

EDCI HOLDINGS, INC.  
Form 10-Q  
May 08, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-34015

EDCI HOLDINGS, INC.  
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE  
(State or Other Jurisdiction of  
Incorporation or Organization)

26-2694280  
(I.R.S. Employer  
Identification No.)

1755 Broadway, 4th Floor, New York, NY  
(Address of Principal Executive Offices)

10019  
(Zip Code)

(212) 333-8400  
(Registrant's Telephone Number, Including Area Code)

NOT APPLICABLE

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(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to

submit and post such files). Yes  No

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

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  (Do not check if a smaller reporting company) Smaller Reporting  
Company

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

The number of shares outstanding of the Registrant's common stock, par value \$.02 per share, at May 4, 2009 was 6,708,890 shares.

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PART I – FINANCIAL INFORMATION

ITEM 1. Financial Statements

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
EDCI Holdings, Inc.

We have reviewed the condensed consolidated balance sheet of EDCI Holdings, Inc. and subsidiaries as of March 31, 2009, and the related condensed consolidated statements of operations for the three month periods ended March 31, 2009 and 2008, the condensed consolidated statement of stockholders' equity and comprehensive loss for the three month period ended March 31, 2009, and the condensed consolidated statements of cash flows for the three month periods ending March 31, 2009 and 2008. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of EDCI Holdings, Inc. and subsidiaries as of December 31, 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended not presented herein and in our report dated March 27, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Indianapolis, Indiana  
May 6, 2009

EDCI HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

|   | March 31,<br>2009<br>(unaudited) | December<br>31,<br>2008 |
|---|----------------------------------|-------------------------|
| (In thousands, except share data)   |                                  |                         |
| <b>ASSETS</b>   |                                  |                         |
| <b>Current Assets:</b>  |                                  |                         |
| Cash and cash equivalents   | \$ 75,721                        | \$ 75,112               |
| Restricted cash   | 3,830                            | 7,258                   |
| Accounts receivable, net of allowances for doubtful accounts of \$2,698 and \$3,008 for 2009 and 2008, respectively | 14,760                           | 19,129                  |
| Current portion of long-term receivable   | 754                              | 599                     |
| Inventories, net  | 3,903                            | 4,845                   |
| Prepaid expenses and other current assets   | 10,708                           | 12,513                  |
| Deferred income taxes   | 98                               | 105                     |
| Assets held for sale  | 7,107                            | 7,154                   |
| Current assets, discontinued operations   | 2,427                            | 8,691                   |
| <b>Total Current Assets</b>   | <b>119,308</b>                   | <b>135,406</b>          |
| Restricted cash   | 23,404                           | 25,439                  |
| Property, plant and equipment, net  | 18,701                           | 21,186                  |
| Long-term receivable  | 2,628                            | 3,066                   |
| Long-term investments   | 1,020                            | 1,020                   |
| Deferred income taxes   | 1,616                            | 1,694                   |
| Other assets  | 3,850                            | 4,739                   |
| <b>TOTAL ASSETS</b>   | <b>\$ 170,527</b>                | <b>\$ 192,550</b>       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                  |                         |
| <b>Current Liabilities:</b>   |                                  |                         |
| Accounts payable  | \$ 13,984                        | \$ 15,930               |
| Accrued expenses and other liabilities  | 22,176                           | 24,435                  |
| Loans from employees  | 925                              | 1,142                   |
| Current portion of long-term debt   | 2,020                            | 2,281                   |
| Current liabilities, discontinued operations  | 3,958                            | 10,226                  |
| <b>Total Current Liabilities</b>  | <b>43,063</b>                    | <b>54,014</b>           |
| Other non-current liabilities   | 3,711                            | 8,353                   |
| Loans from employees  | 1,409                            | 2,490                   |
| Long-term debt  | 7,328                            | 7,996                   |
| Pension and other defined benefit obligations   | 32,326                           | 35,052                  |
| Non-current liabilities, discontinued operations  | -                                | 41                      |
| <b>Total Liabilities</b>  | <b>87,837</b>                    | <b>107,946</b>          |
| <b>Commitments and contingencies</b>  |                                  |                         |
| <b>Stockholders' Equity:</b>  |                                  |                         |

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|   |            |            |
|---|------------|------------|
| Preferred stock, \$.01 par value; authorized:<br>1,000,000 shares, no shares<br>issued and outstanding  | -          | -          |
| Common stock, \$.02 par value; authorized:<br>15,000,000 shares, issued and<br>outstanding: 2009 -- 7,019,652 shares;<br>2008 -- 7,019,436 shares | 140        | 140        |
| Additional paid in capital  | 371,130    | 371,091    |
| Accumulated deficit   | (295,543)  | (294,988)  |
| Accumulated other comprehensive income  | 3,130      | 4,583      |
| Treasury stock at cost:<br>2009 -- 310,762 shares; 2008 --<br>324,794 shares  | (1,371)    | (1,427)    |
| Total EDCI Holdings, Inc.   | 77,486     | 79,399     |
| Stockholders' Equity  |            |            |
| Minority interest in subsidiary company   | 5,204      | 5,205      |
| Total Stockholders' Equity  | 82,690     | 84,604     |
| TOTAL LIABILITIES AND<br>STOCKHOLDERS' EQUITY   | \$ 170,527 | \$ 192,550 |

See Notes to Consolidated Financial Statements.

EDCI HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

|  | Three Months Ended March 31,             |                   |
|--|--|-------------------|
|  | 2009                                     | 2008              |
|  | (In thousands, except per share amounts) |                   |
| <b>REVENUES:</b>   |  |                   |
| Product revenues   | \$ 31,081                                | \$ 43,142         |
| Service revenues   | 10,170                                   | 15,525            |
| Total Revenues   | 41,251                                   | 58,667            |
| <b>COST OF REVENUES:</b>   |  |                   |
| Cost of product revenues   | 27,973                                   | 37,015            |
| Cost of service revenues   | 7,708                                    | 10,549            |
| Total Cost of Revenues   | 35,681                                   | 47,564            |
| <b>GROSS PROFIT</b>  | <b>5,570</b>                             | <b>11,103</b>     |
| <b>OPERATING EXPENSES:</b>   |  |                   |
| Selling, general and administrative expense                                  | 7,123                                    | 9,460             |
| Amortization of intangible assets  | -  | 1,587             |
| Total Operating Expenses   | 7,123                                    | 11,047            |
| <b>OPERATING INCOME (LOSS)</b>   | <b>(1,553)</b>                           | <b>56</b>         |
| <b>OTHER INCOME (EXPENSE):</b>   |  |                   |
| Interest income  | 217                                      | 1,112             |
| Interest expense   | (231)                                    | (637)             |
| Gain (loss) on currency swap, net  | 2,111                                    | (2,625)           |
| Loss on currency transaction, net  | (31)                                     | (561)             |
| Other income (expense), net  | 11                                       | 12                |
| Total Other Income (Expense)   | 2,077                                    | (2,699)           |
| <b>INCOME (LOSS) FROM CONTINUING OPERATIONS, BEFORE INCOME TAXES</b>         | <b>524</b>                               | <b>(2,643)</b>    |
| Income tax provision (benefit)   | (154)                                    | 483               |
| <b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>                              | <b>678</b>                               | <b>(3,126)</b>    |
| <b>DISCONTINUED OPERATIONS, NET OF TAX:</b>                                  |  |                   |
| <b>LOSS FROM DISCONTINUED OPERATIONS</b>                                     | <b>(1,362)</b>                           | <b>(3,243)</b>    |
| <b>GAIN ON SALE OF EDC U.S. OPERATIONS</b>                                   | <b>128</b>                               | <b>-</b>          |
| <b>NET LOSS</b>  | <b>\$ (556)</b>                          | <b>(6,369)</b>    |
| Minority interest income   | (1)                                      | (149)             |
| <b>NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>                          | <b>\$ (555)</b>                          | <b>\$ (6,220)</b> |
| <b>INCOME (LOSS) PER WEIGHTED AVERAGE COMMON SHARE (1):</b>                  |  |                   |
| Income (loss) from continuing operations attributable to common shareholders | \$ 0.10                                  | \$ (0.44)         |
| <b>Discontinued Operations Attributable to Common Shareholders:</b>          |  |                   |
| Loss from discontinued operations attributable to common shareholders        | (0.20)                                   | (0.45)            |

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|  |    |         |    |         |
|--|----|---------|----|---------|
| Gain on sale of EDC U.S. Operations  |    | 0.02    |    | -       |
| Net loss per weighted average common share                                   | \$ | (0.08)  | \$ | (0.89)  |
| <b>INCOME (LOSS) PER WEIGHTED AVERAGE DILUTED COMMON SHARE (1):</b>          |    |         |    |         |
| Income (loss) from continuing operations attributable to common shareholders | \$ | 0.10    | \$ | (0.44)  |
| <b>Discontinued Operations Attributable to Common Shareholders:</b>          |    |         |    |         |
| Loss from discontinued operations attributable to common shareholders        |    | (0.20)  |    | (0.45)  |
| Gain on sale of EDC U.S. Operations  |    | 0.02    |    | -       |
| Net loss per weighted average common share                                   | \$ | (0.08)  | \$ | (0.89)  |
| <b>AMOUNTS ATTRIBUTABLE TO EDCI HOLDINGS, INC. COMMON SHAREHOLDERS</b>       |    |         |    |         |
| Income (loss) from continuing operations                                     | \$ | 644     | \$ | (3,066) |
| Loss from discontinued operations  |    | (1,327) |    | (3,154) |
| Gain on sale of EDC U.S. Operations  |    | 128     |    | -       |
| Net Loss   | \$ | (555)   | \$ | (6,220) |

(1) Income (loss) per weighted average common share amounts are rounded to the nearest \$.01; therefore, such rounding may impact individual amounts presented.

