

EDCI HOLDINGS, INC.  
Form PRER14A  
October 05, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

EDCI Holdings, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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EDCI Holdings, Inc.  
11 East 44th Street, Suite 1201  
New York, New York 10018

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS  
TO BE HELD ON NOVEMBER \_\_\_, 2010**

To the Stockholders of EDCI Holdings, Inc.:

We cordially invite you to attend the Special Meeting of Stockholders of EDCI Holdings, Inc., a Delaware corporation (“EDCI” or the “Company”), to be held on November \_\_\_, 2010 at \_\_\_:\_\_\_ [a.m./p.m.], Eastern time, at \_\_\_\_\_, Fishers, Indiana 46038. At the special meeting, you will be asked to vote on the following matters:

- **Reverse/Forward Stock Split.** To consider and vote upon a proposal to adopt two amendments to the Company’s Certificate of Incorporation. The amendments will provide for (i) a reverse 1-for-1,400 stock split, followed immediately by (ii) a forward 1,400-for-1 stock split. Each record stockholder owning fewer than 1,400 shares of common stock, \$0.02 par value per share, immediately prior to the reverse split will, instead of participating in the forward split, receive a cash payment equal to \$3.44 per share on a pre-split basis. The text of the proposed amendments is attached as Appendix A to the accompanying proxy statement.
- **Adjournment.** To approve the adjournment of the special meeting, if necessary, to permit the solicitation of additional proxies in the event there are not sufficient votes, in person or by proxy, to approve the above proposal.
- **Other Matters.** To transact any other business as may properly come before the special meeting or any adjournments of the special meeting. The Board of Directors is not aware of any other business to come before the special meeting.

If approved at the special meeting, the reverse/forward stock split transaction will affect our stockholders as follows:

If you are a record stockholder with: 1,400 or more shares	Effect: You will continue to hold the same number of shares.
Fewer than 1,400 shares	You will be entitled to receive \$3.44 in cash, without interest, per share of stock you own.

The primary effect of this transaction will be to reduce our total number of stockholders of record to below 300. As a result, we will terminate the registration of our common stock under federal securities laws, our reporting obligations with the Securities and Exchange Commission (“SEC”) will be suspended, and our common stock will no longer be eligible for trading on the NASDAQ Stock Market. Any trading in our common stock after the split transaction and deregistration under the Exchange Act will occur, if at all, in privately negotiated sales or in the “Pink Sheets.” We expect our common stock still will be eligible to trade in the Pink Sheets after the split transaction and the deregistration of our common stock.

A special committee of the Board of Directors consisting solely of independent directors (the “Special Committee”) was formed to determine the advisability and fairness to us and our stockholders of engaging in a going private transaction,

the various alternatives for consummating a going private transaction and to recommend to the full Board the type of transaction to effectuate the going private transaction and the recommended terms thereof. The Special Committee has received a fairness opinion from Coady Diemar Partners, LLC, its independent financial advisor, indicating that the consideration to be received by our unaffiliated non-continuing stockholders for their shares of common stock to be cashed-out as a result of the reverse stock split is fair from a financial point of view to such stockholders.

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We are proposing this transaction because the Special Committee and our Board of Directors has concluded, after careful consideration, that the costs and other disadvantages associated with being an SEC-reporting company outweigh any of the perceived advantages, especially given the fact that the Company is in dissolution and is in the process of winding-up its business and affairs. In addition, the Special Committee has concluded that the transaction is in the best interests of, and the price to be paid per pre-split share to fractional stockholders is fair to, our unaffiliated stockholders and has unanimously recommended the transaction to the Board. Based on such recommendation, the Board has unanimously determined that the transaction is fair to, and in the best interests of, EDCI and our stockholders, including all of our unaffiliated stockholders.

Only holders of record of the Company's common stock as of the close of business on September 28, 2010 are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting. YOUR VOTE IS VERY IMPORTANT. The affirmative vote of the holders of a majority of the outstanding shares of EDCI common stock is required for the adoption of the amendments to the Company's Certificate of Incorporation and, accordingly, the reverse/forward stock split transaction.

The accompanying proxy statement includes a discussion of the alternatives and factors considered by the Board in connection with its approval of the reverse/forward stock split, and we encourage you to carefully read the proxy statement and its appendices. EDCI's Board of Directors believes the terms of the proposed transaction are fair and are in the best interests of our unaffiliated stockholders, and unanimously recommends that you vote "FOR" the proposal to amend our Certificate of Incorporation.

This notice and the accompanying proxy statement and related materials are first being mailed to holders of record of our common stock on or about October \_\_, 2010. You may vote your shares in person at the special meeting, via the Internet, by telephone or by mail. If you choose to vote in person at the special meeting, via the Internet or by telephone, you do not need to mail in a proxy card. A list of stockholders entitled to vote at the special meeting will be open to the examination of any stockholder for any purpose relevant to the meeting, during ordinary business hours, for a period of 10 days prior to the special meeting at the Company's offices located at 11 East 44th Street, Suite 1201, New York, New York and will be available at the meeting for such purpose.

Whether or not you plan to attend the special meeting, please MARK, SIGN, DATE, AND RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED ENVELOPE AS PROMPTLY AS POSSIBLE so that your shares may be voted in accordance with your wishes. YOU ALSO MAY VOTE VIA THE TOLL-FREE TELEPHONE NUMBER OR OVER THE INTERNET as described in the following materials.

By Order of the Board of Directors,

New York, New York  
October \_\_, 2010

Clarke H. Bailey  
Chairman of the Board and  
Chief Executive Officer

THE REVERSE/FORWARD STOCK SPLIT TRANSACTION HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE FAIRNESS OR MERITS OF THE TRANSACTION OR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.



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#### APPENDICES

A-1	Proposed Form of Amendment to Certificate of Incorporation to Effect Reverse Stock Split
A-2	Proposed Form of Amendment to Certificate of Incorporation to Effect Forward Stock Split
B	Opinion of Coady Diemar Partners, LLC

EDCI Holdings, Inc.  
11 East 44th Street, Suite 1201  
New York, New York 10018

Proxy Statement

for the  
Special Meeting of Stockholders

To Be Held on November \_\_\_, 2010

We are furnishing this proxy statement in connection with the solicitation of proxies by the Board of Directors (the "Board of Directors" or the "Board") of EDCI Holdings, Inc., a Delaware corporation ("EDCI," the "Company," "we," or "our") to be used at our Special Meeting of Stockholders and at any adjournments of the meeting. The meeting is scheduled to be held as follows:

\_\_\_\_\_, November \_\_\_, 2010  
\_\_\_:00 [a.m./p.m.], Eastern  
time

Fishers, Indiana 46038

We are first mailing this proxy statement and the accompanying form of proxy to stockholders on or about October \_\_\_, 2010.

SUMMARY TERM SHEET

This summary provides an overview of material information from this proxy statement. However, it is a summary only. To better understand the reverse stock split and forward stock split transaction and for a more complete description of its terms, and for a description of other matters to be considered at the special meeting, we encourage you to read carefully this entire document and the documents to which it refers before voting.

In this proxy statement, the term "split transaction" refers to the reverse and forward stock splits, together with the related cash payments to registered stockholders holding fewer than 1,400 shares at the effective time of the split transaction. The term "non-continuing stockholders" of the Company means all record holders of common stock of the Company (i.e., registered owners of the shares whose names appear on the Company's records as stockholders) with fewer than 1,400 shares at the effective time of the reverse stock split transaction. The term "continuing stockholders" means all record holders of common stock of the Company with at least 1,400 shares at the effective time of the reverse stock split transaction. References to "common stock" or "shares" refer to the Company's common stock, par value \$0.02 per share.

Date, Time, and Place of Special Meeting; Proposals to be Considered at the Special Meeting

Our Board of Directors is asking for your proxy for use at a special meeting of stockholders to be held on \_\_\_\_\_, November \_\_\_, 2010, at \_\_\_:00 [a.m./p.m.], Eastern time, at \_\_\_\_\_, Fishers, Indiana 46038 and at any adjournments or postponements of that meeting. At the special meeting,

stockholders will be asked:

- to consider and vote upon a proposal to adopt amendments to our Certificate of Incorporation that will result in a 1-for-1,400 reverse stock split followed immediately by a 1,400-for-1 forward stock split; and
- to approve the adjournment of the special meeting, if necessary, to permit the solicitation of additional proxies in the event there are not sufficient votes, in person or by proxy, to approve the above proposal.

Stockholders are also being asked to consider and vote upon any other matters that may properly be submitted to a vote at the meeting or any adjournment or postponement of the annual meeting. See “About the Special Meeting.”

#### Record Date

You may vote at the special meeting if you owned Company common stock at the close of business on September 28, 2010, which has been set as the record date. At the close of business on the record date, there were 6,730,099 shares of our common stock issued and outstanding. You are entitled to one vote on each matter considered and voted upon at the special meeting for each share of common stock you held of record at the close of business on the record date.

#### Vote Required for Approval

Proposal 1 – The Reverse/Forward Stock Split. Approval of the split transaction requires the affirmative vote of the holders of a majority of all outstanding shares of our common stock entitled to vote at the special meeting, or 3,365,050 of the 6,730,099 outstanding shares. Because the executive officers and directors of the Company have the power to vote a total of 397,527 shares and we believe that all of such executive officers and directors will vote in favor of the transaction, this means a total of 2,967,523 shares held by stockholders who are not executive officers or directors of the Company will be required to vote in favor of the transaction for it to be approved. Because the executive officers and directors of the Company own only approximately 5.9% of the voting power of our outstanding common stock, there is no assurance that the split transaction will be approved.

Proposal 2 – Adjournment of the Special Meeting. Approval of the proposal to adjourn or postpone the meeting to allow extra time to solicit proxies requires more votes cast in favor of the proposal than are cast against it. See “About the Special Meeting – Vote Required for Approval.”

#### The Company

EDCI Holdings, Inc. is a holding company and parent of Entertainment Distribution Company, Inc., which, together with its wholly-owned and controlled majority 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”), which provides pre-recorded products and distribution services to the entertainment industry. The primary customer of EDC is Universal Music Group (“Universal”). The Company’s principal executive offices are located in New York City at 11 E. 44th Street, Suite 1201, New York, New York 10018, and its telephone number for investor relations is (646) 401-0084. The Company’s common stock is publicly traded on the NASDAQ Capital Market under the symbol “EDCI.” As of the close of business on October \_\_\_\_, 2010, the last trade of our common stock as reported on the NASDAQ Capital Market was \$\_\_\_\_\_ per share.

EDCI is currently comprised of the following: first, EDCI, indirectly through certain subsidiaries, owns 97.99% of the limited liability company units of EDC, which was formed through the acquisition of the U.S. and central European CD and DVD manufacturing and distribution operations of Universal in May 2005. Additionally, as of June 30, 2010, EDCI had approximately \$29.4 million of cash and cash equivalents that was unencumbered by EDC.

On September 9, 2009, EDCI’s Board of Directors unanimously approved recommending a dissolution process to EDCI’s stockholders, and on October 14, 2009 approved the final Plan of Complete Liquidation and Dissolution (“Plan of Dissolution”). At a special meeting held on January 7, 2010, the stockholders of EDCI approved the voluntary dissolution and liquidation of EDCI pursuant to the Plan of Dissolution. Delaware law provides that a corporation

may dissolve upon the recommendation of the Board of Directors of the corporation, followed by the approval of its stockholders. As the Plan of Dissolution was approved by the requisite vote of our stockholders, we filed a certificate of dissolution with the Delaware Secretary of State in January 2010.

The Plan of Dissolution provides for the voluntary dissolution, liquidation, and winding-up of EDCI. As of January 2010, we ceased all of EDCI's business activities except for those relating to winding up EDCI's business and affairs during a minimum three-year period required under Delaware law, including, but not limited to, gradually settling and closing its business, prosecuting and defending suits by or against EDCI, seeking to convert EDCI's assets into cash or cash equivalents, discharging or making provision for discharging EDCI's known and

unknown liabilities, making cash distributions to our stockholders, withdrawing from all jurisdictions in which EDCI is qualified to do business and, if EDCI is unable to convert any assets to cash or cash equivalents by the end of the three-year period, distributing EDCI's remaining assets in-kind among our stockholders according to their interests or placing them in a liquidating trust for the benefit of our stockholders, and, subject to statutory limitations, taking all other actions necessary to wind up the Company's business and affairs.

EDCI's ownership of 97.99% of the membership units of EDC is an asset of EDCI that is subject to the Plan of Dissolution. The Plan of Dissolution does not directly involve the operating business, assets, liabilities or corporate existence of EDC. Beginning in January 2010, EDCI's consolidated financials are required to reflect EDC's assets and liabilities under the liquidation basis of accounting and it should be noted that during EDCI's three-year dissolution period, EDCI will continue to seek value for its investment in EDC by exploring strategic alternatives and seeking, as appropriate, cash distributions, subject 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 Operation 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 Operation is unlikely. If EDCI continues to own any interest in EDC at the end of the three year dissolution period, EDCI anticipates transferring such interests to a liquidating trust, for the benefit of our stockholders.

On February 1, 2010, pursuant to the above-referenced Plan of Dissolution, EDCI made an initial dissolution distribution to its stockholders of \$3.12 per share of its common stock. In addition, on July 30, 2010 EDCI made a second dissolution distribution to its stockholders of \$1.56 per share. In the aggregate, approximately \$31.5 million of EDCI's cash, or \$4.68 per share, has been returned to its stockholders pursuant to these two distributions.

On September 22, 2010, EDCI's Board of Directors determined that those EDCI stockholders who inadvertently become holders of five percent or greater of EDCI's outstanding shares of common stock as a result of the split transaction will be provided an exception from certain provisions of EDCI's Certificate of Incorporation (the "Certificate") which currently restricts their future ability to sell their shares. In accordance with the provisions of the Certificate, the transfer of EDCI's common stock is prohibited if, among other considerations, the transfer is attempted by a holder of five percent or greater of EDCI's common stock, unless the holder is a Pre-Existing 5% Stockholder as defined in the Certificate. The Certificate provides that the Board may grant exceptions to that restriction. The transfer restrictions are designed to reduce the risk that the Company would experience an ownership change for purposes of Section 382 of the Internal Revenue Code (the "Code"), which would impose limitations on the use of the Company's net operating losses ("NOLs"). An ownership change can occur whenever there is a shift in ownership by more than 50 percentage points by one or more 5% stockholders within a three-year period. EDCI believes it is prudent to continue to protect its NOLs at this time in order to be able to utilize those NOLs to reduce EDCI's future income tax liability from actions that could be consummated in connection with the plan of dissolution (such as potential dividends from EDC's German operations). 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. For example, as a result of the dissolution, EDCI no longer is legally permitted to acquire or develop new businesses that would generate future earnings and potential income tax liability. In this regard, as of the date of this proxy statement, EDCI is not presently considering and has not entered into any plan or proposal in connection with the plan of dissolution that would result in the ability of EDCI to generate future income and potential income tax liability. See "Special Factors – Effects of the Split Transaction on the Company – Plans or Proposals" on page \_\_\_\_\_. To the extent any value is derived from the NOLs after the split transaction is completed, the cashed-out stockholders would not benefit in such value, and the

Company and the stockholders remaining after the split transaction is completed would be the sole beneficiaries of the NOLs. That being said, the availability of the NOLs was considered by Coady Diemar as part of its analysis of the fairness of the \$3.44 cash-out price in connection with EDCI's ability to avoid any income tax liability in the event of distributions from EDC's German operations. See "Special Factors – Fairness Opinion of the Financial Advisor" beginning on page \_\_\_\_\_.

Based on current estimates, it is likely that the split transaction will inadvertently create new five percent stockholders ("Inadvertent 5% Stockholders") by reducing the number of shares of EDCI's common stock that are outstanding. Subsequent sales by those Inadvertent 5% Stockholders are not expected to cause the Company to

experience an ownership change for tax purposes, and therefore will not affect the Company's ability to utilize its NOLs to reduce its future income tax liability from actions that could be consummated in connection with the plan of dissolution. Therefore, the Board determined that it was appropriate to provide an exception in regards to sales of shares by Inadvertent 5% Stockholders to permit those stockholders to maintain their ability to seek liquidity for their shares. In order for a stockholder to benefit from this exception after the consummation of the reverse split, such stockholder will be required to provide written notice to EDCI, before the special meeting date, that such stockholder's share ownership is at a level that could cause the stockholder to become an Inadvertent 5% Stockholder after the reverse split at the high-end of the range of EDCI's estimate of shares that could be cashed-out (which equates to an ownership level of 270,000 shares or more, based on the range of potential cash-out proceeds of between \$2.1 million and \$4 million at the proposed \$3.44 per share cash-out price). This notice is intended to permit the Company to ensure that the number of potential Inadvertent 5% Stockholders resulting from the reverse split does not cause an ownership change for tax purposes. This exception also is limited to sales that do not increase the percentage stock ownership of any five-percent stockholder or create a new five-percent stockholder, in each case, other than a public group (including a new public group created under Treasury Regulation § 1.382-2T(j)(3)(i)), and is limited to the shares acquired by such Inadvertent 5% stockholders prior to the reverse split. This exception effectively treats Inadvertent 5% Stockholders, solely with regard to share sales, in the same manner as Pre-Existing 5% Stockholders. Inadvertent 5% Stockholders will continue to be subject to all other provisions of EDCI's Certificate of Incorporation, including restrictions on the purchase of any additional shares of EDCI's common stock, as such additional purchases could affect whether or not EDCI experiences an ownership change for tax purposes. Based on the range of potential cash out proceeds of between \$2.1 and \$4 million currently reserved to effectuate the split transaction, stockholders who currently own more than 270,000 shares of EDCI's common stock may have their holdings in EDCI increased to a level of five percent or greater by virtue of the reverse stock split.

#### Introduction and Overview of the Split Transaction

We are proposing that our stockholders adopt amendments to our Certificate of Incorporation that will result in a reverse 1-for-1,400 stock split followed immediately by a forward 1,400-for-1 stock split. If the split transaction is completed, our record stockholders who hold only fractional shares after giving effect to the reverse 1-for-1,400 stock split will receive a payment of \$3.44 per share for each pre-split share. If the reverse stock split is completed, record stockholders with fewer than 1,400 pre-split shares will have no interest in the Company and will become entitled only to a cash payment for their shares following the reverse stock split. After we complete the reverse stock split and identify those stockholders entitled to payment for their pre-split shares, we will complete a forward stock split in which each share of common stock will be converted into 1,400 shares of common stock post-split. As a result of this subsequent forward stock split, record stockholders who hold 1,400 or more shares prior to the reverse stock split will ultimately hold the same number of shares following the forward stock split. The effect of the split transaction will be to reduce the number of stockholders of record to less than 300, which will allow us to suspend our reporting obligations under federal securities laws.

We intend to treat stockholders holding our common stock in street name in the same manner as our record stockholders. This means that, prior to the effective date of the split transaction, we will conduct an inquiry of all brokers, banks, and other nominees that hold shares of our common stock in street name, ask them to provide us with information on how many shares held by beneficial holders will be cashed out, and request that they effect the split transaction for those beneficial holders. However, these brokers, banks, and other nominees may have different procedures for processing the split transaction. Accordingly, if you hold your shares of common stock in street name, we encourage you to contact your broker, bank, or other nominee immediately.

We expect to pay a total of approximately \$2.1 million to stockholders in the reverse stock split and we anticipate that the number of outstanding shares of our common stock will decrease approximately 9%, from 6,730,099 shares to



approximately 6,130,099 shares as a result of the split transaction. These numbers and amounts may change as a result of trading activity in our shares between the date hereof and the effective date of the split transaction. In this connection, we have reserved up to \$4 million in the event additional stockholders are required to be cashed-out. See “Special Factors – Overview of the Split Transaction.”

#### Background of the Split Transaction

For a description of the events leading to the approval of the split transaction by the Special Committee and Board of Directors and the reasons for its approval, you should refer to “Special Factors – Background of the Split Transaction,” “– Reasons for the Split Transaction,” “– Fairness of the Split Transaction,” and “– Board

Recommendation” on pages \_\_\_ through \_\_\_. As we explain more fully in these sections, the Special Committee and Board considered and rejected various alternative methods of effecting a transaction that would enable us to become a non-SEC reporting company.

