, the Company s net income was $10.6 million for fiscal 2012 as compared to net income of $15.9 million for fiscal 2011.

Table of Contents

Liquidity and Capital Resources

General

As of March 31, 2012, the Company had cash and cash equivalents of approximately $45.0 million as compared to approximately $39.8 million at March 31, 2011. Working capital increased to $64.4 million at March 31, 2012 as compared to $51.0 million at March 31, 2011. The increase in cash and cash equivalents of approximately $5.2 million was due to the below factors.

Net cash used by operating activities was approximately $0.2 million for fiscal 2012, primarily resulting from the net income of $10.6 million and a reduction in deferred tax assets of $1.4 million, partially offset by reductions in accounts payable and other current liabilities of $5.3 million, decreases in asset allowances of $2.6 million, increases in prepaid expenses and other current assets of $2.3 million, an increase in inventory of $0.8 million, and an increase in accounts receivable of $0.6 million.

Net cash provided by investing activities was $7.8 million for fiscal 2012, primarily due to the sale by the Company in May 2011 of its last remaining auction rate security (see Note 11   Marketable Securities), and the sale of its headquarters building in December 2011.

Net cash used by financing activities was $2.5 million for fiscal 2012, resulting from the $2.5 million payoff of the Company s short term loan upon the sale by the Company in May 2011 of its last remaining auction rate security (see Note 11   Marketable Securities).

Other Events and Circumstances Pertaining to Liquidity

On May 31, 2011, upon application of a major creditor, the High Court of Hong Kong appointed Provisional Liquidators over Grande, which is the Company s controlling stockholder. Following the appointment of the Provisional Liquidators over Grande, certain major factory suppliers, including Midea, have significantly reduced the maximum amount of open credit lines available to the Company. At the factories request, the Company made accelerated payments in June and July of 2011 to reduce the balances owing from the Company on its open trade payable accounts with the respective factory suppliers to comply with such new credit terms. The Company relies on its cash on hand and cash generated by ongoing operations to manage its business.

Commercial Credit

The Company utilizes the services of one of its banks to issue secured letters of credit on behalf of the Company, as needed, on a 100% cash collateralized basis. At March 31, 2012 the Company had approximately $0.2 million of letters of credit outstanding. The Company anticipates that its cash on hand and cash flow generated from operations will provide sufficient liquidity to meet the Company s operating requirements in the year ahead.

Short-term Liquidity

In fiscal 2012, products representing approximately 41% of net sales were imported directly to the Company s customers. The direct importation of product by the Company to its customers significantly benefits the Company s liquidity because this inventory does not need to be financed by the Company.

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

As of March 31, 2012, there were no capital expenditure or other commitments other than the normal purchase orders used to secure product.

Table of Contents

Off-Balance Sheet Arrangements

On April 7, 2010, upon a request made to the Company by its foreign controlling stockholder, S&T, the Company entered into an agreement with S&T whereby the Company returned to S&T on April 7, 2010 that portion of the taxes that the Company had withheld from the dividend paid on March 24, 2010 to S&T, as the Company believes the dividend paid is not subject to U.S. tax based on the Company s good-faith estimate of its accumulated earnings and profits, and received collateral (in the form of shares in the Company) which was sufficient to cover any claims for taxes on the dividend paid (the Agreement). The Company believes this transaction resulted in an off-balance sheet arrangement, which is comprised of a possible contingent tax liability of the Company, which, if recognized, would be offset by the calling by the Company on S&T of the indemnification provisions of the Agreement. In February 2011, upon the request of S&T to the Company, the Company and S&T agreed the collateral pledged as a part of the Agreement would no longer be required and this collateral was returned by the Company to S&T in March 2011 (see Note 3 Related Party Transactions).

Critical Accounting Policies

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

Revenue Recognition. Revenues from product distribution 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 the goods are defective.

In addition to the distribution of products, the Company grants licenses for the right to use the Company s trademarks for a stated term for the manufacture and/or sale of consumer electronics and other products under agreements which require payment of either i) a non-refundable minimum guaranteed royalty or, ii) the greater of the actual royalties due (based on a contractual calculation, normally comprised of actual product sales by the licensee multiplied by a stated royalty rate, or Sales Royalties) or a minimum guaranteed royalty amount. In the case of (i), such amounts are recognized as revenue on a straight-line basis over the term of the license agreement. In the case of (ii), Sales Royalties in excess of guaranteed minimums are accounted for as variable fees and are not recognized as revenue until the Company has ascertained that the licensee s sales of products have exceeded the guaranteed minimum. In effect, the Company recognizes the greater of Sales Royalties earned to date or the straight-line amount of minimum guaranteed royalties to date. In the case where a royalty is paid to the Company in advance, the royalty payment is initially recorded as a liability and recognized as revenue as the royalties are deemed to be earned according to the principles outlined above.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out basis. The Company records 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. The Company extends credit based upon evaluations of a customer s financial condition and provides for any anticipated credit losses in the Company s financial statements based upon management s estimates and ongoing reviews of recorded allowances. If the financial condition of a customer deteriorates, resulting in an impairment of that customer s ability to make payments, additional reserves may be required. Conversely, reserves are reduced to reflect credit and collection improvements.

Table of Contents

Income Taxes. The Company records a valuation allowance to reduce the amount of its deferred tax assets to the amount that management estimates is more likely than not to be realized. While management considers future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance, in the event that management determines that a deferred tax asset will likely be realized 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 is determined that all or part of a net deferred tax asset will likely not be realized 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. 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. Additional reserves may be required if actual sales returns increase above the historical return rates. 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 the reserve.

Sales Allowance and Marketing Support Accruals. Sales allowances, marketing support programs, promotions and other volume-based incentives which are provided to retailers and distributors are accounted for on an accrual basis as a reduction to net revenues in the period in which the related sales are recognized in accordance with ASC topic 605, Revenue Recognition , subtopic 50 Customer Payments and Incentives and Securities and Exchange Commission Staff Accounting Bulletins 101 Revenue Recognition in Financial Statements, and 104 Revenue Recognition, corrected copy (SAB s 101 and 104).