See Notes to Condensed Consolidated Financial Statements.



EDCI HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
AND COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

|  | Common<br>Stock<br>Shares | \$     | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury Stock<br>Shares | \$        | Comprehensive<br>Loss | Minority<br>Interest |
|--|---------------------------|--------|----------------------------------|------------------------|---|--------------------------|-----------|-----------------------|----------------------|
| Balances,<br>January 1,<br>2009                  | 7,019                     | \$ 140 | \$ 371,091                       | \$ (294,988)           | \$ 4,583  | 325                      | \$(1,427) |                       | \$ 5,205             |
| Net loss   | -                         | -      | -                                | (555)                  | -   | -                        | -         | \$ (555)              |                      |
| Foreign<br>currency<br>translation               | -                         | -      | -                                | -                      | (1,381)   | -                        | -         | (1,381)               |                      |
| Net unrealized<br>investment<br>losses           | -                         | -      | -                                | -                      | (72)  | -                        | -         | (72)                  |                      |
| Comprehensive<br>loss                            | -                         | -      | -                                | -                      | -   | -                        | -         | \$ (2,008)            |                      |
| Shares issued<br>for restricted<br>stock awards  | -                         | -      | -                                | -                      | -   | (14)                     | 56        |                       |                      |
| Stock based<br>compensation                      | -                         | -      | 39                               | -                      | -   | -                        | -         |                       |                      |
| Minority<br>interest in<br>subsidiary<br>company | -                         | -      | -                                | -                      | -   | -                        | -         |                       | (1)                  |
| Balances,<br>March 31,<br>2009                   | 7,019                     | \$ 140 | \$ 371,130                       | \$ (295,543)           | \$ 3,130  | 311                      | \$(1,371) |                       | \$ 5,204             |

See Notes to Condensed Consolidated Financial Statements.

EDCI HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

|   | Three Months Ended March 31, |                |
|---|------------------------------|----------------|
|   | 2009                         | 2008           |
|   | (In thousands)               |                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                              |                |
| Net loss  | \$ (555)                     | \$ (6,220)     |
| Adjustments to reconcile net loss to net cash provided<br>by (used in) operating activities:              |                              |                |
| Gain on sale of EDC U.S. Operations   | (128)                        | -              |
| Depreciation and amortization   | 1,626                        | 5,882          |
| Stock compensation expense  | 96                           | 42             |
| Unrealized (gain) loss on currency swap   | (2,111)                      | 2,625          |
| Foreign currency transaction loss   | 31                           | 561            |
| Gain on adjustment to discontinued operations tax<br>payable  | (362)                        | (1,212)        |
| Deferred income tax (benefit) provision   | 17                           | (52)           |
| Non-cash interest expense   | 121                          | 370            |
| Minority interest income  | (1)                          | (149)          |
| Other   | 7                            | 8              |
| Changes in operating assets and liabilities, net of effects<br>of business dispositions and acquisitions: |                              |                |
| Restricted cash   | 557                          | 431            |
| Accounts receivable   | 8,656                        | 6,492          |
| Inventories   | 1,200                        | 1,420          |
| Prepaid and other current assets  | 520                          | (2,311)        |
| Long-term receivables   | 52                           | 152            |
| Other assets  | 897                          | (107)          |
| Accounts payable  | (4,315)                      | (8,289)        |
| Accrued liabilities and income taxes payable  | (4,634)                      | (7,426)        |
| Other liabilities   | (352)                        | 599            |
| <b>NET CASH PROVIDED BY (USED IN) OPERATING<br/>ACTIVITIES</b>  | <b>1,322</b>                 | <b>(7,184)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                              |                |
| Purchases of property, plant and equipment  | (438)                        | (822)          |
| Cash restricted under long-term borrowing<br>agreement  | 3,183                        | -              |
| Proceeds from sale of U.S. operations   | 1,384                        | -              |
| Purchase of available-for-sale securities   | -                            | (8,930)        |
| Proceeds from the sale of short-term securities   | -                            | 17,179         |
| <b>NET CASH PROVIDED BY INVESTING<br/>ACTIVITIES</b>  | <b>4,129</b>                 | <b>7,427</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                              |                |
| Repayment of employee loans   | (1,041)                      | (1,273)        |
| Repayment of capital lease obligations  | (68)                         | (104)          |
| Repayment of long-term borrowing  | (773)                        | -              |
| Acquisitions of treasury stock  | -                            | (675)          |

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|  |           |           |
|--|-----------|-----------|
| Settlement of cross-currency swap                    | (2,093)   | -         |
| NET CASH USED IN FINANCING ACTIVITIES                | (3,975)   | (2,052)   |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH              | (867)     | 1,159     |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 609       | (650)     |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD     | 75,112    | 63,850    |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD           | \$ 75,721 | \$ 63,200 |

See Notes to Condensed Consolidated Financial Statements.

EDCI HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Tabular Amounts in Thousands Except per Share Amounts)  
(Unaudited)

1. Business Liquidity and Continuing Operations

a. Business

EDCI Holdings, Inc. (“EDCIH” or the “Company”), is a holding company and parent of Entertainment Distribution Company, Inc. (“EDCI”), which, together with its wholly owned and controlled majority owned subsidiaries, is a multi-national company in the manufacturing and distribution segment of the optical disc industry. The Company has one reportable business segment operated by its subsidiary, Entertainment Distribution Company, LLC (“EDC”). EDC provides pre-recorded products and distribution services to the entertainment industry. The primary customer of EDC is Universal Music Group (“Universal”).

The Company’s operations formerly included its Wireless Messaging (“Paging”) business, which the Company began exiting in May 2001, and its Glenayre Messaging (“Messaging”) business, substantially all of the assets of which were sold in December 2006. Consequently, the operating results of the Paging and Messaging segments are reported as discontinued operations in the accompanying financial statements.

The accompanying unaudited condensed consolidated financial statements are presented in U.S. dollars in conformity with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The Company believes all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The results for the interim periods are not necessarily indicative of results for the full year. These interim financial statements should be read in conjunction with the Company’s consolidated financial statements and accompanying notes included in its Annual Report on Form 10-K for the year ended December 31, 2008. The financial statements include the accounts of EDCIH and its wholly-owned as well as its controlled majority-owned, subsidiaries and have been prepared from records maintained by EDCIH and its subsidiaries in their respective countries of operation. The condensed consolidated accounts include 100% of the assets and liabilities of the Company’s majority owned subsidiaries, and the ownership interests of minority investors are recorded as minority interest. All significant intercompany accounts and transactions are eliminated in consolidation.

b. Liquidity and Continuing Operations

Sale of EDC’s U.S. Operations - The Company announced on October 31, 2008, and closed on December 31, 2008, the sale of substantially all of the U.S. business of EDC to Sony DADC U.S., Inc (“Sony DADC”) for \$26.0 million in cash and certain other consideration. The specific assets transferred were: EDC’s distribution operations located in Fishers, Indiana; EDC’s U.S. supply agreements with Universal Music Group; all of the equipment located in EDC’s Fishers, Indiana distribution facility; certain manufacturing equipment located in EDC’s Kings Mountain, North Carolina facility; and the transfer of certain other of EDC’s U.S. customer relationships. EDC no longer operates manufacturing and distribution facilities in North America. EDC agreed to provide certain transition services to Sony following the closing. The required production service process was completed at the end of February 2009.

Following the transaction, the Company continues to operate and serve its international customers through its facilities in Hannover, Germany and Blackburn, UK. The Company's business continues to be impacted by trends that have negatively impacted the manufacturing and distribution segment of the entertainment industry in general, including industry overcapacity, recessionary economic conditions in many parts of the world and weakness in demand for its core products. Several of the Company's international customers have been impacted by the threat of credit insurers dropping coverage and thus increasing the risk of its continued business with these parties. In addition, the Company also faces the continuing burden of legacy pension and other post-retirement benefit plans related to its EDC subsidiaries.

On March 20, 2009, the Board of Directors of the Company approved a plan to consolidate the European operations. As a result of this plan, the Company would cease all operations presently conducted at its Blackburn facility in the United Kingdom and relocate the production of units required by Universal, its largest customer, that were previously manufactured in the Blackburn facility, to EDC's Hannover plant through the expiration of the Universal manufacturing agreements in May, 2015. EDC would also relocate certain equipment and related assets from Blackburn to Hannover, and any remaining equipment or assets would be sold or disposed of. The plan is subject to lender consent. See Note 11.

EDCI HOLDINGS, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Tabular Amounts in Thousands Except per Share Amounts)  
 (Unaudited)

2. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Reclassifications

Certain items in the prior year consolidated financial statements have been reclassified to conform to the current presentation. Such reclassifications have had no effect on net loss previously reported.

4. Inventories

Inventories, net at March 31, 2009 and December 31, 2008 consisted of:

|                 | March 31,<br>2009 | December<br>31,<br>2008 |
|-----------------|-------------------|-------------------------|
| Raw materials   | \$ 2,965          | \$ 3,859                |
| Finished goods  | 212               | 426                     |
| Work in process | 726               | 560                     |
| Total           | \$ 3,903          | \$ 4,845                |

At March 31, 2009 and December 31, 2008, reserves were approximately \$1.1 million and \$1.0 million, respectively.

