

ANNUAL REPORT FOR THE YEAR ENDING DECEMBER 31, 2011 FOR EDCI HOLDINGS, INC.

Item 1. Exact Name of the Issuer and the Address of its Principal Executive Offices.

EDCI Holdings, Inc. (PINK SHEETS: EDCI.PK)
11411 Overlook Drive
Fishers, IN 46037
Phone: (646) 401-0084
Website: www.edcih.com
Investor Relations Contact: Matthew K. Behrent, (646) 201-9549
or Kyle E. Blue, (317) 348-1940

Item 2. Shares Outstanding.

Common Stock, \$0.02 par value per share
(i) Period End Date: December 31, 2011
(ii) Number of Shares Outstanding: 5,929,153
(iii) Freely Tradable Shares (Public Float): 5,531,626
(iv) Total Number of Shareholders: 175 Beneficial Holders in Street Name, 41 Shareholders of Record

Preferred Stock, \$0.01 par value per share
(i) Period End Date: December 31, 2011
(ii) Number of Shares Outstanding: -0-
(iii) Freely Tradable Shares (Public Float): -0-
(iv) Total Number of Shareholders: -0-

Transfer Agent Information

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219
Phone: (877) 248-6417
Website: www.amstock.com

EDCI Holdings, Inc. and Subsidiaries

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Item 3. Interim 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, 2011 to December 31, 2011 (Unaudited)
Net Assets (liquidation basis) as of January 1, 2011	\$ 19,589
Distributions to stockholders	(6,996)
Adjustment to value of assets held for sale (See Note 7)	(1,000)
Net proceeds from sale of patents (see Note 6)	6,900
Net proceeds from sale of EDC GmbH (see Note 5)	15,002
Adjustment to EDC GmbH net asset valuation (See Note 5)	11,301
Adjustment to contingent reserves	(4,773)
Adjustment to value of noncontrolling interest	(304)
Other, net	(1,235)
Changes in net assets in liquidation	<u>18,895</u>
Net assets in liquidation - December 31, 2011	<u>\$ 38,484</u>

See Notes to Consolidated Financial Statements

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

	December 31, 2011 (Unaudited)
ASSETS	
Cash and cash equivalents	\$ 35,338
Note Receivable	6,160
Prepaid expenses and other current assets	102
Deferred income taxes	997
Assets held for sale	5,400
Total assets	\$ 47,997
LIABILITIES AND NET ASSETS IN LIQUIDATION	
Accrued expenses and other liabilities	4,960
Liquidation accrual	4,041
Reserve for uncertain tax positions	62
Total liabilities	9,063
Noncontrolling interest at estimated value	450
Total liabilities and noncontrolling interest	9,513
Net assets in liquidation	\$ 38,484

See Notes to Consolidated Financial Statements

1. Business Overview

EDCI Holdings, Inc. (“EDCI”) is a company engaged in a final Plan of Complete Liquidation and Dissolution (“Plan of Dissolution”). EDCI is also the majority equity-holder of Entertainment Distribution Company, LLC (“EDC”). 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.

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 assets, liabilities or corporate existence of EDC. 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 seeking, as appropriate, cash distributions, subject to applicable legal requirements. 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 its shareholders.

EDCI notes there are several obstacles to overcome in order for EDC to receive distributions from its subsidiaries, and in turn for EDC to distribute the proceeds to EDCI. In addition, similar to EDCI, EDC may need to establish its own contingency reserves for known and unknown contingent liabilities, before making such distributions to EDCI, or obtain indemnification from EDCI for any such contingencies.

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. On July 30, 2010, EDCI made an additional dissolution distribution of \$1.56 per share of its common stock.