#### Reasons for the Split Transaction

The Special Committee and Board’s reasons for the split transaction are set forth on pages \_\_\_ to \_\_\_. The Special Committee and Board have concluded that the costs of complying with the securities laws outweigh the benefits the Company receives for being an SEC reporting company, especially given the fact the Company is currently in dissolution. See “Special Factors – Reasons for the Split Transaction.”

#### Fairness of the Split Transaction

The Special Committee and the Board fully considered and reviewed the terms, purpose, alternatives, and effects of the split transaction. Based on its review, the Special Committee unanimously determined that the split transaction is procedurally and substantively fair to, and in the best interests of, our unaffiliated stockholders, including the unaffiliated stockholders who will receive cash consideration in the split transaction and unaffiliated stockholders who will continue as our stockholders. Additionally, based on its review, the Board unanimously determined that the split transaction is procedurally and substantively fair to, and in the best interests of, all of our stockholders, including all unaffiliated stockholders. The Special Committee and Board unanimously approved the split transaction. See “Special Factors – Fairness of the Split Transaction.” For a complete discussion of the positive and negative factors considered by the Special Committee and Board, please see pages \_\_\_ through \_\_\_.

#### Fairness Opinion of Financial Advisor

In deciding to approve the split transaction and recommend it to our stockholders, the Special Committee and Board of Directors considered the opinion of Coady Diemar Partners, LLC (“Coady Diemar”) that the \$3.44 consideration proposed to be paid to the unaffiliated non-continuing stockholders is fair from a financial point of view to those stockholders. The Special Committee and Board adopted Coady Diemar’s analysis which formed the basis of its fairness opinion.

The full text of the fairness opinion is attached to this proxy statement as Appendix B, and you are encouraged to read it carefully. See “Special Factors – Fairness Opinion of Financial Advisor.”

#### Effects of the Split Transaction

The split transaction is a going private transaction for the Company, meaning it will allow us to de-register our common stock with the SEC and our reporting obligations under federal securities laws will be suspended. For a further description of how the split transaction will affect our stockholders, including the different effects on the affiliated and unaffiliated continuing and non-continuing stockholders, please see “Special Factors – Fairness of the Split Transaction – Substantive Fairness” on pages \_\_\_ through \_\_\_. For more information on the effects on the Company of the split transaction, see “Special Factors – Effects of the Split Transaction on the Company.”

#### Interests of Certain Persons in the Split Transaction

You should be aware that the directors and executive officers of the Company have interests in the split transaction that may present actual or potential, or the appearance of actual or potential, conflicts of interest in connection with the split transaction. See “Special Factors – Interests of Certain Persons in the Split Transaction.”

#### Financing of the Split Transaction

We estimate that the total funds required to fund the payment of the split transaction consideration to the non-continuing stockholders and to pay fees and expenses relating to the split transaction will be approximately \$2.4 million. This amount may increase or decrease as a result of trading activity in our shares between the date hereof and the effective date of the split transaction. We intend that the payments to the non-continuing stockholders and the costs of the split transaction will be paid from the Company’s cash-on-hand. In this connection, we have reserved up to \$4 million in the event additional stockholders are required to be cashed-out.

## Material Federal Income Tax Consequences of the Split Transaction

We believe that the split transaction, if approved and completed, will have the following federal income tax consequences: (i) the split transaction should result in no material federal income tax consequences to the Company; (ii) the continuing stockholders, whether affiliated or unaffiliated, will not recognize any gain or loss or dividend income in connection with the split transaction; and (iii) the receipt of cash in the split transaction by the non-continuing stockholders, whether affiliated or unaffiliated, will be taxable to those stockholders, who generally will recognize gain or loss in the split transaction in an amount determined by the difference between the cash they receive and their adjusted tax basis in their common stock surrendered. Any such recognized gain will be treated as capital gain, unless, in the case of a particular stockholder, the receipt of the cash is deemed to have the effect of a dividend. Because determining the tax consequences of the split transaction can be complicated, you should consult your own tax advisor to fully understand how the split transaction will affect you. See “Special Factors – Federal Income Tax Consequences.”

## Appraisal or Dissenters’ Rights

Under Delaware law, our Certificate of Incorporation, and our bylaws, you do not have dissenters’ rights of appraisal in connection with the split transaction. Although you will not have appraisal rights in connection with the split transaction, you may pursue all available remedies under applicable law.

## Recommendations of Special Committee and Board of Directors

The Board of Directors created the Special Committee to determine the advisability and fairness to us and our stockholders of engaging in a going private transaction, the various alternatives for consummating a going private transaction, and to recommend to the full Board the type of transaction to effectuate the going private transaction and the recommended terms thereof. In that regard, the Special Committee considered the purposes of and certain alternatives to the split transaction, the related advantages and disadvantages to us and unaffiliated stockholders of the split transaction, and the fairness of the consideration to be paid to the non-continuing stockholders who will be cashed-out in the split transaction.

Following the Special Committee’s review of the fairness opinion rendered by Coady Diemar and the careful consideration of other factors relating to the advisability and fairness of the split transaction, the Special Committee determined that the split transaction is in the best interests of, and the price to be paid per fractional share is fair to, our unaffiliated stockholders, including those who will be continuing stockholders. The Special Committee unanimously recommended the split transaction to the full Board. Based in part on such recommendation, the Board unanimously determined that the split transaction is in the Company’s best interests and in the best interests of our stockholders, including unaffiliated stockholders who will be cashed-out in the split transaction and unaffiliated stockholders who will be continuing stockholders after the transaction is completed.

Therefore, our Board of Directors unanimously recommends that you vote “FOR” the proposed amendments to our Certificate of Incorporation which will effect the split transaction. Our Board of Directors also recommends that you vote “FOR” the proposal to adjourn or postpone the meeting to allow extra time to solicit proxies, if necessary.

## QUESTIONS AND ANSWERS ABOUT THE SPLIT TRANSACTION AND THE SPECIAL MEETING

Q: What is the proposed split transaction?

A: We are proposing that our stockholders approve a reverse 1-for-1,400 stock split followed immediately by a forward 1,400-for-1 stock split of our outstanding common stock. The purpose of the split transaction is to allow us to suspend our SEC-reporting obligations (referred to as “going private”) by reducing the number of our stockholders of record to fewer than 300. This will allow us to terminate our registration under the Securities Exchange Act of 1934 (the “Exchange Act”), and relieve us of the costs typically associated with the preparation and filing of reports and other documents with the SEC.

Q: What will I receive in the split transaction?

A: If you are the registered owner of fewer than 1,400 shares of our common stock on the date of the reverse stock split, you will receive \$3.44 in cash from us for each pre-split share you own. If you are the

registered owner of 1,400 or more shares of our common stock on the date of the reverse stock split, you will not receive any cash payment for your shares in connection with the split transaction and will continue to hold the same number of shares of our common stock as you did before the split transaction.

Q: Why is 1,400 shares the “cutoff” number for determining which stockholders will be cashed out and which stockholders will remain as stockholders of the Company?

A: The purpose of the split transaction is to reduce the number of our stockholders of record to fewer than 300, which will allow us to de-register as an SEC-reporting company. Our Board selected 1,400 shares as the “cutoff” number in order to enhance the probability that after the split transaction, if approved, we will have fewer than 300 stockholders of record. The Board and Special Committee considered “cutoff” levels other than 1,400 shares, but they determined a cutoff level of 1,400 was most appropriate because it would result in approximately 175 record stockholders and beneficial holders (as such beneficial holders could elect at any time to convert to record holders) of the Company after the reverse split. Having approximately 175 post-split stockholders would provide an appropriate cushion to protect against the Company once again becoming subject to SEC reporting requirements in the event stockholders owning less than 1,400 shares prior to the split transaction acquire additional shares to remain a stockholder after the split transaction, as well as in the event new stockholders acquire shares after the split transaction. In addition, the targeted result of having 175 post-split stockholders was reasonable in relation to comparable publicly-disclosed reverse split transactions analyzed by Coady Diemar in connection with its fairness analysis.

Q: May I buy additional shares in order to remain a stockholder of the Company?

A: Yes, you will have the opportunity to acquire additional shares, but we cannot guarantee that you ultimately will be able to do so. If you own fewer than 1,400 shares of our common stock prior to the split transaction, the only way you can continue to be a stockholder of the Company after the split transaction is to acquire, prior to the effective time of the split transaction, sufficient additional shares to cause you to own a minimum of 1,400 shares at the effective time of the transaction. The key date for acquiring additional shares is \_\_\_\_\_, 2010. So long as you are able to acquire a sufficient number of shares so that you are the registered owner of 1,400 or more shares by \_\_\_\_\_, \_\_\_\_\_, 2010, your shares of common stock will not be cashed out in the split transaction. However, we cannot assure you that any shares will be available for purchase, and thus there is a risk that you may not be able to acquire sufficient shares to meet or exceed the required 1,400 shares. In this instance, you would no longer remain a stockholder after the effective time of the split transaction. Further, we have reserved up to \$4 million in the event additional stockholders are required to be cashed-out.

Q: What if I hold my shares in “street name”?

A: If you hold your shares of our common stock in street name, your broker, bank, or other nominee is considered the stockholder of record with respect to those shares and not you. It is possible that the broker, bank, or other nominee also holds shares for other beneficial owners of our common stock and that it may hold 1,400 or more total shares. Therefore, depending on their procedures, these brokers, banks, or other nominees may not be obligated to treat the split transaction as affecting the beneficial holders’ shares. It is our desire to treat stockholders holding fewer than 1,400 shares in street name through a nominee in the same manner as stockholders whose shares are registered in their name. However, neither we nor our transfer agent, American Stock Transfer & Trust Company, LLC (“AST”), may have the necessary information to compare your record holdings with any shares that you may hold in street name in a brokerage account, and these nominees may have

different procedures for processing the split transaction. Accordingly, if you hold your shares of our common stock in street name, we encourage you to contact your broker, bank, or other nominee immediately.

Q: When is the split transaction expected to be completed?

A: If the proposed amendments to our Certificate of Incorporation are approved at the special meeting, we expect the split transaction to be completed as soon as practicable thereafter. We need to file the amendments with the Delaware Secretary of State for the split transaction to become effective.

Within approximately five business days after the effective date of the split transaction, we expect that our transfer agent, AST, will send to each record holder of less than 1,400 shares of our common stock, and to brokers, banks, and other nominees for each owner of less than 1,400 shares held in street name, instructions for exchanging such common stock for the right to receive cash as a result of the split

transaction. Such instructions will include a letter of transmittal to be completed and returned to AST by the holder of such stock. Within approximately five business days after AST receives completed transmittal materials from a holder of less than 1,400 shares of common stock, and such other documents as we may require, AST will deliver to such holder payment in an amount equal to \$3.44, without interest, for each pre-split share of common stock that is represented by the fractional share.

Q: What vote is required for our stockholders to approve the split transaction?

A: For the amendments to our Certificate of Incorporation to be adopted and the split transaction to be approved, holders of a majority of the outstanding shares entitled to vote at the special meeting must vote “FOR” the split transaction. Abstentions and broker non-votes are not considered affirmative votes and, therefore, will have the same effect as a vote against the split transaction proposal. However, abstentions and broker non-votes will be treated as present for quorum purposes.

Q: What are broker non-votes?

A: Generally, broker non-votes occur when shares held for a beneficial owner in “street name” (that is, by a broker, bank, or other nominee, which we refer to as a “broker”), are not voted with respect to a particular proposal because (1) the broker has not received voting instructions from the beneficial owner, and (2) the broker lacks discretionary voting power to vote those shares. Typically, a broker is entitled to vote shares held for a beneficial owner on routine matters, such as the ratification of auditors, without instructions from the beneficial owner of those shares. However, under the rules of the New York Stock Exchange applicable to brokers, the split transaction proposal is not considered a routine matter and brokers are not entitled to vote shares held for a beneficial owner on this proposal without instructions from the beneficial owners of the shares.

Q: What happens if the proposed split transaction is not completed?

A: It is possible that the proposed split transaction will not be completed. The proposed split transaction will not be completed if, for example, the holders of a majority of our common stock do not vote to adopt the proposed amendments to our Certificate of Incorporation and approve the proposed split transaction. Alternatively, even if stockholder approval is received, if the Board determines that it is not in the best interests of the Company’s stockholders to complete the transaction, the Board may decide to abandon it. If the split transaction is not completed, we will continue with the winding-up of our business operations pursuant to the Plan of Dissolution, and we will continue to be subject to the reporting requirements of the SEC.

Q: What happens if I do not vote by telephone or the Internet and I do not return a proxy card?

A: Because the affirmative vote of the holders of a majority of the shares of our common stock outstanding on the record date is required to approve the split transaction, unless you vote in person, if you fail to vote by telephone or the Internet, and you fail to return a proxy card, you will be deemed to have voted against the split transaction proposal.

Q: What do I need to do now?



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A: After carefully reading and considering the information contained in this proxy statement, please vote your shares of common stock as soon as possible. This proxy statement includes detailed information on how to cast your vote.

Q: How do I vote?

A: You may vote your shares by any one of three methods:

·By Internet or Telephone. You may vote electronically via the Internet at [www.proxyvote.com](http://www.proxyvote.com). If you wish to vote by telephone or the Internet, you will be required to provide the control number contained on your proxy card. If your shares are held in street name, your proxy card may contain instructions from your broker, bank, or nominee that allow you to vote your shares using the Internet or by telephone. Please consult with your broker, bank, or nominee if you have any questions regarding the electronic voting of shares held in street name. Votes submitted telephonically or via the Internet must be received by 11:59 p.m. \_\_\_\_\_ time on \_\_\_\_\_, 2010.

- **In Person.** If you hold EDCI shares in street name through a broker, bank, or other nominee, you must obtain a legal proxy from that institution and present it to the inspector of elections with your ballot to be able to vote at the special meeting. To request a legal proxy, please follow the instructions at [www.proxyvote.com](http://www.proxyvote.com). If you hold EDCI shares directly in your name as a stockholder of record, you may vote in person at the special meeting. Stockholders of record are entitled to one vote per share of common stock held for each matter submitted for a vote at the meeting. Stockholders of record also may be represented by another person at the special meeting by executing a proper proxy designated by that person.
- **By Mail.** You also may vote by marking, signing, and dating the enclosed proxy card and returning it in the enclosed envelope.

Q: If my shares are held for me by my broker, will my broker vote those shares for me?

A: Your broker will vote your shares only if you provide instructions to your broker on how to vote. You should instruct your broker on how to vote your shares using the voting instruction card provided by your broker.

Q: Can I change my vote and revoke my proxy?

A: Yes. If your shares are held in street name through a broker, bank, or other nominee, you may revoke any proxy that you previously granted or change your vote at any time prior to 11:59 p.m. \_\_\_\_\_ time on \_\_\_\_\_, 2010, by entering your new vote electronically via the Internet at [www.proxyvote.com](http://www.proxyvote.com) using the account, control, and pin numbers that you previously used or telephonically using the number indicated on your voting instruction card provided by your broker.

You also may revoke your proxy or change your vote at any time prior to the final tallying of votes by:

- delivering a written notice of revocation to EDCI's Corporate Secretary at the address on the Notice of Special Meeting;
- executing and delivering to the Corporate Secretary a later-dated proxy; or
- attending the special meeting and voting in person.

Q: Do I need to attend the special meeting in person?

A: No. You do not have to attend the special meeting to vote your EDCI shares.

Q: Should I send in my stock certificates now?

A: No. If you are the registered owner of fewer than 1,400 shares of common stock on the date the split transaction is completed, our transfer agent will send you written instructions for exchanging your stock certificates for cash. If you are the registered owner of 1,400 or more shares of our common stock, you will continue to hold the same shares after the split transaction as you did before.

Q: If I own fewer than 1,400 shares and cannot locate my stock certificates, what should I do?

A: If you are entitled to receive cash in the split transaction you will be sent a Letter of Transmittal with instructions for tendering your stock certificates. Those instructions will explain what to do if you cannot find your stock certificates. Generally, you will need to submit a lost share affidavit and a fee for a surety bond in lieu of submitting the lost, misplaced, or destroyed stock certificate.

Q: Where can I find voting results of the meeting?

A: We will announce preliminary results at the meeting and publish final results in a Current Report on Form 8-K filed with the SEC within four business days after the meeting.

Q: Where can I find more information about the Company?

A: You can find more information about the Company from the various sources described under the heading "Where You Can Find More Information" beginning on page \_\_\_\_\_ of this proxy statement.

Q: Who should I contact with questions?

A: If you have any additional questions about the split transaction or the special meeting, you should contact:

Matthew K. Behrent  
 EDCI Holdings, Inc.  
 11 E. 44th Street, Suite 1201  
 New York, New York 10017-0056  
 Telephone: (646) 201-9549

### SPECIAL FACTORS

#### Overview of the Split Transaction

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of EDCI Holdings, Inc., a Delaware corporation, and is to be used at a special meeting at which our stockholders, among other things, will be asked to consider and vote upon a proposal to amend our Certificate of Incorporation. If approved, the amendments will result in a 1-for-1,400 reverse split of our common stock, followed immediately by a 1,400-for-1 forward split of our common stock.

If the reverse and forward stock splits are approved as described below, record holders of fewer than 1,400 shares of our common stock prior to the reverse split will no longer be stockholders of the Company. Instead, those stockholders will be entitled only to receive payment of \$3.44 per share of common stock held prior to the reverse split. Record stockholders holding 1,400 or more pre-split shares will remain stockholders. We intend, immediately following the split transaction, to terminate the registration of our shares, and our registration and further reporting under the Securities Exchange Act of 1934 (which we refer to throughout this document as “terminating our reporting obligations under the Exchange Act”).

If approved by our stockholders at the special meeting and implemented by our Board of Directors, the split transaction will generally affect our stockholders as follows:

Stockholder Position Prior to Split Transaction	Effect of Split Transaction
Stockholders holding in registered name 1,400 or more shares of common stock	Stockholders will continue to hold the same number of shares they held prior to the split transaction.
Stockholders holding in registered name fewer than 1,400 shares of common stock	Shares will be converted into \$3.44 per share of common stock outstanding immediately prior to the reverse stock split.
Stockholders holding common stock in “street name” through a nominee (such as a bank or broker)	The split transaction will be effected at the record stockholder level. Therefore, regardless of the number of beneficial holders or the number of shares held by each beneficial holder, shares held in street name by a bank or broker who holds through a nominee in the aggregate more than

1,400 shares for its customers will be subject to the forward split. However, it is our desire to treat stockholders holding fewer than 1,400 shares in street name through a nominee in the same manner as stockholders whose shares are registered in their name. We will request that these nominees effect the split transaction for beneficial holders of our shares, but these nominees may have different procedures for processing the split transaction. Accordingly, if you hold your shares of our common stock in street name, we encourage you to contact your broker, bank, or other nominee immediately.

With respect to a beneficial holder who owns fewer than 1,400 shares with a bank or broker who does not own of record in its own name or in a nominee name at least 1,400 shares in the aggregate for its customers, that beneficial holder will receive \$3.44 per share of common stock outstanding immediately prior to the reverse stock split.

