FINANCIAL STATEMENTS

Rockford Corporation
Years Ended December 31, 2011, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Rockford Corporation

Financial Statements

Years Ended December 31, 2011, 2010 and 2009

Contents

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Report of Independent Auditors

Board of Directors and Shareholders
Rockford Corporation

We have audited the accompanying balance sheets of Rockford Corporation as of December 31, 2011 and 2010, and the related statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rockford Corporation at December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 30, 2012

Rockford Corporation

Balance Sheets
(In Thousands, Except Share Data)

	December 31	
	2011	**2010**
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,762**	$ –
Accounts receivable, net	**9,659**	8,684
Inventories	**8,031**	5,818
Prepaid expenses and other	**473**	547
Total current assets	**19,925**	15,049
Property and equipment, net	**1,370**	1,525
Other assets	**220**	262
Total assets	**$ 21,515**	$ 16,836
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	**$ 6,800**	$ 4,262
Accrued salaries and incentives	**921**	785
Accrued warranty and returns	**450**	546
Accrued customer programs	**644**	651
Other accrued expenses	**1,549**	1,403
Asset-based credit facility	**–**	1,509
Total current liabilities	**10,364**	9,156
Other long-term liabilities	**26**	109
Total liabilities	**10,390**	9,265
Commitments and contingencies		
Shareholders' equity:		
Common stock, $.01 par value, authorized shares – 40,000,000; issued shares – 9,585,614 and 9,541,227 at December 31, 2011 and 2010, respectively	**96**	96
Additional paid-in capital	**39,038**	38,867
Accumulated deficit	**(24,760)**	(30,081)
Less: treasury stock, at cost (1,595,739 and 814,512 shares at December 31, 2011 and 2010, respectively)	**(3,249)**	(1,311)
Total shareholders' equity	**11,125**	7,571
Total liabilities and shareholders' equity	**$ 21,515**	$ 16,836

See accompanying notes.

Rockford Corporation

Statements of Operations

(In Thousands, Except Per Share Data)

	Year Ended December 31		
	2011	**2010**	**2009**
Net sales	**$ 60,847**	$ 54,231	$ 52,975
Cost of goods sold	**37,221**	34,251	36,124
Gross profit	**23,626**	19,980	16,851
Operating expenses:			
Sales and marketing	**9,427**	7,972	7,990
General and administrative	**6,913**	7,196	7,981
Research and development	**1,956**	1,993	1,758
Total operating expenses	**18,296**	17,161	17,729
Operating income (loss)	**5,330**	2,819	(878)
Interest expense	**111**	209	525
Other income	**(34)**	(32)	(653)
Income (loss) before income taxes	**5,253**	2,642	(750)
Income tax benefit	**(68)**	(71)	–
Net income (loss)	**$ 5,321**	$ 2,713	$ (750)
Net income (loss) per common share:			
Basic	**$ 0.64**	$ 0.32	$ (0.09)
Diluted	**$ 0.58**	$ 0.30	$ (0.09)
Weighted-average common shares outstanding:			
Basic	**8,351**	8,593	8,581
Diluted	**9,230**	9,170	8,581

See accompanying notes.

Rockford Corporation

Statements of Shareholders' Equity
(In Thousands)

	Common Stock				Additional Paid-In		Accumulated		Treasury Stock				
	Shares		Amount		Capital		Deficit		Shares		Amount		Total
Balance at December 31, 2008	9,396	$	94	$	38,554	$	(32,044)		815	$	(1,311)	$	5,293
Net loss	–		–		–		(750)		–		–		(750)
Share-based compensation	–		–		126		–		–		–		126
Balance at December 31, 2009	9,396		94		38,680		(32,794)		815		(1,311)		4,669
Net income	–		–		–		2,713		–		–		2,713
Share-based compensation	–		–		107		–		–		–		107
Exercised share-based awards	145		2		80		–		–		–		82
Balance at December 31, 2010	9,541		96		38,867		(30,081)		815		(1,311)		7,571
Net income	**–**		**–**		**–**		**5,321**		**–**		**–**		**5,321**
Share-based compensation	**–**		**–**		**142**		**–**		**–**		**–**		**142**
Exercised share-based awards	**44**		**–**		**29**		**–**		**–**		**–**		**29**
Purchase of common stock	**–**		**–**		**–**		**–**		**781**		**(1,938)**		**(1,938)**
Balance at December 31, 2011	**9,585**	**$**	**96**	**$**	**39,038**	**$**	**(24,760)**		**1,596**	**$**	**(3,249)**	**$**	**11,125**

See accompanying notes.