At the time of sale, the Company reduces recognized gross revenue by allowances to cover, in addition to estimated sales returns as required by ASC topic 605, Revenue Recognition. , subtopic 15 Products , (i) sales incentives offered to customers that meet the criteria for accrual under ASC topic 605, subtopic 50 and (ii) under SAB s 101 and 104, an estimated amount to recognize additional non-offered deductions it anticipates and can reasonably estimate will be taken by customers which it does not expect to recover. Accruals for the estimated amount of future non-offered deductions are required to be made as contra-revenue items because that percentage of shipped revenue fails to meet the collectability criteria within SAB 104 s and 101 s four revenue recognition criteria, all of which are required to be met in order to recognize revenue.

If additional marketing support programs, promotions and other volume-based incentives are required to promote the Company s products subsequent to the initial sale, then additional reserves may be required and are accrued for when such support is offered.

Recently-Issued Financial Accounting Pronouncements

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board during the twelve months ended March 31, 2012 which relate to or could relate to the Company as concerns the Company s normal ongoing operations or the industry in which the Company operates:

Accounting Standards Update 2011-02, Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring (Issued April 2011)

The amendments in this Update would provide additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring. For Public Entities, the amendments in this Update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption.

Accounting Standards Update 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (Issued May 2011)

The amendments in this Update generally represent clarifications of Topic 820 Fair Measurement and Disclosures, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This Update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted.

23

Table of Contents

Accounting Standards Update 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (Issued June 2011)

The amendments in this Update require that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income.

The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. The Company has not chosen to early adopt the provisions of this Update.

Accounting Standards Update 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment (Issued September 2011)

The objective of this Update is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent.

The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The Company has not chosen to early adopt the provisions of this Update. The Company has no goodwill on its books.

Accounting Standards Update 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (Issued December 2011)

In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. The amendments are being made to allow the Board time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the Board is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05.

All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The amendments in this Update are effective at the same time as the amendments in Update 2011-05 so that entities will not be required to comply with the presentation requirements in Update 2011-05 that this Update is deferring. For this reason, the transition guidance in paragraph 220-10-65-2 is consistent with that for Update 2011-05. The amendments in this Update are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011.

Item 7A. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***
Not applicable.

Table of Contents

Item 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***
Index to Consolidated Financial Statements

25

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

of Emerson Radio Corp and Subsidiaries

We have audited the accompanying consolidated balance sheets of Emerson Radio Corp. and Subsidiaries (the Company), as of March 31, 2012 and 2011, and the related consolidated statements of operations, changes in shareholders equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements 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. 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. 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, 2012 and 2011, and the consolidated results of their operations, and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ **MSPC**
Certified Public Accountants

and Advisors, A Professional Corporation

Cranford, New Jersey

July 13, 2012

Table of Contents

EMERSON RADIO CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For The Years Ended March 31, 2012 and 2011

	2012	2011
	(In thousands, except per share data)	
Net revenues:		
Net product sales	$ 156,975	$ 193,530
Licensing revenue	6,276	7,311
Net revenues	163,251	200,841
Costs and expenses:		
Cost of sales	142,270	172,917
Other operating costs and expenses	1,352	1,636
Selling, general and administrative expenses	7,764	7,383
	151,386	181,936
Operating income	11,865	18,905
Other income:		
Gain on settlement of litigation		1,806
Realized gain on sale of marketable securities	828	966
Gain on sale of building	347	
Interest income, net	70	32
	1,245	2,804
Income before income taxes	13,110	21,709
Provision for income taxes	2,476	5,791
Net income	10,634	15,918
Basic net income per share	$ .39	$ .59
Diluted net income per share	$ .39	$ .59
Weighted average shares outstanding		
Basic	27,130	27,130
Diluted	27,130	27,130

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

Table of Contents

EMERSON RADIO CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of March 31, 2012 and 2011

	2012	2011
	(In thousands, except share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 44,960	$ 39,796
Restricted cash	215	600
Accounts receivable, net	12,134	10,929
Other receivables	1,193	1,413
Due from affiliates	1	
Inventory, net	11,269	8,515
Prepaid expenses and other current assets	2,873	549
Investments in marketable securities		4,725
Deferred tax assets	2,304	2,825
Total Current Assets	74,949	69,352
Property, plant, and equipment, net	260	2,921
Trademarks, net	1,545	1,545
Deferred tax assets	1,668	2,540
Other assets	262	358
Total Assets	$ 78,684	$ 76,716
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Short-term borrowings	$	$ 2,466
Current maturities of long-term borrowings	64	46
Accounts payable and other current liabilities	9,152	14,408
Due to affiliates	11	2
Accrued sales returns	1,201	1,199
Income taxes payable	107	196
Total Current Liabilities	10,535	18,317
Long-term borrowings	72	150
Deferred tax liabilities	177	158
Shareholders Equity:		
Preferred shares 10,000,000 shares authorized; 3,677 shares issued and outstanding; liquidation preference of $3,677,000	3,310	3,310
Common shares $0.01 par value, 75,000,000 shares authorized; 52,965,797 shares issued at March 31, 2012 and March 31, 2011, respectively; 27,129,832 shares outstanding at March 31, 2012 and March 31, 2011, respectively	529	529
Capital in excess of par value	98,785	98,785
Accumulated other comprehensive (losses) income	(82)	746
Accumulated deficit	(10,418)	(21,055)
Treasury stock, at cost, 25,835,965 shares	(24,224)	(24,224)
Total Shareholders Equity	67,900	58,091
Total Liabilities and Shareholders Equity	$ 78,684	$ 76,716

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

Table of Contents

EMERSON RADIO CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

For The Years Ended March 31, 2012 and 2011

	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
				(In thousands, except share data)				
Balance March 31, 2010	$ 3,310	52,965,797	$ 529	$ (24,224)	$ 98,785	$ (82)	$ (36,976)	$ 41,342
Unrealized gain on securities						828		828
Comprehensive income:								
Net income							15,921	15,921
Comprehensive income								16,749
Balance March 31, 2011	$ 3,310	52,965,797	$ 529	$ (24,224)	$ 98,785	$ 746	$ (21,055)	$ 58,091
Unrealized gain on securities						(828)		(828)
Comprehensive income:								
Net income							10,637	10,637
Comprehensive income								9,809
Balance March 31, 2012	$ 3,310	52,965,797	$ 529	$ (24,224)	$ 98,785	$ (82)	$ (10,418)	$ 67,900

