

EDCI HOLDINGS, INC.
Form 10-Q
August 10, 2010

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 June 30, 2010

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.)

11 East 44th Street, New York, NY
(Address of Principal Executive Offices)

10017
(Zip Code)

(646) 401-0084
(Registrant's Telephone Number, Including Area Code)

NOT APPLICABLE
(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):

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

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 August 5, 2010 was 6,730,099 shares.

EDCI Holdings, Inc. and Subsidiaries

Part I – Financial Information:

| Item 1. Financial Statements | Page |
|---|------|
| Consolidated Statement of Changes in Net Assets in Liquidation (Liquidation Basis) for the three and six months ended June 30, 2010 (Unaudited) | 3 |
| Consolidated Statement of Net Assets in Liquidation (Liquidation Basis) as of June 30, 2010 (Unaudited) | 4 |
| Consolidated Balance Sheet (Going Concern Basis) as of December 31, 2009 | 5 |
| Consolidated Statement of Operations (Going Concern Basis) for the three and six months ended June 30, 2009 (Unaudited) | 6 |
| Consolidated Statement of Cash Flows (Going Concern Basis) for the six months ended June 30, 2009 (Unaudited) | 7 |
| Notes to Consolidated Financial Statements (Unaudited) | 8 |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations | 15 |
| Item 4. Controls and Procedures | 17 |

Part II – Other Information:

| | |
|---|----|
| Item 1. Legal Proceedings | 18 |
| Item 6. Exhibits | 18 |
| EX-31.1 SECTION 302, CERTIFICATION OF THE CEO | |
| EX-31.2 SECTION 302, CERTIFICATION OF THE PFO | |
| EX-32.1 SECTION 906, CERTIFICATION OF THE CEO | |
| EX-32.2 SECTION 906, CERTIFICATION OF THE PFO | |

PART I – FINANCIAL INFORMATION

ITEM 1. Financial Statements

EDCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION (LIQUIDATION BASIS)
(IN THOUSANDS)

| | For the Period January 1, 2010 to June 30, 2010 (Unaudited) |
|--|--|
| Common Stockholders' Equity as of December 31, 2009 | \$ 78,397 |
| Effects of adopting the liquidation basis of accounting | |
| Initial adjustment of EDC assets to estimated net realizable value | (18,624) |
| Initial adjustment of liabilities to net settlement amounts | 5,345 |
| Liquidation accrual | (8,261) |
| Net Assets (liquidation basis) as of January 1, 2010 | 56,857 |
| Other | 482 |
| Exercise of stock options | 76 |
| Distributions to stockholders | (21,000) |
| Effect of foreign currency translation | (155) |
| Changes in net assets in liquidation | (20,597) |
| Net assets in liquidation - March 31, 2010 | 36,260 |
| Adjustment to reserve for uncertain tax positions | 2,312 |
| Adjustment to liquidation accrual | (1,052) |
| Other | 849 |
| Effect of foreign currency translation | 330 |
| Changes in net assets in liquidation | 2,439 |
| Net assets in liquidation - June 30, 2010 | \$ 38,699 |

See Notes to Consolidated Financial Statements

EDCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF NET ASSETS IN LIQUIDATION (LIQUIDATION BASIS)
(IN THOUSANDS)

| | June 30, 2010 (Unaudited) |
|--|---------------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 68,347 |
| Restricted cash | 2,846 |
| Investments | 870 |
| Accounts receivable, net | 6,378 |
| Employee benefit receivable from Universal | 1,688 |
| Inventories, net | 3,593 |
| Prepaid expenses and other current assets | 8,705 |
| Deferred income taxes | 1,858 |
| Assets held for sale | 6,400 |
| Total assets | 100,685 |
| LIABILITIES AND NET ASSETS IN LIQUIDATION | |
| Accounts payable | \$ 6,593 |
| Accrued expenses and other liabilities | 12,491 |
| Liquidation accrual | 6,700 |
| Loans from employees | 1,365 |
| Universal rebate payable | 1,693 |
| Deferred income taxes | 66 |
| Reserve for uncertain tax positions | 871 |
| Pension and other defined benefit obligations | 32,061 |
| Total liabilities | 61,840 |
| Noncontrolling interest at estimated value | 146 |
| Total liabilities and noncontrolling interest | 61,986 |
| Net assets in liquidation | 38,699 |

See Notes to Consolidated Financial Statements

EDCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET (GOING CONCERN BASIS)
(IN THOUSANDS)

December 31,
2009

ASSETS

Current Assets:

| | | |
|--|-----------|----------------|
| Cash and cash equivalents | \$ | 78,093 |
| Restricted cash | | 23,492 |
| Accounts receivable, net of allowances for doubtful accounts | | |
| of | | |
| \$2,853 for December 31, 2009 | | 16,446 |
| Current portion of long-term receivable | | 770 |
| Inventories, net | | 3,668 |
| Prepaid expenses and other current assets | | 7,941 |
| Deferred income taxes | | 27 |
| Assets held for sale | | 6,400 |
| Current assets, discontinued operations | | 208 |
| Total Current Assets | | 137,045 |
| Restricted cash | | 3,314 |
| Property, plant and equipment, net | | 16,429 |
| Long-term receivable | | 1,670 |
| Long term investments | | 870 |
| Deferred income taxes | | 1,895 |
| Other assets | | 3,011 |
| TOTAL ASSETS | \$ | 164,234 |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

| | | |
|--|----|--------|
| Accounts payable | \$ | 13,447 |
| Accrued expenses and other liabilities | | 22,496 |
| Income taxes payable | | 553 |
| Loans from employees | | 976 |
| Current portion of long-term debt | | 437 |
| Current liabilities, discontinued operations | | 1,584 |
| Total Current Liabilities | | 39,493 |
| Other non-current liabilities | | 3,592 |
| Loans from employees | | 1,610 |
| Long-term debt | | 1,488 |
| Pension and other defined benefit obligations | | 34,096 |
| Deferred income taxes | | 287 |
| Non-current liabilities, discontinued operations | | - |
| Total Liabilities | | 80,566 |

Commitments and contingencies

Stockholders' Equity:

Preferred stock, \$.01 par value; authorized: 1,000,000
shares, no shares

| | |
|---|-------------------|
| issued and outstanding | - |
| Common stock, \$.02 par value; authorized: 15,000,000 shares | |
| 7,019,436 shares issued 2009 | 140 |
| Additional paid in capital | 371,373 |
| Accumulated deficit | (297,835) |
| Accumulated other comprehensive income | 6,376 |
| Treasury stock at cost: | |
| 333,299 shares | (1,657) |
| Total EDCI Holdings, Inc. Stockholders' Equity | 78,397 |
| Noncontrolling interest in subsidiary company | 5,271 |
| Total Stockholders' Equity | 83,668 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 164,234 |

