DEI Holdings, Inc.

December 31

2008

Management's Discussion and Analysis of our 2008 Financial Statements

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Statement Regarding Forward-Looking Statements

The statements contained in this annual financial report that are not purely historical are forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include statements regarding our "expectations," "anticipation," "intentions," "beliefs," or "strategies" regarding the future. Forward-looking statements relating to our future economic performance, plans and objectives for future operations, and projections of revenue and other financial items, are based on our beliefs as well as assumptions made by us and information currently available to us. Actual results could differ materially from those currently anticipated as a result of a number of factors.

I'm pleased to announce that in 2008, DEI Holdings achieved significant progress in advancing the strength of our core consumer brands including Polk Audio, Definitive Technology, and Viper, despite a difficult macroeconomic environment. Strategically, we made a significant decision to focus entirely on our roots of protecting and entertaining consumers by dedicating our efforts to our automotive security & remote start, home theater speakers, and car audio product categories while exiting the satellite radio hardware business. We believe this decision positions the company and our thousands of customers to achieve long-term profitable growth.

Despite a year that saw much of the consumer based economy decline, we made meaningful improvements in the controllable aspects of our business and achieved notable results. Key highlights for the year include:

- Continued profitability with adjusted EBITDA of $50 million
- Significant market share gains by expanding our distribution of Polk Audio into over 900 Best Buy stores, as well as securing Hyundai Canada as a remote start customer
- A comprehensive restructuring plan that we believe will ultimately reduce our operating expenses, excluding impairments, by over 25%, or $25 million, by the end of 2009 compared to 2007 levels
- Continued improvement of our balance sheet with debt repayments of $49 million, bringing our debt reduction to $124 million in the last two years, a decrease of 36%

Our home audio speaker business performed the strongest in 2008 with key market share gains. Both our Polk Audio and Definitive Technology brands continued to inspire consumers with industry leading acoustic solutions --- from full home theater systems to all-in-one surround bar solutions, outdoor speaker systems, and custom-install products. While the economy may be a temporary setback, the demand drivers of flat panel (and eventually internet ready) televisions, gaming, surround sound, and portable digital audio are too powerful to deter long-term growth of the audio business and we are taking the steps today to disproportionately share in the rewards of this eventual recovery.

In our vehicle security and remote start business, we continue to own the leading market share position both in the United States and Canada driven by innovative product, brands that resonate with consumers and retailers alike, and superior service. Our engineering investment also continues to pay off, illustrated by our sizeable royalty income generated from our intellectual property portfolio in this category. That being said, the security and remote start business is facing temporary headwinds largely driven by the slowdown of vehicle sales in the United States. If history repeats, this slowdown will eventually lead to fewer vehicle leases, longer vehicle ownership periods, and greater investment in current cars instead of new ones, all good signs for the automotive aftermarket's prospects of penetrating the over 200 million vehicles in the US car park.

As we progress through the remainder of 2009, we anticipate the broader market, our industry, and our company will continue to face sizeable challenges. However, with this adversity will also come great opportunity for substantial long-term gains in market share, and ultimately profitability. As such, our strategic plans, as well as the competitive spirit of our employees, are intently focused on optimizing profitable sales, continuing to examine and streamline our operating structure, and maximizing cash flow to retire debt. As we approach these challenges with open arms, we thank our retailers, consumers, suppliers, shareholders, and employees for their continued focus and support.

Sincerely,

Jim Minarik

Jim Minarik
President and Chief Executive Officer

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

Significant Business Developments

Pursuant to our distribution agreement with SIRIUS, during 2008 we had exclusive rights to market and sell certain SIRIUS-branded satellite radio receivers and accessories to our existing U.S. retailer customer base. We recognize these revenues in accordance with SEC Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements" and EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent". The agreement was amended in November 2007, which was effective as of January 1, 2008, to provide for or amend existing terms relating to product sourcing and pricing, product returns, and product warranties. Prior to the effective date of the November 2007 amendment, we accounted for the proceeds received for sales of SIRIUS-related hardware products as revenue on a gross basis as we determined that we were the principal in the transaction. The November 2007 amendment significantly reduced our exposure to economic losses resulting from inventory obsolescence, sales returns, and the fulfillment of warranty obligations related to satellite radio products. In exchange for SIRIUS bearing these risks, we agreed to a reduced inventory margin, as defined in the agreement, on sales of satellite radio products. Accordingly, we determined that we were no longer the principal in the transaction and, starting on January 1, 2008, satellite radio revenues were reported on a net basis based on the gross amounts billed to customers less (i) amounts paid to suppliers, (ii) rebates and discounts, and (iii) other direct costs.