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

29

Table of Contents

EMERSON RADIO CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Years Ended March 31, 2012 and 2011

	2012	2011
	(In thousands)	
Cash Flows from Operating Activities:		
Net Income	$ 10,634	$ 15,918
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation and amortization	276	502
Deferred tax benefit	1,412	4,645
Asset allowances, reserves, and other	(2,622)	(287)
Gain on sale of building	(347)	
Gain on sale of investment	(828)	(966)
Changes in assets and liabilities:		
Accounts receivable	(577)	10,272
Other receivables	220	(376)
Due from affiliates	(1)	185
Inventories	(755)	2,118
Prepaid expenses and other current assets	(2,324)	187
Other assets	96	(153)
Accounts payable and other current liabilities	(5,256)	(6,368)
Due to affiliates	9	(26)
Income taxes payable	(89)	22
Net cash (used) provided by operating activities	(152)	25,673
Cash Flow From Investing Activities:		
Proceeds from sale of marketable securities	4,725	3,100
Restricted cash	385	(599)
Additions to property and equipment	(57)	(231)
Disposals of property and equipment	2,789	
Net cash provided by investing activities	7,842	2,270
Cash Flows from Financing Activities:		
Repayments of short-term borrowings	(2,448)	(3,147)
Net decrease in capital lease and other rental obligations	(78)	(51)
Borrowings under long-term credit facility		88,162
Repayments of borrowings under long-term credit facility		(88,162)
Net cash used by financing activities	(2,526)	(3,198)
Net increase in cash and cash equivalents	5,164	24,745
Cash and cash equivalents at beginning of year	39,796	15,051
Cash and cash equivalents at end of year	$ 44,960	$ 39,796
Supplemental disclosures of non-cash investing and financing activities:		
Interest	$ 23	$ 103
Income taxes	$ 1,942	$ 704

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

EMERSON RADIO CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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), and its subsidiaries. The Company designs, sources, imports and markets a variety of houseware and consumer electronic products, and licenses the Emerson trademark for a variety of products domestically and internationally.

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

Highly liquid 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 the short-term maturity of these financial instruments. The carrying amounts of bank debt approximate their fair values due to their variable rate interest features.

Investments

The Company determines the appropriate classifications of securities at the time of purchase and evaluates the continuing appropriateness of that classification thereafter. Realized gains and losses are determined on a specific identification basis and are reported separately as a component of income. Decreases and increases 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 amounts due from retailers and distributors from sales to them 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 doubtful accounts was $326,000 at March 31, 2012 and $455,000 at March 31, 2011.

The Company maintains its cash accounts with major U.S. and foreign financial institutions. The total cash balances on deposit in the U.S. which are insured by the Federal Deposit Insurance Corporation (FDIC) are currently and were insured by the FDIC up to $250,000 per bank as of March 31, 2012 and March 31, 2011 for interest-bearing accounts. Non-interest bearing accounts became insured by the FDIC with no limit, starting December 31, 2010 and are currently scheduled to remain so through December 31, 2012. The Company s cash balances in excess of FDIC-insured limits were approximately $38.1 million and approximately $2.3 million at March 31, 2012 and March 31, 2011, respectively.

Long-Lived Assets

The Company s long-lived assets include property and equipment and trademarks. At March 31, 2012, the Company had approximately $260,000 of property and equipment, net of accumulated depreciation, and approximately $1,545,000 of trademarks, net of accumulated amortization, accounting for approximately 2% 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 ASC Topics 350 Intangibles and 360 Property, Plant and Equipment . The recoverability of assets held and used is measured by a comparison of the carrying amount of the asset to the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. 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.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets being depreciated. 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.

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

Machinery and Equipment	Three years to seven years
Furniture & Fixtures	Seven years
Leasehold Improvements	Straight-line basis over the shorter of the useful life of the improvement or the term of the lease

Revenue Recognition

Distribution of products

Revenues from product distribution 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 future expected returns are based upon historical return rates and netted against revenues.

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 the Company s 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. Additional reserves may be required if actual sales returns increase above the historical return rates. 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 the reserve.

Sales allowances, marketing support programs, promotions and other volume-based incentives which are provided to retailers and distributors are accounted for on an accrual basis as a reduction to net revenues in the period in which the related sales are recognized in accordance with ASC topic 605, Revenue Recognition. , subtopic 50 Customer Payments and Incentives and Securities and Exchange Commission Staff Accounting Bulletins 101 Revenue Recognition in Financial Statements, and 104 Revenue Recognition, corrected copy (SAB s 101 and 104).

32

Table of Contents

At the time of sale, the Company reduces recognized gross revenue by allowances to cover, in addition to estimated sales returns as required by ASC topic 605, Revenue Recognition , subtopic 15 Products , (i) sales incentives offered to customers that meet the criteria for accrual under ASC topic 605, subtopic 50 and (ii) under SAB s 101 and 104, an estimated amount to recognize additional non-offered deductions it anticipates and can reasonably estimate will be taken by customers which it does not expect to recover. Accruals for the estimated amount of future non-offered deductions are required to be made as contra-revenue items because that percentage of shipped revenue fails to meet the collectability criteria within SAB 104 s and 101 s four revenue recognition criteria, all of which are required to be met in order to recognize revenue.

If additional marketing support programs, promotions and other volume-based incentives are required to promote the Company s products subsequent to the initial sale, then additional reserves may be required and are accrued for when such support is offered.

Licensing

In addition to the distribution of products, the Company grants licenses for the right to use the Company s trademarks for a stated term for the manufacture and/or sale of consumer electronics and other products under agreements which require payment of either i) a non-refundable minimum guaranteed royalty or, ii) the greater of the actual royalties due (based on a contractual calculation, normally comprised of actual product sales by the licensee multiplied by a stated royalty rate, or Sales Royalties) or a minimum guaranteed royalty amount. In the case of (i), such amounts are recognized as revenue on a straight-line basis over the term of the license agreement. In the case of (ii), Sales Royalties in excess of guaranteed minimums are accounted for as variable fees and are not recognized as revenue until the Company has ascertained that the licensee s sales of products have exceeded the guaranteed minimum. In effect, the Company recognizes the greater of Sales Royalties earned to date or the straight-line amount of minimum guaranteed royalties to date. In the case where a royalty is paid to the Company in advance, the royalty payment is initially recorded as a liability and recognized as revenue as the royalties are deemed to be earned according to the principles outlined above.