5. Restricted Cash

EDC Central European Operation

Restricted cash of EDC's central European operation at March 31, 2009 was \$25.0 million, including \$1.6 million classified as current. The restricted cash is being held in escrow to fund various pension and other employee related obligations. As part of the acquisition of the Universal manufacturing and distribution operations, one of Universal's subsidiaries deposited these escrowed funds into an account controlled by an Escrow Agreement restricting the disbursement of the funds. Universal and EDC participate in determining and approving disbursement. The earnings on the funds are paid to EDC monthly. On June 1, 2010, the restrictions expire, and any remaining funds in escrow will be released to EDC and the Company intends to fund the EDC pension benefits using funds held in escrow and included in restricted cash in the consolidated balance sheets.

EDC U.S. Operation

Restricted cash relating to EDC's U.S. operation at March 31, 2009 was \$2.2 million. As part of the Sony Sale, EDC's Senior Secured Credit Facility was amended to include provisions which required a portion of the proceeds from the Sony Sale to be held in escrow in the name of the administrative agent for use in the wind-down of certain U.S.

operations or prepayment of loans under the terms of the Seventh Amendment to the credit agreement.

#### 6. Currency Rate Swap

EDC entered into a cross-currency rate swap agreement with a commercial bank on May 31, 2005. EDC's objective is to manage foreign currency exposure arising from its intercompany loan to its German subsidiary, acquired in May of 2005 and is therefore for purposes other than trading. The loan is denominated in Euros and repayment is due on demand, or by May 31, 2010. In accordance with SFAS No. 52, Foreign Currency Translation, and SFAS 133, the currency swap does not qualify for hedge accounting and, as a result, EDC reports the foreign currency exchange gains or losses attributable to changes in the U.S.\$/€ exchange rate on the currency swap in earnings. In January 2009, the U.S. dollar strengthened versus the Euro and EDC was able to settle the currency swap obligation for \$2.1 million on January 23, 2009. In the first quarter of 2009, EDC recorded a gain on of \$2.1 million in the accompanying condensed consolidated statements of operations related to the settlement of the swap.

EDCI HOLDINGS, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Tabular Amounts in Thousands Except per Share Amounts)  
 (Unaudited)

7. Fair Value Measurements

On January 1, 2008, the Company adopted SFAS No. 157, subject to the deferral provisions of FSP No. 157-2. This standard defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by SFAS No. 157 contains three levels as follows:

Level 1 — Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 — Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

Quoted prices for similar assets or liabilities in active markets;  
 Quoted prices for identical or similar assets in non-active markets;  
 Inputs other than quoted prices that are observable for the asset or liability; and  
 Inputs that are derived principally from or corroborated by other observable market data.

Level 3 — Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The following table sets forth by level within the fair value hierarchy, the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at March 31, 2009, according to the valuation techniques it used to determine their fair values

| Description | March 31,<br>2009 | Fair Value Measurements at Reporting Date Using                         |   |  |
|-------------|-------------------|---|---|--|
|             |                   | Quoted Prices in Active<br>Markets for Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets      | \$ 1,020          | \$ -  | \$ -  | \$ 1,020   |



Available-for-sale  
securities

|                          |    |       |    |     |    |   |    |       |
|--------------------------|----|-------|----|-----|----|---|----|-------|
| Deferred Comp Trust Plan |    | 432   |    | 432 |    | - |    | -     |
| Total                    | \$ | 1,452 | \$ | 432 | \$ | - | \$ | 1,020 |

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The following tables provides a reconciliation between the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3).

|   | Fair Value Measurements<br>Using<br>Significant<br>Unobservable Inputs<br>(Level 3)<br>Auction-Rate Securities |
|---|--|
| Beginning balance   | \$ 1,020   |
| Purchases, sales and settlements, net                               | -  |
| Total gains or losses (realized/unrealized)<br>included in earnings | -  |
| Ending Balance  | \$ 1,020   |

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

**Auction-Rate Securities.** The Company classifies its investments in debt securities as available-for-sale and generally classifies them as Level 1, except as otherwise noted. At March 31, 2009, the Company's investments consisted of auction-rate securities. Its investments in auction-rate securities are classified as Level 3 as quoted prices were unavailable. Due to limited market information, the Company utilized a discounted cash flow ("DCF") model to derive an estimate of fair value at March 31, 2009. The assumptions used in preparing the DCF model included estimates with respect to the amount and timing of future interest and principal payments, the probability of full repayment of the principal considering the credit quality and guarantees in place, and the rate of return required by investors to own such securities given the current liquidity risk associated with auction-rate securities.

**Deferred Compensation.** The Company's deferred compensation assets consist of investments in mutual funds. These investments are classified as Level 1 as the shares of these mutual funds trade with sufficient frequency and volume to enable it to obtain pricing information on an ongoing basis.

#### Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

The effective date of SFAS No. 157 related to disclosure of fair value of nonfinancial assets was deferred under FSP No. 157-2 until January 1, 2009. This deferral applies to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value. The Company had no significant measurements of non-financial assets or liabilities at fair value during the first quarter of 2009 that were affected by the deferral.

#### 8. Long-Term Debt

|                                | March 31,<br>2009 | December 31,<br>2008 |
|--------------------------------|-------------------|----------------------|
| Senior Secured Credit Facility | \$ 7,250          | \$ 8,000             |

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|                                     |           |           |
|-------------------------------------|-----------|-----------|
| Payable to Universal - undiscounted | 2,576     | 2,749     |
| Capital Lease                       | -         | 74        |
| Employee Loans                      | 2,334     | 3,632     |
| Subtotal                            | 12,160    | 14,455    |
| Less: Unamortized Discount          | (478)     | (546)     |
| Total Debt                          | \$ 11,682 | \$ 13,909 |
| Less: Current Portion               | (2,945)   | (3,423)   |
| Total Long Term Debt                | \$ 8,737  | \$ 10,486 |

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EDC has a Senior Secured Credit Facility with Wachovia Bank, National Association, as agent, for an aggregate principal amount of \$9.8 million, consisting of a term facility of \$7.3 million, and a revolving credit facility of up to €2.0 million (subject to a maximum \$2.5 million based on prevailing interest rates). There were no outstanding borrowings under the revolving credit facility at March 31, 2009. Substantially all of EDC's assets are pledged as collateral to secure obligations under the Senior Secured Credit Facility.

During the first quarter of 2009, the Senior Secured Credit Facility was amended as noted below:

On March 27, 2009, EDC completed an amendment to the facility which changed the EBITDA definition as follows: for the fiscal quarter ended December 31, 2008, and each fiscal quarter thereafter, EBITDA shall be calculated by adding back impairment charges, non-cash charges and one-time charges for the Sony Sale and any charges related to U.S. operations or discontinued operations (but not including any ongoing overhead from U.S. operations), and impairment charges pertaining to the write-down of intangibles of the German operations, which charges to be added back shall not exceed, in the aggregate, \$30,000,000, to the extent such charges were deducted for the applicable period.

The term loan expires on December 31, 2010. The Senior Secured Credit Facility bears interest, at the Company's option, at either: (a) the higher of (i) the Prime Rate in effect and (ii) the Federal Funds Effective Rate in effect plus ½ of 1% and a 1.75% margin on the non-cash collateralized portion; or (b) LIBOR plus a 2.0% margin. The applicable LIBOR is determined periodically based on the length of the interest term selected by us. The weighted average interest rate on the term loan was 3.46% at March 31, 2009. In addition to interest, EDC pays a commitment fee of 0.5% per annum on the average daily unused amount. Scheduled payments under the term loan are due as follows: \$1.6 million due on December 31 2009, \$2.1 million due on June 30, 2010, and \$3.6 million due on December 31, 2010.

The Senior Secured Credit Facility contains usual and customary restrictive covenants that, among other things, permit EDC to use the revolver only as a source of liquidity for EDC and its subsidiaries and place limitations on (i) EDC's ability to incur additional indebtedness; (ii) EDC's ability to make any payments to EDCI in the form of cash dividends, loans or advances (other than tax distributions) and (iii) asset dispositions by EDC. It also contains financial covenants relating to maximum consolidated EDC's and subsidiaries' leverage, minimum interest coverage and maximum senior secured leverage as defined therein. As of March 31, 2009, we were in compliance with all such covenants, as amended, under the facility.

## 9. Income Taxes

On January 1, 2007, we adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48). Pursuant to FIN 48, we identified, evaluated, and measured the amount of income tax benefits to be recognized for all income tax positions. The net income tax assets recognized under FIN 48 did not differ from the net assets recognized before adoption, and, therefore, we did not record an adjustment related to the adoption of FIN 48.

During the first three months of 2009, the amount of gross unrecognized tax benefits was reduced by \$0.4 million due to the expiration of certain statutes of limitation. Of the unrecognized tax benefits recorded as of March 31, 2009, it is anticipated that over the next 12 months, various tax-related statutes of limitation will expire which will cause a \$0.6 million reduction in the unrecognized tax benefits, consisting of \$0.4 million in taxes and \$0.2 million in accrued

interest and penalties. These unrecognized tax benefits relate primarily to transfer pricing. All of these uncertainties relate to discontinued operations.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax in multiple state and foreign jurisdictions. On February 6, 2008, the Company was notified by the Internal Revenue Service of the intent to audit the Company's 2005 federal tax return. On January 20, 2009, the Company received notification from the IRS that there were no changes as a result of their audit. Statutes of limitations remain open for all years beginning in 1993 for U.S. federal and most state purposes due to unutilized NOLs; 2002 for Canada due to unutilized NOLs; all years beginning with 2005 for Germany; and all years beginning with 2007 for the UK.