Rockford Corporation

Statements of Cash Flows

(In Thousands)

	Year Ended December 31		
	2011	2010	2009
Operating activities			
Net income (loss)	**$ 5,321**	$ 2,713	$ (750)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**721**	589	754
Share-based compensation	**142**	107	126
Write-down of asset to fair value	**–**	–	33
Net gain on buyback of notes and warrants	–	–	(497)
Gain on sale of property and equipment	**–**	(21)	(89)
Provision for doubtful accounts	**58**	179	306
Provision for inventories	**312**	251	123
Changes in operating assets and liabilities:			
Accounts receivable	**(1,033)**	1,084	2,605
Inventories	**(2,525)**	(316)	7,167
Prepaid expenses and other	**74**	(168)	139
Accounts payable	**2,538**	(1,007)	1,289
Accrued salaries and incentives	**136**	48	(634)
Accrued warranty and returns	**(96)**	(194)	40
Accrued customer programs	**(7)**	5	29
Other accrued expenses	**170**	114	234
Net cash provided by operating activities	**5,811**	3,384	10,875
Investing activities			
Purchases of property and equipment	**(635)**	(765)	(459)
Proceeds from sale of property and equipment	**–**	77	89
(Increase) decrease in other assets	**4**	(54)	67
Net cash used in investing activities	**(631)**	(742)	(303)
Financing activities			
Payments on notes payable	–	(2,603)	(4,603)
Proceeds from bank debt and short-term notes	**58,609**	55,519	50,582
Payments on bank debt and short-term notes	**(60,118)**	(55,640)	(56,499)
Payments on capital lease obligations	–	–	(52)
Purchase of common stock	**(1,938)**	–	–
Proceeds from exercise of share-based awards	**29**	82	–
Net cash used in financing activities	**(3,418)**	(2,642)	(10,572)
Net increase in cash and cash equivalents	**1,762**	–	–
Cash and cash equivalents at beginning of year	–	–	–
Cash and cash equivalents at end of year	**$ 1,762**	$ –	$ –

See accompanying notes.

1. Background

Organization and Description of Business

Rockford Corporation (Rockford) designs and distributes high-performance mobile audio products, primarily under the Rockford Fosgate, Lightning Audio, Renegade, Brax, Helix, and Rockford Acoustic Design brands. Rockford was organized and incorporated under the laws of the state of Arizona on July 22, 1980. Rockford's corporate headquarters and distribution facility are located in Arizona. Manufacturing is performed by third-party manufacturers in Asia.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with remaining maturities of three months or less when acquired. Rockford's cash equivalents consisted of money market accounts. Accounts receivable from credit card processors are also considered cash equivalents because they are both short-term and highly liquid in nature and are typically converted to cash within two to three days of the sales transactions.

Fair Value of Financial Instruments

Fair value guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, fair value guidance establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs, such as quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2: Observable inputs, other than Level 1 inputs in active markets, for similar assets or liabilities that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data, by correlation or other measure; and

Level 3: Price or valuation techniques that require unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

2. Summary of Significant Accounting Policies (continued)

Rockford determines the estimated fair value of financial instruments using available market information and valuation methodologies. Considerable judgment is required in estimating fair values. Accordingly, the estimates may not be indicative of the amounts that the financial instruments could realize in a current market exchange.

	Fair Value at December 31, 2011			
	Total	**Level 1**	**Level 2**	**Level 3**
	(In Thousands)			
Cash equivalents				
Money market	**$ 1,025**	**$ 1,025**	**$ –**	**$ –**

Money market funds are classified in Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets.

The carrying amounts of accounts receivable, accounts payable, accrued salaries and incentives, accrued warranty and returns and other accrued expenses approximate fair values based on their short-term nature. The carrying value of Rockford's borrowings under its asset-based credit facility approximates fair value.