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 those selling, general and administrative expenses that are directly related to these activities.

Other Operating Costs and Expenses

Other operating costs and expenses include costs associated with returned product received from retailers, warranty costs, warehouse supply expenses, and an allocation of those selling, general and administrative expenses that are directly related to these activities. Because other operating costs and expenses is not included in cost of sales, the reported 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.

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.

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 and there were no foreign exchange forward contracts held by the Company at March 31, 2012 or March 31, 2011.

Table of Contents

Advertising Expenses

Advertising expenses are charged against earnings as incurred and are included in selling, general and administrative expenses. The Company incurred no advertising expenses during fiscal 2012 or fiscal 2011.

Sales Allowance and Marketing Support Expenses

Sales allowances, marketing support programs, promotions and other volume-based incentives which are provided to retailers and distributors are accounted for on an accrual basis as a reduction to net revenues in the period in which the related sales are recognized in accordance with ASC topic 605, Revenue Recognition. , subtopic 50 Customer Payments and Incentives and Securities and Exchange Commission Staff Accounting Bulletins 101 Revenue Recognition in Financial Statements, and 104 Revenue Recognition, corrected copy (SAB s 101 and 104).

At the time of sale, the Company reduces recognized gross revenue by allowances to cover, in addition to estimated sales returns as required by ASC topic 605, Revenue Recognition , subtopic 15 Products , (i) sales incentives offered to customers that meet the criteria for accrual under ASC topic 605, subtopic 50 and (ii) under SAB s 101 and 104, an estimated amount to recognize additional non-offered deductions it anticipates and can reasonably estimate will be taken by customers which it does not expect to recover. Accruals for the estimated amount of future non-offered deductions are required to be made as contra-revenue items because that percentage of shipped revenue fails to meet the collectability criteria within SAB 104 s and 101 s four revenue recognition criteria, all of which are required to be met in order to recognize revenue.

If additional marketing support programs, promotions and other volume-based incentives are required to promote the Company s products subsequent to the initial sale, then additional reserves may be required and are accrued for when such support is offered.

The sales and marketing support accrual activity for fiscal 2012 and fiscal 2011 was as follows (in thousands):

Balance at March 31, 2010	**$ 2,945**
Fiscal 2011 additions	3,176
Fiscal 2011 usages	(2,424)
Fiscal 2011 adjustments	(662)
Balance at March 31, 2011	**$ 3,035**
Fiscal 2012 additions	2,385
Fiscal 2012 usages	(2,435)
Fiscal 2012 adjustments	(1,024)
Balance at March 31, 2012	**$ 1,961**

Interest income (expense), net

The Company records interest as incurred. The interest income (expense) for fiscal 2012 and 2011 consist of:

	2012	**2011**
	(In thousands)	
Interest (expense)	$ (23)	$ (160)
Interest income	93	192
Interest income, net	$ 70	$ 32

Income Taxes

Deferred income taxes are recorded to account 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 Income Taxes).

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 Per Common Share

Net earnings per common 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.

Stock-Based Compensation

The Company accounts for all share based payments in accordance with ASC Topic 71X, Compensation , subtopic 718 Compensation Stock Compensation . Accordingly, the computed fair value is expensed ratably over the requisite vesting period. The Company recorded no stock-based compensation costs during fiscal 2012 or fiscal 2011.

There were no stock options granted by the Company in fiscal 2012 or fiscal 2011.

Recent Pronouncements

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board during the twelve months ended March 31, 2012 which relate to or could relate to the Company as concerns the Company s normal ongoing operations or the industry in which the Company operates:

Accounting Standards Update 2011-02, Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring (Issued April 2011)

The amendments in this Update would provide additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring. For Public Entities, the amendments in this Update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption.

Accounting Standards Update 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (Issued May 2011)

The amendments in this Update generally represent clarifications of Topic 820 Fair Measurement and Disclosures, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This Update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted.

Accounting Standards Update 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (Issued June 2011)

The amendments in this Update require that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income.

The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. The Company has not chosen to early adopt the provisions of this Update.

Table of Contents

Accounting Standards Update 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment (Issued September 2011)

The objective of this Update is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent.

The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The Company has not chosen to early adopt the provisions of this Update. The Company has no goodwill on its books.

Accounting Standards Update 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (Issued December 2011)

In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. The amendments are being made to allow the Board time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the Board is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05.

All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The amendments in this Update are effective at the same time as the amendments in Update 2011-05 so that entities will not be required to comply with the presentation requirements in Update 2011-05 that this Update is deferring. For this reason, the transition guidance in paragraph 220-10-65-2 is consistent with that for Update 2011-05. The amendments in this Update are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011.

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, 2012 and March 31, 2011, inventories consisted of the following:

	March 31, 2012	March 31, 2011
	(In thousands)	
Finished goods	$ 11,347	$ 10,592
Less inventory allowances	(78)	(2,077)
	$ 11,269	$ 8,515

NOTE 3 RELATED PARTY TRANSACTIONS:

From time to time, Emerson engages in business transactions with its controlling shareholder, The Grande Holdings Limited (Provisional Liquidators Appointed) and its direct and indirect subsidiaries (Grande). Set forth below is a summary of such transactions.

Controlling Shareholder

The Grande Holdings Limited (Provisional Liquidators Appointed) (Grande), a Bermuda corporation, has, together with S&T International Distribution Limited (S&T), Grande N.A.K.S. Ltd. and Christopher Ho (Chairman of Grande s and Emerson s Boards of Directors) (together with Grande, the Reporting Persons) filed, on July 5, 2012, a Schedule 13D/A with the Securities and Exchange Commission (SEC) stating that, as of the filing date, the Reporting Persons (except Christopher Ho) had the shared power to vote and direct the disposition of 15,243,283 shares, or approximately 56.2%, of the outstanding common stock of Emerson, subject only to the rights granted to Deutsche Bank AG (Deutsche Bank) pursuant to a security agreement entered into between S&T and Deutsche Bank on January 20, 2010 in which S&T granted a security interest in an aggregate of 3,780,600 shares in Emerson common stock (the Pledged Shares) owned by S&T but pledged to Deutsche Bank for the purposes of securing obligations owing from Grande to Deutsche Bank (the Secured Obligations).