Our Board of Directors will have the discretion to determine if and when to effect the split transaction, and reserves the right to abandon the transaction even if it is approved by the stockholders. Under applicable Delaware law, the Board has a duty to act in the best interest of the Company's stockholders. Accordingly, the Board reserves the right to abandon the split transaction after stockholder approval and before the effective time of the split transaction, if for any reason the Board determines that, in the best interest of the Company's stockholders, it is not advisable to proceed with the split transaction. Factors that may cause the Board to abandon the split transaction include, but are not limited to: (i) the amount of shares required to be cashed-out would create a risk that the Company would experience an ownership change for federal income tax purposes under Section 382 of the Internal Revenue Code, thereby imposing limitations on the use of the Company's NOLs; (ii) a significant increase in transaction costs occurs (in excess of the \$4 million that has been reserved) resulting from purchases of shares prior to the effective date of the split apparently made solely for the purpose of receiving the amounts to be paid to holders of fewer than 1,400 shares; or (iii) the Board determines that the approved split will not reduce the number of stockholders of record to fewer than 300. In this regard, EDCI believes it is prudent to continue to protect its NOLs at this time in order to utilize those losses to reduce EDCI's potential future income tax liability from actions that could be consummated in connection with the plan of dissolution (such as potential dividends from EDC's German operations). The Company expects that the ultimate consummation of the plan of dissolution will result in a loss of any further ability to capitalize on the NOLs. For example, as a result of the dissolution, EDCI no longer is legally permitted to acquire or develop new businesses that would generate future earnings and potential income tax liability. In this regard, EDCI is not presently considering and has not entered into any plan or proposal in connection with the plan of dissolution that would result in the ability of EDCI to generate future income and potential income tax liability. To the extent any value is derived from the NOLs after the split transaction is completed, the cashed-out stockholders would not benefit in such value, and the Company and the stockholders remaining after the split transaction is completed would be the sole beneficiaries of the NOLs. That being said, the availability of the NOLs was considered by Coady Diemar as part of its analysis of the fairness of the \$3.44 cash-out price in connection with EDCI's ability to avoid any income tax liability in the event of distributions from EDC's German operations. Based on the maximum \$4 million reserved for the cash-out of stockholders in the reverse split, EDCI does not expect its NOLs would be at risk as a result of the reverse split. Except as otherwise described above, the Board intends to complete the split transaction if approved by the Company's stockholders. If the Board determines to abandon the split transaction, the Company will issue a press release and file an accompanying Form 8-K with the SEC notifying stockholders of this decision.

The split transaction will become effective upon the filing of the necessary amendments to our Certificate of Incorporation with the Delaware Secretary of State or at a later date specified in that filing. The forms of the amendments to our Certificate of Incorporation are attached to this proxy statement as Appendix A. Under no circumstances would the Board consummate the reverse stock split and not the forward stock split, for the reasons set forth in "Proposal 1: The Split Transaction – Special Factors – Fairness of the Split Transaction."

Although there is no date by which the split transaction must occur, we expect that if the stockholders approve and the Board elects to effect the split transaction, the split transaction will be completed as soon as practicable after the special meeting (generally expected to be no later than three business days following the special meeting).

### Background of the Split Transaction

EDCI 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 stockholders’ meeting held on January 7, 2010. Accordingly, EDCI commenced the voluntary dissolution, liquidation and winding up of the Company in accordance with Delaware law, and under Delaware law, EDCI is required to maintain its corporate existence for a minimum of three years – i.e., through the first quarter of 2013. Any general and administrative costs incurred by EDCI during that minimum three-year period will reduce the proceeds that can be distributed to

our stockholders in connection with the Plan of Dissolution. Accordingly, EDCI has been seeking to reduce those costs, and a significant portion of those costs are related to being an SEC reporting company.

As an SEC reporting company, we are required to prepare and file with the SEC, among other items, the following:

- Annual Reports on Form 10-K;
- Quarterly Reports on Form 10-Q;
- Proxy Statements and related materials;
- Shareholder Annual Reports; and
- Current Reports on Form 8-K.

In addition to the burden on management, the costs associated with these reports and other filing obligations comprise a significant corporate overhead expense. These costs include securities counsel fees, auditor fees, special Board and committee meeting fees, costs of printing and mailing shareholder documents, NASDAQ fees and EDGAR filing costs. The nature of the public disclosure that can be required may also interfere with our dissolution process, where we are involved in liquidating assets and settling liabilities, as a result of which we may be compelled to prematurely publicly disclose information that could adversely affect our dealing with counterparties in these negotiations.

As of the date of this proxy statement, the estimated range of potential remaining proceeds available for distribution from EDCI to its stockholders under the plan of dissolution is between \$4.0 million and \$16.9 million. This range is consistent with the range of potential proceeds of between \$14.5 million and \$27.4 million disclosed in the Company's Form 8-K filed with the SEC on July 7, 2010, which equates to the current estimated range after taking into account the \$10.5 million dissolution distribution (or \$1.56 per share) the Company made on July 30, 2010. There have been no other material adjustments to the asset values or range of operating reserves and liability and contingency reserves of EDCI subsequent to the filing of the July 7, 2010 Form 8-K. In the Form 8-K, the Company also disclosed the potential for up to \$15.7 million, or \$2.33 per share, in cash available for distribution from EDC to EDCI over time and subject to various contingencies. There have been no material adjustments to this amount since the filing of the July 7, 2010 Form 8-K, and the conditions set forth in the Form 8-K regarding the ultimate distribution of such proceeds from EDC to EDCI remain unchanged.

If the split transaction is completed, EDCI expects that the number of its stockholders (including both record stockholders and shares held in street name where EDCI is able to ascertain those holdings) 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, which will lower EDCI's costs during the dissolution process by approximately \$1.3 million, or \$0.19 per share. Based on the Company's current estimate of the range of potential dissolution proceeds available for distribution to stockholders described above, the \$1.3 million of cost savings amounts to approximately 33% of the low range of potential proceeds (or \$4.0 million) and 8% of the high range (or \$16.9 million). If the \$15.7 million of potential cash available for distribution from EDC to EDCI is taken into account, then the cost savings amount to approximately 4% of the high range of potential proceeds (or \$32.6 million). In addition, if the split transaction is completed, EDCI would no longer be required to file periodic reports, proxy statements, and other information with the SEC, and EDCI's common stock would cease to be eligible for trading on the NASDAQ (although we expect our common stock still will be eligible to trade in the Pink Sheets). The Board of Directors decided to approve the split transaction after concluding that the disadvantages of remaining an SEC reporting company outweigh the benefits to the Company and its shareholders, particularly given the fact the Company is in the process of implementing its Plan of Dissolution.



While there are many advantages to being a public company, including a more active trading market and the enhanced ability to use Company stock to raise capital or make acquisitions, management and the Board of Directors determined that those advantages were not applicable to a company in dissolution, which by definition does not need to use its public currency for acquisitions. Further, effective for the first quarter of 2010, EDCI switched to the liquidation basis of accounting and, thus, no longer has ongoing operations. As a result, management and the Board do not believe the additional public audit and compliance costs are necessary to ensure the integrity of the Company's financial statements and operations.

For these and other reasons noted below, our Board of Directors and management have concluded that the benefits of being an SEC-reporting company are substantially outweighed by the burden on management and the expense related to the SEC reporting obligations for a company in dissolution. As a result, from the time EDCI began to consider the Plan of Dissolution, EDCI has been analyzing alternatives for reducing its public company expenses in connection with that plan, including by going private through a reverse split transaction. For an overview of the background and reasons for the Plan of Dissolution, we refer our stockholders to our definitive proxy statement filed with the SEC on November 16, 2009.

As far back as the May 19, 2009 regular meeting of the Company's Board of Directors, the Board engaged in an in-depth analysis of alternative transactions for the potential distribution of cash to stockholders, including through dividends, an issuer tender offer and a potential dissolution. Management also noted that terminating its reporting obligations under the Exchange Act would allow EDCI to more aggressively reduce its public company expenses, and that one approach for doing that was going private through a reverse split transaction.

During a meeting of the Board of Directors on June 26, 2009, management of EDCI presented an additional analysis of alternatives for the potential distribution of cash to stockholders, alternatives for limiting public company costs in connection with such a transaction, and analyses of the potential cash that could be distributed to stockholders under different scenarios taking into account various operating cost assumptions and contingency reserves. During this meeting, management presented additional information about the process, costs and legal risks of EDCI terminating its reporting obligations under the Exchange Act by going private through a reverse split transaction. Management also noted that in connection with a plan of dissolution, there was a process to seek relief from the SEC to suspend its reporting obligations under the Exchange Act. EDCI's Board of Directors requested that management continue to refine its analysis with a focus on a dissolution under Delaware law, and also begin to review with outside counsel the legal requirements of the contemplated actions and contingency reserves. EDCI's management accordingly began to review the structuring alternatives and contingency reserves analysis with outside counsel.

During a meeting of the Board of Directors on July 31, 2009, management of EDCI presented additional analyses of alternatives for the potential distribution of cash to stockholders and alternatives for limiting public company costs in connection with such a transaction, with a focus on a dissolution under Delaware law. Representatives of EDCI's legal counsel, Barnes & Thornburg LLP ("B&T"), were present at that meeting. Management also presented updated analyses of the potential cash that could be distributed to stockholders under those scenarios taking into account various operating cost assumptions and contingency reserves. Management noted that the process of seeking relief from the SEC to suspend its reporting obligations pursuant to a "no-action" letter process with the SEC was its preferred approach, as such an approach likely would be the least costly, would treat all stockholders equally, and minimized litigation risk resulting from a reverse split transaction. However, management also noted that the key issues for EDCI in obtaining such relief would be its ongoing ownership and oversight of EDC as well as the trading level of its shares on the NASDAQ Stock Market. EDCI's Board of Directors requested that management continue its analysis. In this connection, at the request of EDCI, representatives of B&T engaged in various general discussions with SEC staff members, on an anonymous basis, regarding the necessary criteria to be met for the SEC to grant Exchange Act reporting relief to an SEC-reporting public company. Based on these initial informal inquiries, the principal factors to determine whether the SEC would grant reporting relief through the "no-action" letter process appeared to be (i) the extent of the trading volume of the company's shares on the securities exchange on which the company's common stock is traded, and (ii) the aggregate number of the company's record stockholders. Moreover, based on research of additional SEC informal guidance, both EDCI and B&T considered there to be a risk that EDCI's continued oversight of EDC may be a factor weighing against the granting of reporting relief pursuant to the "no-action" letter process.

During a meeting of the Board of Directors on August 18, 2009, management of EDCI presented an updated analysis of alternatives for the potential distribution of cash to stockholders and alternatives for limiting public company costs

in connection with a dissolution under Delaware law. Coady Diemar also was invited to present an analysis of current market conditions for mergers and acquisitions with a focus on general opportunities and challenges for EDCI. EDCI did not pay Coady Diemar any compensation in connection with this analysis. Management and the Board of Directors concluded that the factors impeding EDCI's ability to identify and successfully consummate a transaction – primarily excessive valuation expectations by sellers, unpredictable earnings streams based on continued economic uncertainty and severely limited availability of credit – remained. As a result, they further concluded that completing an attractive acquisition could well take an additional eighteen to twenty-four months, during which time EDCI would continue to burn cash, potentially at a higher rate as EDCI would need to augment its current staff to execute and integrate an acquisition. Given the cash burn during that

period and continued uncertainty in completing a transaction, the EDCI Board determined that a distribution of cash to EDCI's stockholders was a better proposition on a net present value basis. Finally, after evaluating many different options, the EDCI Board also determined that the optimal way to distribute the greatest amount of cash to stockholders in an equitable manner was through a dissolution. Based on the foregoing, EDCI's Board of Directors determined it was advisable to continue to proceed with a plan for a dissolution process that involved an initial distribution of up to \$30 million in the aggregate, a portion of which could be effected through a tender offer in conjunction with the dissolution process. However, prior to finalizing its approval of the recommendation of that plan to EDCI's stockholders, the Board of Directors requested that the Audit Committee meet with management in person for additional review of the operating cost assumptions and contingency reserves and the resulting cash that could be distributed to stockholders under different scenarios. With regard to public company expenses, management recommended that EDCI remain a fully reporting public company through the middle of 2010 to permit additional liquidity to its stockholders, and to then seek relief from the SEC to suspend its reporting obligations under the Exchange Act, and if that approach was not successful, consider going private through a reverse split transaction.

On August 25, 2009, the Audit Committee of EDCI met in person with senior management of EDCI to review in detail the appropriate operating cost assumptions and contingency reserves in connection with the contemplated dissolution process to be recommended to the stockholders. The Audit Committee requested management make certain minor adjustments and present the revised analysis, together with a communication plan for the proposed dissolution, to the Board of Directors for final approval on September 9, 2009.

On September 9, 2009, the revised analysis was presented to the Board of Directors, and management also informed the Board that the factors impeding EDCI's ability to identify and successfully consummate a transaction remained. EDCI's Board of Directors unanimously determined that it would be advisable to recommend a plan of dissolution to its stockholders for EDCI and all of its wholly-owned subsidiaries, excluding EDC. On October 14, 2009, the Board of Directors adopted resolutions approving the Plan of Dissolution to be recommended to its stockholders, and on October 26 EDCI filed its preliminary proxy statement related to the Plan of Dissolution with the SEC. On November 16, 2009, EDCI filed its definitive proxy statement related to the Plan of Dissolution, which noted that EDCI intended to seek SEC relief from the Exchange Act's reporting obligations at the end of the second quarter of 2010, and ultimately to terminate the registration of EDCI's common stock and its listing on the NASDAQ. Prior to that time, EDCI planned to remain publicly traded (and subject to SEC reporting requirements) to permit continued trading in EDCI's shares through the initial dissolution distributions. The proxy statement also noted that if EDCI was unable to suspend its SEC reporting obligations, the Company would consider other transactions to further reduce public costs, including going private through a reverse stock split transaction, which would require additional stockholder approval, add further costs, and require cashing-out a number of its smaller stockholders. At the special meeting of EDCI's stockholders held on January 7, 2010, the Company's stockholders approved the voluntary dissolution and liquidation of the Company pursuant to the Plan of Dissolution as recommended by the Board of Directors. Over 99% of the stockholders that voted at the special meeting voted in favor of the Plan of Dissolution. On January 10, 2010, EDCI filed a certificate of dissolution with the Delaware Secretary of State.

In conjunction with the Plan of Dissolution and the winding-down of EDCI's overall operations, beginning in February 2010 EDCI's management turned its focus once again to requesting Exchange Act reporting relief from the SEC. In this regard, EDCI's management, together with legal counsel, began preparing a draft correspondence to the SEC staff requesting informal guidance on the ability of a company in dissolution, such as EDCI, to substantially curtail (and ultimately cease) its reporting obligations pursuant to Section 12(h) of the Exchange Act and SEC Release No. 34-9660 via a no-action letter approach. EDCI submitted this correspondence to the SEC staff on an informal basis on February 26, 2010. In a subsequent conference call between B&T and the SEC staff on March 22, 2010, the staff informally indicated it was very unlikely the SEC would be in a position to grant EDCI Exchange Act reporting relief unless and until its trading volume was significantly diminished. The SEC staff pointed out that EDCI's average weekly trading volume and number of record stockholders were well above the levels at which the SEC normally

would consider a request for reporting relief, and that the monthly trading volume typically needs to be below 10,000 shares for a period of time before relief will be considered.

On March 23, 2010, at a regular Board of Directors meeting, management of EDCI provided an update to the Board of the discussions with the SEC on the request for reporting relief, and noted that the SEC's immediate concerns were with EDCI's trading volume and number of record stockholders, both of which were in excess of the levels normally required to be granted relief. Management also noted its concerns that, even if the trading volume of its common stock and the number of its record stockholders were reduced, EDCI's continued oversight over EDC

would be a factor weighing against the granting of reporting relief when the time came for the SEC to more fully consider the relief request. Additionally, management noted that it was likely the SEC would not provide a significant degree of comfort as to the reporting relief no-action letter approach unless and until EDCI closed its record books to cease the of trading of its shares for several months to meet the trading volume restrictions. Based on those concerns, EDCI's management noted there was significant risk that EDCI would not be successful in obtaining the requested reporting relief from the SEC. As a result, if EDCI continued pursuing this approach, it was very likely to impair shareholder liquidity and risk the additional costs of another full year of public reporting costs. At this Board meeting, management also provided additional information on the process and legal considerations related to going private through a reverse stock split. The Board determined that if EDCI was unable to obtain comfort that the reporting relief no-action letter process was likely to be successful, it should begin pursuing a going private transaction, including a reverse stock split. The Board also determined that if a going private transaction was pursued, it would be prudent to establish a special committee of the Board of Directors to work with an outside financial advisor to establish the terms of the reverse split and recommend those terms to the Board of Directors.

During April 2010, management of EDCI contacted two financial advisors to discuss their possible engagement as financial advisor to the Company in the going private transaction. Management concluded that one of the two financial advisors contacted, Coady Diemar, was the recommended advisor based on that firm's extensive experience, knowledge and background, generally, as well as their knowledge of EDCI's situation from their analysis of current market conditions for mergers and acquisitions with a focus on opportunities and challenges for EDCI they had presented to the Board at its August 18, 2009, when EDCI was evaluating whether to recommend the Plan of Dissolution to its shareholders. Accordingly, management of EDCI began to discuss the terms of an engagement of Coady Diemar as well as the nature of their analysis.

On April 14, 2010, management of EDCI and representatives of B&T held a conference call with the SEC staff to discuss the informal correspondence EDCI sent to the SEC on February 26, 2010, as well as EDCI's general plans for EDC going-forward. The staff confirmed that it would not formally consider EDCI's request until its weekly trading volume was reduced below 10,000 shares for a period of time and the number of its record stockholders also was reduced. The staff also confirmed that it could not provide any guidance as to the subsequent review of whether EDCI qualified as a company that had substantially curtailed its operations for purposes of Exchange Act reporting relief – including based on EDCI's continued ownership and oversight of EDC – and that such a review would involve a fact-based analysis likely requiring a multi-level review by the SEC. After further internal discussions by EDCI's management and B&T, management determined there was a high risk that EDCI would not be successful in its request for reporting relief via the no-action letter approach, and accordingly determined to recommend that EDCI proceed with going private through a reverse split transaction.

Based on these discussions with the SEC, Clarke H. Bailey, the Chairman and CEO of EDCI, subsequently provided oral updates to the Board regarding EDCI's plans to pursue a reverse split going private transaction. In this connection, on April 27, 2010, the Board of Directors adopted resolutions establishing a special committee (the "Special Committee") for the purpose of considering, evaluating, and approving or disapproving a reverse stock split transaction, which would involve cashing-out holders of shares of the Company's common stock, in order to facilitate the delisting and deregistration of those shares under the Exchange Act. The Special Committee was comprised of Raymond D. Ardizzone, Cliff O. Bickell and Peter W. Gilson, each of whom is independent in accordance with EDCI's charter, NASDAQ listing standards and the Exchange Act and each of whom owns less than 30,000 shares of EDCI's common stock. The Board placed no limitation on the authority of the Special Committee and specifically delegated to the Special Committee the authority to:

- consider, evaluate, and approve or disapprove the reverse stock split;
- hire an independent financial advisor and independent legal advisor; and

- take such further actions as it deemed necessary to carry out the above.

Consistent with compensation for other committee functions, the members of the Special Committee will receive compensation of \$1,500 per committee meeting attended (or \$500 per meeting if the committee member participated telephonically). Such compensation was not made contingent upon any member's recommendation of, or the consummation of, any transaction in any regard. Subsequently, the Special Committee engaged in discussions with Coady Diemar for its engagement as the Special Committee's independent financial advisor. On April 30, 2010, the Special Committee held a meeting by conference call at which representatives of Coady Diemar were invited to discuss their involvement in a transaction whereby EDCI would go private through a reverse split. At this

meeting, the Special Committee approved the engagement of Coady Diemar as its independent financial advisor and approved an engagement letter with Coady Diemar, which was subsequently executed on May 4, 2010. At the April 30 meeting, Coady Diemar also advised the Special Committee of their fiduciary duties and responded to questions from members of the Special Committee.

Subsequent to that date, throughout May and early June, Coady Diemar engaged in due diligence, including numerous conference calls and the exchange of information with management of both EDCI and EDC.

On May 18, 2010, EDCI released its quarterly financial information and hosted an investor conference call. During that call, EDCI noted that it had determined to pursue a reverse split given the risks involved with pursuing the SEC reporting relief no-action letter approach.