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 was accomplished through a 1-for-1,400 reverse stock split of EDCI’s common stock followed immediately by a 1,400-for-1 forward split (the “Stock Split Transaction”), which was approved by the Company’s stockholders on November 8, 2010, and consummated by the Company on November 10, 2010 by filing amendments to the Company’s Certificate of Incorporation with the Delaware Secretary of State effectuating the reverse and forward stock splits. In the Stock Split Transaction, shareholders with fewer than 1,400 shares of EDCI common stock held of record immediately before the Stock Split Transaction received cash payments in lieu of fractional shares equal to \$3.44 per pre-split share. EDCI cashed out approximately 800,428 shares in the split transaction at \$3.44 per share. In total, approximately \$2.75 million was used to pay the cash out consideration in the Stock Split Transaction. Upon the effectuation of the split transaction, EDCI had approximately 5,929,153 million shares of common stock outstanding among approximately 175 beneficial shareholders in street name and approximately 9 record holders. Shareholders holding 1,400 or more shares of EDCI common stock immediately before the split transaction did not receive a cash payment and continue to hold the same number of shares after completion of the split transaction. As a result of the reverse split, EDCI deregistered its common stock with the SEC and is no longer required to file periodic reports with the SEC, and EDCI’s common stock ceased

trading on the NASDAQ. EDCI's common stock now trades on the Pink Sheets Electronic Quotation Service under the symbol EDCI.PK.

On December 17, 2010, pursuant to the Company's Plan of Dissolution, EDCI made a third dissolution distribution of \$0.46 per share of its common stock. On March 28, 2011, pursuant to the Company's Plan of Dissolution, EDCI made a fourth dissolution distribution of \$0.49 per share of its common stock. On September 30, 2011, pursuant to the Company's Plan of Dissolution, EDCI made a fifth dissolution distribution of \$0.69 per share of its common stock.

On November 30, 2011, EDC's wholly owned subsidiary, Entertainment Distribution Company Netherlands Holdings B.V. (the "Seller") signed and closed a Share Purchase Agreement (the "Agreement") with Aegis GmbH (the "Purchaser") for the sale and assignment of the Seller's shares in Entertainment Distribution Company GmbH ("EDC GmbH"), a European provider of supply chain services to the optical disc market, to the Purchaser. Combined, the three Managing Directors of EDC GmbH have a controlling interest in the Purchaser.

Pursuant to the Agreement, the Purchaser will pay to the Seller a total purchase price of \$15.0 million, \$8.85 million which was paid at closing and \$6.15 million to be paid no later than December 31, 2012 and no earlier than June 30, 2012. The second installment shall accrue interest at a rate of 5% from the closing of the agreement until the actual payment date. The second installment is also secured by a pledge of certain assets of the Purchaser. The Agreement provides for a six month indemnity period, in an amount not to exceed the purchase price received. However, the indemnity is limited and only covers representations and warranties related to the Seller's ownership of, and ability to sell, the shares. As a result of the sale, EDC and its subsidiaries are no longer engaged in the manufacture and distribution of compact discs (CDs).

On February 14, 2012, pursuant to the Company's Plan of Dissolution, EDCI made a sixth dissolution distribution of \$0.45 per share of its common stock. In the aggregate, approximately \$43.9 million of EDCI's cash has been distributed to its stockholders pursuant to the six dissolution distributions made as part of the Plan of Dissolution.

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. 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 expenses, 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 expenses. 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 Statements 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. In addition, certain of the dissolution reserves that EDCI provided for in accordance with Delaware law that were included in the range of estimated liquidating distributions set forth in EDCI's November 16, 2009 proxy related to the approval of the Plan of Dissolution are not permitted by GAAP to be included in the Company's Statements of Net Assets in Liquidation. These include dissolution reserves for certain known and unknown contingent liabilities and dissolution reserves. These differences may be material. In addition, the net asset value attributed to the Company's

EDC subsidiary in the accompanying Statements 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 Statements of Net Assets in Liquidation.

3. 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, as of December 31, 2011.

STATEMENT OF NET ASSETS IN LIQUIDATION (LIQUIDATION BASIS)

	December 31, 2011 (Unaudited)		
	<u>EDC (a)</u>	<u>EDCI</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 22,836	\$ 12,502	\$ 35,338
Note Receivable	6,160	-	6,160
Prepaid expenses and other current assets	-	102	102
Deferred income taxes	997	-	997
Assets held for sale	5,400	-	5,400
Total assets	<u>35,393</u>	<u>12,604</u>	<u>47,997</u>
LIABILITIES AND NET ASSETS IN LIQUIDATION			
Current Liabilities:			
Accrued expenses and other liabilities	4,926	34	4,960
Liquidation accrual	1,650	2,391	4,041
Reserve for uncertain tax positions	-	62	62
Total liabilities	<u>6,576</u>	<u>2,487</u>	<u>9,063</u>
Noncontrolling interest at estimated value	-	450	450
Total liabilities and noncontrolling interest	<u>6,576</u>	<u>2,937</u>	<u>9,513</u>
Net assets in liquidation	<u>\$ 28,817</u>	<u>\$ 9,667</u> (b)	<u>\$ 38,484</u>