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10. Employee Benefit Plans

Net post-retirement benefit costs consisted of the following components:

|                                     | Three Months Ended March 31, |        |
|-------------------------------------|------------------------------|--------|
|                                     | 2009                         | 2008   |
| Service cost                        | \$ 136                       | \$ 235 |
| Interest cost on APBO               | 285                          | 425    |
| Amortization of prior service costs | (5)                          | (5)    |
| Amortization of actuarial loss      | 1                            | 2      |
|                                     | \$ 417                       | \$ 657 |

11. Restructuring

On March 20, 2009, the Board of Directors of the Company approved a plan to consolidate EDC's Blackburn, UK and Hannover, Germany manufacturing volumes within the Hannover facility (the "Consolidation"). As a result of the Consolidation, EDC intends to cease by year-end 2009 substantially all operations presently conducted at its Blackburn facility in the United Kingdom, and resultantly produce all of the manufacturing volume for Universal, its largest customer, in EDC's Hannover plant through the expiration of the Universal manufacturing agreements in May, 2015. Consummation of the Consolidation transaction requires the consent of the lenders pursuant to EDC's credit facility. We are currently in negotiations to obtain the consent of the lenders to proceed with the Consolidation transaction but have yet to reach an agreement amicable to both parties.

Blackburn closure costs currently are forecast at approximately \$8-9 million, comprised primarily of \$6.2 million in severance costs for approximately 270 employees, costs associated with exiting Blackburn's capital leases and costs associated with relocating equipment, parts and inventory from Blackburn to Hannover of \$2.5 million. Closure costs will be financed out of existing cash in the United Kingdom with additional financial and other support from the German operations. EDC Germany has entered into agreement to provide financial support of up to £5.0 million to EDC Blackburn to insure that EDC Blackburn does not fall into insolvency due to over indebtedness or illiquidity resulting from the planned closure of the Blackburn facility.

Also during the first quarter of 2009, the Company implemented a plan to streamline its manufacturing operations in Blackburn, UK in order to reflect industry change and to reduce its cost base accordingly. As part of the plan, the Company offered a voluntary exit program to employees in selected areas. As a result of these actions, the Company has recorded severance charges of approximately \$0.7 million into cost of revenues in the period ended March 31, 2009, all of which remains accrued in the accompanying consolidated balance sheets.

During 2008, the Company implemented a plan to reduce staffing at its combined manufacturing and distribution operations in Hannover, Germany. In total, the plan resulted in the reduction of the Company's Germany employment by approximately 5%, predominately in its distribution operations. As a result of these actions, the Company recorded severance charges of approximately \$0.1 million into cost of revenues in the period ended March 31, 2009. The Company made payments of \$0.6 million related to the plan and as of March 31, 2009, \$0.7 million is recorded in accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets.

## 12. Noncontrolling Interests

On January 1, 2009 the Company adopted SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51.” SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. As required by SFAS No. 160, the Company reclassified \$5.2 million of minority interest in subsidiary company to stockholders’ equity on the condensed consolidated balance sheet as of March 31, 2009 and December 31, 2008, respectively.

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13. Discontinued Operations

(a) EDC U.S. Operations

On October 31, 2008, the Company announced that its EDC subsidiary entered into an Asset Purchase Agreement (the "Agreement") with Sony DADC for the sale of its distribution operations located in Fishers, Indiana, U.S. supply agreements with Universal Music Group, the equipment located in its Fishers, Indiana distribution facility and certain manufacturing equipment located in its Kings Mountain, North Carolina facility, as well as the transfer of U.S. customer relationships to the Sony DADC (collectively, the "Sony Sale"). On December 31, 2008, the Sony Sale closed. In accordance with the Agreement, the EDC received \$26.0 million in cash at closing and will receive by the end of April 2009 an additional approximate \$1.5 million for equipment sold to Sony DADC pursuant to the Agreement and \$0.6 million for inventory acquired. The \$26.0 million purchase price is subject to certain post-closing working capital adjustments, as provided in the Agreement. The Agreement also provides for up to \$2.0 million as contingent consideration related to the transferred operations achieving target criteria during 2009. The Agreement includes customary representations and warranties accompanied by certain limited indemnification rights, secured by a second lien on EDC's U.S. assets in favor of Sony DADC.

The Company's Kings Mountain, North Carolina facility, which was not disposed of in the Sony Sale, was written down to its fair market value of \$7.0 million and reclassified as held for sale in the accompanying consolidated balance sheet.

At March 31, 2009 and December 31, 2008, the Company recorded a gain on the Sony sale as follows:

|  | December 31, 2008 | Adjustments | March 31, 2009 |
|--|-------------------|-------------|----------------|
| <b>Assets Sold and Liabilities Assumed</b> |                   |             |                |
| Accounts receivable                        | \$ (381)          | \$ -        | \$ (381)       |
| Inventory                                  | (820)             | -           | (820)          |
| Other current assets                       | (198)             | -           | (198)          |
| Fixed assets                               | (7,532)           | -           | (7,532)        |
| Intangible assets                          | (6,368)           | -           | (6,368)        |
| Accounts payable                           | 163               | -           | 163            |
| Accrued liabilities                        | 878               | -           | 878            |
|  | \$ (14,258)       | \$ -        | \$ (14,258)    |
| Other expenses                             | (10,488)          | -           | (10,488)       |
| Transaction costs                          | (600)             | -           | (600)          |
|  | \$ 25,346         | \$ -        | \$ 25,346      |
| Proceeds                                   | 28,058            | 128         | 28,186         |
| Gain on sale                               | \$ 2,712          | \$ 128      | \$ 2,840       |

The operating results of the Company's EDC U.S. operations are classified as discontinued operations for all periods presented in the consolidated statements of operations. Additionally, the Company reported all the remaining EDC U.S. operations assets at their net realizable value in the consolidated balance sheet as of March 31, 2009 and December 31, 2008.



Severance charges are being recorded over the employees' service period. The Company recorded severance charges amounting to \$0.9 million for the year ended December 31, 2008. During the first quarter of 2009, the Company recorded \$0.7 million in severance related costs related to its exit plan. The Company paid out approximately \$0.8 million in severance in the first quarter of 2009 and as of March 31, 2009 \$0.8 million is recorded in current liabilities, discontinued operations in the accompanying consolidated balance sheets. All severance payments are expected to be paid by the end of the second quarter of 2009.

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Results for the EDC U.S. Operations consist of the following:

|   | Three Months Ended March 31, |            |
|---|------------------------------|------------|
|   | 2009                         | 2008       |
| Net sales                                   | \$ -                         | \$ 24,463  |
| Loss from discontinued operations:          |                              |            |
| Loss from operations before income taxes    | (1,727)                      | (4,410)    |
| Provision for income taxes                  | -                            | -          |
| Loss from operations                        | \$ (1,727)                   | \$ (4,410) |
| Loss on disposal before income taxes        | 128                          | -          |
| Provision for income taxes                  | -                            | -          |
| Loss on disposal of discontinued operations | 128                          | -          |
| Loss from discontinued operations           | \$ (1,599)                   | \$ (4,410) |

The loss from discontinued operations consists of operating losses for the Company's EDC U.S. operations. Certain estimates and assumptions were made in determining the net realizable value related to the discontinued assets and operating results noted above. Interest expense was allocated to the discontinued EDC U.S. Operations based on debt incurred to finance its acquisition and its working capital needs, including the Universal loan. In total, the Company allocated \$0.1 million and \$0.5 million of interest expense from continuing operations to discontinued operations in the three months ended March 31, 2009 and 2008, respectively. There is no provision or benefit for income taxes recorded due to the uncertainty about the Company's ability to utilize NOLs.

The classes of assets and liabilities included as part of the sale of the Company's EDC U.S. operations are reported as discontinued operations on the Company's consolidated balance sheet as follows:

|                                     | March 31,<br>2009 | December 31,<br>2008 |
|-------------------------------------|-------------------|----------------------|
| <b>Current Assets</b>               |                   |                      |
| Accounts receivable                 | \$ 72             | \$ 5,093             |
| Inventory                           | -                 | 515                  |
| Prepaid and other current assets    | 2,355             | 3,082                |
|                                     | \$ 2,427          | \$ 8,690             |
| <b>Current Liabilities</b>          |                   |                      |
| Accounts payable                    | \$ 163            | \$ 3,268             |
| Accrued employee wages and benefits | 1,119             | 1,651                |
| Accrued income and other taxes      | 59                | 2                    |
| Accrued other                       | 2,069             | 4,759                |
|                                     | \$ 3,410          | \$ 9,680             |
| <b>Non-Current Liabilities</b>      |                   |                      |
| Other                               | -                 | 41                   |
|                                     | \$ -              | \$ 41                |



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## (b) Messaging and Paging

The operating results of the Messaging and Paging segments are classified as discontinued operations for all periods presented in the condensed consolidated statements of operations. Additionally, we reported all of the remaining Messaging and Paging segment assets at their estimated net realizable value in the condensed consolidated balance sheet as of March 31, 2009 and December 31, 2008.

Results for discontinued operations consist of the following:

|   | Three Months Ended March 31, |          |
|---|------------------------------|----------|
|   | 2009                         | 2008     |
| Net sales   | \$ -                         | \$ -     |
| Income (loss) from discontinued operations:       |                              |          |
| Income (Loss) from operations before income taxes | 3                            | (32)     |
| Benefit for income taxes                          | (362)                        | (1,199)  |
| Income from operations                            | \$ 365                       | \$ 1,167 |
| Gain on disposal before income taxes              | -                            | -        |
| Provision for income taxes                        | -                            | -        |
| Gain on disposal of discontinued operations       | -                            | -        |
| Income from discontinued operations               | \$ 365                       | \$ 1,167 |

The income from discontinued operations consists of operating losses incurred in the Messaging and Paging segments. The three month periods ended March 31, 2009 and 2008 include credits of \$0.4 million and \$1.2 million, respectively, for expiration of tax-related statutes of limitation, offset by additional interest and the impact of foreign currency movements on tax contingencies.