Thereafter, in connection with EDCI's annual shareholders' and Board meetings in Atlanta, GA on June 15, 2010, Coady Diemar met separately with the Special Committee and the full Board of EDCI in person. Coady Diemar provided an update of its due diligence to date, its initial approach to valuation, an analysis of the targeted number of record and beneficial holders that would result from the reverse split in comparison to other comparable reverse split transactions, and the timeline for completion of its analysis with the goal of a detailed meeting with the Special Committee on July 19, 2010. With regard to its approach to valuation, Coady Diemar noted that its approach would be materially influenced by EDCI's voluntary dissolution and attendant liquidation and winding-up of the business of the Company, as more fully described in the Company's plan of dissolution. Consequently, Coady Diemar concluded that traditional going concern company analyses as applied to EDCI would be of little benefit to its evaluation of the split transaction. Coady Diemar instead planned to undertake a "sum of the parts" analysis which would evaluate the Company's disparate assets and liabilities, as this approach would be a more appropriate method to evaluate the split transaction for a company in dissolution. Coady Diemar also noted that it would potentially consider other factors in its analysis, including whether the reverse split would cause a change in control for federal income tax purposes under Section 382 of the Internal Revenue Code, and whether the consideration to be paid to stockholders cashed-out in the split transaction should incorporate a market or other premium. With regard to the targeted number of record and beneficial holders after the reverse split, Coady Diemar noted that its analysis of comparable split transactions indicated that the median number of such resulting stockholders was 175. Coady Diemar also noted that the reason for targeting a number substantially less than 300 record holders was to provide a cushion in the event stockholders owning less than 1,400 shares prior to the effective date of the reverse split acquired additional shares to remain a stockholder, or if new stockholders acquired shares after the reverse split. Having this cushion would lessen the likelihood of the Company once again becoming subject to SEC reporting requirements and incurring the costs associated with this status. Coady Diemar presented to the entire Board as it was only providing an update on its due diligence, its approach to valuation, and the overall process, and did not provide any valuation information to the Board. The Board and management, with the assistance of EDCI's internal counsel, also reviewed their fiduciary duties in considering a going private reverse stock split transaction. During that Board meeting, EDCI also determined to issue a more detailed press release, prior to the Special Committee establishing a price for the reverse split, providing an update of the range of potential proceeds that could result from EDCI's Plan of Dissolution, including a potential cash distribution from EDCI's investment in EDC, as the initial estimates in EDCI's November 16, 2009 proxy statement had not included any such distributions due to the uncertainty of the value of EDCI's investment in EDC at that time. EDCI's management noted that providing that information before the Special Committee established a price for the reverse split would permit the public markets to fully absorb and evaluate that information. EDCI's management also noted that the press release would provide an estimate of the cost savings to EDCI from a going private transaction, which were estimated to be \$1.3 million over the term of the Company's dissolution.

On June 16, 2010, Coady Diemar met in person with management of EDCI and EDC to review its due diligence and confirm additional information that would be required to finalize its analysis of the reverse split going private transaction.



Coady Diemar continued its due diligence through June and into early July with management of EDCI and EDC. On July 8, 2010, the Special Committee held a conference call with Coady Diemar and management of EDCI, during which Coady Diemar provided an update on its due diligence and analysis. In particular, Coady Diemar noted that, based on its preliminary analysis, it believed EDC's ongoing German operations, which are the only ongoing operations of EDC, appeared to have little or no implied value, for the sole purposes of a valuation of the consideration to be paid to unaffiliated stockholders of the Company who are cashed-out in the split transaction, due to a number of factors including: (i) the declining market for compact disks; (ii) the ongoing legal disputes with EDC's largest customer, Universal; (iii) the inability of EDCI to sell the German operations; and (iv) potentially

significant shutdown costs associated with the German operations. While Coady Diemar did not provide a specific range of implied equity values per share at this meeting, it preliminarily noted that, based on the foregoing analysis, any such value range resulting from its analysis would be materially consistent with the range of estimated per share cash distributions to stockholders publicly disclosed in EDCI's July 7, 2010 press release, which provided an update of the range of potential proceeds that could result from the Plan of Dissolution, including a potential cash distribution from EDCI's investment in EDC. During this meeting, Coady Diemar also noted that it remained on track for a July 19 meeting to discuss its findings, at which meeting it could provide an oral opinion as to a recommended reverse split price. Coady Diemar also noted that while some remaining diligence remained, management of EDCI and EDC had been providing Coady Diemar with all the information it had been requesting.

On July 7, 2010, EDCI issued a press release providing an update of the range of potential proceeds that could result from EDCI's Plan of Dissolution, including a potential cash distribution from EDCI's investment in EDC. EDCI also noted that it had approximately \$14.5 million of cash available for a dissolution distribution to its stockholders, that it expected to reserve up to \$4 million of that amount to be used to effect the reverse split, leaving \$10.5 million available for a near-term dissolution distribution, and that it would be deferring the distribution of the estimated \$10.5 million until the Special Committee had met to establish the reverse split cash-out price.

On July 19, 2010, the Special Committee held a telephonic meeting, at which representatives of Coady Diemar, B&T, and EDCI's management were present. At this meeting, B&T advised the members of the Special Committee of their fiduciary duties in considering a going private reverse stock split transaction, including a discussion of the "entire fairness" standard of review under Delaware law, which requires both a fair process and a fair price to be paid to unaffiliated stockholders. B&T also responded to questions from members of the Special Committee. Coady Diemar then provided its valuation presentation to the Special Committee. Coady Diemar noted that its approach to the valuation was materially influenced by EDCI's intention to voluntarily dissolve, liquidate and wind up the business of the Company as more fully described in the Company's Plan of Dissolution. Consequently, Coady Diemar concluded that traditional going concern company analyses at the EDCI parent level were of little benefit to its evaluation of the split transaction. Coady Diemar instead undertook a "sum of the parts" analysis that evaluated the Company's disparate assets and liabilities along with the distinctive timing and liquidity considerations associated with each, as it believed that this approach was a more appropriate method to evaluate the split transaction. In addition to its sum of the parts analysis, Coady Diemar also considered the implied premium the reverse split cash-out consideration represented to the Company's common stock closing price for prior periods, and evaluated this premium with the premiums (and discounts) paid in recent reverse stock split transactions. See "Fairness Opinion of Financial Advisor" above for a more detailed summary of Coady Diemar's analysis. In this regard, EDCI's management also provided an analysis describing the effects and associated costs of a reverse stock split at various ratios based on the range of per-share valuations contained in Coady Diemar's analysis.

Coady Diemar went on to note that, based on its analysis, the range of implied equity value per share of EDCI was between \$2.72 and \$3.92 per diluted share, with a mid-point of \$3.32 per share, after deducting the \$1.56 per share dissolution distribution to be paid on July 30, 2010. Coady Diemar and the Special Committee then discussed this range in detail, and the potential approach of setting a reverse split cash-out price at \$3.44, or \$0.12 above the mid-point of that range. The principal factors affecting this analysis which Coady Diemar and the Special Committee discussed were:

- the total cost of the incremental consideration was only approximately \$72,000, based on then-current estimates of the number of shares to be cashed-out in the split transaction;
- the benefit to cashed-out stockholders will generally be greater on a per-share basis than any cost to the remaining stockholders. While the Special Committee determined the \$3.44 cash-out price to be fair, from a financial point of view, to the cashed-out stockholders, the committee also considered the possibility that the ultimate present value

of distributions to be received by continuing stockholders could be greater or less than \$3.44 per share. Because stockholders representing a minority in interest of EDCI's issued and outstanding shares of common stock will be cashed-out in the transaction, if the cashed-out stockholders were to receive a premium of \$0.12 per share above the mid-point of the range of implied equity values of EDCI, the per-share dilution experienced by the remaining stockholders who were not cashed-out will generally be less, on a per-share basis, than the \$0.12 per share premium paid to cashed-out stockholders. For example, assuming that the present value return of cash distributions to continuing stockholders is at the mid-point of the range or \$3.32 per share, each cashed-out stockholder will have received \$0.12 more per share than continuing stockholders. However, in the aggregate, and based on the low-end of the range of shares that could be cashed out, or

620,000 shares, the aggregate cost of the excess \$0.12 payment to the cashed-out stockholders would be approximately \$72,000 (620,000 shares x \$0.12), as a result of which the per-share dilution to the continuing stockholders would be \$0.012 (\$72,000 divided by 6.1 million shares). Based on the high-end of the range of shares that could be cashed out, or 1.16 million shares, the aggregate cost of the excess \$0.12 payment to the cashed-out stockholders would be approximately \$140,000 (1.16 million shares x \$0.12), as a result of which the per-share dilution to the continuing stockholders would be \$0.025 (\$140,000 divided by 5.56 million shares);

- there is a general margin of error in an analysis of this nature, and \$0.12 is well within that range;
- Coady Diemar's premium analysis supported a cash-out price above the mid-point of the valuation range at \$3.44 per share (\$5.00 per share before the July 30 dissolution distribution of \$1.56); and
- management has slightly exceeded dissolution estimates to date, and extrapolating that to the future warrants a slight premium to the mid-point.

In connection with its analysis, the Special Committee did not consider per share cash-out prices other than those derived from the analyses presented by Coady Diemar. The Special Committee agreed with Coady Diemar's position that traditional going concern company valuation analyses at the EDCI holding company level were of little benefit to the evaluation of the split transaction given EDCI's voluntary dissolution, liquidation, and winding-up of the business pursuant to the plan of dissolution. For example, current and historical trading prices for EDCI were not deemed relevant by the Special Committee in deriving a per share cash-out price for the following reasons: (i) recent trading prices of EDCI's common stock were at the high end of the range of trading prices since the announcement of the plan of dissolution (adjusting for the \$3.12 interim distribution paid on February 1, 2010); (ii) recent trading prices reflected EDCI's ongoing disclosure of the potential dissolution distributions in connection with the plan of dissolution; and (iii) even those recent trading prices fell below the range of implied equity values derived from Coady Diemar's "sum of the parts" valuation approach. For example, with regard to the intraday high of \$6.35 in the first and second quarters of 2010, that price occurred on February 1, 2010, immediately prior to the first interim dissolution distribution of \$3.12 per share on February 2, 2010. Since then a second interim dissolution distribution of \$1.56 per share occurred on August 2, 2010. Considered together, these two distributions equate the \$6.35 trading price of February 1 to \$1.67 today. Furthermore, the intraday low price of \$2.75 per share occurred in February and March 2010 after the first interim dissolution distribution of \$3.12 per share, and before the second distribution of \$1.56 in August. Taking into account the August distribution, the \$2.75 intraday low price is equivalent to \$1.19 per share today. Consequently, the Special Committee determined these historical stock prices bear little relevance to the Company's level of net assets in liquidation, and thus the fairness of the cash-out price in the reverse split.

In addition, the Special Committee did not consider book value as an appropriate valuation analysis because many of the contingencies EDCI was required to reserve for that could arise over the period of EDCI's plan of dissolution under Delaware law, which Coady Diemar considered relevant in its "sum of the parts" analysis, were not considered sufficiently probable for purposes of recording reserves on EDCI's statement of net assets in liquidation in accordance with the liquidation basis of accounting under GAAP. Further, the Special Committee determined that other traditional valuation metrics based on results of operations and projected future results were simply not applicable to EDCI because EDCI has no ongoing operations as a result of its dissolution.

Further, the Special Committee did not consider the average purchase price of the Company's stock in its stock repurchase transactions between September 2008 and September 2009 because such prices had little relevance to the evaluation of the cash-out price in the split transaction. The Company's stock repurchases occurred at a time when the Company was still a going concern with ongoing operations. Moreover, the repurchases were conducted at prices commensurate with the then current public trading prices of EDCI's common stock, which, as stated above, were determined to also have little relevance to the current transaction. Conversely, the Special Committee recognized the

Company has been in dissolution since January 2010 and now measures its financial condition in accordance with the liquidation basis of accounting. In this regard, the Company's level of net assets is the most relevant consideration in the determination of the fairness of the cash-out consideration in the split transaction. Finally, other than analyzing the \$2.72 to \$3.92 range of implied equity values per share of EDCI, the Special Committee did not contemplate any other specific cash-out prices or premiums.

Following further discussions, the Special Committee adopted Coady Diemar's analysis and determined, based on the information presented by Coady Diemar, that a cash-out price of \$3.44 per share, without interest, was fair to and in the best interests of EDCI's unaffiliated stockholders, including both the stockholders who would be

cashed-out in the reverse split and those who would continue as stockholders following the consummation of the split transaction. In reaching this conclusion, the Special Committee particularly noted the fact that stockholders who did not wish to be cashed out at that price could purchase additional shares on the open market either before or after the transaction was completed, or transfer their currently held shares into nominee name through a broker to avoid being cashed out.

The Special Committee next discussed possible stock split ratios which could be used to reduce the number of the Company's record stockholders to less than 300, and noted that analysis factored in both record holders and shares held in street name, as a street-name holder may at any time elect to convert its holdings to record holder status. The Special Committee concluded that the appropriate ratio of the reverse stock split would be 1-for-1,400, and accordingly that the appropriate ratio of the forward stock split would be 1,400-for-1. The Special Committee selected 1,400 shares as the "cutoff" number, and rejected alternative ratios, in order to enhance the probability that after the split transaction, if approved, the Company would have fewer than 300 stockholders of record. The Special Committee considered "cutoff" levels other than 1,400 shares, but they determined a cutoff level of 1,400 was most appropriate because it would result in approximately 175 record stockholders and beneficial holders (as such beneficial holders could elect at any time to convert to record holders) of the Company after the reverse split. The Special Committee determined that having approximately 175 post-split stockholders would provide an appropriate cushion to protect against the Company once again becoming subject to SEC reporting requirements in the event stockholders owning less than 1,400 shares prior to the split transaction acquire additional shares to remain a stockholder after the split transaction, as well as in the event new stockholders acquire shares after the split transaction. In addition, the targeted result of having 175 post-split stockholders was reasonable in relation to comparable publicly-disclosed reverse split transactions analyzed by Coady Diemar in connection with its fairness analysis. After the Special Committee settled on the split ratio, Coady Diemar then provided its oral opinion that the cash-out consideration price of \$3.44 per share was fair from a financial point of view to the unaffiliated stockholders who would be cashed-out in the proposed reverse stock split, and that it would be able to render a written opinion based on this price. The Special Committee then adopted resolutions recommending the proposed split transaction to the full Board based on a cash-out consideration of \$3.44 per share to be paid to the stockholders who would be cashed-out in the split transaction, along with a split ratio of 1-for-1,400.

Subsequent to the Special Committee meeting, the full Board held a telephonic meeting to review the Special Committee's recommendation. At this meeting, EDCI's internal counsel reminded the Board members of their fiduciary duties in considering a going private reverse stock split transaction, including a discussion of the "entire fairness" standard of review under Delaware law. After reviewing the Special Committee's recommendation and Coady Diemar's fairness presentation, and following further discussion, the Board unanimously approved the split transaction to be accomplished by a 1-for-1,400 reverse stock split, pursuant to which stockholders owning fewer than 1,400 shares would receive \$3.44 in cash for each pre-split share of our common stock, followed immediately by a 1,400-for-1 forward stock split. The Board retained the right to withdraw its approval of the split transaction, either before or after the stockholder vote, if the Board determined that the split transaction was no longer in the best interests of EDCI or its stockholders.

Thereafter, Coady Diemar delivered to the Special Committee its written fairness opinion, dated July 22, 2010, a copy of which is attached as Appendix B.

On July 22, 2010, EDCI issued a press release noting that the Special Committee had recommended, and the Board of Directors had approved, a plan to cease the registration of the Company's common stock under the Exchange Act, end its obligation to file reports with the SEC, and withdraw its shares of common stock from listing on the NASDAQ Stock Market, all to be accomplished through the split transaction. The press release also noted that the Special Committee recommended, and the Board approved, that the value to be paid to those stockholders should be based on a \$5.00 per share price at the time, which would be equal to \$3.44 per share after a \$1.56 per share dissolution

distribution to be paid on July 30, 2010, which was subsequently paid on that date. Accordingly, the proceeds to be paid to the cashed out shareholders at the time of the reverse split would be \$3.44 per share.

Thereafter, on August 9, 2010 EDCI's management distributed to the Board a draft preliminary proxy statement for the special stockholder's meeting at which the split transaction would be presented to a vote of stockholders, along with a draft Schedule 13E-3. The preliminary proxy statement and Schedule 13E-3 were filed with the SEC on August 17, 2010.

## Reasons for the Split Transaction

The Company is undertaking the split transaction at this time to end our SEC reporting obligations, which will enable us to save the Company and our stockholders the substantial costs associated with being a reporting company. Accordingly, we are proposing the reverse stock split component of the transaction for the purpose of reducing the number of record holders of our common stock to below 300, so we can then terminate the registration of our common stock under the Exchange Act, suspend our reporting and other obligations as an SEC-reporting company, and delist our common stock from NASDAQ. The forward stock split component of the transaction is not necessary for us to reduce the number of our record stockholders or to deregister our shares of common stock under the Exchange Act. However, we have decided that it is in the best interests of our stockholders to effect the forward stock split to avoid the administrative burden of having fractional shares outstanding after the split transaction is completed, as well as to facilitate the trading of the shares, if any, held by our continuing stockholders either in private transactions or in the Pink Sheets.

The specific factors the Special Committee and Board considered in electing at this time to undertake the split transaction and become a non-SEC reporting company are as follows:

- EDCI is a company in dissolution and is currently engaged in carrying-out its Plan of Dissolution involving the voluntary liquidation and winding up of the Company's business and affairs in accordance with Delaware law. Under Delaware law, EDCI is required to maintain its corporate existence for a minimum of three years – i.e., through the first quarter of 2013. Any general and administrative costs incurred by EDCI during that minimum three-year period will reduce the proceeds that can be distributed to our stockholders in connection with the Plan of Dissolution. Accordingly, EDCI has been seeking to reduce those costs, for the ultimate benefit of our stockholders, and a significant portion of those costs are related to being an SEC reporting company.
- We estimate that we will eliminate costs of approximately \$1.3 million, or \$0.19 per share, over the minimum three-year dissolution period required under Delaware law by eliminating the requirement to make periodic reports and reducing the expenses of shareholder communications. These expenses include legal expenses (\$75,000), accounting expenses (\$235,000), printing, EDGAR and miscellaneous costs (\$385,000), NASDAQ listing fees (\$55,000), and costs of staff and management time spent on reporting and securities law compliance matters (\$550,000).
- If the Company does not go private before March 31, 2011, it will need to file with its Form 10-K for that year a report of management on the Company's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX"). The time and effort devoted by management in complying with these requirements, and the associated costs, will be avoided if the stockholders approve the split transaction.
- We believe that the legal, accounting and administrative expense, and diversion of our Board of Directors, management and staff effort necessary to continue as an SEC-reporting company will remain significant, particularly in view of the requirements of SOX Section 404, without a commensurate benefit to our stockholders. Further, effective for the first quarter of 2010, EDCI switched to the liquidation basis of accounting and, thus, no longer has ongoing operations. As a result, management and the Board do not believe the additional public audit and compliance costs are necessary to ensure the integrity of the Company's financial statements and operations. Finally, as EDCI expects to continue to oversee its 98% investment in EDC, which remains an ongoing operation in Germany, EDC's operations become subject to the same public reporting obligations as EDCI as they represent a significant portion of EDCI's consolidated assets on a GAAP basis. However, EDCI believes that there is very little market value afforded to those ongoing operations, as a result of which those additional costs with regards to EDC are also not cost-efficient for EDCI's stockholders. We expect to continue to provide our stockholders with Company financial information by making available annual and quarterly reports and disclosing



to remaining investors any material developments relating to our dissolution. However, such reports will not be required to contain all of the information and disclosures required of a public company under SEC rules, thus we anticipate that the costs associated with these reports will be substantially less than those we currently incur.

- While there are other advantages to remaining a public company, including a more active trading market and the enhanced ability to use Company stock to raise capital or make acquisitions, management and the Board of Directors determined that those advantages were not applicable to a

company in dissolution, which by definition does not need to use its publicly-traded stock as currency for acquisitions and will eventually entirely cease the trading of its shares.

- The expense of administering accounts of small stockholders is disproportionate to their ownership in the Company. As of the record date, approximately \_\_\_\_\_ of our \_\_\_\_\_ stockholders (including record holders and non-objecting beneficial holders whose information we have) beneficially own fewer than 1,400 shares of our common stock. These stockholders owned approximately \_\_\_\_\_% of our shares of common stock on the record date. A disproportionate amount of our administrative expenses relating to stockholder accounts and reporting requirements is attributable to those stockholders.
- The nature of the public disclosure that can be required by SEC rules may also interfere with our dissolution process, where we are involved in liquidating assets and settling liabilities, as a result of which we may be compelled to prematurely publicly disclose information that could adversely affect our dealing with counterparties in these negotiations.
- The split transaction allows non-continuing stockholders to receive fair value and cash for their shares, in a simple and cost-effective manner, particularly given the possible ineffectiveness and inefficiencies of a tender offer, an open market share repurchase or a cash-out merger. Stockholders owning under 1,400 shares may find it uneconomical to dispose of those shares due to minimum brokerage commissions which are often charged.
- The split transaction will allow the non-continuing stockholders to realize what the Special Committee and our Board have determined, based to a large extent on the fairness opinion rendered by Coady Diemar, to be fair value for their Company common stock, without incurring brokerage commissions. See “– Fairness Opinion of Financial Advisor” below for the assumptions Coady Diemar used to reach its fairness opinion.
- Completing the split transaction at this time will allow EDCI to begin to realize cost savings, and will allow our management to focus more of their time and energy on carrying-out the Plan of Dissolution, which will result in long-term beneficial prospects for our stockholders.

In view of the wide variety of factors considered in connection with its evaluation of the split transaction, our Board of Directors did not find it practicable to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors it considered in reaching its determinations.

In making its determination to approve the split transaction, the Special Committee and Board reviewed and considered various alternative transactions to accomplish the goals described above, including the following:

- Issuer Tender Offer. In this alternative, we contemplated offering to purchase a set number of shares within a specific timetable. However, it was determined that it would require more funds to effect a tender offer, and there might not be a sufficient number of record stockholders tendering their shares to reduce the number of record stockholders below 300, which would then have required a second-step merger. As a result of these disadvantages, the Special Committee and Board determined not to pursue this alternative.
- Reporting Relief “No-Action” Letter Process. With respect to the reporting relief “no-action” letter process, such an approach would have been the least costly approach, would have treated all stockholders equally, and would have minimized any litigation risk resulting from a reverse split transaction. However, after discussions with the staff of the SEC, the staff noted that it would not be in a position to grant EDCI Exchange Act reporting relief unless and until its trading volume and number of record stockholders were significantly diminished. Management also had concerns that, even if the trading volume of EDCI’s common stock and the number of its record stockholders were reduced, EDCI’s continued oversight of EDC would be a factor weighing against the granting of reporting relief

when the time came for the SEC to more fully consider the relief request. Based on those concerns, EDCI's management believed there was significant risk that EDCI would not be successful in obtaining the requested relief from the SEC and ultimately elected to proceed with the split transaction.

- Remaining an SEC-Reporting Company. We also considered the possibility of remaining an SEC-reporting company. Under this alternative, we would continue to incur the significant expenses of being a public company without enjoying many of the benefits traditionally associated with SEC-reporting company status, especially since we are a company is dissolution. The Special Committee and Board ultimately concluded that becoming a private company would be in the best interests of

EDCI and its stockholders and, accordingly, rejected the alternative of remaining an SEC-reporting company.

After carefully reviewing these alternatives, for the reasons discussed above, the Special Committee recommended, and the Board approved, the split transaction as the most expeditious and economical way of changing our status to a non-reporting company.

#### Fairness of the Split Transaction

The Special Committee and the Board fully considered and reviewed the terms, purpose, alternatives, and effects of the split transaction. Based on its review, the Special Committee unanimously determined that the split transaction is procedurally and substantively fair to, and in the best interests of, our unaffiliated stockholders, including the unaffiliated stockholders who will receive cash consideration in the transaction and unaffiliated stockholders who will continue as our stockholders. Based on its review, the Board also unanimously determined that the split transaction is procedurally and substantively fair to, and in the best interests of, all of our stockholders, including all unaffiliated stockholders who will be cashed-out in the transaction and those unaffiliated stockholders who will be continuing stockholders after the transaction is completed.

#### Substantive Fairness

In concluding that the terms and conditions of the split transaction, including the cash to be paid to the non-continuing stockholders, are substantively fair to our unaffiliated shareholders, the Special Committee and the Board of Directors considered a number of factors. The Special Committee and the Board did not assign specific weight to any of the factors they considered, nor did they apply them in a specific formulaic fashion. Moreover, the discussion below is not meant to be exhaustive, but we believe it includes all material factors considered by the Special Committee and the Board in their determinations.

The factors that the Special Committee and the Board of Directors considered positive for all unaffiliated stockholders, including both those that are continuing and non-continuing stockholders, included the following:

- EDCI is currently engaged in carrying-out its Plan of Dissolution under Delaware law, and, in this regard, is required to liquidate its assets and wind-up its business and affairs. Any cost-savings that would accrue to the Company as a result of deregistering its common stock and becoming a non-SEC reporting company will increase the possibility of increasing the proceeds that can be distributed to our stockholders in connection with the Plan of Dissolution;
- our smaller stockholders who prefer to remain as stockholders of the Company, despite the Board's recommendation, may elect to do so by acquiring sufficient shares so that they hold at least 1,400 shares of common stock in their own names immediately prior to the split transaction, or transferring their registered shares into nominee name with a broker who holds in nominee name over 1,400 shares and such broker elects not to effect the split transaction on behalf of beneficial holders or does not have procedures requiring it to do so. However, there is no guarantee that a stockholder who wants to acquire greater than 1,400 shares will ultimately be able to do so. As part of its analysis, the Special Committee recognized that having an opportunity to purchase additional shares is not a guarantee that such shares ultimately will be able to be purchased or that individual stockholders will have the resources or interest in purchasing such shares. Also, the assumption by the Special Committee was that many unaffiliated stockholders were likely to be cashed-out in the reverse split (whether due to an inability to acquire additional shares or a lack of interest in doing so), and as a result, the Special Committee was aware of its fiduciary duties to ensure those stockholders were treated fairly in both a substantive and procedural manner in establishing the cash-out price;

- beneficial owners who hold their shares in “street name,” who would be cashed out if they were record owners instead of beneficial owners, and who wish to be cashed out as if they were record owners instead of beneficial owners, can work with their broker or nominee so that they will be cashed out;
- stockholders receive limited benefit from our being an SEC-reporting company because of our size and the relatively limited trading of our common stock; and
- the holders of a majority of the shares of the Company’s common stock must vote in favor of the split transaction in order for it to occur.

In addition to the positive factors applicable to all of our unaffiliated stockholders set forth above, the factors that the Special Committee and Board of Directors considered beneficial for the unaffiliated stockholders that are non-continuing stockholders included:

- the factors relating to the fairness of the \$3.44 per share price set forth on pages \_\_\_\_\_ through \_\_\_\_\_ hereof. In this regard, the Special Committee reviewed, considered, and adopted the analysis of Coady Diemar regarding the fairness, from a financial point of view, to unaffiliated stockholders of the \$3.44 price per share to be paid to those stockholders whose fractional shares of common stock are cashed-out in the split transaction;
- the cash to be paid to non-continuing stockholders in the split transaction will provide certainty of value to those stockholders and immediate liquidity for them; and
- no brokerage or other transaction costs are to be incurred by them in connection with the transfer of their shares to the Company.

The factors that the Special Committee and Board of Directors considered positive for the affiliated and unaffiliated stockholders that are continuing stockholders included:

- they will realize the potential benefits of termination of registration of our common stock, including reduced expenses as a result of no longer needing to comply with SEC reporting requirements;
- the fact that our shares may continue to be quoted in the Pink Sheets electronic quotation system after the split transaction is completed, which may provide opportunities for continuing stockholders to trade their shares in the future, at least until we make final dissolution distributions to our stockholders under the Plan of Dissolution. However, trading opportunities in the Pink Sheets will be dependent on whether any broker-dealers commit to making a market for our common stock. We cannot guarantee that our common stock will be quoted in the Pink Sheets; and
- the two step structure of the split transaction will avoid disruption to holders of 1,400 or more shares of our common stock, who are not being cashed out in the transaction, by avoiding the requirement that these stockholders forward their stock certificates to the Company for cash for fractional shares of common stock and replacement stock certificates for whole shares of common stock.

As described elsewhere in this proxy statement, EDCI's Board of Directors has determined that those stockholders who inadvertently become holders of five percent or greater of EDCI's outstanding shares of common stock as a result of the split transaction will be provided an exception from certain provisions of EDCI's Certificate which currently restricts their future ability to sell their shares. In accordance with the provisions of the Certificate, the transfer of EDCI's common stock is prohibited if, among other considerations, the transfer is attempted by a holder of five percent or greater of EDCI's common stock, unless the holder is a Pre-Existing 5% Stockholder as defined in the Certificate. The Certificate provides that the Board may grant exceptions to that restriction. The transfer restrictions are designed to reduce the risk that the Company would experience an ownership change for purposes of Section 382 of the Code, which would impose limitations on the use of the Company's NOLs. Based on current estimates, it is likely that the split transaction will create new Inadvertent 5% Stockholders. Subsequent sales by those Inadvertent 5% Stockholders are not expected to cause the Company to experience an ownership change for tax purposes, and therefore will not affect the Company's ability to utilize its NOLs to reduce its future income tax liability from actions that could be consummated in connection with the plan of dissolution (such as potential dividends from EDC's German operations). Therefore, the Board determined that it was appropriate to provide an exception in regards to

sales of shares by Inadvertent 5% Stockholders to permit those stockholders to maintain their ability to seek liquidity for their shares. In order for a stockholder to benefit from this exception after the consummation of the reverse split, such stockholder will be required to provide written notice to EDCI, before the special meeting date, that such stockholder's share ownership is at a level that could cause the stockholder to become an Inadvertent 5% Stockholder after the reverse split at the high-end of the range of EDCI's estimate of shares that could be cashed-out (which equates to an ownership level of 270,000 shares or more, based on the range of potential cash-out proceeds of between \$2.1 million and \$4 million at the proposed \$3.44 per share cash-out price). This notice is intended to permit the Company to ensure that the number of potential Inadvertent 5% Stockholders resulting from the reverse split does not cause an ownership change for tax purposes. This exception also is limited to sales that do not increase the percentage stock ownership of any five-percent stockholder or create a new five-percent stockholder, in each case, other than a public group (including a new public group created under Treasury Regulation § 1.382-2T(j)(3)(i)), and is limited to the shares acquired by such Inadvertent 5% Stockholders

prior to the reverse split. Inadvertent 5% Stockholders will continue to be subject to all other provisions of EDCI's Certificate of Incorporation, including restrictions on the purchase of any additional shares of EDCI's common stock, as such additional purchases could affect whether or not EDCI experiences an ownership change for tax purposes. Based on the range of potential cash out proceeds of between \$2.1 and \$4 million currently reserved to effectuate the split transaction, stockholders who currently own more than 270,000 shares of EDCI's common stock may have their holdings in EDCI increased to a level of five percent or greater by virtue of the reverse stock split. The Board concluded that the foregoing analysis and the exception it granted with respect to the limitations in the Certificate bears on the fairness of the split transaction and was a positive factor for continuing stockholders.

The Special Committee and Board also considered the per-share purchase price to be fair from the perspective of continuing stockholders, as it was based on a price that willing buyers and sellers pay for the shares on the market, and that the purchase of shares in the split transaction at this price was a good use of the Company's excess capital at this time.

In connection with the Special Committee's analysis of the fairness of the split transaction and the consideration to be paid to stockholders to be cashed-out in the split transaction, the Special Committee agreed with Coady Diemar's position that traditional going concern company valuation analyses at the EDCI holding company level were of little benefit to the evaluation of the split transaction given EDCI's voluntary dissolution. For example, current and historical trading prices for EDCI were not deemed relevant by the Special Committee in deriving a per share cash-out price for the following reasons: (i) recent trading prices of EDCI's common stock were at the high end of the range of trading prices since the announcement of the plan of dissolution (adjusting for the \$3.12 interim distribution paid on February 1, 2010); (ii) recent trading prices reflected EDCI's ongoing disclosure of the potential dissolution distributions in connection with the plan of dissolution; and (iii) even those recent trading prices fell below the range of implied equity values derived from Coady Diemar's "sum of the parts" valuation approach. For example, with regard to the intraday high of \$6.35 in the first and second quarters of 2010, that price occurred on February 1, 2010, immediately prior to the first interim dissolution distribution of \$3.12 per share on February 2, 2010. Since then a second interim dissolution distribution of \$1.56 per share occurred on August 2, 2010. Considered together, these two distributions equate the \$6.35 trading price of February 1 to \$1.67 today. Furthermore, the intraday low price of \$2.75 per share occurred in February and March 2010 after the first interim dissolution distribution of \$3.12 per share, and before the second distribution of \$1.56 in August. Taking into account the August distribution, the \$2.75 intraday low price is equivalent to \$1.19 per share today. Consequently, the Special Committee determined these historical stock prices bear little relevance to the Company's level of net assets in liquidation, and thus the fairness of the cash-out price in the reverse split.

In addition, the Special Committee did not consider book value as an appropriate valuation analysis because many of the contingencies EDCI was required to reserve for that could arise over the period of EDCI's plan of dissolution under Delaware law, which Coady Diemar considered relevant in its "sum of the parts" analysis, were not considered sufficiently probable for purposes of recording reserves on EDCI's statement of net assets in liquidation in accordance with the liquidation basis of accounting under GAAP. Further, the Special Committee determined that other traditional valuation metrics based on results of operations and projected future results were simply not applicable to EDCI because EDCI has no ongoing operations as a result of its dissolution. Also, the Special Committee did not consider the average purchase price of the Company's stock in its stock repurchase transactions between September 2008 and September 2009 because such prices had little relevance to the evaluation of the cash-out price in the split transaction. The Company's stock repurchases occurred at a time when the Company was still a going concern with ongoing operations. Moreover, the repurchases were conducted at prices commensurate with the then current public trading prices of EDCI's common stock, which, as stated above, were determined to also have little relevance to the current transaction. Conversely, the Special Committee recognized the Company has been in dissolution since January 2010 and now measures its financial condition in accordance with the liquidation basis of accounting. In this regard, the Company's level of net assets is the most relevant consideration in the determination of the fairness of the



cash-out consideration in the split transaction.

The Special Committee and the Board are aware of, and have considered, the impact of certain potentially countervailing factors on the substantive fairness of the split transaction to the unaffiliated non-continuing stockholders, including the following factors, unless they take specific steps to avoid being cashed out, such as purchasing more shares or transferring their shares into a brokerage account that would avoid the elimination of their shares:

- our unaffiliated non-continuing stockholders will be required to surrender their shares involuntarily in exchange for the cash-out price determined by the Board without the opportunity to liquidate their shares at a time and for a price of their choosing;
- these stockholders will not have the opportunity to participate in future dividend payments, if any, or distributions of cash in accordance with our Plan of Dissolution; and
  - these stockholders will be required to pay income tax on the receipt of cash in the split transaction.

The factors that the Special Committee and the Board of Directors considered as potentially negative for the affiliated and unaffiliated stockholders that are continuing stockholders included:

- they will have reduced access to our financial information once we are no longer an SEC-reporting company, including forms filed by our directors and executive officers reporting changes in their beneficial ownership, although we do intend to continue to provide the continuing stockholders with our annual reports and other periodic updates regarding our progress under the Plan of Dissolution;
- the fact that continuing stockholders will lose certain protections currently provided as a result of the Company being publicly-traded, including limitations on short-swing transactions by executive officers and directors under Section 16 of the Securities Exchange Act of 1934, the restrictions and protections provided under SOX, and the oversight of the NASDAQ stock market;
- under Delaware law, our Certificate of Incorporation, and bylaws, no appraisal or dissenters' rights are available to our stockholders who disagree with or would dissent from the split transaction;
- the liquidity of our shares of common stock held by continuing stockholders will be further reduced by the termination of the registration of the common stock under the Exchange Act and the delisting of the common stock from the NASDAQ stock market. Future trading in our shares after we go private, if it occurs at all, may only occur in the Pink Sheets electronic quotation system or in privately negotiated sales; and
- the Company expects to pay approximately \$2.4 million (including expenses) to effect the split transaction. This amount may change as a result of trading activity in our shares between the date hereof and the effective date of the split transaction.

The Special Committee and the Board of Directors believe that these potentially countervailing factors did not, individually or in the aggregate, outweigh the overall substantive fairness of the split transaction to our affiliated and unaffiliated stockholders, whether they be continuing or non-continuing stockholders and that the foregoing factors are outweighed by the positive factors previously described.

#### Procedural Fairness

We believe that the split transaction is procedurally fair to our unaffiliated stockholders, including those that are continuing stockholders and those that are non-continuing stockholders. The factors that the Special Committee and the Board of Directors considered positive for all stockholders, including both continuing and non-continuing stockholders, included the following:

- the split transaction is being effected in accordance with all applicable requirements of Delaware law;
- the Special Committee and the Board obtained a fairness opinion from an independent third party concerning the price to be paid to our cashed-out stockholders, the analysis behind which the Special Committee and Board adopted, and the Special Committee and the Board imposed no limitations upon Coady Diemar with respect to the investigation made or procedures followed in rendering its fairness opinion;
- the Company retained and received advice from legal counsel in evaluating the terms of the split transaction;
- the Special Committee, the Board, and the Company's management considered alternative methods of effecting a transaction that would limit our SEC-reporting costs, each of which was determined to be potentially ineffective in achieving the goals of providing cash and value to the non-continuing stockholders as soon as possible and eliminating the costs and burdens of public company status;

- stockholders will have the opportunity to determine whether or not they will remain stockholders after the split transaction by acquiring sufficient shares so that they hold at least 1,400 shares immediately prior to the split transaction or transferring their shares into nominee name (provided such nominee elects not to effect the split transaction on behalf of beneficial holders or does not have procedures requiring it to do so), or selling sufficient shares so that they hold fewer than 1,400 shares immediately prior to the split transaction, so long as they act sufficiently in advance of the split transaction so that the sale or purchase is reflected in our stockholder records by the close of business (Eastern time) on the effective date of the split transaction. However, there is no guarantee that a stockholder who wants to acquire greater than 1,400 shares will ultimately be able to do so. As part of its analysis, the Special Committee recognized that having an opportunity to purchase additional shares is not a guarantee that such shares ultimately will be able to be purchased or that individual stockholders will have the resources or interest in purchasing such shares. Also, the assumption by the Special Committee was that many unaffiliated stockholders were likely to be cashed-out in the reverse split (whether due to an inability to acquire additional shares or a lack of interest in doing so), and as a result, the Special Committee was aware of its fiduciary duties to ensure those stockholders were treated fairly in both a substantive and procedural manner in establishing the cash-out price;
- the Company has sufficient cash resources to undertake the necessary actions to finance the split transaction, with total expenditures estimated at \$2.4 million, and therefore the split transaction should not materially affect our ability to carry out our Plan of Dissolution; and
- the holders of a majority of the shares of the Company's common stock must vote in favor of the split transaction in order for it to occur.

The Special Committee and the Board also are aware of, and have considered, the impact of the following potentially countervailing factors, which affect both continuing and non-continuing stockholders to the same degree, on the procedural fairness of the split transaction:

- the split transaction is not structured to require approval of at least a majority of stockholders being cashed out in the split transaction; however, we determined that any such voting requirement would improperly usurp the ability of the holders of a majority of our outstanding shares to consider and approve the proposed amendments to our Certificate of Incorporation;
- no appraisal or dissenters' rights are available under Delaware law to stockholders who dissent from the split transaction; and
- we did not receive a valuation of our assets, liabilities, or common stock by an independent appraiser. In this regard, EDCI made available to Coady Diemar as part of its fairness opinion due diligence an appraisal of EDC USA's Kings Mountain Facility in Grover, North Carolina performed by Fred H. Beck & Associates, LLC performed in May 2010. This appraisal was not performed for purposes of the reverse split transaction, nor was it commissioned for any purpose relating to Coady Diemar's fairness opinion. Rather, the appraisal was commissioned and performed for purposes of marketing the Kings Mountain Facility for sale to potential third party purchasers for a possible transaction separate and distinct from the reverse split.

The Special Committee and the Board each believes that the foregoing potentially countervailing factors did not, individually or in the aggregate, outweigh the overall procedural fairness of the split transaction to our unaffiliated stockholders, whether they are continuing or non-continuing stockholders, and the foregoing factors are outweighed by the procedural safeguards previously described. In addition, with respect to the determination not to seek a

valuation, the Special Committee and the Board felt that the fairness opinion to be given by Coady Diemar provided sufficient procedural safeguards with respect to the cash to be paid to the non-continuing stockholders and determined that it would be unnecessary to incur the additional cost associated with obtaining a valuation. Further, because stockholders will have the opportunity to adjust their share ownership levels and thereby elect whether or not to remain a stockholder, the Special Committee and the Board did not consider the absence of appraisal rights to be a significant factor with respect to the split transaction.

The Company did not engage an unaffiliated representative to act solely on behalf of our unaffiliated stockholders for the purpose of negotiating the terms of the split transaction or preparing a report covering the fairness of the split transaction. Retaining an unaffiliated representative would be an added expense of the split transaction and would not affect the outcome of the transaction because a majority vote of the unaffiliated

stockholders is not required under applicable law. Rather, the Board established the Special Committee to consider the advisability of a possible going private transaction, the various alternatives to effecting such a transaction, the related advantages and disadvantages to us and our unaffiliated stockholders of each of those alternatives, the fairness of the cash-out consideration both to our non-continuing stockholders and unaffiliated continuing stockholders as a result of the split transaction, and to make a recommendation to the full Board concerning the advisability of the split transaction. The Board believes that the Special Committee, each of whose members is independent under applicable NASDAQ listing rules and Rule 10A-3(b) under the Exchange Act, was sufficient to protect the interests of unaffiliated stockholders. In addition, the Special Committee took note of the fact that the interests of unaffiliated stockholders inherently varied depending upon whether any particular unaffiliated stockholder held 1,400 shares or more or held fewer than 1,400 shares. Although there was no third party that acted independently on behalf of the unaffiliated stockholders, the members of the Special Committee set out to protect unaffiliated stockholders by making a recommendation regarding the split transaction that they believed to be fair to the unaffiliated stockholders.

We did not make any special provision to grant unaffiliated stockholders access to our corporate files or to obtain counsel or appraisal services at our expense. The Special Committee and the Board believe that this proxy statement, along with our other filings with the SEC, provides adequate information for unaffiliated stockholders to make an informed decision as to the split transaction, and that no special provision for the review of our files was necessary or customary. The Special Committee and Board also considered the fact that under Delaware corporate law, and subject to certain conditions set forth under Delaware law, stockholders have the right to review our relevant books and records of account.

We also intend to treat stockholders holding common stock in street name in the same manner as stockholders whose shares are registered in their own names, and will ask banks, brokers, and nominees holding these shares to provide us with information on how many fractional shares will be cashed-out, and request that they effect the split transaction for their beneficial holders.

Therefore, we believe that the split transaction is substantively and procedurally fair to our affiliated and unaffiliated stockholders, including those that are continuing stockholders and those that are non-continuing stockholders, for the reasons and factors described above. In reaching this determination, we have not assigned specific weights to particular factors, and we considered all factors as a whole.

#### Effects of the Split Transaction on Affiliates

The split transaction will impact both affiliated and non-affiliated stockholders of the Company. As used in this proxy statement, the term “affiliated stockholder” means any stockholder who is a director or executive officer of the Company, and the term “unaffiliated stockholder” means any stockholder other than an affiliated stockholder. All of the affiliated stockholders of the Company own over 1,400 shares of the Company’s common stock. Therefore, the effects of the split transaction on each of the affiliated stockholders will be the same. We expect that our executive officers and directors will beneficially own approximately [397,527] shares (excluding unexercised options) as a group immediately after the split transaction.

Other potential effects of the split transaction which are unique to the affiliated stockholders include the following:

- **Reduced Reporting Requirements for Officers and Directors.** Our directors and executive officers will no longer be subject to the reporting and short-swing profits provisions under the Exchange Act with respect to changes in their beneficial ownership of our common stock.
-

Share Ownership. Upon the completion of the split transaction, we expect that the percentage of beneficial ownership of common stock held by our executive officers and directors as a group will increase from 7.24% to 7.95%, on a fully-diluted basis, resulting in greater voting power for affiliated stockholders and less for non-affiliated stockholders, subject to change based on the actual number of shares that would be cashed-out in the split transaction.

Clarke H. Bailey, Matthew K. Behrent, Roger J. Morgan, Kyle E. Blue, Ramon D. Ardizzone, Cliff O. Bickell, Peter W. Gilson, and David A. Sandberg are considered “affiliates” of the Company due to their positions in senior management and/or on the Board of Directors of the Company. The affiliates who are not Board members reviewed the same information regarding the split transaction that the Special Committee and the Board reviewed

and considered the same factors as the Special Committee and the Board. Each of these affiliates adopts the analysis of the Special Committee and the Board which is discussed in this proxy statement and has separately determined that the split transaction is fair to affiliated and unaffiliated stockholders.

#### Recommendation of the Special Committee

Based on the foregoing analyses, including a consideration of the disadvantages of the split transaction, the Special Committee unanimously determined that the split transaction is procedurally and substantively fair to all unaffiliated stockholders, including both unaffiliated non-continuing stockholders who will be cashed-out in the transaction and unaffiliated continuing stockholders, and believes the cash-out consideration to be paid to the non-continuing stockholders is fair to all unaffiliated stockholders. As a result, the Special Committee unanimously recommended the split transaction to the full Board and recommends that stockholders vote “FOR” approval of the proposals to amend our Certificate of Incorporation.

#### Recommendation of the Board of Directors

At a meeting held on July 19, 2010, the Board unanimously determined that the split transaction is fair to, and in the best interests of, the Company and its stockholders, including all unaffiliated non-continuing stockholders who will be cashed-out in the transaction and unaffiliated continuing stockholders, unanimously approved the split transaction, and recommends that you vote “FOR” approval of the proposals to amend our Certificate of Incorporation. In reaching its determination and recommendation, the Board considered and specifically adopted the recommendations of the Special Committee and the factors that the Special Committee took into account in making its recommendation to the full Board.

#### Fairness Opinion of Financial Advisor

##### Summary of Fairness Opinion

The Special Committee retained Coady Diemar to act as its independent financial advisor and to render to the Special Committee, if requested, a written opinion as to the fairness, from a financial point of view, of the consideration to be paid to unaffiliated holders of fractional shares of the Company’s common stock resulting from the split transaction.

On July 19, 2010, Coady Diemar delivered to the Special Committee its oral opinion, subsequently confirmed in writing on July 22, 2010, that as of that date and based upon and subject to the assumptions, factors and limitations set forth in the written opinion and described below, that the \$3.44 price per pre-split share of common stock (the “Consideration”) to be paid to those unaffiliated stockholders of the Company who are cashed-out in the split transaction is fair from a financial point of view to such stockholders (the “Opinion”).

The Opinion is directed to the Special Committee and addresses only the fairness, from a financial point of view, of the Consideration to be paid to unaffiliated stockholders of the Company who are cashed-out in the split transaction.

The Opinion does not address: (i) the fairness of the split transaction to the Company’s continuing stockholders or any other class of securities, creditors or other constituencies of the Company, or any other party, other than the unaffiliated stockholders of the Company who are cashed-out in the split transaction; (ii) the underlying business decisions of the Special Committee, Board of Directors, the Company or its stockholders, or any other party to proceed with or effect the split transaction; (iii) the relative merits of the split transaction as compared to any



alternative business strategies that might exist for the Company or the effect of any other transaction in which the Company might engage; (iv) the tax or legal consequences of the split transaction to either the Company, its stockholders, or any other party; (v) how any stockholder should act or vote, as the case may be, with respect to the split transaction; (vi) the terms or fairness of any future transactions; or (vii) the solvency, creditworthiness, or fair value of the Company or any other participant in the split transaction under any applicable laws relating to bankruptcy, insolvency, or similar matters. In furnishing its Opinion, Coady Diemar did not represent that it is an expert within the meaning of the term “expert” as used in the Securities Act, nor did it represent that the Opinion constitutes a report or valuation within the meaning of the Securities Act.

The full text of Coady Diemar's Opinion is attached to this proxy statement as Appendix B, and the summary of the Opinion set forth in this section is qualified in its entirety by reference to that Opinion. The

Company urges its stockholders to carefully read the Coady Diemar Opinion in its entirety for a complete statement of the considerations and procedures followed, factors considered, findings, assumptions and qualifications made, the bases for and methods of arriving at these findings, limitations on the review undertaken in connection with the Opinion, and judgments made or conclusions undertaken by Coady Diemar in reaching its Opinion.

In arriving at its Opinion, Coady Diemar has, among other things:

- i) reviewed the financial terms and conditions of the split transaction, including the description thereof contained in the draft proxy statement provided to Coady Diemar on July 22, 2010;
- ii) reviewed publicly available financial information and other data with respect to EDCI, including the Company's Plan of Dissolution, the definitive proxy statement filed with the Securities and Exchange Commission on November 16, 2009 pursuant to which the Company's Plan of Dissolution was submitted to its stockholders for approval, the Form 10-K's for the fiscal years ended December 31, 2007 through 2009 and the Form 10-Q's for each three month period ended from March 31, 2008 to March 31, 2010, and the audited and unaudited consolidated financial statements of EDCI, respectively, set forth therein, as well as certain other public filings made;
- iii) reviewed certain internal financial information and other data relating to the business and financial prospects of EDCI furnished to Coady Diemar by EDCI;
- iv) held discussions with the senior management of EDCI ("Management") regarding the historic, current and future outlook of EDCI;
- v) reviewed the asset purchase agreement and corresponding security agreement between Entertainment Distribution Company, LLC, Entertainment Distribution Company (USA), LLC ("EDC USA") and Sony DADC US Inc. dated December 31, 2008;
- vi) discussed with Management details of EDC's German subsidiary ("EDC GmbH"), including, but not limited to: (a) the state of the European CD and DVD manufacturing and distribution industry, (b) EDC GmbH's relationship with its largest customer, (c) the recently terminated sale process for EDC GmbH, and (d) regulations and other factors affecting distributions to the equity holders of EDC GmbH;
- vii) reviewed financial and operating information with respect to certain publicly-traded companies in the CD and DVD manufacturing and distribution industry which Coady Diemar believed to be generally comparable to the business of EDC GmbH;
- viii) reviewed the financial terms of certain recent business combinations in the CD and DVD manufacturing and distribution industry involving companies which Coady Diemar believed to be generally comparable to the business of EDC GmbH;
- ix) analyzed historic trading prices and volume in EDCI's shares;
- x) analyzed other recent reverse/forward split transactions and the premiums paid in such transactions as fractional share consideration;
- xi) reviewed the projected post-split transaction financial results of EDCI prepared by Management;
- xii) considered the effect of the Company's planned delisting and deregistration of its common stock on the post-split transaction value of the common stock; and

xiii) performed other financial studies, analyses and investigations, and considered such other information, as Coady Diemar deemed necessary or appropriate for purposes of its Opinion.

In connection with providing its Opinion, Coady Diemar received no specific instructions from the Special Committee or EDCI's Board of Directors other than to provide the Special Committee with an opinion stating whether or not the Consideration to be paid to unaffiliated stockholders of the Company who are cashed-out in the

split transaction was fair from a financial point of view. No limitation was imposed on Coady Diemar with respect to the scope of Coady Diemar's investigation in rendering its services.

The following is a summary of the material analyses and other information that Coady Diemar prepared and relied on in delivering its Opinion to the Special Committee. This summary includes information presented in tabular format. In order to understand fully the financial analyses used by Coady Diemar, these tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Except as otherwise noted, the quantitative information which follows, to the extent that it is based on market data, is based on market data as it existed on or before July 15, 2010, and is not necessarily indicative of current market conditions. Financial information for the Company presented in this summary is based on information EDCI provided to Coady Diemar prior to July 15, 2010. Coady Diemar was not asked to, nor did it, provide a recommendation regarding the Consideration. Rather, the Special Committee selected a proposed Consideration price and recommended the Consideration price to the full Board, which subsequently approved the Consideration.

### Analysis Overview

Coady Diemar's approach to its analysis of the split transaction was materially influenced by EDCI's intention to voluntarily dissolve, liquidate and wind up the business of the Company as more fully described in the Company's Plan of Dissolution filed with the Securities and Exchange Commission on November 16, 2009 and subsequently approved by shareholders. Consequently, Coady Diemar concluded that traditional going concern company analyses at the EDCI parent level were of little benefit to its evaluation of the split transaction. Coady Diemar instead undertook a sum of the parts ("Sum of the Parts") analysis that evaluated the Company's disparate assets and liabilities along with the distinctive timing and liquidity considerations associated with each, as it believed that this approach was a more appropriate method to evaluate the split transaction. In addition to its Sum of the Parts analysis, Coady Diemar also considered the implied premium the Consideration represented to the Company's common stock closing price prior to Coady Diemar's oral opinion to the Special Committee on July 19, 2010, and evaluated this premium with the premiums (and discounts) paid in recent reverse stock split transactions. Coady Diemar did not consider a reversal of the Company's Plan of Dissolution and return to going concern status as part of its analysis.

### Sum of the Parts Analysis

Coady Diemar focused its Sum of the Parts analysis on the primary components that comprise EDCI. The components Coady Diemar evaluated are: (i) the Company's ownership of 97.99% of the limited liability company units of Entertainment Distribution Company, LLC ("EDC"), a business operating in the manufacturing and distribution segment of the entertainment industry, and (ii) the Company's remaining assets and liabilities unencumbered by EDC ("EDCI, ex EDC"). Coady Diemar also considered the potential value associated with the Company's net operating losses ("NOL") and concluded that given EDCI's intention to dissolve and distribute substantially all of its cash to stockholders, the Company would be unlikely to realize any future value from its NOLs. However, Coady Diemar assumed those NOLs would be available to reduce any income tax liability in the event of distributions were made from EDC's German operations.

A summary of the Sum of the Parts analysis, including Coady Diemar's range of high and low net asset valuation observations, is presented in the chart below.



(in millions, except per share amounts)

EDCI Holdings, Inc.

Entertainment Distribution Company, LLC (“EDC”)

EDCI Holdings, Inc., ex EDC

		Low	High		Low	High	
A.	EDC USA, LLC	\$ 12.0	\$ 14.2	A.	Cash after Management provisions for future operating costs and liabilities	\$ 17.1	\$ 16.8
B.	EDC UK, LLC	1.1	1.1		EDCI shares outstanding	6.7	6.7
C.	EDC GmbH, LLC	0.0	2.0		Net asset value per share	\$ 2.54	\$ 2.50
	Total	\$ 13.1	\$ 17.3				
				B.	Present value of potential unused Management contingency reserves	\$ 1.0	\$ 4.3
	Adjustments(1)	(2.5)	(1.5)		EDCI shares outstanding	6.7	6.7
	Net asset value	\$ 10.7	\$ 15.8		Net asset value per share	\$ 0.15	\$ 0.64
	EDCI shares outstanding	6.7	6.7				
	Net asset value per share	\$ 1.59	\$ 2.34		Net asset value per share	\$ 2.69	\$ 3.13

Notes:

(1) Includes reserve for contingent liabilities associated with the EDC’s Sony Security Agreement and recognition of EDCI’s 97.99% ownership of EDC.

The sum of the valuation ranges for (i) EDC and (ii) EDCI, ex EDC produce a net asset value per share range for the Company of \$4.28 to \$5.48 with a mid-point of \$4.88. Accounting for the distribution of \$1.56 per share that the Company paid to all shareholders on July 30, 2010, the net asset value per share range is adjusted to \$2.72 to \$3.92, with a mid-point of \$3.32.

#### EDC Evaluation

Coady Diemar evaluated the various sub-components of EDC as part of its analysis. A summary of this evaluation is below.

EDC USA, LLC – EDC USA, LLC (“EDC USA”) is the U.S. business of EDC. On December 31, 2008, the Company completed the sale of substantially all of the assets of EDC USA to Sony DADC U.S., Inc (“Sony DADC”) for \$26.0 million in cash and certain other consideration. The sale agreement included customary representations and warranties accompanied by certain indemnification rights. Substantially all of EDC USA’s assets are pledged as

collateral to secure those indemnification rights for a period of at least three years following the closing of the transaction (the “Sony Security Agreement”). EDC USA’s remaining assets and liabilities include cash, an idle manufacturing facility located in Kings Mountain, NC that was formerly used in EDC USA’s U.S. manufacturing operations and a reserve for future operating and contingent liabilities. Coady Diemar’s evaluation of EDC USA’s high and low net asset value is presented in the chart below.

(in millions)

EDC USA, LLC	Low	High
Cash	\$ 10.3	\$ 10.3
Accounts payable	(0.2 )	(0.2 )
Building and land(1)	5.1	6.2
Operating expense reserve	(1.9 )	(0.8 )
Contingent liability reserve	(1.3 )	(1.3 )
EDC USA, LLC net asset value	\$ 12.0	\$ 14.2

(1) Discounted to reflect a multi-year holding period.

EDC UK, LLC – EDC UK, LLC (“EDC UK”) is the United Kingdom business of EDC. On March 20, 2009, the Board of Directors of EDC approved a plan to consolidate EDC UK’s Blackburn, UK and Hannover, Germany manufacturing volumes within the Hannover facility. As a result of this consolidation, EDC UK ceased substantially all of the operations presently conducted at its Blackburn facility in the United Kingdom as of December 31, 2009. Final closure of the Blackburn facility occurred in June of 2010. EDC UK’s remaining assets and liabilities include cash, receivables and a liquidation reserve. Coady Diemar’s evaluation of EDC UK’s high and low net asset value is presented in the chart below.

(in millions)

EDC UK, LLC	Low	High
Cash	£0.2	£0.2
Accounts receivable	0.7	0.7
Liquidation reserve	(0.2 )	(0.2 )
EDC UK, LLC net asset value	£0.7	£0.7
Exchange rate (USD / UK Pound)	1.5461	1.5461
EDC UK, LLC net asset value	\$1.1	\$1.1

EDC GmbH – EDC GmbH (“EDC GmbH”) is the German business of EDC and represents EDC’s sole continuing operational asset. Coady Diemar evaluated the high and low net asset value for EDC GmbH using three generally accepted going concern valuation methodologies: (i) discounted cash flow analysis, (ii) comparable company analysis and (iii) precedent transactions analysis. Coady Diemar also considered other factors as part of its evaluation of EDC GmbH, including the 2010 terminated sale process for EDC GmbH.

(i) Discounted cash flow analysis – Coady Diemar performed a discounted cash flow analysis of EDC GmbH in which it calculated the present value of the projected hypothetical future cash flows of EDC GmbH. As part of this analysis, Coady Diemar evaluated eleven sets of projections for the period beginning July 1, 2010 through December 31, 2015, all as prepared and provided to Coady Diemar by Management (the “Projections”). The eleven cases that make up the Projections reflect Management’s uncertainty surrounding the potential of the European CD and DVD manufacturing industry and the various legal issues with EDC GmbH’s largest customer, the Universal Music Group. While EDC GmbH management believes it will be successful with regard to the ultimate resolution of those legal issues, and thus prepared its management projections based on that and other assumptions it believes are reasonable, Coady Diemar recommended to the Special Committee and EDCI management that EDCI management develop additional management projections for the purposes of its evaluation of the split transaction. EDCI management believes that its eleven sets of management projections (which include those originally prepared by EDC GmbH management) were appropriate for Coady Diemar to consider in connection with rendering its Opinion with respect to the split transaction, because they incorporated a reasonable spectrum of the risks inherent to EDCI’s financial interest in EDC GmbH. In the discounted cash flow analysis, Coady Diemar estimated a range of theoretical values for EDC GmbH based on the net present value of its implied annual cash flows and a terminal value in fiscal year 2015 calculated based upon a multiple of earnings before interest, taxes, depreciation and amortization (EBITDA).

Coady Diemar applied a range of discount rates of 22.5% to 27.5% and a range of terminal value multiples of 1.0 to 1.5 times EDC GmbH’s forecasted pro forma fiscal year 2015 EBITDA.

Coady Diemar determined terminal value multiples by considering (i) forecasted industry growth rates and (ii) information on trading multiples of comparable companies. Additionally, Coady Diemar considered the nature of EDC GmbH’s business, the size of EDC GmbH relative to the comparable companies, EDC GmbH’s position in the industry, the inherent risk of failing to improve performance in an increasingly competitive industry and Coady



Diemar's recent experience in the mergers and acquisitions marketplace.