Revenue Recognition

Rockford recognizes revenue and records sales, net of related discounts, when all of the following criteria are met:

- Persuasive evidence of an arrangement exists
- Ownership has transferred to the customer
- The price to the customer is fixed or determinable
- Collectability is reasonably assured

Rockford sells the majority of its products F.O.B. place of shipment. Upon shipment of products, if the above criteria are met, revenue is recognized. Rockford also records reductions to revenue for estimated customer returns and additional sales incentive offerings, such as growth and volume incentive rebates and prompt pay discounts, based on historical rates.

2. Summary of Significant Accounting Policies (continued)

Rockford earns royalties by licensing its brand names and know-how to its customers for use in their products. Royalty revenue is recognized as the customer produces products using Rockford’s brand names and know-how based upon the terms of the agreement and the production information provided by the licensee. Royalties of $2.7 million, $2.9 million, and $1.9 million for the year ended December 31, 2011, 2010, and 2009 respectively are included in net sales on the statement of operations.

Shipping and Handling Costs

Rockford records outbound product shipping costs as freight expense in sales and marketing expense. Freight expense for the years ended December 31, 2011, 2010 and 2009 was approximately $2.0 million, $1.7 million, and $1.7 million, respectively.

Accounts Receivable and Allowances

Rockford sells its products principally to mobile audio dealers and distributors in North America, South America, Europe and Asia. Rockford also sells certain portions of its product line to major mass retailers in the United States and Canada. At December 31, 2011 and 2010, net accounts receivable included approximately $3.4 million and $2.5 million, respectively, due from international businesses.

Rockford maintains an allowance for doubtful accounts, based on historical rates and an assessment of the attributes of its customer amounts due at year end, for estimated losses resulting from the inability of its customers to make required payments. The allowance for doubtful accounts at December 31, 2011 and 2010 approximates $0.4 million and $0.7 million, respectively.

Rockford also maintains allowances for prompt pay discounts based on historical rates for discounts offered to customers. The allowance for prompt pay discounts at December 31, 2011 and 2010 approximates $0.1 million and $0.1 million, respectively, with respect to customers expected to use such discounts after year-end.

2. Summary of Significant Accounting Policies (continued)

Inventories and Related Reserves

Inventories consist principally of finished goods. Inventories are carried at the lower of cost or market computed using the weighted-average cost of purchased products plus freight. Rockford writes down estimated obsolete or unmarketable inventory by an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions regarding future demand, average selling price and market conditions. Such write downs establish a new inventory cost basis.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed principally on the straight-line method for financial reporting purposes over a period of two to ten years. Leasehold improvements are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset.

Impairment of Long-Lived Assets

Rockford records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets and is recorded in the period in which the determination is made. Rockford believes the carrying value of its assets at December 31, 2011 and 2010 are fully realizable and has not recorded any impairment losses.

Advertising

Rockford expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2011, 2010 and 2009 was approximately $0.1 million, $0.1 million, and $0.1 million, respectively. Such amounts are included in sales and marketing expense on the statements of operations.

2. Summary of Significant Accounting Policies (continued)

Income Taxes

Rockford accounts for income taxes utilizing an asset and liability method, whereby deferred tax assets and liabilities are recognized in order to account for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, net of valuation allowances. The effect on deferred tax assets and liabilities of a change in tax laws (including rates) is recognized in income in the period of the enactment date.

Rockford assesses the likelihood that it will be able to recover its deferred tax assets. If recovery is not likely, Rockford will increase the provision, or decrease the benefit, by recording a valuation allowance against the deferred tax assets that Rockford estimates are not more-likely-than-not recoverable. As of December 31, 2011 and 2010, Rockford had a full valuation allowance against its deferred tax assets.

Product Warranty Cost and Returns

Rockford's return policy is to replace, repair or issue credit for product under warranty. Returns received are charged against the reserve maintained for future returns. Management provides a reserve for estimated returns at the time of sale and re-evaluates the reserve adequacy using historical return experiences by brand. These reserves are reviewed and adjusted periodically, as actual results become available.

Rockford maintains a warranty reserve, based on historical rates, for costs associated with the repair or replacement of product that fails to meet Rockford's standard warranty against defects in material and workmanship. The estimate is based upon a trend analysis of historical costs and the number of units expected to be subject to warranty claims using the historical estimated number of units likely to be returned.