In October 2008, we and SIRIUS XM Radio, Inc ("SIRIUS", f/k/a SIRUS Satellite Radio, Inc.) agreed to allow the distribution agreement to terminate on its own terms effective January 31, 2009. To facilitate the efficient transition and termination of the agreement, we and SIRIUS agreed to a process and timeline relating to the wind-down of the relationship. Through January 31, 2009, we continued to fulfill orders from our retailer customer base. In accordance with the timeline and process specified in the letter agreement, during the first quarter of 2009, on a prepayment basis, SIRIUS agreed to purchase from us substantially all remaining SIRIUS-branded inventory and all such products returned to us by retailers at prices defined in the agreement. Effective February 1, 2009, SIRIUS, or its new distributor, assumed all cost and responsibility for any further product returns.

As of March 2009, SIRIUS has complied with the terms of the wind-down agreement in all material respects. We expect that the termination of our relationship with SIRIUS will have the effect of reducing consolidated net sales and gross profit dollars, increasing consolidated gross profit margin, and initially providing a net decrease in working capital.

Results of Operations

Fourth quarter and annual 2007 and 2008 GAAP and pro forma results are presented below under "GAAP and Pro Forma Results." We present pro forma financial measures, which are considered "non-GAAP" financial measures. We believe that this presentation of pro forma results provides useful information by excluding specific revenue, costs and expenses that we believe are not indicative of core operating results. Additionally, as discussed above, beginning in the first quarter of 2008, we reported satellite radio sales on a net basis in accordance with EITF 99-19. The change in the application of our accounting policy did not affect our reported gross profit, operating income, or net income. In accordance with SFAS No. 154, "Accounting Changes and Error Corrections", we have not recast prior period satellite radio sales as the change in presentation is not considered a change in accounting principle but is the application of the same principle to facts and circumstances that are different from those prior to January 1, 2008. For comparison and discussion purposes, we provide sales and cost information on a gross basis for the three and twelve months ended December 31, 2008 in the tables below. Although not in accordance with generally accepted accounting principles in the United States (GAAP), we believe this information is informative as to the level of our satellite radio business, provides increased transparency, and presents our satellite radio sales on a basis comparable to prior periods and to our security and entertainment sales. A quantitative reconciliation from our GAAP results to pro forma and adjusted results is provided below.

We also present and discuss EBITDA (earnings before interest, income taxes, depreciation, and amortization, including goodwill and intangible asset impairment), which is not a measure of financial performance under generally accepted accounting principles, or GAAP, but is used by some investors to determine a company's ability to service or incur indebtedness. Adjusted EBITDA is presented as it includes other adjustments permitted under the company's lending agreement for covenant calculations. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with generally accepted accounting principles. We have reconciled EBITDA and adjusted EBITDA with the most directly comparable GAAP-based financial measure below.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

	Security & Entertainment				Satellite Radio				Total			
	Year Ended 12/31/2008		Year Ended 12/31/2007		Year Ended 12/31/2008		Year Ended 12/31/2007		Year Ended 12/31/2008		Year Ended 12/31/2007	
Pro Forma Results:												
Net Product Sales…………	$	243,360	$	280,509	$	80,140	$	115,982	$	323,500	$	396,491
Royalty & Other………….		5,771		4,279		362		370		6,133		4,649
Net Sales……………….	$	249,131	$	284,788	$	80,502	$	116,352	$	329,633	$	401,140
Cost of Sales…………….		137,675		156,184		66,716		101,832		204,391		258,016
Gross Profit…………….	$	111,456	$	128,604	$	13,786	$	14,520	$	125,242	$	143,124
% Margin …………….		*44.7%*		*45.2%*		*17.1%*		*12.5%*		*38.0%*		*35.7%*

Net Sales

Security and entertainment net product sales decreased $37.1 million, or 13.2%, to $243.4 million in 2008 compared with $280.5 million in 2007. Strong sales related to shipments of our Polk Audio products to Best Buy were more than offset by slower sales across our security and entertainment product categories due to overall consumer weakness in many regions of the United States and a decrease in sales of mobile video products as we have exited that category.