See Notes to Consolidated Financial Statements

EDCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS (GOING CONCERN BASIS)
(IN THOUSANDS)

| | Three Months Ended June 30, 2009 (Unaudited) | Six Months Ended June 30, 2009 (Unaudited) |
|--|--|--|
| REVENUES: | | |
| Product revenues | \$ 27,271 | \$ 58,352 |
| Service revenues | 10,145 | 20,315 |
| Total Revenues | 37,416 | 78,667 |
| COST OF REVENUES: | | |
| Cost of product revenues | 23,935 | 51,908 |
| Cost of service revenues | 7,740 | 15,448 |
| Total Cost of Revenues | 31,675 | 67,356 |
| GROSS PROFIT | 5,741 | 11,311 |
| OPERATING EXPENSES: | | |
| Selling, general and administrative expense | 6,568 | 13,691 |
| Severance cost for UK facility closure | 7,152 | 7,152 |
| Total Operating Expenses | 13,720 | 20,843 |
| OPERATING LOSS | (7,979) | (9,532) |
| OTHER INCOME (EXPENSE): | | |
| Interest income | 46 | 263 |
| Interest expense | (177) | (408) |
| Gain on currency swap, net | - | 2,111 |
| Loss on currency transaction, net | 518 | 487 |
| Other income, net | 3 | 14 |
| Total Other Income (Expense) | 390 | 2,467 |
| LOSS FROM CONTINUING OPERATIONS, BEFORE INCOME TAXES | (7,589) | (7,065) |
| Income tax benefit | (154) | (308) |
| LOSS FROM CONTINUING OPERATIONS | (7,435) | (6,757) |
| DISCONTINUED OPERATIONS, NET OF TAX: | | |
| LOSS FROM DISCONTINUED OPERATIONS | (1,290) | (2,652) |
| GAIN ON SALE OF EDC U.S. OPERATIONS | 52 | 180 |
| NET LOSS | (8,673) | (9,229) |
| Net loss attributable to noncontrolling interest in subsidiary company | (89) | (90) |
| NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS | \$ (8,584) | \$ (9,139) |

AMOUNTS ATTRIBUTABLE TO EDCI HOLDINGS, INC. COMMON SHAREHOLDERS

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| | | | | |
|-------------------------------------|----|---------|----|---------|
| Loss from continuing operations | \$ | (7,363) | \$ | (6,719) |
| Loss from discontinued operations | | (1,273) | | (2,600) |
| Gain on sale of EDC U.S. Operations | | 52 | | 180 |
| Net Loss | \$ | (8,584) | \$ | (9,139) |

See Notes to Consolidated Financial Statements

EDCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (GOING CONCERN BASIS)
(IN THOUSANDS)

Six Months Ended
June 30, 2009
(Unaudited)

| | |
|--|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net loss | \$ (9,139) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | |
| Gain on sale of EDC U.S. Operations | (180) |
| Depreciation and amortization | 3,269 |
| Stock compensation expense | 208 |
| Unrealized gain on currency swap | (2,111) |
| Foreign currency transaction gain | (487) |
| Severance cost for UK facility closure | 7,152 |
| Gain on adjustment to discontinued operations tax payable | (141) |
| Deferred income tax provision | 60 |
| Non-cash interest expense | 246 |
| Noncontrolling interest in subsidiary company | (90) |
| Other | (377) |
| Changes in operating assets and liabilities, net of effects of business dispositions and acquisitions: | |
| Restricted cash | 599 |
| Accounts receivable | 12,864 |
| Inventories | 1,199 |
| Prepaid and other current assets | 1,820 |
| Long-term receivables | 123 |
| Other assets | 970 |
| Accounts payable | (8,344) |
| Accrued liabilities and income taxes payable | (6,877) |
| Other liabilities | 54 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 818 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchases of property, plant and equipment | (536) |
| Cash restricted under long-term borrowing agreement | 4,770 |
| Proceeds from sale of U.S. operations | 2,134 |
| Purchase of available-for-sale securities | - |
| Proceeds from the sale of short-term securities | - |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 6,368 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Repayment of employee loans | (1,041) |
| Repayment of capital lease obligations | (68) |
| Repayment of long-term borrowing | (1,023) |
| Acquisitions of treasury stock | (85) |
| Settlement of cross-currency swap | (2,093) |
| NET CASH USED IN FINANCING ACTIVITIES | (4,310) |

| | | |
|--|--------|-----------|
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | | 1,011 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 3,887 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 75,112 | |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | | \$ 78,999 |

See Notes to Consolidated Financial Statements

EDCI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS IN LIQUIDATION (Liquidation Basis)
(Tabular Amounts in Thousands)
(Unaudited)

1. Business Overview

EDCI Holdings, Inc. (“EDCI”), the majority shareholder of Entertainment Distribution Company, LLC (“EDC”), a European provider of supply chain services to the optical disc market, is a company engaged in a final Plan of Complete Liquidation and Dissolution (“Plan of Dissolution”). The Plan of Dissolution was approved by EDCI’s shareholders at a Special Meeting held on January 7, 2010. Accordingly, EDCI commenced the voluntary dissolution, liquidation and winding up of the Company in accordance with Delaware law. For financial reporting purposes, the Plan of Dissolution was adopted effective January 1, 2010, as the Company’s operating results during the period January 1, 2010 through January 7, 2010, were nominal.

Upon adoption of the Plan of Dissolution, we have ceased all of EDCI’s business activities except for those relating to winding up EDCI’s business and affairs during a minimum three-year period required under Delaware law, including, but not limited to, gradually settling and closing its business, prosecuting and defending suits by or against EDCI, seeking to convert EDCI’s assets into cash or cash equivalents, discharging or making provision for discharging EDCI’s known and unknown liabilities, making cash distributions to our stockholders, withdrawing from all jurisdictions in which EDCI is qualified to do business and, subject to statutory limitations, taking other actions necessary to wind up the Company’s business affairs. If EDCI is unable to convert any assets to cash or cash equivalents by the end of the three-year period, we will either distribute EDCI’s remaining assets in-kind among our stockholders according to their interests or place them in a liquidating trust for the benefit of our stockholders.

EDCI’s ownership of 97.99% of the membership units of EDC is an asset of EDCI that is subject to the Plan of Dissolution. The Plan of Dissolution does not directly involve the operating business, assets, liabilities or corporate existence of EDC and EDC plans to continue to honor the terms of its long term customer agreement that expires in May 2015. Beginning in January 2010, EDCI’s consolidated financials are required to reflect EDC’s assets and liabilities under the liquidation basis of accounting (see Note 2) and it should be noted that during EDCI’s three-year dissolution period, EDCI will continue to seek value for its investment in EDC by exploring strategic alternatives and seeking, as appropriate, cash distributions, subject to applicable legal requirements. While EDC is currently examining the possibility of making a distribution, including from EDC’s German and UK subsidiaries (“EDC’s European Operation”) to EDCI, such a distribution remains subject to the future operating performance of EDC’s European Operation and compliance with German law and tax considerations, and the distribution of any cash from EDC to EDCI is subject to additional security obligations and additional U.S. legal and tax considerations. As previously disclosed, the cooperation of Universal, EDC’s largest customer, is critical to any sale of EDC’s European Operations and based on negotiations with a potential acquirer during the fourth quarter of 2009 and first quarter of 2010, EDC does not believe Universal will cooperate on acceptable terms with any such transaction. As a result, any transaction involving the sale of EDC’s European Operations is unlikely. If EDCI continues to own any interest in EDC at the end of the three year dissolution period, EDCI anticipates transferring such interests to a liquidating trust, for the benefit of our shareholders.

On February 1, 2010, pursuant to the Company’s Plan of Dissolution, EDCI made an initial dissolution distribution of \$3.12 per share of its common stock. In aggregate, approximately \$21.0 million of EDCI’s cash was returned to its shareholders.

On July 19, 2010, a special committee consisting of independent directors (the “Special Committee”) of EDCI’s Board of Directors recommended, and EDCI’s Board of Directors approved, a plan to cease the registration of the Company’s common stock under the Securities Exchange Act of 1934 (the “Exchange Act”), end its obligation to file reports with

the Securities and Exchange Commission (“SEC”), and withdraw its shares of common stock from listing on the NASDAQ Stock Market. This would be accomplished through a 1-for-1,400 reverse stock split of EDCI’s common stock to be followed immediately by a 1,400-for-1 forward split. In the stock split transaction, shareholders with fewer than 1,400 shares of EDCI common stock held of record immediately before the split transaction would receive cash payments in lieu of fractional shares upon consummation of the reverse split. The Special Committee recommended and the Board approved that the value to be paid to those shareholders should be based on the then current \$5.00 per share price, which would be equal to \$3.44 per share after the \$1.56 per share distribution paid on July 30, 2010. Accordingly, the proceeds to be paid to the cashed out shareholders at the time of the reverse split would be \$3.44 per share.