2. Summary of Significant Accounting Policies (continued)

Program Accruals

Rockford offers various programs to their customers such as volume incentive rebates, cooperative advertising allowances, and market development funds based upon meeting or exceeding certain criteria quarterly or annual goals. Rockford maintains an allowance for programs that have been earned by customers but net paid or credited to their accounts receivable balance.

Net Income Per Common Share

Diluted net income per common share includes only the dilutive effects of stock options.

Significant Customers

Rockford had sales to one customer representing zero, 0.8%, and 19.0% of net sales for the years ended December 31, 2011, 2010 and 2009, respectively. This customer did not have an accounts receivable balance at both December 31, 2011 and 2010.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated using the current exchange rates at the balance sheet date. The effect of translation on the statements of operations is not material.

Share-Based Compensation

Rockford generally grants stock options for a fixed number of shares to employees, with an exercise price equal to the fair market value of the shares at the date of grant. Fair market value of the underlying shares is determined by the market price at the date of the grant.

Use of Estimates

The preparation of Rockford's financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The actual results experienced by Rockford may differ from management's estimates.

3. Inventories

Inventories consisted of the following:

	December 31	
	2011	**2010**
	(In Thousands)	
Raw materials	**$ –**	$ 98
Work in progress	**–**	16
Finished goods	**8,031**	5,704
	$ 8,031	$ 5,818

4. Property and Equipment, Net

Property and equipment, net, consisted of the following:

	December 31	
	2011	**2010**
	(In Thousands)	
Machinery and equipment	**$ 3,668**	$ 3,466
Tooling equipment	**2,734**	2,386
Leasehold improvements	**1,838**	1,788
Furniture and fixtures	**431**	366
Computer software and hardware	**2,293**	2,339
Assets in process	**179**	244
	11,143	10,589
Less accumulated depreciation and amortization	**(9,773)**	(9,064)
	$ 1,370	$ 1,525

Depreciation expense was approximately $0.8 million, $0.7 million, and $0.7 million for the years ended 2011, 2010 and 2009, respectively.

5. Notes Payable and Asset-Based Credit Facility

Outstanding amounts under the asset-based credit facility consisted of the following:

	December 31 2011	December 31 2010
	(In Thousands)	
Asset-based credit facility	**$** –	$ 1,509
	$ –	$ 1,509

Interest expense was approximately $0.1 million, $0.2 million, and $0.5 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Rockford entered into an asset-based credit facility with Wells Fargo Capital Financial (Wells Fargo) on March 29, 2004, which was amended most recently on November 30, 2011. This credit facility, as amended, is a $10 million asset-based credit facility, has a term expiring on March 24, 2014 and is collateralized by substantially all of Rockford's assets. Rockford's credit agreement prohibits the payment of cash dividends. Under the agreement, variable rate pricing is LIBOR plus 400 to 450 basis points. The LIBOR interest rate was approximately 0.6% at December 31, 2011. As of December 31, 2011, Rockford was in compliance with all covenants under the asset-based credit facility. Additionally, Rockford pays a monthly unutilized credit line fee of 0.50% for the unused portion of the credit line. The availability under the credit facility at December 31, 2011 was approximately $8.7 million. Rockford had no borrowings under the credit facility at December 31, 2011.

The asset-based credit facility requires that Rockford maintain blocked lock box accounts, whereby Wells Fargo takes possession of all cash receipts on a daily basis and these amounts are applied to reduce Rockford's outstanding debt. Rockford has recorded the outstanding balances on the asset-based credit facility as short-term. Rockford expects to maintain the facility for its entire term.

In January 2009, Rockford repurchased $2.5 million of convertible notes for approximately $2.0 million. In connection with this repurchase, Rockford recorded a gain to other income of approximately $0.5 million. Rockford repaid all remaining convertible notes in 2010. As a result of these payments, Rockford had no outstanding senior subordinated secured notes at December 31, 2011 and 2010, respectively.

6. Leases

Rockford leases certain warehouse and office facilities and computer hardware and software under noncancelable operating leases that expire in various years through March 2015.