The aforementioned Schedule 13D/A also states that, as of the filing date, the Reporting Persons are aware only of the sale of 391,199 of the Pledged Shares by Deutsche Bank and that they have not yet been able to verify whether, or to what extent, Deutsche Bank has taken any other actions in respect of the Pledged Shares. The Reporting Persons also are of the view that the Secured Obligations have already been settled and, therefore, S&T reportedly is seeking clarification of the basis on which Deutsche Bank has claimed beneficial ownership of the remaining 3,380,079 shares out of the remaining 3,389,401 Pledged Shares.

On February 11, 2011, Deutsche Bank filed a Schedule 13G with the SEC stating that it had sole voting and sole dispositive power over the Pledged Shares, which represent approximately 12.5% of the Company s outstanding common stock. On January 9, 2012, Deutsche Bank filed with the SEC a Form 4 Statement of Changes in Beneficial Ownership stating that, after sales by it of certain of the Pledged Shares, it beneficially owned 3,380,079 shares of Emerson s common stock, and on February 10, 2012, Deutsche Bank filed with the SEC a Schedule 13G stating that it was the beneficial owner with sole voting and sole dispositive power of such shares.

As a result of the foregoing, there are competing claims to 3,380,079 shares of Emerson s common stock. Until further clarification is obtained, Emerson is unable to determine the beneficial ownership of such shares (see Item 1A Risk Factors Business Related Risks Uncertain Impact of Appointment of Provisional Liquidators for Grande, Emerson s Controlling Shareholder).

Related Party Transactions

Rented Space in Hong Kong

Effective January 1, 2010, Emerson entered into a lease agreement with Lafe Properties (Hong Kong) Limited (Lafe), a related party of Grande at that time, pursuant to which Emerson rented 36,540 square feet from Lafe for the purpose of housing its Hong Kong based office personnel and for its use to refurbish certain returned products. This lease agreement expired on December 31, 2010 and was renewed for a one year period on substantially the same terms during December 2010, and expired on December 31, 2011. On December 31, 2010, Lafe was sold by its immediate holding company to an independent third party, and, as such, the Company no longer considers Lafe to be a related party to the Company beginning December 31, 2010. For the nine months ended December 31, 2010, Emerson s rent expense associated with this lease was approximately $387,000.

Related service charges associated with this lease agreement that the Company continues to procure from Brighton Marketing Limited, a subsidiary of Grande, The Grande Properties Management Limited, a related party of Grande, and The Grande Group (HK) Ltd., a related party of Grande, totaled approximately $81,000 for the twelve months ended March 31, 2012 as compared to approximately $161,000 for the twelve months ended March 31, 2011, which also included charges associated with the lease agreement that were provided during the twelve months ended March 31, 2011 by Devon Technical Services Ltd., a subsidiary of Grande. Emerson owed The Grande Group (HK) Ltd. approximately $1,000 pertaining to these charges at March 31, 2012. Emerson owed Brighton Marketing Limited approximately $2,000 pertaining to these charges at March 31, 2011.

Rented Space in the People s Republic of China

In December 2008, Emerson signed a lease agreement with Akai Electric (China) Co., Ltd. (Akai China), a subsidiary of Grande prior to its disposal on December 24, 2010, concerning the rental of office space, office equipment, and lab equipment for Emerson s quality assurance personnel in Zhongshan, People s Republic of China. The lease term began in July 2007 and ended by its terms in June 2009, at which time the agreement renewed automatically on a month-by-month basis unless canceled by either party. The agreement was cancelled in May 2011.

37

Table of Contents

On December 24, 2010, Grande announced that it sold Capetronic Group Ltd. (Capetronic) to a purchaser who, along with its beneficial owner, are third parties independent of Grande and its connected persons, as defined in the Listing Rules, and to the best of Grande s and its directors knowledge, information and belief, having made all reasonable enquiries (the Sale). As Akai China was a subsidiary of Capetronic at the time of the Sale, and was disposed of along with Capetronic by Grande, the Company is no longer considering Akai China to be a related party to the Company beginning December 24, 2010.

For the nine months ended December 31, 2010, Emerson s rent expense associated with this lease agreement totaled approximately $85,000.

Consulting Services Provided to Emerson by one of its Directors

During the twelve months ended March 31, 2012 and March 31, 2011, Emerson paid consulting fees of approximately $62,000 and $114,000, respectively, to Mr. Eduard Will, a director of Emerson, for work performed by Mr. Will related to strategy for the Kayne Litigation as more fully described in Note 9 Legal Proceedings Kayne Litigation , merger and acquisition research, as well as work related to the strategy for a shareholder derivative lawsuit that the Company settled in January 2011. In addition, during the twelve months ended March 31, 2012 and March 31, 2011, Emerson paid expense reimbursements and advances, in the aggregate, of approximately $19,000 and $23,000, respectively, to Mr. Will, related to this consulting work and his service as a director of Emerson. At March 31, 2012 and March 31, 2011, the Company owed Mr. Will approximately $10,000 and nil related to these activities.

Other

On April 7, 2010, upon a request made to the Company by its foreign controlling stockholder, S&T International Distribution Limited (S&T), a subsidiary of Grande, the Company entered into an agreement with S&T, whereby the Company returned to S&T on April 7, 2010 that portion of the taxes that the Company had withheld from the dividend paid on March 24, 2010 to S&T, which the Company believes is not subject to U.S. tax based on the Company s good-faith estimate of its accumulated earnings and profits (the Agreement). The Company believes this transaction results in an off-balance sheet arrangement, which is comprised of a possible contingent tax liability of the Company, which, if recognized, would be offset by the calling by the Company on S&T of the indemnification provisions of the Agreement. Per the terms of the Agreement, Emerson invoiced S&T in June 2010 approximately $42,000 for reimbursement of legal fees incurred by Emerson with regard to the Agreement and approximately $33,000 as a transaction fee for having entered into the Agreement. In January 2011, Emerson agreed, upon the request of S&T, to waive approximately $5,000 of the legal charges that had been invoiced to S&T in June 2010. S&T paid the full amount owed to Emerson of approximately $70,000 in February 2011. In February 2011, upon the request of S&T to the Company, the Company and S&T agreed the collateral pledged as a part of the Agreement would no longer be required and this collateral was returned by the Company to S&T in March 2011.