The Special Committee has received a fairness opinion from its independent financial advisor, the investment banking firm of Coady Diemar Partners, LLC, that the cash consideration of \$3.44 per share to be paid to shareholders who are cashed-out in the reverse split is fair from a financial point of view to such shareholders. The proposed split transaction is subject to approval by the holders of a majority of the issued and outstanding shares of EDCI’s common stock.

The Board of Directors has reserved \$4.0 million of additional dissolution proceeds to implement the reverse stock split and pay the consideration to those shareholders being cashed-out in the reverse split. Currently, EDCI only anticipates cashing out approximately 600,000 shares, but is reserving \$4.0 million in the event a greater number of shares are required to be cashed out based on the final record date for the reverse split. Shareholders holding 1,400 or more shares of EDCI common stock immediately before the split transaction will not receive a cash payment and will continue to hold the same number of shares after completion of the split transaction. The Board of Directors has reserved the right to abandon the proposed stock splits at any time prior to the completion of the proposed transaction if it believes the split transaction is no longer in the best interests of the Company or its shareholders. If the split transaction is completed, EDCI expects that the number of its record shareholders will be reduced from its current level of approximately 1,300 down to fewer than 200, at which point EDCI will be eligible to deregister its shares of common stock under the Exchange Act. As a result, EDCI would no longer be required to file periodic reports, proxy statements, and other information with the SEC, and EDCI’s common stock will cease to be eligible for trading on the NASDAQ.

EDCI is currently preparing proxy materials and anticipates filing a preliminary proxy statement with the SEC in mid-August 2010 and intends to hold a special meeting of EDCI’s shareholders during the fourth quarter of 2010. Subject to regulatory clearance of the Company’s SEC filings relating to the split transaction and receipt of shareholder approval, it is anticipated that the proposed transaction will become effective shortly after the special meeting, at which time EDCI will terminate the registration of its common stock with the SEC. Any of the \$4.0 million not used in the reverse split is intended either to be distributed pro-rata to shareholders at that time as part of a further dissolution payment or distributed pro-rata to shareholders after consummation of the reverse split.

On July 30, 2010, EDCI made an additional dissolution distribution of \$1.56 per share of its common stock. In aggregate, approximately \$10.5 million of EDCI’s cash was returned to its shareholders as part of this second dissolution distribution.

EDCI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS IN LIQUIDATION (Liquidation Basis)
(Tabular Amounts in Thousands)
(Unaudited)

2. Basis of Presentation

For financial reporting purposes, EDCI adopted the liquidation basis of accounting effective January 1, 2010. The Plan of Dissolution was approved by the Company's shareholders on January 7, 2010. Operating results during the stub period ended January 7, 2010 were nominal. Under the liquidation basis of accounting, the principal financial statements required are a Statement of Net Assets in Liquidation and a Statement of Changes in Net Assets in Liquidation. Further, under the liquidation basis of accounting, assets are stated at their estimated net realizable value, which is the non-discounted amount of cash, or its equivalent, into which an asset is expected to be converted in the due course of business less direct costs, while liabilities are reported at their estimated settlement amount, which is the non-discounted amounts of cash, or its equivalent, expected to be paid to liquidate an obligation in the due course of business, including direct costs. Additionally, under the liquidation basis of accounting, we are required to establish a reserve for all future estimated general and administrative expenses and other costs expected to be incurred during the liquidation period. The reserve for these estimated expenses includes primarily accruals for employee costs (payroll and benefits), facilities, professional services and litigation costs, and corporate expenses (insurance, directors' fees and statutory fees). Further, the estimates of our costs will vary with the length of time necessary to complete the Plan of Dissolution. These estimates will be periodically reviewed and adjusted as appropriate. There can be no assurance that these estimated values will not materially change. Accordingly, it is not possible to predict with certainty the timing or aggregate amount which will ultimately be distributed to stockholders and no assurance can be given that the distributions will equal or exceed the estimate presented in the accompanying Statement of Net Assets in Liquidation. The valuation of assets at their net realizable value and liabilities at their anticipated settlement amount represent estimates, based on present facts and circumstances, of the net realizable value of the assets and the costs associated with carrying out the Plan of Dissolution. The actual values and costs associated with carrying out the Plan of Dissolution may differ from amounts reflected in the accompanying financial statements because of the plan's inherent uncertainty.

The unaudited Statement of Net Assets in Liquidation and the Statement of Changes in Net Assets in Liquidation have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission, and should be read in conjunction with the audited Consolidated Financial Statements previously filed on the Company's Form 10-K for the year ended December 31, 2009. In the opinion of management, the statements reflect all adjustments necessary for a fair presentation of the net assets of EDCI. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, which are not required for interim purposes, have been condensed or omitted. The consolidated financial statements as of December 31, 2009, and for the unaudited three and six months ended June 30, 2009, were prepared on the going concern basis of accounting. We issued these unaudited condensed consolidated financial statements by filing with the SEC and have evaluated subsequent events up to the time of filing.

3. Adoption of Liquidation Basis of Accounting

Upon the adoption of the liquidation basis of accounting, the Company recorded the following adjustments to adjust assets to estimated net realizable value and liabilities to net settlement amounts:

| Initial Adjustment of EDC Assets to Estimated Net Realizable Value | Amount |
|--|-----------|
| Write down of fixed assets | \$ 15,613 |
| Write down of spare parts | 3,011 |

| | |
|--|-----------|
| | \$ 18,624 |
|--|-----------|

| | |
|---|------------|
| Initial Adjustment of Liabilities to Net Settlement Amounts | Amount |
| Write down of deferred taxes | (221) |
| Adjustment of noncontrolling interest to estimated settlement value | (5,124) |
| | \$ (5,345) |

The adjustment to deferred income taxes of \$0.2 million was the result of EDCI updating its estimate of the net settlement value of this liability in liquidation. The adjustment of noncontrolling interest in the amount of \$5.1 million was the result of this liability having a settlement amount upon EDCI's adoption of liquidation accounting of less than what was previously recorded.

The Company was required to make significant estimates and exercise judgment in determining the accrued costs of liquidation as of January 1, 2010. Upon conversion to the liquidation basis of accounting, EDCI accrued for certain costs to be incurred in liquidation, and has made subsequent adjustments and payments against these accounts, as follows:

| Accrued Costs of Liquidation | Amount as of January 1, 2010 | Activity to Date | Adjustments to Reserves | Amount as of June 30, 2010 |
|--|------------------------------|------------------|-------------------------|----------------------------|
| Payroll and severance related | \$ 3,104 | \$ (821) | \$ 711(1) | \$ 2,994 |
| Professional fees | 744 | (373) | 56 | 427 |
| Wind down costs related to EDC's UK facility | 380 | (400) | 20 | - |
| Accrual of carrying costs on EDC's Kings Mountain facility | 1,800 | (323) | 23 | 1,500 |
| Outside services and other wind down expenses | 2,233 | (696) | 242 | 1,779 |
| | \$ 8,261 | \$ (2,613) | \$ 1,052 | \$ 6,700 |

(1) EDCI's Board of Directors approved a discretionary executive bonus program under which certain performance bonuses could be earned at prescribed levels during the Plan of Dissolution period if total distributions paid or payable to EDCI's shareholders exceed pre-established thresholds per share. Based on current facts and circumstances the Company recorded \$0.4 million for this bonus award as of June 30, 2010.