Future minimum payments under noncancelable operating leases with initial terms of one year or more consisted of the following at December 31, 2011 (in thousands):

2012	$ 765
2013	778
2014	696
2015	105
2016	–
Thereafter	–
Total future minimum lease payments	$ 2,344

Total rental expense for all operating leases was approximately $0.8 million, $0.9 million, and $1.0 million for the years ended December 31, 2011, 2010 and 2009, respectively.

7. Income Taxes

Income tax (benefit) expense consisted of the following:

	Year Ended December 31		
	2011	**2010**	**2009**
	(In Thousands)		
Current:			
Federal expense	**$ –**	$ –	$ –
State (benefit) expense	**(68)**	(71)	–
Foreign (benefit) expense	**–**	–	–
Total current (benefit) expense	**(68)**	(71)	–
Deferred:			
Federal expense	–	–	–
State expense	–	–	–
Foreign expense	–	–	–
Total deferred expense	–	–	–
Income tax (benefit) expense	**$ (68)**	$ (71)	–

7. Income Taxes (continued)

A reconciliation of Rockford's effective income tax rate to the federal statutory rate follows:

	Year Ended December 31		
	2011	**2010**	**2009**
	(In Thousands)		
Federal statutory rate	**$ 1,786**	$ 898	$ (255)
State tax, net of federal benefit	**129**	77	–
State tax operating loss carryforwards	**–**	–	(19)
Nondeductible items	**45**	28	21
Federal and state tax credits	**(86)**	(71)	(105)
Loss of federal and state net operating loss carryforwards	**133**	803	388
Change in valuation allowance	**(2,395)**	(1,751)	(70)
Share-based compensation deferred tax asset adjustment	**354**	–	–
Other, net	**(34)**	(55)	40
Income tax (benefit) expense	**$ (68)**	$ (71)	$ –

Rockford's deferred tax assets consisted of the following:

	December 31	
	2011	**2010**
	(In Thousands)	
Deferred tax assets:		
Basis in inventories	**$ 556**	$ 588
Basis in receivables	**192**	294
Book over tax depreciation	**795**	674
Accrued warranty	**167**	202
Net operating loss carryforward	**15,318**	17,610
Capital loss carryforward	**945**	945
Federal and state credit carryforwards	**2,212**	2,211
Capitalized research expenditures	**934**	654
Accrued expenses and other	**262**	598
Gross deferred tax assets	**21,381**	23,776
Valuation allowance	**(21,381)**	(23,776)
Net deferred tax assets	**$ –**	$ –

7. Income Taxes (continued)

In 2011, 2010 and 2009, Rockford maintained a valuation allowance recorded on the entire amount of its deferred tax assets. During 2011 and 2010, the valuation allowance decreased by $2.4 million and $1.7 million, respectively to $21.4 million at December 31, 2011 and $23.8 million at December 31, 2010 as the result of utilizing net operating loss carryforwards in 2011 and 2010 to offset taxable income, expiration of federal and state net operating losses and share-based compensation deferred tax asset adjustments. The Company does not believe that it is more likely than not that the benefits associated with its deferred tax assets will be realized in the near future. Rockford uses the “with-and-without” or “incremental” approach for determining the order in which tax benefits derived from share-based payments awards are utilized. Using the with-and-without approach, actual income taxes payable for the period are compared to the amount of income taxes that would have been payable if there had been no share-based compensation expense for tax purposes in excess of the compensation expense recognized for financial reporting purposes. As a result of this approach, tax net operating loss carryforwards not related to share-based compensation are utilized before the current period’s share-based compensation deduction. As a result of this accounting treatment, the Company has a fully reserved deferred tax asset related to tax net operating loss carryforwards related to deductions for excess tax benefits. The benefit of the valuation allowance release related to these deductions will be recorded directly to equity as additional paid-in-capital when such benefits are realized.

At December 31, 2011, Rockford had the following carryforward tax attributes:

- Approximately $44.3 million of gross federal net operating loss carryforwards begin to expire in 2024. Approximately $5.5 million of gross state net operating loss carryforwards begin to expire in 2012.

- Rockford has a gross capital loss carryforward for federal income tax purposes of $2.8 million that expires in 2012.

- Rockford also has approximately $2.2 million of federal and state tax credits for alternative minimum tax and research and experimentation. The research and experimentation credits begin to expire in 2022 and 2017 for federal and state tax purposes, respectively. However, the alternative minimum tax credits can be carried forward indefinitely.