During the twelve months ended March 31, 2012 and March 31, 2011, Emerson invoiced Vigers Appraisal & Consulting Ltd. (Vigers), a related party of Grande, approximately $4,000 and $5,000, respectively, for office rental and usage of telephone and data lines maintained by Emerson. Vigers owed Emerson approximately $1,000 and nil, respectively, at March 31, 2012 and March 31, 2011, related to this activity.

During the twelve months ended March 31, 2011, Akai Sales Pte Ltd. (Akai Sales), a subsidiary of Grande, invoiced Emerson approximately $7,300 for travel expenses and courier fees which Akai Sales paid on Emerson s behalf. At March 31, 2011, Emerson owed Akai Sales nil. There were no transactions between Akai Sales and the Company during the twelve months ended March 31, 2012.

Table of Contents

NOTE 4 PROPERTY, PLANT, AND EQUIPMENT:

As of March 31, 2012 and 2011, property, plant, and equipment is comprised of the following:

	2012	2011
	(In thousands)	
Computer equipment & software	234	343
Furniture and fixtures	267	357
Machinery and equipment	679	948
Leasehold improvements	8	
Building		2,028
Land		641
	1,188	4,317
Less accumulated depreciation and amortization	(928)	(1,396)
	$ 260	$ 2,921

Depreciation of property, plant, and equipment amounted to approximately $276,000 and $441,000 for the twelve months ended March 31, 2012 and 2011, respectively. During fiscal 2012, the Company disposed of property, plant and equipment with gross book values totaling approximately $2.7 million, which were comprised mainly of the Company s headquarters office building and land in New Jersey. The Company recognized a total net gain of approximately $299,000 on these disposals in fiscal 2012. During fiscal 2011, the Company disposed of property, plant and equipment with gross book values totaling approximately $66,000 and recognized a total net loss of approximately $2,000 on these disposals in fiscal 2011.

NOTE 5 COMPREHENSIVE INCOME:

Comprehensive income for fiscal 2012 and fiscal 2011 is as follows (in thousands):

	2012	2011
	(In thousands)	
Net income	$ 10,634	$ 15,918
Unrealized gain on securities		828
Comprehensive income	$ 10,634	$ 16,746

NOTE 6 BORROWINGS:

Short-term Borrowings

At March 31, 2012 and March 31, 2011, there were nil and $2.5 million of short-term borrowings outstanding, respectively, under a credit line maintained with Smith Barney. This facility was backed exclusively by the Company s auction rate securities, bore interest at the Fed Open Market Rate plus 0.25%, and these borrowings had no net carrying cost. On May 18, 2011, the Company sold its last remaining Auction Rate Security, and paid off the open loan balance on the date of sale, closing this credit facility.

Long-term Borrowings

As of March 31, 2012 and 2011, long-term borrowings consisted of the following:

	2012	2011
	(In thousands)	
Capitalized lease obligations and other	$ 136	$ 196
Less current maturities of capitalized lease obligations	64	46
Long-term borrowings	$ 72	$ 150

39

Table of Contents

Maturities of long-term borrowings as of March 31, 2012, by fiscal year and in the aggregate are as follows (in thousands):

2013	$ 64
2014	42
2015	30
Thereafter	
Total	136
Less current portion	64
Total long term portion	$ 72

NOTE 7 INCOME TAXES:

	2012	2011
	(In thousands)	
Current:		
Federal	$ 266	$ 285
Foreign, state and other	579	808
Prior year state and local	234	98
Deferred:		
Federal	1,089	4,444
Foreign, state and other	308	156
	$ 2,476	$ 5,791

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 before income taxes for the years ended March 31, 2012 and 2011 is analyzed below:

	2012	2011
	(In thousands)	
Statutory provision (benefit)	$ 4,458	$ 7,381
Foreign subsidiary	(1,677)	(2,523)
State taxes	736	671
Permanent differences	6	7
True up of prior year taxes	34	(764)
Expiration of NOL		
Usage of NOL		(156)
Valuation allowance	(1,081)	1,158
Other, net		17
Total income tax (benefit)	$ 2,476	$ 5,791

Table of Contents

As of March 31, 2012 and 2011, the significant components of the Company s deferred tax assets and liabilities were as follows:

	2012	2011
	(In thousands)	
Deferred tax assets:		
Current:		
Accounts receivable reserves	$ 1,445	$ 1,432
Inventory reserves	368	1,227
Accruals	214	
Stock warrants	166	166
Non-current:		
Property, plant, and equipment	699	699
Impairment of auction rate securities		828
Net operating loss and credit carryforwards	1,235	2,249
Stock compensation	79	79
Gross deferred tax assets	4,206	6,680
Valuation allowances	(234)	(1,315)
Total deferred tax assets	3,972	5,365
Deferred tax liabilities:		
Non-current:		
Capital lease expense	177	158
Total Deferred Tax Liabilities	177	158
Net deferred tax assets	$ 3,795	$ 5,207

The Company has no U.S. federal net operating loss carryforwards (NOLs) as of March 31, 2012.

The amounts of state NOLs available by year as of March 31, 2012 are as follows (in millions $):

Loss Year (Fiscal)	Included in DTA	Expiration Year (Fiscal)
2007	1.3	2017
2008	2.6	2018

The tax benefits related to these state net 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 of foreign subsidiaries before taxes was $4,908,000 and $7,983,000 for the years ended March 31, 2012 and 2011, 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.