Satellite radio pro forma net product sales during 2008 totaled $80.1 million, a 30.9% decrease compared with $116.0 million during 2007. The decrease is attributable to reduced sales to Sirius.com and lower consumer demand in the current year. The decrease in satellite radio net sales was offset by an improved product returns experience.

Our royalty and other revenues totaled $6.1 million during 2008 compared with $4.6 million during 2007. The increase is primarily due to incremental royalty payments totaling $2.7 million related to two one-time patent licensing agreements that we entered into during the second quarter of 2008.

With the previously mentioned change in our satellite radio sales reporting method, reported GAAP satellite radio sales, net of $66.7 million in direct costs, totaled $13.4 million during 2008 and our total GAAP net sales decreased to $262.9 million for the year ended December 31, 2008 compared with $401.1 million for the year ended December 31, 2007.

Gross Profit

Our consolidated GAAP gross profit margin increased from 35.3% during 2007 to 47.6% during 2008. This increase is primarily due to the change in presentation of our satellite radio products to a net basis in the current year. Our consolidated pro forma gross profit decreased from $143.1 million during 2007 compared with $125.2 million during 2008. Our consolidated pro forma gross profit margin increased from 35.7% for year ended December 31, 2007 to 38.0% for the year ended December 31, 2008.

Pro forma gross profit margin on security and entertainment products decreased to 44.7% in 2008 compared with 45.2% in 2007. Increases to our security and entertainment pro forma gross profit margin due to incremental royalty revenue and lower warranty costs during 2008 were offset by increased rebates and product discounts that we offered in order to reduce inventory levels and a shift to lower margin product sales as customers have trended toward these types of products due to the overall economic conditions.

On a pro forma basis, gross profit margin on satellite radio sales increased from 12.5% during 2007 to 17.1% during 2008. The increase was primarily attributable to a reduction of our warranty expense and decreased sales returns. Additionally, the Company is exiting the satellite radio business and effective February 1, 2009, SIRIUS will assume all cost and responsibility for any further product returns.

Operating Expenses

Pro forma operating expenses decreased $5.7 million, or 6.0%, to $89.5 million during 2008 compared with $95.2 million during 2007 due to a decrease in variable operating expenses, headcount, marketing and travel expenses, audit and tax compliance fees, and fixed asset write-offs. These decreases were partially offset by $2.0 million in restructuring charges related to workforce rightsizing and supply-chain network optimization initiatives. During 2008, we completed or initiated restructuring initiatives that, along with other cost saving measures, are expected to result in a decrease to operating expenses in excess of $10 million in 2009.

GAAP operating expenses were $143.7 million in 2008 compared with $295.5 million in 2007. Our 2008 and 2007 GAAP operating expenses include non-cash goodwill and intangible impairment charges of $54.2 million and $194.8 million, respectively. The impairment charges were necessary due to the decrease in the fair value of goodwill and intangible assets as compared to their carrying values. The non-cash impairment charges did not affect our cash position, cash flow from operations, liquidity, or our debt covenants.

EBITDA and Net Income (Loss)

Adjusted EBITDA, which includes adjustments as defined by our lending agreement, in 2008 was $50.1 million compared with $58.7 million in 2007. We were in full compliance with all of our financial debt covenants with a debt-to-EBITDA leverage ratio at 4.35x as of December 31, 2008.