EDCI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS IN LIQUIDATION (Liquidation Basis)
(Tabular Amounts in Thousands)
(Unaudited)

The Company will continue to incur operating costs throughout the liquidation period. On a regular basis, we evaluate our assumptions, judgments and estimates that can have a significant impact on our reported net assets in liquidation based on the most recent information available to us, and when necessary make changes accordingly. Actual costs and income may differ from our estimates, which might reduce net assets available in liquidation to be distributed to shareholders.

4. Selected Financial Data

Statement of Net Assets in Liquidation - Consolidating

The Statement of Net Assets in Liquidation presented below is consolidating and is intended to illustrate which components of the consolidated Statement of Net Assets in Liquidation are attributable to EDCI and EDC, respectively.

STATEMENT OF NET ASSETS IN LIQUIDATION (LIQUIDATION BASIS)

| | June 30, 2010 (Unaudited) EDC (b) | EDCI | Eliminations | Total |
|--|---|---------------|----------------|----------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 38,943 | \$ 29,404 | \$ - | \$ 68,347 |
| Restricted cash | 2,846 | - | - | 2,846 |
| Investments | - | 870 | - | 870 |
| Accounts receivable, net | 6,378 | - | - | 6,378 |
| Due from Universal | 1,688 | - | - | 1,688 |
| Inventories, net | 3,593 | - | - | 3,593 |
| Prepaid expenses and other current assets | 8,205 | 500 | - | 8,705 |
| Deferred income taxes | 1,858 | - | - | 1,858 |
| Due to EDCI from EDC (a) | - | 3,014 | (3,014) | - |
| Assets held for sale | 6,400 | - | - | 6,400 |
| Total assets | 69,911 | 33,788 | (3,014) | 100,685 |
| LIABILITIES AND NET ASSETS IN LIQUIDATION | | | | |
| Current Liabilities: | | | | |
| Accounts payable | \$ 6,593 | \$ - | \$ - | \$ 6,593 |
| Accrued expenses and other liabilities | 11,937 | 554 | - | 12,491 |
| Due from EDC to EDCI (a) | 3,014 | - | (3,014) | - |
| Liquidation accrual | 1,500 | 5,200 | - | 6,700 |
| Loans from employees | 1,365 | - | - | 1,365 |
| Universal rebate payable | 1,693 | - | - | 1,693 |
| Deferred income taxes | - | 66 | - | 66 |

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| | | | | |
|---|-----------|-----------|----------|-----------|
| Reserve for uncertain tax positions | 723 | 148 | - | 871 |
| Pension and other defined benefit obligations | 31,383 | 678 | - | 32,061 |
| Total liabilities | 58,208 | 6,646 | (3,014) | 61,840 |
| Noncontrolling interest at estimated value | - | 146 | - | 146 |
| Total liabilities and noncontrolling interest | 58,208 | 6,792 | (3,014) | 61,986 |
| Net assets in liquidation | \$ 11,703 | \$ 26,996 | \$ - (c) | \$ 38,699 |

(a) The amount recorded as Due from EDC to EDCI represents an estimate EDC's portion of certain shared corporate costs which are anticipated to be incurred during the dissolution period and which will be recovered from EDC through intercompany settlements.

(b) See Note 1 regarding restrictions on our ability to transfer cash from EDC to EDCI.

(c) On July 30, 2010, EDCI made an additional dissolution distribution of \$1.56 per share of its common stock. In aggregate, approximate \$10.5 million of EDCI's cash was returned to its shareholders as part of this second dissolution distribution and thus Net Assets in Liquidation were reduced by a like amount.

EDCI HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS IN LIQUIDATION (Liquidation Basis)
 (Tabular Amounts in Thousands)
 (Unaudited)

5. Cash and Cash Equivalents

Restricted Cash

Restricted cash of EDC's European Operation at June 30, 2010 was \$2.9 million. 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. A portion of the restricted cash is being held in escrow to fund employee related obligations. On June 1, 2010, the restrictions encumbering approximately \$18.9 million of the restricted cash expired and the cash was released to EDC. We are currently evaluating all options, subject to compliance with German law and tax considerations and additional security obligations and U.S. legal and tax considerations, in regards to the future usage of the portion of the restricted cash that was released from escrow on June 1, 2010. Amounts in excess of federally insured limits are on deposit with various financial institutions.

6. Investments

As of June 30, 2010, the Company has one investment which is recorded at its estimated net realizable value of \$0.9 million in the accompanying Statement of Net Assets in Liquidation. The investment consists of 10 units of Auction Market Preferred Securities ("AMPS") issued by the Boulder Total Return Fund, Inc. (the "Fund"). The Fund's AMPS have a liquidation preference of \$100,000 per share, plus any accumulated unpaid distributions, whether or not earned or declared by the Fund but excluding interest thereon ("Liquidation Value") and have no set retirement date. The Fund retired 26 shares of AMPS through a privately negotiated transaction during 2009 at an average price of \$84,923 per share.

The Company evaluates the fair value of its investment at each reporting period. The estimated fair values could change significantly based on future market conditions. The Company will continue to assess the fair value of its investment for substantive changes in relevant market conditions, changes in financial condition or other changes that may alter its estimates described above. The Company may be required to record future write downs of its investment if it determines that its investment has incurred a change in fair value.

7. Employee Benefit Receivable from Universal

Under the terms of the share purchase agreement relating to the acquisition of Universal's European operations, Universal is required to reimburse EDC relating to the liabilities net of accounts receivable and other receivables assumed by EDC at the acquisition date. Amounts not paid or received in future periods for these assumed liabilities and receivables, with the exception of the pension obligations, will be adjusted through the receivable. The balance of \$1.7 million at June 30, 2010 relates to the long-term service award plan.

8. Inventories

Inventories, net at June 30, 2010, relate to EDC's European Operation and consisted of:

| | June 30, 2010 |
|---------------|------------------|
| Raw materials | \$ 3,023 |

| | | |
|-----------------|----|-------|
| Finished goods | | 165 |
| Work in process | | 405 |
| Total | \$ | 3,593 |

At June 30, 2010 inventory reserves were approximately \$0.8 million.

9. Assets Held for Sale

Assets Held for Sale as of June 30, 2010, consists of EDC's Kings Mountain, North Carolina facility ("Kings Mountain Facility"), which formerly housed EDC's U.S. manufacturing operations. EDC has listed the Kings Mountain Facility for sale since the second quarter of 2009 and is currently unable to predict when a successful transaction involving the sale of this facility will occur. Annual carrying costs related to maintaining the Kings Mountain Facility in a condition to be sold are estimated to be approximately \$0.6 million. Due to EDC's uncertainty in regards to the timing of a successful sale transaction, \$1.5 million of carrying costs remain accrued as part of the liquidation accrual as of June 30, 2010.

10. Long-Term Debt

| | |
|-------------------------------------|------------------|
| | June 30, 2010 |
| Payable to Universal - undiscounted | 1,983 |
| Employee Loans | 1,365 |
| Subtotal | 3,348 |
| Less: Unamortized Discount | (290) |
| Total Debt | \$ 3,058 |

EDCI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS IN LIQUIDATION (Liquidation Basis)
(Tabular Amounts in Thousands)
(Unaudited)

Universal

Under the terms of the supply contracts that EDC entered into as part of EDC's purchase of Universal's European disc manufacturing and distribution operation, EDC is obligated to pay to Universal deferred acquisition payments. Scheduled payments of \$0.5 million are due on December 31 for the next five years, ending in 2014.