A reconciliation of the Company s changes in uncertain tax positions from April 1, 2011 to March 31, 2012 is as follows:

	In 000 s
Total amount of unrecognized tax benefits as of April 1, 2011	$ 121

Gross increases in unrecognized tax benefits as a result of tax positions taken during a prior period	
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, 2012	$ 121

The effective tax rate on the Company s income before income taxes for fiscal 2012 differs from the federal statutory rate primarily as a result of difference in tax rate between U.S. and foreign jurisdictions, state income taxes, and change in net operating loss carryforwards. The effective tax rate on the Company s income before income taxes for fiscal 2011 differs from the federal statutory rate primarily as a result of difference in tax rate between U.S. and foreign jurisdictions, state income taxes and change in net operating loss carryforwards.

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, 2012:

Jurisdiction	Open Tax Years
U.S. Federal	2008-2011
U.S. States	2007-2011
Foreign	2005-2011

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

NOTE 8 COMMITMENTS AND CONTINGENCIES:

Leases:

The Company leases warehouse and office space with annual commitments as follows (in thousands):

	Rental Commitments		
Fiscal Years	**Amount**	**Affiliate**	**Non-Affiliate**
2013	1,282		1,282
2014	728		728
2015	135		135
2016	16		16
Thereafter			
Total	$ 2,161	$	$ 2,161

Rent expense resulting from leases with non-affiliated companies aggregated $1,369,000 and $990,000, respectively, for fiscal 2012 and 2011.

Letters of Credit:

The Company utilizes the services of one of its banks to issue secured letters of credit on behalf of the Company, as needed, on a 100% cash collateralized basis. At March 31, 2012 and March 31, 2011, the Company had approximately $0.2 million and $0.5 million of letters of credit outstanding.

Capital Expenditure and Other Commitments:

As of March 31, 2012, there were no capital expenditure or other commitments other than the normal purchase orders used to secure product.

Employee Benefit Plan:

The Company currently sponsors a defined contribution 401(k) retirement plan which is subject to the provisions of the Employee Retirement Income Security Act. The Company matches a percentage of the participants contributions up to a specified amount. These contributions to the plan for fiscal 2012 and 2011 were $64,000 and $74,000, respectively, and were charged against earnings for the periods presented.

42

Table of Contents

NOTE 9 STOCK BASED COMPENSATION:

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.

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

	Number of Options	Weighted Average Exercise Price
Outstanding April 1, 2010	2,000	$ 1.00
Expired	(2,000)	1.00
Outstanding March 31, 2011	0	$ .00
Outstanding March 31, 2012	0	$ .00
Exercisable at March 31, 2012	0	$ .00

As of March 31, 2012, there were no options outstanding. At March 31, 2012, 2011 and 2010, the weighted average exercise price of exercisable options under the Program was $0, $0, and $1.00, respectively.

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.

A summary of transactions under the plan for the two years ended March 31, 2012 is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding April 1, 2010	75,000	$ 3.15
Cancelled	(25,000)	3.19
Outstanding March 31, 2011	50,000	$ 3.13
Outstanding March 31, 2012	50,000	$ 3.13
Exercisable at March 31, 2012	50,000	$ 3.13

The following table provides additional information as to the options outstanding under the Non-Employee Director Stock Option Plan as of March 31, 2012:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Amount Outstanding	Weighted Average Remaining	Weighted Average Exercise	Amount Exercisable	Weighted Average Exercise Price

		Contractual Life	Price		
$3.07	25,000	3.8	$ 3.07	25,000	$ 3.07
$3.19	25,000	4.6	3.19	25,000	3.19
	50,000	4.2	$ 3.13	50,000	$ 3.13

There were no options granted during the fiscal years ending March 31, 2012 or 2011. As of March 31, 2012, there were a total of 50,000 options outstanding with exercise prices ranging from $3.07 per share to $3.19 per share, all of which were fully vested. The weighted average exercise price of exercisable options under the Non-Employee Director Stock Option Plan was $3.13 for both March 31, 2012 and 2011.

Table of Contents

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 were issued and outstanding as of March 31, 2012 and 2011. Shares held in treasury at March 31, 2012 and 2011 were 25,835,965.

Common Stock Repurchase Program:

In September 2003, the Company s Board authorized a share repurchase programs for 2,000,000 shares. No shares were repurchased in fiscal 2012 or fiscal 2011. As of March 31, 2012, 732,377 shares remain available for repurchase under this program.

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, 2012. 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.

NOTE 11 MARKETABLE SECURITIES:

As of March 31, 2012 and March 31, 2011, the Company had a net book value investment in trading securities of nil and $4.7 million, respectively, consisting entirely of student loan auction rate securities (SLARS). As of March 31, 2011, the Company s investments in the SLARS were classified as available-for-sale securities.

During Fiscal 2012, the Company sold for cash proceeds in May 2011 its last remaining SLARS for $4.7 million and recognized a realized gain of $0.8 million as a result.

During Fiscal 2011, the Company had written up the value of this SLARS from its net written-down book value of $3.9 million to $4.7 million, and recorded an unrealized gain of $0.8 million on the March 31, 2011 balance sheet. Also, in December 2010, the Company sold for cash proceeds one of its SLARS having a net book value of $2.1 million for $3.1 million, realizing a gain of $1.0 million in fiscal 2011 as a result.

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, 2012 and March 31, 2011:

	2012	2011
	(In thousands, except per share data)	
Numerator:		
Net income for basic and diluted earnings per share	$ 10,634	$ 15,918
Denominator:		
Denominator for basic earnings per share weighted average shares	27,130	27,130
Effect of dilutive securities on denominator:		
Options		
Denominator for diluted earnings per share weighted average shares and assumed conversions	27,130	27,130
Net income per share:		
Basic and diluted loss per share	$ .39	$ .59

For the year ended March 31, 2012, 50,000 shares attributable to outstanding stock options 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 anti-dilutive.

NOTE 13 LICENSE AGREEMENTS:

The Company is party to numerous 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 outward 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 through August 2016.

In January 2011, the Company s inward license agreement with Apple Computer Inc was terminated. The license had allowed the Company to develop and market products that are compatible with iPod® portable audio and video devices, and further provided the right to use the made for iPod(R) logo on the Company s packaging and promotional material.