7. Income Taxes (continued)

Rockford has unrecognized tax benefits of $0.6 million as of December 31, 2011, 2010 and 2009. No activity has occurred during these years.

Rockford recognizes interest and penalties related to uncertain tax positions in income tax expense. Rockford has not recorded any related expense in its statement of operations for 2011, 2010 and 2009. Rockford's 2008–2011 years remain subject to examination for federal income tax purposes, whereas the 2007–2011 years remain subject to examination for certain state taxing jurisdictions where Rockford operates. The statute of limitations for certain years may be extended if Rockford were to utilize certain of its carryover attributes from years outside of this range. Rockford does not expect the amount of unrecognized tax benefits to significantly increase or decrease over the next 12 months.

8. Share-Based Compensation

Rockford has established stock option plans for selected employees, directors and consultants. Under the stock option plans, options to purchase common stock of Rockford are granted to select employees, directors and consultants at the fair market value of the underlying common stock. Under certain circumstances, Rockford has the right to repurchase common stock acquired under some of the options at its fair market value.

At December 31, 2011, Rockford had three active share-based employee compensation plans. Stock option awards granted from these plans are granted at the fair market value on the date of grant and vest over a period determined at the time the options are granted, ranging from one to three years, and have a maximum term of ten years. Some options provide for accelerated vesting if there is a change in control (as defined in the plans). When options under any of the plans are exercised; new shares of Rockford's common stock are issued. At December 31, 2011, there were 135,550 shares available for grant under these plans.

Based upon a shareholder-approved plan, Rockford exchanged 982,300 outstanding "underwater" options for 582,800 market-priced options in November 2009. The new options vested one year from the November 2009 grant date. Forty optionees participated in the exchange. The exchange ratios were established such that the new options had approximately the same fair value as the options surrendered so that no significant additional compensation expense was recognized.

8. Share-Based Compensation (continued)

Share-based compensation expense was approximately $0.1 million for each of the years ended December 31, 2011, 2010 and 2009. This share-based compensation expense lowered basic and diluted income per share by $0.02 for the year ended December 31, 2011, and by $0.01 for the year ended December 31, 2010; and increased basic and diluted loss per share by $0.01 and $0.03, respectively for the year ended December 31, 2009. The total value of stock option awards is expensed ratably over the vesting period of the employees receiving the awards. As of December 31, 2011, total unrecognized compensation cost related to nonvested stock option awards was approximately $0.2 million and the related weighted-average period over which these costs are expected to be recognized is approximately 2.0 years. The total fair value of options that vested during the years ended December 31, 2011, 2010 and 2009 was $0.1 million, $0.6 million, and $0.1 million, respectively. The intrinsic value of options exercised during the years ended December 31, 2011, 2010 and 2009 was $0.1 million, $0.1 million, and $0, respectively. Options to purchase 152,500 shares, 460,000 shares, and 582,787 shares were granted during the years ended December 31, 2011, 2010 and 2009, respectively. The weighted-average fair value of options granted during the years ended December 31, 2011, 2010 and 2009 was $1.42, $0.32, and $0.13, respectively.

The cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are classified as financing cash flows. There were no excess tax benefits for the years ended December 31, 2011, 2010 and 2009.

The fair value of each stock option award was estimated on the date of the grant, using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year Ended December 31		
	2011	**2010**	**2009**
Expected life of the award	**7 years**	7 years	4 years
Dividend yield	**0%**	0%	0%
Risk-free interest rate	**2.5%**	2.9%	2.0%
Expected volatility	**95%**	92%	92%

8. Share-Based Compensation (continued)

Option activity under the stock option plans during the year ended December 31, 2011, was as follows:

	Outstanding Options		Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	Shares	Weighted-Average Exercise Price		
Outstanding at January 1, 2011	1,151,818	$ 0.50		
Granted	152,500	1.76		
Exercised	(44,387)	0.67		
Expired, forfeited or cancelled	(6,125)	1.01		
Outstanding at December 31, 2011	1,253,806	0.65	6.3 years	$ 2,902,814
Exercisable at December 31, 2011	959,931	$ 0.59	5.6 years	$ 2,322,139

The following table summarizes information about stock options under the plans outstanding at December 31, 2011:

