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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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

For the transition period from to

Commission File Number 001-34015

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

(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 x No o

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 o No o

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

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

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, 2009 (unaudited)	December 31, 2008
	(In thousands, except share data)	
ASSETS		
Current Assets:		
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
Total Current Assets	119,308	135,406
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
TOTAL ASSETS	$ 170,527	$ 192,550
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
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
Total Current Liabilities	43,063	54,014
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
Total Liabilities	87,837	107,946
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, issued and		
outstanding: 2009 -- 7,019,652 shares; 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:		
2009 -- 310,762 shares; 2008 -- 324,794 shares	(1,371)	(1,427)
Total EDCI Holdings, Inc. Stockholders' Equity	77,486	79,399
Minority interest in subsidiary company	5,204	5,205
Total Stockholders' Equity	82,690	84,604
TOTAL LIABILITIES AND 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)			
REVENUES:				
Product revenues	$	31,081	$	43,142
Service revenues		10,170		15,525
Total Revenues		41,251		58,667
COST OF REVENUES:				
Cost of product revenues		27,973		37,015
Cost of service revenues		7,708		10,549
Total Cost of Revenues		35,681		47,564
GROSS PROFIT		5,570		11,103
OPERATING EXPENSES:				
Selling, general and administrative expense		7,123		9,460
Amortization of intangible assets		-		1,587
Total Operating Expenses		7,123		11,047
OPERATING INCOME (LOSS)		(1,553)		56
OTHER INCOME (EXPENSE):				
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)
INCOME (LOSS) FROM CONTINUING OPERATIONS, BEFORE INCOME TAXES		524		(2,643)
Income tax provision (benefit)		(154)		483
INCOME (LOSS) FROM CONTINUING OPERATIONS		678		(3,126)
DISCONTINUED OPERATIONS, NET OF TAX:				
LOSS FROM DISCONTINUED OPERATIONS		(1,362)		(3,243)
GAIN ON SALE OF EDC U.S. OPERATIONS		128		-
NET LOSS	$	(556)		(6,369)
Minority interest income		(1)		(149)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$	(555)	$	(6,220)
INCOME (LOSS) PER WEIGHTED AVERAGE COMMON SHARE (1):				
Income (loss) from continuing operations attributable to common shareholders	$	0.10	$	(0.44)
Discontinued Operations Attributable to Common Shareholders:				
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)
INCOME (LOSS) PER WEIGHTED AVERAGE DILUTED COMMON SHARE (1):				
Income (loss) from continuing operations attributable to common shareholders	$	0.10	$	(0.44)
Discontinued Operations Attributable to Common Shareholders:				
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)
AMOUNTS ATTRIBUTABLE TO EDCI HOLDINGS, INC. COMMON SHAREHOLDERS				
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 Stock Shares	Common Stock $	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock $	Comprehensive Loss	Minority Interest
Balances, January 1, 2009	7,019	$ 140	$ 371,091	$ (294,988)	$ 4,583	325	$(1,427)		$ 5,205
Net loss	-	-	-	(555)	-	-	-	$ (555)	
Foreign currency translation	-	-	-	-	(1,381)	-	-	(1,381)	
Net unrealized investment losses	-	-	-	-	(72)	-	-	(72)	
Comprehensive loss	-	-	-	-	-	-	-	$ (2,008)	
Shares issued for restricted stock awards	-	-	-	-	-	(14)	56		
Stock based compensation	-	-	39	-	-	-	-		
Minority interest in subsidiary company	-	-	-	-	-	-	-		(1)
Balances, March 31, 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)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (555)	$ (6,220)
Adjustments to reconcile net loss to net cash provided 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 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 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
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,322	(7,184)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(438)	(822)
Cash restricted under long-term borrowing 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
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,129	7,427
CASH FLOWS FROM FINANCING ACTIVITIES:		
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)

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, 2009	December 31, 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

		Fair Value Measurements at Reporting Date Using		
Description	March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (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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EDCI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Amounts in Thousands Except per Share Amounts)
(Unaudited)

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 Using Significant Unobservable Inputs (Level 3) Auction-Rate Securities
Beginning balance	$	1,020
Purchases, sales and settlements, net		-
Total gains or losses (realized/unrealized) 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, 2009		December 31, 2008	
Senior Secured Credit Facility	$	7,250	$	8,000

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

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

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
Assets Sold and Liabilities Assumed			
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, 2009		December 31, 2008	
Current Assets				
Accounts receivable	$	72	$	5,093
Inventory		-		515
Prepaid and other current assets		2,355		3,082
	$	2,427	$	8,690
Current Liabilities				
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
Non-Current Liabilities				
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

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)		