Employee Loans

Employees of EDC's European Operations participate in a government regulated employee savings plan whereby a portion of their earnings are held by us in savings accounts and are therefore treated as loans to us. These loans are for six-year terms and are signed annually in January. The loans, including all accumulated interest, are paid at the end of the term. Interest rates are determined prior to the loans being assigned and remain constant for the six-year period. In addition to interest, each participant receives a grant of approximately €0.1 million (\$0.2 million), which is included in the employee loan balance. The value of the loans outstanding at June 30, 2010 totaled \$1.4 million. Funds for these loans are held in escrow as restricted cash. See Note 5. These loans are 100% guaranteed by several different banks and are not convertible. Under certain hardship conditions the employee loan may be paid out early. The employee savings plan is closed to new entrants.

11. Income Taxes

During the six months ended June 30, 2010, the amount of gross unrecognized tax benefits was reduced by \$2.7 million primarily due to the expiration of certain statutes of limitation. Of the unrecognized tax benefits recorded as of June 30, 2010, it is anticipated that over the next 12 months various tax-related statutes of limitation will expire which will cause a \$0.1 million reduction in the unrecognized tax benefits and thus net assets in liquidation will increase by a like amount. These unrecognized tax benefits relate primarily to transfer pricing.

12. Employee Benefit Plans

Post retirement benefit obligation consisted of the following components:

| | June 30, 2010 |
|---|------------------|
| Pension obligation | 27,046 |
| Post-retirement health care benefit costs | 254 |
| Long-term service award plan | 2,508 |
| Early retirement program | 2,253 |
| | 32,061 |

(a) Pension Obligations

As a result of the May 31, 2005 acquisition of EDC, certain obligations of various defined benefit plans were assumed. Employees and managing directors of EDC's European Operations participate in the pension plans. These benefits are based on pay, years of service and age. As of June 30, 2010, EDC has accrued approximately \$26.6 million related to this plan. EDCI has a pension plan which covers former employees of EDCI's Messaging business. The plans are not funded and therefore have no plan assets. These pension plans are closed to new entrants.

(b) Long-term service award plan

EDC maintains a long-term service awards program, a defined benefit plan, for qualified employees of EDC's European Operation, which allows qualified employees to receive a lump sum service gratuity ("Jubilee") payment once they have reached a certain number of years of service. The Jubilee payment is determined based on 1/12th of the employee's annual salary. A portion of the long-term service obligations is funded by Universal (see Note 7).

(c) Early Retirement Program

In Germany, Altersteilzeit ("ATZ") is an early retirement program established by law, and is designed to create an incentive for employees, within a certain age group, to transition from (full or part-time) employment into retirement before their legal retirement age. The German government provides a subsidy to employers taking advantage of this legislation for bonuses paid to the employee and the additional contributions paid into the German government pension scheme under an ATZ arrangement for a maximum of six years. To receive this subsidy, an employer must meet certain criteria established by the German government. EDC accrues for ATZ based on current and future contracts.

(d) Post retirement health care benefit obligations

EDCI provides certain U.S. employees of its former Messaging business with certain health care benefits upon retirement assuming the employees met minimum age and service requirements as of the date of disposition of the Messaging business. EDCI's policy is to fund benefits as they become due. Consequently, the plan has no assets. For non-funded plans, the expected employer contributions equal the benefit payments. The plan is closed to new participants. EDCI has accrued approximately \$0.3 million related to this pension plan.

EDCI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS IN LIQUIDATION (Liquidation Basis)
(Tabular Amounts in Thousands)
(Unaudited)

13. 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.

Arbitration Claim under the International Distribution Agreement. On February 27, 2009, EDC, at its election, provided notice to Universal International Music (“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 as amended (the “International Distribution Agreement”). UIM is part of Universal, 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. 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, 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 and a hearing occurred in June 2010, although a final decision has not yet been rendered.

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 19, 2009 notice, UIM alleged that EDC had incurred two Key Failures. EDC believes neither of the Key Failures is valid. Even if a Key Failure had been validly established by UIM, EDC is generally provided with a contractual opportunity to cure such, although as described below, 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 both held to be valid – even if both Key Failures were cured.

There are various penalties for both cured and uncured Key Failures. Depending on whether one or two Key Failures were found valid at arbitration, and whether EDC were able to cure any such valid Key Failures, EDC could face the following: 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 both 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. EDC expects that UIM's entire contractually committed distribution and manufacturing volume under the Supply Agreements will represent approximately 88% of EDC's total manufacturing and distribution volume in 2010.

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 \$1.9 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.

As described above, EDC continues to believe at this stage of the arbitration that no Key Failures have occurred and intends to continue to vigorously defend its position in arbitration. 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 results of operations and cash flows, however, an amount cannot be estimated at this time. EDC may also be successful in its claim that no Key Failures have occurred, but the arbitration panel could reject EDC's interpretation of the underlying service levels as they are applicable to future performance, increasing the risk of future potential Key Failures. 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.

Anticipatory Breach of Manufacturing and Related Service Agreement Claim. On July 23, 2009, UIM provided notice to EDC of its claim that EDC was in anticipatory breach of the Manufacturing and Related Services Agreement between EDC and UIM dated May 31st, 2005, as amended (the "Manufacturing Agreement") by taking steps to close EDC's Blackburn facility. UIM claimed that the maintenance by EDC of a facility in the United Kingdom to service UIM's UK manufacturing requirements is a "fundamental implied term of the Manufacturing Agreement." As a result, UIM claimed that EDC forfeited its right to continue to service 100% of UIM's UK manufacturing requirements, and UIM is entitled to sub-contract the entirety of such volume to a UK - located third party of its choice. UIM at that time did not elect to enforce that remedy but reserved the right to do so by written notice. On July 28, 2009, EDC sent written notice to UIM forcefully refuting its claims and also asserting that UIM is attempting to imply a term into the Manufacturing Agreement that has been expressly dealt with in amendments to the agreement providing that EDC "will use its commercially reasonable endeavors to manufacture the majority of UIM's Manufacturing Requirements for the UK at the Blackburn Facility." As previously disclosed in March 2009, management of EDC determined and EDC's Board of Directors confirmed that it was no longer commercially reasonable to continue operating the Blackburn manufacturing facility. EDC stated in its July 28, 2009 response that UIM's claims in its July 23, 2009 letter constitute a gross violation of the covenant of good faith and fair dealing implied into the Manufacturing Agreement. EDC further provided notice to UIM that if UIM did not withdraw its claims in the July 23, 2009 notice within seven days of EDC's July 28, 2009 response, it would refer this matter to arbitration seeking a declaration that there is no breach by EDC of the Manufacturing Agreement as a result of the Blackburn – Hannover Consolidation and seeking damages for the losses incurred by EDC as a direct result of the July 23, 2009 letter and the continued breaches by UIM of the implied covenant of good faith and fair dealing. UIM did not withdraw its claims, and EDC therefore submitted the matter to arbitration in August 2009. The arbitration tribunal was finalized in April 2010 and the hearing is scheduled for February, 2011.

EDCI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS IN LIQUIDATION (Liquidation Basis)
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In subsequent correspondence related to this matter, UIM indicated that it would begin to order 40% of its UK manufacturing requirements from third party manufacturers in 2010, while maintaining its claim that EDC had forfeited its right to continue to service 100% of those UK requirements. UIM also advanced additional theories under which EDC's closure of the Blackburn facility and the manufacture of UIM's UK volume out of EDC's Hannover facility would constitute a breach of the Manufacturing Agreement - including that EDC would be unable to meet its contractual service level obligations ("SLAs") for UIM UK requirements manufactured out of Hannover - and EDC's actions constitute a material breach of the Manufacturing Agreement entitling UIM to terminate the entire Manufacturing Agreement. EDC responded that these additional theories also lacked merit, that EDC could satisfy the SLAs and warned UIM of the legal consequences of breaching the Manufacturing Agreement by procuring 40% of its UK requirements from third parties. However, on January 14, 2010 EDC confirmed that UIM had begun to order certain of its UK requirements from third parties.

