

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

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

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EDCI Holdings, Inc. and Subsidiaries

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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
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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	