	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2011	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Outstanding at December 31, 2011	Weighted-Average Exercise Price
Range of exercise prices:					
$0.25–$0.40	840,056	5.6	$ 0.34	657,556	$ 0.36
$1.00–$1.65	401,250	7.4	$ 1.20	299,250	$ 1.07
$3.01	12,500	10.0	$ 3.01	3,125	$ 3.01
	1,253,806			959,931	

9. Net Income (Loss) Per Common Share

	Year Ended December 31		
	2011	**2010**	**2009**
	(In Thousands, Except Per Share Data)		
Net income (loss)	**$ 5,321**	$ 2,713	$ (750)
Weighted-average common shares outstanding	**8,351**	8,593	8,581
Effect of dilutive securities:			
Employee stock options	**879**	577	–
Weighted-average common share outstanding for calculating diluted net income (loss) per share	**9,230**	9,170	8,581
Net income (loss) per common share:			
Basic	**$ 0.64**	$ 0.32	$ (0.09)
Diluted	**$ 0.58**	$ 0.30	$ (0.09)

Outstanding stock options with exercise prices (plus unearned compensation for unvested awards) greater than the average market price of Rockford's common stock during the period are excluded from the computation of diluted net income (loss) per share of common stock. A summary of the excluded amounts follows:

	Year Ended December 31		
	2011	**2010**	**2009**
	(In Thousands, Except Exercise Prices)		
Outstanding options	**13**	–	925
Weighted-average exercise price	**$ 3.01**	$ –	$ 0.62

10. Commitments and Contingencies

Rockford is a party to legal proceedings arising in the ordinary course of business. Based upon advice from outside legal counsel, management is of the opinion that the resolution of these matters will have no material effect on Rockford's financial position or results of operations.

11. Benefit Plan

Rockford has a 401(k) Retirement Savings Plan (the Plan) covering substantially all employees who have completed their first full month of employment, without regard to hours of service. Under the terms of the Plan, employees may make voluntary contributions subject to Internal Revenue Service limitations. Rockford may match employee contributions up to 3% of the employee's annual compensation. Additional contributions to the Plan can be made at the discretion of the Board of Directors. Contributions to the Plan by Rockford, and charged to expense during the years ended December 31, 2011, 2010 and 2009, were approximately $0.1 million, $0.1 million, and $0, respectively.

12. Stock Purchase Program

Rockford's Board of Directors adopted three common share repurchase programs that authorized Rockford to purchase, in the open market or through negotiated transactions, up to approximately 1.8 million of its outstanding common shares. Rockford's credit agreement permits aggregate stock purchases up to $7.0 million. Rockford has repurchased a total of 1.6 million shares for an aggregate purchase price of approximately $3.2 million. During 2011 Rockford repurchased a total of 0.8 million shares for an aggregate purchase price of approximately $1.9 million. Rockford did not repurchase any shares during 2010 and 2009 and has remaining authority to purchase up to 0.2 million shares under these programs.

In December 2011, Rockford's Board of Directors adopted a modified Dutch auction offer to acquire up to $2.5 million in common stock at a price per share not greater than $3.25 or less than $2.50. The offer expired in January 2012 at which time Rockford purchased approximately $1.2 million or 0.4 million shares under this offer.

In January 2012, Rockford's Board of Directors approved a program to purchase up to 0.8 million of its outstanding common stock in the open market through negotiated transactions.

13. Segment Information

Rockford operates its business almost exclusively under the mobile audio segment. Below is geographic information for Rockford's revenues:

	Year Ended December 31			
	2011		2010	2009
Region[1]	**Percent**	**Amount**	**Amount**	**Amount**
		(In Thousands)		
United States	**78.0%**	**$ 47,478**	$ 43,945	$ 44,111
Other Americas (includes Canada)	**9.1**	**5,506**	3,126	3,095
Europe	**5.7**	**3,493**	2,739	2,790
Asia	**7.2**	**4,370**	4,421	2,979
Total net sales to external customers	**100.0%**	**$ 60,847**	$ 54,231	$ 52,975

[1]Net sales are attributed to geographic regions based on the location of customers.

14. Subsequent Events

Rockford evaluated subsequent events after the balance sheet date of December 31, 2011, through March 30, 2012, the date the financial statements were available to be issued and determined that any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these financial statements.

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