Pro forma operating income was $35.7 million in 2008 compared with $47.9 million in 2007. Our 2008 pro forma operating results exclude the impact of intangible asset impairment charges. Our 2007 pro forma operating results exclude the impact of goodwill and intangible asset impairment charges, a gross profit reduction from purchase accounting, and patent litigation costs. Pro forma net income was $2.2 million, or $0.08 per diluted share, in 2008 compared with $10.7 million, or $0.41 per diluted share, in the prior year period. Our 2008 pro forma net income included $1.1 million, or $0.04 per diluted share, related to write-offs of non-cash financing fees associated with $43.6 million prepayment of debt and our first quarter credit facility amendment, as well as $0.08 per diluted share of non-cash tax expense related to previously scheduled deliveries of RSU's. Excluding these non-cash charges, 2008 pro forma earnings per diluted share was $0.20. Our GAAP net loss for 2008 was $55.0 million, or $2.13 per diluted share, compared with $140.0 million, or $5.40 per diluted share, in the prior year. Our 2007 GAAP net loss was primarily due to non-cash goodwill and intangible asset impairment charges. Our 2008 GAAP net loss was primarily due to non-cash intangible asset impairment charges and an increase in our deferred tax asset valuation allowance. Based on subsequent analysis, we increased our deferred tax asset valuation allowance as compared to our originally posted unaudited financial statements. In assessing the realizability of our deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax asset will not be realized. Based upon the level of our historical taxable income and projections for future taxable losses over which the deferred taxes are deductible, we believe that it is more likely than not that we will not realize the benefits of our remaining deductible differences. Accordingly, during 2008, we established a full valuation allowance against our U.S. deferred tax assets except for our net operating losses that can be carried back to recover taxes previously paid.

Interest Expense

Net interest expense decreased $3.2 million, or 11.5%, to $24.6 million for the year ended December 31, 2008 compared with $27.8 million for the year ended December 31, 2007. The decrease is primarily due to lower levels of outstanding debt on our senior credit facility and lower interest rates in the current year. Outstanding debt as of December 31, 2008 totaled $218.0 million, a $48.9 million decrease compared with outstanding debt of $266.9 million as of December 31, 2007. As of December 31, 2008, we had no amounts drawn on our revolving loan compared with $4.0 million drawn as of December 31, 2007. This decrease in interest expense was partially offset by non-cash write-offs totaling $1.1 million of unamortized debt issuance costs related to $43.6 million in total prepayments made during 2008 on the outstanding principal of our senior notes and the first quarter amendment to our senior credit facility.

Provision for (benefit from) Income Taxes

Excluding the intangible asset impairment charge, the tax impact of shortfalls upon previously scheduled deliveries of RSUs, and an increase in our deferred tax asset valuation allowance, our effective tax rate was 62.2% in 2008. Our tax rate excluding the $24.5 million non-cash tax expense related to the increase in our deferred tax valuation allowance was 29.3%. The intangible asset impairment and the increase in the valuation allowance changed this to a tax rate of 80.4% and had no impact on cash taxes. With effect of the impairment charge, the increase in the valuation allowance, and the RSU shortfall, our tax provision was $11.9 million.

Three Months Ended December 31, 2008 Compared to Three Months Ended December 31, 2007

	Security & Entertainment				Satellite Radio				Total			
	Qtr Ended 12/31/2008		Qtr Ended 12/31/2007		Qtr Ended 12/31/2008		Qtr Ended 12/31/2007		Qtr Ended 12/31/2008		Qtr Ended 12/31/2007	
Pro Forma Results:												
Net Product Sales…………	$	76,601	$	95,217	$	24,717	$	55,345	$	101,318	$	150,562
Royalty & Other………….		910		1,362		228		63		1,138		1,425
Net Sales……………….	$	77,511	$	96,579	$	24,945	$	55,408	$	102,456	$	151,987
Cost of Sales………………		46,354		52,111		20,804		47,295		67,158		99,406
Gross Profit…………….	$	31,157	$	44,468	$	4,141	$	8,113	$	35,298	$	52,581
% Margin …………….		*40.2%*		*46.0%*		*16.6%*		*14.6%*		*34.5%*		*34.6%*

Net Sales

Security and entertainment net product sales decreased $18.6 million, or 19.5%, to $76.6 million in the fourth quarter of 2008 compared with $95.2 million in the fourth quarter of 2007. Strong sales of Polk Audio products to Best Buy were more than offset by overall consumer weakness in our industry in many regions of the United States and a decrease in sales of mobile video products as we have exited that category. We continued to sell to Circuit City and Tweeter in the fourth quarter of 2008. We were successful in managing our exposure to their respective bankruptcies and did not incur any material charges as a result of their subsequent liquidations.