In consultation with counsel, EDC continues to believe UIM's claims and remedies lack merit. In particular, the Manufacturing Agreement expressly provides that EDC is only obliged to use its "commercially reasonable endeavors" to manufacture the majority of UIM's UK requirements at its Blackburn facility, and as previously disclosed in March 2009, at that time management of EDC determined and EDC's Board of Directors confirmed that it was no longer commercially reasonable to continue operating the Blackburn manufacturing facility. Further, EDC believes it can meet all SLAs for UIM's UK requirements manufactured from its Hannover facility and believes that certain of the UK requirements ordered by UIM were in fact ordered from Austria, a location that is geographically more distant from the UK than EDC's Hannover facility. However, if UIM were successful in its claims in arbitration EDC would face material and adverse consequences. The loss of 40% of UIM's UK requirements, based on the high fixed cost nature of EDC's manufacturing operations, would have a material adverse effect on its operating results. If UIM were to prevail in its new argument that EDC's breach provides UIM with the right to terminate the entire Manufacturing Agreement and UIM so elected, EDC would lose substantially all of its contractually committed manufacturing business. EDC expects that UIM's entire contractually committed manufacturing volume will represent approximately 75% of EDC's total manufacturing volume in 2010, that the UK requirements account for approximately 20% of EDC's total manufacturing volume, and thus 40% of the UK requirements account for approximately 8% of EDC's total manufacturing volume.

EDC believes UIM has breached its obligations to EDC with regard to certain of its UK requirements, and until resolved UIM will likely continue that breach by procuring up to 40% of its UK requirements from third parties, as it experienced in the quarter ended June 30, 2010. EDC will seek to recover those losses, other losses and punitive damages from UIM in arbitration. However, UIM's actions will also force EDC to evaluate and develop other cost-reduction measures in Hannover to mitigate those damages in the short run.

EDC does not believe UIM's claim has merit and intends to vigorously defend and prosecute its position in arbitration but at this early stage in these matters, EDC is not able to assess the likelihood of a favorable outcome. However, if UIM were successful in its claim and enforced its alleged remedy, EDC could suffer loss of volumes that, based on the high fixed cost nature of EDC's manufacturing operations, would have a material adverse effect on its profitability.

Other UIM Matters. In April 2010, UIM indicated to EDC its intent to procure certain units currently serviced in accordance with the Distribution or Manufacturing Agreements, as applicable, from third parties before the end of 2010. EDC believes UIM's plans are to remove approximately 40% of the annual distribution volume EDC previously has provided to UIM. However, based on correspondence from UIM citing their legal grounds for their plan, and after consultation with counsel, EDC believes that substantially all of such units are part of the contractually committed volumes under the appropriate agreements, and thus EDC plans to pursue legal remedies should UIM order such units from third parties, including seeking injunctive relief as well as by pursuing arbitration. In addition, EDC engaged in

discussions with UIM to determine if there is a commercial solution, but those discussions were unsuccessful. As the removal of 40% of UIM's distribution volume constitutes approximately 37% of EDC's overall distribution volume, if UIM began to order such volumes from third parties, and based on the high fixed cost nature of EDC's operations, UIM's actions could have a material adverse effect on EDC's profitability. On August 4, 2010, EDC's Hannover, Germany subsidiary ("EDC Hannover") initiated interim injunction proceedings before the District Court in Utrecht, the Netherlands, requesting an order to prohibit UIM from procuring any of the aforementioned NDU business from a third party. The hearing is set for August 18, 2010 and EDC expects that a judgment for the interim proceedings will be rendered approximately two weeks after the hearing. At this stage of the proceedings, the Company is not able to assess the likelihood of a favorable outcome on either the Netherlands injunction or any subsequent arbitration or legal proceedings.

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, named James Caparro and Jordan Copland as defendants in their capacities as former CEOs of EDC. In 2009, the Court denied plaintiffs' motion for a summary judgment that EDC breached the contract. Pending before the Court was a motion for summary judgment that there is no patent infringement. The Court terminated the motion for summary judgment pending a decision on claim construction, a hearing for which was held in December 2009 and a decision for which was rendered in May 2010, and as a result of which EDC plans to submit a modified motion for judgment accounting for the court's claim construction. On January 22, 2010, the Court dismissed the action against the individual defendants, Messrs. Caparro and Copland. In April of 2010, the defendants objected to a request by Philips to amend its complaint to add additional claims (including allegations of breach of contract, and new claims for fraud in the inducement, unjust enrichment, tortious interference with business relations and civil conspiracy) a decision for which was rendered in May 2010 stating that Phillips could not amend its complaint to add new claims but could add specificity to its previously pled breach of contract allegations, which Phillips has now done. On July 12, 2010, Phillips also filed a complaint against EDC in the New York State court making newly alleged claims for breach of contract, fraud in the inducement and unjust enrichment, essentially the same claims the federal court did not permit Phillips to introduce by amendment. EDC does not believe the complaint, including the claims Phillips added through the amendment motion or the New York State Court complaint, have merit, intends to vigorously defend these actions 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 federal case is still pending and discovery and motion practice are continuing, and EDC is evaluating its response to the New York State Court complaint.

14. Restructuring

On June 15, 2010, the Board of Directors of EDC approved a restructuring plan (the "Restructuring Plan") related to the manufacturing and logistics operations of its EDC Hannover subsidiary, subject to certain specified conditions. During the second quarter of 2010, management representatives of EDC Hannover completed a comprehensive review of the cost reduction and sales growth potential of the EDC Hannover operations and commenced consultations with the workers council and chemical industry workers union regarding the Restructuring Plan. As part of these consultations, management presented its plan to streamline the organizational structure and to initiate several special projects to increase efficiencies in manufacturing, logistics and in business support areas. Negotiations with management representatives of EDC Hannover's unionized workforce and the chemical industry workers union are ongoing and will likely continue over the upcoming months. If the Restructuring Plan is implemented, we estimate that approximately \$8.3 million in severance costs could be incurred. Based on current facts and circumstances and the uncertainty in regards to the ultimate implementation of the Restructuring Plan, no accrual of costs related to the Restructuring Plan have been made.

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. 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

On September 9, 2009, our Board of Directors unanimously approved recommending a dissolution process to EDCI's stockholders, and on October 14, 2009 approved the final Plan of Dissolution. At a Special Meeting held on January 7, 2010 the stockholders of EDCI approved the voluntary dissolution and liquidation of EDCI pursuant to the Plan of Dissolution. Delaware law provides that a corporation may dissolve upon the recommendation of the Board of Directors of the corporation, followed by the approval of its stockholders. As the Plan of Dissolution was approved by the requisite vote of our stockholders at the Special Meeting, we filed a certificate of dissolution with the Delaware Secretary of State in January 2010.

The Plan of Dissolution provides for the voluntary dissolution, liquidation and winding up of EDCI. As of January 2010, we have ceased all of EDCI's business activities except for those relating to winding up EDCI's business and affairs during a minimum three-year period required under Delaware law, including, but not limited to, gradually settling and closing its business, prosecuting and defending suits by or against EDCI, seeking to convert EDCI's assets into cash or cash equivalents, discharging or making provision for discharging EDCI's known and unknown liabilities, making cash distributions to our stockholders, withdrawing from all jurisdictions in which EDCI is qualified to do business and, if EDCI is unable to convert any assets to cash or cash equivalents by the end of the three-year period, distributing EDCI's remaining assets in-kind among our stockholders according to their interests or placing them in a liquidating trust for the benefit of our stockholders, and, subject to statutory limitations, taking all other actions

necessary to wind up the Company's business and affairs.