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

(b) On February 14, 2012, EDCI made a dissolution distribution of \$0.45 per share of its common stock. Approximately \$2.7 million of EDCI's cash was returned to its shareholders as part of this dissolution distribution and thus Net Assets in Liquidation were reduced by a like amount on this date.

4. Cash and Cash Equivalents

The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are large diversified entities. The Company classifies investments with maturities of three months or less when

purchased as cash equivalents. At times the amounts of cash held in certain bank accounts may exceed the amount that the Federal Deposit Insurance Corporation (“FDIC”) insures. The overwhelming majority of the cash held is invested in U.S. Treasury Bills.

5. Sale of EDC’s German Subsidiary

On November 30, 2011, EDC’s wholly owned subsidiary, Entertainment Distribution Company Netherlands Holdings B.V. (the “Seller”) signed and closed a Share Purchase Agreement (the “Agreement”) with Aegis GmbH (the “Purchaser”) for the sale and assignment of the Seller’s shares in Entertainment Distribution Company GmbH (“EDC GmbH”), a European provider of supply chain services to the optical disc market, to the Purchaser. Combined, the three Managing Directors of EDC GmbH have a controlling interest in the Purchaser.

Pursuant to the Agreement, the Purchaser will pay to the Seller a total purchase price of \$15.0 million, \$8.85 million which was paid at closing and \$6.15 million to be paid no later than December 31, 2012 and no earlier than June 30, 2012. The second installment shall accrue interest at a rate of 5% from the closing of the agreement until the actual payment date. The second installment is also secured by a pledge of certain assets of the Purchaser. The Agreement provides for a six month indemnity period, in an amount not to exceed the purchase price received.

Prior to the sale, EDC GmbH had constituted a net liability of approximately \$11.3 million in our consolidated Statement of Net Assets. Upon consummation of the sale, we reversed the net liability and therefore our consolidated Statement of Net Assets increased by a like amount during the year ended December 31, 2011.

6. Sale of Patents

On June 27, 2011, one of EDCI’s wholly owned subsidiaries completed the sale of substantially all of its remaining patents, which are primarily related to the former paging infrastructure operations, for total consideration of \$8.0 million in cash, resulting in net proceeds of \$6.9 million to EDCI, after payment of patent brokerage expenses. As a result of the sale, EDCI’s Net Assets in Liquidation increased by \$6.9 million during the second quarter of 2011. The transaction was not subject to any closing conditions. The agreement provides for a cap on liabilities related to any breaches of the sale agreement equal to approximately \$2.7 million. The cap on liabilities declines over time and, assuming no claim is made by the buyer, is reduced to zero after December 31, 2012, and also provides for a limited license back to the relevant subsidiaries for certain activities conducted prior to the sale.

7. Assets Held for Sale

Assets Held for Sale as of December 31, 2011, 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. Given the continued soft commercial real estate market, management engaged a broker during the second quarter of 2011 in an effort to accelerate the sales process. Based on analyses received from its broker, management has reassessed the fair value of the Kings Mountain Facility to be \$5.4 million, net of commissions, and thus recorded a \$1.0 million write down during the year ended December 31, 2011, for financial reporting purposes. Management has also engaged a licensed contractor to perform selective demolition and interior dismantling of certain areas of the Kings Mountain Facility in an effort to better position the facility for sale.

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, \$0.6 million of carrying costs remain accrued as part of the liquidation accrual as of December 31, 2011.

8. Deferred Income Taxes

The Company accounts for income taxes using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in

which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. At December 31, 2011, the Company has recorded approx \$1.0 million in deferred tax assets which relate to tax refunds due to EDC's U.K. subsidiary. Subsequent to December 31, 2011, EDC's U.K. subsidiary was informed by Her Majesty's Revenue and Customs (the "HMRC") that the full refund had been approved for payment by the HMRC and EDC's U.K. subsidiary received the refund proceeds on March 8, 2012.