## 14. Segment Reporting

The Company has only one reportable segment, EDC, which consists of its optical disc manufacturing and distribution operations. EDC has two product categories: product representing the manufacturing of optical discs and services representing our distribution of optical discs. The interim results are not necessarily indicative of estimated results for a full fiscal year. The first half of each calendar year is typically the lowest point in the revenue cycle for our business.

Universal accounted for revenues of \$33.0 million and \$43.0 million, or 80.0% and 73.2% of total revenues for the three months ended March 31, 2009 and 2008, respectively, and was the only customer to exceed 10% of total revenues.

## Geographic Area

|  | Three Months Ended March 31, |      |
|--|------------------------------|------|
|  | Revenues                     |      |
|  | 2009                         | 2008 |

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|                |           |           |
|----------------|-----------|-----------|
| United Kingdom | 8,829     | 14,582    |
| Germany        | 30,980    | 42,676    |
| Other          | 1,442     | 1,409     |
| Consolidated   | \$ 41,251 | \$ 58,667 |

Revenues are reported in the above geographic areas based on product shipment destination and service origination.

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15. Loss per Common Share

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of shares issuable upon the exercise of outstanding stock options or other stock-based awards during the period using the treasury stock method, if dilutive.

The following table sets forth the computation of loss per share (1):

|   | Three Months Ended March 31, |            |
|---|------------------------------|------------|
|   | 2009                         | 2008       |
| Numerator:  |                              |            |
| Income (loss) from continuing operations attributable to common shareholders                    | \$ 644                       | \$ (3,066) |
| Loss from discontinued operations, net of tax attributable to common shareholders               | (1,327)                      | (3,154)    |
| Gain on sale of EDC U.S. Operations   | 128                          | -          |
| Net loss attributable to common shareholders  | \$ (555)                     | \$ (6,220) |
| Denominator:  |                              |            |
| Denominator for basic loss per share - weighted average shares                                  | 6,707                        | 7,007      |
| Effect of dilutive securities: restricted stock awards  | -                            | -          |
| Denominator for diluted loss per share-adjusted weighted average shares and assumed conversions | 6,707                        | 7,007      |
| Income (loss) per weighted average common share (2):  |                              |            |
| Income (loss) from continuing operations attributable to common shareholders                    | \$ 0.10                      | \$ (0.44)  |
| Loss from discontinued operations, net of tax attributable to common shareholders               | (0.20)                       | (0.45)     |
| Gain on sale of EDC U.S. Operations   | 0.02                         | -          |
| Loss attributable to common shareholders  | \$ (0.08)                    | \$ (0.89)  |
| Income (loss) per weighted average common share (2):  |                              |            |
| Income (loss) from continuing operations attributable to common shareholders                    | \$ 0.10                      | \$ (0.44)  |
| Loss from discontinued operations, net of tax attributable to common shareholders               | (0.20)                       | (0.45)     |
| Gain on sale of EDC U.S. Operations   | 0.02                         | -          |
| Loss attributable to common shareholders  | \$ (0.08)                    | \$ (0.89)  |

|  |     |     |
|--|-----|-----|
| Dilutive securities not included above due to anti-dilutive effect | 4   | 1   |
| Anti-dilutive securities not included above: stock options         | 142 | 141 |

(1) All shares and per share amounts displayed in the above table reflect the effect of the reorganization as disclosed in the Company's Annual Report on 10-K for the year ended December 31, 2008

(2) Income (loss) per weighted average common share amounts are rounded to the nearest \$.01; therefore, such rounding may impact individual amounts presented.

There were no shares issuable upon the exercise of outstanding stock options or other stock-based awards included in the calculation of diluted loss per share for the three months ended March 31, 2009 and March 31, 2008, as their effect would be anti-dilutive.

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16. Commitments and Contingencies

Litigation

In addition to the legal proceedings discussed below, we are, from time to time, involved in various disputes and legal actions related to our business operations. While no assurance can be given regarding the outcome of these matters, based on information currently available, we believe that the resolution of these matters will not have a material adverse effect on our financial position or results of our future operations. However, because of the nature and inherent uncertainties of litigation, should the outcome of these actions be unfavorable, our business, financial condition, results of operations and cash flows could be materially adversely affected.

**Arbitration Claim under the International Distribution Agreement.** On February 27, 2009, EDC, at its election, provided notice to Universal International Music B.V. (“UIM”) of its demand to arbitrate certain allegations by UIM, which EDC believes lack any merit, that EDC had triggered certain “Key Failures” (or defaults) as defined in the International Distribution Agreement between EDC and UIM dated May 31, 2005 (the “International Distribution Agreement”). UIM is part of the Universal Music Group, which is EDC’s largest customer. EDC’s demand to arbitrate was in response to a notice from UIM dated February 19, 2009 alleging certain Key Failures related to EDC’s performance levels in July through December of 2008. In connection with the February 19, 2009 notice, UIM withdrew a prior Failure Notice issued on December 11, 2008, which notice EDC had also objected to and which EDC and UIM had been attempting to resolve in an amicable manner. However, the February 19, 2009 notice from UIM purported to be a substitution and restatement of many of the same underlying allegations set forth in the withdrawn December 11, 2008 notice and EDC determined that further attempts to resolve the matter amicably would not be successful. Accordingly, EDC determined to proceed to binding arbitration under the International Distribution Agreement. At this time, both parties are in the process of selecting arbitrators for the matter and no date for the arbitration has been set.

Under the International Distribution Agreement, EDC has various service level obligations it is required to maintain. Repeated failures to meet those service level obligations can result in Key Failures. In its February 27 2009 notice, UIM alleged that EDC has incurred two Key Failures. EDC believes neither of the Key Failures are valid. Even if a Key Failure had been validly established by UIM, EDC is provided with a contractual opportunity to cure such. However, as EDC believes that no Key Failure has occurred, it has provided notice to UIM that, despite its willingness to work with UIM to cure any valid Key Failure, it is unable to do so with regard to an invalid Key Failure.

There are various penalties for both cured and uncured Key Failures. Depending on whether one or two Key Failures were found valid by an arbitrator, and whether EDC were able to cure any such valid Key Failures, EDC could face the following penalties: Upon each of the first two uncured Key Failures occurring within a five-year period, UIM has the right to source 30% of its distribution requirements under the International Distribution Agreement and / or 30% of its manufacturing requirements under the International Manufacturing Agreement between UIM and EDC dated May 31, 2005 (together with the International Distribution Agreement, the “Supply Agreements”) from a third party for a period of 12 months or receive liquidated damages in the amount of \$0.6 million as a credit against its payments under such contract. In addition, based upon the nature of the Key Failures alleged by UIM and the timeframes in which they occurred, EDC would also face penalties for those two Key Failures – if they are held to be valid – even if both Key Failures were cured. The penalty in such an event, for both uncured Key Failures combined, would be the right by UIM to source 30% of its requirements under the Supply Agreements from a third party for a



period of 12 months or receive liquidated damages in the amount of approximately \$0.6 million as a credit against its payments under such contract.

Upon the occurrence of additional Key Failures (which UIM has not asserted), additional penalties apply as follows. Upon the occurrence of three Key Failures within a five year period of the same category, UIM has the right to either source 100% of its distribution requirements under the International Distribution Agreement from a third party for the remaining term of the contract, terminate such contract outright or receive liquidated damages in the amount of \$1.7 million as a credit against its payments under such contract. Upon the occurrence of four Key Failures within a five year period of any category, UIM has the right to either source 30% of its distribution requirements under the International Distribution Agreement from a third party for a period of 12 months, terminate such contract outright or receive liquidated damages in the amount of \$0.6 million as a credit against its payments under such contract. The occurrence of five Key Failures within a five year period of any category, whether cured or uncured, would provide UIM with the same damages as three Key Failures within a five year period of the same category.

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(Unaudited)

As described above, EDC believes that no Key Failures have occurred and intends to vigorously defend its position in arbitration but at this early stage in these matters, EDC is not able to assess the likelihood of a favorable outcome. If EDC is unsuccessful in arbitration, the alleged Key Failures could result in substantial liquidated damages or the loss of volumes that, based on the high fixed cost nature of EDC's distribution operations, would have a material adverse effect on its profitability. In addition, as described above, subsequent Key Failures – even if cured – could result in even greater damages and the ultimate right of UIM to terminate the International Distribution Agreement.

**Shareholder Derivative Actions:** On September 6, 2006, Vladimir Gusinsky (“Gusinsky”), a Company shareholder, commenced a derivative action (the “Gusinsky Action”) in the Supreme Court of the State of New York, New York County, against EDCI (as nominal defendant) and against certain of EDCI's current and former officers and directors as defendants. The complaint, as amended in December 2006 and January 2007, purportedly on behalf of EDCI, contained a variety of allegations relating to the backdating of certain stock option grants. On January 26, 2007 and February 7, 2007, two additional derivative actions were commenced in the United States District Court for the Southern District of New York by two different Company shareholders, Larry L. Stoll and Mark C. Neiswender, respectively (the “Subsequent Actions”). The Subsequent Actions were identical to each other, and asserted the same claims as those asserted in the Gusinsky Action regarding a subset of the same option grants at issue in that action along with additional claims alleging violations of federal securities laws.