EDCI's ownership of 97.99% of the membership units of EDC is an asset of EDCI that is subject to the Plan of Dissolution. The Plan of Dissolution does not directly involve the operating business, assets, liabilities or corporate existence of EDC and its subsidiaries, and EDC plans to continue to honor the terms of its long term customer agreement that expires in May 2015. Beginning in January 2010, EDCI's consolidated financials are required to reflect the value of EDC's assets and liabilities under liquidation accounting and it should be noted that during EDCI's three-year dissolution period, EDCI will continue to seek value for its investment in EDC by exploring strategic alternatives and seeking, as appropriate, cash distributions, subject applicable legal requirements. While EDC is currently examining the possibility of making a distribution, including from EDC's European Operations to EDCI, such a distribution remains subject to the future operating performance of EDC's European Operations and compliance with German law and tax considerations, and the distribution of any cash from EDC to EDCI is subject to additional security obligations and additional U.S. legal and tax considerations. As previously disclosed, the cooperation of Universal, EDC's largest customer, is critical to any sale of EDC's European Operations and based on negotiations with a potential acquirer during the fourth quarter of 2009 and first quarter of 2010, EDC does not believe Universal will cooperate on acceptable terms with any such transaction. As a result, any transaction involving the sale of EDC's European Operations is unlikely. If EDCI continues to own any interest in EDC at the end of the three year dissolution period, EDCI anticipates transferring such interests to a liquidating trust, for the benefit of our stockholders.

On February 1, 2010, pursuant to the Company's Plan of Dissolution, EDCI made an initial dissolution distribution of \$3.12 per share of its common stock. In aggregate, approximately \$21.0 million of EDCI's cash was returned to its shareholders. On July 30, 2010, EDCI made an additional dissolution distribution of \$1.56 per share of its common stock. In aggregate, approximately \$10.5 million of EDCI's cash was returned to its shareholders as part of this second dissolution distribution.

Results of Operations

Consolidated statements of operations and statement of cash flows are presented on a going concern basis of accounting and therefore only include results for the 2009 period and as a result, no comparative discussion is presented.

Financial Condition and Liquidity

Overview

At June 30, 2010, we had cash and cash equivalents totaling \$68.4 million, of which \$29.4 million was cash held by the EDCI and \$38.9 million was cash held at EDC. At June 30, 2010, the principal sources of liquidity were our unrestricted cash and cash equivalents. On July 30, 2010, EDCI made a dissolution distribution of \$1.56 per share of its common stock. In aggregate, approximately \$10.5 million of EDCI's cash was returned to its shareholders as part of this second dissolution distribution. At June 30, 2010, EDCI had investments of \$0.9 million in one auction-rate security.

EDCI plans to use its cash and cash equivalents in connection with the Plan of Dissolution. EDC expects to use its cash and cash equivalents for working capital and other general corporate purposes. On June 1, 2010, the restrictions encumbering approximately \$18.9 million of previously restricted cash held by EDC expired and the cash was released to EDC. We are currently evaluating all options, subject to compliance with German law and tax considerations and additional security obligations and U.S. legal and tax considerations, in regards to the future usage of the portion of the restricted cash that was released from escrow on June 1, 2010. We believe that the liquidity position EDC is adequate to fund their operating needs in the near term and to provide EDC with flexibility to respond to further changes in its business environment. The challenges of the present business environment and disagreements with its primary customer 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. In addition, EDCI does not guarantee any of the liabilities of EDC.

Capital Expenditures

Capital expenditures amounted to approximately \$1.6 million in the six months ended June 30, 2010 and are anticipated to be approximately \$1.3 million for the remaining six months of 2010. All capital expenditures in 2010 relate to EDC's European Operations and consist primarily of normal equipment and facility, replacement and upgrades and efficiency improvements.

Update on Plan of Dissolution

EDCI expects to make further distributions to its shareholders of its remaining cash and investments, less any amount reserved to cover ongoing expenses during the three-year dissolution period and any amounts reserved for, known and unknown contingent liabilities. The amounts reserved will be based on a determination by the board of directors, including consultation with management and outside experts as reasonably required, if the board of directors determines that it is advisable to retain such experts, and a review of, among other things, our estimated known and unknown contingent liabilities and our estimated ongoing expenses, including, but not limited to, payroll, legal expenses, regulatory filings and other miscellaneous expenses. Each shareholder will receive his or her pro rata share of any future distribution based on the number of shares held at the time of the record date for such distribution.

The range of dissolution proceeds in the Company's proxy statement (the "Proxy Statement") filed November 16, 2009 did not include any estimates as to potential distributions from EDC due to the uncertainty of the value of EDCI's investment in EDC at that time. However, certain developments have occurred subsequent to the filing of our Proxy Statement which has increased EDCI's confidence in its ability to ultimately obtain value from its investment in EDC. The components and circumstances related to EDCI's updated assessment of its ability to obtain value from its investment in EDC are as follows:

EDC has exceeded its original expectations in regards to managing the sale of its Entertainment Distribution Company (USA) LLC ("EDC USA") subsidiary in December 2009 and the related wind down of EDC's U.S. operations, which has positioned EDC to realize distributions related to the liquidation value of certain net assets which remain post-sale. EDC currently expects that EDC USA could distribute up to approximately \$7.3 million of liquidating proceeds up to EDC, of which the majority is related to EDC's estimate of net proceeds which EDC expects to receive upon the sale of EDC USA's Kings Mountain Facility and other remaining cash left at EDC USA after the settlement of certain contingencies which are currently reserved for.

EDC has effectively managed the shutdown of its Blackburn, UK manufacturing operation ("EDC Blackburn") such that EDC expects to ultimately obtain up to \$4.7 million in liquidating distributions from EDC Blackburn as part of the liquidation. On June 3, 2010, EDC Blackburn made an initial liquidation distribution of \$3.2 million to EDC and expects that the remaining estimated liquidating proceeds of approximately \$1.5 million will be distributed to EDC upon the settlement of all remaining liabilities, the receipt of certain tax refunds and the completion of the

liquidation process. We expect those amounts would be distributed from EDC Blackburn to EDC within 12 months.

EDC notes that its EDC Hannover remains cash flow positive and that EDC Hannover management continues to negotiate a Restructuring Plan which could position EDC Hannover to be more competitive. On June 22, 2010 EDC Hannover repaid a \$3.7 million note to EDC and is exploring the potential of making future nominal dividends from EDC GmbH to EDC, subject to the future operating performance of EDC GmbH and compliance with German legal and tax considerations, as well as taking into consideration any reserves EDC may need to take should its current assumptions as to those eventualities be incorrect.

EDCI notes that in addition to the conditions set forth above there are several obstacles to overcome in order for EDC to receive those distributions from its subsidiaries, and in turn for EDC to distribute the proceeds to EDCI as detailed above. In particular, any distribution of cash from EDC to EDCI is subject to certain security obligations covering indemnity obligations resulting from the sale of EDC's U.S. assets in December 2009, as a result of which any, proceeds obtained by EDCI from EDC must be held as cash collateral until at least January 1, 2012 (and later to the extent a claim is filed during that period) to satisfy those indemnification obligations. However, on June 30, 2010, EDC's indemnity obligations with regard to many of the representations and warranties related to that sale have ceased, and EDC will only be responsible for indemnifying the purchaser for a breach of fundamental representations (EDC's proper organization and authority to sell the assets); taxes; employment benefits and labor matters; fraudulent conveyance; post-closing covenants and excluded liabilities; and environmental matters. In addition, similar to EDCI, EDC may need to establish its own contingency reserves for contingent liabilities before making such distributions to EDCI, or obtain indemnification from EDCI for any such contingencies.