Satellite radio pro forma net product sales for the fourth quarter of 2008 totaled $24.7 million, a 55.3% decrease compared with $55.3 million for the fourth quarter of 2007. This decrease is partially attributable to a company-initiated plan to reduce sales to Sirius.com as these sales carried lower than average margins and required high working capital as well as decreased sales to other major retailers as consumer demand for satellite radio was lower in the fourth quarter of 2008 compared with the fourth quarter of 2007. The decrease in satellite radio net sales was partially offset by an improved product returns experience. As previously mentioned, the Company is exiting the satellite radio business and effective February 1, 2009, SIRIUS will assume all cost and responsibility for any further product returns.

With the change previously mentioned in our satellite radio sales reporting method, reported GAAP satellite radio sales, net of $20.8 million in direct costs, totaled $3.9 million for the fourth quarter of 2008 and our total GAAP net sales decreased to $81.7 million for the three months ended December 31, 2008 compared with $152.0 million for the three months ended December 31, 2007.

Gross Profit

Our consolidated GAAP gross profit margin increased from 34.3% during the fourth quarter of 2007 to 43.2% during the fourth quarter of 2008. This increase is primarily due to the change in presentation of our satellite radio products to a net basis in the current year. Our consolidated pro forma gross profit decreased from $52.6 million for the three months ended December 31, 2007 compared with $35.3 million for the three months ended December 31, 2008, while our consolidated pro forma gross profit margin remained relatively flat.

Pro forma gross profit margin on security and entertainment products decreased to 40.2% in the fourth quarter of 2008 compared with 46.0% in the fourth quarter of 2007. The gross margin rate decrease was primarily attributable to increased rebates and product discounts that we offered during the quarter in order to reduce inventory levels and a shift to lower margin product sales as customers have trended toward these types of products due to the overall economic conditions. These decreases were partially offset by lower warranty costs.

On a pro forma basis, gross profit margin on satellite radio sales increased from 14.6% in the fourth quarter of 2007 to 16.6% in the fourth quarter of 2008. The increase in our margin was primarily attributable to an improvement in the company's warranty expense and sales returns experience.

Operating Expenses

Pro forma operating expenses decreased $6.5 million, or 24.7%, to $19.8 million in the fourth quarter of 2008 compared with $26.3 million in the fourth quarter of 2007 due to a decrease in variable operating expenses, headcount, marketing and travel expenses, and audit fees. These decreases were partially offset by $0.8 million in restructuring charges related to workforce rightsizing and supply-chain network optimization initiatives. During 2008, we completed or initiated restructuring initiatives that, along with other cost saving measures, are expected to result in a decrease to operating expenses in excess of $10 million in 2009.

GAAP operating expenses were $74.0 million in the fourth quarter of 2008 compared with $221.1 million in the fourth quarter of 2007. Our 2008 and 2007 fourth quarter GAAP operating expenses include non-cash goodwill and intangible impairment charges of $54.2 and $194.8 million, respectively. The impairment charges were necessary due to the decrease in the fair value of goodwill and intangible assets as compared to their carrying values. The non-cash impairment charge did not affect our cash position, cash flow from operations, liquidity, or our debt covenants.

EBITDA and Net Income (Loss)

Adjusted EBITDA, which includes adjustments as defined by our lending agreement, was $19.9 million in the fourth quarter of 2008 compared with $29.1 million in the fourth quarter of 2007.

Pro forma operating income was $15.5 million in the fourth quarter of 2008 compared with $26.3 million in the fourth quarter of 2007. Our 2008 fourth quarter pro forma operating results exclude the impact of intangible asset impairment charges. Our 2007 pro forma operating results exclude the impact of goodwill and intangible asset impairment charges and a gross profit reduction from purchase accounting. Pro forma net income was $1.7 million, or $0.07 per diluted share, in the fourth quarter of 2008 compared with $10.7 million, or $0.41 per diluted share, in the prior year period. Fourth quarter 2008 pro forma net income included $0.03 per diluted share related to the write-off of non-cash financing fees associated with a $40.6 million prepayment of debt, as well as $0.04 per diluted share of non-cash tax expense related to previously scheduled deliveries of RSU's. Excluding these non-cash charges, fourth quarter 2008 pro forma earnings per diluted share was $0.14. Our GAAP net loss for the fourth quarter of 2008 was $55.5 million, or $2.15 per diluted share, compared with $136.0 million, or $5.25 per diluted share, in the prior year.

Interest Expense

Net interest expense decreased approximately $0.8 million, or 10.8%, to $6.6 million for the three months ended December 31, 2008 compared with $7.4 million for the three months ended December 31, 2007. The decrease is primarily due to lower levels of outstanding debt on our senior credit facility and lower interest rates in the current year. Outstanding debt as of December 31, 2008 totaled $218.0 million, a $48.9 million decrease compared with outstanding debt of $266.9 million as of December 31, 2007. As of December 31, 2008, we had no amounts drawn on our revolving loan compared with $4.0 million drawn as of December 31, 2007.

Provision for (benefit from) Income Taxes

Excluding the intangible asset impairment charge, the tax impact of shortfalls upon previously scheduled deliveries of RSUs, and an increase in the deferred tax asset valuation allowance, our effective tax rate was 70.4% for the three months ended December 31, 2008. Our tax rate excluding the $24.5 million non-cash tax expense related to the increase in our deferred tax valuation allowance was 31.7%. The intangible asset impairment and the increase in the valuation allowance changed this to a tax rate of 81.1% and had no impact on cash taxes. With effect of the impairment charge, the RSU shortfall, and the increase in the valuation allowance, our tax provision was $10.1 million.

Balance Sheet and Cash Flows

We generated $58.1 million of operating cash flow for the full year of 2008 compared with $87.0 million in 2007. The decrease is primarily due to the decrease in sales during 2008 compared with 2007. During 2008, we made improvements in our use of working capital by negotiating more favorable accounts payable terms and implementing tighter accounts receivable controls which enabled us to use operating cash flow to repay $48.9 million of debt, including $44.9 million of term debt. As a result of these prepayments, we do not have any required principal payments until September 2010. As of December 31, 2008, debt totaled $218.0 million. We were in compliance with all of our financial debt covenants as of December 31, 2008.

DEI HOLDINGS, INC.
GAAP and PRO FORMA RESULTS
(Unaudited, in thousands, except per share amounts)

Consolidated Statements of Income
Years Ended December 31, 2008 and 2007

	GAAP		Pro Forma	
	Year Ended 12/31/2008	Year Ended 12/31/2007	Year Ended 12/31/2008	Year Ended 12/31/2007
Sales:				
Security and entertainment product sales, net	$ 243,360	$ 280,509	$ 243,360	$ 280,509
Satellite radio product sales, net	13,424	115,982	80,140	115,982
Net product sales	256,784	396,491	323,500	396,491
Royalty and other revenue	6,133	4,649	6,133	4,649
Net Sales	262,917	401,140	329,633	401,140
Cost of sales:				
Cost of security and entertainment sales	137,675	157,611	137,675	156,184
Cost of satellite radio sales	-	101,832	66,716	101,832
Total cost of sales	137,675	259,443	204,391	258,016
Gross profit	125,242	141,697	125,242	143,124
Operating expenses:				
Selling, general and administrative	89,523	100,682	89,523	95,188
Goodwill and intangible asset impairment	54,215	194,832	-	-
Total operating expenses	143,738	295,514	89,523	95,188
Income (loss) from operations	(18,496)	(153,817)	35,719	47,936
Other income (expense):				
Interest expense, net	(24,578)	(27,785)	(24,578)	(27,785)
Income (loss) before provision for income taxes	(43,074)	(181,602)	11,141	20,151
Provision for (benefit from) income taxes	11,879	(41,634)	8,954	9,494
Net income (loss)	$ (54,953)	$ (139,968)	$ 2,187	$ 10,657
Net income (loss) per common share:				
Basic	$ (2.13)	$ (5.40)	$ 0.08	$ 0.41
Diluted	$ (2.13)	$ (5.40)	$ 0.08	$ 0.41
Weighted average number of shares:				
Basic	25,818	25,921	25,818	25,921
Diluted	25,818	25,921	25,818	25,921
Adjusted EBITDA			$ 50,111	$ 58,736

Reconciliation of GAAP to Satellite Radio Pro Forma Net Sales, Cost of Sales, and Gross Profit

	As Reported Year Ended 12/31/2008	Reclassification Year Ended 12/31/2008	Pro Forma Year Ended 12/31/2008	As Reported Year Ended 12/31/2007
Sales:				
Security and entertainment product sales, net	$ 243,360	$ -	$ 243,360	$ 280,509
Satellite radio product sales, net	13,424	66,716	80,140	115,982
Net product sales	256,784	66,716	323,500	396,491
Royalty and other revenue related to S&E products	5,771	-	5,771	4,279
Other revenues related to satellite radio products	362	-	362	370
Royalty and other revenue	6,133	-	6,133	4,649
Net Sales	262,917	66,716	329,633	401,140
Cost of sales:				
Cost of security and entertainment sales	137,675	-	137,675	157,611
Cost of satellite radio sales	-	66,716	66,716	101,832
Total cost of sales	137,675	66,716	204,391	259,443
S&E gross profit, including royalty and other revenue	111,456	-	111,456	127,177
Satellite radio gross profit, including other revenue	13,786	-	13,786	14,520
Consolidated gross profit	$ 125,242	$ -	$ 125,242	$ 141,697
Security and entertainment gross profit margin	44.7%		44.7%	44.7%
Satellite radio gross profit margin	n/a		17.1%	12.5%
Consolidated gross profit margin	47.6%		38.0%	35.3%

Reconciliation of GAAP to Pro Forma Net Income (Loss) Available to Common Shareholders

	Year Ended 12/31/2008	Year Ended 12/31/2007
GAAP net income (loss)	$ (54,953)	$ (139,968)
Adjustments:		
Gross profit reduction from purchase accounting	-	1,427
Goodwill and intangible asset impairment	54,215	194,832
Patent litigation costs	-	5,494
Tax effects of above adjustments	(21,576)	(51,128)
Deferred tax asset valuation allowance	24,501	-
Pro forma net income (loss)	$ 2,187	$ 10,657
GAAP net income (loss) per common share, diluted	$ (2.13)	$ (5.40)
Pro forma net income (loss) per common share, diluted	$ 0.08	$ 0.41
Diluted weighted average number of shares (GAAP and pro forma)	25,818	25,921

Reconciliation of GAAP Net Income (Loss) to Adjusted EBITDA

	Year Ended 12/31/2008	Year Ended 12/31/2007
Net income (loss)	$ (54,953)	$ (139,968)
Adjustments:		
Interest expense, net	24,578	27,785
Depreciation	3,875	2,613
Amortization	6,494	7,069
Goodwill and intangible asset impairment	54,215	194,832
Taxes	11,879	(41,634)
EBITDA	$ 46,088	$ 50,697
Gross profit reduction from purchase accounting	-	1,427
Patent litigation costs	-	5,494
Pro forma EBITDA	$ 46,088	$ 57,618
Non-cash stock-based compensation	1,240	885
Other	2,783	233
Adjusted EBITDA	$ 50,111	$ 58,736