A Special Litigation Committee of the Board of Directors of EDCI, following an internal investigation, concluded that there was no conclusive or compelling evidence that any of the named defendants in the lawsuits breached the fiduciary duties of care or loyalty, or acted in bad faith with respect to their obligations to EDCI or its shareholders, and further concluded that it would not be in EDCI's best interest to pursue any claims with respect to these grants. EDCI also restated certain financial statements as a result of this internal investigation.

On January 30, 2008, all parties to the Gusinsky Action and the Subsequent Actions entered into an agreement to settle both actions. The agreement was subject to the approval of the Court. Pursuant to the settlement agreement, EDCI's insurer agreed to pay plaintiffs' counsel in the Gusinsky Action and the Subsequent Actions for their fees and expenses, and to pay for the costs of notifying the Company's shareholders of the settlement. EDCI also implemented certain changes to its Equity Compensation Policy and adopted related reform policies. In exchange, the plaintiffs in both the Gusinsky Action and the Subsequent Actions agreed to dismiss their claims with prejudice, forego any appeals and release all the defendants from all claims that were or could have been asserted in either action and arise out of or are based upon or relate in any way to any of the allegations set forth in the complaints. The papers in support of preliminary approval of the settlement were filed in the Gusinsky Action on January 31, 2008 and on April 30, 2008 the Court granted preliminary approval of the settlement and scheduled a settlement hearing. On September 17, 2008, the Court issued a final order approving the settlement, but denying plaintiffs' counsels' application for fees and expenses. A judgment to that effect was then entered by the Court on September 25, 2008.

On October 23, 2008, plaintiffs in the Subsequent Actions moved for leave to reinstate their appeal of the federal court's dismissal of the Subsequent Actions on the basis that the state court should not have approved the settlement. On January 12, 2009, the federal court denied that motion. The plaintiffs in the state court action have until July, 2009 to perfect their appeal under state law from that aspect of the state court decision which denied their application for attorney's fees.

**Patent Litigation:** In March 2008, EDC was served as a defendant in an action by Koninklijke Philips Electronics N. V. and U.S. Philips Corporation, pending in the U. S. District Court for the Eastern District of Texas, Beaumont

Division, filed on January 18, 2008. This complaint was dismissed without prejudice on April 30, 2008 and a substantially similar action was filed in the U.S. District Court for the Southern District of New York (the “NY Complaint”) on April 30, 2008. In the NY Complaint, plaintiffs allege breach of contract for failure to pay royalties and patent infringement and claim unspecified damages and, in addition to naming EDC and the Company, have named James Caparro and Jordan Copland as defendants in their capacities as former CEOs of EDC. EDC does not believe the complaint has merit, intends to vigorously defend this action and believes it has indemnification rights under certain contractual arrangements covering a substantial portion of the alleged infringement but at this early stage in the matter, EDC is not able to assess the likelihood of a favorable outcome. The case is still pending and discovery and motion practice are continuing. The most recent event is the Court’s denial of plaintiffs’ motion for a summary judgment that EDC breached the contract. Pending before the Court is a motion for summary judgment by EDC that there is no patent infringement. In July 2008, Koninklijke Philips Electronics N.V. filed a similar claim with the Brunswick Regional Court in Germany against a subsidiary of EDC, demanding payment of approximately \$1.8 million plus interest. EDC has filed a defense and has received a court summons for May 28, 2009 to appear before the Regional Court of Hannover. EDC does not believe the case has merit, intends to vigorously defend this actions and believes it has indemnification rights covering a substantial portion of the claim, but at this early stage in the matter, EDC is not able to assess the likelihood of a favorable outcome.

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(Tabular Amounts in Thousands Except per Share Amounts)  
(Unaudited)

17. New Accounting Pronouncements

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS No. 162 is effective 60 days following approval by the U.S. Securities and Exchange Commission (“SEC”) of the Public Company Accounting Oversight Board’s amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. We are currently evaluating the potential impact of the adoption of SFAS No. 162 on our consolidated financial statements.

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

We, from time to time, make “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements reflect the expectations of management at the time such statements are made. The reader can identify such forward-looking statements by the use of words such as “may,” “will,” “should,” “expects,” “plan,” “anticipates,” “believes,” “estimates,” “predicts,” “intend(s),” “potential,” “continue,” or the negative of such terms, or comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements.

These forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors including those set forth in Part I, Item 1A — Risk Factors of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which factors are specifically incorporated herein by this reference. All forward-looking statements included in this quarterly report on Form 10-Q are based on information available to us on the date hereof. We assume no obligation to update any forward-looking statements and do not intend to do so.

### Overview

EDCI Holdings, Inc. (“EDCIH”) is a holding company and parent of Entertainment Distribution Company, Inc. which, together with its wholly owned and controlled majority owned subsidiaries, is a multi-national company that is seeking to enhance stockholder value by pursuing acquisition opportunities while continuing to oversee its majority investment in Entertainment Distribution Company, LLC (“EDC”), a business operating in the optical disc manufacturing and distribution segment of the entertainment industry. EDCIH’s principal executive offices are located in New York City at 1755 Broadway, 4th Floor, New York, New York, 10019. In this Form 10-Q, the terms “we,” “us,” “our” and “the Company” each refer to EDCI Holdings, Inc. and its wholly-owned and controlled majority owned subsidiaries on a consolidated basis unless the context requires otherwise. The term “EDCI” refers only to EDCI Holdings, Inc. and its direct and indirect wholly-owned subsidiaries, and the term “EDC” refers only to Entertainment Distribution Company, LLC (“EDC”), and its direct and indirect wholly-owned subsidiaries.

EDC is an industry leader in providing pre-recorded products and distribution services to the optical disc industry with operations currently serving central Europe and the United Kingdom (“UK”). EDC was formed by the acquisition of the U.S. and central European CD and DVD manufacturing and distribution operations from Universal Music Group (“Universal”) in May 2005. As part of the transaction, EDC entered into supply agreements with Universal with initial terms of 10 years under which EDC became the exclusive manufacturer and distributor for Universal’s CD and DVD manufacturing requirements and distribution requirements for the U.S. and central Europe.

EDC’s core competencies are CD and DVD replication and logistic services, a market in a secular decline. As an independent service provider, EDC is pursuing opportunities to increase revenue by providing a wide range of physical manufacturing, distribution and value added services to entertainment content owners and their customers. These opportunities consist of manufacturing and/or distribution services agreements with existing or new customers. The rate of decline experienced in EDC’s international markets is, as yet, not nearly as severe as that experienced in the U.S. market. On March 20, 2009, the Board of Directors of EDC approved a plan to consolidate EDC’s Blackburn, UK and Hannover, Germany manufacturing volumes within the Hannover facility. As a result, EDC intends to cease by year-end 2009 substantially all operations presently conducted at its Blackburn facility in the United Kingdom, and resultantly produce all of the manufacturing volume for Universal, its largest customer, in EDC’s Hannover plant through the expiration of the Universal manufacturing agreements in May 2015. Consummation of the Consolidation transaction requires the consent of the lenders pursuant to EDC’s credit facility. We are currently in negotiations to

obtain the consent of the lenders to proceed with the Consolidation transaction but have yet to reach an agreement.

## Results of Continuing Operations

Three months ended March 31, 2009 compared to the three months ended March 31, 2008

Revenues. Revenues for the first quarter of 2009 were \$41.3 million compared to \$58.6 million for the first quarter of 2008. The following table illustrates the components of changes in our revenue when comparing the first quarter of 2008 to the first quarter of 2009 by revenue line.

| (in millions)    | March 31, 2008 | Volume   | Price/Mix | Exchange Rate | March 31, 2009 |
|------------------|----------------|----------|-----------|---------------|----------------|
| Product Revenues | \$ 43.1        | \$ (4.1) | \$ (1.1)  | \$ (6.8)      | \$ 31.1        |
| Service Revenues | 15.5           | (3.4)    | (0.3)     | (1.6)         | 10.2           |
| Total Revenue    | \$ 58.6        | \$ (7.5) | \$ (1.4)  | \$ (8.4)      | \$ 41.3        |

Product Revenues. Product revenues were \$31.1 million in the first quarter of 2009 compared to \$43.1 million in the first quarter of 2008. The decrease is primarily due to unfavorable exchange rate fluctuations from the devaluing of the Euro and Pound and volume declines. Our central European operations were negatively impacted by lower revenue from our primary customer and unfavorable exchange rate fluctuations. Revenues of our UK operations in the first quarter of 2009 decreased compared to the first quarter of 2008 primarily due to unfavorable exchange rate fluctuations and lower volumes slightly offset by improved pricing.

Service Revenues. Service revenues were \$10.2 million in the first quarter of 2009 compared to \$15.5 million in the first quarter of 2008. Our central European operations experienced a decrease in volumes in the first quarter of 2009 compared to the same period of 2008 primarily due to the loss of a significant customer, revenues for which were included in the first quarter 2008, and unfavorable exchange rate fluctuations.