On July 19, 2010, a special committee consisting of independent directors (the "Special Committee") of EDCI's Board of Directors recommended, and EDCI's Board of Directors approved, a plan to cease the registration of the Company's common stock under the Securities Exchange Act of 1934 (the "Exchange Act"), end its obligation to file reports with the Securities and Exchange Commission ("SEC"), and withdraw its shares of common stock from listing on the NASDAQ Stock Market. This would be accomplished through a 1-for-1,400 reverse stock split of EDCI's common stock to be followed immediately by a 1,400-for-1 forward split. In the stock split transaction, shareholders with fewer than 1,400 shares of EDCI common stock held of record immediately before the split transaction would receive cash payments in lieu of fractional shares upon consummation of the reverse split. The Special Committee recommended and the Board approved that the value to be paid to those shareholders should be based on a then current \$5.00 per share price, which would be equal to \$3.44 per share after the \$1.56 per share distribution paid on July 30, 2010. Accordingly, the proceeds paid to the cashed-out shareholders at the time of the reverse split would be \$3.44 per share.

The Special Committee has received a fairness opinion from its independent financial advisor, the investment banking firm of Coady Diemar Partners, LLC, that the cash consideration of \$3.44 per share to be paid to shareholders who are cashed-out in the reverse split is fair from a financial point of view to such shareholders. The proposed split transaction is subject to approval by the holders of a majority of the issued and outstanding shares of EDCI's common stock.

The Board of Directors has reserved \$4.0 million of additional dissolution proceeds to implement the reverse stock split and pay the consideration to those shareholders being cashed-out in the reverse split. Currently, EDCI only anticipates cashing out approximately 600,000 shares, but is reserving \$4.0 million in the event a greater number of shares are required to be cashed out based on the final record date for the reverse split. Shareholders holding 1,400 or more shares of EDCI common stock immediately before the split transaction will not receive a cash payment and will continue to hold the same number of shares after completion of the split transaction. The Board of Directors has reserved the right to abandon the proposed stock splits at any time prior to the completion of the proposed transaction if it believes the split transaction is no longer in the best interests of the Company or its shareholders. If the split transaction is completed, EDCI expects that the number of its record shareholders will be reduced from its current level of approximately 1,300 down to fewer than 200, at which point EDCI will be eligible to deregister its shares of common stock under the Exchange Act. As a result, EDCI would no longer be required to file periodic reports, proxy statements, and other information with the SEC, and EDCI's common stock will cease to be eligible for trading on the NASDAQ.

EDCI is currently preparing proxy materials and anticipates filing a preliminary proxy statement with the SEC in mid-August 2010 and intends to hold a special meeting of EDCI's shareholders during the fourth quarter of 2010. Subject to regulatory clearance of the Company's SEC filings relating to the split transaction and receipt of shareholder approval, it is anticipated that the proposed transaction will become effective shortly after the special meeting, at which time EDCI will terminate the registration of its common stock with the SEC. Any of the \$4.0 million not used in the reverse split, is intended either to be distributed pro-rata to shareholders at that time as part of a further dissolution payment or distributed pro-rata to shareholders after consummation of the reverse split.

On July 30, 2010, EDCI made a dissolution distribution of \$1.56 per share of its common stock. In aggregate, approximately \$10.5 million of EDCI's cash was returned to its shareholders as part of this second dissolution distribution.

EDC Business Update

Having completed the sale and wind down of EDC's U.S. operations and the Blackburn-Hannover consolidation, the sole EDC focus has shifted to maximizing the profitability at its remaining international operations in Hannover, Germany. While the Blackburn-Hannover Consolidation will improve profitability at our remaining Hannover facility, we anticipate decline rates of CD and DVD volumes in Europe in the 10-15% range for 2010. As in 2009, EDC will continue its cost-savings initiatives and plan to right size operating capacity in 2010 to deal with forecasted and actual volume declines. On June 15, 2010, the Board of Directors of EDC approved a restructuring plan (the "Restructuring Plan") related to the manufacturing and logistics operations of its Hannover, Germany ("EDC Hannover") subsidiary, subject to certain specified conditions. During the second quarter of 2010, management representatives of EDC Hannover completed a comprehensive review of the cost reduction and sales growth potential of the EDC Hannover operations and commenced consultations with the workers council and chemical industry workers union regarding the Restructuring Plan. As part of these consultations, management presented its plan to streamline the organizational structure and to initiate several special projects to increase efficiencies in manufacturing, logistics and in business support areas. Negotiations with management representatives of EDC Hannover's unionized workforce and the chemical industry workers union are ongoing and will likely continue over the upcoming months. If the Restructuring Plan is implemented, we estimate that approximately \$8.3 million in severance costs could be incurred. Based on current facts and circumstances and the uncertainty in regards to the ultimate implementation of the Restructuring Plan, no accrual of costs related to the Restructuring Plan have been made.

In January 2010, Universal began to place a portion of its UK manufacturing requirements with another manufacturer. EDC has placed Universal on notice that it will seek damages for this action via the ongoing arbitration process. See "Notes to Consolidated Financial Statements – Note 13. Commitments and Contingencies – Litigation".

Critical Accounting Policies and Estimates

For financial reporting purposes, EDCI adopted the liquidation basis of accounting effective January 1, 2010. The Plan of Dissolution was approved by the Company's shareholders on January 7, 2010. Operating results during the stub period ended January 7, 2010 was nominal. Under the liquidation basis of accounting, the principal financial statements required are a Statement of Net Assets in Liquidation and a Statement of Changes in Net Assets in Liquidation. Further, under the liquidation basis of accounting, assets are stated at their estimated net realizable value, which is the non-discounted amount of cash, or its equivalent, into which an asset is expected to be converted in the due course of business less direct costs, while liabilities are reported at their estimated settlement amount, which is the non-discounted amounts of cash, or its equivalent, expected to be paid to liquidate an obligation in the due course of business, including direct costs. Additionally, under the liquidation basis of accounting, we are required to establish a reserve for all future estimated general and administrative expenses and other costs expected to be incurred during the liquidation period. The reserve for these estimated expenses includes primarily accruals including employee costs (payroll and benefits), facilities, professional services and litigation costs, and corporate expenses (insurance, directors' fees and statutory fees). Further, the estimates of our costs will vary with the length of time necessary to complete the Plan of Dissolution. These estimates will be periodically reviewed and adjusted as appropriate. There can be no assurance that these estimated values will be realized. The valuation of assets at their net realizable value and liabilities at their anticipated settlement amount represent estimates, based on present facts and circumstances, of the net realizable value of the assets and the costs associated with carrying out the Plan of Dissolution. The actual values and costs associated with carrying out the Plan of Dissolution may differ from amounts reflected in the accompanying financial statements because of the plan's inherent uncertainty. These differences may be material. In particular, the net asset value attributed to the Company's EDC subsidiary in the accompanying Statement of Net Assets in Liquidation is subject to numerous uncertainties and the ultimate value of EDC to its shareholders in liquidation may be substantially different from that as presented herein. Further, the estimates of our costs will vary with the length of time necessary to complete the Plan of Dissolution. Accordingly, it is not possible to predict with certainty the timing or aggregate amount which will ultimately be distributed to stockholders and no assurance can be given that the distributions will equal or exceed the estimate presented in the accompanying Statement of Net Assets in Liquidation.

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 and Principal Financial 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 June 30, 2010.

During the quarter ended June 30, 2010, 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 13 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: August 10, 2010

By /s/ Clarke H. Bailey
Chief Executive Officer

By /s/ Kyle E. Blue
Treasurer
(Principal Financial Officer)

EDCI HOLDINGS, INC. AND SUBSIDIARIES
EXHIBIT INDEX

| Exhibit Number | Description |
|-------------------|--|
| 31.1 | Certification of 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 Principal Financial Officer pursuant to Rule 13a – 14(a)/15d – 14(a), Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of 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 Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |