EASTERN AMERICAN NATURAL GAS TRUST
Form 10-Q
November 09, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

ý **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2009

OR

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

For the transition period from to
Commission File Number 1-11748

EASTERN AMERICAN NATURAL GAS TRUST

(Exact name of registrant as specified in its charter)

Delaware	**36-7034603**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

The Bank of New York Mellon Trust Company, N.A, Trustee
Global Corporate Trust
919 Congress Avenue Suite 500
Austin, Texas
(Address of principal executive offices)

78701
(Zip Code)

(800) 852-1422
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of November 3, 2009, 5,900,000 Units of Beneficial Interest in Eastern American Natural Gas Trust were issued, outstanding and held by non-affiliates of the registrant (the "Outstanding Units"). Of the Outstanding Units, 286,650 Units of Beneficial Interest (the "Withdrawn Units") have been withdrawn from trading by voluntary action of Holders and may not be traded unless such Holders comply with certain requirements provided in the related Trust Agreement.

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

EASTERN AMERICAN NATURAL GAS TRUST

CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME

(unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Royalty Income	$ 6,761,212	$ 13,207,336	$ 2,040,357	$ 4,980,328
Operating Expenses				
Taxes on Production and Property	516,063	971,482	158,245	365,031
Operating Cost Charges	512,957	463,173	162,112	154,391
Total Operating Expenses	1,029,020	1,434,655	320,357	519,422
Net Proceeds to the Trust	5,732,192	11,772,681	1,720,000	4,460,906
General and Administrative Expenses	732,076	741,430	157,703	159,325
Distributable Income	5,000,116	11,031,251	1,562,297	4,301,581
Distribution Amount	$ 5,000,116	$ 11,031,251	$ 1,562,297	$ 4,301,581
Distributable Income per Unit (5,900,000 units authorized and outstanding)	$ 0.8475	$ 1.8697	$ 0.2648	$ 0.7291
Distribution Amount per Unit (5,900,000 units authorized and outstanding)	$ 0.8475	$ 1.8697	$ 0.2648	$ 0.7291

The accompanying notes are an integral part of these unaudited condensed financial statements.

EASTERN AMERICAN NATURAL GAS TRUST

CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS

(Unaudited)

	September 30, 2009	December 31, 2008
Assets:		
Cash	$ 164,023	$ 121,173
Net Proceeds Receivable	1,746,621	3,383,989
Net Profits Interests in Gas Properties	93,162,180	93,162,180
Accumulated Amortization	(75,875,510)	(74,097,304)
	17,286,670	19,064,876
Total Assets	$ 19,197,314	$ 22,570,038
Liabilities and Trust Corpus:		
Trust General and Administrative Expenses Payable	$ 148,347	$ 286,764
Distributions Payable	1,562,297	3,018,398
Trust Corpus (5,900,000 units authorized and outstanding)	17,486,670	19,264,876
Total Liabilities and Trust Corpus	$ 19,197,314	$ 22,570,038

The accompanying notes are an integral part of these unaudited condensed financial statements.

EASTERN AMERICAN NATURAL GAS TRUST

CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS

(unaudited)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Trust Corpus, beginning of period	$ 19,264,876	$ 21,823,160
Distributable Income	5,000,116	11,031,251
Distributions Payable to Unitholders	(5,000,116)	(11,031,251)
Amortization of Net Profits Interests in Gas Properties	(1,778,206)	(1,924,428)
Trust Corpus, end of period	$ 17,486,670	$ 19,898,732

The accompanying notes are an integral part of these unaudited condensed financial statements.

EASTERN AMERICAN NATURAL GAS TRUST

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 1. Organization of the Trust

The Eastern American Natural Gas Trust (the "Trust") was formed under the Delaware Business Trust Act pursuant to a Trust Agreement (the "Trust Agreement") among Eastern American Energy Corporation ("Eastern American"), as grantor; Bank of Montreal Trust Company, as Trustee; and Wilmington Trust Company, as Delaware Trustee (the "Delaware Trustee"). Effective May 8, 2000, The Bank of New York acquired the corporate trust business of the Bank of Montreal Trust Company / Harris Trust, and consequently, The Bank of New York served as trustee of the Trust. On November 20, 2004, the holders of a majority of the Trust Units voting at a special meeting approved the resignation of The Bank of New York as trustee and depository of the Trust and the appointment of JPMorgan Chase Bank, N.A. as successor trustee of the Trust, effective as of January 1, 2005. Effective October 2, 2006, The Bank of New York Trust Company, N. A. replaced JPMorgan Chase Bank, N.A. as trustee in connection with the sale by JPMorgan Chase Bank of substantially all of its corporate trust business to The Bank of New York. Consequently, references herein to the "Trustee" mean Bank of Montreal Trust Company until May 8, 2000; The Bank of New York as successor Trustee from May 8, 2000 through December 31, 2004; JPMorgan Chase Bank, N.A. as successor Trustee from January 1, 2005 through October 2, 2006; and The Bank of New York Trust Company, N.A. (now known as The Bank of New York Mellon Trust Company, N.A.) as successor Trustee, effective as of October 2, 2006. The transfer agent for the Trust is Bondholder Communications, an affiliate of The Bank of New York Mellon Trust Company, N.A.

The Trust was formed to acquire and hold net profits interests (the "Net Profits Interests") created from the working interests owned by Eastern American in 650 producing gas wells and 65 proved development well locations (the "Development Wells") in West Virginia and Pennsylvania (the "Underlying Properties").

On March 15, 1993, 5,900,000 Depositary Units were issued in a public offering at an initial public offering price of $20.50 per Depositary Unit. Each Depositary Unit consists of beneficial ownership of one unit of beneficial interest ("Trust Unit") in the Trust and a $20 face amount beneficial ownership interest in a $1,000 face amount zero coupon United States Treasury Obligation ("Treasury Obligation") maturing on May 15, 2013. The financial statements of the Trust to which these notes relate do not include information concerning the Treasury Obligations, the beneficial interest in which is held for the Unitholders by the Depositary.

The Net Profits Interests are passive in nature, and neither the Trustee nor the Delaware Trustee has management control or authority over, nor any responsibility relating to, the operation of the properties subject to the Net Profits Interests. The Trust Agreement provides, among other things, that the Trust shall not engage in any business or commercial activity or acquire any asset other than the Net Profits Interests initially conveyed to the Trust; the Trustee may establish a reserve for payment of any liability that is contingent, uncertain in amount or is not currently due and payable; the Trustee is authorized to borrow funds required to pay liabilities of the Trust, provided that such borrowings are repaid in full prior to further distributions to Unitholders; and the Trustee will make quarterly cash distributions to Unitholders from funds of the Trust.

After the Trust was formed, 59 of the 65 Development Wells were drilled and completed. The remaining six Development Wells were not drilled. Clear title to two of the Development Wells could not be established, and they were excluded from the Trust in accordance with the conveyance transferring them to the Trust. Eastern American asserted that the remaining four undrilled Development Wells, if drilled, would be too close to then existing wells on adjoining property, and

EASTERN AMERICAN NATURAL GAS TRUST

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

NOTE 1. Organization of the Trust (Continued)

thereafter settled its dispute with the Trust about drilling those four Development Wells by agreeing instead to pay the Trust on an annual basis, commencing on April 1, 1997 and over the remaining life of the Trust for the annual volume of gas projected to be produced from those Development Wells as if they had been drilled.

The Net Profits Interests initially consisted of a royalty interest ("Royalty NPI") in 322 wells and a term interest ("Term NPI") in the remaining wells and locations. As of September 30, 2009, the Trust held Net Profits Interests in 670 wells, consisting of Royalty NPI in 317 wells and Term NPI in the remaining wells. The Term NPI expire by their terms on May 15, 2013, or such earlier time as 41,683 MMcf of gas has been produced that is attributable to Eastern American's net revenue interest in the properties burdened by the Term NPI. As of December 31, 2008, based on the Independent Petroleum Engineer's Report, 24,786 MMcf of the maximum 41,683 MMcf had been produced.

Between May 15, 2012 and May 15, 2013 (the "Liquidation Date"), the Trustee is required to sell all the Royalty NPI and liquidate the Trust. Under the Trust Agreement, Eastern American has the right of first refusal to purchase any of the Royalty NPI the Trustee is required to sell after the Liquidation Date. If it exercises this right, Eastern American must pay the appraised Fair Value (as defined in the Trust Agreement) of the Royalty NPI, or the relevant third party offer price if a third party has offered to purchase the Royalty NPI. Unitholders of record on the relevant record dates will receive the net proceeds from selling the Royalty NPI in accordance with the Trust Agreement, and also will receive their respective share of the matured face amount of the Treasury Obligations held by the Depositary.

NOTE 2. Basis of Presentation

The preparation of financial statements requires the Trust to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Without limiting the foregoing statement, the information furnished is based upon certain estimates of the revenues attributable to the Trust from natural gas production for the three and nine month periods ended September 30, 2009 and is therefore subject to adjustment in future periods to reflect actual production for the periods presented.

The information furnished reflects all adjustments which are, in the opinion of the Trustee, necessary for a fair presentation of the results for the interim periods presented. The accompanying unaudited interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Trust's Annual Report on Form 10-K for the year ended December 31, 2008. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

NOTE 3. Recently Adopted Accounting Standards

In May 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC 855, Subsequent Events ("ASC 855"). ASC 855 establishes principles and standards related to the accounting for and disclosure of events that occur after the date of the balance sheet included in financial statements being presented, but before such financial statements are issued. ASC 855 requires an entity to recognize, in the financial statements, subsequent events that provide additional information

EASTERN AMERICAN NATURAL GAS TRUST

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

NOTE 3. Recently Adopted Accounting Standards (Continued)

regarding conditions that existed at the balance sheet date. Subsequent events that provide information about conditions that did not exist at the balance sheet date are not to be recognized in the financial statements under ASC 855. ASC 855 is effective for interim and annual reporting periods ending after June 15, 2009. The Trust adopted this standard effective as of June 30, 2009. The adoption of ASC 855 did not have a material effect on the Trust's financial statements.

In June 2009, the FASB issued a statement that establishes the FASB Accounting Standards Codification as the source of authoritative U.S. generally accepted accounting principles (U.S. GAAP). The Codification, which changes the referencing of financial standards, became effective for our third quarter 2009 financial statements. The Codification did not change or alter existing U.S. GAAP.

NOTE 4. Significant Accounting Policies

The financial statements of the Trust differ from financial statements prepared in accordance with accounting principles generally accepted in the United States of America due to the following: (i) certain cash reserves may be established for contingencies which were not accrued in the financial statements; (ii) amortization of the Net Profits Interests in Gas Properties is charged directly to Trust Corpus; and (iii) the sale of the Net Profits Interests, if any, is reflected in the Statements of Distributable Income as Cash Proceeds on Sale of Net Profit Interests to the Trust.

Most accounting pronouncements apply to entities whose financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Because the Trust's financial statements are prepared on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, as described above, most accounting pronouncements are not applicable to the Trust's financial statements.

Revenue and Expenses:

The Trust serves as a pass-through entity, with items of depletion, interest income and expense, and income tax attributes being based upon the status and election of the Unitholders. Thus, the Statements of Distributable Income purport to show Distributable Income, defined as Trust income available for distribution to Unitholders before application of those Unitholders' additional expenses, if any, for depletion, interest income and expense, and income taxes.

The Trust uses the accrual basis to recognize revenue, with Royalty Income recorded as reserves are extracted from the Underlying Properties and sold. Expenses are also recognized on an accrual basis. Operating expenses, which include Taxes on Property and Production and Operating Cost Charges, are recognized as incurred pursuant to the Conveyances on a per well production basis. The payment provisions of the Gas Purchase Contract between the Trust and Eastern Marketing Corporation ("Eastern Marketing"), a wholly owned subsidiary of Eastern American, require payment with respect to gas production for a calendar quarter to be made to the Trust on or before the tenth day of the third month following such quarter.

Net Profits Interests in Gas Properties:

The Net Profits Interests in gas properties are assessed to determine whether their net capitalized cost is impaired, whenever events or changes in circumstances indicate that its carrying amount may not be recoverable, pursuant to FASB Accounting Standards Codification 360, Property, Plant and

EASTERN AMERICAN NATURAL GAS TRUST

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

NOTE 4. Significant Accounting Policies (Continued)

Equipment ("ASC 360"). The Trust will determine if a writedown is necessary to its investment in the Net Profits Interests in gas properties to the extent that total capitalized costs, less accumulated amortization, exceed undiscounted future net revenues attributable to proved gas reserves of the Underlying Properties. The Trust will then provide a writedown to the extent that the net capitalized costs exceed the fair value of the investment in net profits interests attributable to proved gas reserves of the Underlying Properties. Any such writedown would not reduce Distributable Income, although it would reduce Trust Corpus. No impairment in the Underlying Properties was recognized during the three and nine month periods ended September 30, 2009.

Significant dispositions or abandonment of the Underlying Properties are charged to Net Profits Interests and the Trust Corpus.

Amortization of the Net Profits Interests in gas properties is calculated on a units-of-production basis, whereby the Trust's cost basis in the properties is divided by total Trust proved reserves to derive an amortization rate per reserve unit. Such amortization does not reduce Distributable Income, rather it is charged directly to Trust Corpus. Revisions to estimated future units-of-production are treated on a prospective basis beginning on the date significant revisions are known.

The conveyance of the Royalty and Term Interests to the Trust was accounted for as a purchase transaction. The $93,162,180 reflected in the Statements of Assets, Liabilities and Trust Corpus as Net Profits Interests in Gas Properties represents 5,900,000 Trust Units valued at $20.50 per depository unit less the $27,787,820 paid for Treasury obligations. The carrying value of the Trust's investment in the Royalty Interests is not necessarily indicative of the fair value of such Royalty Interests.

NOTE 5. Income Taxes

The Trust is a grantor trust and is not required to pay federal or state income taxes. Accordingly, no provision for federal or state income taxes has been made. All income is taxed to the Unitholders of the Trust.

NOTE 6. Subsequent Events

Management evaluated all activity of the Trust through November 9, 2009 and concluded that no subsequent events have occurred that would require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement

This Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact included in this Form 10-Q, including without limitation the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements. Although Eastern American has advised the Trustee that it believes that the expectations reflected in the forward-looking statements contained herein are reasonable, no assurance can be given that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from expectations ("Cautionary Statements") are disclosed in this Form 10-Q and in the Trust's Annual Report on Form 10-K for the year ended December 31, 2008 and include the fact that the Trust, the Trustee or Eastern American is not able to predict future changes in gas prices, gas production levels, economic activity, legislation or regulation, or certain changes in expenses of the Trust. All subsequent written and oral forward-looking statements attributable to the Trust or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements. The Trust, the Trustee and Eastern American disclaim any obligation to update any forward-looking statements.

General

The Trust does not conduct any operations or activities. The Trust's purpose is, in general, to hold the Net Profits Interests, to distribute the cash proceeds to Unitholders which the Trust receives in respect of the Net Profits Interests (net of Trust expenses), and to perform certain administrative functions in respect of the Net Profits Interests and the Depositary Units. Accordingly, the Trust derives substantially all of its income and cash flows from the Net Profits Interests. The Trust has no source of liquidity or capital resources other than the cash flows from the Net Profits Interests.

The Net Profits Interests were created pursuant to conveyances (the "Conveyances") from Eastern American to the Trust. In connection therewith, Eastern American assigned its rights under a gas purchase contract (the "Gas Purchase Contract"), which obligates Eastern Marketing Corporation, a subsidiary of Eastern American, to purchase all of the natural gas produced from the Underlying Properties that is attributable to the Net Profits Interests.

The Conveyances and the Gas Purchase Contract entitle the Trust to receive an amount of cash for each calendar quarter equal to the Net Proceeds for such quarter. "Net Proceeds" for any calendar quarter generally means an amount of cash equal to (a) 90% of a volume of gas equal to (i) the volume of gas produced during such quarter attributable to the Underlying Properties less (ii) a volume of gas equal to "Chargeable Costs" for such quarter, multiplied by (b) the applicable price for such quarter under the Gas Purchase Contract. "Chargeable Costs" is that volume of gas which equates in value, determined by reference to the relevant sales price under the Gas Purchase Contract or the Conveyances, as applicable, to the sum of the "Operating Cost Charge", "Capital Costs" and "Taxes".

The "Operating Cost Charge" for 2009 is based on an annual rate of $648,448, and 2008 was based on an annual rate of $617,564. As provided in the Conveyances, the Operating Cost Charge will fluctuate based on the lesser of (A) five percent (5%) or (B) a percentage, not less than zero percent (0%), equal to the percentage increase, if any, in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year, as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers, as published by the United States Department of Labor, Bureau of Labor Statistics, based on a December-to-December comparison.

During 2003, the United States Department of Labor, Bureau of Labor Statistics converted all of its industry-based statistics to a different reporting system that was developed in cooperation with the

United States' North American Free Trade Agreement Partners, Canada and Mexico, in an effort to standardize and modernize reporting codes. As a result of this conversion, the Crude Petroleum and Gas Production Workers index is no longer available for use in the annual calculation of overhead adjustment called for in the various Council of Petroleum Accountants Societies, or COPAS, model forms after March 2003.

Research by COPAS covering a ten year period indicated that by blending the Oil and Gas Extraction Index with the Professional and Technical Services Index, the results approximate the data from the old Crude Petroleum and Natural Gas Workers Index. Accordingly, COPAS has calculated the percentage change in the simple average of the Oil and Extraction Index and the Professional and Technical Services Index, commencing in April 2004. This "Overhead Adjustment Index" has been provided as a guidance to the industry as a replacement index for use in calculating the overhead adjustment. The adjustment for the effective time period is 5.0%. Since the Conveyance Documents do not specifically provide for a replacement index if the Crude Petroleum and Gas Production Workers Index was no longer published, Eastern American believes, and advised the Trustee, that the "Overhead Adjustment Index" as calculated by COPAS is a reasonable index to utilize since the industry is generally adopting the same as a replacement. Eastern American, with the concurrence of the Trustee, will utilize this "Overhead Adjustment Index" to adjust the "Operating Cost Charge" so long as such index is published by COPAS.

The Operating Cost Charge will be reduced for each well that is sold (free of the Net Profits Interests) or plugged and abandoned. Capital Costs are defined as Eastern American's working interest share of capital costs for operations on the Underlying Properties having a useful life of at least three years, and excluding any capital costs incurred in drilling the Development Wells. Taxes refer to ad valorem taxes, production and severance taxes, and other taxes imposed on Eastern American's or the Trust's interests in the Underlying Properties, or production therefrom.

Pursuant to the Gas Purchase Contract, Eastern Marketing is obligated to purchase such gas production at a purchase price per Mcf equal to the Index Price. The Index Price for any quarter is determined solely by reference to the Variable Price component. The Variable Price for any quarter is equal to the Henry Hub Average Spot Price (as defined) per MMBtu plus $0.30 per MMBtu, multiplied by 110% to effect a fixed adjustment for Btu content. The Henry Hub Average Spot Price is defined as the price per MMBtu determined for any calendar quarter equal to the price obtained with respect to each of the three months in such quarter, in the manner specified below, and then taking the average of the prices determined for each of such three months. The price determined for any month of such quarter is equal to the average of (i) the final settlement price per MMBtu for Henry Hub Gas Futures Contracts (as defined), as reported in *The Wall Street Journal*, for such contracts which expired in each of the five months prior to such month; (ii) the final settlement price per MMBtu for Henry Hub Gas Futures Contracts, as reported in *The Wall Street Journal*, for such contracts which expire during such month; and (iii) the closing settlement price per MMBtu of Henry Hub Gas Futures Contracts determined as of the contract settlement date for such month, as reported in *The Wall Street Journal*, for such contracts which expire in each of the six months following such month. A Henry Hub Gas Futures Contract is defined as a gas futures contract for gas to be delivered to the Henry Hub that is traded on the New York Mercantile Exchange.

Accordingly, the Index Price payable to the Trust for production may be higher or lower based on the fluctuations in natural gas futures prices during the relevant calculation period. The price payable to the Trust will have a direct impact, positively or negatively, on the quarterly Distributions Payable by the Trust to its Unitholders.

Eastern American had a disagreement with the Trust over Eastern American's obligation to drill certain Development Wells that were closely offset by third parties. The Trust agreed that in lieu of drilling these closely offset Development Wells, Eastern American could provide the Trust, on an

annual basis commencing on April 1, 1997, and over the remaining life of the Trust, a volume of gas which is equal to the projected volumes of the wells as if they had been drilled. These volumes have been estimated by Ryder Scott Company, independent petroleum engineers. During the quarter ended September 30, 2009, payment for an additional volume of 3,018 Mcf was delivered to the Trust, as compared to a payment for 3,263 Mcf for the quarter ended September 30, 2008. These additional payments fulfill Eastern American's agreement to provide payment for volumes for Development Wells that had been closely offset by third parties.

Eastern American has fulfilled its obligation with respect to the drilling of the Development Wells. Since the inception of the Trust, Eastern has drilled a total of 59 Development Wells, which are online and producing. (See the Trust's Annual Report on Form 10-K for the year ended December 31, 2008, for a more complete description of the Development Wells.)

Over the remaining life of the Trust, wells may be disposed of from time to time in accordance with the documents governing the Trust.

The administrative costs the Trust incurs in the future will fluctuate depending primarily on the expenses the Trust incurs for professional services, particularly legal, accounting and engineering services.

Critical Accounting Policies

The following is a summary of the critical accounting policies followed by the Trust.

Basis of Accounting:

The financial statements of the Trust differ from financial statements prepared in accordance with accounting principles generally accepted in the United States of America due to the following: (i) certain cash reserves may be established for contingencies which were not accrued in the financial statements; (ii) amortization of the Net Profits Interests in Gas Properties is charged directly to Trust Corpus; and (iii) the sale of the Net Profits Interests is reflected in the Statements of Distributable Income as cash proceeds to the Trust.

Most accounting pronouncements apply to entities whose financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Because the Trust's financial statements are prepared on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, as described above, most accounting pronouncements are not applicable to the Trust's financial statements.

Net Profits Interests in Gas Properties:

The Net Profits Interests in gas properties are assessed to determine whether their net capitalized cost is impaired, whenever events or changes in circumstances indicate that its carrying amount may not be recoverable, pursuant to ASC 360. The Trust will determine if a writedown is necessary to its investment in the Net Profits Interests in gas properties to the extent that total capitalized costs, less accumulated amortization, exceed undiscounted future net revenues attributable to proved gas reserves of the Underlying Properties. The Trust will then provide a writedown to the extent that the net capitalized costs exceed the fair value of the investment in net profits interests attributable to proved gas reserves of the Underlying Properties. Any such writedown would not reduce Distributable Income, although it would reduce Trust Corpus.

Significant dispositions or abandonment of the Underlying Properties are charged to Net Profits Interests and the Trust Corpus.

Amortization of the Net Profits Interests in gas properties is calculated on a units-of-production basis, whereby the Trust's cost basis in the properties is divided by total Trust proved reserves to derive an amortization rate per reserve unit. Such amortization does not reduce Distributable Income, rather it is charged directly to Trust Corpus. Revisions to estimated future units-of-production are treated on a prospective basis beginning on the date significant revisions are known.

The Net Profits Interest impairment test and the determination of amortization rates are dependent on estimates of proved gas reserves attributable to the Trust. Numerous uncertainties are inherent in estimating reserve volumes and values, including economic and operating conditions, and such estimates are subject to change as additional information becomes available.

Recent Accounting Pronouncements

In January 2009, the SEC published its final rule, *Modernization of Oil and Gas Reporting*, which modifies the SEC's reporting and disclosure rules for oil and natural gas reserves. The most notable changes of the final rule include the replacement of the single day period-end pricing to value oil and natural gas reserves to a 12-month average of the first day of the month price for each month within the reporting period. The final rule also permits voluntary disclosure of probable and possible reserves, a disclosure previously prohibited by SEC rules. The revised reporting and disclosure requirements are effective for our Form 10-K for the year ending December 31, 2009. Early adoption is not permitted. We are currently evaluating the impact that adoption of this final rule will have on our financial statements, related disclosure and management's discussion and analysis.

In May 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC 855, Subsequent Events ("ASC 855"). ASC 855 establishes principles and standards related to the accounting for and disclosure of events that occur after the date of the balance sheet included in financial statements being presented, but before such financial statements are issued. ASC 855 requires an entity to recognize, in the financial statements, subsequent events that provide additional information regarding conditions that existed at the balance sheet date. Subsequent events that provide information about conditions that did not exist at the balance sheet date are not to be recognized in the financial statements under ASC 855. ASC 855 is effective for interim and annual reporting periods ending after June 15, 2009. The Trust adopted this standard effective as of June 30, 2009. The adoption of ASC 855 did not have a material effect on the Trust's financial statements.

In June 2009, the FASB issued a statement that establishes the FASB Accounting Standards Codification as the source of authoritative U.S. generally accepted accounting principles (U.S. GAAP). The Codification, which changes the referencing of financial standards, became effective for our third quarter 2009 financial statements. The Codification did not change or alter existing U.S. GAAP.

Liquidity and Capital Resources

The Trust has no source of liquidity or capital resources other than the distributions received from the Net Profits Interests.

In accordance with the provisions of the Conveyances, generally all revenues received by the Trust, net of Trust administrative and operating expenses and the amount of established reserves, are distributed currently to the Unitholders.

The Trust did not have any contractual obligations as of September 30, 2009. At September 30, 2009, the Trust had Trust General and Administrative Expenses Payable of $148,347 and Distributions Payable of $1,562,297.

Comparison of Results of Operations for Three Months Ended September 30, 2009 and Three Months Ended September 30, 2008

The Trust's Distributable Income was $1,562,297 for the three months ended September 30, 2009 as compared to $4,301,581 for the three months ended September 30, 2008. This decrease was due to a decrease in Royalty Income for the three months ended September 30, 2009 to $2,040,357 as compared to the three months ended September 30, 2008 of $4,980,328. The decrease in Royalty Income was related to a decrease in the price payable to the Trust under the Gas Purchase Contract as discussed below ($4.967 per Mcf for the three months ended September 30, 2009 as compared to $12.111 per Mcf for the three months ended September 30, 2008). Production of gas attributable to the Net Profits Interests did not change for the three months ended September 30, 2009 (411 MMcf) as compared to the three months ended September 30, 2008 of (411 MMcf). Taxes on Production and Property were $158,245 for the three months ended September 30, 2009 as compared to $365,031 for the three months ended September 30, 2008. The decrease in taxes is due directly to the decrease in Royalty Income as discussed above. General and Administrative Expenses were $157,703 for the three months ended September 30, 2009 as compared to $159,325 for the three months ended September 30, 2008. The decrease in General and Administrative Expenses was due primarily to a decrease in professional fees.