Consolidated Statements of Income
Quarters Ended December 31, 2008 and 2007

	GAAP		Pro Forma	
	Quarter Ended 12/31/2008	Quarter Ended 12/31/2007	Quarter Ended 12/31/2008	Quarter Ended 12/31/2007
Sales:				
Security and entertainment product sales, net	$ 76,601	$ 95,217	$ 76,601	$ 95,217
Satellite radio product sales, net	3,913	55,345	24,717	55,345
Net product sales	80,514	150,562	101,318	150,562
Royalty and other revenue	1,138	1,425	1,138	1,425
Net Sales	81,652	151,987	102,456	151,987
Cost of sales:				
Cost of security and entertainment sales	46,354	52,596	46,354	52,111
Cost of satellite radio sales	-	47,295	20,804	47,295
Total cost of sales	46,354	99,891	67,158	99,406
Gross profit	35,298	52,096	35,298	52,581
Operating expenses:				
Selling, general and administrative	19,799	26,270	19,799	26,270
Goodwill and intangible asset impairment	54,215	194,832	-	-
Total operating expenses	74,014	221,102	19,799	26,270
Income (loss) from operations	(38,716)	(169,006)	15,499	26,311
Other income (expense):				
Interest expense, net	(6,626)	(7,433)	(6,626)	(7,433)
Income (loss) before provision for income taxes	(45,342)	(176,439)	8,873	18,878
Provision for (benefit from) income taxes	10,122	(40,480)	7,197	8,224
Net income (loss)	$ (55,464)	$ (135,959)	$ 1,676	$ 10,654
Net income (loss) per common share:				
Basic	$ (2.15)	$ (5.25)	$ 0.07	$ 0.41
Diluted	$ (2.15)	$ (5.25)	$ 0.07	$ 0.41
Weighted average number of shares:				
Basic	25,780	25,898	25,780	25,898
Diluted	25,780	25,898	25,780	25,898
Adjusted EBITDA			$ 19,874	$ 29,081

Reconciliation of GAAP to Satellite Radio Pro Forma Net Sales, Cost of Sales, and Gross Profit

	As Reported Quarter Ended 12/31/2008	Reclassification Quarter Ended 12/31/2008	Pro Forma Quarter Ended 12/31/2008	As Reported Quarter Ended 12/31/2007
Sales:				
Security and entertainment product sales, net	$ 76,601	$ -	$ 76,601	$ 95,217
Satellite radio product sales, net	3,913	20,804	24,717	55,345
Net product sales	80,514	20,804	101,318	150,562
Royalty and other revenue related to S&E products	910	-	910	1,362
Other revenues related to satellite radio products	228	-	228	63
Royalty and other revenue	1,138	-	1,138	1,425
Net Sales	81,652	20,804	102,456	151,987
Cost of sales:				
Cost of security and entertainment sales	46,354	-	46,354	52,596
Cost of satellite radio sales	-	20,804	20,804	47,295
Total cost of sales	46,354	20,804	67,158	99,891
S&E gross profit, including royalty and other revenue	31,157	-	31,157	43,983
Satellite radio gross profit, including other revenue	4,141	-	4,141	8,113
Consolidated gross profit	$ 35,298	$ -	$ 35,298	$ 52,096
Security and entertainment gross profit margin	40.2%		40.2%	45.5%
Satellite radio gross profit margin	n/a		16.6%	14.6%
Consolidated gross profit margin	43.2%		34.5%	34.3%

Reconciliation of GAAP to Pro Forma Net Income (Loss) Available to Common Shareholders

	Quarter Ended 12/31/2008	Quarter Ended 12/31/2007
GAAP net income (loss)	$ (55,464)	$ (135,959)
Adjustments:		
Gross profit reduction from purchase accounting	-	485
Goodwill and intangible asset impairment	54,215	194,832
Tax effects of above adjustments	(21,576)	(48,704)
Deferred tax asset valuation allowance	24,501	-
Pro forma net income (loss)	$ 1,676	$ 10,654
GAAP net income (loss) per common share, diluted	$ (2.15)	$ (5.25)
Pro forma net income (loss) per common share, diluted	$ 0.07	$ 0.41
Diluted weighted average number of shares (GAAP and pro forma)	25,780	25,898

Reconciliation of GAAP Net Income (Loss) to Adjusted EBITDA

	Quarter Ended 12/31/2008	Quarter Ended 12/31/2007
Net income (loss)	$ (55,464)	$ (135,959)
Adjustments:		
Interest expense, net	6,626	7,433
Depreciation	1,134	698
Amortization	1,564	1,838
Goodwill and intangible asset impairment	54,215	194,832
Taxes	10,122	(40,480)
EBITDA	$ 18,197	$ 28,362
Gross profit reduction from purchase accounting	-	485
Pro forma EBITDA	$ 18,197	$ 28,847
Non-cash stock-based compensation	305	234
Other	1,372	-
Adjusted EBITDA	$ 19,874	$ 29,081