Gross Profit on Product Revenues and Service Revenues. Gross profits were 13.5% of revenues during the first quarter of 2009 compared to 18.9% of revenues in the first quarter of 2008. The following table shows the elements impacting our gross profit when comparing the first quarter of 2008 to the first quarter of 2009 by revenue line.

| (in millions)      | March 31, 2008 |       | Volume   |       | Cost/Mix |       | Exchange Rate |       | March 31, 2009 |       |
|--------------------|----------------|-------|----------|-------|----------|-------|---------------|-------|----------------|-------|
|                    | \$             | %     | \$       | %     | \$       | %     | \$            | %     | \$             | %     |
| Product Revenues   | \$ 6.1         | 14.2% | \$ (1.4) | -1.9% | \$ (1.0) | -1.5% | \$ (0.6)      | -0.8% | \$ 3.1         | 10.0% |
| Service Revenues   | 5.0            | 32.1% | (1.1)    | -3.5% | (1.0)    | -3.1% | (0.4)         | -1.3% | 2.5            | 24.2% |
| Total Gross Profit | \$ 11.1        | 18.9% | \$ (2.5) | -2.5% | \$ (2.0) | -1.9% | \$ (1.0)      | -1.0% | \$ 5.6         | 13.5% |

Product Revenues. Gross profit on product revenues was \$3.1 million, or 10.0% of product revenues, in the first quarter of 2009 compared to \$6.1 million, or 14.2% of product revenues, in the first quarter of 2008. Gross profit of our UK operations decreased as a result of volume declines, redundancy costs and unfavorable exchange rate fluctuations. Gross profit in our central European operations decreased in the first quarter of 2009 compared to the first quarter of 2008 primarily due to deteriorating special projects pricing and lower volumes.

Service Revenues. Gross profit on service revenues was \$2.5 million, or 24.2% of service revenues, in the first quarter of 2009 compared to \$5.0 million, or 32.1% of service revenues, in the first quarter of 2008. Our central European operations gross profit on service revenues declined in the first quarter of 2009 compared to the first quarter of 2008

primarily due to volume declines, which included the loss of a significant customer for which high margins were received and unfavorable exchange rate impact.

**Selling, General and Administrative Expense (SG&A).** SG&A expense was \$7.1 million in the first quarter of 2009 compared to \$9.5 million in the first quarter of 2008. The decrease is primarily due to exchange rate fluctuations, lower professional fees and a decrease in compensation.

**Amortization of Intangible Assets.** There was no amortization expense in the first quarter of 2009 compared to \$1.6 million in the first quarter of 2008. During the fourth quarter of 2008, the Company conducted an impairment analysis of its intangible assets, which resulted in a complete write-off of the Company's central European intangible assets.



## Other Income (Expenses)

**Interest Income.** Interest income in the first quarter of 2009 was \$0.2 million compared to \$1.1 million in the first quarter of 2008. Our interest income is primarily derived from income earned on excess cash held in interest-bearing money market accounts, treasury bills and short-term investments. The decrease reflects significantly lower interest rates based on our very conservative investment policy during the first quarter of 2009.

**Interest Expense.** Interest expense in the first quarter of 2009 was \$0.2 million compared to \$0.6 million in the first quarter of 2008. Our interest expense includes interest on our term debt and revolving credit facility, amortization of debt issuance costs, amortization of interest on our rebate obligations with Universal and interest due on loans to EDC by employees of our central European operations under a government regulated employee savings plan. The decrease was primarily due to a combination of lower outstanding balances and lower interest rates on our debt and reduced amortization of interest on our rebate obligations with Universal during the first quarter of 2009.

**Gain (Loss) on Currency Swap, net.** We recorded a gain on our currency swap of \$2.1 million in the first quarter of 2009 compared to a loss of \$2.6 million in the first quarter of 2008. In January 2009, the Euro weakened against the U.S. dollar and we were able to settle the cross currency swap for \$2.1 million. The swap was recorded at its fair value of \$4.2 million at the time of the settlement and thus a gain of \$2.1 million was recognized on the transaction.

**Gain (Loss) on Currency Transaction, net.** We recorded a loss of less than \$0.1 million in the first quarter of 2009 compared to a loss of \$0.6 million in the first quarter of 2008 on intercompany transactions with our international operations denominated in their local currency.

**Income Taxes.** We recorded an income tax benefit of \$0.2 million in the first quarter of 2009 compared to expense of \$0.5 million in the first quarter of 2008. Taxable income from our central European operations was lower in the first quarter of 2009 than in the first quarter of 2008. No tax benefit has been provided for losses in the UK or U.S. We currently maintain a partial valuation allowance against our UK deferred tax assets due to projected future pretax losses. Additionally, we continue to maintain a full valuation allowance on our U.S. deferred tax assets until we reach an appropriate level of profitability in the U.S. In the event we determine that we will be able to realize our deferred tax assets in the future, an adjustment to the valuation allowance would increase income in the period such determination is made.

## Financial Condition and Liquidity

### Overview

At March 31, 2009, we had cash and cash equivalents totaling \$75.7 million of which \$51.9 million was cash held by EDCI and \$23.8 million was cash held at EDC. At March 31, 2009, the principal sources of liquidity were our unrestricted cash and cash equivalents and the \$2.5 million unused revolving line of credit under the EDC Senior Secured Credit Facility, which expires on June 30, 2010.

EDCI's investment policy permits investment in other highly-rated instruments, including: obligations of the U.S. government or U.S. government sponsored enterprises; Bankers' acceptances and certificates of deposits; money market funds; municipal securities; auction rate securities and other reset notes; corporate obligations and repurchase agreements backed by the U.S. government or U.S. government sponsored enterprises. No more than 10% of the total portfolio may be invested in the securities of any one issuer (other than treasury and money market funds). In addition, on March 10, 2009, the policy was amended to permit the investment of up to \$10 million in below-investment-grade funds that are traded on a recognized stock exchange, subject to authorization from both the CEO and Chairman of EDCI.

At March 31, 2009, EDCI had investments of \$1.0 million in auction-rate securities. Due to the uncertainty surrounding the liquidation of the investments, these investments have been classified as long-term on our consolidated balance sheet at March 31, 2009.

EDC expects to use its cash and cash equivalents for working capital and other general corporate purposes. EDC also expects to use its cash and cash equivalents for payments of debt obligations. EDCI plans to use its cash and cash equivalents in connection with its acquisition strategy. We believe that the liquidity position of each of EDCI and EDC are adequate to fund their operating needs and, in the case of EDC, to fund its debt maturities in 2009 and to provide EDC with flexibility to respond to further changes in its business environment. The challenges of the present business environment as well as risks related to the planned Blackburn – Hannover Consolidation may cause a material reduction in EDC's liquidity as a result of an adverse change in its cash flow from operations or its access to credit or other capital. EDC's ability to service its debt and operational requirements depends in part on the results of operations of its European subsidiaries and upon the ability of those subsidiaries to repay intercompany loans or otherwise distribute cash to EDC's U.S. entities.

## Derivative Activities

EDC entered into a cross currency rate swap agreement with a commercial bank on May 31, 2005. The objective of this swap agreement was to manage foreign currency exposure arising from EDC's intercompany loan to its German subsidiary, and is therefore for purposes other than trading. In January 2009, the U.S. dollar strengthened versus the Euro and EDC was able to settle the currency swap obligation for \$2.1 million on January 23, 2009.

## Cash Flows

**Operating Activities.** Cash provided by operating activities in the three months ended March 31, 2009 was \$1.3 million compared to cash used in operating activities of \$7.2 million in the three months ended March 31, 2008. The positive cash flows from operating activities in the 2009 period was primarily due to working capital changes of \$1.4 million and changes in other assets of \$0.9 million offset by \$1.3 million in losses (adjusted for non-cash items). The working capital changes in the three months ended March 31, 2009, including charges in current assets and liabilities classified as discontinued operations on the condensed consolidated balance sheet, were primarily driven by decreases in accounts receivable, inventory and prepaid and other current assets of \$8.7 million, \$1.2 million and \$0.5 million, respectively, offset by decreases in accrued liabilities and income taxes of \$4.6 million and accounts payable of \$4.3 million. Income (adjusted for non-cash items) weakened by \$3.2 million from income (adjusted for non-cash items) of \$1.9 million for the three months ended March 31, 2008 primarily due to lower sales volume in the three months ended March 31, 2009.

Working capital changes in the three months ended March 31, 2009 included, without limitation:

A decrease of \$8.7 million in accounts receivable in the first quarter of 2009 compared to a decrease of \$6.5 million in the first quarter of 2008. The overall decrease in AR reflects the collection of significant accounts receivable balances related to our now discontinued U.S. operations, which were outstanding at year end and the decrease in sales volumes in the first quarter of 2009 compared to the first quarter of 2008.

A decrease of \$4.3 million in accounts payable in the first quarter of 2009 compared to a decrease of \$8.3 million in the first quarter of 2008. The first quarter of 2009 reflects the payment of accounts payable balances related to our now discontinued U.S. operations, which were outstanding at year end and lower purchasing levels in our continuing operations as volumes have declined as well as the timing of when payments were made compared to the first quarter of 2008.

A decrease of \$4.6 million in accrued liabilities and income taxes payable for the first quarter 2009 compared to a decrease of \$7.4 million in the first quarter of 2008. The decrease in the first quarter of 2009 is primarily due to decreases in VAT accruals and compensation-related accruals in the UK. The first quarter of 2008 included payments of \$6.1 million for German income taxes and payments of \$1.1 million related to severance.

A decrease of \$0.5 million in prepaid expenses and other current assets in the first quarter of 2009 compared to an increase of \$2.3 million in the first quarter of 2008. The decrease in the first quarter of 2009 was driven primarily by the collection of a tax refund of approx \$0.8 million in the UK, which was recorded as a receivable at the end of 2008 and a decrease of approximately \$0.8 million for billings related to pass through costs in Germany offset by an increase of \$0.9 million in receivables recorded related to the sale of certain EDC U.S. assets to Sony DADC, Inc. The first quarter of 2008 included \$4.8 million in prepayments for income taxes in Germany and the UK.