NOTE 14 LEGAL PROCEEDINGS:

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

Other. Except for the litigation 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. Management cannot estimate with certainty the Company s ultimate legal and financial liability with respect to such pending litigation matters. However, management believes, based on our examination of such matters, that the Company s ultimate liability will not have a material adverse effect on the Company s financial position, results of operations or cash flows.

NOTE 15 GEOGRAPHIC INFORMATION:

Net revenues and identifiable assets of the Company for the fiscal years ended March 31, 2012 and March 31, 2011 are summarized below by geographic area (in thousands). Net revenues are attributed to geographic area based on location of customer.

	Year Ended March 31, 2012		
	U.S.	**Foreign**	**Consolidated**
Net third party revenue	$ 163,251	$	$ 163,251
Long-lived assets	$ 67,127	$ 7,614	$ 74,741

	Year Ended March 31, 2011		
	U.S.	**Foreign**	**Consolidated**
Net third party revenue	$ 200,674	$ 167	$ 200,841
Long-lived assets	$ 60,965	$ 5,666	$ 66,631

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

None.

Table of Contents

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d 15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in its Exchange Act reports are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to management, including the Company s principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons; by collusion of two or more people, or by management override of the control. The Company s controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

Table of Contents

As a result of its internal assessment, the Company s management concluded that disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Annual Report on Form 10-K, are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its 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 the Company s 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

The Company s 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). Under the supervision and with the participation of management, including the Company s principal executive officer and principal financial officer, management conducted an evaluation of the effectiveness of the Company s 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 its evaluation under this framework, management concluded that the Company s internal control over financial reporting was effective.

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

Changes in Internal Control over Financial Reporting

During the fiscal quarter ended March 31, 2012, there were no changes in the Company s internal control that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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, 2012.

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, 2012.

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, 2012.

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, 2012.

Table of Contents

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, 2012.

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, 2012 and 2011
Consolidated Balance Sheets as of March 31, 2012 and 2011
Consolidated Statements of Changes in Shareholders Equity for the years ended March 31, 2012 and 2011
Consolidated Statements of Cash Flows for the years ended March 31, 2012 and 2011
Notes to Consolidated Financial Statements

All 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.

2. *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).
3.8	Amendment effective as of November 10, 2009 to the By-Laws of Emerson adopted March 1994 (incorporated by reference to Exhibit 3.1 of Emerson s Current Report on Form 8-K filed on November 16, 2009).
3.9	Amendment effective as of August 31, 2011 to the By-Laws of Emerson adopted March 1994 (incorporated by reference to Exhibit 3.2 of Emerson s Current Report on Form 8-K filed on September 7, 2011).
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).

48

Table of Contents

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 29, 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 26th 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).
10.13.3	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).
10.13.4	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).
10.13.5	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 29, 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 6, 2007).
10.26	Employment Agreement, dated as of October 15, 2007, by and between Emerson Radio Corp. and John Spielberger (incorporated by reference to Exhibit 10.26 to the Company s Annual Report on Form 10-K filed with the SEC on July 11, 2008).
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 29, 2005).
10.27.6	Seventh Amendment to 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 10.27.6 of Emerson s Annual Report on Form 10-K/A for the year ended March 31, 2009).
10.27.7	Eighth Amendment to 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. (incorporated by reference to Exhibit 10.27.7 of Emerson s Annual Report on Form 10-K for the year ended March 31, 2010).

Table of Contents

10.27.8	Ninth Amendment to 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. (incorporated by reference to Exhibit 10.27.8 of Emerson s Annual Report on Form 10-K for the year ended March 31, 2010).
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).
10.29	Employment Agreement dated as of October 1, 2009 between Emerson and Duncan Hon (incorporated by reference to Exhibit 10.1 to Emerson s Current Report on Form 8-K filed on November 16, 2009).
10.30	Consulting Agreement dated as of September 4, 2010 between the Company and Mr. Greenfield Pitts (incorporated by reference to Exhibit 10.30 to Emerson s Form 10-Q for the quarter ended September 30, 2011).
10.31	Employment Agreement dated as of March 31, 2011 between the Company and Mr. Hon Tak Kwong (incorporated by reference to Exhibit 10.31 to Emerson s Form 10-Q for the quarter ended September 30, 2011).
10.32	Consultancy Agreement dated as of July 28, 2010 between the Company and Mr. Ma Chi Chiu (incorporated by reference to Exhibit 10.32 to Emerson s Form 10-Q for the quarter ended September 30, 2011).
10.33	Employment Agreement dated as of August 1, 2007, as amended, between the Company and Mr. Andrew L. Davis (incorporated by reference to Exhibit 10.1 to Emerson s Current Report on Form 8-K filed on September 10, 2010).
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).
21.1	Principal Subsidiaries of the Company as of March 31, 2012.*
23.1	Consent of Independent Registered Public Accounting Firm MSPC, Certified Public Accountants and Advisors, Professional Corporation.*
31.1	Certification of the Company s Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of the Company s Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32	Certification of the Company s Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.1+	XBRL Instance Document. ***
101.2+	XBRL Taxonomy Extension Schema Document. ***
101.3+	XBRL Taxonomy Extension Calculation Linkbase Document. ***
101.4+	XBRL Taxonomy Extension Definition Linkbase Document. ***
101.5+	XBRL Taxonomy Extension Label Linkbase Document. ***
101.6+	XBRL Taxonomy Extension Presentation Linkbase Document. ***

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

(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*.

Table of Contents

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.

Table of Contents

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/ Duncan Hon
Duncan Hon
Chief Executive Officer

Dated: July 13, 2012

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	Chairman of the Board of Directors	July 13, 2012
Christopher Ho		
/s/ Eduard Will	Vice Chairman of the Board of Directors	July 13, 2012
Eduard Will		
/s/ Duncan Hon	Chief Executive Officer	July 13, 2012
Duncan Hon		
/s/ Vincent Fok	Director	July 13, 2012
Vincent Fok		
/s/ Mirzan Mahathir	Director	July 13, 2012
Mirzan Mahathir		
/s/ Kareem E. Sethi	Director	July 13, 2012
Kareem E. Sethi		
/s/ Terence A. Snellings	Director	July 13, 2012
Terence A. Snellings		