As of December 31, 2011, the Company has U.S. NOLs of \$285.0 million. These NOLs begin to expire in 2019. Although these NOLs have a full valuation allowance against them for financial statement presentation purposes, the Company believes it is prudent to continue to protect its NOLs at this time in order to be able to utilize those NOLs to reduce the Company's future income tax liability from actions that could be consummated in connection with the Company's previously disclosed Plan of Dissolution. However, EDCI expects that the consummation of the Plan of Dissolution will ultimately result in a loss of any further ability to capitalize on the NOLs.

9. Reserve For Uncertain Tax Positions

During the year ended December 31, 2011, the amount of reserves for uncertain tax positions decreased by \$0.9 million primarily due to EDC's sale of its EDC GmbH subsidiary and the expiration of various tax related statutes of limitations. Of the reserve for uncertain tax positions recorded as of December 31, 2011, 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.

10. 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.

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. In December 2009 the Court held a claim construction hearing, a decision for which was rendered in May 2010. 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. This state court action was removed to federal court and was subsequently stayed by the Federal Court on September 29, 2010 pending resolution of the related Federal Court actions. Phillips subsequently sought to add customers of the defendants to the Federal complaints. On April 8, 2011 the Court issued an order denying Phillips' motion to add customers as defendants. However, the Court stated that Phillips is not precluded from bringing separate actions against Defendants' customers. If Philips brings such separate actions, EDC could be required to indemnify such customers for their legal costs and any damages. EDC plans to oppose any such separate actions. In July 2010, EDC and other defendants submitted a motion for a

summary judgment that it has not infringed the patent-in-suit, based on the court's claim construction, and a motion for a summary judgment that the patent is invalid. On December 10, 2010 the Court denied defendants' motions for summary judgment, stating that the motions raised factual disputes that were best resolved by a jury. On July 22, 2011, Philips submitted an expert report quantifying its alleged damages. This report listed total damages claimed against EDC of approximately \$34.4 million. However, approximately \$25.8 million of that amount relate to claims Philips is pursuing jointly against EDC and one of its customers, for which EDC believes it has indemnification rights under certain contractual arrangements with that customer in the event Philips sought to collect those damages from EDC (the "Indemnified Damages"). As a result, the non-indemnified damages alleged against EDC total approximately \$8.6 million. Philips is also seeking enhanced damages in an unspecified amount for willful patent infringement. On September 16, 2011, EDC and the other defendants submitted a rebuttal testimony from their expert related to the alleged damages and on September 16, 2011, Phillips submitted further rebuttal testimony from their expert and during depositions acknowledged certain errors in the report and its intent to submit a revised report. On December 8, 2011, Philips submitted a revised expert report that listed total damages against EDC of approximately \$33.7 million for contract damages (\$29.5 million of which EDC believes would be Indemnified Damages), and \$20.6 million for patent damages (\$17.8 million of which EDC believes would be Indemnified Damages). As a result, the non-indemnified damages alleged against EDC in this report total approximately \$7.1 million. Both amounts only include interest through July 2011, and Philips indicated it would seek such interest through the date of a final verdict, and Philips is seeking enhanced damages in an unspecified amount for willful patent infringement for the patent claims. In many cases, Philips appears to be claiming both patent and contract damages for the same individual disc, as a result of which EDC believes there is double counting between the patent and contract damages. While the rebuttal testimony of EDC and the other defendants identifies various arguments that would justify lower damages, even if Phillips were successful on the merits of their key claims, no specific quantification of such lower damages has been made as EDC does not believe the complaints, including the claims Philips added through the amendment motions or the New York State Court complaint, have merit. EDC 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 stage in the matter, EDC is not able to assess the likelihood of a favorable outcome. EDC and other defendants filed several dispositive motions in November and December of 2011. The Court has not yet ruled on these motions. The federal case is still pending. The Court stated its intent to hold a jury trial in a related action involving similar claims brought by Philips against an unrelated CD replicator in June of 2012. A trial date for the present case has not been set.