A decrease of \$1.2 million in inventories in the first quarter of 2009 compared to a decrease of \$1.4 million in the first quarter of 2008. The decrease in both periods reflects the usage of seasonally high raw material inventories and lower purchases during the period at all locations.



**Investing Activities.** Investing activities in the three months ended March 31, 2009 included the release of \$3.2 million of funds that were escrowed and used to pay costs directly related to the discontinued EDC U.S. operations and collection of approximately \$1.4 million in proceeds related to the sale of certain EDC U.S. operations assets to Sony DADC, Inc. Also during the three months ended March 31, 2009, we had capital expenditures of \$0.4 million.

**Financing Activities.** During the three months ended March 31, 2009, we made payments of \$0.8 million under our long-term debt and capital lease obligations and \$1.0 million under our employee loan agreements. Also, on January 23, 2009, we paid \$2.1 million to settle our cross currency swap.

EDC has a Senior Secured Credit Facility with Wachovia Bank, National Association, as agent, for an aggregate principal amount of \$9.8 million, consisting of a term facility of \$7.3 million, and a revolving credit facility of up to €2.0 million (subject to a maximum \$2.5 million based on prevailing interest rates). There were no outstanding borrowings under the revolving credit facility at March 31, 2009. Substantially all of EDC's assets are pledged as collateral to secure obligations under the Senior Secured Credit Facility.

During the first quarter of 2009, the Senior Secured Credit Facility was amended as noted below:

On March 27, 2009, EDC completed an amendment to the facility which changed the EBITDA definition as follows: for the fiscal quarter ended December 31, 2008, and each fiscal quarter thereafter, EBITDA shall be calculated by adding back impairment charges, non-cash charges and one-time charges for the Sony Sale and any charges related to U.S. operations or discontinued operations (but not including any ongoing overhead from U.S. operations), and impairment charges pertaining to the write-down of intangibles of the German operations, which charges to be added back shall not exceed, in the aggregate, \$30,000,000, to the extent such charges were deducted for the applicable period.

EDC's term loan expires on December 31, 2010. EDC's Senior Secured Credit Facility bears interest, at EDC's option, at either: (a) the higher of (i) the Prime Rate in effect and (ii) the Federal Funds Effective Rate in effect plus ½ of 1% and a 1.75% margin on the non-cash collateralized portion; or (b) LIBOR plus a 2.0% margin. The applicable LIBOR is determined periodically based on the length of the interest term selected by us. The weighted average interest rate on outstanding debt was 3.46% at March 31, 2009. In addition to interest, EDC pays a commitment fee of 0.5% per annum on the average daily unused amount. Scheduled payments under the term loan are due as follows: \$1.6 million due on December 31 2009, \$2.1 million due on June 30, 2010, and \$3.6 million due on December 31, 2010.

The Senior Secured Credit Facility contains usual and customary restrictive covenants that, among other things, permit EDC to use the revolver only as a source of liquidity for EDC and its subsidiaries and place limitations on (i) EDC's ability to incur additional indebtedness; (ii) EDC's ability to make any payments to EDCI in the form of cash dividends, loans or advances (other than tax distributions) and (iii) asset dispositions by EDC. It also contains financial covenants relating to maximum consolidated EDC's and subsidiaries' leverage, minimum interest coverage and maximum senior secured leverage as defined therein. As of March 31, 2009, we were in compliance with all such covenants, as amended, under the facility.

#### Capital Expenditures

Capital expenditures amounted to approximately \$0.4 million in the three months ended March 31, 2009 and are anticipated to be approximately \$3.0 million for the remaining nine months of 2009. Anticipated expenditures in 2009 primarily relate to expansion costs related to the Blackburn – Hannover consolidation, normal equipment and facility maintenance, replacement and upgrades and efficiency improvements.



## Outlook

### EDC

The difficult operating environment and economic trends that EDC saw in 2008 continued in the first quarter of 2009. With the sale and wind down of EDC's U.S. operations, the sole EDC focus is on maximizing its historically profitable international operations. Industry estimates for decline rates of CD and DVD volumes have been in 10-15% range for 2009, but the challenging economic conditions render such forecasts particularly uncertain. As EDC did in 2008, EDC will continue its cost-savings initiatives and plan to right size operating capacity in 2009 to deal with forecasted and actual volume declines.

### Blackburn – Hannover Consolidation

On March 20, 2009, the Board of Directors of EDC approved a plan to consolidate EDC's Blackburn, UK and Hannover, Germany manufacturing volumes within the Hannover facility (the "Consolidation"). As a result of the Consolidation, EDC intends to cease by year-end 2009 substantially all of the operations presently conducted at its Blackburn facility in the United Kingdom, and resultantly produce all of the manufacturing volume for Universal, its largest customer, in EDC's Hannover plant through the expiration of the Universal manufacturing agreements in May 2015.

EDC is implementing the Consolidation at this time as the result of on an extensive feasibility analysis that was based in part on a particular customer delivering to EDC in early February 2009 a sizable percentage cut in that customer's volume forecast for Blackburn that month. As a result of those and other forecast cuts, reasonable forecasts of continued unpredictability, if not outright erosion of the volume of sales and the pricing of music CDs that comprise substantially all of the business conducted at the Blackburn facility, and the potential loss of credit insurance for UK third party customers and other significant risks associated with continuing to operate in Blackburn, management determined and EDC's Board of Directors confirmed that it was no longer commercially reasonable to continue operating the Blackburn manufacturing facility. EDC Germany has entered into an agreement to provide financial support of up to £5.0 million to EDC Blackburn to insure that EDC Blackburn does not fall into insolvency due to over indebtedness or illiquidity resulting from the planned closure of the Blackburn facility.

Blackburn closure costs currently are forecast at approximately \$8-9 million, comprised primarily of severance costs for approximately 270 employees, costs associated with exiting Blackburn's existing leases and costs associated with relocating equipment, parts and inventory from Blackburn to Hannover. Closure costs will be financed out of existing cash in the United Kingdom with additional financial and other support from the EDC German operations. As a result of continuing to manufacture in Hannover the Universal volume that was previously manufactured in Blackburn, without any significant increase in Hannover's fixed costs, after completion of the consolidation the overall profitability of the European operations is expected to be increased materially compared to what it would have been without such consolidation, resulting in an estimated payback of the closure costs in approximately 2.0 – 2.5 years.

EDC plans to substantially cease Blackburn operations at the end of 2009, after completion of the high-volume "peak" manufacturing period, to limit any potential customer disruption. Final closure of Blackburn is planned to occur prior to the next break option under the Blackburn lease on June 18, 2010. Consummation of the consolidation transaction requires the consent of the lenders pursuant to EDC's credit facility. We are currently in negotiations to obtain the consent of the lenders to proceed with the Consolidation transaction but have yet to reach an agreement amicable to both parties.

### Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our condensed consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates.

In Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, we discussed the critical accounting policies that affect the more significant judgments and estimates used in the preparation of the Company's consolidated financial statements. We believe that there have been no significant changes to such critical accounting policies and estimates during the three months ended March 31, 2009.



### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risk arising from adverse changes in interest rates, foreign exchange, customer credit, and the market for auction rate securities. We have not entered into financial investments for speculation or trading purposes. Our exposure to market risk was discussed in the Quantitative and Qualitative Disclosures About Market Risk section of our Annual Report on Form 10-K for the year ended December 31, 2008. There have been no material changes to such exposure during the three months ended March 31, 2009.

### ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, of the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”)) pursuant to Rule 13a-15 of the Exchange Act. It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. Based on that evaluation, our management, including our Chief Executive Officer, concluded that our disclosure controls and procedures were effective as of March 31, 2009.

During the quarter ended March 31, 2009, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

See Note 16 to the unaudited condensed consolidated financial statements in Part I, Item 1, which discusses material pending legal proceedings to which the Company or its subsidiaries is party and is incorporated herein by reference.

### ITEM 6. EXHIBITS

The exhibits required to be filed as a part of this quarterly report on Form 10-Q are listed in the accompanying Exhibit Index which is hereby incorporated by reference.

SIGNATURES

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

EDCI HOLDINGS, INC.

Date: May 8, 2009

By /s/ Robert L. Chapman, Jr.

Chief Executive Officer

By /s/ Michael D. Nixon

Chief Accounting Officer

(Principal Financial Officer)

EDCI HOLDINGS, INC. AND SUBSIDIARIES  
EXHIBIT INDEX

| Exhibit<br>Number | Description   |
|-------------------|---|
| 3.1               | Composite Certificate of Incorporation of the Registrant reflecting the Certificate of Amendment filed December 8, 1995 was filed as Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995 and is incorporated herein by reference. |
| 3.2               | Restated by-laws of the Registrant effective June 7, 1990, as amended September 21, 1994 was filed as Exhibit 3.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994 and is incorporated herein by reference.                                |
| 3.3               | Certificate of Ownership and Merger of Entertainment Distribution Company Merger Sub, Inc. into Glenayre Technologies, Inc. dated May 10, 2007 was filed May 10, 2007 as Exhibit 3.1 to the Registrant's current report on Form 8-K and is incorporated herein by reference.  |
| 15.1              | Letter regarding unaudited financial information.   |
| 31.1              | Certification of Interim Chief Executive Officer pursuant to Rule 13a – 14(a)/15d – 14(a), Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2              | Certification of Chief Accounting Officer pursuant to Rule 13a – 14(a)/15d – 14(a), Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1              | Certification of Interim Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2              | Certification of Chief Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |