

Document First Posted  
March 31, 2011

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## **Risk Factors That May Affect Rockford's Operating Results, Business Prospects and Stock Price**

*An investment in Rockford stock is inherently illiquid and risky. Rockford is a small non-public company. The risks of investing in Rockford stock include those described below and others Rockford has not anticipated or discussed. You should consider carefully these and other risk factors, together with other information included in Rockford's periodic press releases or disclosed on Rockford's investor information web site at [www.rockfordcorp.com](http://www.rockfordcorp.com), before you decide to buy or sell shares of Rockford's stock. Because Rockford is not public and does not have a general obligation to keep information available to investors up to date, the information Rockford has made available may not be current or complete.*

### **Forward-Looking Statements**

We make forward-looking statements in this risk factor disclosure, in our periodic press releases, and in the investor information disclosed on our web site. Our forward looking statements include, without limitation, statements about the future of our industry, product development, business strategy, continued acceptance and growth of our products, dependence on significant customers and suppliers, and the adequacy of our available cash resources. Our statements may contain projections of results of operations or of financial condition. These statements use forward-looking terminology such as "may," "will," "believe," "expect," "anticipate," "estimate," "continue" or other similar words.

Forward-looking statements are subject to many risks and uncertainties. We caution you not to place undue reliance on our forward-looking statements, which speak only as at the date on which they are made.

We consider our statements made at the date disclosed in each item as the initial posting or disclosure date and not at the time the information is downloaded by persons accessing our web site. In order to provide a historical record of our statements we do not generally remove items from our web site even after they are obsolete. Since they may be obsolete, you should not rely on their presence on the web site as an indication that the forward looking statements in them remain current.

Actual results may differ materially from those described in our forward-looking statements. We disclaim any obligation or undertaking to update forward-looking statements to reflect changes in our expectations or changes in events, conditions, or circumstances on which our expectations are based. Because we are no longer a public company, we do not have a general obligation to provide periodic reports about our results or about changes in our business. If we choose not to make such reports, the information available to you and to other investors may be, or may become, obsolete.

**When considering our forward-looking statements, you should keep in mind the risk factors and other cautionary statements identified in this risk factor disclosure. You should also keep in mind that we may not be aware of other risk factors that could substantially impact our business. Our actual results may differ significantly from those anticipated in our forward-looking statements, with the differences resulting from the risk factors noted throughout this risk factor disclosure, in our periodic press releases, or in the investor information on our web site, or from other risk factors that we have not anticipated or discussed.**

## **Risk Factors**

***Rockford has deregistered and delisted its stock. It no longer is obligated to report information about its business to investors. Lack of information has reduced, and may further reduce, liquidity in the market for Rockford's stock. Lack of information and illiquidity may reduce the market price for Rockford stock.***

Rockford deregistered its stock and ended its listing on the Nasdaq market in 2009 and does not expect to reregister or list its stock on any market. There is currently only limited trading of its stock on the "pink sheets" market. Rockford has continued to provide limited information about its business since deregistering, but is not obligated to do so and may cease providing such information at any time. Lack of information about Rockford and a small public float has reduced interest in, and the liquidity of trading in, Rockford stock. Liquidity would be further reduced if Rockford stops disclosing information entirely. Lack of liquidity is likely to reduce the price of Rockford's stock and make it difficult for investors holding significant blocks of Rockford stock to sell their stock at reported market prices.

***Rockford's products may not satisfy shifting consumer demand or compete successfully with competitors' products.***

Rockford's business is based primarily on the demand for aftermarket and OEM mobile audio products and on Rockford's ability to deliver products that provide powerful, high quality sound. If Rockford fails to introduce new products, misinterprets consumer preferences or fails to respond to changes in the marketplace, consumer demand for its products could decrease and its brands' images could suffer. Consumer interests may move away from mobile audio products to other types of products, generally reducing sales of products in the markets where Rockford competes. In addition, Rockford's competitors may introduce superior designs or business strategies, undermining Rockford's distinctive image and its products' desirability. If any of these events occur, they could cause Rockford's sales to decline.

***Rockford relies upon debt financing for a substantial part of its working capital; defaults on its debt or the unavailability of additional financing could make it impossible to carry on Rockford's business as currently structured.***

Rockford is dependent on its senior credit facility given the working capital requirements of its business. Rockford does not have material financing agreements other than its senior credit facility and routine vendor financing arrangements. Availability under the senior facility, and from vendors, could be impacted by poor operational and financial performance at Rockford or by adverse economic events such as the credit crisis suffered at the end of 2008 and early 2009. If Rockford's financial performance deteriorates, or if other developments make needed financing unavailable, Rockford may need to restructure its business and operations or to secure additional credit facilities or equity. New financing or a further operational restructuring would likely have a significant negative impact on operations, financial performance, and earnings per share.

***Aftermarket Mobile Audio Sales May Continue to Decline, Reducing the Potential Market Rockford is Seeking to Address***

The mobile audio aftermarket in the U.S. has suffered from a decline in overall sales in every year since 2000. Reasons for this decline include the perceived difficulty of replacing newer OEM audio systems, the somewhat improved performance of OEM audio systems and the availability of alternative audio products such as the iPod. The decline in mobile audio aftermarket sales since 2000 has made it difficult for Rockford and for competitors to maintain sales. The efforts to maintain sales have eroded margins and led to greater competition to place inventory with dealers. The market for mobile audio products continues to be unpredictable and Rockford is not able to predict when or whether the decline in aftermarket mobile audio sales will end.

***A decline in discretionary spending likely would reduce Rockford's sales.***

Mobile audio sales are highly discretionary and a recession in the general economy or a general decline in consumer spending is likely significantly to reduce Rockford's sales. Rockford's core consumers are often impacted

early in a recession because they tend to be younger and less experienced workers who have limited savings and are subject to layoff before more experienced workers when employment levels decline.

***Rockford may lose market share and its brand image may erode as Rockford manages the distribution channels for its mobile audio products.***

Rockford primarily distributes its products in the United States:

- through specialty distribution channels (including specialty dealers who sell only mobile audio products and audio/video retailers);
- through regional retailers who compete directly with national “big box” retailers; and
- by selling products, or licensing its brand and technologies, as standard or optional OEM systems in Nissan, Mitsubishi and Suzuki vehicle models.

Rockford ceased distributing products through the primary national consumer electronics retailer, Best Buy, in early 2010.

Rockford is seeking to increase distribution of Rockford’s products through each of its distribution channels and may consider returning to “big box” retail channels. The distribution and marketing needs of these channels are different and sometimes in conflict. For example, Rockford’s efforts to sell its products in OEM or “big box” sales channels may reduce the perceived value of its products to specialty retailers and audio/video retailers. Rockford’s distribution channels and strategies create significant risks that:

- *Rockford may alienate its specialty dealer base.* Some specialty dealers or audio/video retailers may react to Rockford’s “big box” and OEM strategies by reducing their purchases or even replacing Rockford’s products with competing products; and
- *Rockford’s brand image may erode.* Selling in “big box” retail stores and OEM markets may erode Rockford’s brand image, which could decrease Rockford’s appeal to its core customers and, therefore, the product prices and profit margins Rockford can command.

Rockford’s inability to manage Rockford’s distribution channels in a way that mitigates these risks may reduce its sales and profitability.

***Any decrease in demand for Rockford amplifiers, subwoofers or speakers could significantly decrease sales.***

As Rockford has closed peripheral operations and reduced to its core mobile audio business, it has become more dependent on sales of mobile audio amplifiers, subwoofers, speakers and accessories. These product lines collectively accounted for approximately 89.8% of Rockford’s sales in 2009 and 81.0% of Rockford’s sales in 2010. If sales of these product types decline, results of operations would be adversely affected.

***The loss of a major customer or significant reductions in their purchases of Rockford’s products would reduce sales.***

Best Buy was a significant customer in past years and accounted for 19.0% of Rockford’s sales in 2009. Rockford elected to cease selling products to Best Buy early in 2010.

Nissan and Mitsubishi continue to be significant customers, with Nissan accounting for 7.6% and 11.8% of Rockford sales in 2009 and 2010, and Mitsubishi accounting for 3.2% and 4.4% of Rockford sales in 2009 and 2010. Rockford anticipates that Nissan and Mitsubishi will continue to account for a significant portion of Rockford’s revenues for the foreseeable future, but neither is obligated to any long-term purchases. Each has considerable discretion to reduce, change or terminate purchases of Rockford OEM systems. If any of Rockford’s major customers significantly reduce or terminate their purchases of Rockford products Rockford’s sales and operations are likely to decline.

***Rockford may lose sales and market share if it is unable to compete successfully against current and future competitors, including products offered by aftermarket suppliers and by auto manufacturers.***

Competition could result in reduced margins on Rockford's products and loss of market share. Rockford's primary markets are very competitive, with only limited barriers to entry and large numbers of competitors. Rockford's principal aftermarket mobile audio competitors include Alpine, Boston Acoustics, Infinity, JL Audio, Kenwood, Kicker, Monster Cable, MTX, Pioneer, Sony and Stinger.

Rockford also competes with automobile manufacturers who continue to integrate OEM audio systems with other features in their vehicles, to brand their OEM audio systems with well known brands that have positive consumer reputations, and to make limited improvements in the sound quality of OEM audio systems. These changes increase the perceived difficulty of installing Rockford's aftermarket products, reduce consumers' perception of the need to improve their factory audio systems and have reduced demand for aftermarket mobile audio products. Rockford believes that the changes auto manufacturers have made have significantly reduced overall demand for aftermarket mobile audio systems and, therefore, have negatively impacted Rockford's aftermarket mobile audio sales.

***If Rockford does not develop, introduce and achieve market acceptance of new and enhanced products, sales may decrease.***

To remain competitive, Rockford believes that it must introduce new products, improve the performance of existing products and limit increases in prices or even reduce prices. Rockford's inability to do so could reduce sales and profitability.

Rockford may experience difficulties that delay or prevent the development, introduction or market acceptance of new or enhanced products. Rockford's move to outsourced manufacturing of its products may also delay the development of new products because of the added complexity of product development for outsourced products. Furthermore, Rockford may not detect and correct defects in products before it ships them to customers. This may result in loss of sales, delays in market acceptance, and damage to the reputation of Rockford's brands.

Even after introduction, new or enhanced products may not satisfy consumer preferences and product failures may cause consumers to reject the new products. As a result, these products may not achieve market acceptance. In addition, competitors' new products and product enhancements may cause consumers to defer or forego purchases of Rockford's products.

***Rockford's OEM sales and royalty revenue depend on demand for the vehicles in which Rockford's OEM systems are offered. A decline in demand for those automobiles is likely to reduce OEM sales and royalty revenue.***

Rockford OEM systems are currently offered in select Nissan, Mitsubishi and Suzuki vehicles. In Nissan's line, Rockford systems are offered in many of Nissan's truck-based products, which have suffered because of reduced consumer demand for large vehicles. Declines in demand for these vehicles, and for vehicles in general, may lead to a decline in Rockford's OEM sales and royalty revenue.

***Seasonality of mobile audio sales causes Rockford's quarterly sales to fluctuate.***

Rockford's sales are generally greater during the first and second quarters of each calendar year and lower during the third and fourth quarters, with its lowest sales typically occurring during the fourth quarter. As a result, to the extent Rockford chooses to continue announcing quarterly results of operations, Rockford's stock price may be lower after the announcement of its 3<sup>rd</sup> and 4<sup>th</sup> quarter results than at other times of the year.

***Rockford's financial results may fluctuate significantly, making financial forecasting difficult and making Rockford's stock price volatile.***

Rockford's results of operations are difficult to predict and may fluctuate significantly from quarter to quarter. In some quarters, operating results may fall below expectations. Rockford's operating results are difficult to forecast for many reasons, some of which are outside of Rockford's control, including:

- The level of product, price and dealer competition;
- Size and timing of product orders and shipments, particularly by higher volume customers such as Nissan and Mitsubishi;
- Weather conditions, which affect consumers' willingness to install products;
- Capacity and supply constraints or difficulties; and
- Timing of Rockford's marketing programs and those of its competitors.

As a result, investors should not rely on historical results as an indication of Rockford's future performance.

In addition, some of Rockford's expenses are fixed and cannot be reduced in the short term. Accordingly, if sales do not meet expectations, the results of operations are likely to be negatively and disproportionately affected. Rockford's results for the 4<sup>th</sup> quarter of 2008 illustrate this: unexpected reductions in sales because of the credit crisis suffered at the end of 2008 caused a disproportionate increase in Rockford's net loss. If events of a similar magnitude disproportionately impact net income in the future, Rockford's stock price may fall dramatically.

***If Rockford fails to manage its inventory effectively, Rockford could incur additional costs or lose sales.***

Rockford customers have many brands to choose from when they decide to order products. If Rockford cannot deliver products quickly and reliably, customers will order from a competitor. Rockford must stock enough inventory to fill orders promptly, which increases the risk of inventory obsolescence. Poor forecasting or changes in demand could cause Rockford to hold excess inventory. Excess and obsolete inventory has a significant impact on Rockford's working capital requirements, increasing the amount Rockford must draw on its credit facilities and Rockford's financing risks.

***Rockford's net operating loss carryforwards could be jeopardized by changes in ownership of its equity***

Rockford suffered substantial losses early in the last decade and has large net operating loss carryforwards for tax purposes. Although Rockford has reserved against the full value of these assets on its balance sheet, the assets may have significant practical value because, if Rockford continues its return to profitability, Rockford would be able to use the carryforwards to offset the bulk of taxes otherwise payable on its earnings for an extended period. Changes in Rockford's equity ownership exceeding 50% within any 3 years period could substantially reduce the availability of the carryforwards, reducing or eliminating the value of this asset. Rockford does not have a poison pill or other mechanism to prevent such changes, so that a decision by any of Rockford's 5% shareholders to sell their shares (as well as other changes in ownership of the shares) could put the carryforwards at risk.

***Rockford's product supplies and international operations may be harmed by factors including political instability, currency exchange rates and changes in regulations that govern international transactions.***

The risks inherent in international trade may interfere with Rockford's supply of products, reduce Rockford's international sales and harm Rockford's business and the businesses of its distributors and suppliers. These risks include:

- Foreign currency exchange rate fluctuations;
- Changes in tariff regulations;
- Political instability, war, terrorism and other political risks;
- Natural disasters and other events restricting manufacturing capacity or supplies of raw materials and components;

- Relationships with local distributors and dealers;
- Lengthy shipping times and accounts receivable payment cycles;
- Import and export licensing requirements;
- Compliance with a variety of foreign laws and regulations, including unexpected changes in taxation and regulatory requirements;
- Greater difficulty in safeguarding intellectual property than in the U.S.; and
- Difficulty in staffing and managing geographically dispersed operations.

The current economic environment appears to have increased the risk of protectionist actions and populist trade measures throughout the global trading system. The risks described above, and other risks associated with international trade, may increase the relative price of Rockford's products compared to those manufactured in other countries, may substantially reduce the supply of products available to Rockford and increase their price, or may increase the absolute price of Rockford's products in some or all of the countries where Rockford sells its products. Any of these results could reduce Rockford's sales or increase Rockford's costs.

***Loss of an international distributor may disrupt Rockford's sales.***

International customers accounted for 16.7% of Rockford's sales in 2009 and 19.0% of sales in 2010. For sales outside the U.S. and Canada Rockford relies on distributors, each of whom is responsible for one or more countries. Each distributor purchases and resells Rockford's products in its territories. When Rockford has disputes with a distributor, or changes its relationship with a distributor, it may disrupt the market for Rockford's products in that country and reduce sales. If Rockford changes a relationship with a distributor, Rockford may repurchase that distributor's inventory, which would also reduce Rockford's sales.

***Currency fluctuations may reduce the profitability of Rockford's foreign sales.***

Rockford prices its products in dollars. Currency fluctuations may make Rockford's products more expensive in local currency terms. Rockford does not trade in derivatives or other financial instruments to reduce currency risks. In some instances this will subject Rockford's earnings to fluctuations because Rockford is not protected against substantial currency fluctuations and its distributors may reduce product purchases because of currency fluctuations.

***Currency fluctuations may increase the cost of Rockford's products.***

Rockford now sources all of its products from outside the United States. Most of these products are sourced in Asia, principally in China and Southeast Asia. Although most of Rockford's purchases are denominated in dollars, an extended decline in the value of the dollar may affect the terms and prices on which Rockford is able to purchase from its foreign suppliers and may, therefore, increase Rockford's costs.

***If Rockford's supplies of products are interrupted, it may be unable to deliver its products to its customers and may incur costs that reduce its margins.***

Rockford has transitioned all of its products to outsourced manufacturing, generally in Asia. The supply process does not provide a backlog of finished goods to satisfy short lead-time orders, to compensate for potential halts in supply or to replace products that are not available due to supplier issues or that do not conform to quality standards. During 2010 a shortage of many semiconductors used in Rockford's products forced Rockford and its suppliers to pay higher prices for parts and to expedite shipping, increasing product costs and putting pressure on Rockford's gross margins. Rockford anticipates that similar pressures will continue in 2011, particularly in light of the earthquake and tsunami that struck Japan in March 2011.

Rockford also does not have long-term price commitments from its suppliers and cost increases may reduce Rockford's margins or require Rockford to raise its prices to protect margins. Rockford cannot be certain that it

could locate, within reasonable time frames, alternative sources of products at similar prices and quality levels. A failure to do so could result in increased costs, delays in its supply chain, an inability to fill purchase orders on a timely basis and a decrease in product availability at the retail level. This could cause Rockford to lose sales and damage Rockford's customer relationships.

***Rockford depends on a few suppliers for a large portion of its products. Interruptions in their ability or willingness to deliver products would reduce sales and damage customer relationships.***

Rockford relied on Sound Factor, Classic Development, and Nissho Seiko, Ltd., for approximately 27.1%, 16.8%, and 14.4% respectively, of its inventory purchases during 2010. Rockford believes that each of its suppliers is financially capable, but in general many contract manufacturers are under financial strain because of narrow margins in the contract manufacturing industry and Rockford cannot be certain that all of its suppliers will remain financially stable. If any significant supplier refuses or is unable to supply products to Rockford, it may require substantial time to identify an alternative supplier and could create product shortages. Such shortages would reduce sales, damage brand reputation and impair customer relationships.

***Rockford may be unable to retain and attract key employees, which could impair Rockford's business.***

Rockford operates in highly competitive employment markets and cannot guarantee its continued success in retaining and attracting the employees it needs to develop, produce and market its products and manage its operations. Rockford's business strategy and operations depend, to a large extent, on Rockford's senior management team. Rockford does not have written employment contracts with any of its key employees. If key members of Rockford's management team are unable or unwilling to continue in their present positions, Rockford's ability to develop, introduce and sell Rockford's products could be negatively impacted.

***If Rockford is unable to enforce or defend its ownership and use of intellectual property, Rockford's business may decline.***

Rockford's success may depend, in part, on Rockford's intellectual property. Rockford seeks to protect its intellectual property rights, but its actions may not adequately protect the rights covered by patents, patent applications, trademarks and other proprietary rights. Prosecution of Rockford's claims could be time consuming and costly. In addition, the intellectual property laws of some foreign countries do not protect Rockford's proprietary rights as do the laws of the U.S. Despite Rockford's efforts to protect its proprietary information, third parties may obtain, disclose or use proprietary information without authorization, which could adversely affect Rockford's business.

From time to time, third parties have alleged that Rockford infringes their proprietary rights. These claims or similar future claims could subject Rockford to significant liability for damages, result in the invalidation of its proprietary rights, limit its ability to use infringing intellectual property or force Rockford to license third-party technology rather than dispute the merits of an infringement claim. Even if Rockford prevails, any associated litigation could be time consuming and expensive and could result in the diversion of Rockford's time and resources.

***Rockford could suffer from internal control deficiencies.***

Rockford is a small company and is dependent upon a small number of officers and staff. In light of the reduction in its business, it has reduced the size of its staff so that there are fewer individuals available to fill in when one member of that staff resigns or is disabled. If it suffers turnover of key employees or is otherwise unable to maintain its internal controls, Rockford may suffer losses from fraud, theft and other deficiencies that result from the loss of staff expertise and lack of adequate internal controls.

***Rockford's executive officers and directors retain substantial control of Rockford, which may limit the liquidity and market price of its common stock.***

Rockford's officers and directors and their affiliates collectively held approximately 70% of Rockford's outstanding shares at March 31, 2011. These shareholders, if they continue to act together, are able as a practical matter to control the outcome of matters submitted for shareholder action, including the election of a majority of

Rockford's board of directors and the approval of significant corporate transactions. Consequently, these shareholders effectively control Rockford's management and affairs, which may limit the liquidity of its shares, discourage acquisition bids for Rockford and limit the price some investors are willing to pay for Rockford's shares.

***Virtually all of Rockford's shares are available for resale without significant restrictions. Their sale or potential sale may reduce Rockford's stock price.***

Virtually all of Rockford's outstanding shares are available for resale under applicable securities laws. The market price of Rockford's common stock could decline as a result of sales of a large number of shares in the market or the perception that those sales could occur.

***Limited "float" in Rockford's stock could subject it to unusual and unsustainable swings in stock prices.***

Although many Rockford shares are not restricted under applicable securities laws, Rockford's officers and directors own a high percentage of Rockford's shares and are not expected to make their shares available for sale. As a result, only a limited "float" of less than 30% of Rockford's total shares is available for trading in the pink sheets. This restricted public float results in reduced public interest in Rockford's shares and very limited trading volume. As a result, small changes in demand could result in unusual swings in Rockford's stock price. This could put Rockford's shares at risk for manipulation and unsustainable increases or decreases in stock price.

***Rockford's anti-takeover provisions could affect the value of Rockford's stock.***

Rockford's articles of incorporation and bylaws and Arizona law contain provisions that could discourage potential acquirers. For example, Rockford's board of directors may issue additional shares of common stock to an investor who supports the incumbent directors in order to make a takeover more difficult. This could deprive Rockford's shareholders of opportunities to sell its stock at above-market prices typical in many acquisitions.