Discount rates were based on the cost of unlevered equity capital calculated using the capital asset pricing model, which estimates the return required by equity investors given a company's risk profile.

Coady Diemar adjusted the resulting valuation calculations to incorporate the cash assets and long term liabilities of EDC GmbH and also applied an equity liquidity discount based on unique considerations in German regulations that limit the potential for distributions from EDC GmbH to EDCI.

This analysis resulted in implied equity values of EDC GmbH ranging from a low of \$0.0 million to a high of \$12.2 million, with mean and median observations of \$2.3 million and \$0.0 million, respectively. Coady Diemar also observed that eight of the eleven sets comprising the Projections produced a \$0.0 million equity value.

(ii) Comparable company analysis – The comparable public company analysis reviews securities of publicly traded companies deemed comparable to EDC GmbH’s business. In conducting its analysis, Coady Diemar noted that it is generally accepted that share pricing in the public market incorporates a wide range of factors including general economic conditions, interest rates, inflation and investor perceptions.

Coady Diemar analyzed financial information and valuation ratios relating to five publicly traded companies involved in the entertainment content and distribution sectors with market capitalizations between \$58 million and \$362 million. This group comprised Cinram International Income Fund (“Cinram”), Imitation, Corp., Rimage Corp., Navarre Corp. and Anwell Technologies. Of this group, Coady Diemar concluded that Cinram was the most directly comparable to EDC GmbH while the remaining four companies were indirectly comparable. A table summarizing Coady Diemar’s observations of these valuation ratios is found below.

	Enterprise Value / EBITDA		Enterprise Value / Revenue	
	LTM	2010E	LTM	2010E
Most directly comparable:				
Cinram International Income Fund	1.8 x	2.4 x	0.2 x	0.3 x
Indirectly comparable:				
Imitation, Corp.	2.2 x	NA	0.1 x	0.1 x
Rimage Corp.	4.4 x	NA	0.7 x	0.6 x
Navarre Corp.	2.8 x	3.3 x	0.2 x	0.2 x
Anwell Technologies	NM	NA	1.9x	NA
Low (1)	2.2 x	3.3 x	0.1 x	0.1 x
Mean (1)	3.1 x	3.3 x	0.7 x	0.3 x
Median (1)	2.8 x	3.3 x	0.5 x	0.2 x
High (1)	4.4x	3.3x	1.9x	0.6x

(1) Indirectly comparable summary statistics do not include Cinram.

Coady Diemar made qualitative judgments concerning the difference between the financial and operating characteristics of EDC GmbH, Cinram and the other indirect comparable companies. Based on these judgments and the observations above, Coady Diemar applied a range of EBITDA and revenue multiples to EDC GmbH’s last twelve months (LTM) actual performance and its estimates for performance in fiscal year 2010 based on the Projections. Specifically, Coady Diemar applied (a) a multiple range of 1.00x to 1.50x and 1.50 to 2.00x to EDC GmbH’s LTM EBITDA and 2010 expected EBITDA, respectively, and (b) a multiple range of 0.10x to 0.20x and 0.15x to 0.25x to EDC GmbH’s LTM revenue and 2010 expected revenue, respectively. Coady Diemar adjusted the resulting valuation calculations to incorporate the cash assets and liabilities of EDC GmbH and also applied an equity liquidity discount based on unique considerations in German regulations that limit the potential for distributions from EDC GmbH to EDCI.

The analysis based on LTM EBITDA produced implied equity values for EDC GmbH ranging from a low of a \$6.5 million to a high of \$10.3 million. The analysis based on 2010 EBITDA estimates from the Projections produced implied equity values for EDC GmbH ranging from a low of \$5.2 million to a high of \$10.8 million.

The analysis based on LTM revenue produced implied equity values for EDC GmbH ranging from a low of a \$6.4 million to a high of \$13.7 million. The analysis based on 2010 revenue estimates from the Projections produced implied values for EDC GmbH ranging from a low of \$8.8 million to a high of \$15.9 million.

Coady Diemar finally observed that given the limited number of truly comparable companies and other unique circumstances surrounding EDC GmbH's operating prospects and regulatory jurisdiction, the comparable company analysis was viewed as a less relevant indication of value. Also, it would not be possible to take EDC GmbH public given industry and customer issues.

(iii) Precedent Transaction Analysis – Coady Diemar also considered the results of a precedent transaction analysis in developing its valuation conclusions. Evaluating precedent transactions provides insight into the prices at which companies similar to the subject company have sold in transactions (mergers and acquisitions). Target companies are compared to the subject company, and multiples paid in transactions are analyzed and applied to subject company data resulting in value indications. These valuation indications can be affected by, among other things, the product or service produced or sold, geographic markets served, competitive position, profitability, growth expectations, size, risk perception and capital structure.

Coady Diemar evaluated thirteen transactions that occurred between June 2008 and April 2010 and involved broadly comparable companies based on businesses in the entertainment content and distribution sectors.

The comparative group of transactions referred to above is outlined in the table below:

Effective Date	Acquiring Company	Target Company
4/11/2010	Avid Technology Inc.	Euphonix, Inc.
10/15/2009	Dimensional Associates LLC	The Orchard Enterprises Inc.
10/12/2009	Fluid Music Canada, Inc.	Somerset Entertainment Income Fund
9/15/2009	Teton Advisors, Inc.; GGCP, Inc.; Gabelli Securities, Inc.	Viacom, Inc.
9/1/2009	Mitsubishi Kagaku Media Co., Ltd.	Freecom B.V.
5/6/2009	Petro America Corp.	American Southwest Music Distribution, Inc.
2/12/2009	Coinstar Inc.	Redbox Automated Retail, LLC
2/9/2009	Tri Media Services, LLC	Media Evolved, LLC
1/22/2009	Reach Media AS	Dicentia A/S
11/14/2008	Clarke Inc.	Madacy Entertainment Income Fund
10/31/2008	Sony DADC US INC.	EDC Distribution Operations in Fishers, Indiana and Select U.S. Manufacturing Equipment
8/4/2008	Audio & Video Labs, Inc.	CD Baby, Inc.
6/2/2008	Anderson Merchandisers, L.P.	Handleman Company Of Canada Limited

Coady Diemar noted in its evaluation of the above transactions that a limited number involved EDC GmbH's specific business of CD and DVD manufacturing and distribution.

Coady Diemar noted the observed multiples of LTM revenue and LTM EBITDA for the selected transactions above. The table below summarizes these observations:

	Enterprise Value /LTM EBITDA	Enterprise Value /LTM Revenue
Low	2.5x	0.2x
Mean	2.6x	0.4x
Median	2.6x	0.4x
High	2.7x	0.5x

Coady Diemar made qualitative judgments concerning the difference between the financial and operating characteristics of EDC GmbH and the selected thirteen transactions above. Based on these judgments and its observations of the transactions above, Coady Diemar applied a range of EBITDA and revenue multiples to EDC GmbH's LTM actual performance. Specifically, Coady Diemar applied (a) a multiple range of 2.50x to 2.70x to EDC

GmbH's LTM EBITDA and (b) a multiple range of 0.20x to 0.50x to EDC GmbH's LTM revenue. Coady Diemar adjusted the resulting valuation calculations to incorporate the cash assets and liabilities of EDC GmbH and also applied an equity liquidity discount based on unique considerations in German regulations that limit the potential for distributions from EDC GmbH to EDCI.

The analysis based on LTM EBITDA produced implied equity values for EDC GmbH ranging from a low of a \$17.8 million to a high of \$19.3 million. The analysis based on LTM revenue produced implied equity values for EDC GmbH ranging from a low of \$13.7 million to a high of \$35.8 million.

Coady Diemar finally observed that given the limited number of truly comparable transactions, dramatic changes in market conditions over the past twelve to twenty four months, the practical inability to sell EDC GmbH without the cooperation of Universal, EDC GmbH's largest customer, and based on negotiations with a potential acquirer in the last twelve months, EDC does not believe Universal will cooperate with any such transaction, and other unique circumstances surrounding EDC GmbH's operating prospects and regulatory jurisdiction, the precedent transaction analysis was viewed as a less relevant indication of value.

Based on the three valuation analyses above and other factors, including the recently terminated sale process for EDC GmbH, Coady Diemar's evaluation concluded a net asset value for EDC GmbH ranging from a low of \$0.0 million to a high of \$2.0 million. As previously discussed, Coady Diemar's valuation of EDC GmbH was conducted solely for the purpose of a valuation of the consideration to be paid to unaffiliated stockholders of the Company who will be cashed-out in the split transaction.

#### EDCI, ex EDC Evaluation

Coady Diemar evaluated the various sub-components of EDCI, ex EDC as part of its analysis. A summary of this evaluation is below.

Cash after Management provisions for future operating costs and liabilities – EDCI, ex EDC's remaining assets and liabilities include cash, auction market preferred securities, operating reserves for the minimum three year dissolution period required under Delaware law and Management's reserves for contingent liabilities. Coady Diemar's high and low net asset value evaluation of EDCI, ex EDC cash available after Management provisions for future operating costs and liabilities is presented in the chart below.

(in millions, except per share amounts)

#### EDCI, ex EDC

Cash after management provisions for future operating costs and liabilities

	Low	High
Cash	\$ 29.4	\$ 29.4
Auction market preferred securities	0.8	0.8
Corporate operating reserves	(2.2 )	(2.5 )
Pension and other defined benefit obligations	(0.9 )	(0.9 )
Contingent liability reserve	(10.0 )	(10.0 )
Net asset value	\$ 17.1	\$ 16.8
EDCI shares outstanding	6.7	6.7
Net asset value per share	\$ 2.54	\$ 2.50

Present value of potential unused Management contingency reserves – Coady Diemar observed that it is customary for companies in dissolution to use conservative assumptions for contingent liability reserves. Management, in conjunction with its outside advisors and counsel, provided Coady Diemar with details about EDCI's potential contingent liabilities, including the various permutations and probabilities of each known potential liability occurring and the potential amounts liable. Based on this information, Coady Diemar calculated a high and low range of the

Company's probability weighted contingent liability exposure and the implied potential for unused contingent liability reserves. Coady Diemar then calculated the present value of the implied potential for unused contingent liability reserves using a discount rate of 15.10% based on the cost of unlevered equity capital of the Company calculated using the capital asset pricing model, which estimates the return required by equity investors given a company's risk profile. A summary of this analysis is presented in the chart below.

(in millions, except per share amounts)

EDCI, ex EDC

Present value of potential unused Management contingency reserves

	Low	High
Contingent liability reserve	\$10.0	\$10.0
Probability weighted contingent liability exposure	(9.0 )	(4.3 )
Estimated unused contingent liability reserve	\$1.1	\$5.7
Present value of estimated unused contingent liability reserve	\$1.0	\$4.3
EDCI shares outstanding	6.7	6.7
Net asset value per share	\$0.15	\$0.64

## Premiums Paid Analysis - Reverse Stock Splits, Going Private

Coady Diemar reviewed publicly available information for selected transactions completed between January 2007 and October 2009 in which companies, with market capitalizations in excess of \$10 million, performed a reverse stock split and subsequently de-registered shares under the Securities Exchange Act of 1934. Coady Diemar reviewed the information to determine the implied premiums (and discounts) payable in the transactions over recent stock closing prices prior to announcement of the transaction, including the one-day prior, one-week prior average and four-week prior average. It selected these transactions by searching Commission filings, public company disclosures, press releases, databases and other sources.

Coady Diemar performed its analysis on thirteen transactions. Coady Diemar noted that none of these transactions involved companies in dissolution.

The following table identifies the companies involved in the thirteen transactions included in Coady Diemar's analysis.

MAXXAM Inc.	Oregon Pacific Bancorp
Gander Mountain Co.	Peoples Bancorp
Cuisine Solutions Inc.	Jaclyn Inc.
Computer Horizons Corp.	CB Financial Corporation
Gouverneur Bancorp Inc.	Citizens Bancorp
Peoples-Sidney Financial Corp.	Ohio State Bancshares Inc.
First Bancorp of Indiana Inc.	

The following table summarizes the premiums or discounts paid in the transactions referenced above,

Premium / (Discount):	Historical Period before Transaction Announcement		
	One Day	Seven Days	Thirty Days
Low	(9.1 %)	(10.0 %)	(11.0 %)
Mean	22.3 %	23.7 %	26.0 %
Median	17.4 %	21.5 %	23.9 %



High	70.2 %	67.3 %	79.5 %
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Coady Diemar observed that the sum of (i) the Consideration and (ii) the distribution of \$1.56 per share that the Company paid to all shareholders on July 30, 2010 represented a total of \$5.00 per share. Coady Diemar further observed that this \$5.00 per share of Common Stock represented an implied premium of 23.8%, 29.5% and 48.8% to EDCI's Common Stock price one day, seven days and thirty days prior to Coady Diemar's July 19, 2010 oral opinion to the Special Committee, respectively.

Coady Diemar also observed that the Consideration taken by itself represented an implied premium of 38.7%, 49.6% and 91.1% to EDCI's Common Stock price, adjusted for the \$1.56 per share distribution, one day, seven days and thirty days prior to Coady Diemar's July 19, 2010 oral opinion to the Special Committee, respectively.

In reaching the conclusion as to the fairness of the Consideration to be paid to those unaffiliated stockholders of the Company who are cashed-out in the split transaction, each of the analyses conducted by Coady Diemar was carried out to provide a particular perspective of the split transaction. Coady Diemar did not form a conclusion as to whether any individual analysis, when considered in isolation, supported or failed to support its Opinion. Coady Diemar does not place any specific reliance or weight on any individual analysis but instead concludes that its analyses taken as a whole support its conclusion and its Opinion. Accordingly, Coady Diemar believes that its analyses must be considered in their entirety and that selecting portions of its analyses or the factors it considered, without considering all analyses and factors collectively, could create an incomplete view of the processes underlying the analyses performed by Coady Diemar in connection with the preparation of its Opinion.

The analyses of Coady Diemar are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by the analyses. Analyses relating to the value of companies, assets or liabilities do not purport to be appraisals or valuations or necessarily reflect the price at which companies, assets or liabilities may actually be sold or realized. No company or transaction used in any analysis for purposes of comparison is identical to the Company or the split transaction. Accordingly, an analysis of the results of the comparisons is not mathematical; rather, it involves complex considerations and judgments about differences in the companies to which EDCI and its subsidiaries were compared and other factors that could affect the public trading value of the companies.

In arriving at its Opinion, Coady Diemar relied upon and assumed, without independent verification, the accuracy, completeness and reasonableness of the financial, legal, tax, and other information provided to or discussed with Coady Diemar by the Company or obtained by Coady Diemar from public sources, including, without limitation, the Projections referred to above. With respect to the Projections, Coady Diemar relied on representations that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of Management as to EDC GmbH's expected future performance. Coady Diemar has not assumed any responsibility for the independent verification of any such information, including, without limitation, the Projections, and Coady Diemar further relied upon the assurances of Management that they are unaware of any facts that would make the information, including the Projections, provided to Coady Diemar, incomplete or misleading for the purposes of its Opinion. Coady Diemar assumed that there had been no material changes in the assets, financial condition, results of operations, EDCI's business or prospects since the date of the latest financial statements made available to Coady Diemar at the time of delivery of its Opinion. Coady Diemar also assumed that the Company was not a party to any material non-public pending transaction, including external financing, recapitalizations, acquisitions or merger discussions, other than the split transaction.

In arriving at its Opinion, Coady Diemar did not make any independent evaluation or appraisal of any of the assets or liabilities (contingent or otherwise) of the Company, nor was Coady Diemar furnished with any such evaluation or appraisal, with the exception of a May 17, 2010 appraisal of EDC USA's Kings Mountain Facility in Grover, NC performed by Fred H. Beck & Associates, LLC. This appraisal was not performed for purposes of the reverse split transaction, nor was it commissioned for any purpose relating to Coady Diemar's fairness opinion. Rather, the appraisal was commissioned and performed for purposes of marketing the Kings Mountain Facility for sale to potential third party purchasers for a possible transaction separate and distinct from the reverse split.

Coady Diemar assumed that: (i) the Company paid a dissolution payment to all stockholders of \$1.56 per share of Common Stock in cash on or about July 30, 2010, (ii) all the necessary governmental and regulatory approvals and consents required for the split transaction will be obtained; and (iii) that the split transaction will be consummated in a

timely manner and in accordance with the terms of the draft proxy statement provided to Coady Diemar on July 22, 2010 without any limitations, restrictions, conditions, amendments or modifications, regulatory or otherwise, that collectively would have a material adverse effect on the Company or the contemplated benefits to the Company of the split transaction, or will otherwise change the amount of the Consideration paid to the unaffiliated stockholders whose fractional shares of common stock would be cashed out as part of the split transaction. Coady Diemar did not express any opinion as to the price or range of prices at which the Company's common stock may trade subsequent to the announcement of the split transaction.

Coady Diemar's Opinion is subject to the assumptions and conditions contained in its written Opinion and is necessarily based on economic, market and other conditions, and the information made available to it, as of the date of its Opinion, July 22, 2010. Events occurring after July 22, 2010, could materially affect the assumptions used in preparing, and the conclusions reached in, Coady Diemar's Opinion. Coady Diemar assumed no responsibility for updating, revising or reaffirming its Opinion based on circumstances or events occurring after the date of its Opinion, except to the extent expressly contemplated in its engagement letter with the Company dated May 4, 2010.

Coady Diemar, a Financial Industry Regulatory Authority (FINRA) member, as part of its investment banking services, is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, private placements, bankruptcy, capital restructuring, stock buybacks, and valuations for corporate and other purposes. Coady Diemar has received a non-contingent fee of \$75,000, plus reimbursement of out-of-pocket expenses, from EDCI relating to its services in providing the Opinion. EDCI has also agreed to indemnify Coady Diemar against certain liabilities with respect to Coady Diemar's services relating to the split transaction and the Opinion. Other than with respect to the split transaction, there are no material relationships that existed during the two years prior to the date of this Opinion or that are mutually understood to be contemplated in which any compensation was received or is intended to be received as a result of the relationship between Coady Diemar and any party to the split transaction.

Based upon the foregoing analyses and the assumptions and limitations set forth in the full text of Coady Diemar's Opinion, Coady Diemar is of the opinion that, as of the date of the Opinion, the Consideration to be received by the unaffiliated stockholders of EDCI whose fractional shares of common stock would be cashed out as part of the split transaction is fair, from a financial point of view, to such stockholders.

#### Structure of the Split Transaction

The proposed transaction has been structured as a two-step stock split transaction to allow small stockholders to immediately and efficiently obtain the fair value in cash for their shares, to avoid disruption to stockholders of 1,400 or more shares who would not be cashed out in the transaction, and to limit the costs of the split transaction by avoiding costs associated with cashing out the fractional shares of the holders of 1,400 or more shares of common stock and reissuing stock certificates to those stockholders.

The Board elected to structure the split transaction to take effect at the record stockholder level, meaning that the Company will look at the number of shares registered in the name of a single holder on the Company's records to determine if that holder's shares will be cashed out. Nevertheless, we intend to treat stockholders holding our common stock in street name in the same manner as our record stockholders. This means that, prior to the effective date of the split transaction, we will conduct an inquiry of all brokers, banks, and other nominees that hold shares of our common stock in street name, ask them to provide us with information on how many shares held by beneficial holders will be cashed out, and request that they effect the split transaction for those beneficial holders. However, these brokers, banks, and other nominees may have different procedures for processing the split transaction. Accordingly, if you hold your shares of common stock in street name, we encourage you to contact your broker, bank, or other nominee immediately.

#### Effects of the Split Transaction on the Company

The split transaction will have various effects on us, which are described below.

#### Effect of the Proposed Transaction on Common Stock and Trading of Common Stock

Our Certificate of Incorporation currently authorizes the issuance of 200,000,000 shares of common stock. The number of authorized shares of common stock will remain unchanged after completion of the split transaction. As of the record date, the number of outstanding shares of common stock was \_\_\_\_\_. Based on our best estimates, if the split transaction had been consummated as of the record date, the number of outstanding shares of common stock would have been reduced by approximately \_\_\_\_\_% from \_\_\_\_\_ to approximately \_\_\_\_\_, cash would have been paid for approximately \_\_\_\_\_ shares, and the number of record stockholders would have been reduced from approximately \_\_\_\_\_ to approximately \_\_\_\_\_.