The price payable to the Trust for gas production attributable to the Net Profits Interests was $4.967 per Mcf for the three months ended September 30, 2009 and $12.111 per Mcf for the three months ended September 30, 2008. The price per Mcf was lower for the three months ended September 30, 2009 than for the corresponding three month period ended September 30, 2008 due to a decrease in the average spot market price for gas delivered at the Henry Hub near Henry, Louisiana ($4.215 per Dth for the three months ended September 30, 2009 as compared to $10.710 per Dth for the three months ended September 30, 2008).

Financial results depend on many factors, particularly the price of natural gas. During the third quarter of 2009, the Trust experienced a continuation of the dramatic decline in natural gas prices, from the prior year. Price variations may have a material impact on the financial statements.

Comparison of Results of Operations for Nine Months Ended September 30, 2009 and Nine Months Ended September 30, 2008

The Trust's Distributable Income was $5,000,116 for the nine months ended September 30, 2009 as compared to $11,031,251 for the nine months ended September 30, 2008. This decrease was due to a decrease in Royalty Income for the nine months ended September 30, 2009 to $6,761,212 as compared to the nine months ended September 30, 2008 of $13,207,336. The decrease in Royalty Income was due to a decrease in the price payable to the Trust under the Gas Purchase Contract as discussed below ($5.631 per Mcf for the nine months ended September 30, 2009 as compared to $10.702 per Mcf for the nine months ended September 30, 2008). This decrease was also partially due to a decrease in production of gas attributable to the Net Profits Interests for the nine months ended September 30, 2009 (1,204 MMcf) as compared to the nine months ended September 30, 2008 (1,231 MMcf). The decline in production is primarily attributable to natural production declines. Taxes on Production and Property were $516,063 for the nine months ended September 30, 2009 as compared to $971,482 for the nine months ended September 30, 2008. The decrease in taxes is due directly to the decrease in Royalty Income as discussed above. General and Administrative Expenses were $732,076 for the nine months ended September 30, 2009 as compared to $741,430 for the nine months ended September 30, 2008. The decrease in General and Administrative Expenses was due primarily to a decrease in professional fees. Operating expenses include expenses of $26,620 for a recomplete on one of the existing wells, due to a casing leak.

The price payable to the Trust for gas production attributable to the Net Profits Interests was $5.631 per Mcf for the nine months ended September 30, 2009 and $10.702 per Mcf for the nine months ended September 30, 2008. The price per Mcf was lower for the nine months ended September 30, 2009 than for the corresponding nine month period ended September 30, 2008 due to a decrease in the average spot market price for gas delivered at the Henry Hub near Henry, Louisiana ($4.819 per Dth for the nine months ended September 30, 2009 as compared to $9.429 per Dth for the nine months ended September 30, 2008).

Financial results depend on many factors, particularly the price of natural gas. During the nine months ended September 30, 2009, the Trust experienced a continuation of the dramatic decline in natural gas prices, from the prior year. Price variations may have a material impact on the financial statements.

Off-Balance Sheet Arrangements

The Trust does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Trust's financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Other Information

For the calendar quarter ended September 30, 2009, the high and low closing prices of the Treasury Obligations (which have $1,000 face principal amount), as quoted in the over-the-counter market for United States Treasury obligations were $936.10 and $912.00, respectively. On September 30, 2009, the closing price of the Treasury Obligations, as quoted on such market, was $933.60.

The Trust provides Unitholders with the option to separate the related Treasury Obligation from the Trust Units. Upon exercising this option, the Trustee transfers such Trust Units from the name of the Depositary to the name of the withdrawing Unitholder. As of September 30, 2009, this option was exercised on 286,650 Trust Units. (See the Trust's Form 10-K for the year ended December 31, 2008 for a more complete description of the Withdrawal of Trust Units and Restriction on Transfer.)

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

The Trust does not engage in any operations, and does not utilize market risk sensitive instruments, either for trading purposes or for other than trading purposes. As described elsewhere herein, the Depositary Units consist of beneficial ownership of one unit of beneficial interest in the Trust and a $20 face amount beneficial ownership interest in a $1,000 face amount zero coupon Treasury Obligation maturing on May 15, 2013. High and low price information for the Treasury Obligations is included under Item 2. As described elsewhere herein, gas production attributable to the Net Profits Interests is sold to a wholly owned subsidiary of Eastern American pursuant to the Gas Purchase Contract described herein, and the Trust's quarterly distributions are highly dependent on the price payable to the Trust for gas production attributable to the Net Profits Interests. Natural gas prices can fluctuate widely in response to many factors, all of which are out of the control of the Trust, the Trustee and Eastern American.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. The Trustee maintains disclosure controls and procedures designed to ensure that information required to be disclosed by the Trust in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange

Commission's rules and regulations. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Trust is accumulated and communicated by several parties, including without limitation, the working interest owner, Eastern American Energy Corporation ("Eastern American"), and the independent reserve engineer to The Bank of New York Mellon Trust Company, N.A., as Trustee of the Trust, and its employees who participate in the preparation of the Trust's periodic reports as appropriate to allow timely decisions regarding required disclosure. In addition, the Trustee is required by the Trust Agreement to engage and has engaged an independent registered public accounting firm to review the quarterly financial statements of the Trust and audit the annual financial statements of the Trust, which includes financial data provided by Eastern American.

As of September 30, 2009, the Trustee carried out an evaluation of the Trustee's disclosure controls and procedures. Mike Ulrich, as Trust Officer of the Trustee, has concluded that the disclosure controls and procedures are effective at a reasonable assurance level.

Due to (i) the contractual arrangements of the Trust Agreement and (ii) the rights of the Trustee under the Conveyances regarding information furnished by Eastern American, there are certain potential weaknesses that may limit the effectiveness of disclosure controls and procedures established by the Trustee or its employees and their ability to verify the accuracy of certain financial information. The contractual limitations creating potential weaknesses in disclosure controls and procedures may be deemed to include the following:

Eastern American and its consolidated subsidiaries manage information relating to the Trust, including (i) historical operating data, including production volumes, marketing of products, operating and capital expenditures, environmental and other liabilities, the effects of regulatory changes and the number of producing wells and acreage, (ii) plans for future operating and capital expenditures and (iii) geological data relating to reserves; and

The Trustee necessarily relies upon the independent reserve engineer as an expert with respect to the annual reserve report, which includes projected production, operating expenses and capital expenses.

Other than reviewing the financial and other information provided to the Trust by Eastern American and the independent reserve engineer, the Trustee made no independent or direct verification of this financial or other information.

The Trustee does not intend to expand its responsibilities beyond those permitted or required by the Trust Agreement and those required under applicable law.

The Trustee does not expect that the Trustee's disclosure controls and procedures or the Trustee's internal control over financial reporting will prevent all errors or all fraud. Further, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Changes in Internal Control Over Financial Reporting

In connection with the evaluation by the Trustee of changes in internal control over financial reporting of the Trust that occurred during the Trust's last fiscal quarter, no change in the Trust's internal control over financial reporting was identified that has materially affected, or is reasonably likely to materially affect, the Trust's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings.

None.

ITEM 1A. Risk Factors.

There have been no material changes in the risk factors disclosed under Part I, Item 1A of the Trust's Annual Report on Form 10-K for the year ended December 31, 2008.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 4. Submission of Matters to a Vote of Security Holders.

None.

ITEM 5. Other Information.

None.

ITEM 6. Exhibits.

Exhibit Number	Description
31.	Rule 13a-14(a)/15d-14(a) Certification
32.	Section 1350 Certification

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EASTERN AMERICAN NATURAL GAS TRUST

By: The Bank of New York Mellon Trust Company, N.A., Trustee

/s/ MIKE ULRICH

Name: Mike Ulrich
Title: Vice President
The Bank of New York Mellon Trust Company, N.A.

Date: November 9, 2009

The Registrant, Eastern American Natural Gas Trust, has no principal executive officer, principal financial officer, board of directors or persons performing similar functions. Accordingly, no additional signatures are available and none have been provided.

QuickLinks

div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt" align="left">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?

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. 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. 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 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 full 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 it was 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 voluntary 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 dertermined 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.

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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 pubic 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 tansaction was materially influenced by EDCI's intention to voluntary 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 pershare amounts)

EDCI Holdings, Inc.

Entertainment Distribution Company, LLC (“EDC”)

		Low	High
A.	EDC USA, LLC	$ 12.0	$ 14.2
B.	EDC UK, LLC	1.1	1.1
C.	EDC GmbH, LLC	0.0	2.0
	Total	$ 13.1	$ 17.3
Adjustments(1)		(2.5)	(1.5)
Net asset value		$ 10.7	$ 15.8
EDCI shares outstanding		6.7	6.7
Net asset value per share		$ 1.59	$ 2.34

EDCI Holdings, Inc., ex EDC

		Low	High
A.	Cash after Management provisions for future operating costs and liabilities	$ 17.1	$ 16.8
	EDCI shares outstanding	6.7	6.7
	Net asset value per share	$ 2.54	$ 2.50
B.	Present value of potential unused Management contingency reserves	$ 1.0	$ 4.3
	EDCI shares outstanding	6.7	6.7
	Net asset value per share	$ 0.15	$ 0.64
	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)				