Our common stock is publicly traded on the NASDAQ Capital Market under the symbol "EDCI," and we will not be able to trade our common stock on the NASDAQ after we become a private company. Our common stock may be quoted in the Pink Sheets electronic quotation system following the completion of the split transaction, although we cannot provide any guarantees in this regard.

### Termination of Securities Exchange Act Registration and Reporting Requirements

Upon the completion of the split transaction, we expect that our common stock will be held by fewer than 300 record stockholders. Accordingly, our obligation to continue to file periodic reports with the SEC will be suspended pursuant to Rule 12h-3 of the Exchange Act.

The suspension of these filing requirements will substantially reduce the information required to be furnished by us to our stockholders and to the SEC. Therefore, we will eliminate costs associated with these filing requirements, which we estimate to be approximately \$560,000 on an annual basis (or approximately \$1.3 million, or \$0.19 per share, through the completion of the Plan of Dissolution, which is expected to be in the first quarter of 2013). These annual costs are broken down as follows:

Description	Amount
Independent Auditors (SEC review work)	\$ 115,000
SEC Counsel	\$ 25,000
Staff and Executive Time	\$ 246,000
Printing, EDGAR, and Miscellaneous Costs	\$ 146,000
NASDAQ Listing Fees	\$ 28,000
<b>TOTAL</b>	<b>\$ 560,000</b>

We will apply for termination of the registration of our common stock and suspension of our SEC reporting obligations as soon as practicable following completion of the split transaction. Following completion of the split transaction, we intend to continue to provide our stockholders with financial information by continuing to disseminate annual reports and other periodic updates regarding our progress under the Plan of Dissolution, including financial information regarding our net assets in liquidation.

### Elimination of Non-Continuing Stockholders

As a result of the split transaction, all shares held by non-continuing stockholders will be converted into the right to receive \$3.44 per share in cash. As a result, the non-continuing stockholders will not have the opportunity to participate in future dividend payments, if any, or distributions of cash in accordance with our Plan of Dissolution, which may be greater or less than the cash-out consideration to be paid to non-continuing stockholders in the split transaction. In this regard, the non-continuing stockholders will not face the risk of any decline in the value of our net assets in liquidation after the split transaction. For more effects of the split transaction on our stockholders, see “– Fairness of the Split Transaction” above.

### Financial Effects of the Split Transaction

We expect that the split transaction will require approximately \$2.4 million in cash to complete. This includes approximately \$2.1 million to be paid to non-continuing stockholders in exchange for their shares, and approximately \$0.3 million in professional fees, printing and mailing costs, filing fees and EDGAR costs, and other expenses related to the split transaction. We do not anticipate that these expenditures will have any material adverse effect on the level of our net assets in liquidation. The amount to be paid to non-continuing stockholders may change as a result of trading activity in our shares between the date hereof and the effective date of the split transaction. In this connection, we have reserved up to \$4 million in the event additional stockholders are required to be cashed-out. See “– Fees and Expenses” below for a description of the fees and expenses we expect to incur in connection with the split

transaction. See “– Financing of the Split Transaction” below for a description of how the split transaction will be financed.

#### Effect on Stock Options

Upon the effectiveness of the split transaction, the number of shares of common stock subject to outstanding stock options under the Company’s stock option plans and the exercise prices of the options will remain the same.

### Effect on Conduct of Business After the Split Transaction

On January 7, 2010, our stockholders approved the voluntary dissolution and liquidation of EDCI pursuant to the Plan of Dissolution. As a result, we ceased all of our business activities except for those relating to winding up EDCI's business and affairs during a minimum three-year period required under Delaware law. After the split transaction is completed, we expect to continue the liquidation of our assets and the winding-up of our business affairs under the Plan of Dissolution, and the split transaction is not anticipated to have any effect upon this process. No changes in our directors or executive officers are anticipated to result from the split transaction.

### Dividend Payments

Historically, we have not paid cash dividends on our common stock. However, our principal subsidiary, EDC, is currently examining the possibility of making a dividend distribution from EDC's German subsidiaries to EDC. Such a dividend remains subject to the future operating performance of EDC's German subsidiaries and compliance with German law, and the corresponding distribution of any cash from EDC to EDCI is subject to additional security obligations and additional U.S. legal considerations. At this time, EDCI is unable to provide any assurances that such a dividend distribution will be made, or, even if the distribution is made, that EDCI will elect to pay a corresponding special dividend to its stockholders in respect of such distribution. However, if the split transaction is completed and we elect to pay a dividend to our stockholders, whether in respect of any distribution from our German subsidiaries or otherwise, those stockholders who are cashed-out in the split transaction prior to the declaration of any such dividend will not receive any dividend payment.

### Plans or Proposals

Over the past 24 months, with the assistance of a financial advisor, we have explored various strategic acquisition alternatives with respect to our EDC subsidiary which, to date, have not resulted in the consummation of any transaction. Apart from alternatives with respect to EDC, the Company has not engaged in serious negotiations with any potential merger parties and is not engaged in any discussions with such parties at this time. Pursuant to the Plan of Dissolution, we will continue to seek value for our investment in EDC, but we are unable to provide any assurance that our efforts in this regard will be successful. In particular, the cooperation of Universal, EDC's largest customer, is critical to any sale of EDC's German subsidiaries 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 with any such transaction. As a result, any transaction involving the sale of EDC's German subsidiaries in the near term is unlikely. If we continue to own any interest in EDC at the end of the three year dissolution period under Delaware law, we anticipate transferring such interests to a liquidating trust, for the benefit of our stockholders.

Other than carrying-out our Plan of Dissolution and as described above with respect to EDC, neither we nor our management has any current plans or proposals to effect any extraordinary corporate transaction, either with respect to the Company or our principal subsidiaries, such as a merger or reorganization, to sell or transfer any material amount of our assets, to change either our Board of Directors or management, to change materially our indebtedness or capitalization, or otherwise to effect any material change in our corporate structure or business or that of our subsidiaries. Although our management does not presently have any intent to enter into any transaction described above, nor is our management in negotiations with respect to any such transaction, there is always a possibility that we may enter into such an arrangement or transaction in the future, including, but not limited to, entering into a merger transaction or any other arrangement or transaction we may deem appropriate. In such event, our continuing stockholders may receive payment for their shares in any such transaction lower than, equal to, or in excess of the amount paid to the non-continuing stockholders in the split transaction. Any acquisition strategy is dependent upon



the opportunities that might arise, and there can be no certainty that any such transactions will occur.

#### Interests of Certain Persons in the Split Transaction

It is not anticipated that the split transaction will have any effect on the directors and executive officers of the Company, other than with respect to their relative share ownership. We expect that all of our directors and executive officers who presently own shares will either hold more than 1,400 shares, or will hold shares only in a nominee name aggregating to 1,400 or more shares. Therefore, all directors and executive officers who presently own shares will continue to own shares after the split transaction.

Because total outstanding shares will be reduced, the executive officers and directors as a group will hold a larger relative percentage ownership of the Company. As of the record date, these directors and executive officers collectively beneficially held 397,527 shares (excluding 90,053 unexercised options), or 5.9% of our common stock (or 7.24% including unexercised options). Based upon our estimates, taking into account the effect of the split transaction on our outstanding shares as described above, the directors and executive officers will beneficially hold 6.5% of our common stock (excluding unexercised options) following the split transaction (or 7.95% including unexercised options).

This represents a potential conflict of interest because the directors of the Company approved the split transaction and are recommending that you approve it. Despite this potential conflict of interest, the Board believes the proposed split transaction is fair to our unaffiliated stockholders for the reasons discussed in this proxy statement.

### Financing of the Split Transaction

The Company expects that the split transaction will require approximately \$2.4 million in cash, which includes approximately \$2.1 million to be paid to non-continuing stockholders in exchange for their shares and approximately \$0.3 million in professional fees, printing and mailing costs, filing fees and EDGAR costs, and other expenses payable by us related to the split transaction. See “– Fees and Expenses” below for a breakdown of the expenses associated with the split transaction. The amount payable to non-continuing stockholders may change as a result of trading activity in our shares between the date hereof and the effective date of the split transaction. In this connection, we have reserved up to \$4 million in the event additional stockholders are required to be cashed-out. We intend that the payments to the non-continuing stockholders and the costs of the split transaction will be paid from the Company’s cash-on-hand.

### Material Federal Income Tax Consequences of the Split Transaction

This section discusses the material federal income tax consequences to us and our stockholders that would result from the split transaction. No opinion of counsel or ruling from the Internal Revenue Service has been sought or obtained with respect to the tax consequences of the split transaction, and the conclusions contained in this summary are not binding on the Internal Revenue Service. This discussion is based on existing U.S. federal income tax law, which may change, even retroactively. This discussion does not discuss all aspects of federal income taxation that may be important to you in light of your individual circumstances. In particular, it does not address the federal income tax considerations applicable to certain types of stockholders, such as: financial institutions; insurance companies; tax-exempt organizations; dealers in securities or currency; traders in securities that elect mark-to-market; persons who hold our common stock as part of a straddle, hedge, risk reduction, constructive sale, or conversion transaction; persons who are considered foreign persons for U.S. federal income tax purposes, or who acquired their shares of the Company common stock through the exercise of an employee stock option or otherwise as compensation. In addition, this discussion does not address any state, local, foreign, or other tax considerations. This discussion also assumes that you have held and, in the case of continuing stockholders will continue to hold, your shares as capital assets within the meaning of the Code. Stockholders are encouraged to consult their own tax advisor as to the particular federal, state, local, foreign, and other tax consequences of the split transaction, in light of their individual circumstances.

The Company. The split transaction will constitute a tax-free “recapitalization” for federal income tax purposes, within the meaning of Section 368(a)(1)(E) of the Code, meaning that the Company will not recognize any gain or loss with respect to the transaction.

**Affiliated and Unaffiliated Stockholders Who Receive No Cash.** If you continue to hold Company common stock immediately after the split transaction, and you receive no cash as a result of the split transaction, then you will not recognize any gain or loss or dividend income in connection with the transaction and you will have the same adjusted tax basis and holding period in your Company common stock as you had in such stock immediately prior to the split transaction.

**Affiliated and Unaffiliated Stockholders Who Receive Cash.** If you receive cash as a result of the split transaction and do not continue to hold shares of the Company common stock immediately after the split transaction, you will be treated as having had your shares redeemed by the Company and you will recognize gain or loss on the redeemed shares equal to the difference between the cash and your adjusted tax basis in the redeemed shares. Any recognized gain will be treated as capital gain unless the receipt of cash is deemed to have the effect of

a dividend under Section 302 of the Code, in which case the gain will be treated: (a) first, as a taxable dividend to the extent of your allocable share of the Company's accumulated earnings and profits, if any; (b) second, as a tax-free return of capital to the extent of your adjusted tax basis in the redeemed shares; and (c) finally, any remaining amount as capital gain. Under the principles of Section 302, you will recognize capital gain rather than dividend income with respect to the cash received if the redemption is (1) "not essentially equivalent to a dividend," (2) is "substantially disproportionate," or (3) is a "complete termination" of your interest in the Company. In applying the principles of Section 302, the constructive ownership rules of Section 318 of the Code will apply in determining your ownership interest in the Company. Whether a redemption by the Company is "not essentially equivalent to a dividend" with respect to you will depend on whether the redemption was a "meaningful reduction" of your interest in the Company based on the facts and circumstances. For example, if (1) you exercise no control over the affairs of the Company (e.g., you are not an officer, director, or high ranking employee), (2) your relative stock interest in the Company is minimal, and (3) your post-split transaction ownership percentage is less than your pre-split transaction ownership percentage, then your receipt of cash would be generally regarded as "not essentially equivalent to a dividend." A redemption would be "substantially disproportionate" and, therefore, would not have the effect of a distribution of a dividend with respect to you if the percentage of the Company shares of common stock actually and constructively owned by you immediately after the redemption is less than 80% of the percentage of all shares of the Company common stock actually and constructively owned by you immediately before the redemption. Your interest in the Company is "completely terminated" if all of the shares of Company common stock actually and constructively owned by you are redeemed, unless you make a waiver of family attribution election and file it with the Internal Revenue Service pursuant to Section 302(c) of the Code, in which case the Company common stock constructively owned by you does not have to be redeemed.

Any capital gain will be treated as a long-term capital gain if, as of the date of the exchange, the holding period for your Company shares is greater than one year. Any gain recognized by you and classified as a dividend under Section 302 of the Code will be treated as either ordinary income or qualified dividend income. Any gain treated as qualified dividend income will be taxable to you, if you are an individual stockholder, at the long-term capital gains rate, provided that you held the shares giving rise to such income for more than 61 days during the 121 day period beginning 60 days before the closing date. Gain treated as ordinary income will be taxed at ordinary income rates.

In all other cases, if you receive cash in lieu of a fractional share of the Company common stock, and immediately after the split transaction you constructively own shares of the Company common stock, the cash you receive will be treated: (1) first, as a taxable dividend to the extent of your ratable share of the Company's accumulated earnings and profits; (2) then, if the total amount of cash paid in the split transaction exceeds the Company's accumulated earnings and profits, as a tax-free return of capital to the extent of your adjusted tax basis in the redeemed shares; and (3) finally, to the extent of the cash in excess of your adjusted tax basis in the redeemed shares, as capital gain from the sale or exchange of the redeemed shares.

Payments of cash to you for the surrender of your redeemed shares of the Company common stock will be subject to information reporting and "backup" withholding at a rate of 28% of the cash payment, unless you furnish the Company with your taxpayer identification number in the manner prescribed in applicable Treasury Regulations, certify that such number is correct, certify as to no loss of exemption from backup withholding, and satisfy certain other conditions. Backup withholding is not an additional tax. Any amounts withheld from payments to you under the backup withholding rules will be allowed as a refund or credit against your United States federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

As explained above, the amounts paid to you as a result of the split transaction may result in dividend income, capital gain income, or some combination of dividend and capital gain income to you depending on your individual circumstances. The foregoing discussion of material United States federal income tax consequences of the split transaction represents general information only and is based upon the Code, its legislative history, existing and

proposed regulations thereunder, published rulings and decisions, all as currently in effect as of the date hereof, and all of which are subject to change, possibly with retroactive effect. You should consult your tax advisor as to the particular federal, state, local, foreign, and other tax consequences of the split transaction, as well as the applicability of the alternative minimum tax to you, in light of your specific circumstances.

#### Appraisal or Dissenters' Rights

No appraisal or dissenters' rights are available under Delaware law, our Certificate of Incorporation, or our bylaws to stockholders who dissent from the split transaction. There may exist other rights or actions under

Delaware law or federal or state securities laws for stockholders who can demonstrate that they have been damaged by the split transaction. Although the nature and extent of these rights or actions are uncertain and may vary depending upon facts or circumstances, stockholder challenges to corporate actions in general are related to the fiduciary responsibilities of corporate officers and directors and to the fairness of corporate transactions.

#### Regulatory Requirements

In connection with the split transaction, we will be required to make a number of filings with various federal and state governmental agencies, including:

- filing of amendments to the Company’s Certificate of Incorporation with the Delaware Secretary of State, in accordance with Delaware law; and
- complying with federal and state securities laws, including filing this proxy statement on Schedule 14A and a transaction statement on Schedule 13E-3 with the SEC.

#### Accounting Treatment

We anticipate that we will account for the split transaction by treating the shares repurchased in the split transaction as shares that are cancelled and restored to the status of authorized but unissued shares.

#### Fees and Expenses

We will be responsible for paying the fees and expenses related to the split transaction, consisting primarily of fees and expenses of our financial advisor, attorneys, printing and mailing costs, filing fees and EDGAR costs, and other related charges. We estimate that our expenses will total approximately \$300,000, assuming the split transaction is completed. This amount consists of the following estimated fees:

Description	Amount
Coady Diemar fees and expenses	\$ 75,000
Legal fees and expenses	\$ 150,000
Paying agent fees and expenses	\$ 20,000
Printing and mailing costs	\$ 30,000
Filings fees and EDGAR charges	\$ 10,000
Miscellaneous expenses	\$ 15,000
<b>TOTAL</b>	<b>\$ 300,000</b>

## SELECTED HISTORICAL AND PRO FORMA FINANCIAL DATA

The following tables set forth certain financial and other data of EDCI as of and for the periods indicated. The summary financial information presented below is derived in part from EDCI's consolidated financial statements. The following is only a summary and you should read it in conjunction with EDCI's consolidated financial statements and notes included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2009, which information is incorporated by reference herein in its entirety. Our Form 10-K for the year ended December 31, 2009 may be viewed on our website at <http://edcih.com> or at <http://www.sec.gov>, or, if you request in writing, we will send you a copy of the Form 10-K. The information as of and for each of the two years ended December 31, 2009 and 2008 is derived in part from the audited consolidated financial statements of EDCI included in our Form 10-K for the year ended December 31, 2009. The information as of and for the three and six months ended June 30, 2010 is derived in part from our unaudited consolidated interim financial statements prepared using the liquidation basis of accounting included in our Form 10-Q for the quarter ended June 30, 2010. The information for the three and six months ended June 30, 2009 is derived in part from our unaudited consolidated interim financial statements included in our Form 10-Q for the quarter ended June 30, 2009. In the opinion of EDCI's management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the net assets of EDCI in liquidation have been made.

The following pro forma data regarding net assets in liquidation is based on historical data, adjusted to give effect to the cash payment for fractional shares resulting from the split transaction and the payment of accrued expenses related to the transaction. The pro forma net assets in liquidation data is presented based on the assumption that an aggregate of 600,000 shares will be converted into fractional shares as a result of the split transaction and will be cashed-out for approximately \$2.1 million, with \$0.3 million in expenses related to the transaction incurred as of June 30, 2010.

## Unaudited Interim Consolidated Statement of Changes in Net Assets in Liquidation (Liquidation Basis)

(Dollars in thousands)	For the Three Months Ended June 30, 2010	For the Six Months Ended June 30, 2010 (unaudited)
Net assets in liquidation – beginning of period	\$36,260	\$56,857
Increase (decrease) in net assets in liquidation:		
Adjustment to reserve for certain tax positions	2,312	2,312
Adjustment to liquidation accrual	(1,052)	(1,052)
Other	849	1,331
Exercise of stock options	–	76
Distributions to stockholders	–	(21,000)
Effect of foreign currency translation	330	175
Changes in net assets in liquidation	\$2,439	\$(18,158)
Net assets in liquidation – June 30, 2010	\$38,699	\$38,699





## Selected Unaudited Interim Consolidated Net Assets in Liquidation Data (Liquidation Basis)

(Dollars in thousands, except share and per share data)	As of June 30, 2010 (unaudited)
Total assets	\$ 100,685
Total liabilities	61,840
Noncontrolling interest at estimated value	146
Total liabilities and noncontrolling interest	61,986
Net assets in liquidation	\$ 38,699
Net assets in liquidation per common share (basic)	\$ 5.75
Net assets in liquidation per common share (diluted)	\$ 5.75
Basic weighted average number of common shares outstanding	6,729,076
Diluted weighted average number of common shares outstanding	6,729,076

## Unaudited Pro Forma Condensed Consolidated Statement of Net Assets in Liquidation (Liquidation Basis)

As of June 30, 2010

(Dollars in thousands)	Historical	Pro Forma Adjustments	Pro Forma
<b>ASSETS</b>			
Cash and cash equivalents	\$ 68,347	\$(2,365 )	\$ 65,982
Restricted cash	2,846		2,846
Investments	870		870
Accounts receivable, net	6,378		6,378
Employee benefit receivable from Universal	1,688		1,688
Inventories, net	3,593		3,593
Prepaid expenses and other current assets	8,705		8,705
Deferred income taxes	1,858		1,858
Assets held for sale	6,400		6,400
Total assets	\$ 100,685	\$(2,365 )	\$ 98,320
<b>LIABILITIES AND NET ASSETS IN LIQUIDATION</b>			
Accounts payable	\$ 6,593		